Q3 MARKET INSIGHTS

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Fall 2020

This continues to be one of the most unpredictable years in recent memory, as markets remained strong in the third quarter despite a resurgence in coronavirus cases. Equity markets rallied thanks to a combination of accommodative Fed policy, hopes for a COVID-19 vaccine, and a stronger-than-expected economic rebound. U.S. equities extended their recovery, which began in the second quarter of 2020, driven by the performance of some of the largest, most well-known technology companies in the world. Market stalwarts such as Apple, Amazon, Microsoft, Facebook, and Alphabet helped the S&P 500® Index reach a new all-time high in early September before declining moderately into the end of the quarter. From a catalyst standpoint, the September decline was a function of a few different factors. First, it became evident that there would be no new economic stimulus bill, as both Democrats and Republicans remained far apart in negotiations. Second, economic data began to imply a "plateau" in the economic recovery as the impact of the previous stimulus legislation began to fade away. Finally, late in the month, COVID-19 cases began to re-emerge in certain U.S. states, prompting some concern about a return to various levels of economic lockdowns. For the quarter, the S&P 500 finished up 8.93% and is now up 5.57% for the year (through September 30).

International markets also rallied in the third quarter as European and Asian economies continued to re-open, but many foreign developed markets closed well off the highs of the quarter as coronavirus cases spiked in parts of Europe, particularly in Great Britain. Emerging markets outperformed foreign developed markets thanks to a continued decline in the U.S. dollar paired with strength in Asian markets, as the coronavirus outbreak remains broadly contained in that region of the world. For the quarter, foreign developed markets, represented by the MSCI EAFE Index were up 4.88% (-6.69% YTD) and the MSCI Emerging Markets Index finished up 9.65% (-0.96% YTD). Switching to fixed income markets, the total return for most bond classes was again positive in the third quarter, as bonds now have realized a positive return for each quarter so far this year. The leading benchmark for bonds, the Bloomberg Barclays US Aggregate Bond Index, returned 0.62% in the third quarter (+6.79% YTD) marking the eighth consecutive quarterly gain. Longer-duration bonds again outperformed those with shorter durations in the third quarter as global central banks (including the Federal Reserve) reiterated that rates would stay low for years to come. This posture served to both anchor shorter-duration bonds and increase the appeal of higher-yielding, longer-maturity bonds.

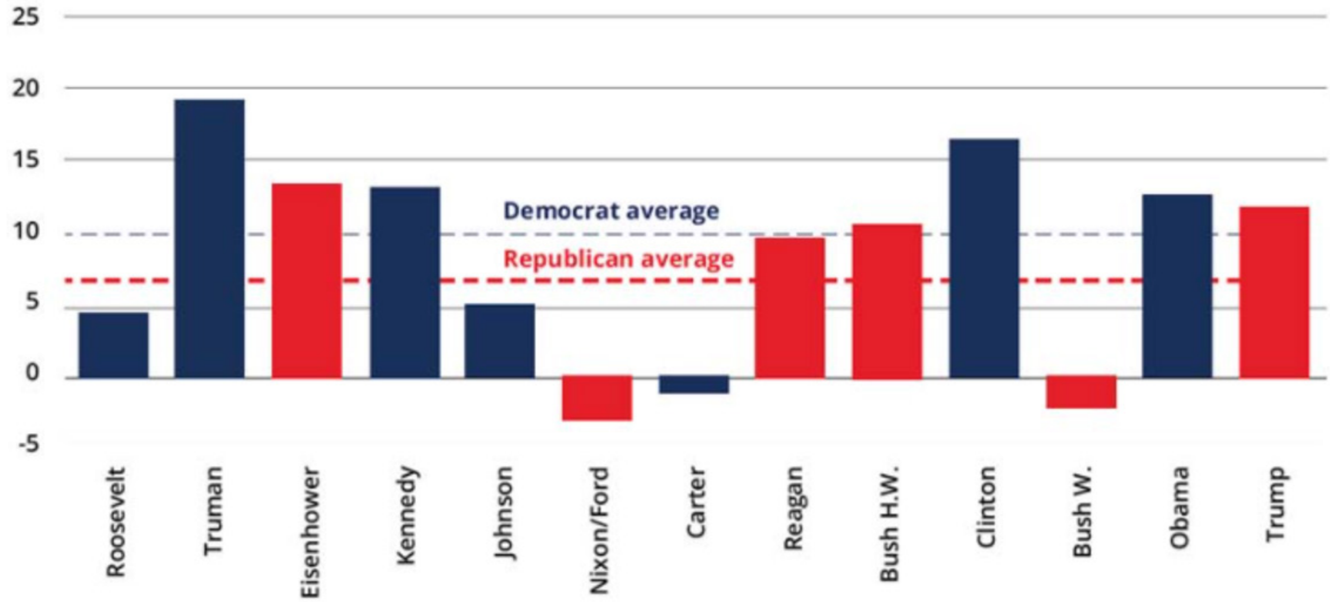
2020 ELECTION: EQUITY MARKET RETURNS DEPEND ON THE ECONOMY, NOT WHO IS IN THE WHITE HOUSE

