

MONTHLY ECONOMIC UPDATE

INVESTMENT NEWSLETTER / OCTOBER 2020

October Summary

October was a challenging month for investors with the broad stock and bond markets both posting negative returns. Even as the global economy seemed to be recovering, investors grappled with contentious U.S. elections that were difficult to predict and a resurgence of the coronavirus in the U.S. and Europe. At month-end, additional fiscal support, and progress on a safe vaccine for COVID-19 had not yet materialized, raising the specter of a difficult winter. As could be expected in this uncertain environment, stock market volatility was elevated with losses across most geographic regions and sectors. Other market behavior was more surprising. Safe-haven investments such as U.S. Treasuries and gold declined even as traditional “risk on” investments like high yield bonds and industrial commodities outperformed.

U.S. GDP surged at an annualized rate of 33.1% over the third quarter, ahead of consensus estimates of closer to 31%. Despite the strong rebound, economic activity remained below pre-pandemic levels. In the U.S., job gains have slowed but remained healthy even as temporary government census workers came off the payroll. Unemployment has dropped below 7%, but millions of jobs lost during the pandemic have yet to return. Consumer confidence continued

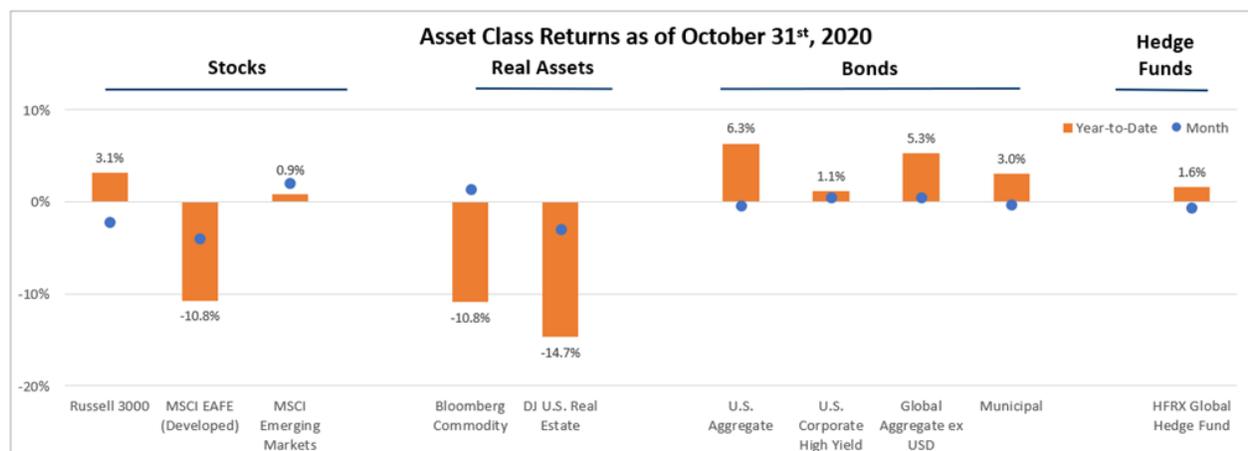
to improve and retail sales gains have far surpassed expectations. Globally, trading and manufacturing activity continued to pick up, particularly in Asia Pacific. However, major European countries imposed stricter lockdown measures to help contain a recent surge in COVID-19 cases and local measures to expand business activity reached a standstill in the U.S. New restrictions and the onset of winter in some areas may be a blow to future economic growth.

Although the major stock markets lost ground for the month, emerging markets and small cap stocks were bright spots. All U.S. equity sectors, except for utilities, lost ground for the month. Small companies are believed to particularly benefit from stimulus spending and may have benefited from fears that large technology companies had become too expensive. An increase in corporate transaction activity may also be a tailwind for small companies in a post-pandemic economy. Bond market results were also dismal, with only high yield and international bonds generating positive returns. Rising interest rates led to negative returns for U.S. Treasuries and most high-grade sectors. High yield bonds outperformed high quality corporate and municipal bonds. The high yield default rate continued to climb,

surpassing 6%. With most developed market benchmark rates under 1%, high yield and emerging market bonds are the only source of material bond yields.

The outcome of the U.S. elections and the potential policy implications have preoccupied investors for months. Despite the political turmoil, it seems the U.S. government will remain divided between Democrats and Republicans. It is important to remember that government spending, taxation and other policy changes that impact economic growth, consumer behavior and corporate profitability may be more muted and gradual than expected. The Federal Reserve will provide consistency and will likely continue policies that keep interest rates low and financial markets functioning. Over time, there may be winners and losers at the sector level. There seems to be bipartisan support for infrastructure spending and greater regulation of large technology companies. Other sectors, such as energy and health care, may face fundamental changes. The past month has once again shown that market behavior is unpredictable, and diversification can protect investment portfolios from some losses. We urge investors not to make significant changes to portfolio allocations based on short-term uncertainty and timing decisions.

