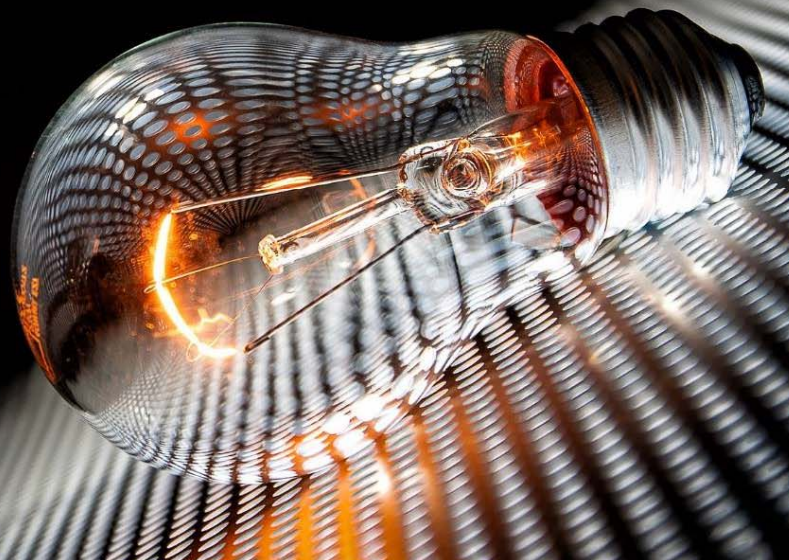


# MARKET INSIGHTS

Third Quarter 2020



Version 1 – Updated 9/30/2020

## KEY POINTS

- 1** COVID-19 trends continue to dictate the pace and extent of economic reopening.
- 2** The recovery in the economy and financial markets has been uneven.
- 3** The Federal Reserve's new monetary policy framework leads to 0% short term rates and more quantitative easing for longer.
- 4** More fiscal stimulus expected over the medium term.
- 5** The financial markets are bracing for increased volatility around national elections. Overall, policies support growth in 2021.

# BASE CASE OUTLOOK: INVEST IN THE U.S. ECONOMIC RECOVERY



## Economy

U.S. GDP is on a gradually improving trend with near full recovery by end of 2022.

**Risk:** Prolonged virus impact that results in permanent damage.



## Policy

Monetary and fiscal policymakers continue to provide a safety net for economy and markets.

**Risk:** Political inaction.



## Markets

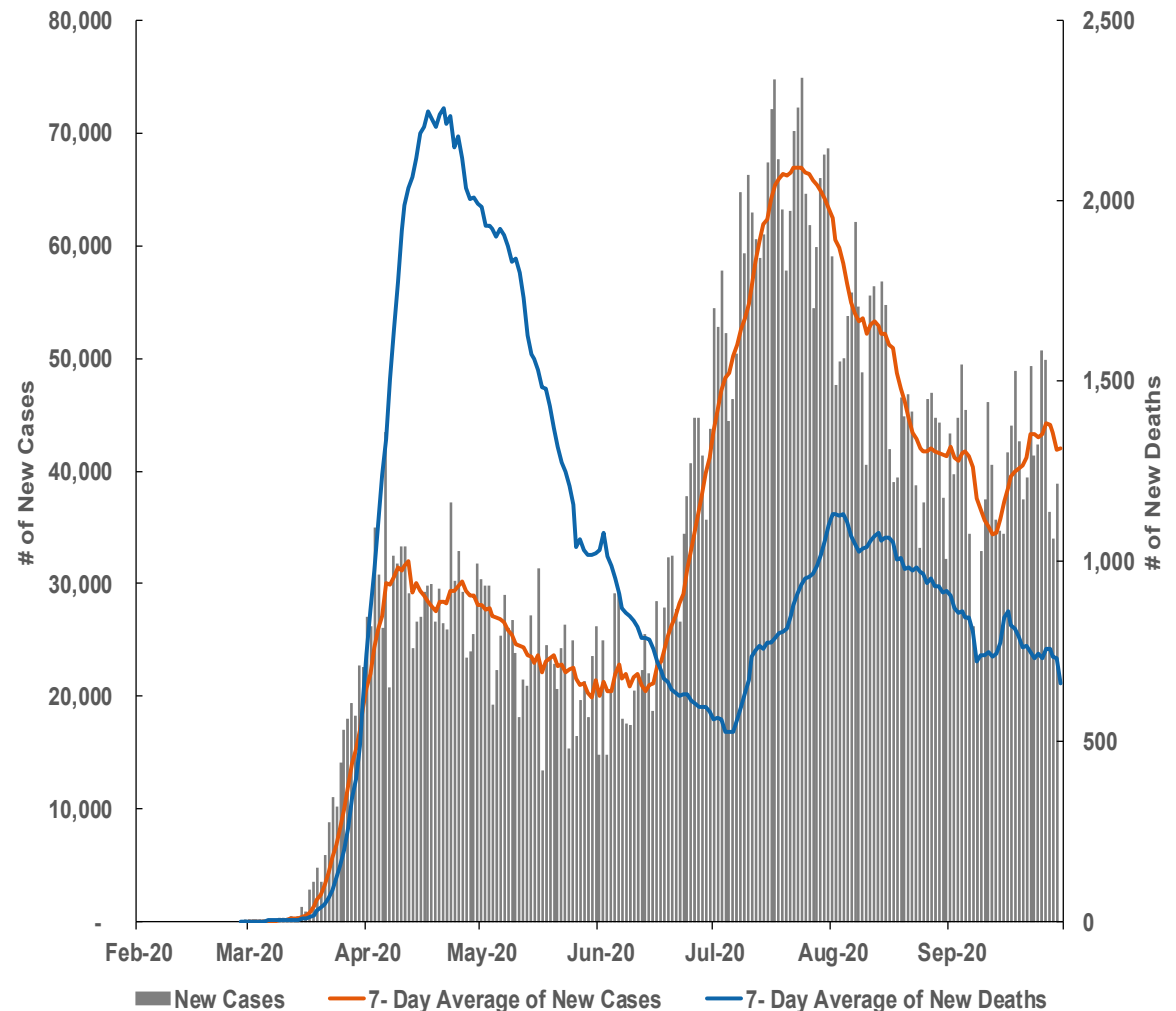
U.S. equity market outperforms.

