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The financial markets enjoyed a great start to the 3rd quarter, but stubbed its toe in September as equity markets took profits as valuations became over extended. Overall, the last three months have been great for the markets as optimism around further Federal stimulus and COVID-19 vaccine progress increased. Even though the equity markets paused in September, we still achieved positive returns for the 3rd quarter as can be seen by the performance summary below. It is still very evident in the year-to-date performance that large caps, and more specifically, growth related technology are the biggest winners thus far this year.

	2020 3rd Quarter	2020 Year-to-Date
Dow Jones Industrial Average	8.22%	-0.91%
Russell 1000 Growth Index	13.22%	24.33%
Russell 1000 Value Index	5.59%	-11.58%
NASDAQ Composite Index	11.24%	25.33%
S&P Mid Cap 400 Index	4.77%	-8.62%
S&P Small Cap 600 Index	3.17%	-15.25%
MSCI EAFE – International Index	4.80%	-7.09%
Bloomberg Barclays US AGG Bond	0.62%	6.79%

*Wells Fargo Advisors Monthly Major Index Returns

Presently, the financial markets continue to experience higher than normal volatility. We believe the main reasons revolve around equity market valuations in growth related stocks and increased uncertainty around the size and timing of additional fiscal stimulus from Congress. In regards to stock market valuation, we believe it is quite normal and rational to experience some profit taking after such a significant stock market recovery. Keep in mind that the NASDAQ Composite Index has rallied 76% and the S&P 500 has rallied 62% off the March lows per Wells Fargo Investment Institute. The elevated equity market valuations are the main reason we have continued to focus on rebalancing your portfolios in order to take some profits and maintain alignment of portfolio risk.

Additionally, in recent weeks Congress has been unable to bridge their ideological divide and reach an agreement on another round of very much needed fiscal stimulus. This has led to increased volatility and headline risks. When we hear news of positive progress on stimulus negotiations, the financial markets rally. When we hear news to the contrary, the financial markets predictably fall. The political posturing that occurs in Congress is truly unfortunate, because it is evident that there are areas of the economy that still desperately need assistance to help them through the COVID-19 pandemic. We believe that it is likely that an additional stimulus package is ultimately passed, but the timing of when is uncertain and as you know the financial markets strongly dislike uncertainty.

Speaking of uncertainty, you may have also heard that we are less than a month away from the Presidential and Congressional elections. Historically, the financial markets experience higher levels of volatility in anticipation of election outcomes and we don't expect this year to be any different. You could argue that this election could potentially provide even higher volatility due to the fact that it appears to be a tight Presidential race with the potential for numerous court challenges that could push the election outcome beyond election night.

Despite recent elevated stock valuations and short-term uncertainty, our outlook moving forward remains intact. We still believe that as long as the FED and Congress continue to be supportive, the economy will continue to recover and broaden out in 2021. It actually appears that the economic recovery is materializing quicker than economists anticipated. Estimates for 2020 GDP were expected to contract by approximately 6%, but with the most recent 3rd Quarter GDP numbers, the annualized GDP contraction for 2020 might only be 3.7% per S&P Dow Jones Indices. This is a significant improvement and a testament to the resiliency of the U.S. economy. If the current rate of recovery continues, 2021 could line up to be a pretty good year for the global economy, which would be great for our financial markets since it is estimated that approximately 40% of S&P 500 revenues come from outside the U.S per S&P Dow Jones Indices.

Looking to the 4th quarter, the upcoming November 3rd elections will dominate the news and will likely have significant influence on near-term market activity. Ultimately, real economic issues like tax and regulation, fiscal and monetary, foreign policy, heath care and energy will matter the most, but the results of the election will clearly influence these policies. We find that investors tend to worry about the idea of one party sweeping control of the White House and Congress. You might be interested to know that single-party governments have occurred more frequently than not since 1945, including three of the past four. That said, this is an understandable concern for financial markets because it does add an increased level of uncertainty. While the outcome of the election will influence how we position your portfolios, we feel that either party will still foster the opportunity for economic growth. We feel that the fact that both parties still favor large Federal spending expansions and that the Federal Reserve will continue their ultra-accommodative monetary policy will be the most important drivers for the financial markets in 2021.

We anticipate the economic recovery will begin to broaden out in 2021 as unemployment continues to slowly improve and corporate profits remain steady. This is one of the primary reasons that we have taken opportunities to rebalance portfolios in anticipation of further expansion of both fiscal and monetary policies. We obviously still have economic obstacles in our path and the potential for fiscal policy mistakes, so we remain extremely diligent about proactively keeping portfolio risk aligned. Risk management is going to be of the utmost importance as we navigate 2021.

We hope that everyone is doing well and staying healthy. COVID-19 has definitely changed the way that we are able to interact with our clients, but we greatly appreciate your understanding. We hope that you have been able to take advantage of some of our educational zoom seminars as we have more planned for you in the months ahead. We look forward to speaking with you all very soon, but please don't hesitate to reach out to us if you have any questions or concerns. We wish you all the best for the upcoming holiday season!!

Sincerely,

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The S&P 500/Barra Value Index is an unmanaged, market-capitalization-weighted index of the stocks in the Standard & Poor's 500 Index having the lowest price to book ratios. The index consists of approximately half of the S&P 500 on a market capitalization basis.
The NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.
The S&P Midcap 400 Index is a capitalization-weighted index measuring the performance of the mid-range sector of the U.S. stock market, and represents approximately 7% of the total market value of U.S. equities. Companies in the Index fall between the S&P 500 Index and the S&P Small Cap 600 Index in size: between $1-4 billion.
The S&P Small Cap 600 Index consists of 600 domestic stocks chosen for market size, liquidity (bid-asked spread, ownership, share turnover and number of no trade days) and industry group representation. It is a market value-weighted index (stock price times the number of shares outstanding), with each stock's weight in the index proportionate to its market value.
The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.
Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.