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3Q 2020 MARKET UPDATE

F·E·G®
investment advisors

THIRD QUARTER 2020 MARKET SUMMARY

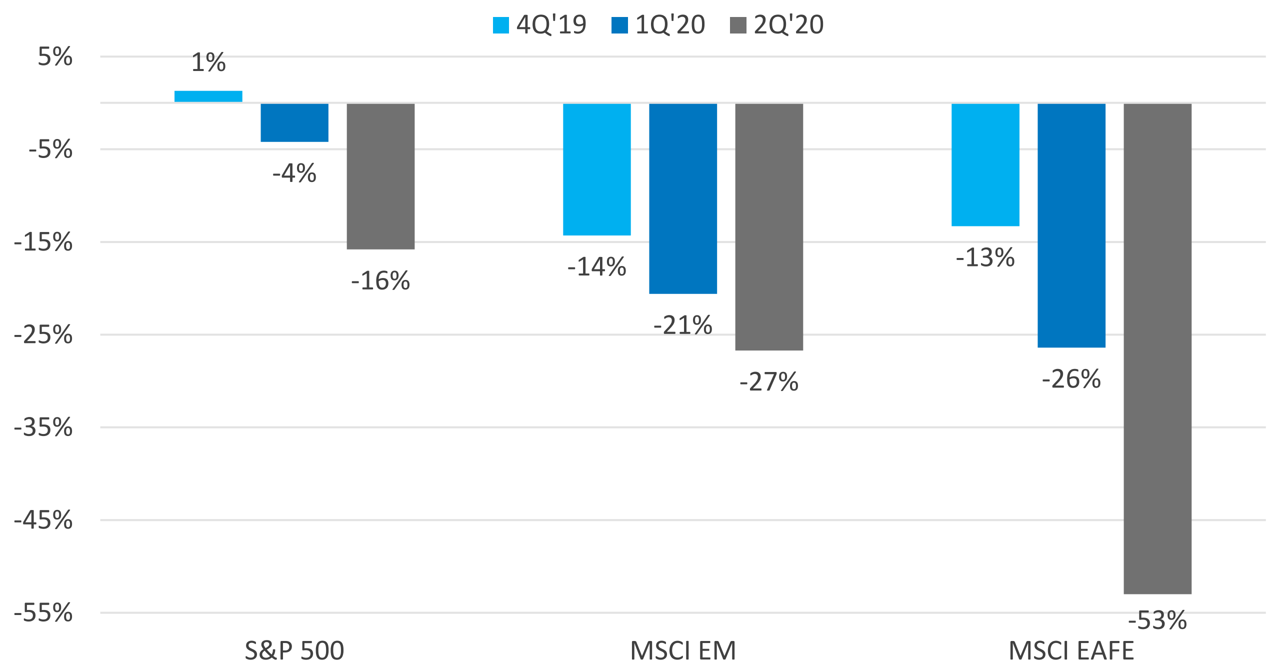
The eruption of risk-on tailwinds that started in late March prevailed during the third quarter, propelling risky asset prices higher, as investors braced for the looming November U.S. presidential election. Incoming U.S. economic data continued to surprise to the upside, sending economic surprise aggregates to their highest levels since early-2018, albeit with many measures continuing to reflect the challenging economic backdrop.

Global equity returns were generally positive, as U.S. large cap growth equities maintained their impressive performance streak. U.S. equities outpaced developed international markets but underperformed the emerging market region, due in part to the decline in the U.S. dollar (USD). Despite the bullish sentiment, core bond returns were modestly positive, although they trailed the more risk-oriented sectors: investment-grade corporates, high yield, and bank loans. In real assets, performance for the quarter was mixed, despite an increase in inflationary sentiment and weakness in the USD. REIT returns were essentially neutral, commodities returns were positive, and energy infrastructure performance was negative.

- The decline in equity earnings has been global, but the declines vary across markets with the U.S. proving to be the most resilient and emerging markets declining less than some may have expected. Developed international markets have faced more sizeable declines in earnings.
- The less substantial earnings declines witnessed in the U.S. and emerging markets amid the COVID-19 pandemic helps to explain why the U.S. equity market and emerging markets have witnessed stronger performance rallies.

