



THE FINAL STRETCH

We've reached the final turn in 2020, and I think we're all ready to cross the finish line and put this year behind us! This will be a quarter for the record books, and it's anyone's guess how it will end. Our world has been upturned by a global pandemic, there's social unrest in the streets, a pending election, sporting events with no fans, schools with no kids, and numerous disruptions to businesses and people's livelihoods. Our clocks and calendars have been virtually turned upside down. And speaking of calendars and sports, even the Kentucky Derby moved from the first Saturday in May to the first Saturday in September... Spring hats and seersucker were replaced by scarves and tweed! The year 2020 continued to deliver her punches with a major upset, when the heavy 3-5 favorite was outmatched in the home stretch. The only thing that remained constant was record-setting trainer Bob Baffert winning the Derby once again, only to be knocked to the ground by his equine protégé in the winner's circle. It appeared the young colt was reminding everyone to keep practicing their "social distancing!"

Yes, 2020 itself has been much like a horse race. The first quarter started smartly with the bell ringing and stocks roaring, eager punters holding potential winning tickets with bated breath. However, what looked to be a clean start quickly deteriorated into a messy grind to the quarter pole when one horse, aptly named "Corona" lost his jockey and proceeded to cut across the entire track, bumping horses and causing riders to pull up on their reins. After the first turn (Q1), a few front runners pushed the pace when "Zoom"er broke away from the field, followed by "Apple"jack, "Google"me, and Kissmy"Facebook," leaving long-time favorite "Warren" trailing lengths behind the pack. The speed was lightning fast, and the trainer of Nasdaq Stables, LLC was beaming, while disappointed owner Mr. Dow Jones wondered how long they could keep up the pace as they quickly passed the half-mile pole (Q2). But luck would change half-way through the 3rd turn (Q3); the leaders began to tire and the breadth of the field ("market") began to widen, giving older horses who had proven their winning ability ("cash cows") a chance to compete. Just as the throng of contenders became more dense, "PPP"Pete and the stalwart filly "RBG" pulled up lame, leaving "Jerome" to steady the pace.

Heading into the final stretch (Q4), it appears to be anyone's race, filled with much uncertainty, and many trials to come. Will it be "Vaccine-19" or "Stimulus," or the strong and steadfast "Main Street" which still has a lot of heart! Whatever it may be, we have two contenders in red and blue saddle blankets that are sure to have an impact on the results. There's the Dark Horse from 2016 on one side, and a career DC insider on the other. Despite the pollsters predicting a Democratic win, the options market is pricing in an enormous amount of volatility around the election and into the rest of the year. If the markets hate one thing, it's uncertainty, and this election is filled with that.

On top of a pandemic, there is controversy over mail-in/absentee ballots, the ability for the post office to deliver, the replacement of a supreme court justice, and negotiations over additional fiscal stimulus.

It is still anyone's race; however, we see three likely scenarios unfolding in this dead heat finish:

Blue Wave

We believe the market has already somewhat priced in this scenario, and therefore we foresee a potential sell on the news, but do not predict a bear market. Corporate tax hikes will most likely occur; however, they may be delayed until 2022 or at least until a COVID-19 vaccine is available, which would have a modest initial impact to corporate profits. Some technology stocks would likely suffer under greater Democratic regulatory scrutiny, while infrastructure, clean energy, and healthcare services should perform well.

Biden Wins/Republicans Keep the Senate

In general, markets like a split government and tend to outperform in this environment vs. a single-party controlled régime. The reason being is that a balance of power tends to result in a stalemate, and very little (if anything) gets done. Therefore, companies don't have to plan and budget for big changes, or delay business decisions awaiting new laws and policies.

Status Quo

The market should continue to do well, provided the economy continues to recover and a vaccine allows the economy to reopen. In addition, the market should take some comfort in the "enemy" you know vs. the one you don't. Smaller companies should rally along with energy, financials and technology. Trade tensions with China could continue unless a weaker dollar forces them to the table, and the knowledge that they have 4 more years until a change of power creates pressure to make a deal.

All of these scenarios are well and good; however, the biggest unknown factor and the biggest risk to the market is *time*. When will the American people actually know the results of this hotly contested race? An inconclusive election will most certainly send the market lower and volatility higher (at least in the short-run). Despite the outcome, the underlying economy should continue to improve into 2021. A medical solution is still necessary, however, and the timing of a vaccine will dictate how quickly we can reopen the economy. While some industries have rebounded more quickly than expected, time is critical to those still on life support.

Despite a strong 3rd quarter that broadly rewarded investors, September was still largely in the red due to continued concerns over the election, rising COVID-19 cases in the U.S. and



Europe, stalled negotiations on fiscal policy, and renewed uncertainty around Brexit, which further added to investor caution. All in all, the trajectory of the recovery is still unclear.

There is no consensus as to the forward-looking shape of the recovery. Some argue that a “V” scenario is in the works, but an equal number wonder whether this is sustainable given all of these headwinds. The newest alphabetic indicator — “K” — refers to the uneven aspect of the recovery, with certain segments of the population being hit much harder than others.

Housing was a bright spot in the quarter with pending home sales rising to a record high in August, according to the National Association of Realtors. Notably, growth in mortgage purchase applications (+39% y-o-y as of Sept. 25) is one of the few economic indicators that is above pre-COVID levels, due to record low interest rates. Consumer confidence also improved; the Conference Board’s Index rose to the highest level in six months but remains well below pre-pandemic levels. The unemployment rate, which peaked at 14.7% in April, fell to 8.4% in August. However, of the 22 million jobs lost from February to April, only 11 million have been added since. This compares to a loss of 9 million from 2007-09. Lower-income, less-skilled, and tourism-related jobs have been the hardest hit, furthering concerns over the widest income inequality gap in history. The leisure and hospitality sectors have gained back only half of the jobs lost thus far, which has disproportionately affected lower-income workers. Initial jobless claims in state programs continue to surpass 800,000 per week, and continuing claims hover around 12 million (the average for 2017-19 was under 2 million).

Second quarter GDP was -31.4% (annualized), the largest decline on record. However, Federal Reserve projections announced at its August meeting call for 2020 real GDP to be -3.7% y-o-y, slightly better than the -6.5% figure expected in June. A September survey of economists by The Wall Street Journal estimates 3Q GDP growth will be nearly +24% (annualized).

Of note, the Fed altered its monetary policy framework in a meaningful way in August. It announced that its focus would be on employment and, given that inflation has been persistently below its 2% target, it said it would “aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time.” This comment suggests that the Fed will strive to raise inflation above the target for an unknown period of time. It further stated its intention to continue to support markets with asset purchases. Notably, Fed and market expectations are for no rate hikes until at least 2023. While inflation remains low (CPI: +1.3%; Core: +1.7% as of August) with few visible signs of acceleration, whispers of caution are beginning to emerge. The size of the deficit combined with expected fiscal stimulus could pave the way for higher inflation, and a continued trend toward de-globalization could raise the costs of production at home. The Congressional Budget Office estimates a \$3.3 trillion deficit this year, three times that of last year.



Outside of the U.S., central banks continued to act aggressively to provide support via rate cuts, asset purchase programs, and other forms of stimulus. According to data from the International Monetary Fund, nearly \$10 trillion in stimulus measures globally have been announced thus far, equating to 11% of global GDP. In addition to rising COVID-19 cases in the U.K. and Europe, uncertainty resurfaced around Brexit when Prime Minister Boris Johnson threatened to rewrite clauses pertaining to the treatment of Northern Ireland, leading to disarray and the resignation of the head of the government's legal department. The OECD met in September and acknowledged that the global economy had performed better than expected, but that tremendous uncertainty remains. It estimated that global GDP would contract by 4.5% in 2020, slightly better than the 6% drop predicted in June. And while the 2021 projection is for 5.0% growth, it expects "considerable differences" across countries. China is the only country that is expected to have positive growth in 2020 (+1.8%), and while the outlooks for the U.S. (-3.8%) and the euro zone area (-7.9%) have brightened from earlier projections, they remain uncertain, and forecasts have become more cloudy for many emerging market countries.

CLOSING THOUGHTS

As America continues to debate (or not), we remain focused on one thing—your portfolio. Where appropriate, we have rebalanced, trimmed winners, and raised liquidity to weather this final furlong; but at the end of the day, history has shown us that who wins the White House doesn't really matter all that much. We are playing a much longer-term game. It's not a race, it's a marathon, which is why a long-term strategic allocation is paramount to success. Like Bull and Bear markets, Donkeys and Elephants will come and go. Our job is to navigate the animal spirits and ensure our clients finish strong, healthy and sound.

Regards,



John P. Ulrich, CFP®
President



Whitney E. Solcher, CFA®
Chief Investment Officer



Equity Markets

U.S. stock indices continued to rebound from the 1Q plunge; the Russell 1000 was up more than 50% from the low reached on March 23. The S&P 500 Index was up 8.9%, bringing its year-to-date result to 5.6%. However, returns among constituents painted starkly different pictures. Consumer Discretionary (+15%) was the best-performing sector while Energy (-20%) was the worst. YTD, a handful of sectors remain in the red while others are up double-digits. Technology (+29%) and Energy (-48%) share the leader/laggard awards. The pandemic has cast a pall over certain sectors while rewarding others; online retail stocks have soared 60% this year, the home improvement sector is up over 30%, but hotels/cruise lines, airlines, and commercial REITs have dropped over 40%.

A similar and related picture emerges with style indices. The tech-heavy Russell 1000 Growth Index (+13.2%) was again the best performer, and its gain is just shy of 25% YTD. Conversely, the Russell 1000 Value Index was up only 5.6% in the quarter, and it has lost nearly 12% this year. The dispersion between growth and value is near an all-time high and equally stark in small and midcap stocks for both the quarter and YTD. Strong stock performance has been concentrated among a few names in the market. The top five stocks (Facebook, Microsoft, Amazon, Alphabet, and Apple) in the S&P 500 account for 23% of the Index and 33% of the performance. The S&P 500 YTD return would be negative if these stocks were excluded.

