

A decorative geometric overlay is present on the left side of the image. It features a blue and white hexagonal pattern that resembles a molecular or crystalline structure. A white triangle is positioned to the left of the main title text.

# **PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS**

SEPTEMBER 2020  
Capital Markets Update



# Market commentary

## U.S. ECONOMICS

- Recent figures showed the labor market is still recovering from COVID-19 but not as quickly as in prior months. Non-farm payrolls grew by only 661,000 in September, easing from the 1.4 million additions posted in August. Almost half of added jobs came from the leisure and hospitality sector. The U-3 unemployment rate fell by more than forecast, from 8.4% to 7.9% (exp. 8.2%).
- The trade deficit widened from \$63.6 billion in July to \$67.1 billion in August, which was the highest level since August 2006 and greater in magnitude than the median economist estimate (\$66.1 billion).
- U.S. new home sales rose 4.8% in August to an annualized rate of 1.0 million units—the highest level since September 2006.

## U.S. EQUITIES

- The S&P 500 Index fell -3.8% in September. Equities began the month by hitting a record-high but quickly pulled back as technology companies sold off. The index was unable to find direction as the prospects of congressional approval of a new stimulus package came into question.
- Polling data indicated that Joe Biden extended his lead over President Trump during the month, and the VIX futures curve drifted lower as expectations for a period of elevated volatility following a potentially contested election moderated slightly.
- Heading into Q3 earnings season, over 25% of S&P 500 companies have not provided EPS guidance for 2020 or 2021. Lack of guidance has been largely attributed to the economic uncertainty surrounding the future impact of COVID-19 and could result in more volatile price action following upcoming earnings releases.

## U.S. FIXED INCOME

- In its September meeting, the Federal Reserve formalized its new average inflation targeting approach, which will allow for inflation to run higher than the 2% target for some time. Most members believe that short rates are likely to stay near zero through 2023.
- Core PCE – the Fed’s preferred inflation measure – rose to 1.6% year-over-year, 20 basis points higher than where the figure was a month before. Prices for used cars and trucks rose 5.4%, the most in 51 years, and accounted for 40% of the increase in PCE.
- The ten-year breakeven inflation rate fell from 1.80% to 1.63%, indicating that market participants became moderately less optimistic about the ten-year growth and inflation outlooks.

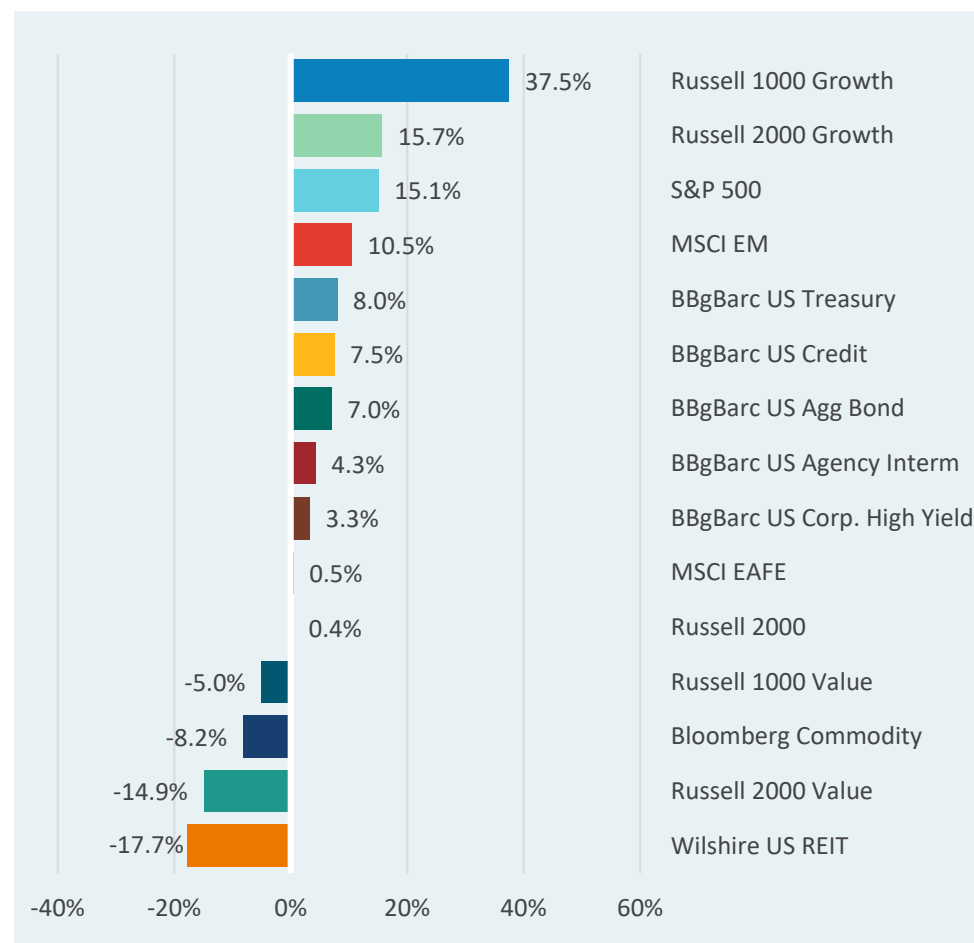
## INTERNATIONAL MARKETS

- In September, the Eurozone Consumer Price Index contracted -0.2% year-over-year. Within the Eurozone’s CPI basket, energy prices dragged the overall index lower, but prices for food, alcohol, and tobacco helped to mute the deflationary pressures.
- The Eurozone seasonally-adjusted unemployment rate rose slightly to 8.1% in August. Europe is recovering faster than expected, given their use of short-time work schemes as opposed to mass layoffs. The schemes work by subsidizing employers to keep employees on payrolls for set periods of time.
- IHS Markit’s Eurozone Services PMI fell to 47.6 from 51.9 placing the index back into contractionary territory. The French Services PMI fell below 50.0 for the first time in four months. In Germany, the pace of services sector expansion slowed for the second consecutive month but remained positive.