**Risk:** U.S. elections and China relations.

# EXPECT WAVES WITH GRADUAL REOPENING

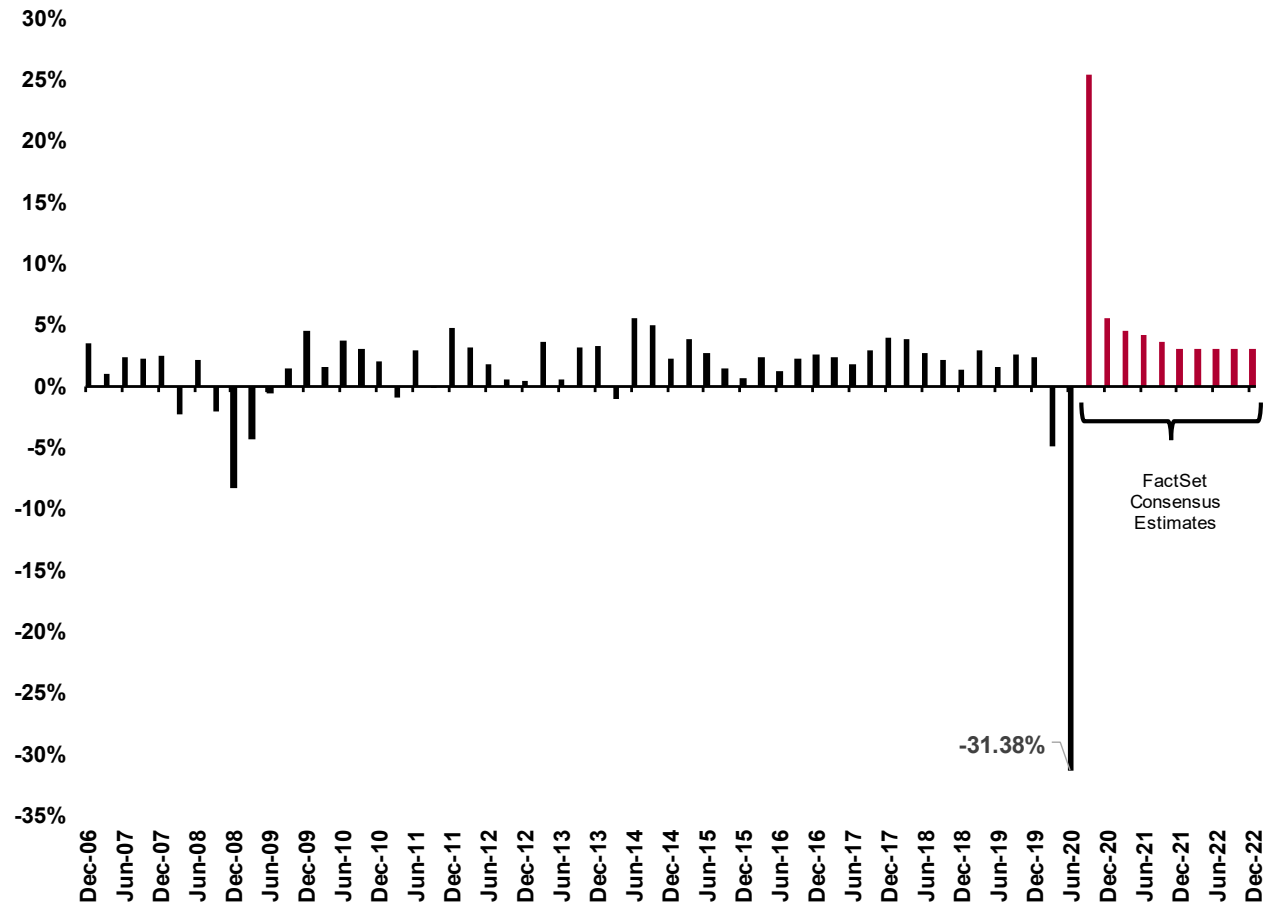
Location	Total Cases
U.S.	7,168,077
Texas	743,284
Arizona	218,184
Missouri	124,762
Oklahoma	92,457
Arkansas	82,755
Colorado	70,025
Kansas	58,629
New Mexico	29,157

- As we re-open the domestic economy, we are likely to experience periodic upswings in cases.
- The threshold for another complete economic shutdown is likely high.



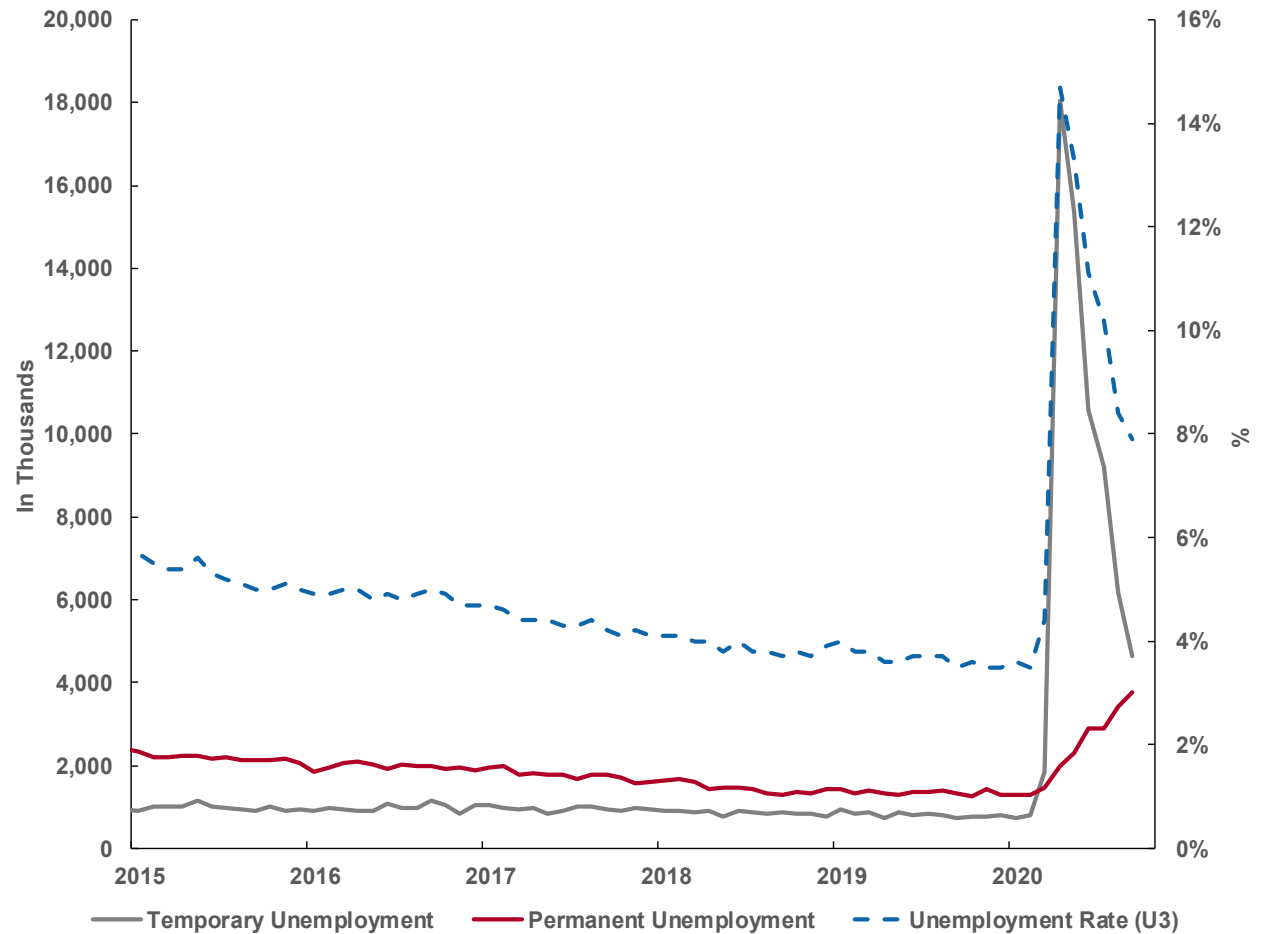
# U.S. GDP REBOUNDED UNEVENLY

- Sharp rebound expected for 3<sup>rd</sup> quarter.
- Digital economy and housing thriving.
- Small business, consumer services, commercial real estate, travel, and hospitality remain depressed.