Outside of the U.S., equity index returns were positive across developed and emerging markets (MSCI ACWI ex-USA: +6.3%; MSCI Emerging Markets: +9.6%) but both remain down YTD (-5.4%; -1.2%). As in the U.S., growth outperformed value. Among countries in both developed and emerging markets, returns varied widely with some countries posting double-digit gains and others suffering double-digit losses. The U.S. dollar lost ground versus most developed market currencies

Credit Markets

U.S. Treasury yields held steady over the course of 3Q in spite of strong equity markets and better-than-expected economic data. The 10-year U.S. Treasury yield closed the quarter at 0.69%, up 3 basis points from June 30 but off far more sharply from the year-end level of 1.92%. Its yield hit an all-time low of 0.52% in August. TIPS (Bloomberg Barclays US TIPS: +3.0%) strongly outperformed nominal U.S. Treasuries for the quarter as 10-year breakeven spreads widened from 134 bps to 163 bps. The Bloomberg Barclays US Aggregate Bond Index gained 0.6%, with the corporate and commercial mortgage-backed sectors performing the best. Supply hit record levels as companies rushed to take advantage of ultra-low interest rates. The Bloomberg Barclays High Yield Bond Index was up 4.6% and is now roughly flat YTD. High yield and leveraged loan default rates (5.8% and 4.3% y-o-y as of September, according to data from JP Morgan) continued to trend higher but remain below levels reached in the Global Financial Crisis. Energy and retail sectors have been the hardest hit, with default rates that are approaching 20% for loans and bonds. Downgrades among high yield bonds and loans as well as “fallen angels” (downgrades from investment grade to high yield) reached record levels while recovery rates are near record lows. Separately, municipal bonds (Bloomberg Barclays Muni Bond Index: +1.2%) benefited from favorable supply/demand dynamics.



Broad-based U.S. dollar weakness dampened hedged returns in the quarter. The Bloomberg Barclays Global Aggregate ex-US Bond Index rose 4.1% (unhedged) and 0.7% (hedged). Emerging market debt indices posted solid results (EMBI Global Div: +2.3%; GBI-EM Gl Div: +0.6%) but remain down from year-end (-0.5%; -6.3%).

Real Assets

Real asset returns were mixed in the third quarter. Falling oil prices hurt MLPs (Alerian MLP: -16.3%) while gold (S&P Gold Spot Price: +5.3%) hit an all-time intraday high in August (\$2,005/ounce). The Bloomberg Commodity Index gained 9.1% with all sub-components except Energy up sharply. REITs were mixed (FTSE Nareit: +1.4%) for the quarter and YTD performance is striking: Lodging/Resorts (-49%); Regional Malls (-54%); Office (-30%); and Shopping Centers (-45%) suffering from COVID-19 lockdowns while Data Centers (+26%) and Industrial (+9%) saw gains. TIPS (Bloomberg Barclays TIPS: +3.0%) did well as inflation expectations rose from depressed levels. The 10-year breakeven spread widened from 1.34% to 1.63% over the quarter.



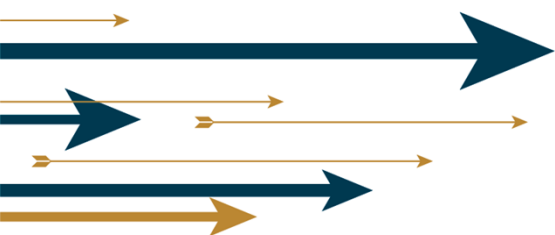
Returns for Various Periods - September 30, 2020

	Last Quarter	Year to Date	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
MSCI:ACWI	8.13	1.37	10.44	7.12	10.30	8.55	6.46
Russell:3000 Index	9.21	5.41	15.00	11.65	13.69	13.48	9.13
Russell:3000 Growth Index	12.86	23.00	36.12	20.73	19.51	16.91	11.74
Russell:3000 Value Index	5.42	(12.23)	(5.67)	2.11	7.43	9.75	6.26
MegaCap							
Russell:Top 50	11.78	14.84	26.84	16.66	17.03	14.85	9.67
Russell:Top 200	10.16	9.62	20.35	14.34	15.60	14.50	9.52
Russell:Top 200 Growth	14.03	26.88	41.19	23.07	21.43	18.13	12.42
Russell:Top 200 Value	5.19	(10.96)	(3.88)	3.55	8.30	10.08	6.10
Large Cap							
S&P:500	8.93	5.57	15.15	12.28	14.15	13.74	9.19
Russell:1000 Index	9.47	6.40	16.01	12.38	14.09	13.76	9.28
Russell:1000 Growth	13.22	24.33	37.53	21.67	20.10	17.25	11.95
Russell:1000 Value	5.59	(11.58)	(5.03)	2.63	7.66	9.95	6.35
MidCap							
S&P:400 Mid Cap	4.77	(8.62)	(2.16)	2.90	8.11	10.49	8.21
Russell:Midcap Index	7.46	(2.35)	4.55	7.13	10.13	11.76	8.62
Russell:Midcap Growth	9.37	13.92	23.23	16.23	15.53	14.55	10.51
Russell:Midcap Value	6.40	(12.84)	(7.30)	0.82	6.38	9.71	7.07
Small Cap							
S&P:600 Small Cap	3.17	(15.25)	(8.29)	(0.33)	7.20	10.57	7.50
Russell:2000 Index	4.93	(8.69)	0.39	1.77	8.00	9.85	7.03
Russell:2000 Growth	7.16	3.88	15.71	8.18	11.42	12.34	8.90
Russell:2000 Value	2.56	(21.54)	(14.88)	(5.13)	4.11	7.09	4.93
Russell:Microcap	3.69	(7.94)	4.44	(0.09)	6.72	9.50	5.49
Non-US Equity							
MSCI:ACWI ex US	6.25	(5.44)	3.00	1.16	6.23	4.00	4.09
MSCI:EAFE	4.80	(7.09)	0.49	0.62	5.26	4.62	3.73
MSCI:EAFE Growth	8.43	4.60	13.44	7.07	9.22	7.00	5.57
MSCI:EAFE Value	1.19	(18.31)	(11.93)	(5.86)	1.14	2.10	1.76
MSCI:EAFE Small Cap	10.25	(4.20)	6.84	1.40	7.37	7.33	5.55
MSCI:EM	9.56	(1.16)	10.54	2.42	8.97	2.51	5.81
Fixed Income							
Blmbg:Aggregate	0.62	6.79	6.98	5.24	4.18	3.64	4.48
Blmbg:TIPS	--	--	--	--	--	--	--
Blmbg:Long Gov/Credit	1.22	14.20	12.92	10.21	8.78	7.36	7.35
Blmbg:Long Credit A	1.55	10.13	10.68	8.73	8.48	7.33	6.80
Blmbg:HY Corp Cash Pay	4.60	0.63	3.27	4.22	6.79	6.47	7.10
Blmbg:Muni 1-10 Yr	1.07	3.22	4.10	3.41	2.92	2.96	3.67
Blmbg:Glb Agg xUSD	4.14	4.77	5.48	3.07	3.60	1.35	3.18
Blmbg:Glb Agg xUSD Hdg	0.68	2.97	1.82	4.94	4.33	4.06	4.28
JPM:EMBI Plus	1.75	1.34	4.76	2.50	5.47	4.81	6.30
Other Assets							
Blmbg:Commodity TR Idx	9.07	(12.08)	(8.20)	(4.18)	(3.09)	(6.03)	(4.82)
S&P GSCI	4.61	(33.38)	(27.84)	(9.46)	(7.88)	(8.84)	(9.30)
S&P:Gold Spot Price Ix	5.28	24.45	28.69	13.84	11.19	3.77	9.71
FTSE:NAREIT Equity Index	1.44	(17.54)	(18.16)	0.20	3.95	7.90	5.86
Alerian:MLP Index	(16.26)	(46.16)	(48.35)	(20.75)	(11.58)	(4.17)	1.17