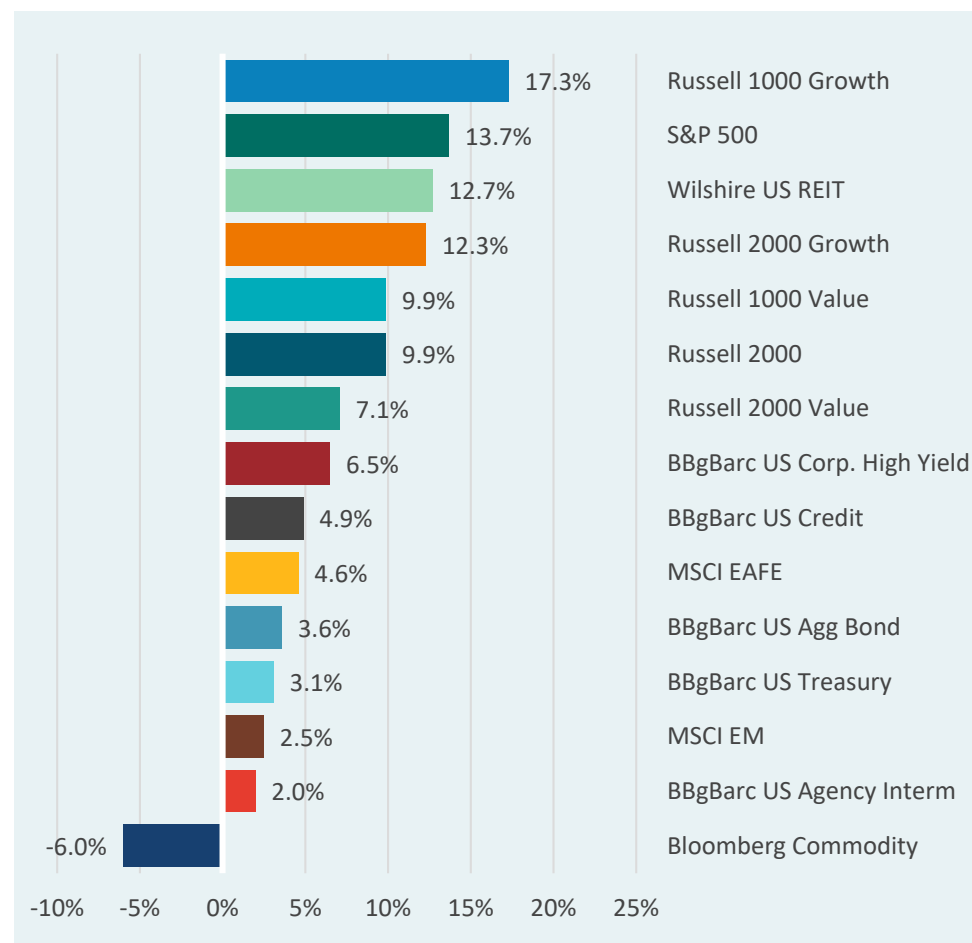


# Major asset class returns

ONE YEAR ENDING SEPTEMBER



TEN YEARS ENDING SEPTEMBER



\*Only publicly traded asset performance is shown here. Performance of private assets is typically released with a 3- to 6-month delay.

Source: Morningstar, as of 9/30/20

Source: Morningstar, as of 9/30/20



# U.S. large cap equities

- The S&P 500 Index fell -3.8% in September as the index pulled back from its rally through July and August. The price index hit an intra-month low of 3237 on September 23<sup>rd</sup> but by the end of the month had recovered to 3363, just 6.1% from its prior peak.
- Industrial-sector stocks are expected to report a -61.0% year-over-year decline in earnings in Q3. Airlines—one of the largest components of the sector—are expected to see earnings contract into deeply negative territory. Lawmakers in Washington are considering building explicit support for airlines into the next stimulus package, should one be passed.
- Nine of the eleven major sectors delivered negative returns in the month of September. The energy sector (-14.5%) led the decline of the overall index, while utilities (+1.3%) and materials (+1.1%) were the only positive contributors.
- The CBOE VIX Index of implied volatility surged 7.2 points in the first couple of days of September. The level of the index subsequently receded, and closed the month at 26.4. The implied volatility index remained elevated above historical averages, but well below levels reached during the equity market sell-off back in February and March of this year.