THE DECLINE IN EARNINGS HAS BEEN MOST SUBSTANTIAL IN DEVELOPED INTERNATIONAL MARKETS

Trailing 12-month YoY Earnings Growth of the S&P 500, MSCI EAFE, and MSCI Indices

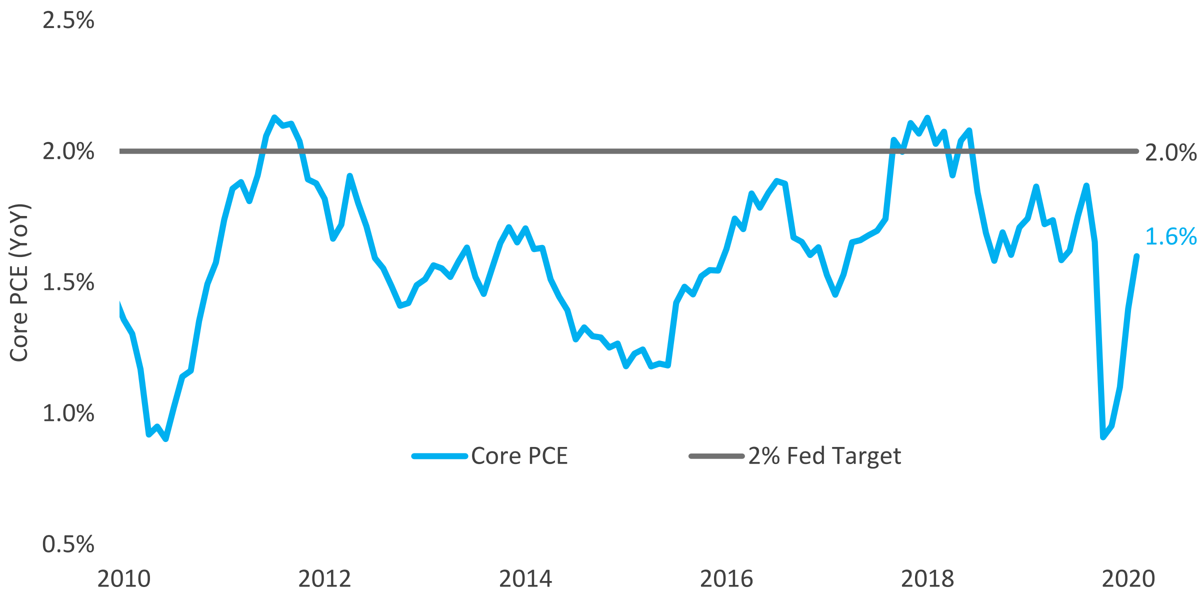


Data sources: Standard & Poor's, MSCI, and Strategas

- At the Federal Reserve's (Fed) virtual annual Jackson Hole Symposium in late August, Chairman Powell announced changes to the Fed's management of their inflation mandate. This represents a potentially material change to their adjustment of policy rates during periods of significant trend deviations from the Fed's 2% inflation target.
- In essence, the Fed has increased their flexibility around the management of short-term policy rates if/when annual inflation rates finally rise above the stated 2% target. In the future, the Fed is likely to allow inflation to run "hotter" than the targeted 2%, before adjusting policy rates higher to regain lost ground on their inflation mandate following the disinflationary forces due to COVID-19.