CAPITAL MARKETS REVIEW & OUTLOOK

Third Quarter 2020



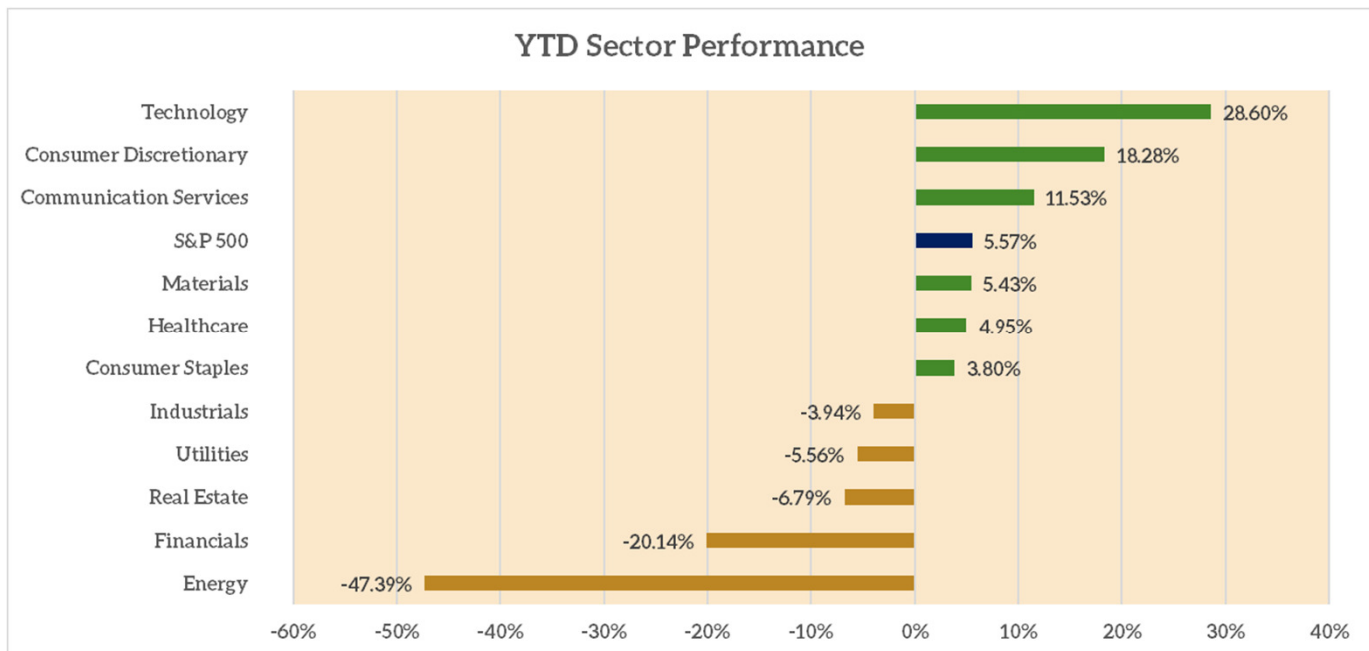
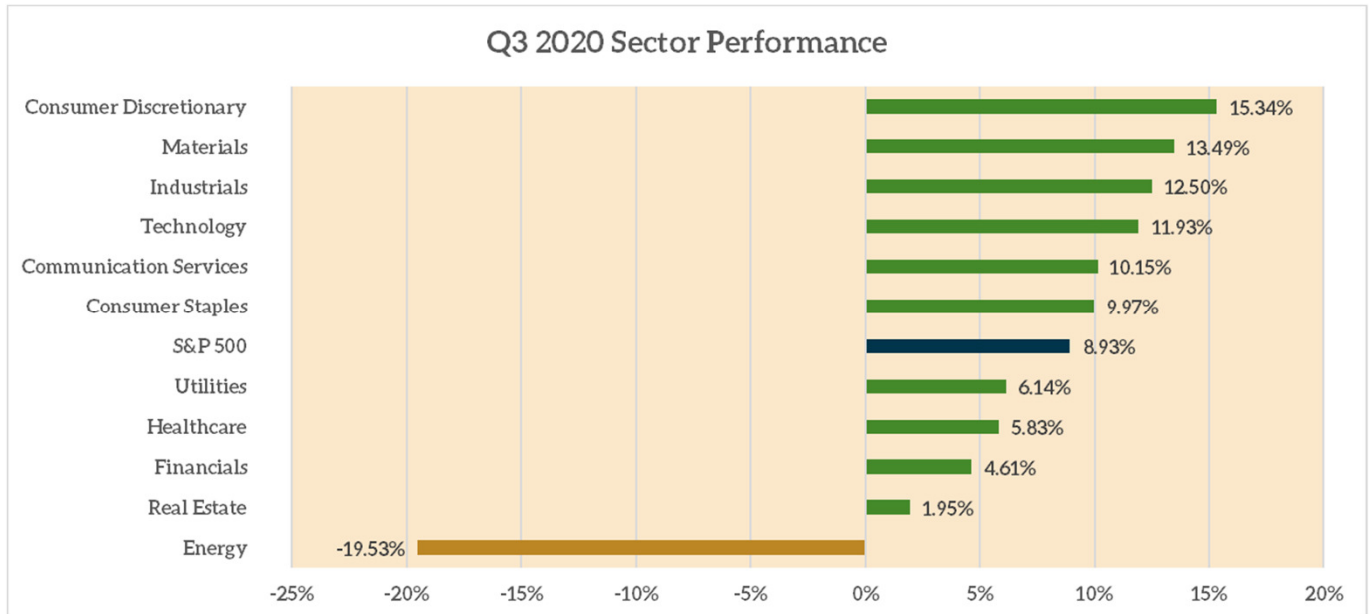
MAJOR MARKET INDICES (AS OF 9/30/2020)

Domestic Equity	2020		1 Year	Annualized		P/E Ratio TTM
	Q3	YTD		5 Year	10 Year	
S&P 500	8.9%	5.6%	15.1%	14.1%	13.7%	25.9
Russell 3000	9.2%	5.4%	15.0%	13.7%	13.5%	25.5
Russell 1000 Value	5.6%	-11.6%	-5.0%	7.7%	9.9%	21.7
Russell 1000 Growth	13.2%	24.3%	37.5%	20.1%	17.3%	33.3
Russell 1000	9.5%	6.4%	16.0%	14.1%	13.8%	26.0
Russell 2000	4.9%	-8.7%	0.4%	8.0%	9.9%	17.2
Russell 2500	5.9%	-5.8%	2.2%	9.0%	10.8%	19.3
International Equity	2020		1 Year	Annualized		P/E Ratio TTM
	Q3	YTD		5 Year	10 Year	
MSCI ACWI Ex US	6.4%	-5.1%	3.4%	6.7%	4.5%	18.5
MSCI EAFE	4.9%	-6.7%	0.9%	5.8%	5.1%	19.9
Emerging Markets	9.7%	-0.9%	10.9%	9.4%	2.9%	16.6
Fixed Income	2020		1 Year	Annualized		Yield
	Q3	YTD		5 Year	10 Year	
Barclays Aggregate	0.6%	6.8%	7.0%	4.2%	3.6%	1.2%
Barclays Universal	1.0%	6.2%	6.7%	4.5%	3.9%	1.7%
Other	2020		1 Year	Annualized		Value
	Q3	YTD		5 Year	10 Year	
US Dollar	-3.6%	-2.6%	-5.5%	-0.5%	1.8%	\$93.89
WTI	1.0%	-34.3%	-25.0%	-2.1%	-6.8%	\$40.22
Gold	6.5%	24.3%	27.4%	11.1%	3.6%	\$1,885

- Markets continued to march higher in Q3 despite the lack of any deal from Congress on additional fiscal stimulus.
- While growth stocks continue to dominate, technology took a bit of a breather in September, and we began to see some signs of sector rotation and broader market participation.
- Emerging markets outperformed their developed peers as second waves of the Coronavirus appeared to be taking hold of Europe.
- Oil continued to suffer as travel demand remains weak, even as the economy attempts to re-open.

Source: Koyfin, Morningstar, Baird Advisors

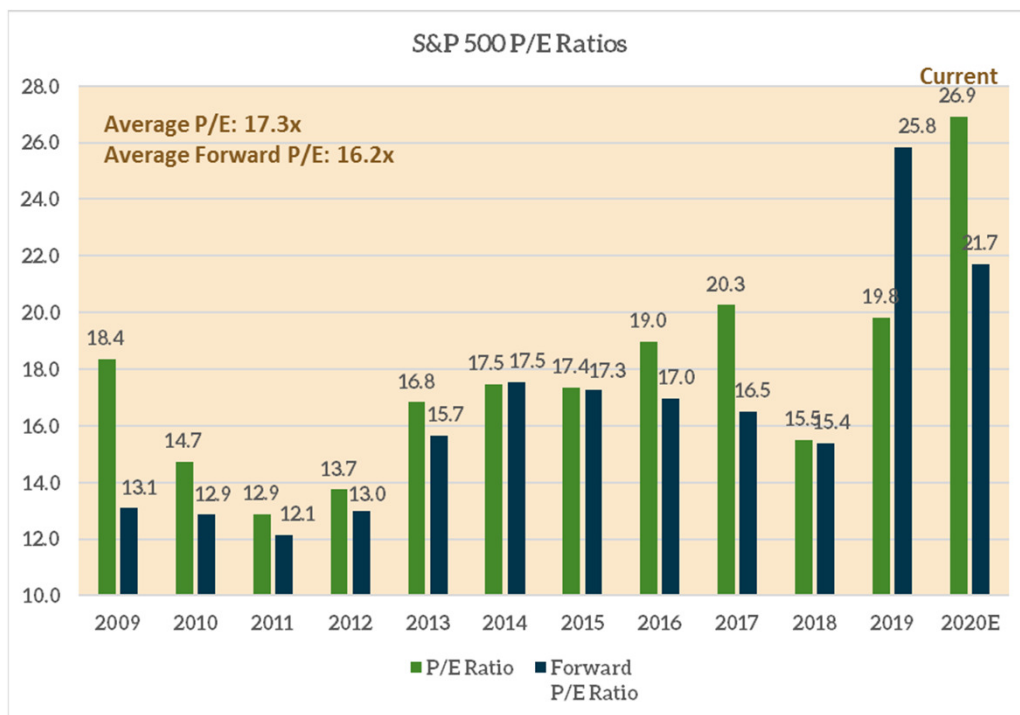
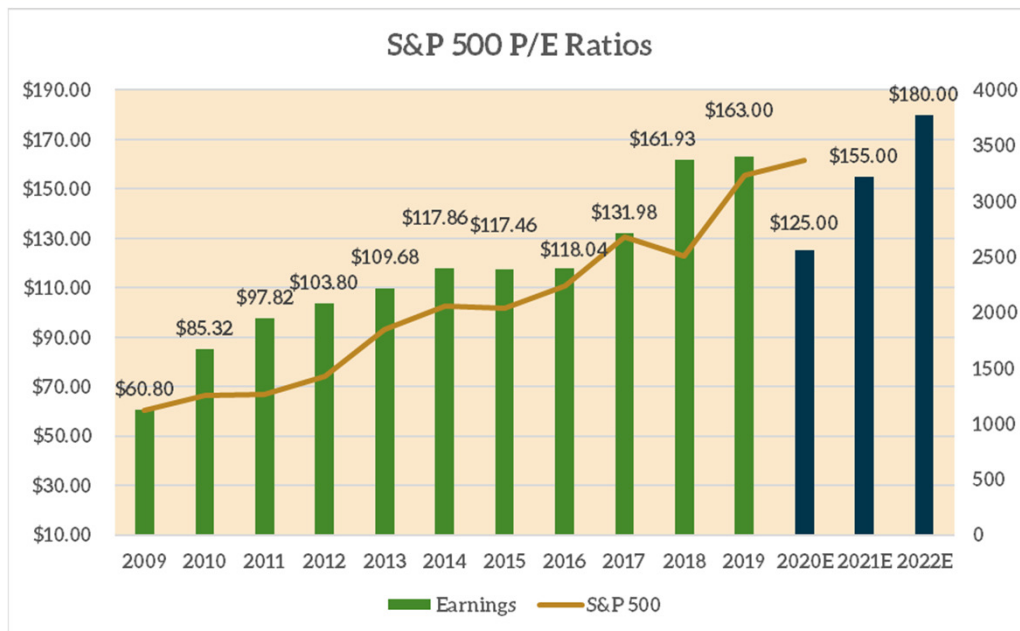
SECTOR PERFORMANCE



- The market breadth was much wider in Q3, with the participation of cyclical sectors, like industrials and materials making strong reversals.
- Year to date, Technology, Consumer Discretionary and Communication Services still dominate the majority of the S&P 500's returns, with energy and financials lagging.

