Investment Advisors, Inc.
Integrity • Independence • Insight

3rd Quarter, 2020

# Markets At A Glance

| Period | S&P 500 | DJIA | INT'L (EAFE) | Emerging Markets | Barclays Intermediate Govt/Credit | Barclays 1-15 Yr Muni | INFLATION (CPI) |
|---|---|---|---|---|---|---|---|
| **3rd Quarter** | 8.9% | 8.2% | 4.8% | 9.6% | 0.6% | 1.1% | 1.6% |
| **12 Months** | 15.2% | 5.7% | 0.5% | 10.5% | 6.3% | 4.2% | 1.3% |

Equity markets continued to rally this quarter, with the S&P 500 setting a new record high in early September. After the strong start, stocks gave up some of the gains as fading prospects for a new stimulus package, election uncertainty, concerns over the pace of the economic recovery and a new surge in coronavirus cases in Europe drove investors to take profits. Looking at broad index results for the quarter and last twelve months, there is no visible impact of the sudden, sharp recession and dramatic first quarter sell-off. However, there has been an extremely wide dispersion in returns across different industries, company size and countries. For example, the S&P 500 is up 6% for the first nine months of 2020 while the S&P small cap index has declined 15%. Interest rates remain very stable as the 10-year U.S. Treasury note ended September at 0.7%, roughly the same level as the end of March and June.

Economic data releases are increasingly mixed as the recovery becomes choppier following the quick bounce back driven by the initial reopening of the economy. Failure to pass another stimulus package would have a negative impact on consumer spending. The outlook for corporate earnings is mixed with good news primarily focused on technology and healthcare while sectors directly impacted by the pandemic will continue to struggle. The combination of low interest rates and modest inflation should provide a tailwind for the gradual economic recovery.

Yields on investment grade bonds of all maturities have plummeted to unprecedented levels. The Federal Reserve has announced its intention to keep short-term rates close to zero for at least the next several years. Bonds continue to play an important role in providing stability for portfolios but will provide less income going forward. If the extremely low rate environment persists, we will have to assess the outlook for bond markets and determine whether we should consider adjusting our long-time strategy. The challenge will be finding the appropriate balance of risk and reward.

While politics will dominate the news in the fourth quarter, we are looking past the election into 2021 and beyond. Markets will ultimately focus on fundamentals over politics. Our view that equity markets are pricing in a very optimistic recovery scenario has not changed. Development of an approved vaccine is critical for the economy to stay on track for a full recovery to previous levels.