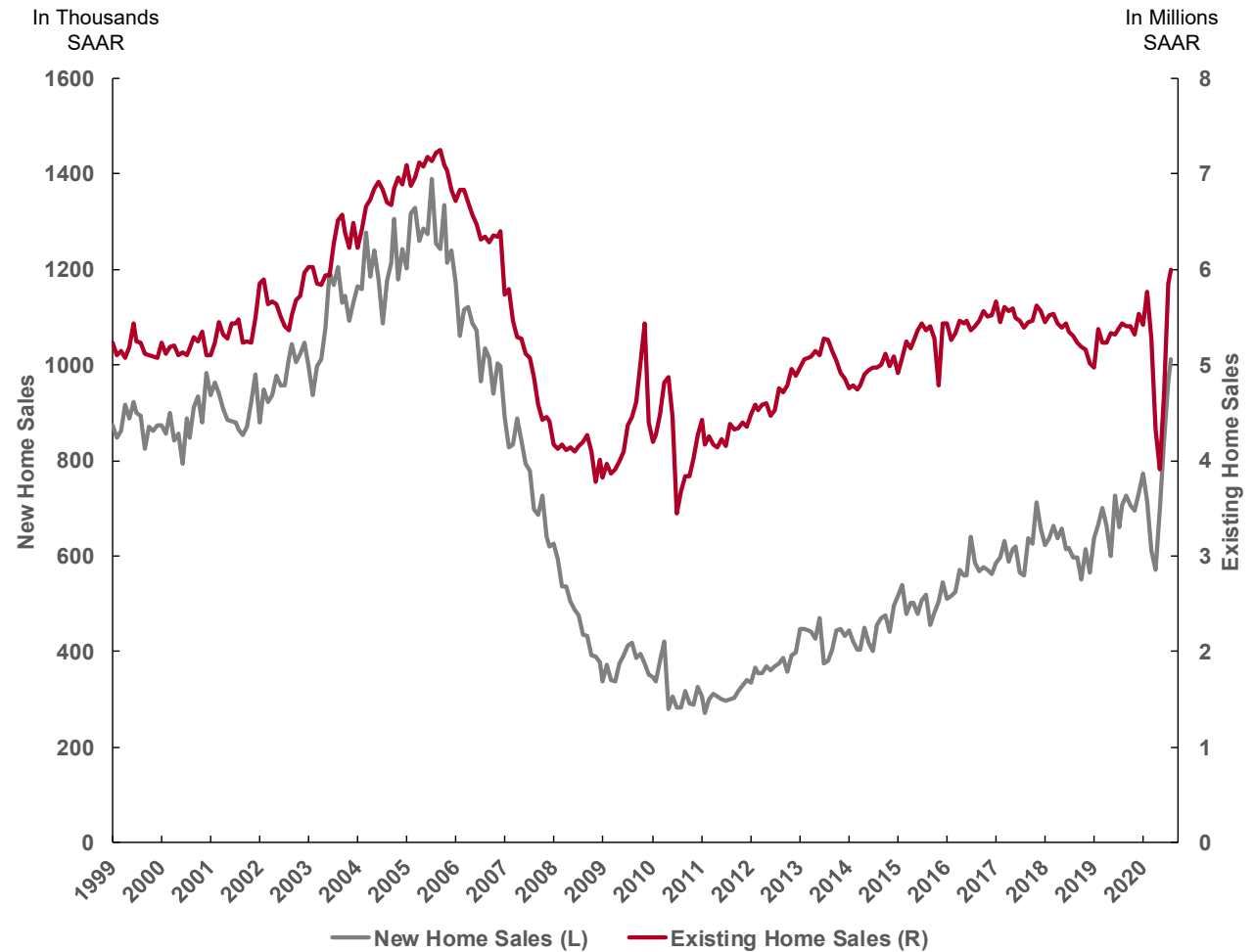
# THE RACE TO GET AMERICA BACK TO WORK

- The pace of recovery in the labor market has exceeded expectations.
- The rehiring of temporarily laid off workers has driven the robust recovery.
- A prolonged virus impact risks more permanently unemployed.



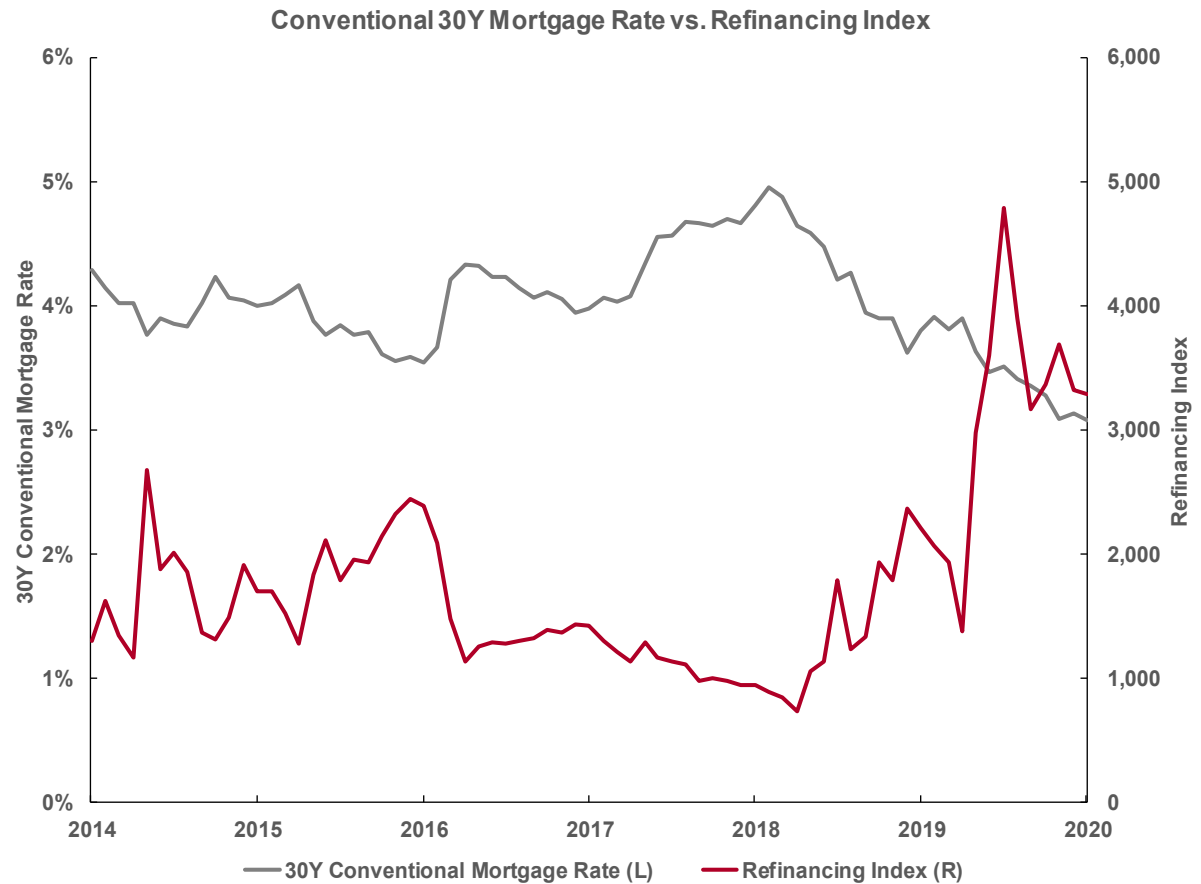
# THE U.S. HOUSING SECTOR HAS BEEN A BRIGHT SPOT FOR THE ECONOMIC RECOVERY

- Home sales strongest since housing boom in 2006.
- Supply of houses low.
- Home prices rising.



