MONTH IN REVIEW

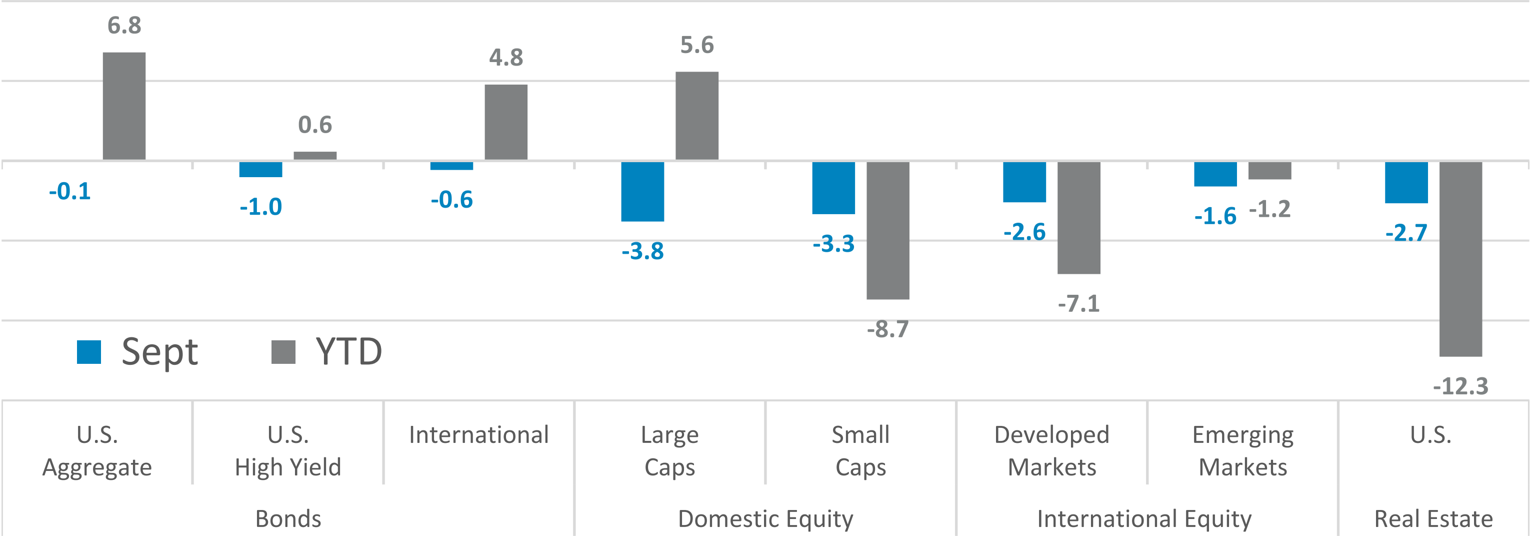
September 2020

Quick Takes

- **A sea of red.** U.S. stocks, as measured by the S&P 500, made all-time highs on September 2, but then spent the rest of the month in negative territory. At its worst, the index was down -9.7% on a closing basis on September 24 from those highs.
- **Expectations are slipping.** September was the first down month for all major asset classes since March, which may be a reaction to economic activity that is still expanding, but at a markedly slower pace. Moreover, economic data has shifted from consistently beating forecasts to missing them.
- **Inflation is up, but not a threat.** Inflation, as measured by the Consumer Price Index (CPI), rose solidly in September, increasing +0.4% in the month, but over the past 12 months, inflation has been remained below the Fed's 2% target.
- **Housing remains hot**. In the last week of September we learned that New Home Sales topped 1 million (the first time in 14 years), that Existing Home Sales hit an annual rate of 6 million (the highest since December 2006), that the median home sales price was $310,600 (a new record and 11% above last year), and Pending Home Sales hit an all-time high.

Asset Class Performance

All major asset classes were negative in September for the first time since March. U.S. large cap stocks were the worst performing of the major asset classes. U.S. bonds, despite a marginal loss, were the best performing group.



Source: Bloomberg, as of September 30, 2020. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays Global Aggregate ex USD TR), Large Caps (S&P 500 TR), Small Caps (Russell 2000 TR), Developed Markets (MSCI EAFE NR USD), Emerging Markets (MSCI EM NR USD), Real Estate (FTSE NAREIT All Equity REITS TR).

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Major economies are expanding, but at a slower pace. Eurozone is fading.