Source: Morningstar

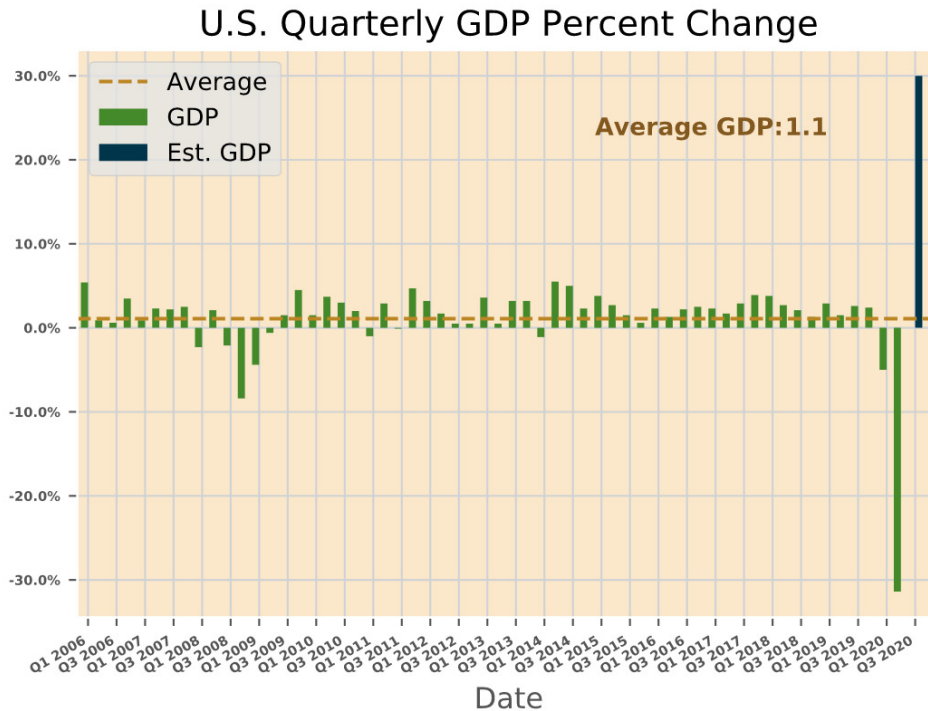
EARNINGS AND VALUATION



- Earnings are expected to fall by roughly 20% in the 3rd quarter, on a year over year basis, and not predicted to fully recover until 2022.
- More than 1 in 4 S&P 500 companies are still not providing guidance for 2020 or 2021.
- P/E ratios remain elevated above their 5 and 10-year averages.

Source: Yardeni Research, Yahoo Finance

GROSS DOMESTIC PRODUCT

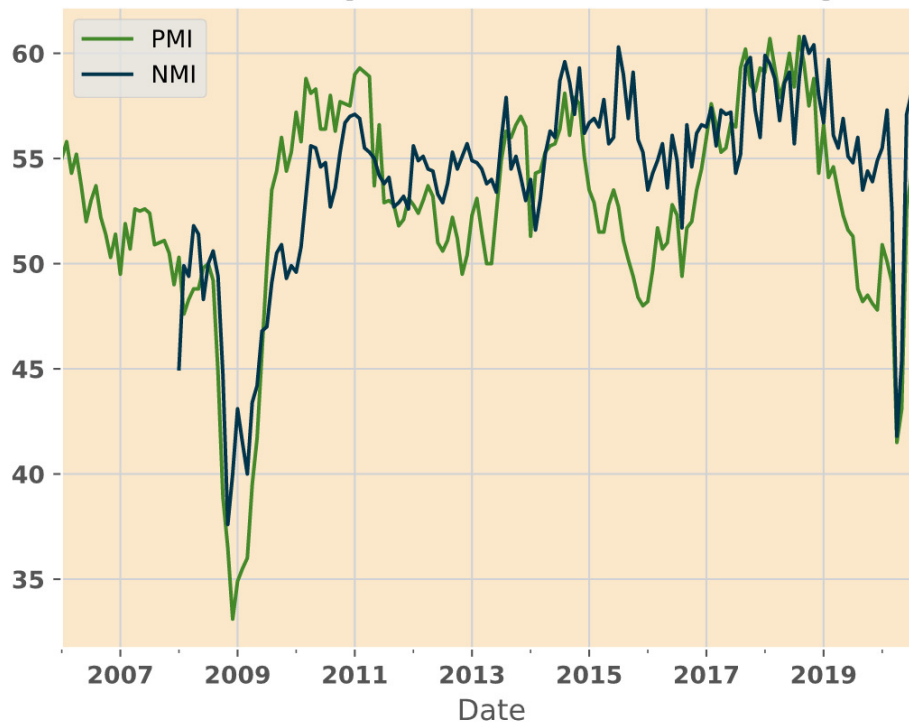


Estimates:

2020 Q3 – 30.0%
2020 Q4 – 10.0%

- 2Q GDP came in slightly better than originally projected and the FED has projected full year 2020 GDP to come in at -3.7%, slightly better than the original estimate of -6.5% set in June.

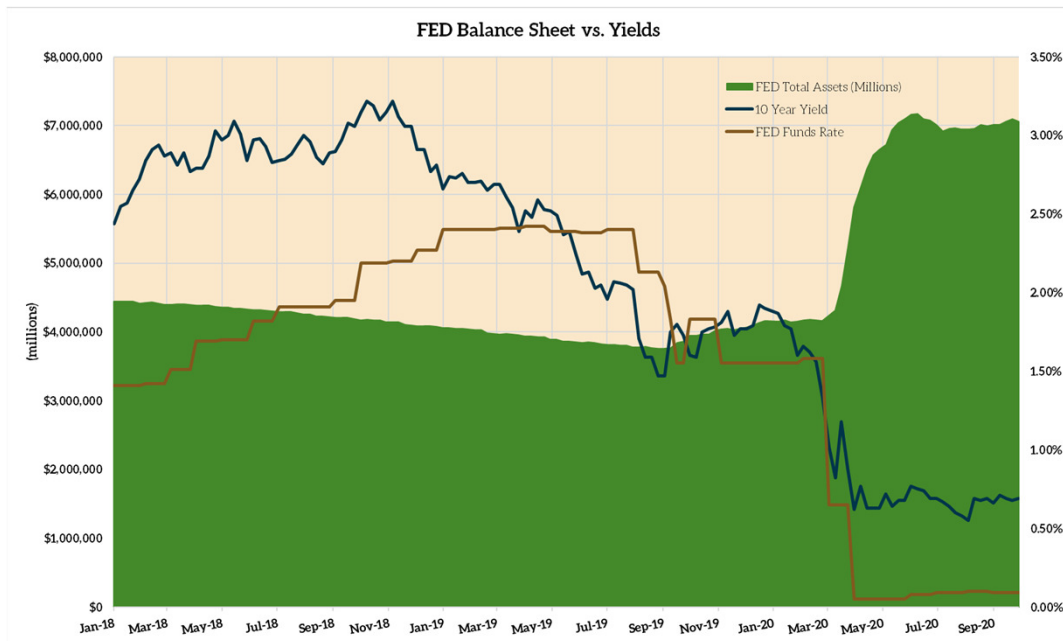
ISM Manufacturing PMI vs. Non-Manufacturing Index



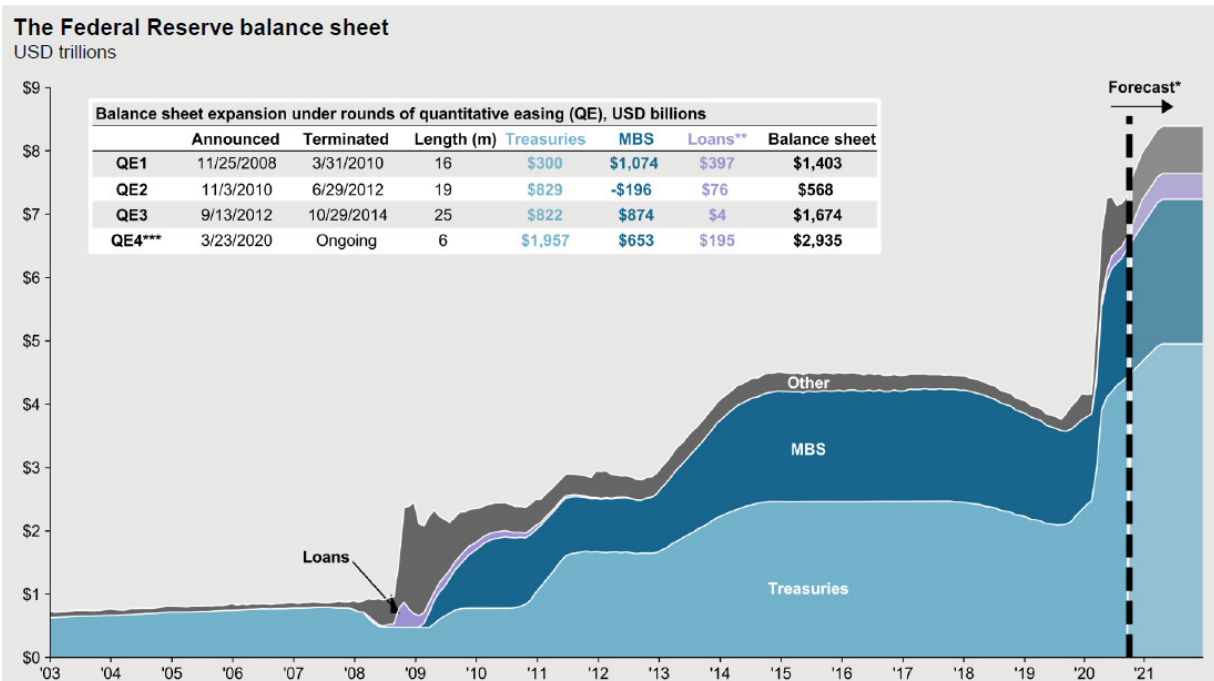
- The service industry continues to suffer. Of the 22 million jobs lost, only 11 million have returned, and only half the jobs in the leisure and hospitality industries have come back.