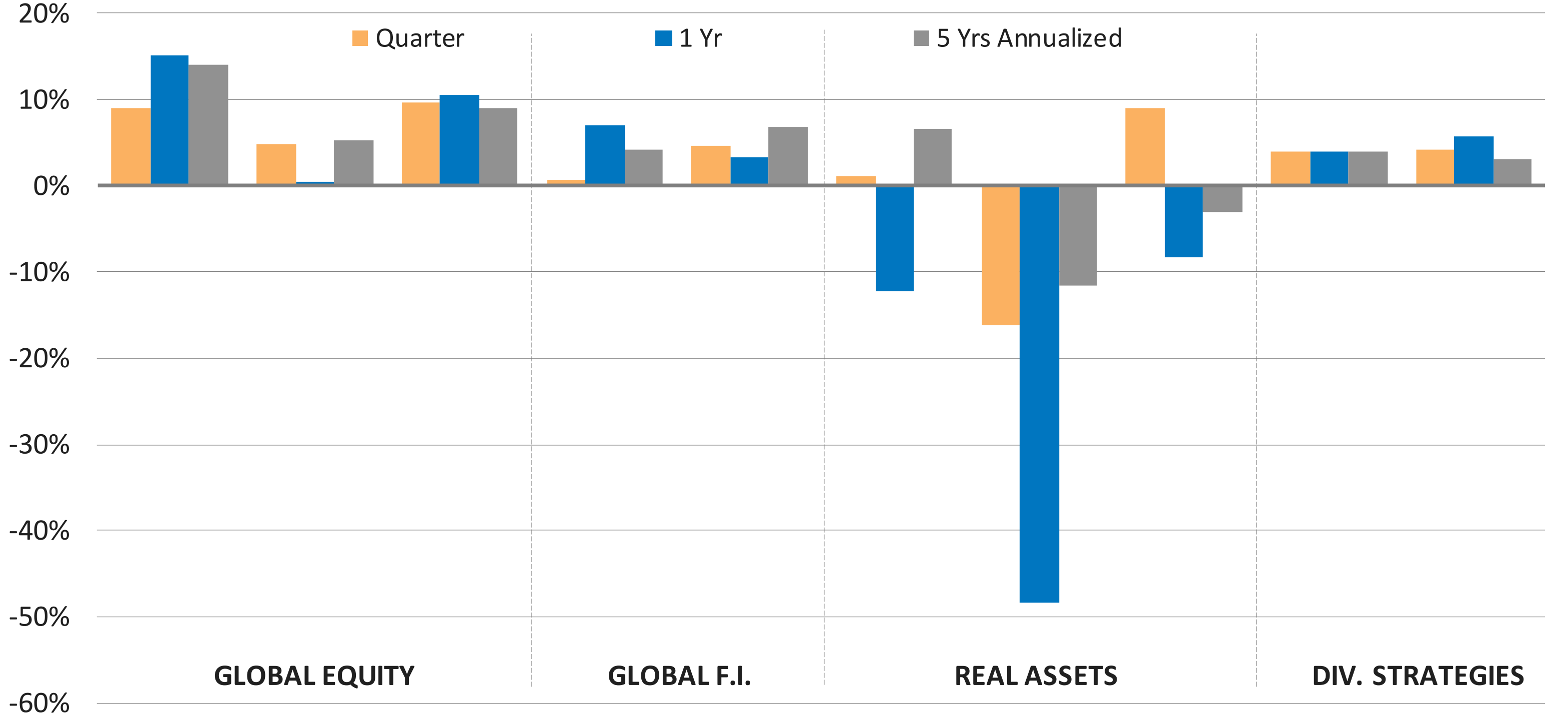
U.S. INFLATION HAS BEEN BELOW THE FED'S TARGET OVER THE LAST DECADE

U.S. Core Personal Consumption Expenditure, YoY Change (%)