> "As we look ahead to the fourth quarter, markets are becoming increasingly volatile in anticipation of the upcoming presidential election."

As we look ahead to the fourth quarter, markets are becoming increasingly volatile in anticipation of the upcoming presidential election. With the 2020 presidential race gaining momentum, many voters and investors are familiarizing themselves with the policies and positions of the candidates. While the stakes seem particularly high this election year, it is important to remember that every president must contend with major domestic and international issues. The U.S. has withstood catastrophic wars, economic collapse, and yes, even prior pandemics, yet the economy has proven resilient and forged ahead. It is tempting to get caught up in political narratives. There is nothing wrong with wanting your candidate to win, but investors can run into trouble when they place too much importance on election results. Elections have, historically speaking, made essentially no difference when it comes to long-term investment returns. Since 1933, Democratic presidents have, on average, seen higher stock

Democratic Presidents Saw Higher Stock Market Returns Compared to Republican Presidents

S&P 500 Index annual real total return, %



Source: Datastream Refinitive, Robert Shiller dataset, and Schroeders. Notes: Real (adjusted for inflation) total return from 1st year in office to 7/31 of final year in office so as to exclude the election effect (President Trump's term is shown through 12/31/19).

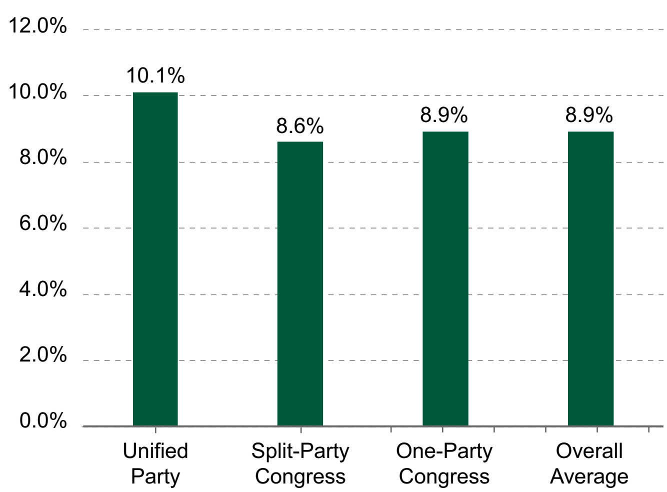
> "Elections have, historically speaking, made essentially no difference when it comes to long-term investment returns."

market returns than Republican presidents. For example, the average real total return (meaning adjusted for inflation) for the S&P 500 Index under Democratic presidents was 10.2%, versus 6.9% under Republicans (see chart above).