Source: Federal Reserve Economic Database, Yardeni Research

► UNPRECEDENTED FED RESPONSE

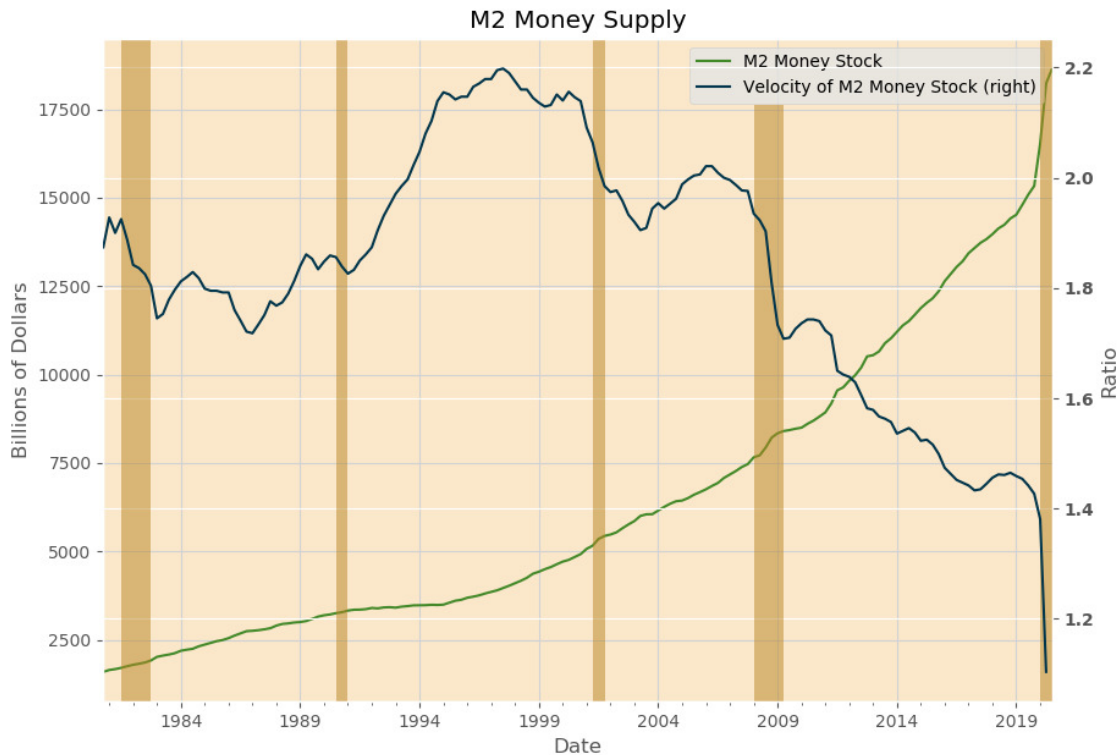


- The Fed altered its policy framework in August, announcing its focus would be on employment, and given that inflation has been persistently low, they would allow it to float above the 2% target.
- They further stated they would continue their asset purchases to support the market, and expectations for future rate hikes were pushed out to 2023.

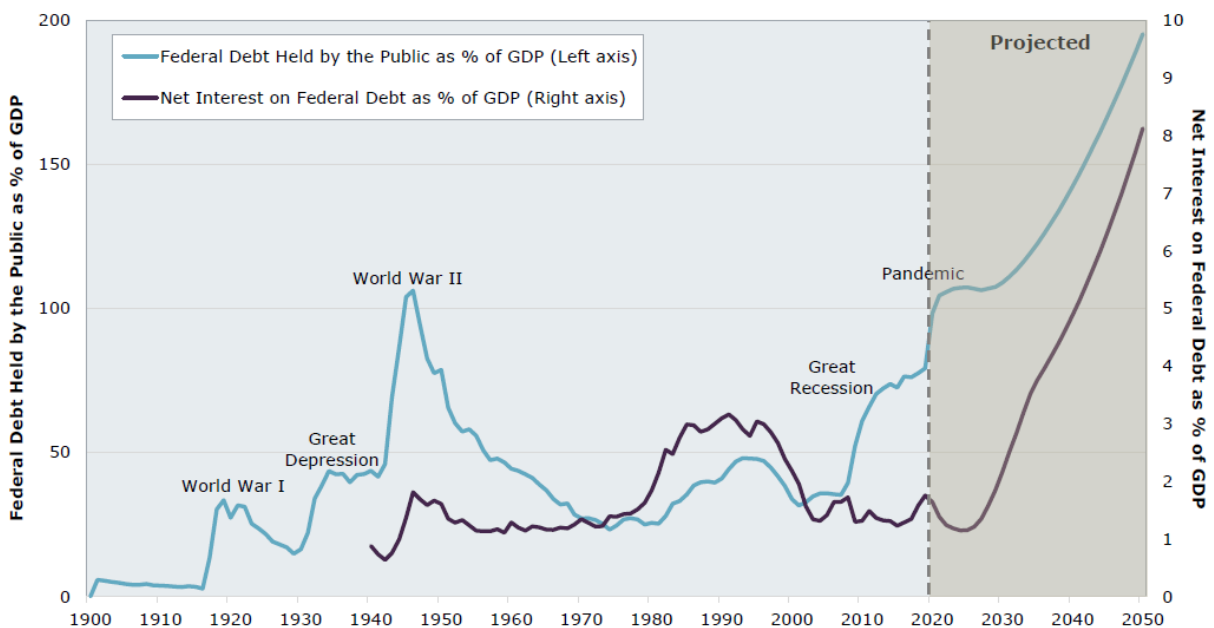


Source: Federal Reserve Economic Database, U.S Department of the Treasury, and JP Morgan

► SIGNS OF INFLATION?



- Despite a massive increase in the money supply, the velocity of money or the rate at which money is exchanged, has fallen drastically signaling a deflationary economy.
- Meanwhile, debt as a % of GDP is at levels not seen since World War II.



Source: Federal Reserve Economic Database

GLOBAL ECONOMICS & RATES

	GDP QoQ	GDP YoY	Core CPI YoY	Retail Sales	Industrial Production	Policy Rate	10Y Yield	Jobless Rate
United States	-32.90%	-9.50%	1.70%	2.60%	-7.70%	0.25%	0.69%	7.90%
Euro Zone	-12.10%	-15.00%	0.20%	3.70%	-7.70%	-0.52%	n/a	8.10%
China	11.50%	3.20%	0.50%	0.50%	5.60%	3.85%	3.17%	5.60%
Japan	-7.80%	-9.90%	-0.40%	-1.90%	-13.30%	-0.10%	0.02%	3.00%
Germany	-10.10%	-11.70%	0.70%	3.70%	-9.60%	-0.52%	-0.52%	4.40%
United Kingdom	-20.40%	-21.70%	0.90%	2.80%	-6.40%	0.10%	0.23%	4.10%
France	-13.80%	-19.00%	0.50%	3.00%	-6.20%	-0.52%	-0.24%	7.10%
India	-25.20%	-23.90%	n/a	n/a	-8.00%	4.00%	6.02%	6.70%
Italy	-12.40%	-17.30%	0.10%	0.80%	-0.30%	-0.52%	0.87%	9.70%
Brazil	-9.70%	-11.40%	1.40%	6.10%	-2.70%	2.00%	7.44%	13.80%
Canada	-11.50%	-13.00%	0.80%	2.70%	-12.76%	0.25%	0.57%	9.00%
Russia	0.30%	-8.50%	3.27%	-2.70%	-7.20%	4.25%	6.27%	6.40%
South Korea	-3.30%	-2.90%	0.70%	0.30%	-3.00%	0.50%	1.43%	3.20%
Australia	-7.00%	-6.30%	1.20%	2.30%	2.50%	0.25%	0.85%	6.80%
Spain	-18.50%	-22.10%	0.40%	-2.40%	-5.70%	-0.52%	0.19%	15.33%
Mexico	-17.30%	-18.90%	3.90%	-12.50%	-8.97%	4.50%	5.85%	5.20%
Indonesia	-4.19%	-5.32%	1.86%	-9.20%	2.00%	4.00%	6.93%	4.99%
Turkey	-11.00%	-9.90%	11.32%	11.90%	4.40%	10.25%	12.93%	13.40%
Switzerland	-8.20%	-9.30%	-0.30%	2.50%	-8.60%	-0.75%	-0.49%	3.20%

