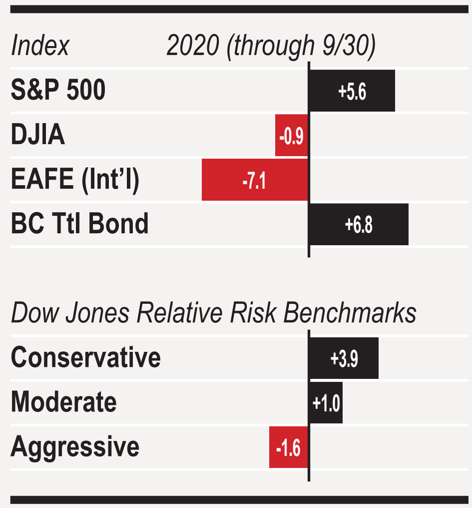
MARKETS CONTINUE RECOVERY

Markets across the globe continued to climb higher in the third quarter of 2020 as most economies began to emerge from recession, further reopening amidst the ongoing COVID-19 pandemic. Most equity indices are up sharply from their March lows, although not all have risen back to previous highs, and returns are uneven geographically and between sectors.

The S&P 500 gained 9.0% for the third quarter, up more than 50% from its spring low. S&P 500 returns have largely been driven by technology stocks, which remain the year's best performers, with the NASDAQ up 24.5% YTD and 11.0% for the quarter. Based on its market capitalization weighting, the S&P 500 is heavily skewed by technology, however the "equal weighted" S&P 500 index remains down -6.3% YTD, illustrating the unevenness of the recovery and the lingering recessionary drag in the broader market.

Foreign stocks have also rebounded, but are less technology weighted and remain in negative territory for the year. The MSCI Emerging Markets index closed the quarter down -1.2%, significantly ahead of the developed markets index, with the MSCI EAFE down -7.1% YTD. Varied responses to the pandemic from both public health and economic policy standpoints have left countries in different stages of distress or recovery.

In the US, unemployment has improved regaining about 10 million of the 22 million jobs lost, and economic activity is expected to show significant growth for third quarter after a steep contraction for the first half of the year. The economic and market recovery seemed to be slowing toward the end of the quarter. Uncertainties abound, with the continued spread of the virus and a push to develop an effective vaccine, heightened social tensions surrounding race, ongoing trade tensions with China, and a contentious US election all weighing on investors. Absent a safe, effective vaccine, economic activity is unlikely to reach pre-recession levels, and another round of fiscal stimulus in the US looks questionable before the election. As a result, we expect heightened volatility in the near term.

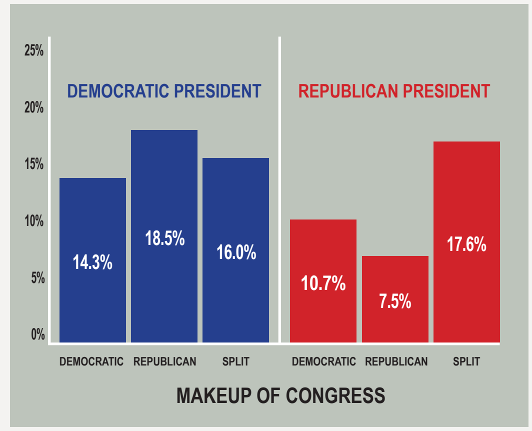


ELECTIONS ARE EMOTIONAL

Elections can be emotional, especially in a year such as 2020 in the midst of a pandemic and economic recession. Markets can also be emotional, particularly in the short term, but long-term it is fundamentals that drive results. Diversified portfolios created based on an investors risk tolerance and objectives, are meant to withstand periods of volatility, and remain invested even through contentious election years. In fact, historically markets tend to be more positive than negative after an election, no matter what the makeup of political parties is.

Since 1937, when the President and Congress represented the same party, the one-year return for the S&P 500 was positive 74% of the time. If the President and Congress represented different parties, the one-year return for the S&P 500 has been positive 78% of the time. *(Hartford Funds, How Political Parties in Power Influence Markets)* It is generally better to separate politics from investing and those who can stay with a long-term strategy should be rewarded. To quote famous investor Sir John Templeton, **"The four most dangerous words in investing are 'this time it's different'".**

AVERAGE S&P 500 INDEX TOTAL RETURN ANNUAL PERFORMANCE 1950-2019



Source: First Trust, October 2020

FIXED INCOME — After a strong first half, bonds posted more modest returns in the third quarter. The yield on the 10-year US Treasury bond started the quarter at 0.66% and ended at 0.69%. The Federal Reserve announced a change of rate policy to an “average inflation targeting” approach, stating they will allow inflation to rise above the 2% mandate for some time before raising rates. It is widely expected that interest rates will remain low for an extended period, which is beneficial for borrowers but not for those looking for income from safer assets. Despite more muted return expectations, we continue to recommend a combination of bonds and alternatives as important risk management tools in a low rate, high uncertainty environment. For both fixed income and alternatives, we are in favor of active management to navigate complex and changing conditions.

Our View — Maintain allocation, use active management to adjust for changing conditions

US EQUITIES — There has been a huge variation in returns among US stocks this year due to the nature of the recession. Year-to-date, outperforming industries include: Online Retail +60%, Home Improvement +33%, and Information Technology +29%, while the worst performers have been: Energy -48%, Airlines -46%, and Hotels, Resorts, & Cruise Lines -45%. (JP Morgan Guide to Markets, Sept 2020) While some stocks may look expensive after a solid rebound, there are many that do not. Some industries and sectors may be cheap for a reason therefore selectivity will be key going forward to identify remaining areas of value and opportunity. Growth has continued to outperform value, a trend that could persist, however based on current valuations and the rebound potential for value we recommend an equal weighting at this time. Given current uncertainties we also have a bias toward larger companies due to their generally stronger financial positions and diversified geographic exposures.

Our View — Overweight large US companies, equal preference for growth and value

INTERNATIONAL EQUITIES — Certain countries and regions have fared much better than others, and results appear correlated to control over the virus. Generally speaking, Asia has had less viral spread and better market performance while Europe and Latin America have seen higher infection numbers and lower returns. Many emerging countries have had less issues with the virus than originally feared, possibly due to younger populations and a less mobile lifestyle. The recovery in Europe is being aided by a coordinated fiscal policy effort, a strategy not seen before despite the common currency. We favor maintaining exposure to both emerging and developed markets for diversification and long-term opportunity. Foreign stocks look relatively cheaper, and a declining US dollar could also be a tailwind for returns. Given the disparity of economic conditions, we believe active management may be beneficial.

Our View — Maintain allocations, use active managers to navigate uneven recovery

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