However, nearly all of the Democratic presidents' average outperformance relative to Republican presidents can be explained by the boom years under Bill Clinton and the subsequent dotcom bust and Global Financial Crisis under George W. Bush. Excluding these two presidencies, the difference in returns is negligible.

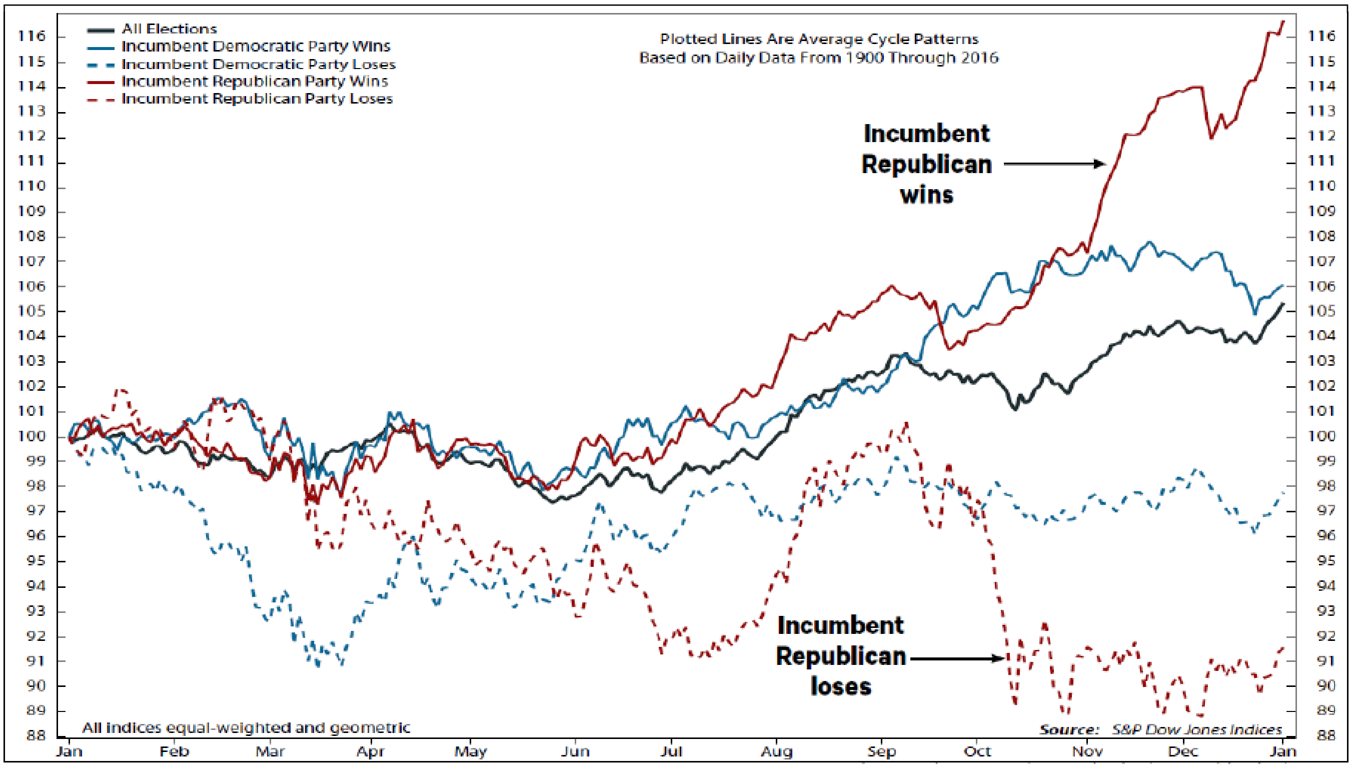
It is more than just the presidency. When it comes to policymaking and financial matters, the president requires the cooperation of Congress to move their agenda forward. Congress holds the power of the purse, with the House of Representatives holding the exclusive power to originate bills for raising revenue and the approval of the Senate and president required for the bills to become law. But historical analysis of equity market performance reveals that it is not affected much by who controls Congress either (see chart to the right).

