ADVISER
INVESTMENTS

Adviser Outlook

THIRD QUARTER 2020

QUICK TAKES

- ✔ The stock market rallied to its second-best calendar-quarter return in more than 20 years, helped by massive stimulus from the Federal Reserve
- ✔ Medical data and its impact on consumer and business activity continues to be the biggest determinant of our recovery's course
- ✔ Though still deep in recession, signs of economic recovery emerged in May and June

The rapid global spread of the coronavirus over the first half of the year delivered a slew of everyday trials and economic tribulations. During the first quarter, the global economy plunged into recession, Treasury bonds soared and stocks dove. In turn, the second quarter witnessed an equally swift stock market bounce off the bottom as economic data improved and prospects for medical solutions grew brighter.

While we are thankful for the stock market's recent surge, we think prices have gotten ahead of the facts that could sustain them. In our investment view, there is a stark disconnect between COVID-19's human and economic toll and the market's advance—and we are working hard to understand how it might resolve in the face of so many critical unknowns.

The path to anything resembling a full economic recovery will likely be longer and more challenging than many pundits suggest—nothing new to us in terms of having managed through two of the worst market meltdowns and the worst financial crisis in modern history over the past 25 years.

Beyond pandemic news here and abroad, worries over Chinese trade relations and human rights issues, as well as the fast-approaching presidential election, lead us to think the second half of 2020 will provide plenty of short-term fodder for increased volatility and fear—along with occasional bursts of optimism.

The author Michael Lewis once asked, "How many times does the end of the world as we know it need to arrive before we realize that it's not the end of the world as we know it?" As stewards of our clients' hard-won assets, his words speak volumes about the challenges we face in the day-to-day tumult of today's markets.

We do not see the end of the world upon us. What we do see are signs that employment, consumer spending and manufacturing activity picked up toward the end of the quarter from depressed levels. The Federal Reserve and other central banks have injected massive fiscal stimulus into their economies to backstop the markets, a big driver of stocks' gains around the world—and monetary policymakers stand ready to do much more to safeguard economic activity. Similarly, Congress appears poised to allocate greater sums for those hardest hit by the pandemic.

Times like these are when we double down on our fundamental investment discipline, examine our assumptions and assess and analyze a range of views from experts we trust. Our core philosophy of spending time in the markets, diversifying investments

QUARTER REVIEW

- ✔ The S&P 500 returned 20.5% in the second quarter, regaining much of the ground ceded in the Q1 crash; for the year through June 30, it has lost just 3.1%
- ✔ The U.S. bond market returned 2.9% in Q2 and is up 6.1% year-to-date
- ✔ Every broad sector of the U.S. stock market posted positive returns over the last three months, though there is a wide gulf between the best (consumer discretionary, up 38.2%) and worst (utilities, 2.4%) performers. The year-to-date gulf between the top (information technology, 14.5%) and bottom (energy, -36.4%) sectors is chasmic

among top-notch fund managers and taking a risk-aware approach to managing client portfolios continues to serve us well.

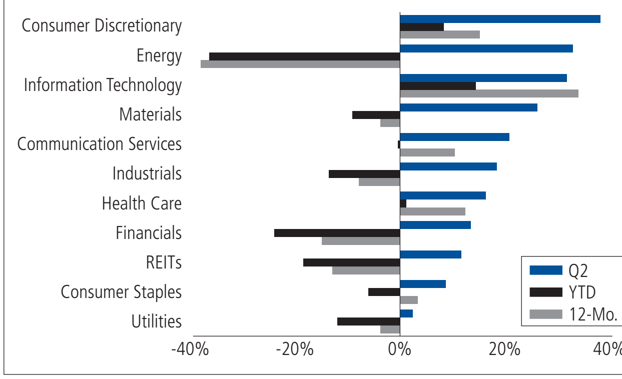
Second Quarter Review

As noted, the U.S. stock market rallied between March and June. The MSCI U.S. Broad Market index returned 22.3%, while the S&P 500 and Dow Jones Industrial Average gained 20.5% and 18.5%, respectively. Those gains were not quite enough to bring returns into positive territory for the year, but the two broader indexes got close, down only 3% or so in 2020 at June's end. Over the past 12 months, the S&P 500 and the MSCI index returned 7.5% and 6.6%, respectively, and the Dow lost a marginal 0.5%.

