October 2020

We do not believe in short-term prognostication but given what 2020 has already thrown at the world we are confident in saying this year will go down in the record books as one for the ages. And there will not be a shortage of reasons why to highlight – the ongoing pandemic, the US presidential election, which is still in process, the cultural tensions throughout the world, etc. One could, and someone likely will, write multiple books just on the financial markets thus far in 2020 and we are only three quarters of the way through the year. A recurring theme this year has been the perceived disconnect between stock markets and the economy. Indeed, this was something we discussed last quarter and we do so again below given the coverage and conversations we are having. The text below comes from a partner firm of ours.

Is the Stock Market Divorced from Reality?[1]

I have been sheltering in place on a former dairy farm in rural New Hampshire—surrounded by more Scotch Highland cattle than people—and relying on my iPhone and Microsoft Surface Pro to keep in touch with the office via email and Zoom video. I haven't sat in a restaurant in six months, so my dining out costs are close to zero while my grocery bill is sharply higher. I venture out every 10 days or so to stock up on supplies (Hannaford supermarket, Walmart, Tractor Supply, Home Depot) and order frequently online. Judging by the traffic on my dead-end dirt road, I'm not the only one whose habits have changed. It's only a small exaggeration to say every third vehicle going up or down the hill is a FedEx or UPS truck making another delivery, most likely from Amazon.

For many of us, the daily routine has changed dramatically from a year ago. This writer is no exception. I customarily travel extensively for business, with well over 100 airline flights and dozens of hotel stays over the course of a year. Since March 18, the number is zero on both counts, and the near future offers little reason to expect any change.

With this shifting landscape in mind, it shouldn't be surprising that some companies have prospered during this upheaval while others—especially travel-related firms—have struggled. From its record high on February 19, 2020 the S&P 500 Index1 fell 33.79% in less than 5 weeks as the news headlines grew more and more disturbing. But the recovery was swift as well: from its low on March 23, the S&P 500 Index jumped 17.57% in just 3 trading sessions, one of the fastest snapbacks ever among 18 severe bear markets since 1896. As of August 18, 2020 the S&P 500 Index had recovered all of its losses and notched a new record high.

Many individuals are puzzled by this turn of events. For those under the age of 75, the news headlines are likely the grimmest in memory: Millions have found themselves suddenly unemployed, and storied firms such as Brooks Brothers, Neiman Marcus, and JC Penney have entered bankruptcy proceedings.

[1] Adapted from "Is the Stock Market Divorced From Reality" from Dimensional Fund Advisors LP.

How can stock prices flirt with new highs while the news is so discouraging? One financial columnist recently observed that the stock market "looks increasingly divorced from economic reality."2

Is it? Let's dig a little deeper.

The stock market is a mechanism for aggregating opinions from millions of global investors and reflecting them in prices they are willing to accept when buying or selling fractional ownership of a company. Share prices represent a claim on earnings and dividends off into perpetuity—current prices incorporate not only an assessment of recent events but also those in the distant future. In some sense, the stock market has always been "divorced from reality" since its job is not to report today's temperature but what investors think it will be next year and the year after that and the year after that and so on.

Moreover, the universe of stocks does not march in lockstep. At any point in time, some firms are prospering while others are floundering. This year's wrenching economic turmoil has inflicted great hardship on some firms while opening up new opportunities for others. Based on this admittedly abbreviated list, it appears the stock market is doing just what we would expect—reflecting new information in stock prices.

Company	Total Return YTD August 17, 2020
Boston Beer (Angry Orchard cider)	120.99%
Amazon.com	72.22%
Tractor Supply (new wheels for log splitter)	65.45%
Apple	57.19%
Clorox	50.26%
Netflix	49.07%
United Parcel Service (first name basis with driver)	39.79%
Microsoft (Surface Pro 4)	34.07%
Home Depot (barn light fixtures)	33.71%
Ahold Delhaize NV (Hannaford Supermarkets)	29.01%
Walmart	15.60%
Alphabet (Class A) (Google)	13.20%
S&P 500 Index	**5.95%**
Starbucks	–8.80%
Walt Disney	–10.55%
General Motors	–16.97%
American Express	–20.57%
JPMorgan Chase	–26.54%
ExxonMobil	–35.54%
Marriott Intl.	–36.54%
United Airlines	–60.95%
Carnival Corp. (cruise lines)	–70.78%

Past performance is not a guarantee of future results.

Source: Bloomberg. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. All figures are in US dollars unless otherwise noted.

No one could have predicted the tumult we have seen this year in financial markets. But investors would do well to focus on what hasn't changed.

1. Markets are forward-looking, so focusing on today's economic data is akin to looking at the rearview mirror rather than the road ahead.