**S&P 500 PRICE INDEX**



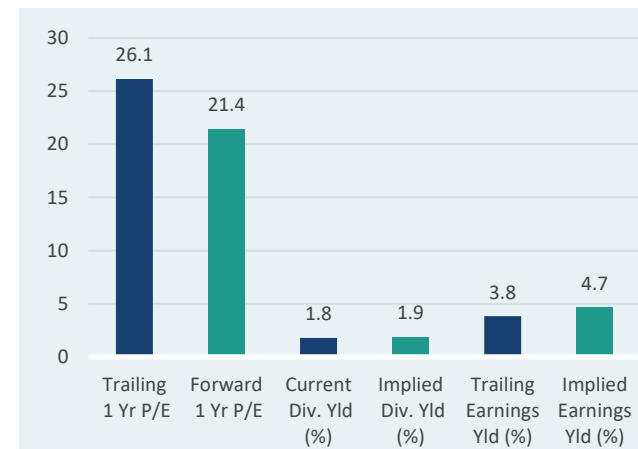
Source: Bloomberg, as of 9/30/20

**IMPLIED VOLATILITY (VIX INDEX)**



Source: CBOE, as of 9/30/20

**S&P 500 VALUATION SNAPSHOT**



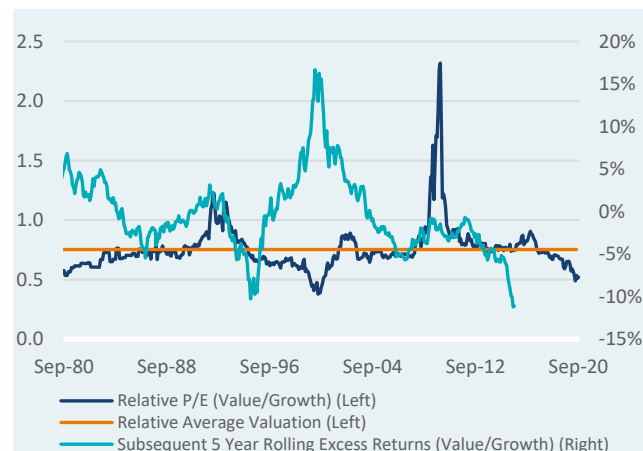
Source: Bloomberg, as of 9/30/20



# Domestic equity size and style

- Though both indices declined over the month, the Russell 3000 Value Index (-2.6%) outperformed the Russell 3000 Growth Index (-4.6%). Until this September, the Russell 3000 Value Index had underperformed every month since June 2019.
- The MSCI USA Cyclical minus Defensives Total Return Spread Index fell -1.6% in September, although the measure is up 23.4% since its March lows. The outperformance of defensive stocks was likely aided by strong returns in utilities and losses in information technology companies.
- Small-cap equities (Russell 2000 Index -3.3%) outperformed large-cap equities (Russell 1000 Index -3.7%) in September. The smaller exposure of the small-cap index to the poorly-performing companies in the information technology sector contributed to the outperformance of the Russell 2000 Index.
- The Russell 1000 Growth Index underperformed the Russell 1000 Value Index by -2.2%, but has outperformed by a staggering +43.5% over the past 12 months.

**VALUE VS. GROWTH RELATIVE VALUATIONS**



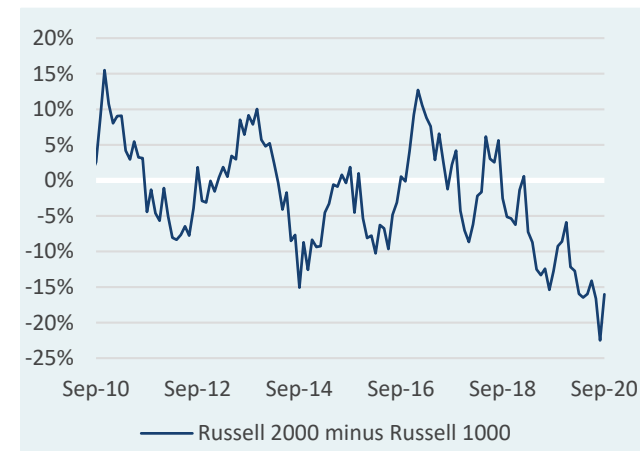
Source: Russell, Bloomberg, as of 9/30/20

**VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE**



Source: FTSE, Bloomberg, as of 9/30/20

**SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE**



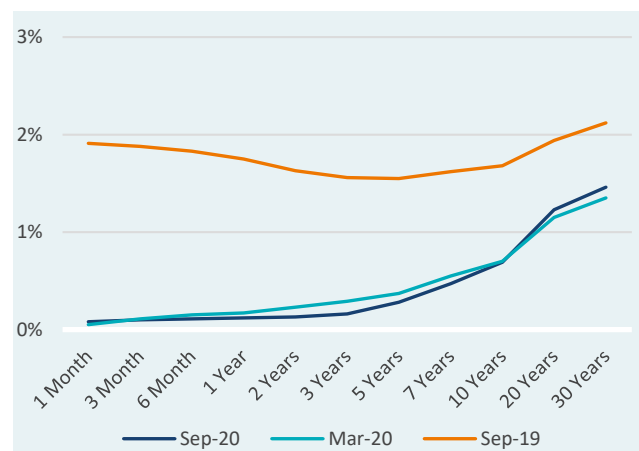
Source: FTSE, Bloomberg, as of 9/30/20



# Fixed income

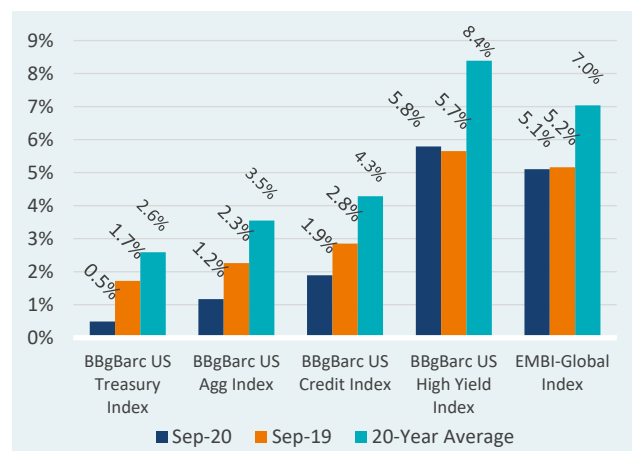
- The European Union M3 money supply grew 9.5% year-over-year in August, but the rate of growth slowed for the first time this year. The European Central Bank relaxed banking required leverage ratios in September, allowing for more loans and money supplied to economies.
- The pound declined -3.4% relative to the U.S. dollar as the Bank of England reportedly discussed the potential implementation of a negative interest rate policy at some point in the future. Markets are pricing in negative interest rates in the U.K. by mid-2021.
- The Chinese yuan rallied to its strongest point in a year (6.73 ¥/\$) following the release of better-than-expected economic data and messaging from the People's Bank of China that its priority moving forward will be more related to managing financial excesses and less focused on providing aggressive monetary accommodation.
- The ten-year breakeven inflation rate – a measure of priced inflation expectations – fell from 1.8% to 1.6% over the month. The failure of Congress to deliver a new fiscal package by month-end likely weighed on market participants' views on the inflation outlook.

**U.S. TREASURY YIELD CURVE**



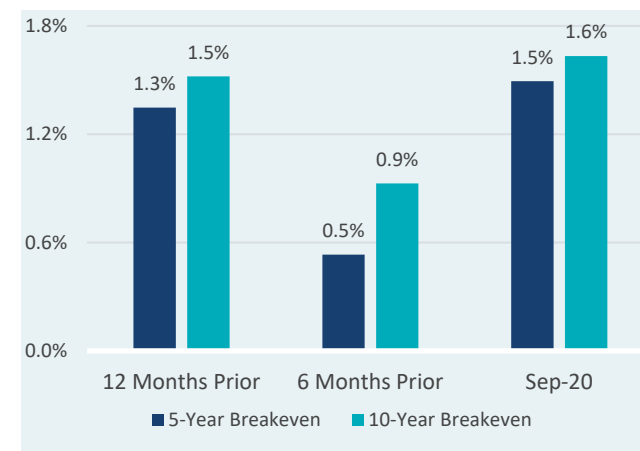
Source: Bloomberg, as of 9/30/20

**NOMINAL YIELDS**



Source: Morningstar, as of 9/30/20

**BREAKEVEN INFLATION RATES**



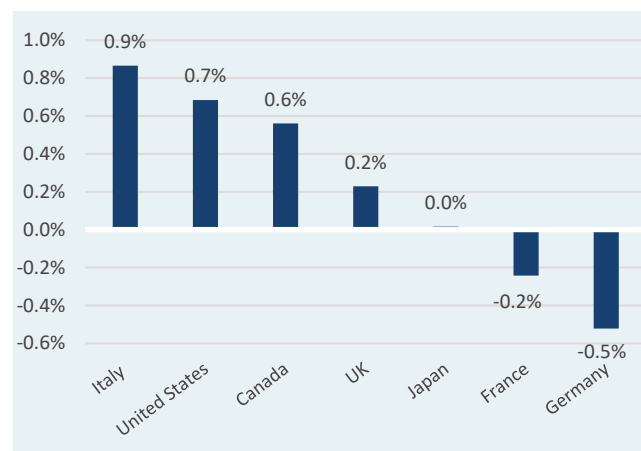
Source: Bloomberg, as of 9/30/20



# Global markets

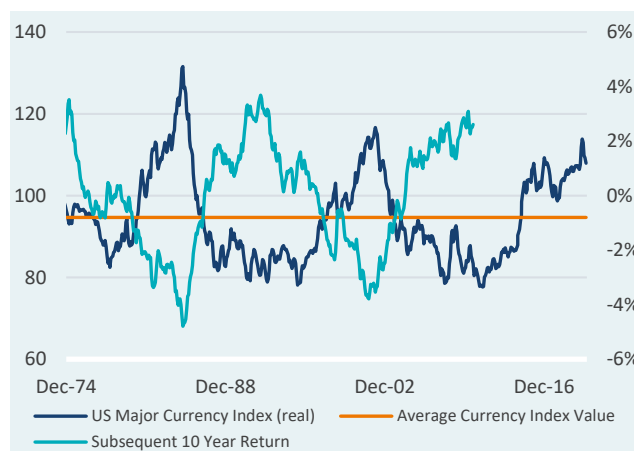
- Emerging market equities (MSCI EM Index -1.6%) outperformed international developed (MSCI EAFE -2.6%) and U.S. (S&P 500 Index -3.8%) equities over the month in U.S. dollar terms. The Bloomberg Dollar Spot Index returned 1.4%, indicating that the stabilization of the dollar dampened U.S. equity underperformance.
- The French Prime Minister announced a two-year, €100 billion (\$118 billion) plan to help stimulate the economy. The jobs program focuses on green technologies and health care, and equates to 4% of France's total GDP, which will bring the total amount of stimulus provided to about 10% of French GDP.
- U.K. equities slid (MSCI UK -5.0%) as negotiations with the European Union over the terms of the Withdrawal Agreement failed to yield a compromise. Prime Minister Boris Johnson set an October 15<sup>th</sup> deadline for securing an agreement on trade, and the distribution of fishing rights outside of U.K. and E.U. waters continues to be a major sticking point in the talks.
- Within the international developed equity space, Japanese equities (MSCI Japan +1.0%) materially outperformed European equities (MSCI Euro -3.8%). The yen (+0.5%) attracted haven bids as equities sold off and boosted Japan's outperformance in USD terms.