Data sources: BEA, Bloomberg, L.P.; Data as of August 2020

MAJOR ASSET CLASS RETURNS

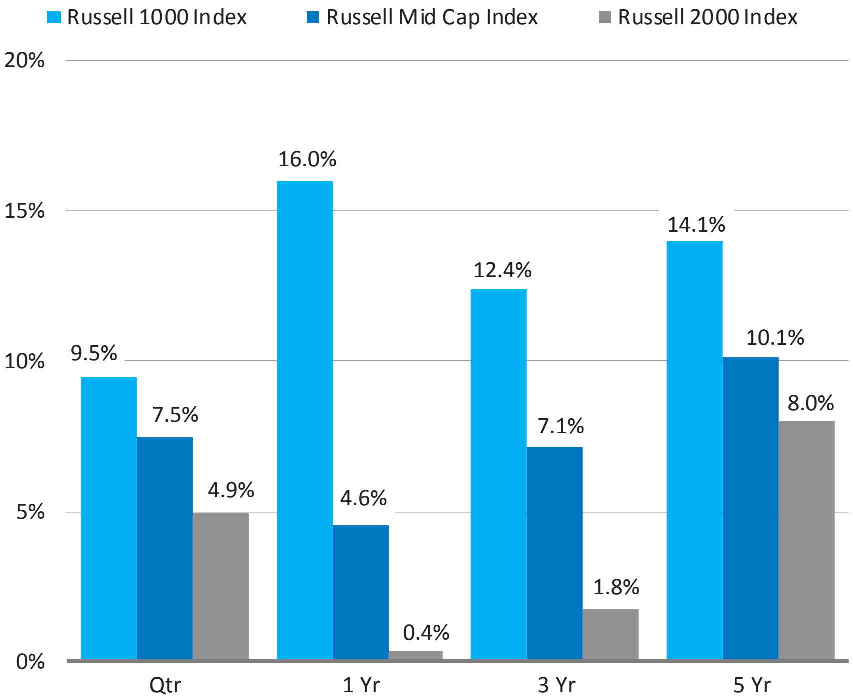


	S&P 500 Index	MSCI EAFE Index	MSCI Emerging Mkts Index	Blmbrg Barclays U.S. Agg Index	Blmbrg Barclays HY Index	FTSE NAREIT All Equity Index	Alerian MLP Index	Blmbrg Cmdty Index	HFRI Fund Wtd Comp. Index	HFRI Fund of Fund Index
Quarter	8.9%	4.8%	9.6%	0.6%	4.6%	1.2%	-16.3%	9.1%	4.1%	4.2%
1 Yr	15.1%	0.5%	10.5%	7.0%	3.3%	-12.2%	-48.4%	-8.2%	4.0%	5.6%
5 Yrs Annualized	14.1%	5.3%	9.0%	4.2%	6.8%	6.6%	-11.6%	-3.1%	4.0%	3.1%

Data sources: Lipper and HedgeFund Research

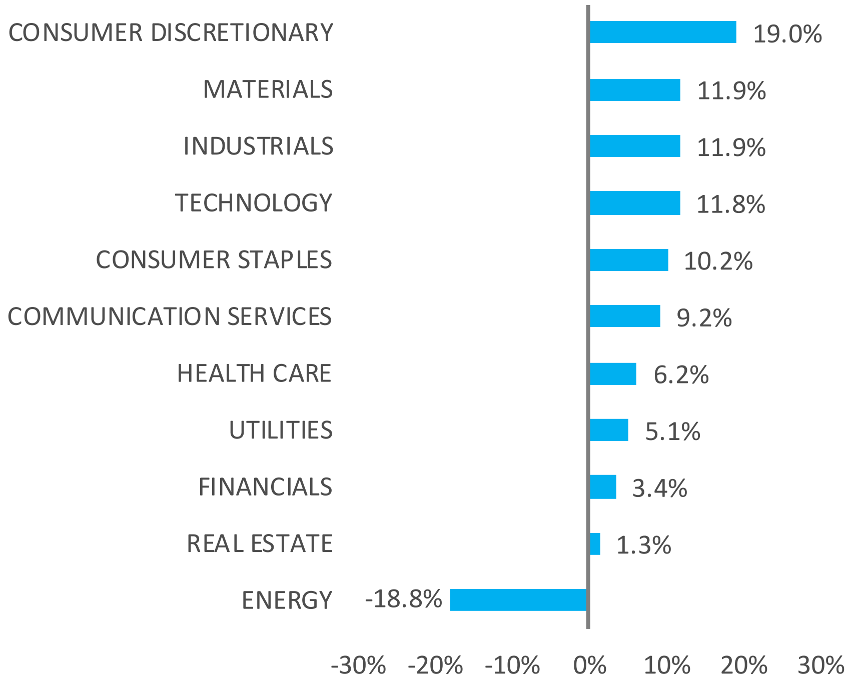
- In the U.S., stocks rallied due to a rise in heightened consumer confidence exhibited in consumer spending data, elevated industrial production, and a decline in the unemployment rate from the peak witnessed in April 2020. The S&P 500 Index set a record in August, surpassing the February 2020 high, prior to the full global spread of the COVID-19 pandemic.
- For the quarter, the U.S. saw broad strength across sectors, with cyclical sectors performing well with the gradual resumption of economic activity. The lone exception to positive performance was energy, which continued to face pressure from both the demand and supply sides. The Permian, shale producers, and global producers such as Russia, Brazil, and Saudi Arabia continue to produce at levels in excess of current market demand.

LARGE CAP, MID CAP, AND SMALL CAP



Data source: Russell

RUSSELL 3000 SECTOR PERFORMANCE

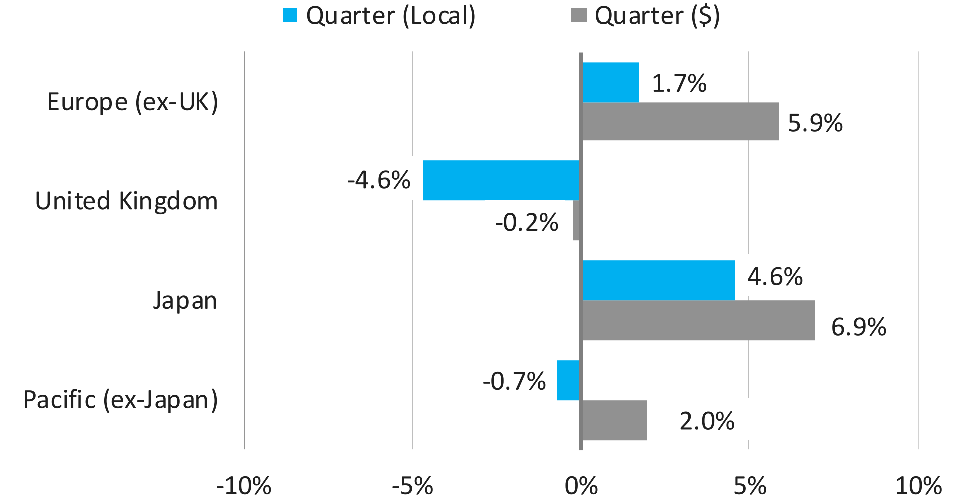


Data source: Russell

GLOBAL EQUITY, NON-U.S.