Talk about a jinx. In this space last month we highlighted how U.S. stocks had just completed their longest monthly winning streak since 2018 and the largest five-month percentage gain since 1938. Well September put an end to that. To be fair, we also asked whether September seasonality, typically the weakest and most volatile month, would threaten the recovery. True to form, September was indeed the first down month for all major asset classes since March.

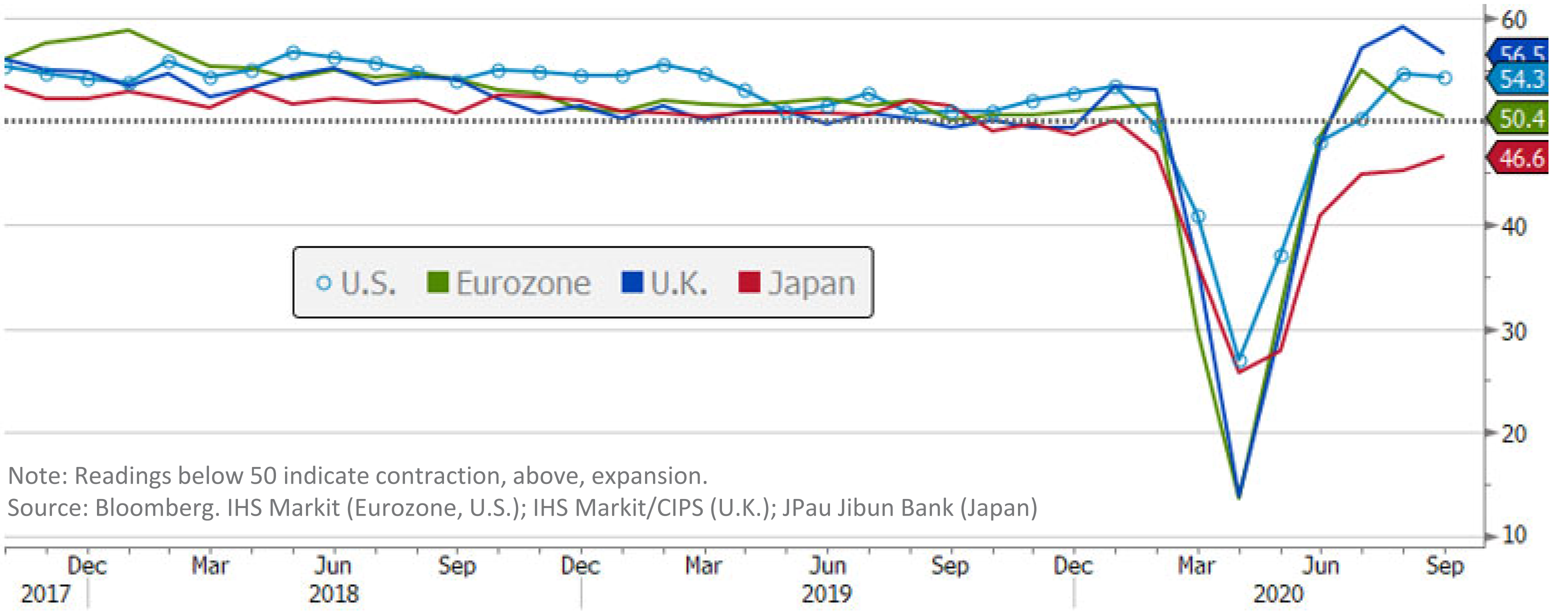
But don't let the first down month in six get in the way of a positive story. Notwithstanding September's pullback, the third quarter was positive. In fact, it was the second straight positive quarter, building on even bigger gains in the second quarter to produce the best two-quarter performance since 2009 for the S&P 500. That's right, even with September's -3.8% decline, the S&P 500 managed a +31.3% total return (including dividends) over the second and third quarters, something that most couldn't fathom at the market lows on March 23rd in the middle of the global COVID-19 pandemic. The markets have been led by large cap growth and technology stocks this year, helping the Nasdaq Composite Index, which has a much more prominent weighting in those stocks, to even more impressive performance. It lost -5.1.% in September but was down more than -14% at one point late in the month. Nevertheless, the Nasdaq has a total return of +45.7% over the last two quarters and is up +25.4% in 2020.