Market Data

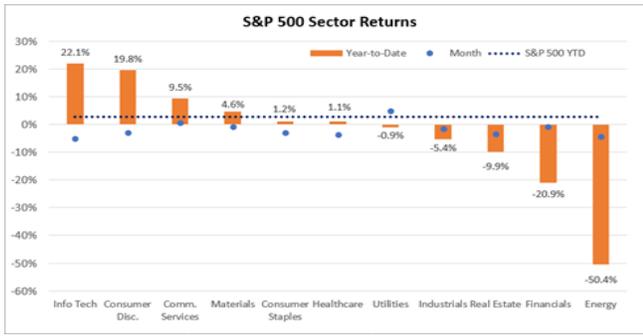


Morningstar®, bond indices from Bloomberg Barclays



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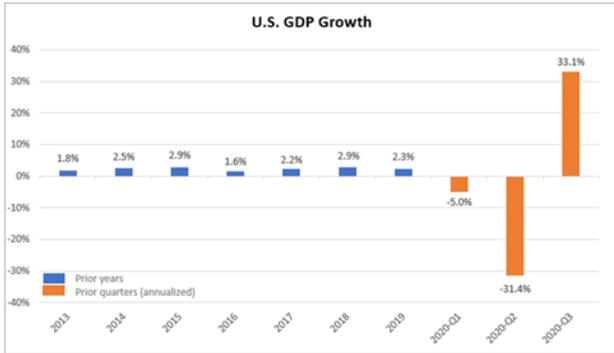


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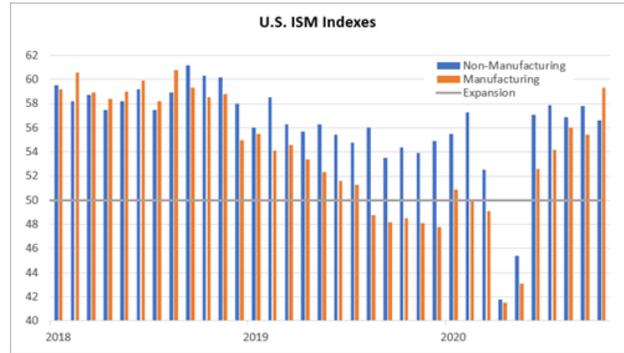


Bloomberg; U.S. indices from Russell and World indices from MSCI

Economic Data



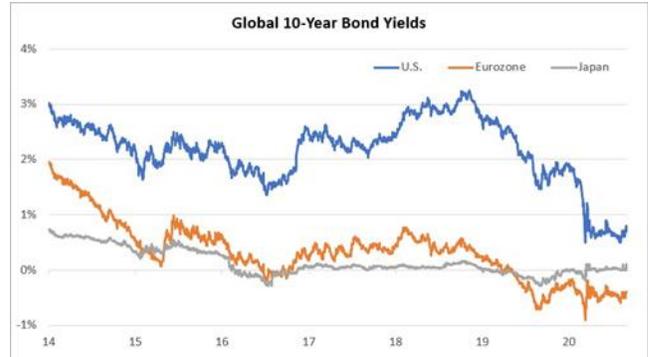
U.S. Department of Commerce



Institute for Supply Management



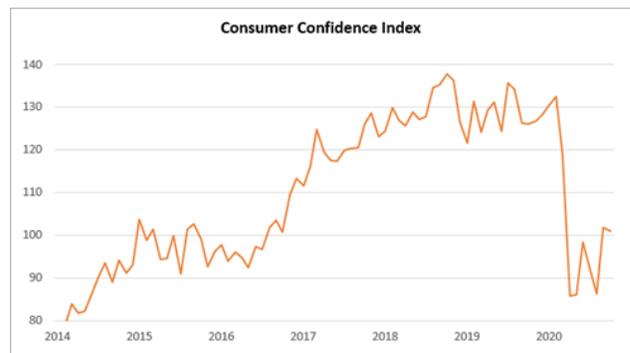
U.S. Bureau of Labor Statistics



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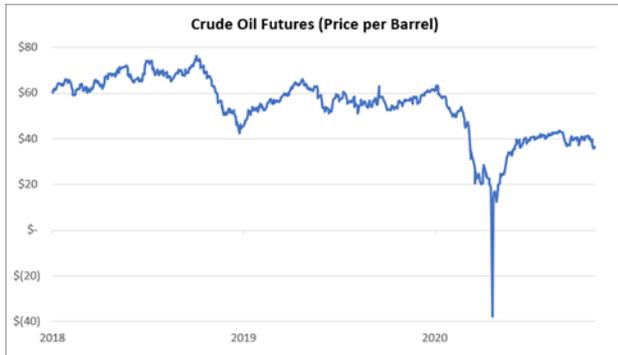


U.S. Department of Labor

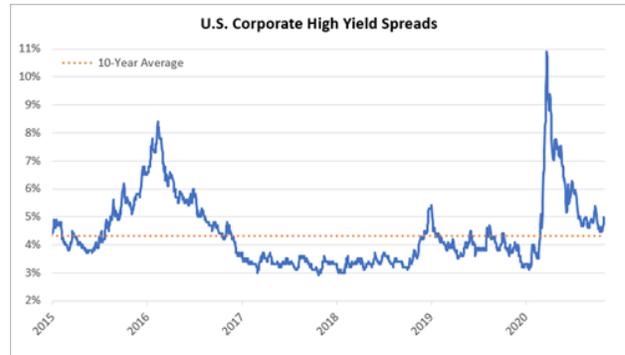


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performance of an unleveraged, long-only investment in commodity futures that is broadly diversified and primarily liquidity weighted; the HFRI Fund of Funds Composite Index is an equally-weighted benchmark composed of over 400 domestic and offshore constituent funds having at least \$50 million under management or having been actively trading for at least 12 months; the Bloomberg Barclays U.S. Aggregate Bond Index is a market capitalization-weighted index comprising Treasury securities, Government agency bonds, mortgage backed bonds, corporate bonds, and some foreign bonds traded in the U.S.; the Bloomberg Barclays Global Aggregate Ex U.S. Index measures the performance of global investment grade fixed-rate debt markets that excludes USD-denominated securities. The Bloomberg Barclays Municipal Bond Index covers the U.S. dollar-denominated long-term tax-exempt bond market. Data in this newsletter is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss

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