Stocks in developed and emerging foreign markets also advanced over the last three months. The MSCI EAFE index gained 14.9%, while the MSCI Emerging Markets index returned 18.1%. Both indexes have declined in value year-to-date and over the prior 12 months.

Every one of the 11 broad sectors of the U.S. stock market posted positive returns in the second quarter, led by consumer discretionary (up 38.2%), energy (33.0%) and technology (31.8%) stocks. Tech stocks have been by far the most resilient through the pandemic and are now up 14.5% year-to-date and 34.0% over the last 12 months. The health care sector lagged the market with a 16.4% return in Q2 (hardly a horrible result), but its 1.2% gain made it just one of three sectors to rise during the first half of 2020. (Consumer discretionary, up 8.4%, and tech are the other two.)

U.S. Sector Performance
Ranked by Q2 Return



Source: Morningstar.

Stocks of utility and consumer staples companies, considered to be "defensive" investments due to fairly consistent demand for their services and products across economic cycles, lagged in the second quarter, rising 2.4% and 8.7%, respectively.

We would have expected bonds to do well during the worst of times for stocks, but they continued to display their mettle while stocks surged. The U.S. bond market gained 2.9% in Q2, is up 6.1% so far in 2020 and has produced a stock-market-beating 8.7%, gain over the last 12 months. The benchmark 10-year Treasury ended June yielding 0.66%, four basis points below its 0.70% yield at the end of Q1, but roughly a third of its 1.92% yield at the end of 2019.

Bonds' fairly steady performance has continued to be a good buffer to stock market volatility, though low yields essentially guarantee that holders will earn less income and lower returns in the years ahead.

Stocks Surged in the Second Quarter

	Q2	YTD	12-MO.
MSCI U.S. Broad Market	22.3%	-3.5%	6.6%
S&P 500	20.5%	-3.1%	7.5%
Dow Jones Industrial Average	18.5%	-8.4%	-0.5%
MSCI Emerging Markets	18.1%	-9.8%	-3.4%
MSCI EAFE	14.9%	-11.3%	-5.1%
Bloomberg Barclays U.S. Agg. Bond Idx.	2.9%	6.1%	8.7%

Note: Ranked by Q2 returns. Performance numbers are total returns, reflecting reinvested dividends through 6/30/20. Source: Morningstar.

OUR OUTLOOK

- ✔ A coronavirus vaccine will not be ready for wide distribution until 2021, and containing the pandemic will take longer than many expect
- ✔ The economic picture may look worse before it gets significantly better (though there may be more selective improvements along the way)
- ✔ The health—physical and financial—of the consumer is the key to a sustained recovery
- ✔ Our team and our clients will manage through this difficult period together, to our collective benefit

Our Outlook

The health of the economy and markets hinges on the true state of the pandemic, not wishful thinking. The head of the Centers for Disease Control and Prevention is hopeful that we are six to nine months away from a viable vaccine.

We think it will take much longer before we understand what life after coronavirus will look like, as well as the pandemic's lasting impact on the global economy.

While we often talk about future uncertainties, this year, the future has proved particularly hard to visualize. Many corporate leaders are at a loss—the heads of 180 companies in the S&P 500 have renounced prior earnings forecasts because they lack "visibility" into their companies' short-term prospects. When you buy a stock, you are buying into the long-term earnings of a company. With little insight into what future earnings will look like, it is difficult to determine whether you are getting a bargain or overpaying.

Despite massive infusions of cash into the economy and interest rates near record lows, inflation has fallen dramatically over the last three months and monetary policymakers have said that they won't be raising rates any time soon. Low interest rates are a headwind for income-seeking bond investors and have brought money market funds' yields down to just a handful of basis points, but they also keep the cost of borrowing low. Anecdotal data suggests that growing interest in home purchases stems from the low mortgage rates now on offer.