Partisan Control, Average Annual S&P 500 Performance (1933-2019)



Source: Factset, S&P 500 Price Index. Annual data from 1933 to 2019. Return data in USD. Unified Party = both Congress and president are from the same political party. Split-Party Congress = House and Senate are not controlled by the same political party. One-Party Congress = Both House and Senate are controlled by the same political party. Average calculated for each respective category. Overall average calculated from 1933 to 2019.

Dow Industrials - Pressidential Election Year Cycle II



Source: Ned Davis Research and S&P Dow Jones Indices

Equity returns during election years have historically been positive. The chart above, courtesy of Ned Davis Research, shows the returns of the Dow Jones Industrials Index during election years going back to 1900. As you can see in the chart, the black line represents the returns of the Dow Jones Industrial Index during election years, which has returned almost 5.5% annually, on average. In addition, you can see that equity markets do well when either the Democratic or Republican incumbent wins (the solid red and blue lines), while markets are negative when the incumbent loses (the dashed red and blue lines). However, the equity market returns are not dependent upon which party won or lost, the returns usually reflect how strong or weak the economy was leading up to the election.

As we look back through history, recessions have usually led to incumbents losing the presidency. Since 1909, when there has been no recession in the two years prior to the election, the incumbent has been re-elected 100% of the time. On the six occasions where there has been a recession in the two years prior to the election, the incumbent has been voted out of office five times (see table on the next page). Entering 2020, the U.S. appeared to be on the path to continued economic expansion until it was thrown into a recession as states mandated lockdowns in response to COVID-19. While the recession was quite deep and abrupt, the November 3rd results will determine if voters hold President Trump accountable in the same way they have past presidents.

Based on the historical data, U.S. election results have very little impact on the financial markets over time. Yet, politics and investing have always been intertwined. Market commentators, and even presidents themselves, have often linked the performance of the stock market as a sort of "barometer" of the effectiveness of a president's policies. The data presented earlier does not support this link, and investors should be cautious before making investment decisions based on who is occupying the White House. Over the past 120 years, the long-term performance of the market has shown almost no correlation to government policies. Instead, the key drivers of equity market performance have been corporate earnings and economic growth. Much of our collective memory about the performance of the economy, under previous presidents, stem from historical narratives, not hard data. Other factors, like the decisions made by the Federal Reserve (the "Fed"), have a much greater impact on market sentiment than any soundbite we hear from politicians. In our last quarterly update, we referenced a frequently cited industry mantra that is very appropriate in the context of the current macroeconomic environment: "Don't Fight the Fed."

Effect of Recession on Re-Election

No Recession Two Years Before Re-Election		
President	**Recession?**	**Re-Elected?**
Obama	**No**	Yes
Bush II	**No**	Yes
Clinton	**No**	Yes
Reagan	**No**	Yes
Nixon	**No**	Yes
LBJ	**No**	Yes
Eisenhower	**No**	Yes
Truman	**No**	Yes
FDR	**No**	Yes
FDR	**No**	Yes
FDR	**No**	Yes
Wilson	**No**	Yes

Recession Two Years Before Re-Election		
President	**Recession?**	**Re-Elected?**
Bush I	Yes	No
Carter	Yes	No
Ford	Yes	No
Hoover	Yes	No
Coolidge	Yes	Yes
Taft	Yes	No