Behind the market rebound has been a robust bounce in economic activity following the second quarter's historic economic output collapse – at an annualized rate of -31.7%. The Atlanta Federal Reserve's "GDP Now" model is suggesting that the third quarter will see U.S. GDP grow by +34.6% on an annualized basis. The September composite Purchasing Managers Index (PMI) for the U.S.—a measure of economic activity in the private sector—was 54.3, down slightly from 54.6 in August. The pace in Europe has faltered and is flirting with contraction levels but remains well above the trough during the spring lockdowns. Given the signs of fading economic momentum, it is virtually certain that major central banks globally will remain accommodative for the foreseeable future, and that increases in interest rates are unlikely for some time. Federal Reserve Chairman Jerome Powell, for his part, urged the U.S. congress to provide more fiscal stimulus to stabilize the economic recovery. However, that possibility still seemed elusive as the House and Senate remain far apart on terms for a fifth COVID-19 relief package.

<u>Bottom Line</u>: Economic activity continues a steady, but slowing, expansion with some concern that regions like the Eurozone may be stalling and will require more stimulus.

Most major economies are in expansion mode again, but the pace of growth has faded

Composite Purchase Managers Indexes (PMIs), which reflect activity across the manufacturing and service sectors

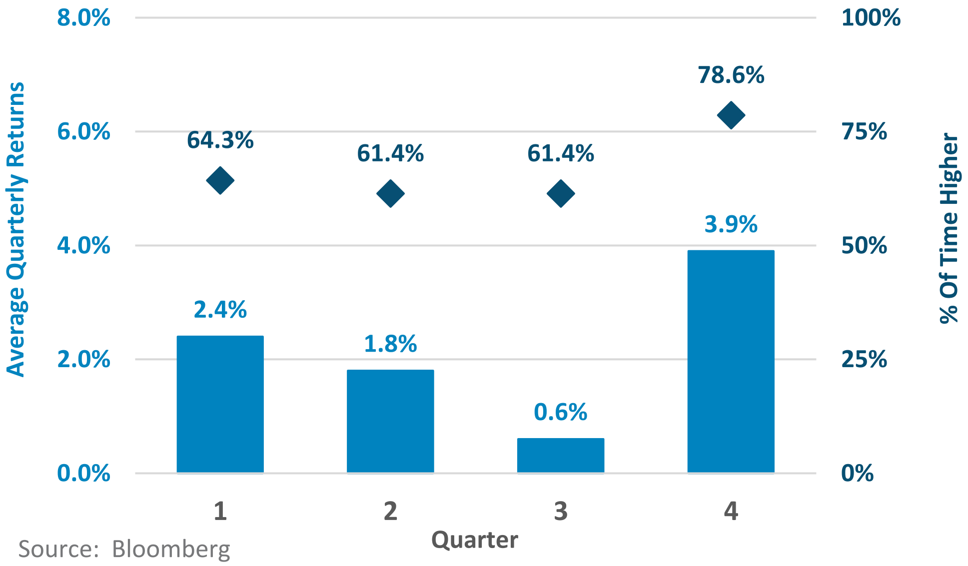


Note: Readings below 50 indicate contraction, above, expansion.
Source: Bloomberg. IHS Markit (Eurozone, U.S.); IHS Markit/CIPS (U.K.); JPau Jibun Bank (Japan)

October tug of war; event risk and uncertainty versus positive seasonality

2020 has not been short of tricks and treats, and as we enter October there are certainly some big macro events that remain on the horizon that could surprise investors. Chief among those is the U.S. election, just weeks away. Historical data shows that October is the worst month of the year when a presidential election is held (as opposed to non-election years when September has historically been the worst month). But the presidential election year cycle contradicts another historical cycle… the tendency for the fourth quarter to be strong after a strong third quarter, which was the case as discussed on the prior page. LPL research shows that historically (since 1950) after the S&P 500 gained more than +7.5% in the third quarter (it was up +8.5% in Q3-2020), the fourth quarter also saw gains in all 11 past instances – with an average +7.3% return. As we show in the chart in the upper right, the fourth quarter has also been the best performing calendar quarter, up +3.9% on average, for data going back to 1950. The fourth quarter has also had the highest probability of being a positive quarter, with a 79% historical success rate. Regarding the issue of the presidential election, the chart below shows that they do, in fact, tend to be lower returning years on average, but are still nicely positive, and still see the majority of their gains in the fourth quarter. Bespoke Investment Group corroborates this seasonal trend with more current history. According to their data for the ten years, as of October 2, the median returns for the next month and three months are +3.5% and 5.8%, some of the strongest 1-and 3-month periods of the calendar year. Given the pullback that virtually all asset classes had in September, many remain well below their 52-week highs and therefore may have room to run up. As of October 2, the S&P 500 was 6.3% below its 9/2 all-time high. Most European countries are more than 20% below their 52-week highs. Hong Kong and Singapore are 20% and 24% below their highs.