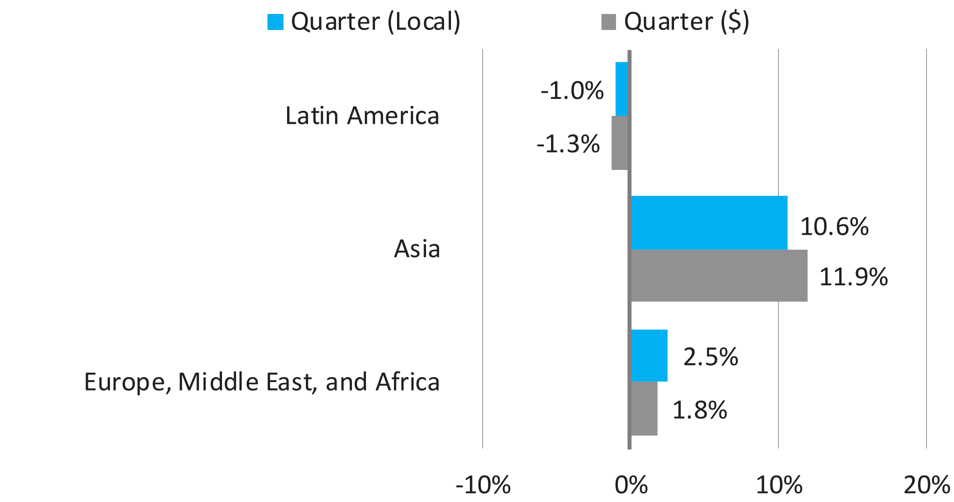
- Growth in European economies—most notably Spain and France—stalled in the quarter, as lockdown measures were reinstated in the wake of increased hospitalization rates due to COVID-19. This move affected business activity and weighed on equity markets.
- The UK also lagged other regions, due in part to lingering Brexit concerns as opposed to what had been the myopic focus on COVID-19. Japanese equities fared well, as there were positive surprises in the quarterly earnings reporting, as well as positive industrial production data.
- Although performance varied, emerging markets performed best globally. India was the best performing market, as the Indian government advanced key agriculture and labor reforms. Chinese equities also had a strong quarter due to positive gross domestic product growth in the second quarter.
- Weakness occurred in Turkey and Thailand, which suffered negative double-digit returns primarily due to lira weakness and increases in COVID-19 cases, respectively.