# CONSUMERS ARE BUILDING SAVINGS

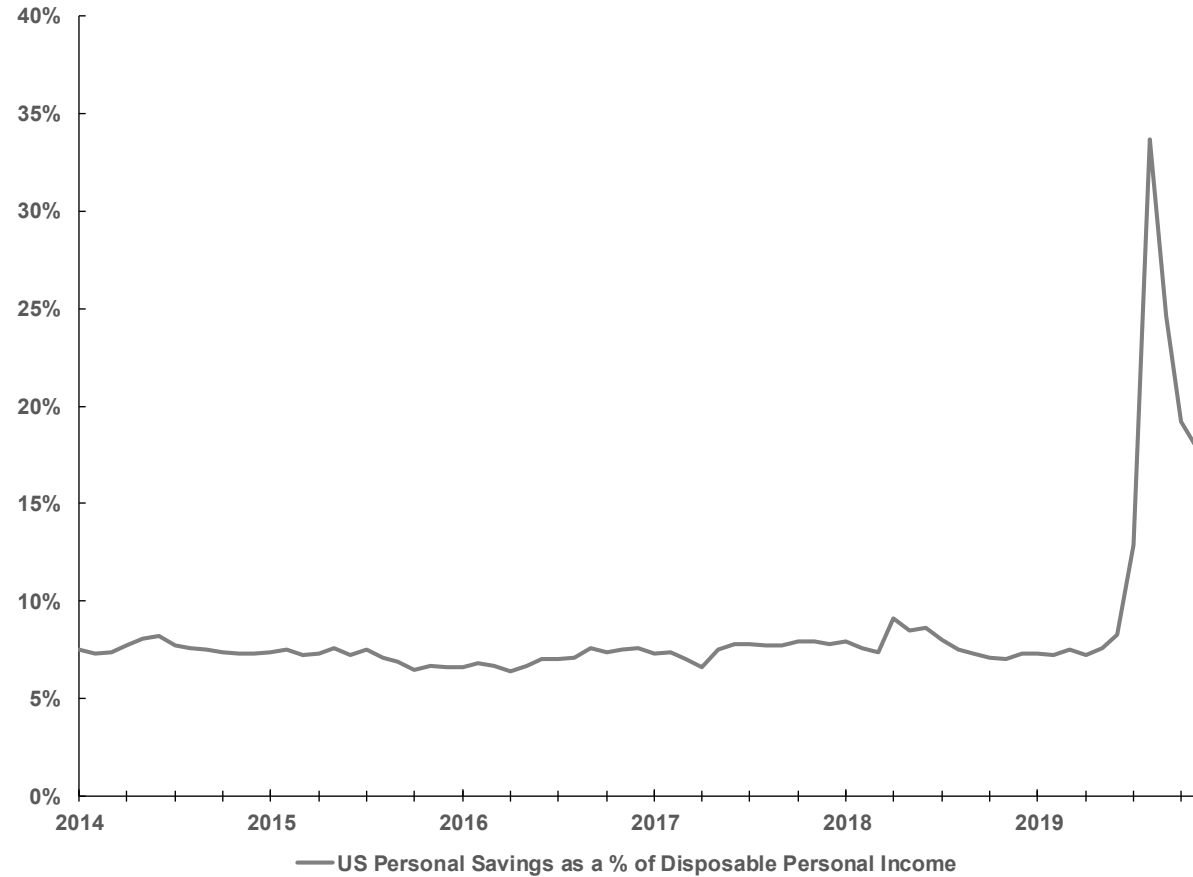
- Historic low mortgage rates allowing homeowners to refinance





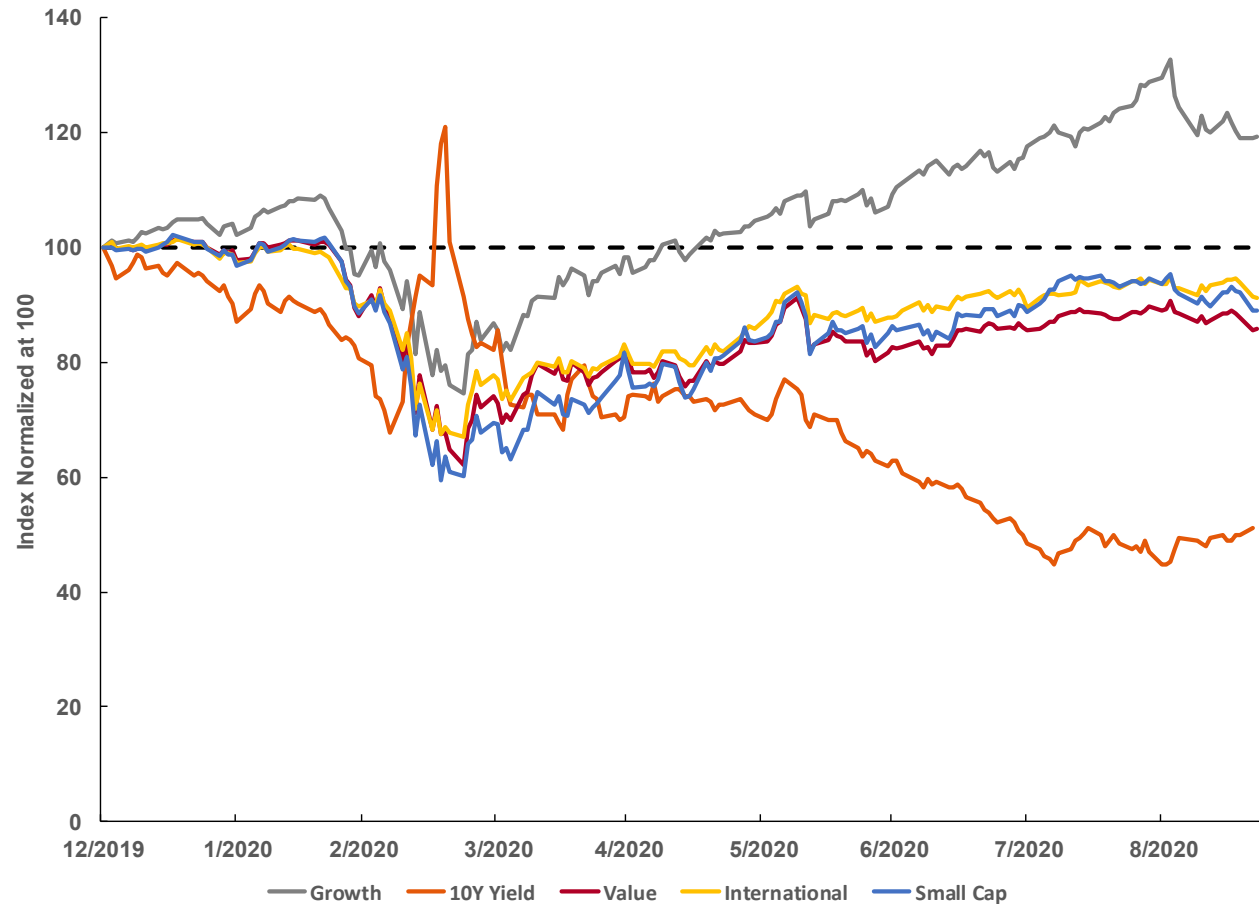
# CONSUMERS ARE BUILDING SAVINGS

- Dry powder: trillions sitting in bank and money market accounts.