The Fourth Quarter is Historically the Best, S&P 500 (1950-2019)



Source: Bloomberg

S&P 500 Average Annual Performance

Indexed to 100, data since 1950

Source: Strategas.

As peculiar and interesting as historical presidential cycles and seasonal cycles may be, it should be noted that they pale in importance to the long-term historical phenomenon of diversification and compounding of returns. Just consider some of the crises and market shocks that are embedded in the seasonal statistics in the charts on this page: the Cuban Missile Crisis, the Kennedy Assassination, the OPEC embargo, the Vietnam War, Black Monday, the Iraqi War, the 9/11 Terrorist Attacks, and the Global Financial Crisis to name a few. Perspective is important.

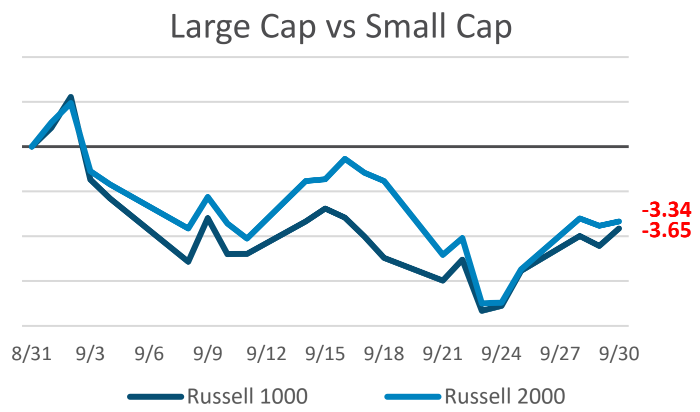
Bottom Line: Event risk looms with the upcoming elections, the threat of a Fall COVID resurgence, and the inability of Congress to pass a stimulus package. On the other hand we are also entering a historically market-friendly period. But these are short-term dynamics. For long-term investors, none of these factors should be a big part of investment or financial planning decision-making.