MSCI EAFE REGIONAL QUARTERLY RETURNS



Data source: MSCI Barra

MSCI EM REGIONAL QUARTERLY RETURNS

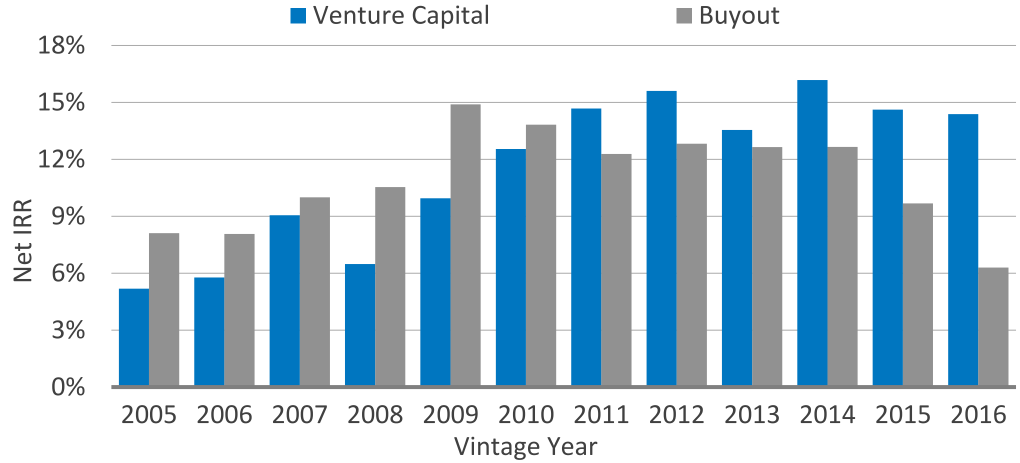


Data source: MSCI Barra

- Private equity reports performance on a lag and is available through March 31, 2020. The last three weeks of the first quarter was a time of significant volatility in both the financial markets and the economy, as society began reacting to COVID-19.
- Median private equity returns for both venture capital and buyout funds have generally been in the low- to mid-teens since the 2010 vintage years. Buyout funds outperformed during the 2000s, while median venture funds from the following decade's vintage years have performed better than buyout.
- Commitments to private equity funds were off to a strong start in the first quarter, though were mixed through the end of September. Venture funds are on track to exceed 2019's fundraising level, while fundraising for buyout funds dropped.
- Venture-backed initial-public-offerings through September have already exceed last year's level, with the active life science sector playing an integral role in the number. Buyout-backed IPOs are off last year's pace.

MEDIAN VENTURE CAPITAL AND BUYOUT VINTAGE YEAR IRR

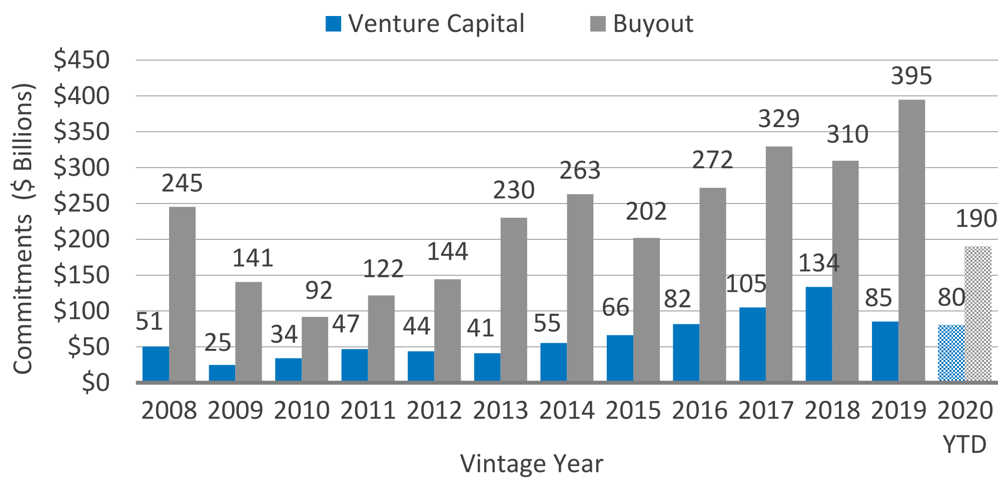
As of March 31, 2020



Data source: Pitchbook; The most recent private equity return information available is through March 31, 2020