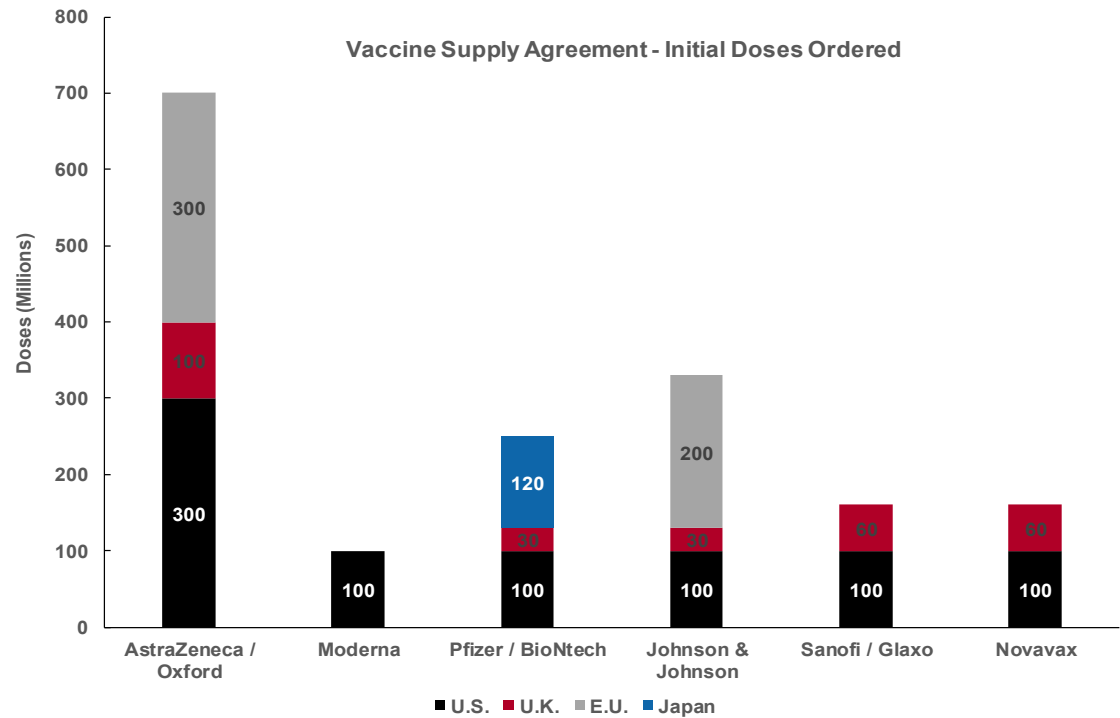
# UNEVEN RECOVERY IN STOCK MARKET

- Investors have preferred secular growth stocks with strong balance sheets.
- Cyclical sectors are down 20% YTD while Tech is up more than 20%.
- Lower long-term rates have supported elevated growth stock valuations.
- Broadly diversified portfolios have been held back by international, value, and small cap stocks this year.



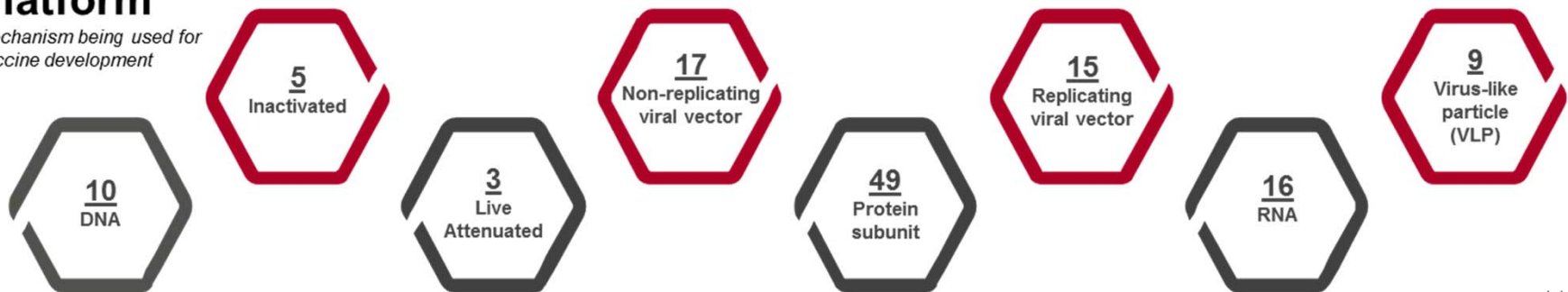
# A COVID-19 VACCINE WOULD HELP BROADEN THE RECOVERY

- Over 120 potential vaccine candidates in the pipeline.
- Several in phase III trials that are expected to announce results in 2020.
- U.S. has pre-ordered millions of doses from the leading vaccine contenders.



## Vaccine Platform

Mechanism being used for vaccine development



# THE BRIDGE TO RECOVERY

In response to the economic impact, the Federal Reserve & Congress approved significant monetary and fiscal stimulus.

## Fiscal Stimulus:

Households - \$500 billion  
Small Businesses - \$367 billion  
Corporate Lending Facility - \$500 billion  
Special Purpose Vehicle Lending Facility - \$425 billion  
Distressed Grants/Loans - \$75 billion  
Corporate Tax Changes - \$100 billion  
Healthcare Response - \$150 billion  
Aid to State/Local Governments - \$150 billion  
Education - \$30 billion

## Monetary Stimulus:

Unlimited Treasury and MBS Purchases  
Money Market Mutual Fund Liquidity Facility  
Commercial Paper Funding Facility  
Primary Dealer Credit Facility  
Primary Market Corporate Credit Facility  
Secondary Market Corporate Credit Facility  
Term Asset-Backed Securities Loan Facility