Source: Strategas

U.S. ECONOMY: RECOVERY CONTINUES

More than six months after the pandemic took hold in the U.S., the economic recovery continues, though momentum is clearly slowing. That being said, we believe the economy will continue to recover, even if more slowly and unevenly than during its initial bounce-back over the past few months. This is dependent, of course, upon ample monetary and fiscal policy support remaining in place for as long as needed. One other risk that could hinder additional growth in the U.S. is additional lockdowns as a result of rising COVID-19 cases. Responding to the need to provide long-term monetary support to the economy, the Fed provided guidance in September that suggested that short-term interest rates were going to stay near zero until 2024. Further, the Fed pledged to take more policy action if "risks emerge" that look to prevent the Fed from reaching its policy goals (the main goal being to get the unemployment rate to below 4%; currently at 7.9%). Just as we highlighted in last quarter's letter, we believe that monetary support is firmly in place. As for fiscal support, there's near-universal agreement the economy could use more stimulus, but the politics of the election, combined with differing Republican and Democrat perspectives about how much money should be spent and where that money should go, have prevented stimulus from being passed and delivered to the U.S. economy. Despite their policy differences, both presidential candidates have committed to additional fiscal spending. So, no matter who wins, we would expect another fiscal policy package after the election to support the economy. Again, the real factor that could impede further growth in the economy, in our opinion, is the future path of the virus. Currently, we believe that the likelihood of broad lockdowns in the U.S. remains low. In recent months, better shielding of vulnerable populations and improved treatments have helped prevent a large increase in hospitalizations and fatalities, thereby decreasing pressure on hospitals and healthcare systems. Despite the fact that daily new cases seem to be trending somewhat higher (based on the 7-day moving average), deaths related to COVID-19 continue to trend lower (see chart on the next page). Therefore, in our view, the reinstatement of full lockdown measures seems unlikely unless there is a massive surge in new cases. However, the ongoing presence of COVID-19 in the U.S. and continued caution among households and businesses still pose some risks to the recovery.

"So, no matter who wins, we would expect another fiscal policy package after the election to support the economy."

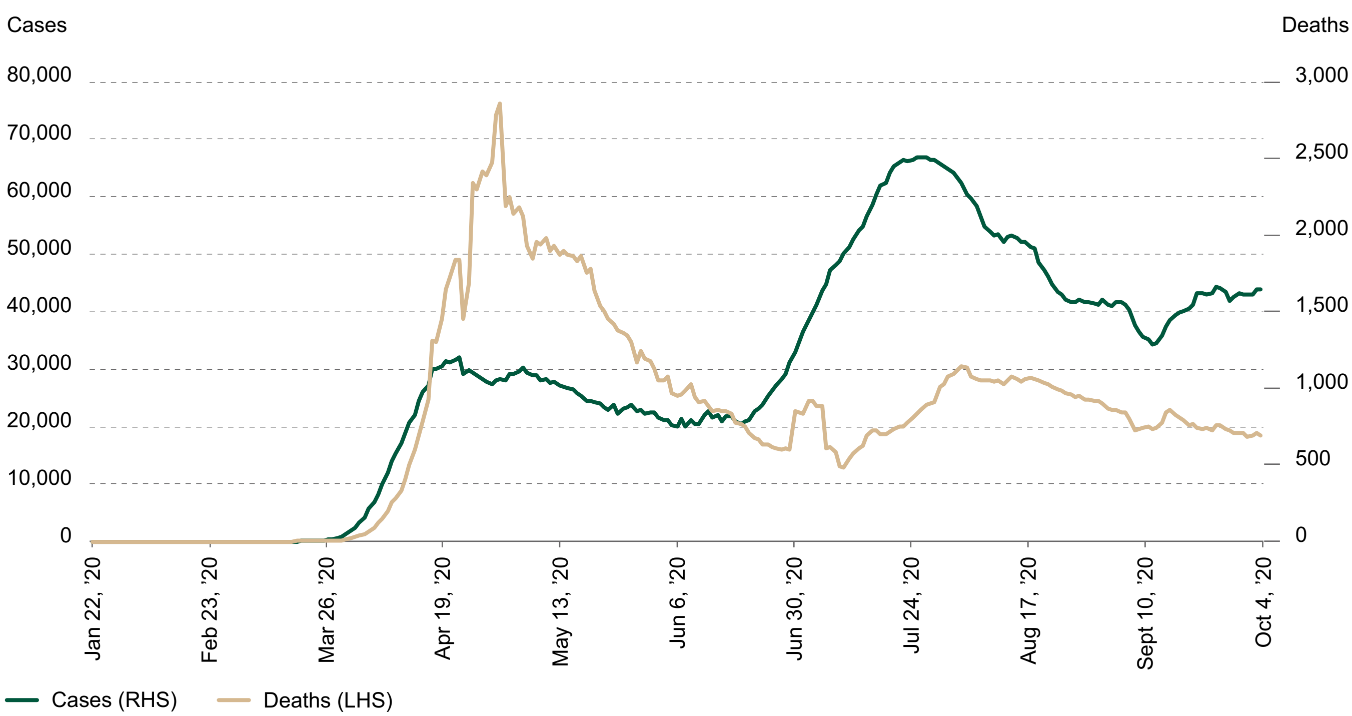
As long as the COVID-19 outbreak in the U.S. remains under control, we expect the economy to recover further. As such, we believe that there is still a strong case for owning U.S. equities, despite above-average valuations, especially relative to other assets. This view is underpinned by our expectations that ample policy support will remain in place for as long as needed. Equity market valuation factors, such as price/earnings ("P/E") multiples are largely a function of interest rates. As interest rates decrease, P/E multiples increase, and vice versa. As of the end of the third quarter, the 10-year U.S. Treasury note was trading at a yield of 0.68%. Also, at the end of the quarter, the S&P 500 was trading at a forward P/E ratio of 20.2X based on FactSet's earning per share ("EPS") estimate for FY2021 (vs. the 5-yr average of 17.2X). If we take the inverse of that number, we come up with the forward E/P ratio or the earnings yield of the S&P 500 which is 4.95% (1/20.2 = 4.95%). Investors evaluate many factors when making investment decisions, including opportunity costs. Opportunity costs refer to the benefit an investor could have received from an investment, but gave up, in order to pursue a different investment. When comparing the various investment options available today, opportunity cost is often evaluated in relation to fixed-income investments, as investors often look at the perceived "risk-free" choice and compare it to the "risky" investment they are considering.