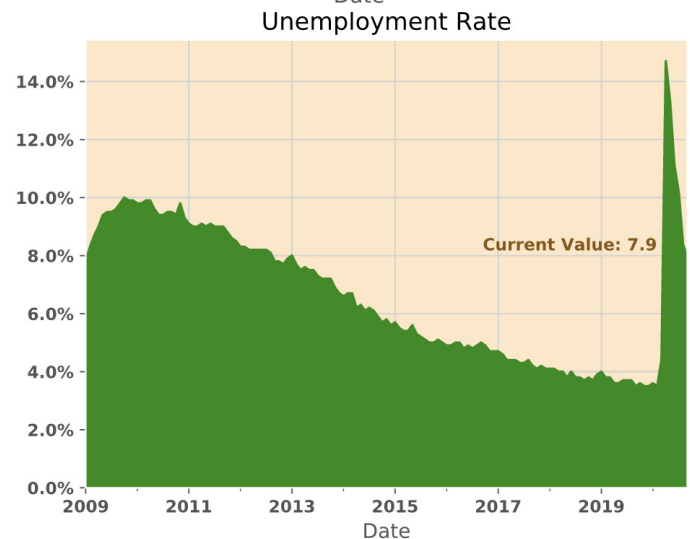
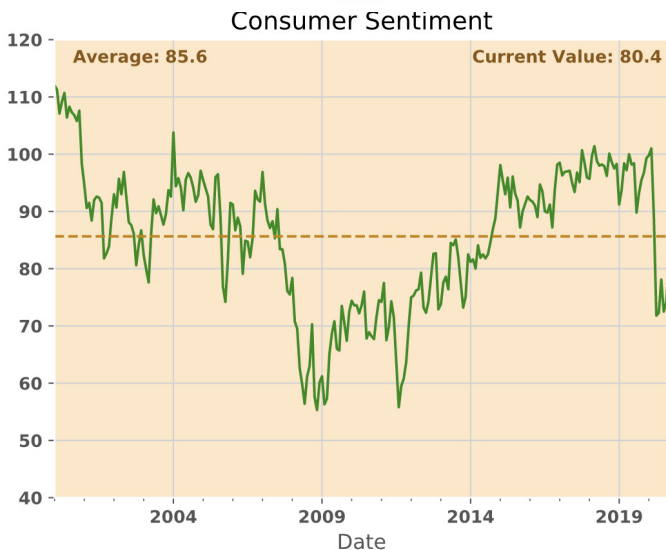
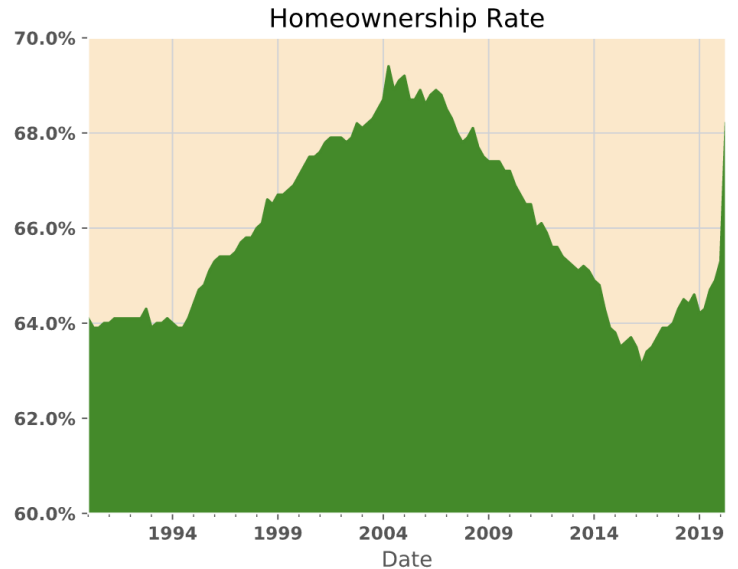
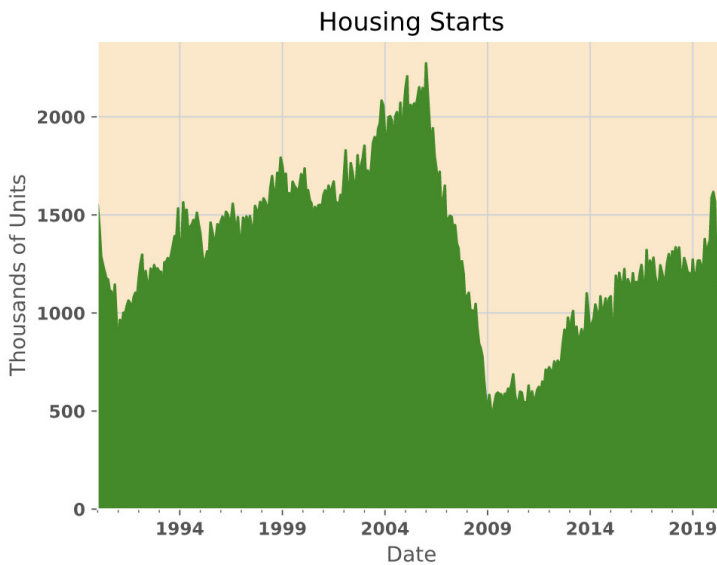
As of 6/30/2020 6/30/2020 8/31/2020 8/31/2020 8/31/2020 9/30/2020 9/30/2020 9/30/2020

- Outside of the US, central banks have acted aggressively through asset purchases and rate cuts.
- The IMF declared that roughly \$10 Trillion in stimulus measures have occurred, equating to 11% of global GDP.
- Global GDP estimates for 2020 have risen to -4.5% from -6.0%, with China being the only country expected to have positive growth in 2020 of +1.8%.
- Global interest rates remain subdued, especially in Europe.

	Great									
Term	USA	Canada	Britain	Germany	France	Italy	Japan	Australia	China	India
1 Year	0.12%	0.22%	0.03%	-0.59%	-0.58%	-0.32%	-0.15%	0.12%	2.61%	3.71%
2 Year	0.13%	0.25%	-	-0.70%	-0.64%	-0.21%	-0.14%	0.18%	2.83%	4.43%
3 Year	0.15%	0.26%	-0.07%	-0.74%	-0.65%	-0.10%	-0.13%	0.18%	2.90%	4.94%
5 Year	0.27%	0.36%	-0.06%	-0.71%	-0.60%	0.27%	-0.11%	0.37%	3.01%	5.39%
7 Year	0.47%	0.34%	0.04%	-0.65%	-0.48%	0.47%	-0.10%	0.58%	3.21%	6.10%
10 Year	0.69%	0.57%	0.23%	-0.52%	-0.24%	0.87%	0.02%	0.85%	3.17%	6.02%
30 Year	1.45%	1.11%	0.78%	-0.09%	0.04%	1.76%	0.60%	1.73%	3.86%	6.75%

Source: Koyfin and JP Morgan

► THE STATE OF THE US CONSUMER

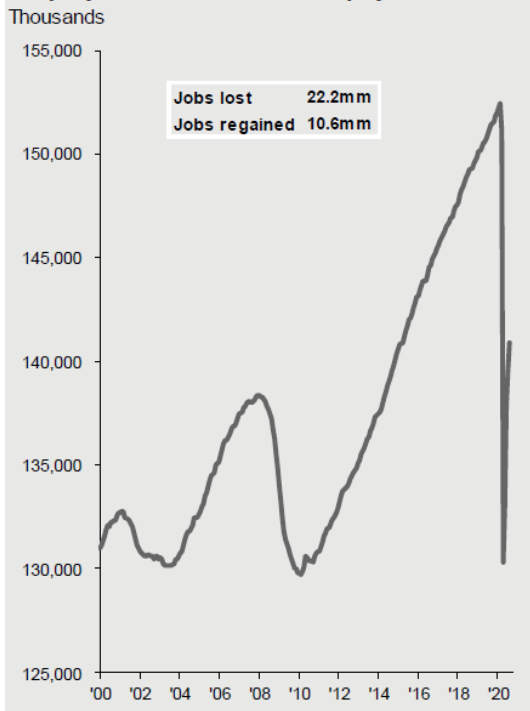


- Housing has been a bright spot in the economy with pending home sales rising to a record high in August, and mortgage applications rising 39% year over year.
- Consumer confidence also rose to the highest level in 6 months but remains well below pre-pandemic levels.
- Unemployment fell to 8.4% in August.

Source: Federal Reserve Economic Database

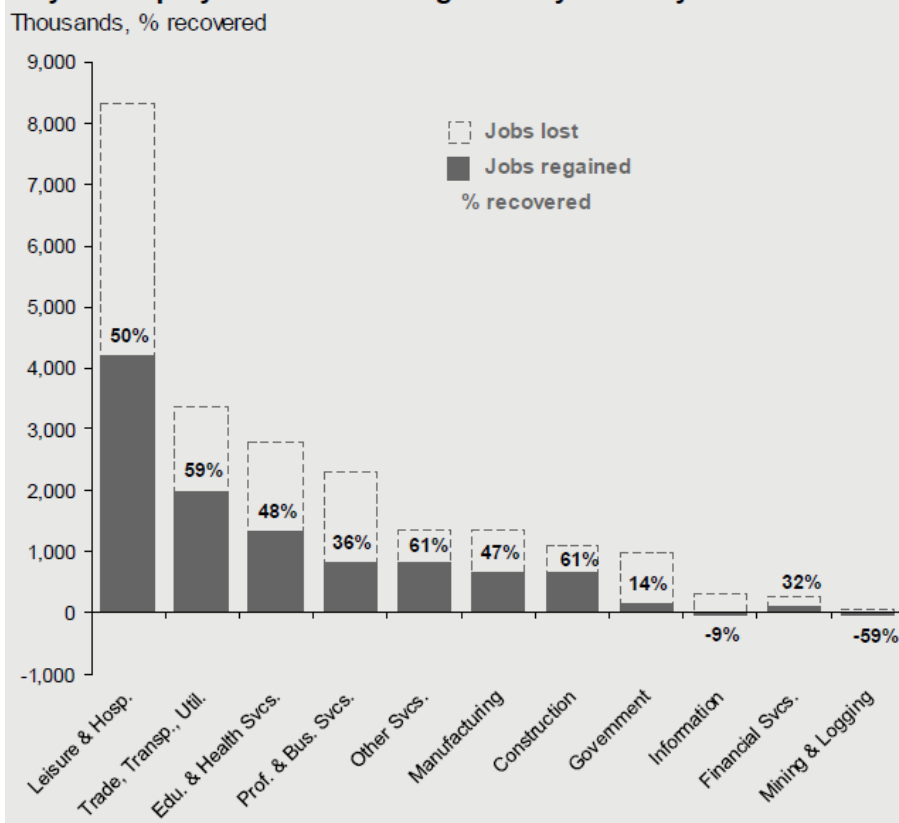
PAYROLLS

Employees on total nonfarm payrolls



- While payrolls have rebounded, recovering nearly half the jobs lost, the most recent report was far below expectations.
- With the potential for a “second wave” of virus, employers could be delaying any hiring until the timing of a vaccine is more certain
- Further fiscal stimulus will be necessary to bridge the gap back to full employment

Payroll employment lost and regained by industry

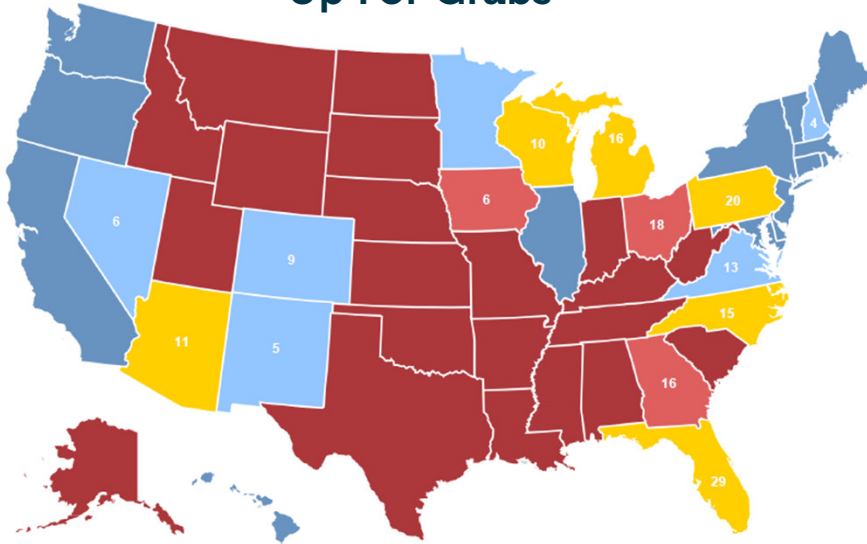


- Many industries, such as travel and leisure may never return pre-COVID levels of employment

