# STRAIGHT TALK

## 3rd Quarter 2020

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**Year to Date**
**Market Returns**

**Domestic Large**
**S&P 500**
**5.57%**

**Domestic Small**
**Russell 2000**
**-8.69%**

**Intl Developed**
**MSCI EAFE**
**-7.09%**

**Emerging Markets**
**MSCI EM**
**-1.16%**

**Fixed Income**
**BBgBarc US**
**Aggregate Bond**
**6.79%**

**Returns are from Morningstar, with dividends reinvested, and are through 9/30/20*

In many respects the third quarter provided us exactly what we needed. Stocks experienced a healthy pullback, which eased some of the euphoria in parts of the market, but markets posted solid gains for the quarter overall. All told the S&P 500 suffered a nearly 10% decline in September, but was up nearly 9% for the quarter, while international equities and the general bond market were also higher. Measures of volatility remained relatively high in Q3 and we have seen some choppiness in markets more recently. Looking ahead, we see continued potential for volatility, as COVID and the elections have investors facing higher than normal levels of uncertainty. These issues are short-term in nature, though, as we hope to have more clarity on the potential vaccines, and certainly on the election outcomes, by the end of the year.

The elections and the potential outcomes as they relate to the economy and markets are certainly on everyone's minds. The general view is that the Senate will go the direction of the presidency, and regardless of other outcomes, it seems highly likely that Democrats will maintain their majority in the House. If the supposed "blue wave" happens and Democrats take the presidency and majority control of congress, we will likely see increased corporate taxes and taxes on top earning individuals.  This would be offset by higher fiscal spending and a push to modernize the American economy - green tech and infrastructure. If President Trump is reelected and/or Republicans hold the Senate, we can expect more of the same - gridlock in congress and some sort of a smaller fiscal stimulus. As we mentioned in our last newsletter, elections matter, but they are not everything, and we continue to see many reasons to be positive about the domestic economy and stocks, regardless of the outcome.

Much has been made about the supposed disconnect between the stock market and the economy since the market lows. We would argue that the two rarely move exactly in tandem, and while we all try to grapple with what a post-COVID world looks like, there are valid reasons for why markets have moved the way they have. That said, there are certainly examples of investors going overboard in pricing out winners and losers and some level of mean reversion is to be expected. In a general sense, however, the market moves we have seen over the last six months are justified. One area of the economy that we will be watching closely is the labor market. This will be important in determining what policy will look like going forward. The Fed has already announced that they intend to keep rates near zero and are willing to let inflation run hot. The government, meanwhile, is going to have to continue to support higher levels of unemployed workers as some of the jobs lost this year just will not come back. We expect that it will take much more time for the labor market to adjust to this new reality and as such we see both monetary and fiscal policy being accommodative for the foreseeable future. On balance this should continue to lead to low rates on bonds and decent returns for stocks.

This year has provided no shortage of surprises and, while anything can happen in the coming weeks and months, we continue to hold a favorable view towards stocks for the medium and long-term. We thank you again for your trust. We will continue to monitor and adjust portfolios as needed. Please don't hesitate to reach out with any questions or concerns.

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