In this example, an investor would be looking at the 0.68% yield on the 10-year U.S. Treasury note relative to the 4.95% forward earnings yield on the S&P 500. However, stocks are historically riskier than bonds, so investors who choose to invest in equities must be compensated for taking on the additional risk. The additional return an investor expects when taking on the additional risk of investing in stocks over Treasuries is commonly referred to as the Equity Risk Premium (ERP). Based on current data, the ERP is 4.27% (4.95% - 0.68% = 4.27%). Utilizing historical data compiled by Yale University Professor Robert Shiller, the historical median ERP on the S&P 500 (or equivalent) going back to 1871 is 2.89%. Comparing the current ERP with the historical ERP suggests that stocks are attractive relative to bonds. With interest rates at historic lows, and likely to stay at these levels for some time, we believe U.S. equities are a compelling option for growth, value, and income investors.

Given the plethora of monetary and fiscal support, particularly here in the U.S., we believe that the risk-reward trade-off for owning fixed income may not be as attractive as it has been in the past. Again, while we do not anticipate interest rates rising anytime soon, which would cause bond prices to fall, there is very little room for price appreciation given that rates are so low, and likely to remain low for several years. In our opinion, allocations to fixed income

COVID-19 Daily New Cases & Deaths in the U.S.

7-day moving average (through 10/6/20)



Source: CDC

still offer diversification in the event of a downside shock to markets (i.e. increased lockdowns as a result of worsening outbreaks) and should remain part of a client's portfolio where warranted.

Finally, while essential to the economic recovery, the historic government stimulus that will ultimately be injected into the U.S. economy will also result in an explosion of debt and surging deficits. We all know that over the long-term this trajectory is not sustainable. Consequently, we believe the market is underpricing longer-term inflationary risks. Therefore, we think investors can be served well to protect their purchasing power by having an allocation to real assets, precious metals, and other alternatives in their portfolios.