VENTURE CAPITAL AND BUYOUT FUNDRAISING ACTIVITY

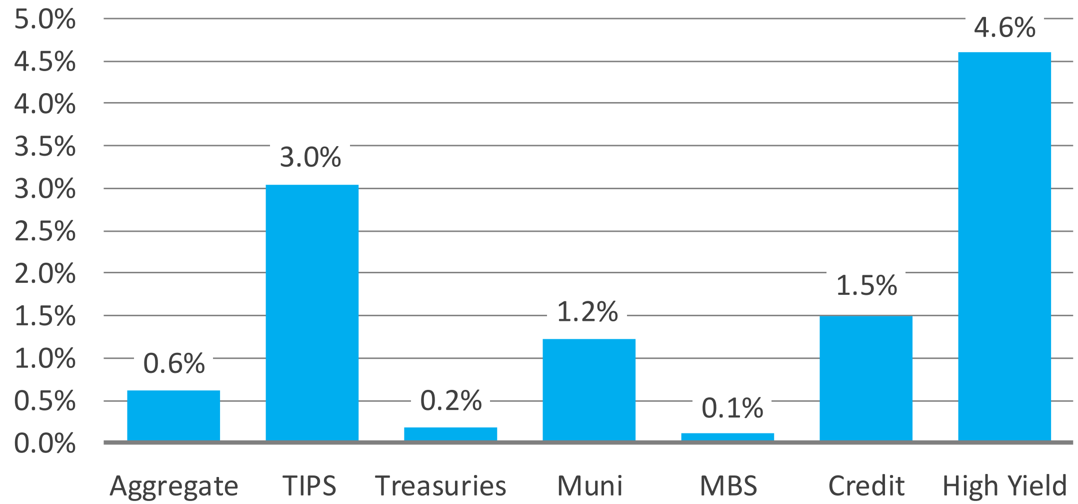
As of September 30, 2020



Data source: Pitchbook

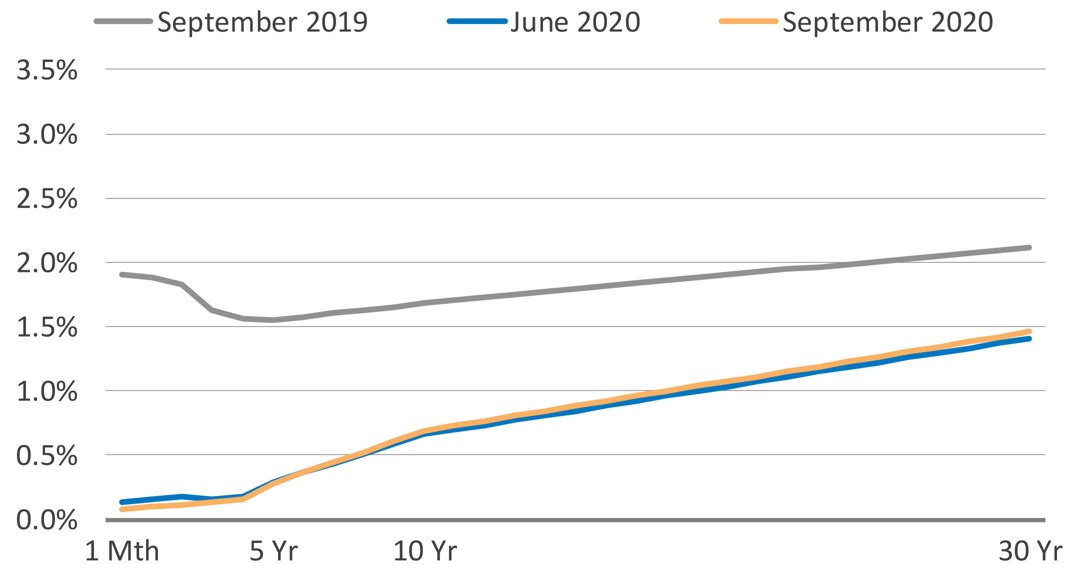
- After a relatively muted second quarter, the Fed returned to the headlines this quarter, announcing major changes to inflation policy with a shift towards "average inflation targeting" in August, followed in September by a commitment to keeping the federal funds rate at zero through 2023.
- Risk-on sentiment continued to prevail across fixed income markets in the third quarter. The Fed's ongoing support of credit markets, accompanied by investors' search for yield in a low rate environment, buoyed those markets. Investment-grade corporate credit spreads have generally returned to levels witnessed in January 2020, though high yield spreads remain relatively elevated.
- Strong demand has supported issuance in corporate credit markets across both investment-grade and high yield issuers. Within credit, default rates continue to rise as a result of a decline in earnings and increased borrowing.
- Securitized credit markets continued their rebound through the quarter, even through September, when corporate credit markets declined.