Source: J.P. Morgan

► ELECTION OUTCOMES AND THE MARKET

Up For Grabs



ELECTORAL VOTE

Democratic

186 Solid / **47** Lean = **233** Total



Republican

164 Solid / **40** Lean = **204** Total



101 Swing = **Path to election**

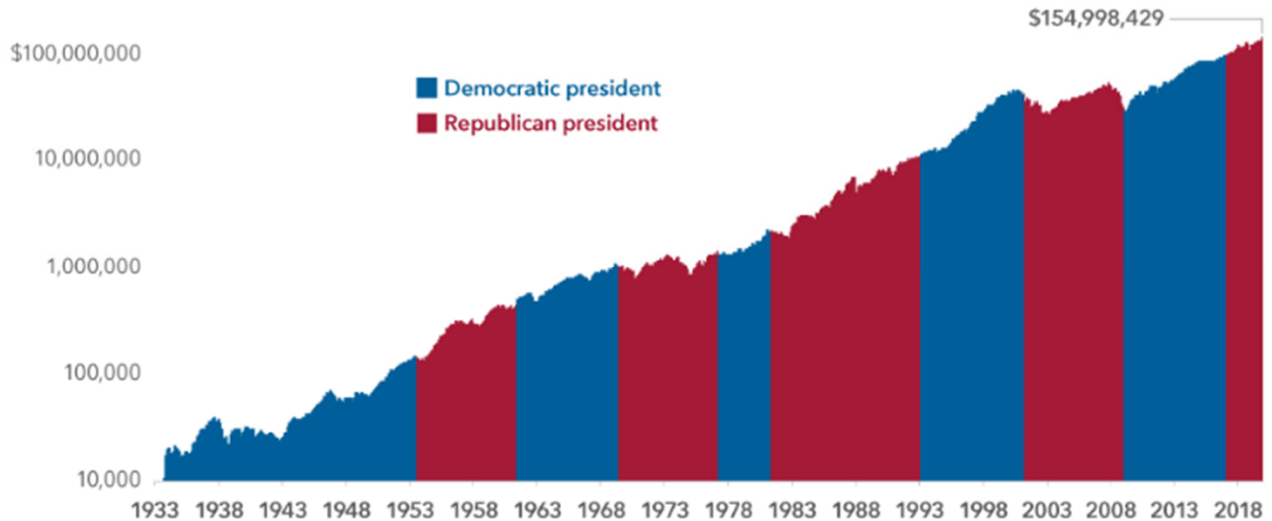
Source: Goldman Sachs

- Recent spikes in COVID cases have appeared in several of the battleground states, which could impact voters.
- Markets responded positively to the news that Trump had contracted the virus, which could be due to expectations of further fiscal stimulus.
- Long term markets prefer a mixed government which tends to lead to a stalemate, however, infrastructure is receiving bipartisan support.

Election Outcome	Potential Market Reaction	Beneficiaries
Blue Wave	Sell the News	Infrastructure, Clean Energy, Healthcare
Biden + Republican Senate	Positive	Infrastructure, Corporate America
Status Quo	Flat	Small Caps, Energy, Financials, Technology
Contested	Negative	Communication Services, Technology

► POLITICS AND THE MARKET

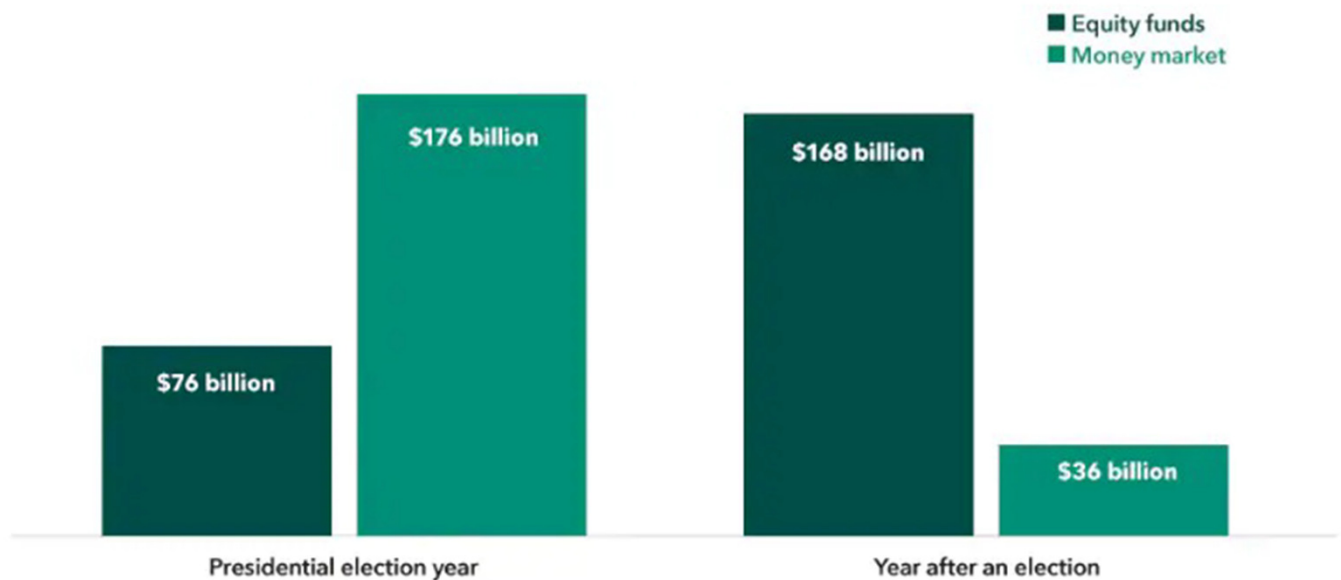
Growth of a hypothetical \$10,000 investment in the S&P 500 Index



Sources: Morningstar, Standard & Poor's. The start date is March 4, 1933, and the end date is August 31, 2020. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale.

- Over the long run, the market tends to rise no matter which party is in power, however, fund flows into equities tend to be higher after an election while the public tends to be more cautious prior to.

Average net fund flows by year of presidential term (1992-2020)



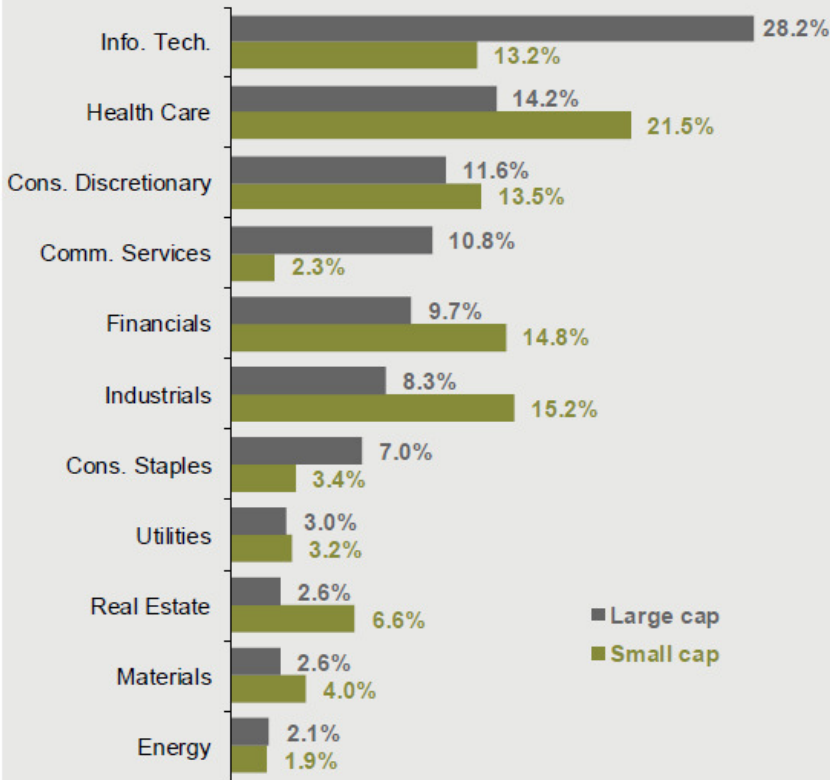
Source: Morningstar. Includes mutual funds and ETFs. Values based on USD. Equity funds include U.S. and international equity funds. 2020 data is year-to-date through 7/31/20.