**GLOBAL SOVEREIGN 10-YEAR YIELDS**



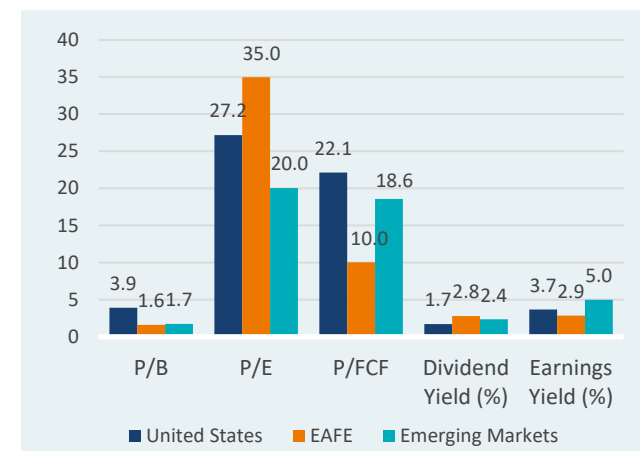
Source: Bloomberg, as of 9/30/20

**U.S. DOLLAR MAJOR CURRENCY INDEX**



Source: Federal Reserve, as of 9/30/20

**MSCI VALUATION METRICS (3-MONTH AVG)**



Source: Bloomberg, as of 9/30/20



# Commodities

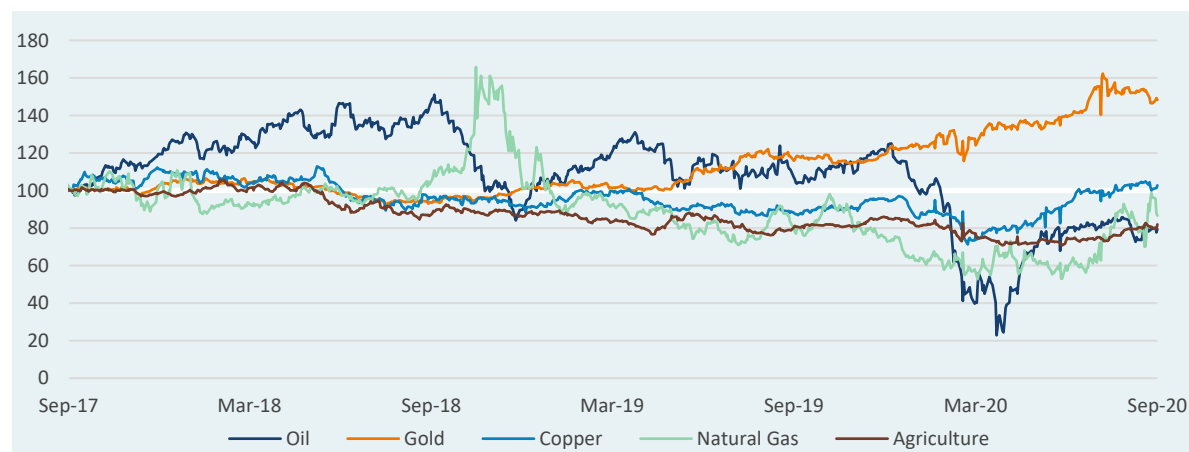
- The Bloomberg Commodity Index closed the month down -3.4% and was driven lower by the poor performance of the energy (-9.6%) and precious metals (-7.7%) sectors. Only the livestock (+7.4%) and agriculture (+3.4%) sectors managed to deliver positive returns in September.
- The energy sector (-9.6%) struggled over the month as oil prices faded. In Q3 2020, the average price of oil was \$40.92, about 27% lower than the average price in Q3 2019 of \$56.44. Saudi Aramco was pressured to cut its oil prices, illuminating weaker demand for oil exacerbated by far less air traffic.
- Precious metals (-7.7%) sold off as real interest rates stabilized, and the Federal Reserve reiterated that it had no intention of moving nominal short rates into negative territory. Spot silver prices fell -15.8% in September, and spot gold prices slumped -3.8% to end the month at \$1886 per ounce.
- The Bloomberg Livestock Index (+7.4%) advanced on the back of lean hog and cattle futures contracts, which climbed +14.5% and +3.1% respectively. Grains, which represent roughly 22% of the overall index, returned +6.3%, supported by the strong performance of soybeans (+7.3%) and corn (+5.9%).

## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(3.4)	9.1	(12.1)	(8.2)	(4.2)	(3.1)	(6.0)
Bloomberg Agriculture	3.4	11.9	(4.0)	2.8	(5.1)	(5.0)	(5.3)
Bloomberg Energy	(9.6)	4.3	(44.0)	(40.7)	(15.9)	(14.0)	(15.0)
Bloomberg Grains	6.3	12.3	(2.3)	1.2	(4.6)	(6.8)	(5.5)
Bloomberg Industrial Metals	(2.8)	11.2	1.8	1.6	(1.0)	4.5	(3.7)
Bloomberg Livestock	7.4	13.8	(25.2)	(25.1)	(10.6)	(7.7)	(5.3)
Bloomberg Petroleum	(6.8)	(0.9)	(50.3)	(43.6)	(14.5)	(11.9)	(11.7)
Bloomberg Precious Metals	(7.7)	7.8	22.6	27.2	11.8	9.6	2.2
Bloomberg Softs	(4.9)	7.7	(9.9)	2.6	(8.4)	(4.8)	(8.0)

Source: Morningstar, as of 9/30/20

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 9/30/20



# Appendix



# Periodic table of returns

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD	5-Year	10-Year
Large Cap Growth	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	6.7	36.4	24.3	20.1	17.3
US Bonds	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	30.2	1.9	31.4	6.8	14.1	13.8
Large Cap Equity	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	25.0	0.0	28.5	6.4	11.4	12.3
Small Cap Growth	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	22.2	-1.5	26.5	3.9	9.0	9.9
60/40 Global Portfolio	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	21.7	-3.5	25.5	3.6	8.0	9.9
Hedge Funds of Funds	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	14.6	-6.0	22.4	2.5	8.0	9.3
Cash	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	17.1	-4.8	22.0	0.4	7.7	7.1
Real Estate	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	13.7	-8.3	18.6	-0.3	6.1	6.2
Emerging Markets Equity	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	7.8	-9.3	18.4	-1.2	5.3	4.6
International Equity	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	7.7	-11.0	8.7	-7.1	4.2	3.6
Small Cap Equity	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	7.0	-11.2	7.8	-8.7	4.1	2.9
Large Cap Value	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	3.5	-12.9	7.7	-11.6	3.1	2.5
Commodities	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	1.7	-13.8	6.4	-12.1	1.1	0.6
Small Cap Value	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	0.9	-14.6	2.1	-21.5	-3.1	-6.0

Large Cap Equity

Large Cap Value

Large Cap Growth

Small Cap Equity

Small Cap Value

Small Cap Growth

International Equity

Emerging Markets Equity

US Bonds

Cash

Commodities

Real Estate

Hedge Funds of Funds

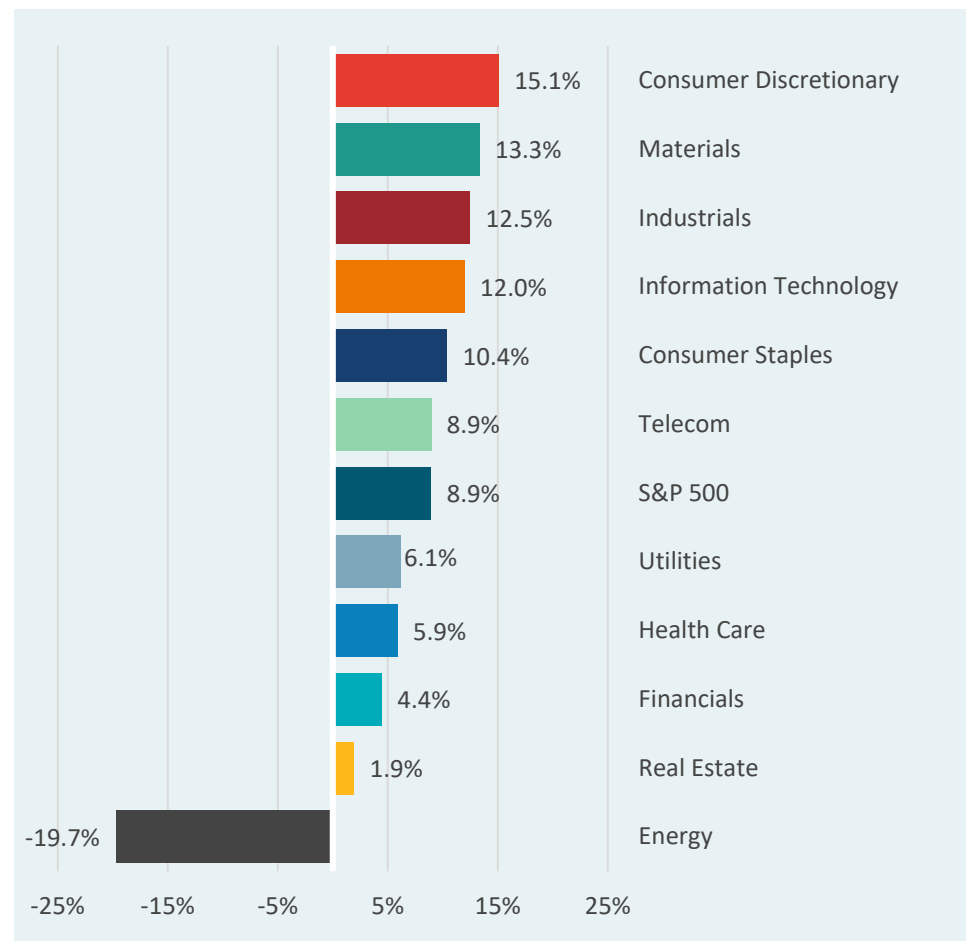
60% MSCI ACWI/40% BBgBarc Global Bond

Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 6/30/20.



