

Index Name	QTD Return	YTD Return
Dow Jones Industrial Average	8.22%	-0.91%
Barclays U.S. Aggregate Bond	0.62%	6.79%
S&P 500 (Large Co. index)	8.93%	5.57%
MSCI EAFE (Int'l Equity index)	4.80%	-7.09%
Russell 2000 (Small Co. index)	4.93%	-8.69%

Market Commentary

The rally continues! Despite a pullback in mid-September, the broader equity market rallied more than 8% during the quarter. Virtually all major asset classes moved higher with the notable exception of the dollar. Not too surprising given the level of stimulus applied to the U.S. economy over the last 6 months, and with potentially more to come. Despite solid performance by U.S. small cap companies, the spotlight remains firmly fixed on U.S. large cap and particularly on U.S. large cap growth companies, which are now up nearly 40% year over year. Performance remains concentrated in top tech names, and many value companies and sectors continue to suffer.

It is also important to note that “growth” has continued to outperform “value” in 2020. Energy stocks and financials have been particularly hard hit and so a well-constructed diversified portfolio has been fighting an uphill battle throughout this market recovery. One might be tempted to throw in the towel and simply “go large” and “go domestic.” However, over longer periods of time, various asset classes, sectors, and security types have added significant value to diversified portfolios. We continue to believe that diversification is beneficial and portfolio construction is an important component of the investment process.

The COVID-19 challenge remains a dominant factor from a market perspective. COVID related data seems to move the market more than valuation, economic, or other statistical information. In the short term, we would note a few encouraging items: the overall death rate remains low and is declining, despite surges around the country the health system has been able to deal with the additional cases, and finally, we may be closer to herd immunity than expected. Regardless, COVID will be with us for several months to come, and we expect that positive and negative developments will continue to affect the market in a significant manner.

As we head into the 4th quarter of 2020, all eyes are on the election. Joe Biden and Donald Trump could not be more different from both a personality and policy perspective. Trump continues to focus on deregulation, free markets, and a pro-business agenda, while Biden’s platform is built on big government, environmental regulation, and higher taxes. It appears that significant additional stimulus may be likely with either a Biden or Trump victory. This short-term fiscal stimulus should help boost the economy, improve consumer spending, and help corporate earnings. From a market perspective, we believe the biggest election challenge is the high probability of an unclear or delayed result.

**Market
Highlights**

- The market rally continued through 3Q 2020, with all major asset classes reporting gains.
- U.S. large cap, stocks were the leading sub-asset class, with the S&P 500 up 8.9%.
- Markets continue to focus on the election, fiscal stimulus, and the pandemic.

Market commentary provided in partnership with Cornerstone Management, Inc.