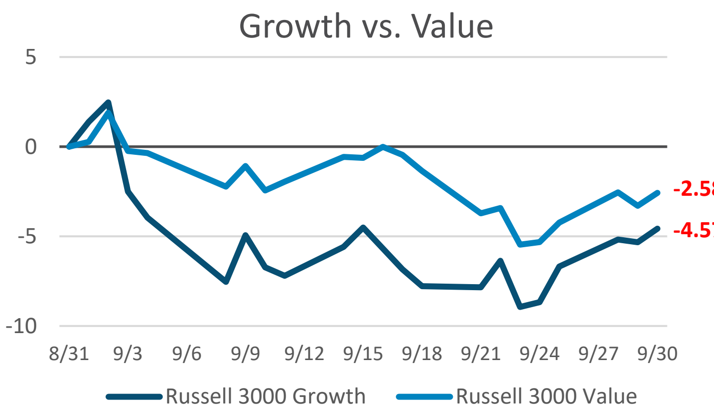
September 2020
Equity Themes

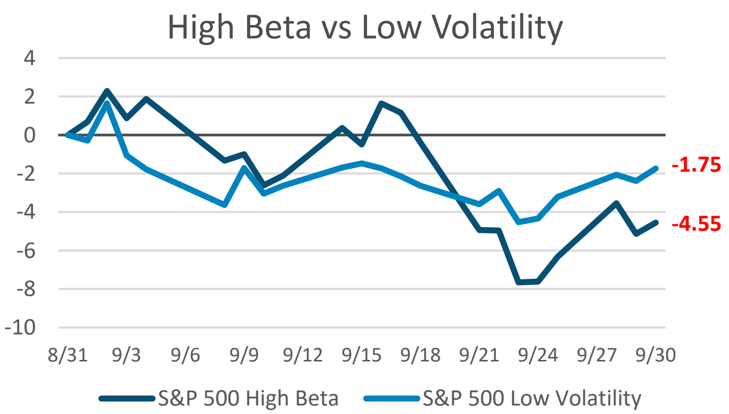
MONTH IN REVIEW

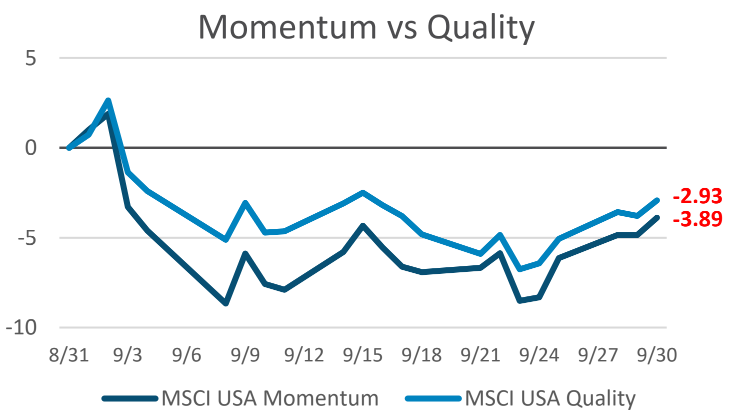
What Worked, What Didn't

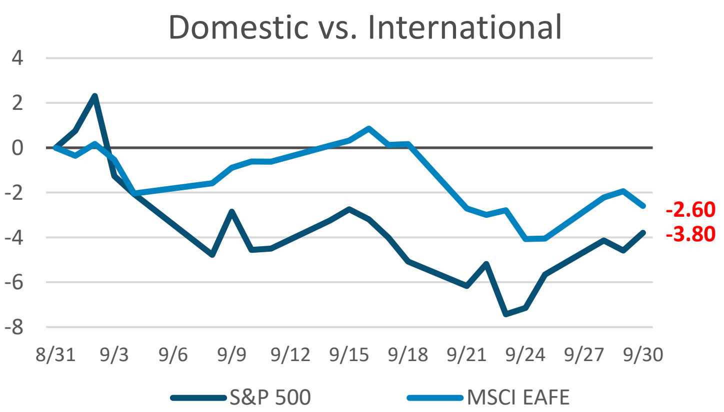
- **Risk off.** Every single equity theme was negative in September without a whole lot of distinction between performance… a clear signal of a broad-based macro sell-off that didn't discriminate much between styles.
- **The least of the losers.** In a broad-based risk off environment **Low Volatility** was the least bad of the U.S. equity styles, dropping -1.8% for the month, while **High Beta** and **Growth** were the worst performers at -4.6%.
- **Emerging Markets**. The MSCI Emerging Markets index fell the least of any of the equity groups in September with a -1.6% decline. Only 7 of the 32 constituent countries were positive in September, led by South Korea, Saudi Arabia, and Taiwan which each gained more than +2%. Four countries had double digit monthly declines.

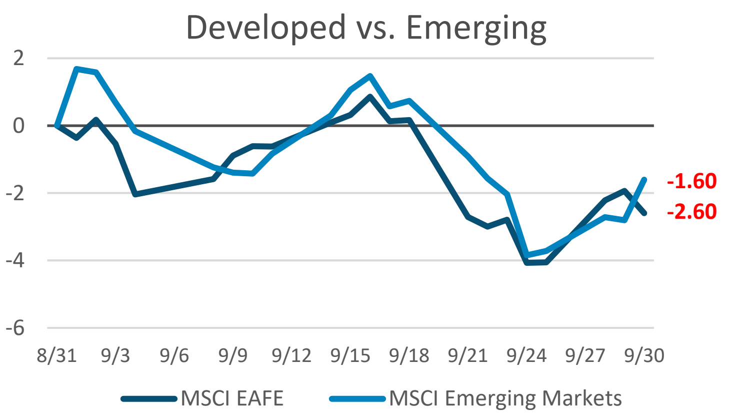












Source: Bloomberg.