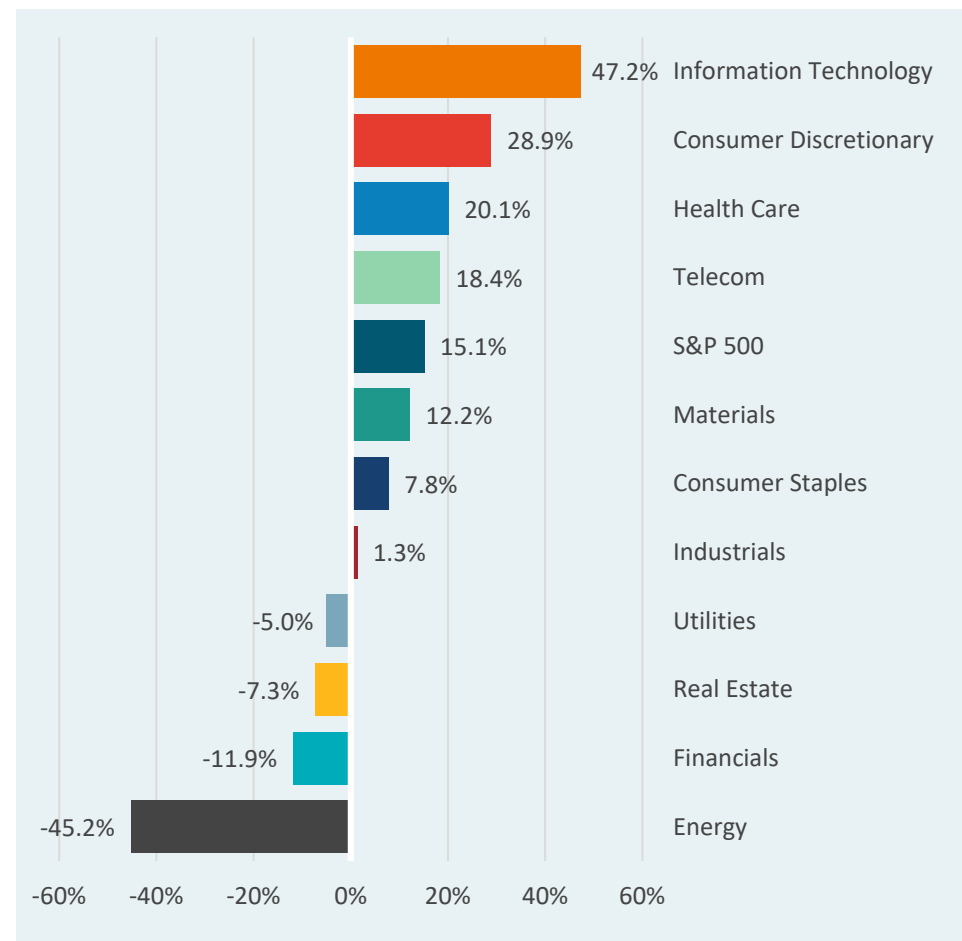
# S&P 500 sector returns

Q3 2020



Source: Morningstar, as of 9/30/20

ONE YEAR ENDING SEPTEMBER



Source: Morningstar, as of 9/30/20



# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	(3.8)	8.9	5.6	15.1	12.3	14.1	13.7
S&P 500 Equal Weighted	(2.5)	6.7	(4.7)	2.5	6.5	10.3	12.0
DJ Industrial Average	(2.2)	8.2	(0.9)	5.7	10.0	14.0	12.7
Russell Top 200	(4.2)	10.2	9.6	20.3	14.3	15.6	14.5
Russell 1000	(3.7)	9.5	6.4	16.0	12.4	14.1	13.8
Russell 2000	(3.3)	4.9	(8.7)	0.4	1.8	8.0	9.9
Russell 3000	(3.6)	9.2	5.4	15.0	11.6	13.7	13.5
Russell Mid Cap	(1.9)	7.5	(2.3)	4.6	7.1	10.1	11.8
<b>Style Index</b>							
Russell 1000 Growth	(4.7)	13.2	24.3	37.5	21.7	20.1	17.3
Russell 1000 Value	(2.5)	5.6	(11.6)	(5.0)	2.6	7.7	9.9
Russell 2000 Growth	(2.1)	7.2	3.9	15.7	8.2	11.4	12.3
Russell 2000 Value	(4.7)	2.6	(21.5)	(14.9)	(5.1)	4.1	7.1

## INTERNATIONAL EQUITY

<b>Broad Index</b>							
MSCI ACWI	(3.2)	8.1	1.4	10.4	7.1	10.3	8.5
MSCI ACWI ex US	(2.5)	6.3	(5.4)	3.0	1.2	6.2	4.0
MSCI EAFE	(2.6)	4.8	(7.1)	0.5	0.6	5.3	4.6
MSCI EM	(1.6)	9.6	(1.2)	10.5	2.4	9.0	2.5
MSCI EAFE Small Cap	(0.7)	10.3	(4.2)	6.8	1.4	7.4	7.3
<b>Style Index</b>							
MSCI EAFE Growth	(0.7)	8.4	4.6	13.4	7.1	9.2	7.0
MSCI EAFE Value	(4.6)	1.2	(18.3)	(11.9)	(5.9)	1.1	2.1
<b>Regional Index</b>							
MSCI UK	(5.0)	(0.2)	(23.4)	(15.8)	(5.6)	(0.4)	2.0
MSCI Japan	1.0	6.9	(0.7)	6.9	3.9	7.5	6.2
MSCI Euro	(3.8)	4.2	(9.1)	(1.9)	(2.1)	4.4	3.5
MSCI EM Asia	(1.1)	11.9	8.0	21.5	5.7	11.3	5.5
MSCI EM Latin American	(5.1)	(1.3)	(36.1)	(29.4)	(11.8)	2.1	(5.7)