Source: Capital Group

THE CASE FOR SMALL CAP

Sector composition

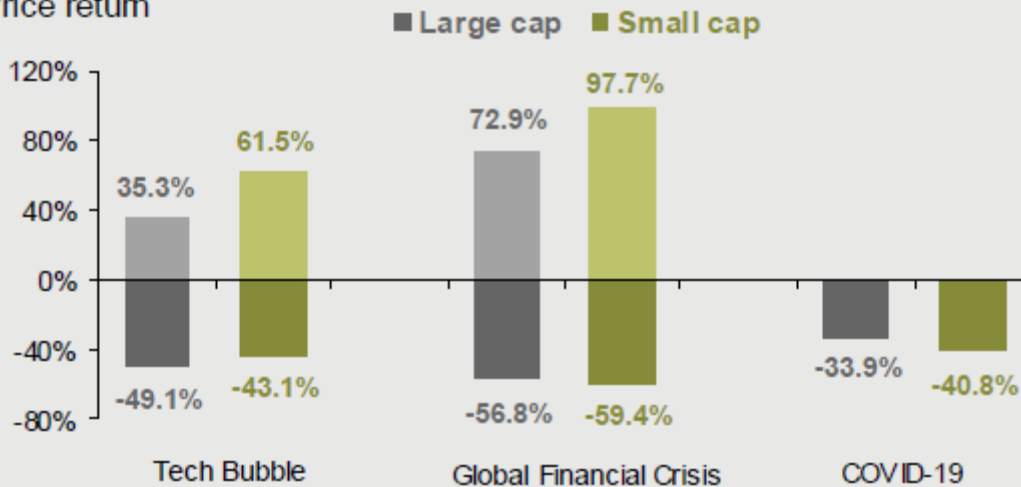
% of index market capitalization



- Small cap sector exposure differs widely from large cap, with greater exposure to healthcare (mainly biotech) and materials and industrials, which may benefit from infrastructure spending.
- In addition, small caps tend to rebound proportionately much stronger than large caps after a market drawdown

Historical markets drawdown and next 12-month rebound

Price return

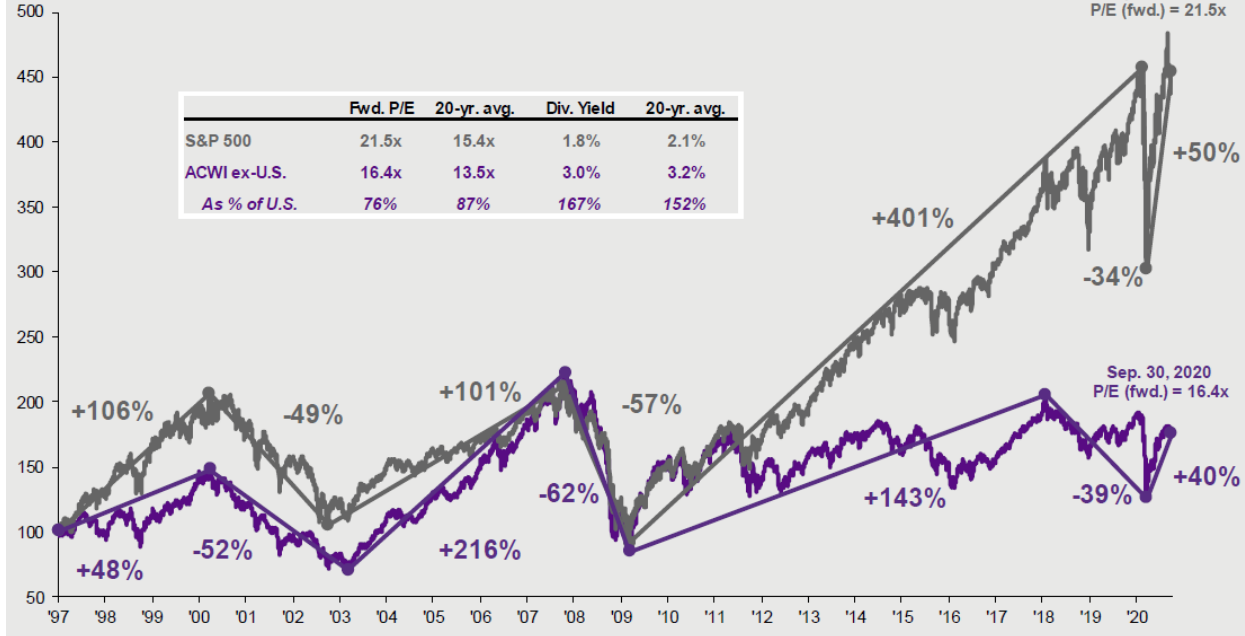


Source: JP Morgan

INTERNATIONAL MARKET VALUATIONS

MSCI All Country World ex-U.S. and S&P 500 Indices

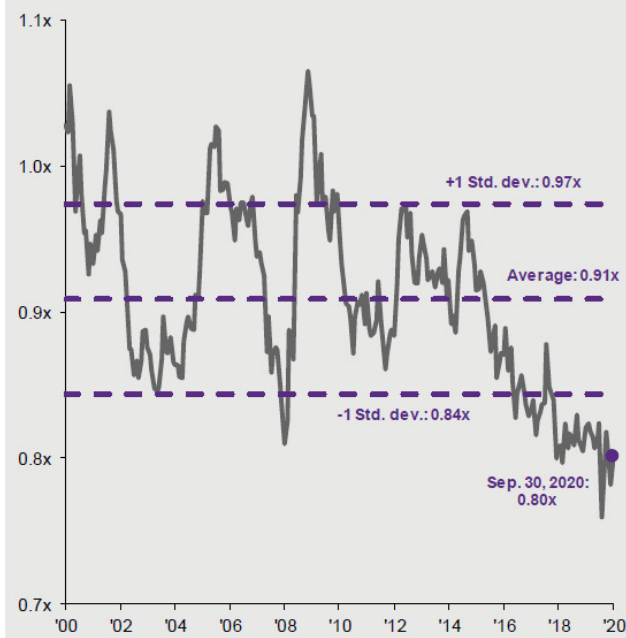
Dec. 1996 = 100, U.S. dollar, price return



- There has been a sharp contrast in the global recovery in equity markets between the US and rest of the globe, making valuations appear more attractive abroad, compounded by a weakening dollar.

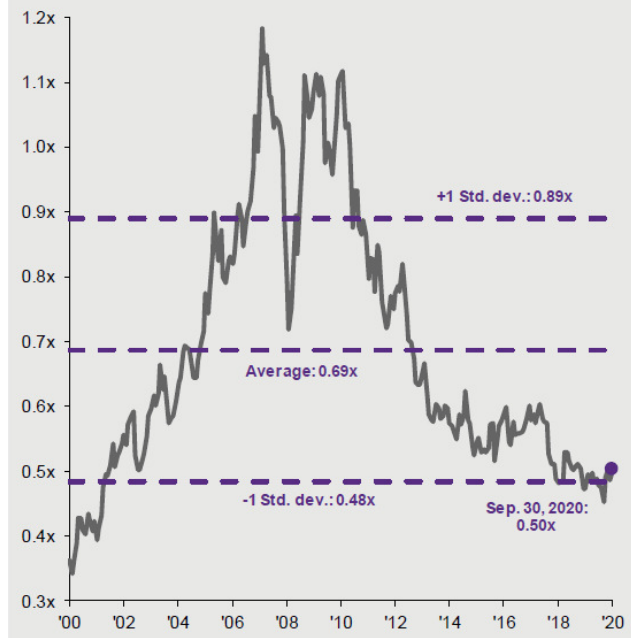
Developed markets: Relative price-to-earnings ratio

MSCI EAFE vs. S&P 500, next 12 months



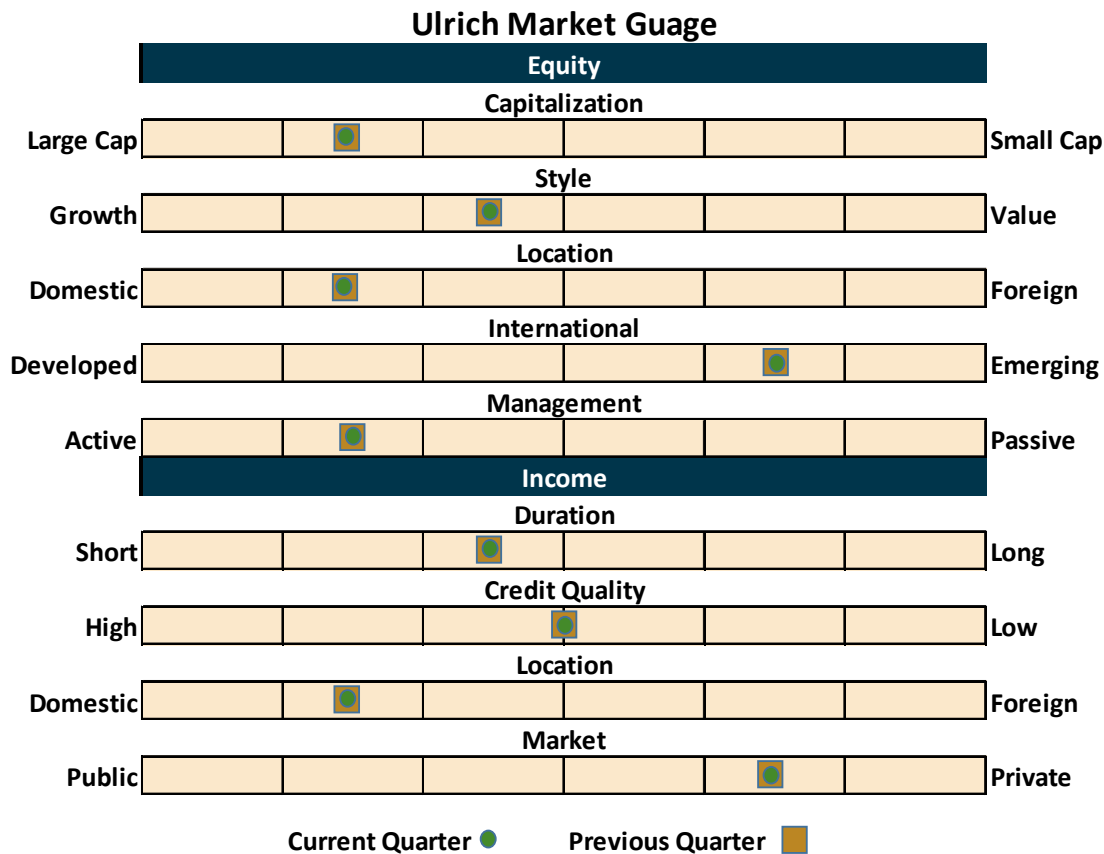
Emerging markets: Relative price-to-book ratio

MSCI Emerging Markets vs. S&P 500, last 12 months



Source: JP Morgan

SUMMARY AND OUTLOOK



- Despite the run up in markets, we still prefer equities to bonds, given ultra-low interest rates
 - We remain overweight to US equity over international, although valuations are beginning to look attractive. Emerging markets look more attractive compared to developed countries based on growth expectations and current valuation.
 - We have slightly reduced our market cap exposure.
 - We have increased active management as we believe earnings and fundamentals will be more important drivers of performance going forward.
 - Given the substantial run up in Growth, we have taken the opportunity to rebalance portfolios to bring more in line with our target allocations.
 - We have remained tactically tilted towards technology and innovation, and have added exposure to infrastructure
- We continue to diversify our income producing assets to incorporate a broader range of asset classes that provide a more attractive risk/return profile
- We do expect volatility to continue as more economic data emerges and as we near the 2020 election. We have increased cash holdings to position for this expectation.