September 2020

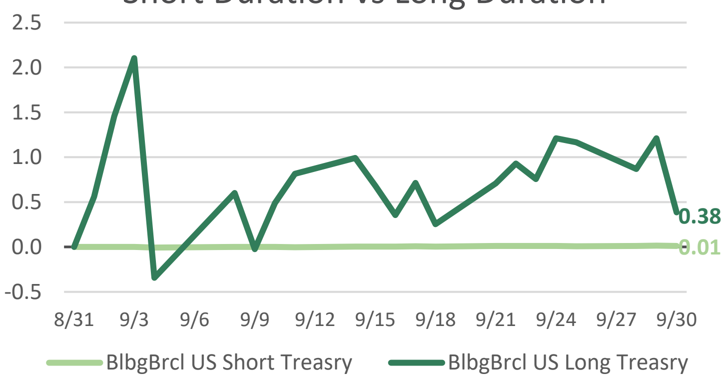
Bond Themes

MONTH IN REVIEW

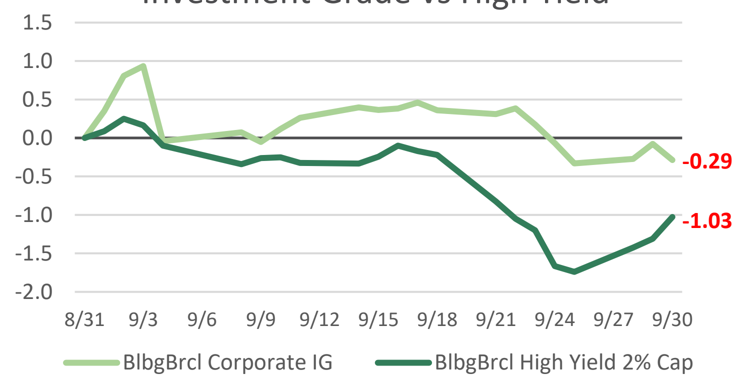
What Worked, What Didn't

- **Not as good as expected.** Normally in a broad risk-off month, bonds tend to perform better. **Leveraged Loans** and **Long US Treasurys** performed best among bonds, but with gains of just +0.63 and +0.38%, respectively.
- **Municipal Bonds** managed a slight gain in September, inching up +0.02%, but it was enough for them to extend their outperformance over taxable bonds for a fifth straight month – the longest streak since April - July 2018.
- **Inflation Protection Bonds** broke a five-month streak of outperformance versus their nominal counterparts. The Fed's new "average inflation targeting regime" means it is unlikely rates will be hiked until at least 2025 according to Bloomberg.