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
BBgBarc US TIPS	(0.4)	3.0	9.2	10.1	5.8	4.6	3.6
BBgBarc US Treasury Bills	0.0	0.0	0.7	1.2	1.7	1.2	0.7
BBgBarc US Agg Bond	(0.1)	0.6	6.8	7.0	5.2	4.2	3.6
<b>Duration</b>							
BBgBarc US Treasury 1-3 Yr	0.0	0.1	3.1	3.6	2.7	1.8	1.3
BBgBarc US Treasury Long	0.4	0.1	21.3	16.3	11.9	8.2	7.2
BBgBarc US Treasury	0.1	0.2	8.9	8.0	5.5	3.7	3.1
<b>Issuer</b>							
BBgBarc US MBS	(0.1)	0.1	3.6	4.4	3.7	3.0	3.0
BBgBarc US Corp. High Yield	(1.0)	4.6	0.6	3.3	4.2	6.8	6.5
BBgBarc US Agency Interm	0.1	0.3	4.0	4.3	3.3	2.4	2.0
BBgBarc US Credit	(0.3)	1.5	6.4	7.5	6.2	5.7	4.9

## OTHER

<b>Index</b>							
Bloomberg Commodity	(3.4)	9.1	(12.1)	(8.2)	(4.2)	(3.1)	(6.0)
Wilshire US REIT	(3.4)	1.3	(16.7)	(17.7)	0.4	5.7	12.7
CS Leveraged Loans	0.7	4.1	(0.8)	0.8	3.2	4.6	5.0
Alerian MLP	(13.6)	(16.3)	(48.3)	(50.7)	(21.9)	(12.4)	(4.0)
<b>Regional Index</b>							
JPM EMBI Global Div	(1.9)	2.3	(0.5)	1.3	3.5	6.1	5.4
JPM GBI-EM Global Div	(2.0)	0.6	(6.3)	(1.4)	0.2	4.8	0.5
<b>Hedge Funds</b>							
HFRI Composite	(1.2)	4.1	0.5	4.0	2.7	4.0	3.6
HFRI FOF Composite	(0.4)	4.2	2.5	5.6	2.9	3.1	2.9
<b>Currency (Spot)</b>							
Euro	(1.9)	4.4	4.5	7.6	(0.3)	1.0	(1.5)
Pound	(3.4)	4.6	(2.4)	4.9	(1.2)	(3.1)	(2.0)
Yen	0.5	2.2	3.0	2.4	2.2	2.6	(2.3)

Source: Morningstar, HFR, as of 9/30/20



# Detailed private market returns

## Comparison to public market index returns

Private Equity Pooled IRRs	1 Year	3 Year	5 Year	10 Year
Global Private Equity FoFs & Secondary Funds	4.9	10.8	9.3	11.6
Global Private Equity Direct Funds *	3.6	12.2	11.4	13.5
U.S. Private Equity Direct Funds *	4.7	12.7	11.5	14.7
Europe Private Equity Direct Funds *	3.6	14.9	14.8	12.1
Asia Private Equity Direct Funds *	2.3	9.7	9.5	12.0

### Public Index Time-weighted Returns

MSCI World	(10.4)	1.9	3.2	6.6
S&P 500	(7.0)	5.1	6.7	10.5
MSCI Europe	(15.5)	(2.3)	(1.3)	2.5
MSCI AC Asia Pacific	(12.1)	0.1	1.1	3.4

Private Real Estate Pooled IRRs	1 Year	3 Year	5 Year	10 Year
U.S. All Private Real Estate	0.1	6.7	8.6	12.6

### Public Index Time-weighted Returns

FTSE NAREIT Equity REIT	(21.3)	(3.1)	(0.3)	7.4
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Private Credit Pooled IRRs	1 Year	3 Year	5 Year	10 Year
U.S. All Private Debt **	(5.9)	4.0	5.5	9.4

### Public Index Time-weighted Returns

S&P / LSTA U.S. Leveraged Loan 100 Index	(5.1)	0.5	1.6	3.2
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Private Real Assets Pooled IRRs	1 Year	3 Year	5 Year	10 Year
Global Nature Resources ***	(28.3)	(8.7)	(5.2)	(0.1)
Global Infrastructure	2.4	8.7	10.6	9.3

### Public Index Time-weighted Returns

S&P Global Natural Resources	(30.0)	(6.4)	(2.7)	(2.2)
S&P Global Infrastructure	(21.1)	(3.2)	(0.4)	4.2

Source: Pooled IRRs are from Thompson Reuters C/A and Time-weighted Returns are from Investment Metrics, as of March 31<sup>st</sup>, 2020. All returns in U.S. dollars.

\* Includes Buyout, Growth Equity and Venture Capital.

\*\* Includes Control-Oriented Distressed, Credit Opportunities, Senior Debt and Subordinated Capital.

\*\*\* Includes Private Equity Energy, Timber and Upstream Energy & Royalties.



# Notices & disclosures

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