**\$2T**

Fiscal Stimulus Through  
CARES Act

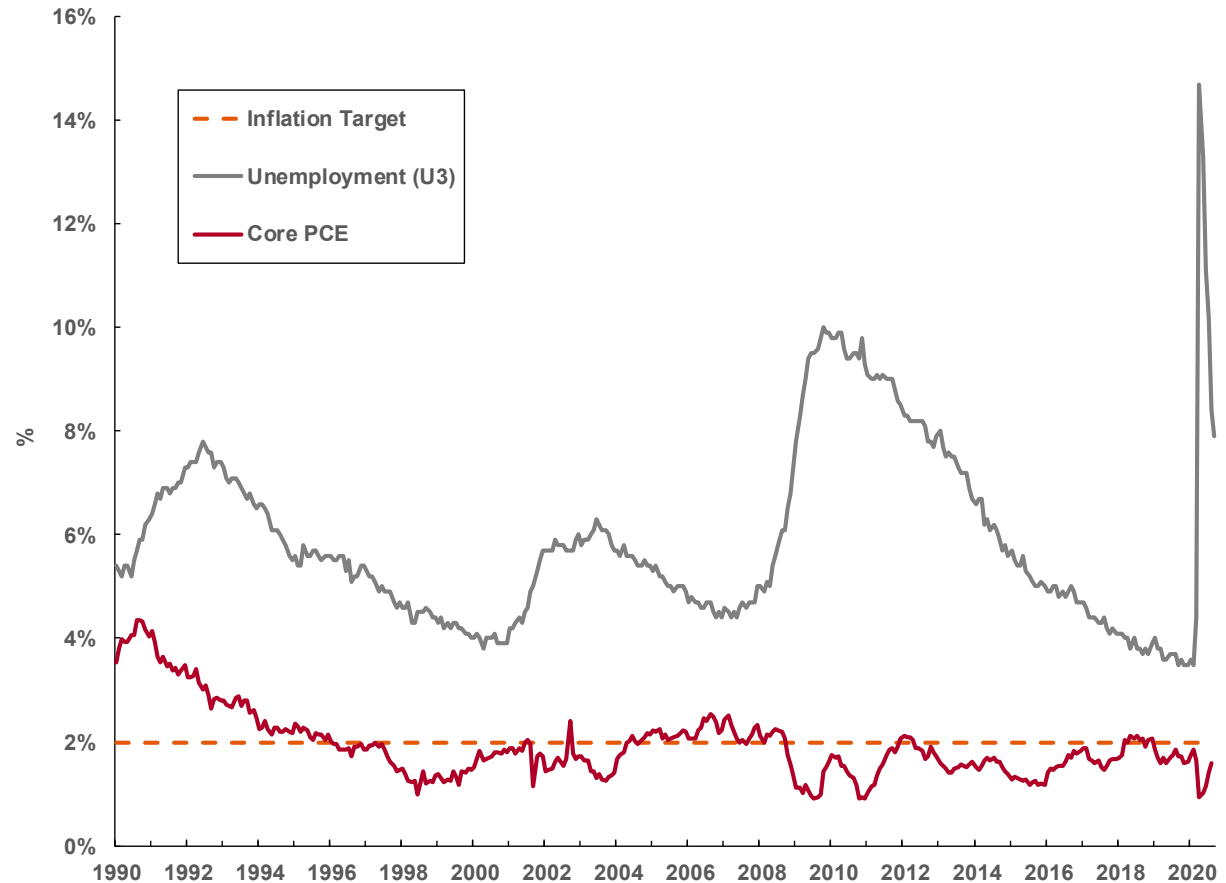
**\$6T**

Significant Monetary  
Stimulus by Fed

Unprecedented Economic  
Response & Continued Support

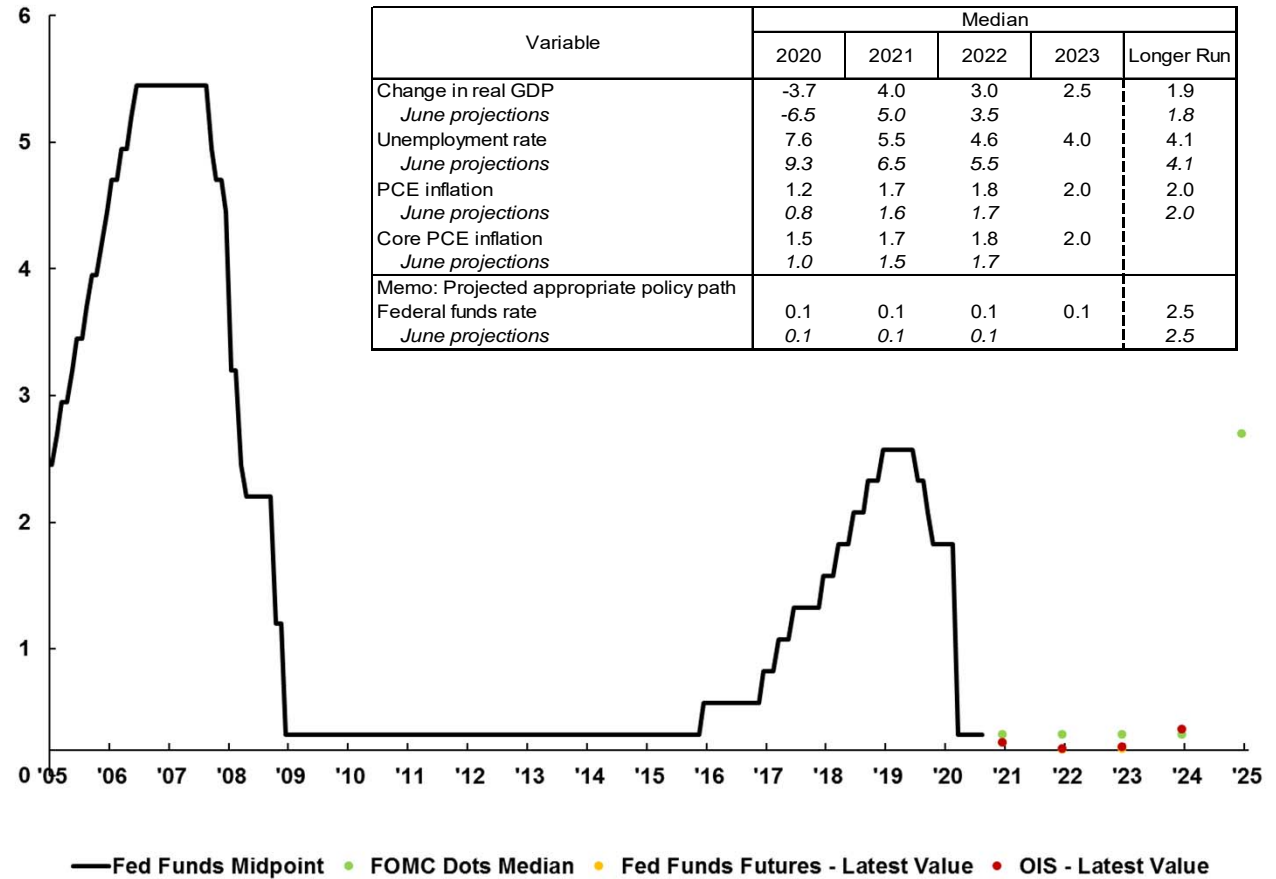
# FEDERAL RESERVE'S NEW MONETARY POLICY FRAMEWORK

- Short term rates expected to remain near 0% until three conditions met:
  1. Economy reaches maximum sustainable employment.
  2. Inflation has risen to 2%.
  3. Inflation is on track to moderately exceed 2% for some time.



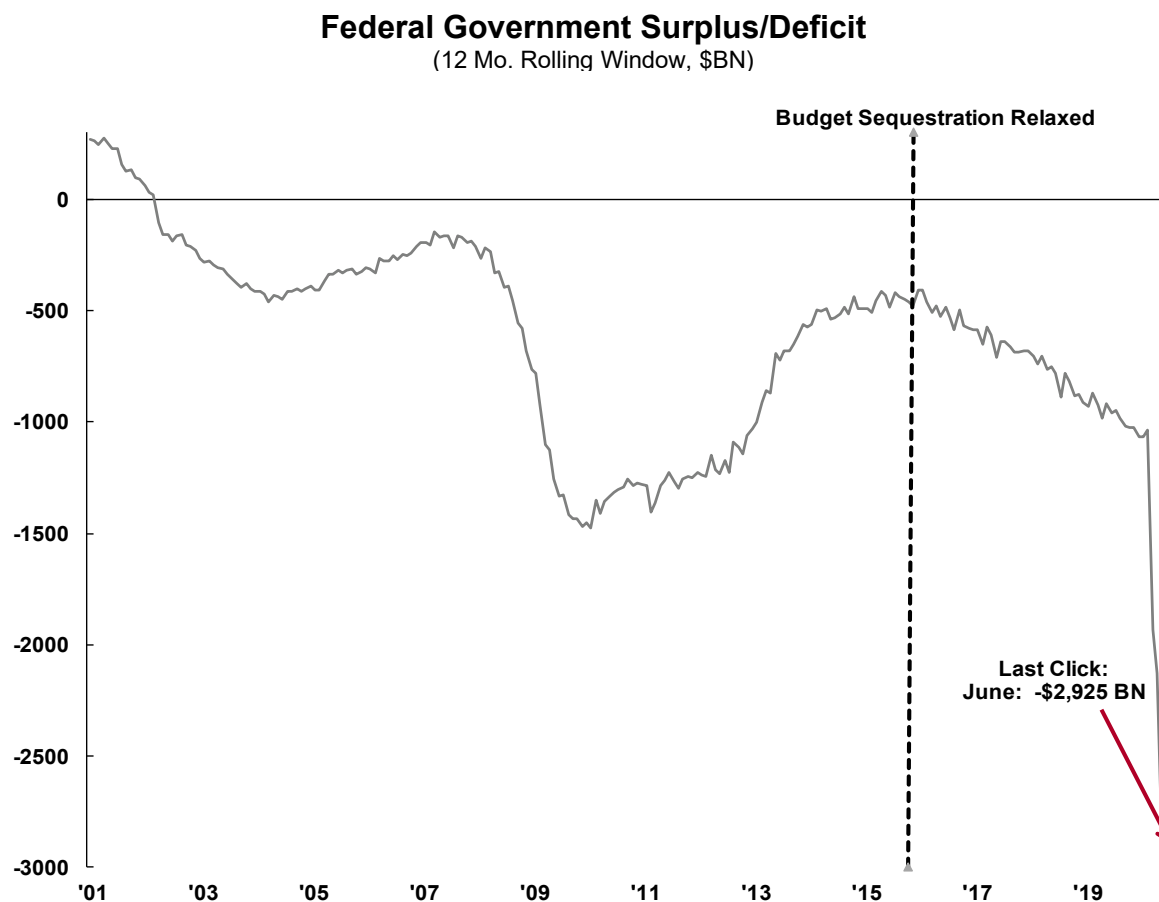
# FEDERAL RESERVE PROVIDING EMERGENCY SUPPORT WITH 0% RATES

- Fed funds target is back to zero.
- Fed and market forecasts aim for rates to remain very low to 2023.