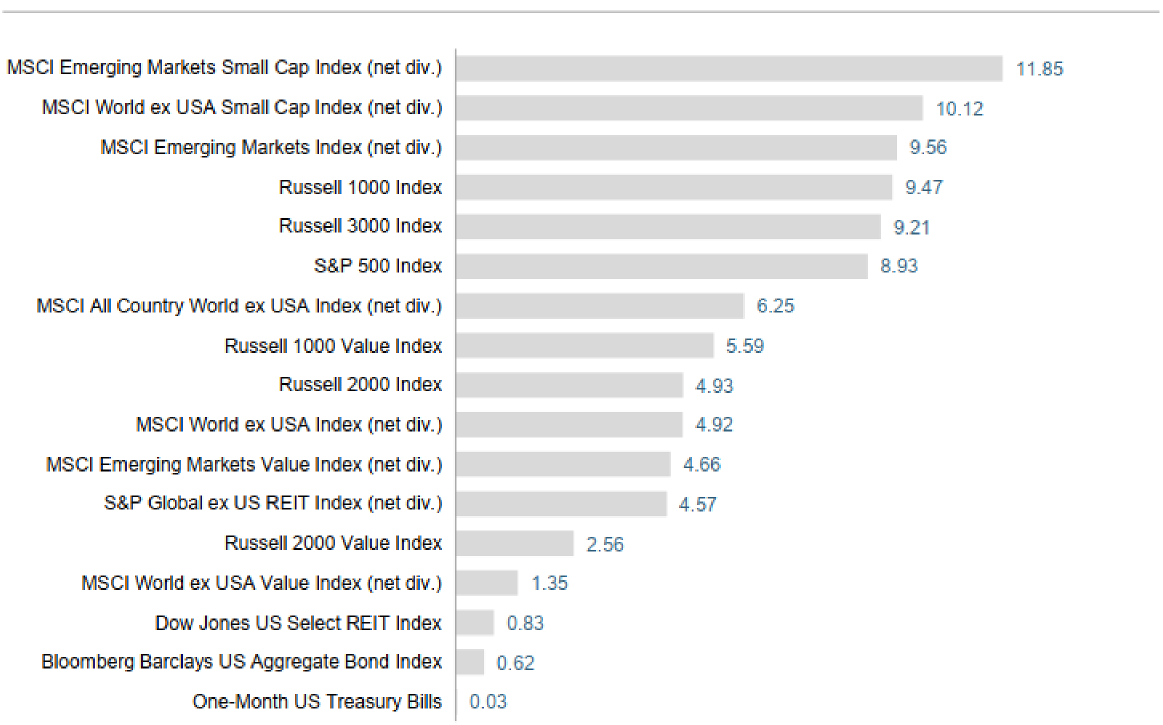
2. Diversification makes it more likely that investors capture market returns that are there for the taking.

3. Since news is unpredictable, a strategy designed to weather both expected and unexpected events will likely prove less stressful and easier to stick with.

Bottom line: read the newspaper to be an informed citizen, not for advice on how to navigate the financial markets.

Market Update – A Brief Around the World Tour of Markets

The rebound from the March lows continued throughout the third quarter, albeit at a much more muted pace than the previous quarter. However, performance was more widespread across industries and countries. All major, broad asset classes were in positive territory, with Emerging Markets leading the charge. Real Estate, in the form of REITs, were on the lower end of the return scale yet were still positive for the period. Bond indices, both domestic and US, eked out returns just above zero. The month of September saw more muted and cautious market activity than July and August with COVID-19 infection cases rising.