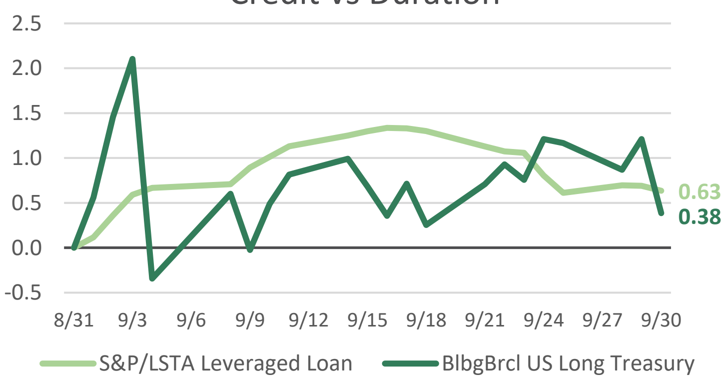
Short Duration vs Long Duration



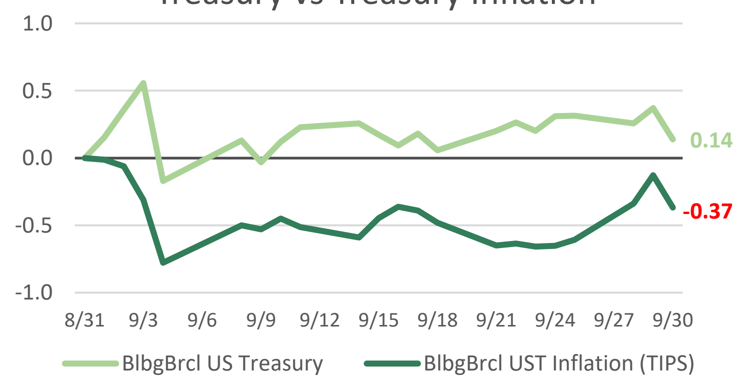
Investment Grade vs High Yield



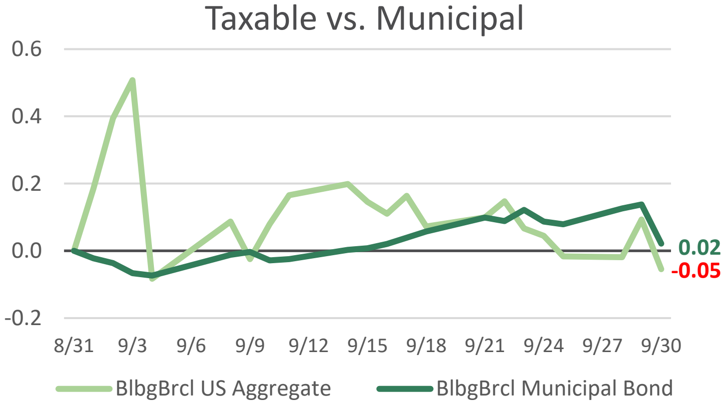
Credit vs Duration



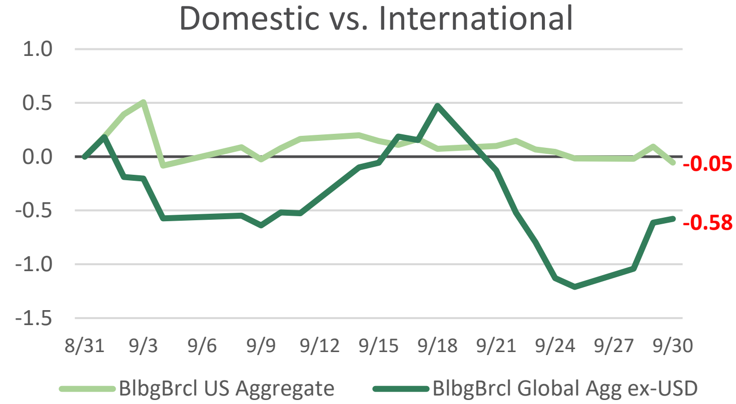
Treasury vs Treasury Inflation



Taxable vs. Municipal



Domestic vs. International



Source: Bloomberg.

September 2020

Asset Class Performance

MONTH IN REVIEW

The Importance of Diversification. From period to period there is no certainty what investment will be the best, or worst, performer. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as less portfolio volatility, improved risk-adjusted returns, and more effective compounding.