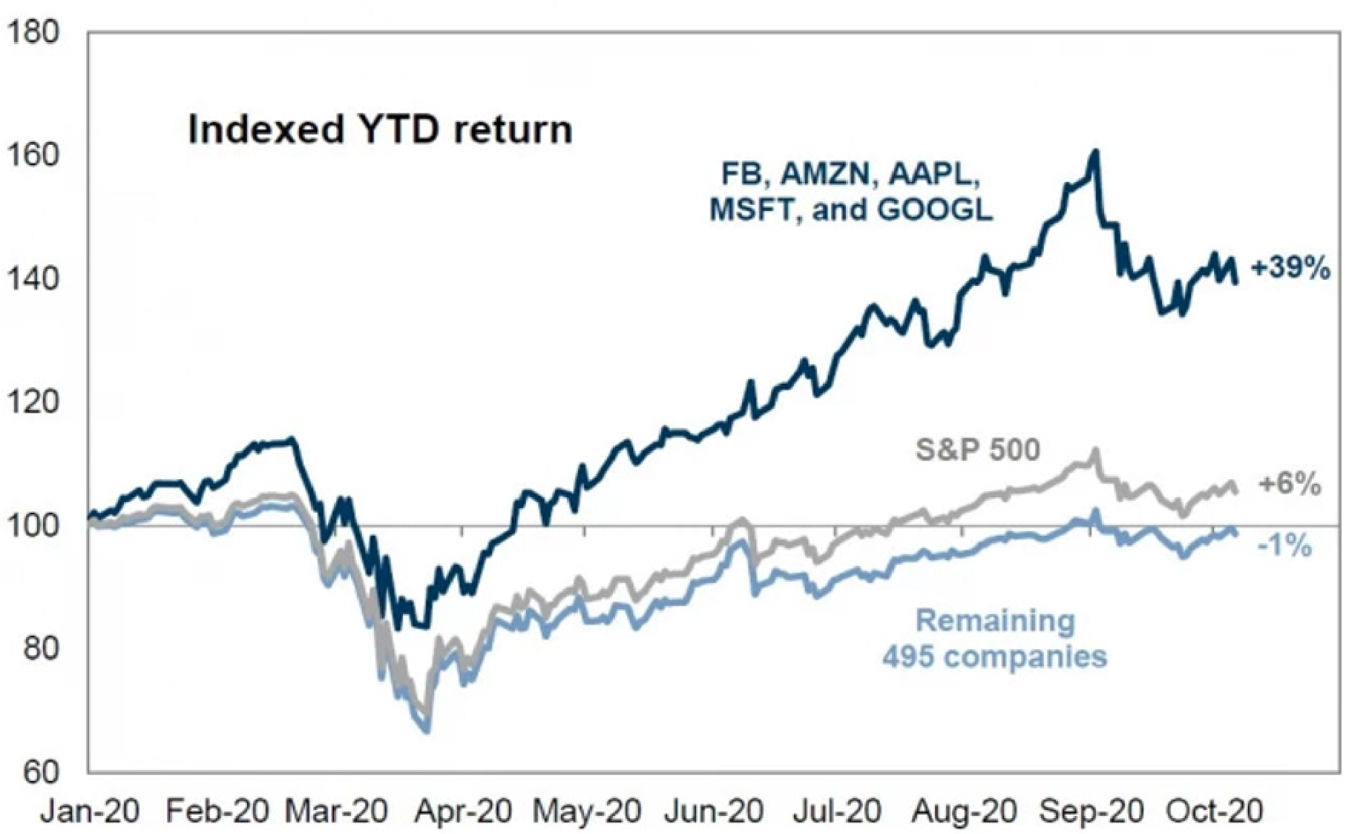
BIG TECH DRIVING MARKETS

The performance of some of the largest, most well know tech companies in the world has been the major reason for the recovery in the S&P 500 this year. Facebook, Apple, Amazon, Microsoft, and Alphabet (owner of Google), which are commonly referred to by the acronym FAAMG, have been key drivers for the S&P 500's 5.5%+ return year-to-date. In fact, if you were to remove these five companies from the S&P 500, the return for the index would be negative for the year. Year-to-date through September 30th, the FAAMG stocks are up 39%, while the remaining 495 stocks that make up the S&P 500 are down 1% (see chart below).