The initial bounce in job gains in May and June, and concomitant decline in the unemployment rate at a better-than-expected clip, is an optimistic sign, yet two out of three jobs lost to pandemic-related shutdowns have yet to return and may not for some time.

As we write, Congress is considering issuing another round of stimulus checks, which would be a life raft for people struggling to make rent and put

PERSONAL FINANCE FOCUS

Planning During a Pandemic—Part II

WE NOTED ABOVE that many companies in the S&P 500 wouldn't even guess at what their full financial picture might look like in the months ahead. It made us wonder—could each of us do any better if asked to report on our own finances?

For those with financial plans, the answer should be a resounding "yes." The pandemic has thrown us all for a loop, but our long-term financial goals most likely remain the same. Our "living document" financial plans can help clients determine if their goals are in reach or if, because of changing spending patterns, they might be able to reach a little higher.

If you haven't already completed a comprehensive financial plan, give us a call. And if you already have a plan and would like to review it in light of recent events, let us know—we're here to help.

In the meantime, here are three additional financial planning steps to consider as we ride out the pandemic:

1. Think about refinancing your mortgage. The average 30-year fixed-rate for mortgages has fallen to record lows (with some lenders offering sub-3% rates as of early July). Refinancing could save you money each month—our financial planning team can help you do the math, and you can read more about what's involved here: **adviserinvestments.com/family-financials/should-you-refinance-your-mortgage-now/**.

2. Legacy and estate planning. If you have more time on your hands (or more worries), putting your financial house in order could lift a huge burden from your shoulders and those of your heirs while giving you the satisfaction of knowing that you've provided for the people and causes you most care about. Our *Estate Planning Checklist* (**adviserinvestments.com/reports/estatechecklists.pdf**) is a good place to start.

3. Resist the urge to splurge. It's natural to think about letting loose with a big purchase once we begin to travel again. If you're thinking along these lines, plan ahead so that it doesn't throw your budget or long-term goals off course. And planning for it now will give you something to look forward to.

food on their tables. The financial well-being of consumers is going to be key to a lasting recovery and is something we'll be watching closely.

We are cautious as we read the economic tea leaves. U.S. GDP contracted 5% in the first quarter and early estimates for the quarter just ended are significantly worse. The Federal Reserve Bank of Atlanta is currently predicting a 35% decline in GDP. Clearly, the economy is in rough shape, but it seems to be getting slightly better (in early June, they predicted a 54% contraction), particularly if you focus on gains from the bottom. We think that anyone insisting that the short-term trends signal a strong V-shaped recovery is too optimistic. When comparing data on employment, manufacturing, retail sales and travel, among others, to last year's numbers, we have far to go.

Despite the seemingly overwhelming number of unknowns, over the long term, even the greatest crises have not derailed the wealth-building benefits of time spent in the investment markets. We have long experience and extensive expertise, though we know we are not flawless. Yet, we have reason to be confident that, given time, the pandemic will be defeated, the economy will recover, the consumer will spend again and our clients' portfolios will be fine.

As always, our team is ready, willing and able to discuss any aspect of your portfolio, financial plans and investment goals that raises a question or concern. Even if you just need to hear a friendly, calm and reasoned voice—give us a call.

COMPANY NEWS

Keeping Connected During COVID

THIS YEAR, we've faced many of the same challenges as companies nationwide and, like countless others, have used Zoom's technology to stay connected. Along with our regular meetings, we've held videoconferences for social hours, trivia contests, a book club, a leadership event sponsored by our Women in Wealth Management Initiative, a company-wide conversation on race and diversity, weekly meditations, daily lunch hours and more. We'd much rather be together, but we've been able to maintain and even build on our strong sense of community while apart, all of which flows through to our ability to deliver the high level of service we seek to provide to every client. If you'd like to "Zoom" or chat by video with an adviser you can talk to, let us know. We'd be happy to see you!

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