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Q3 2020 - Market Commentary

- At its September meeting, the U.S. Federal Reserve announced it would maintain its zero interest rate policy through the end of 2023 and will allow inflation to run above its 2.0% annualized target for a period of time before it would consider raising interest rates. This multi-year forward guidance provided more fuel for the ongoing financial asset recovery. Fed Chairman Powell also implored Congress to pass a fourth round of stimulus to support the economy until a COVID-19 solution becomes available.
- The U.S. economy continued to grind higher and recover from the unprecedented -31.5% GDP decline of the second quarter brought on by the COVID-19 outbreak. Due to ongoing virus outbreaks, service industries such as restaurants, retail, airlines, hotels, movie theaters, and sports venues have yet to see any meaningful recovery. The unemployment rate declined to 8.4% in September but there are still 13.5 million unemployed who are dependent on government support.
- Buoyed by Fed policy guidance, global financial markets rallied during the third quarter and were once again lead by a narrow group of U.S. tech stocks. The so called FANMAG group of six tech related stocks represent the largest weights in the major benchmarks and their outsized performance this year has distorted the true return of the broad U.S. stock market. The median U.S. stock has returned -14.8% year to date compared to the +5.6% return of the S&P 500 Index.
- Developed non-U.S. stock markets also recovered during the third quarter but with lower tech and higher financials exposure they continued to lag the broad U.S. benchmarks. With the global economy coming out of a severe decline, emerging markets equities benefited from higher cyclical exposure and a weakening U.S. dollar. EM stocks were the best performing asset class during the third quarter.
- The U.S. bond market was slightly positive during the third quarter due to the Fed's more explicit forward guidance and its ongoing buying programs to support credit markets. The 10-year U.S. Treasury yield barely moved, finishing the quarter at 0.67% and virtually unchanged from the 0.66% at 6/30/20 but still substantially lower than 1.92% at 12/31/19. High yield bonds rallied with the equity market.
- Gold peaked at $2,069 before retreating to $1,896 by the end of the quarter but is up nearly 25% year to date. Gold offers a hedge against the ongoing high level of uncertainty related to the path of an economic recovery as well as a hedge against the continued debasement of currencies by central banks in this era of extreme monetary policy.
- Balanced portfolios continued to recover with positive returns in both stocks and bonds during the quarter. The average balanced fund is now in slightly positive return territory year to date.

Performance Table [1]

	3Q20		YTD		2019		2018		2017	
S&P 500 Index (U.S. large/mega cap stocks)	8.9%	↑↑	5.6%	↑↑	31.5%	↑↑↑↑	-4.4%	↓	21.8%	↑↑↑
Russell 2000 Index (U.S. small cap stocks)	4.9%	↑	-8.7%	↓↓	25.5%	↑↑↑↑	-11.0%	↓↓↓	14.7%	↑↑↑
MSCI EAFE Index (large cap int'l stocks)	4.8%	↑	-7.1%	↓↓	22.0%	↑↑↑	-13.8%	↓↓↓	25.0%	↑↑↑↑
MSCI EM Index (emerging markets stocks)	9.6%	↑↑	-1.2%	↓	18.4%	↑↑↑	-14.6%	↓↓↓	37.3%	↑↑↑↑
MSCI All Countries World Index (global stocks)	8.1%	↑↑	1.4%	↑	26.6%	↑↑↑	-9.4%	↓↓	24.0%	↑↑↑
Bloomberg Barclays Aggregate Bond (invt. grade bonds)	0.6%	↑	6.8%	↑↑	8.7%	↑↑	0.0%	↔	3.5%	↑
Bloomberg Barclays Corp. High Yield (below invt. grade bonds)	4.6%	↑	0.6%	↑	14.3%	↑↑↑	-2.1%	↓	7.5%	↑↑
Bloomberg Barclays Short-term Treasury (cash)	0.0%	↔	0.9%	↑	2.5%	↑	1.9%	↑	0.8%	↑
Bloomberg Barclays Municipal Bond Index	1.2%	↑	3.3%	↑	7.5%	↑↑	1.3%	↑	5.5%	↑↑
Gold	4.9%	↑	24.7%	↑↑↑	18.4%	↑↑↑	-2.9%	↓	12.5%	↑↑↑
Oil (West Texas Intermediate Crude)	0.2%	↑	-34.3%	↓↓↓↓	31.5%	↑↑↑↑	-25.0%	↓↓↓↓	12.5%	↑↑↑
Bitcoin	17.5%	↑↑↑	49.9%	↑↑↑↑	90.3%	↑↑↑↑↑	-75%	↓↓↓↓↓	1318%	↑↑↑↑↑↑↑
Morningstar Balanced Funds Average (50% to 70% stocks)	4.8%	↑	1.2%	↑	19.2%	↑↑↑	-5.8%	↓↓	13.4%	↑↑↑

[1] *Data sourced from Barclays, Market Watch, MSCI, Russell and Standard & Poors*