The relative outperformance of the FAAMG stocks can be attributed to the dominant positions these companies have in industries that have benefitted from COVID-19. As you read this quarterly update, you may be in a home office or temporary workspace that is starting to feel permanent. You might also be working odd hours to accommodate a child's remote school schedule. You're probably wearing informal clothes nice enough for video meetings and answering your door to accept deliveries of food and other online purchases. Eventually, we will return to something we consider normal, but some of the ways we learn, work, shop

Five Largest Stocks Have Returned +39% YTD

S&P 500 index has returned +6%; remaining 495 stocks have returned -1%



Source: Goldman Sachs

and entertain ourselves will never be the same. These lifestyle changes have accelerated trends in online advertising and search, social media and communications, office software, videoconferencing and streaming, cloud computing, online shopping and digital payments. This has allowed the FAAMG companies to grow their profits consistently and much faster than the overall economy. While the companies that make up S&P 500 as-a-whole reported some of their biggest earnings declines since the Great Financial Crisis for the second quarter (which were reported during the third quarter), the FAAMG companies reported some of the best results. While other companies that have been damaged by the pandemic (such as brick-and-mortar stores, restaurants, entertainment, and travel) will likely come back at some point, the impact from these shifting habits should continue to strengthen the FAAMG companies' competitive positions going forward.

IN CLOSING

"As we look ahead, uncertainty surrounding the election, as well as the path of the virus and any possible vaccines or therapies, will likely lead to additional market volatility during the final three months of 2020 and beyond."

The resiliency of the U.S. economy and markets is both admirable and encouraging, as the economic and market recovery from the worst pandemic in 100 years has been nothing short of extraordinary. As we look ahead, uncertainty surrounding the election, as well as the path of the virus and any possible vaccines or therapies, will likely lead to additional market volatility during the final three months of 2020 and beyond. However, the tension between short-term noise and long-term fundamentals is nothing new. Famed economist and "father of value investing", Benjamin Graham once said that stocks are like a "voting machine" in the short run but a "weighing machine" in the long run. In other words, over the longer term, stock prices reflect the measure of a company's fundamentals, but over the shorter term, they can reflect investors' fluctuating emotional reactions to news flow, economic data, and even rumors. In election years, the "voting machine" atmosphere can be amplified given the daily—or even hourly—headlines about candidates' policy announcements and polling results. In today's world, investors need to be even more vigilant about ignoring the noise and looking ahead toward their goals, no matter how difficult that becomes.

We thank you for your ongoing confidence and trust. Please know that our entire team remains dedicated to helping you successfully navigate this challenging market environment.

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Definitions:

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The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East), excluding the US & Canada. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. With 913 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Indices are not managed and do not incur fees or expenses. Performance numbers for the index are total return with dividends reinvested in the index.

The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets (EM) countries*. With 838 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Performance numbers for the index are total return with dividends reinvested in the index.

The Bloomberg Barclays US Aggregate Bond Index provides a measure of the total return performance of the U.S. dollar denominated investment grade bond market, which includes investment grade government bonds, investment grade corporate bonds, mortgage pass through securities, commercial mortgage backed securities and asset backed securities that are publicly for sale in the United States.

The price-earnings ratio (P/E) is the ratio of a company's share price to the company's earnings per share. The ratio is used for valuing companies and measures the price you are paying per unit of earnings.

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