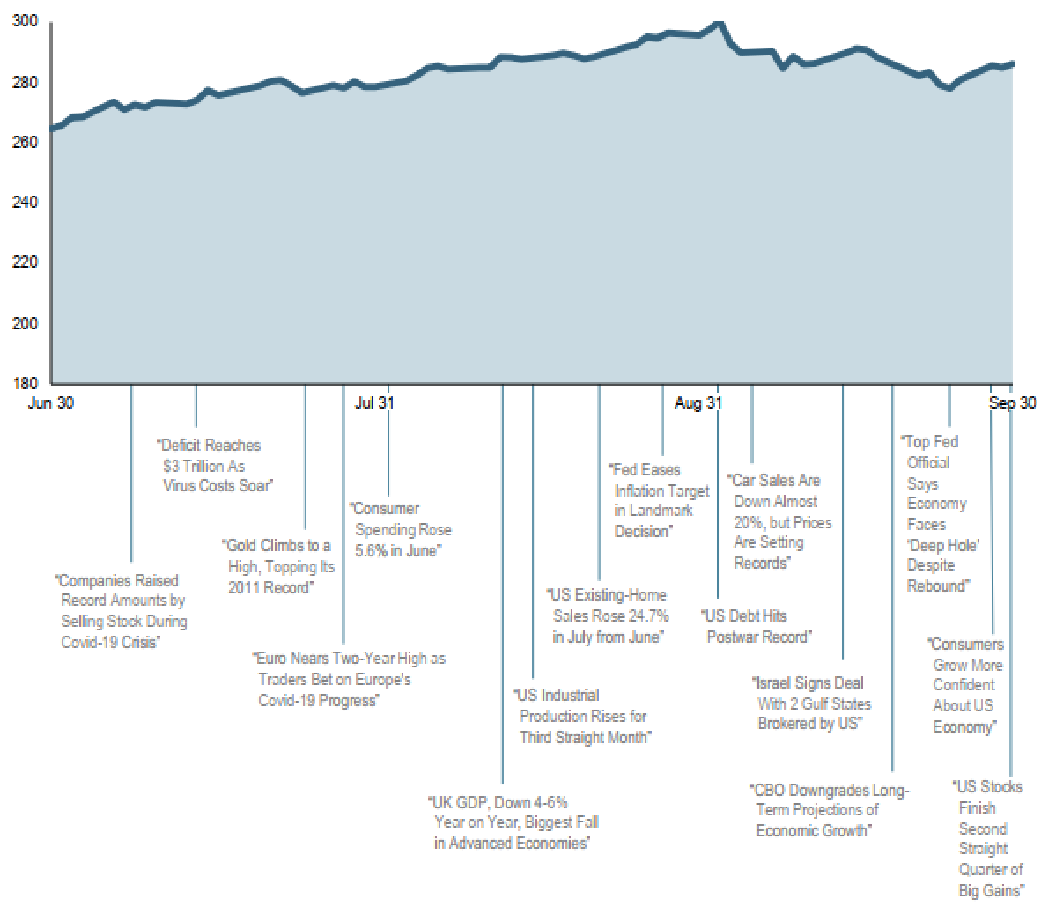
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. The S&P data is provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2020, all rights reserved. Dow Jones data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bloomberg Barclays data provided by Bloomberg. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).

On Stocks

Stocks rose around the world in the third quarter. US and Asian, specifically emerging Asian, markets outperformed. While the strength in US technology stocks continued other areas of the market did show stronger relative strength though the overall theme of larger stocks outperforming smaller stocks continued. That was not the case outside of the US, where smaller companies performed exceptionally well. As mentioned above, Emerging Markets were the best performing major equity asset class in the quarter. Developed markets outside of the US underperformed both US and Emerging stocks. From a country specific perspective five European countries outperformed US markets, with Sweden and Denmark having the best two returns. Non-US REITS managed to outpace their US based counterparts by almost 4%.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2020



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.].
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

On Bonds

Interest rates remained relatively stable and at low levels with US Federal Reserve (Fed) providing continued support to the bond market. The Fed changed how they will target inflation, which caused market participants readjusting their expectations resulting in interest rates increasing slightly towards the end of the quarter. The appetite for risk remained, bolstering the riskier areas of the market like high yield bonds.

Period Returns (%)

*Annualized

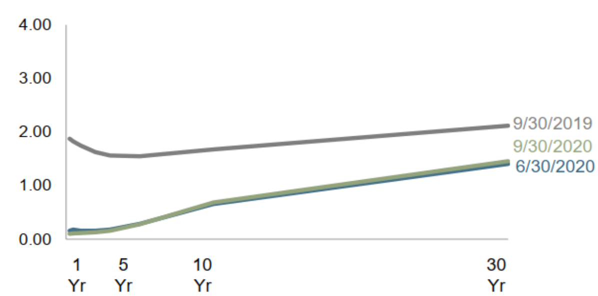
Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US High Yield Corporate Bond Index	4.60	0.62	3.25	4.21	6.79	6.47
Bloomberg Barclays US TIPS Index	3.03	9.22	10.08	5.79	4.61	3.57
FTSE World Government Bond Index 1-5 Years	2.01	4.16	5.21	2.03	2.01	0.21
Bloomberg Barclays Municipal Bond Index	1.23	3.33	4.09	4.28	3.84	3.99
Bloomberg Barclays US Aggregate Bond Index	0.62	6.79	6.98	5.24	4.18	3.64
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.24	3.04	3.22	3.02	2.31	1.90
Bloomberg Barclays US Government Bond Index Long	0.13	21.13	16.21	11.79	8.18	7.18
ICE BofA 1-Year US Treasury Note Index	0.08	1.77	2.37	2.19	1.54	0.93
ICE BofA US 3-Month Treasury Bill Index	0.04	0.64	1.10	1.69	1.20	0.64

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA US Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). FTSE fixed income indices

On the Economy

The US unemployment situation continued to improve but remains in very poor condition. Unemployment in the US stood at 7.9% in September. Retail spending surprised to the upside in September while other indicators were mixed – industrial production continued to climb, the labor force grew but unemployment claims remained quite high. Overall, many indicators around the world pointed to a slowing rate of economic improvement likely due to the resurgence in Covid-19 cases as well as the continued stimulus impasse.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)