	Sep-01	Sep-02	Sep-03	Sep-04	Sep-08	Sep-09	Sep-10	Sep-11	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18	Sep-21	Sep-22	Sep-23	Sep-24	Sep-25	Sep-28	Sep-29	Sep-30	Sep
High	EM 1.71	RE 1.82	USB 0.03	SCV 0.14	USB 0.11	LCG 2.81	USB 0.01	IEQ 1.00	SCG 2.93	RE 1.16	SCV 1.14	IBD 0.42	IBD 0.11	LCG 0.07	LCG 1.60	USB -0.21	RE 0.44	LCG 2.15	SCV 3.14	IBD 0.82	EM 1.61	USB -0.10
	MCG 1.62	MCV 1.71	IBD 0.01	IEQ 0.14	HYB -0.56	SCG 1.98	IBD -0.21	EM 0.97	RE 2.68	LCG 1.11	MCV 0.80	IEQ 0.14	SCG 0.02	MCG 0.04	MCG 1.28	IBD -0.65	LCG 0.34	MCG 2.15	MCV 2.06	SCG 0.11	LCG 0.82	HYB -0.93
	LCG 1.57	LCV 1.60	HYB -0.62	EM 0.05	IBD -0.64	IEQ 1.87	HYB -0.47	LCV 0.56	MCG 2.15	MCG 1.05	SCG 0.78	USB 0.03	USB -0.12	USB 0.02	SCG 1.22	IEQ -0.84	SCV 0.29	RE 2.02	RE 2.00	HYB 0.08	LCV 0.73	EM -1.01
	SCG 1.17	IEQ 1.34	RE -1.24	IBD 0.03	60/40 -1.21	MCG 1.70	60/40 -0.89	MCV 0.50	SCV 2.14	EM 1.05	LCV 0.64	HYB -0.11	HYB -0.25	IBD -0.69	RE 1.17	HYB -1.01	LCV 0.17	SCG 1.86	SCG 1.92	MCG 0.05	MCG 0.58	MCG -1.41
	SCV 1.02	MCG 1.03	60/40 -1.67	MCV -0.13	IEQ -1.22	EM 1.49	SCG -1.16	60/40 0.26	MCV 1.75	IEQ 0.64	RE 0.54	60/40 -0.29	MCG -0.40	HYB -0.81	MCV 0.64	60/40 -1.25	MCV 0.15	MCV 1.32	LCG 1.68	USB 0.02	MCV 0.46	60/40 -1.67
	HYB 0.54	LCG 1.01	SCV -1.79	LCV -0.14	RE -1.25	LCV 1.22	IEQ -1.17	HYB 0.20	LCG 1.66	SCG 0.45	HYB 0.00	EM -0.40	60/40 -0.58	EM -0.92	HYB 0.35	EM -1.55	IBD 0.08	SCV 1.23	MCG 1.67	EM -0.07	HYB 0.41	IBD -1.75
	MCV 0.54	SCV 0.86	EM -1.90	HYB -0.27	SCG -1.47	MCV 1.16	MCG -1.19	USB 0.12	EM 1.62	60/40 0.40	IEQ 0.00	LCV -0.43	SCV -0.65	60/40 -1.14	LCV 0.27	MCG -1.79	HYB 0.06	LCV 1.15	LCV 1.63	IEQ -0.11	RE 0.33	IEQ -2.05
	60/40 0.54	SCG 0.79	MCV -1.98	60/40 -0.43	EM -1.74	60/40 1.07	RE -1.34	IBD -0.07	LCV 1.41	HYB 0.27	60/40 -0.02	MCV -0.51	EM -0.78	LCV -2.29	60/40 0.27	LCV -2.02	60/40 0.02	60/40 0.64	IEQ 1.51	60/40 -0.15	SCV 0.24	SCG -2.06
	LCV 0.32	60/40 0.75	LCV -2.07	RE -0.46	LCV -1.85	RE 0.91	MCV -1.40	SCV -0.42	60/40 0.87	MCV 0.05	USB -0.05	SCV -0.63	IEQ -0.81	SCG -2.42	SCV 0.15	MCV -2.23	USB 0.01	IEQ 0.33	EM 1.12	LCG -0.26	60/40 0.21	MCV -2.28
	USB 0.21	USB 0.20	IEQ -2.26	USB -0.50	MCV -1.98	SCV 0.83	LCV -1.47	LCG -0.45	IEQ 0.54	USB 0.01	IBD -0.11	MCG -0.76	LCV -0.95	IEQ -2.53	USB 0.08	LCG -2.71	IEQ -0.10	EM 0.09	60/40 1.06	RE -0.75	SCG 0.20	RE -2.32
	RE 0.11	HYB 0.12	SCG -4.02	SCG -1.42	MCG -2.23	HYB 0.79	SCV -1.49	RE -0.56	IBD 0.34	IBD 0.00	EM -0.13	SCG -0.86	LCG -1.05	RE -2.79	IEQ -0.03	SCG -2.83	SCG -0.27	USB 0.03	HYB 0.65	LCV -0.77	IBD -0.06	LCV -2.49
	IEQ 0.11	IBD 0.07	MCG -4.59	LCG -1.55	SCV -2.27	USB -0.01	EM -1.61	MCG -0.62	USB 0.01	SCV -0.06	MCG -0.44	LCG -1.31	MCV -1.25	MCV -2.91	IBD -0.73	RE -2.86	MCG -0.34	HYB -0.18	IBD 0.17	MCV -0.87	USB -0.16	LCG -4.64
Low	IBD -0.21	EM -0.26	LCG -4.89	MCG -2.09	LCG -3.71	IBD -0.11	LCG -1.96	SCG -0.76	HYB -0.11	LCV -0.07	LCG -1.26	RE -1.88	RE -2.16	SCV -4.28	EM -0.75	SCV -3.19	EM -0.46	IBD -0.34	USB 0.08	SCV -0.90	IEQ -0.48	SCV -4.68

Legend

- 60/40 Allocation (60/40)
- Large Growth (LCG)
- Large Value (LCV)
- Mid Growth (MCG)
- Mid Value (MCV)
- Small Growth (SCG)
- Small Value (SCV)
- Intl Equity (IEQ)
- Emg Markets (EM)
- U.S. Bonds (USB)
- High Yield Bond (HYB)
- Intl Bonds (IBD)
- Real Estate (RE)

Source: Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees for and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by the Prime Capital Investment Advisors. The performance of those funds may be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx $ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as "Allocation" is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate.

Advisory services offered through Prime Capital Investment Advisors, LLC. ("PCIA"), a Registered Investment Adviser. PCIA doing business as Prime Capital Wealth Management ("PCWM") and Qualified Plan Advisors ("QPA").

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