# BORROWING THE MONEY TO PAY FOR THE RECOVERY

- Fiscal stimulus and delayed tax collections have widened the budget deficit dramatically.
- U.S. Treasury issuance will hit record highs.
- Fed quantitative easing helps absorb increased debt issuance, but there are longer-term negative economic consequences.



# 2020 PRESIDENTIAL ELECTION

## IF BIDEN WINS

Markets will likely respond negatively, at first, to a Biden election, as it likely results in higher corporate tax rates, dampening earnings.

### **Beneficiaries** potentially include:

- Infrastructure companies
- Renewable energy
- U.S. refiners
- Companies that export to China
- Drug discovery equipment providers

### **Companies** at risk include:

- Domestic energy companies, the “frackers”
- Aerospace and defense
- Pharmaceutical and biotechnology
- For-profit prisons & education
- Domestic retailers

## IF TRUMP WINS

Markets will likely respond positively to a Trump re-election, as it removes tax-rate increases from the list of investor concerns.

### **Beneficiaries** potentially include:

- Domestic energy companies
- Healthcare companies including insurance, biotech, and pharma
- Aerospace and defense
- Financials
- Domestic retailers
- Industrial manufacturers

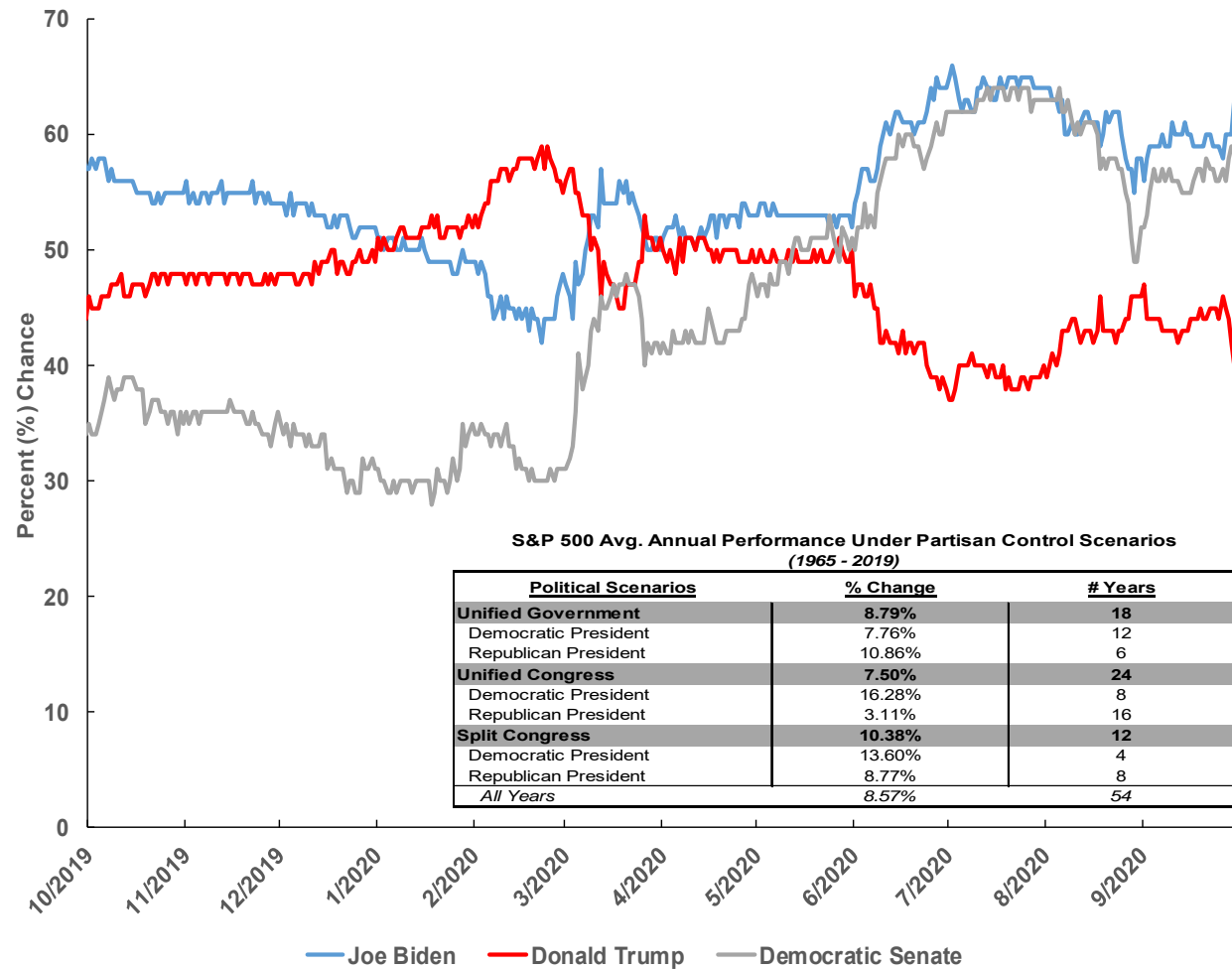
### **Companies** at risk include:

- Renewable energy
- Companies with exports to China
- Importers



# U.S. NATIONAL POLLS 2020

- Democrats maintaining lead in polls.
- Control of the Senate is key for policies.
- The S&P 500 Index has historically performed best with a split congress.



# BROAD MARKET OVERVIEW

Returns (%)	1 Mo.	YTD	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.
<b>Capital Markets</b>						
DJ Industrial Average TR USD	-2.18	-0.91	5.70	9.98	14.01	12.69
NASDAQ 100 TR USD	-5.67	31.65	48.75	25.35	23.61	20.43
Russell 3000 TR USD	-3.64	5.41	15.00	11.64	13.68	13.48
S&P 500 TR USD	-3.80	5.57	15.15	12.28	14.14	13.74
<b>Domestic Large Cap Equities</b>						
Russell 1000 TR USD	-3.65	6.40	16.01	12.37	14.09	13.75
Russell 1000 Value TR USD	-2.46	-11.58	-5.03	2.63	7.65	9.95
Russell 1000 Growth TR USD	-4.71	24.33	37.53	21.67	20.09	17.25
<b>Domestic Mid Cap Equities</b>						
Russell Mid Cap TR USD	-1.95	-2.35	4.55	7.13	10.13	11.75
Russell Mid Cap Value TR USD	-2.27	-12.84	-7.30	0.82	6.38	9.71
Russell Mid Cap Growth TR USD	-1.40	13.92	23.23	16.22	15.52	14.55
<b>Domestic Small Cap Equities</b>						
Russell 2000 TR USD	-3.34	-8.69	0.39	1.77	8.00	9.85
Russell 2000 Value TR USD	-4.65	-21.54	-14.88	-5.13	4.11	7.09
Russell 2000 Growth TR USD	-2.14	3.88	15.71	8.18	11.42	12.34
<b>International Equities</b>						
MSCI EAFE NR USD	-2.60	-7.09	0.49	0.62	5.26	4.62
MSCI EAFE Value NR USD	-4.59	-18.31	-11.93	-5.86	1.14	2.10
MSCI EAFE Growth NR USD	-0.65	4.60	13.44	7.06	9.22	7.00
MSCI ACWI Ex USA NR USD	-2.46	-5.44	3.00	1.16	6.23	4.00
MSCI EM NR USD	-1.60	-1.16	10.54	2.42	8.96	2.50
<b>Cash &amp; Fixed Income</b>						
FTSE Treasury Bill 3 Mon USD	0.01	0.56	1.02	1.65	1.16	0.61
BBgBarc US Agg Bond TR USD	-0.05	6.79	6.98	5.24	4.18	3.63
BBgBarc Gbl Agg Ex USD TR Hdg USD	0.68	2.97	1.82	4.94	4.32	4.06
BBgBarc US Corporate High Yield TR USD	-1.03	0.62	3.25	4.21	6.79	6.47
<b>Alternatives</b>						
MSCI US REIT GR USD	-3.19	-17.12	-17.76	0.31	3.99	7.90
Bloomberg Commodity TR USD	-3.35	-12.08	-8.20	-4.18	-3.09	-6.03

Source: Morningstar. Data shown as of September 30, 2020.

