Investment Update

Third Quarter 2020

Although the S&P 500 fell nearly 10% from all-time highs over the course of several weeks in September, it still ended the quarter up 8.9%, and 51.7% above the March 23rd low. The recent pullback can be blamed on technology stocks coming back to earth after a rapid ascent throughout most of 2020, but eroding faith in the arrival of a vaccine or a fiscal stimulus package anytime soon likely played a part as well.

Equity Markets (Total Return)	3rdQ'20	1-Year	3-Year
Dow Jones Industrials	8.2%	5.7%	10.0%
S&P 500	8.9%	15.1%	12.3%
S&P Mid-Cap	4.8%	-2.2%	2.9%
S&P Small-Cap	3.2%	-8.3%	-0.3%
MSCI All-Country World	8.3%	11.0%	7.7%
MSCI Foreign Developed Markets	4.9%	0.9%	1.1%
MSCI Foreign Emerging Markets	9.7%	10.9%	0.3%
US Bond Markets (Total Return)	**3rdQ'20**	**1-Year**	**3-Year**
Barclays US Treasury	0.2%	8.0%	5.5%
Barclays US Municipal	1.2%	4.1%	4.3%
Barclays US Corporate Investment Grade	1.5%	7.9%	6.4%

Interest rates remained at historically low levels throughout the quarter. As anticipated, in late August, the Fed confirmed that they would shift to targeting an average level of inflation over time, rather than an absolute level. The Fed had already telegraphed that the 2020 recession would necessitate years' worth of low rates, but this new policy gives it even more flexibility to allow the economy and inflation to heat up further before taking action.

Average inflation targeting surely would have altered the pace of rate increases that started at the end of 2015 which might have allowed for a more robust recovery from the financial crisis. While the economy would have been no better prepared to handle the unique challenges of Covid-19 as a result, the implication that rates will be lower for longer is positive for stocks. The economy does continue to show improvement from the spring shutdown. The pace has slowed from the initial bounce, and the data are uneven but recoveries are never linear even in normal times. The backdrop has become more challenging though as several key stimulus programs have expired recently and early October has already seen significant layoffs by the airlines and entertainment industry.

None of our representatives in Washington should think they are winning from a lack of an agreement on fiscal stimulus, but that has not stopped both sides from digging in their heels on the next round of support. We were overly optimistic three months ago when we said that this process was likely to be more bipartisan than the swift passage of various programs in March, but the deepening divide after the death of Ruth Bader Ginsburg was a strong signal that we just might all be waiting until after the election.

Articles in the press abound about the average stock market returns in different years of the Presidential election cycle or following various election outcomes favoring one party or the other. We would counter that there are not enough elections over the last hundred years or so to serve as data points, and too many other variables about where the economy stood going into an election and how the stock market had done recently, often an important predictor of returns to come. As for this particular election, there are some nuances that could interfere with the conventional wisdom that investors will favor a Trump victory because Biden's policies are less business friendly. For instance it is conceivable that a Biden administration would not seek to increase corporate taxes in a tenuous economic environment, or that the downward effect of a tax increase on earnings might be more than offset by the possibility of the larger fiscal stimulus favored by Democrats. On the other hand, faced with the same environment, a continued Trump administration would probably not be able to seek further tax reductions. Perhaps more importantly, a re-elected President Trump would likely feel emboldened on re-engaging the trade war with China. This was a major source of investor angst and a driver of market volatility prior to the COVID-19 outbreak. The stock market's returns in 2021 will depend more on the strength of the economy and corporate earnings, both of which are likely to keep improving further. However, a widely available vaccine will be necessary for the economy to return to its full potential given that certain industries simply cannot operate anywhere close to their old capacity in the current environment.

All of this said, regardless of how favorable or unfavorable a given set of policies are to companies and shareholders, the composition of control in Washington is subject to change every two years, so the only thing that is certain is that those policies cannot necessarily be counted on for long. Likely the greatest risk to the stock market would be a contested election, although that at least would be a relatively short-lived disruption. Raising cash for known or possible near-term expenses is always the right thing to do, so please continue to communicate as your needs evolve. Despite liquid cash vehicles yielding next to nothing, yields on other safe fixed income investments have also fallen so far that cash arguably presents a better risk/reward trade off more so than ever.

Finally, on a different note, we are pleased to welcome Michael J. Dorsey, Jr., CFA, CFP and Dylan C. Brix, CFA as portfolio managers at the BFO. Given that we continue to operate remotely, we may have to introduce you to them virtually at first, but look forward to doing so in person soon. Mike was most recently at Steward Partners Global Advisory and Dylan joined us from Reynders McVeigh Capital Management. You can read more about both them at http://www.bosfam.com/people.html.

The information contained in this investment update has been taken from sources which we deem reliable. We do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed herein reflect our judgment at this date and are subject to change.

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