# ASSET CLASS QUILT

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD	
26.85%	7.84%	18.22%	38.82%	13.69%	5.67%	21.31%	37.28%	3.17%	36.39%	24.33%	Best Performing ↑ ↓ Worst Performing
25.48%	4.98%	17.51%	34.76%	13.45%	1.38%	17.34%	30.21%	0.01%	31.49%	6.79%	
18.88%	3.94%	17.32%	33.48%	13.22%	1.36%	17.13%	25.03%	-1.51%	30.54%	5.57%	
16.71%	2.64%	17.28%	32.53%	13.05%	0.55%	13.80%	21.83%	-2.08%	26.54%	2.97%	
15.51%	2.11%	16.35%	32.39%	8.79%	-0.81%	11.96%	18.52%	-4.38%	25.52%	0.62%	
15.12%	0.39%	16.00%	22.78%	5.97%	-2.44%	11.19%	14.65%	-8.27%	22.01%	-1.16%	
15.06%	-1.55%	15.81%	7.44%	4.89%	-3.83%	7.08%	13.66%	-9.06%	18.42%	-2.35%	
7.75%	-4.18%	15.26%	1.18%	2.45%	-4.41%	4.90%	7.50%	-11.01%	14.32%	-7.09%	
6.54%	-12.14%	6.46%	-2.02%	-2.19%	-4.47%	2.65%	3.54%	-13.79%	8.72%	-8.69%	
3.28%	-18.42%	4.21%	-2.60%	-4.90%	-14.92%	1.00%	2.48%	-14.57%	7.57%	-11.58%	

S&P 500
Large Cap Value
Large Cap Growth

Mid Cap Blend
Small Cap Blend
Foreign Bonds

Foreign Stocks
Emerging Markets
High Yield

Bonds
-------

Source: Morningstar. Data shown as of September 30, 2020.

# EQUITY RETURNS ACROSS PERIODS

## YTD

	Value	Core	Growth
Large	-11.6	5.6	24.3
Mid	-12.8	-2.3	13.9
Small	-21.5	-8.7	3.9
Int'l	-17.6	-5.4	7.3

## 1 Year

	Value	Core	Growth
Large	-5.0	15.1	37.5
Mid	-7.3	4.6	23.2
Small	-14.9	0.4	15.7
Int'l	-10.8	3.0	17.5

## 3 Year

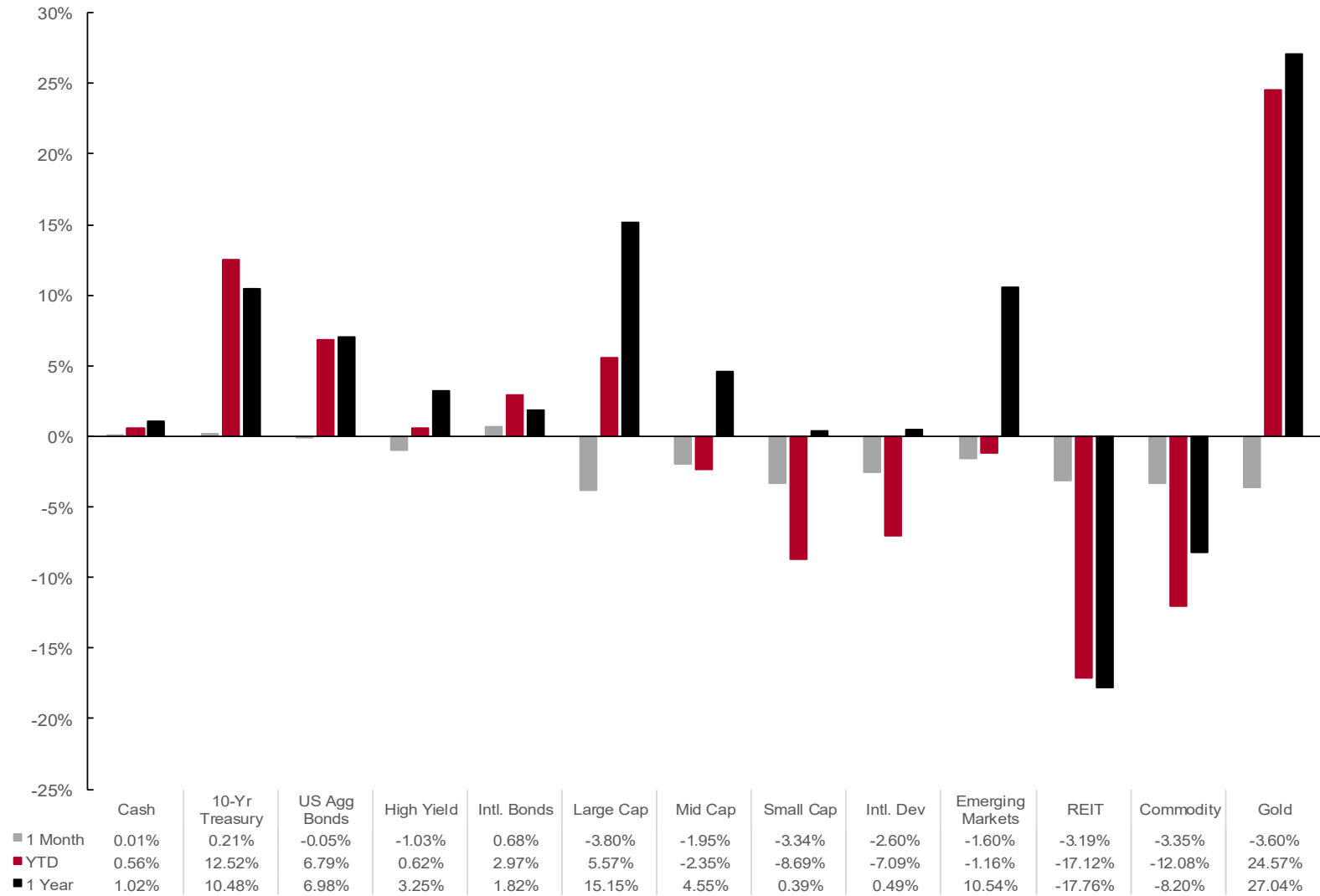
	Value	Core	Growth
Large	2.6	12.3	21.7
Mid	0.8	7.1	16.2
Small	-5.1	1.8	8.2
Int'l	-5.1	1.2	7.3

## 5 Year

	Value	Core	Growth
Large	7.7	14.1	20.1
Mid	6.4	10.1	15.5
Small	4.1	8.0	11.4
Int'l	2.1	6.2	10.2

Source: Morningstar. Returns in the style boxes are represented by the Russell indexes and the S&P 500 for the Large Cap Core space. Returns in the international boxes are represented by the MSCI ACWI Ex USA indexes. Boxes shown in red represent returns below 0%. Gray boxes represent returns between 0% and 10%. Returns above 10% are shown in black. Data shown as of September 30, 2020.

# MARKET SUMMARY



Source: Morningstar. Data shown as of September 30, 2020.


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