BLOOMBERG BARCLAYS U.S. FIXED INCOME INDEX RETURNS



Data source: Barclays

U.S. TREASURY YIELD CURVE

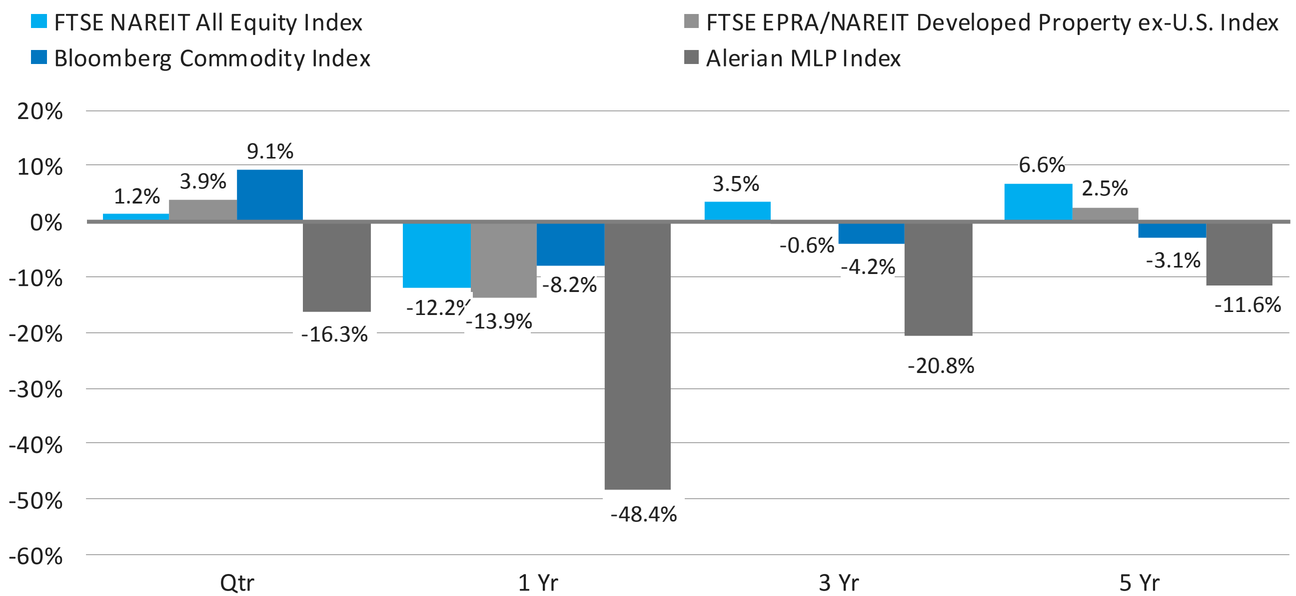


Data source: Bloomberg, L.P.

REAL ASSETS

- REITs showed some signs of improvement over a volatile quarter, with large uplifts in both data centers and industrial property types, in keeping with the trend for 2020. As COVID-19 concerns and uncertainty continue to permeate, retail, shopping centers, and office continued to show poor performance, while property types supporting the digital economy continued to perform well.
- Daily WTI oil spot prices averaged ~$40 per barrel in the third quarter and have fluctuated within a narrow band of about $38-$43 since June 2020. While that is a significant rise from the multiyear low seen in April, uncertainty remains in the market. Global oil demand has recovered to approximately 93 million barrels per day, which is aiding price stabilization.
- MLPs, as measured by the Alerian MLP Total Return Index, suffered double-digit declines as the industry adjusts to changing flows resulting from reduced production and demand limited by the gradual economic recovery.

PUBLIC REAL ASSETS – REAL ESTATE, COMMODITIES, AND MLPs



Data sources: NAREIT, Bloomberg, L.P., and Alerian

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All data sourced from Bloomberg L.P. as of date listed on page 3 unless otherwise noted.

Standard Deviation – A measure of variability in returns. The annual standard deviation measures the dispersion of annual returns around the average annualized return.

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INDEX DEFINITIONS

The S&P 500 Index is capitalization-weighted index of 500 stocks. The S&P 500 Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Morgan Stanley Capital International (MSCI) Indices are a series of indices constructed by Morgan Stanley to help institutional investors benchmark their returns. There are a wide range of indices created by Morgan Stanley covering a multitude of developed and emerging economies and economic sectors. See www.morganstanley.com for more information.

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, compiled by Hedge Fund Research Inc., and are utilized by numerous hedge fund managers as a benchmark for their own hedge funds. The HFRI are broken down into 37 different categories by strategy, including the HFRI Fund Weighted Composite, which accounts for over 2000 funds listed on the internal HFR Database. The HFRI Fund of Funds Composite Index is an equal weighted, net of fee, index composed of approximately 800 fund of funds which report to HFR. See www.hedgefundresearch.com for more information on index construction.

The FTSE NAREIT Composite Index (NAREIT) includes only those companies that meet minimum size, liquidity and free float criteria as set forth by FTSE and is meant as a broad representation of publicly traded REIT securities in the U.S. Relevant real estate activities are defined as the ownership, disposure, and development of income-producing real estate. See www.ftse.com/Indices for more information.

The CBOE Volatility Index (VIX) is an up-to-the-minute market estimate of expected volatility that is calculated by using real-time S&P 500 Index option bid/ask quotes. The Index uses nearby and second nearby options with at least 8 days left to expiration and then weights them to yield a constant, 30-day measure of the expected volatility of the S&P 500 Index.

The **Alerian MLP Index** is a composite of the 50 most prominent energy Master Limited Partnerships that provides investors with an unbiased, comprehensive benchmark for this emerging asset class.

The **Bank of America/Merrill Lynch (BofA/ML)** indices are compiled monthly by Bank of America/Merrill Lynch under various criteria and characteristics. See www.bofaml.com for more information.

For more Index definitions and information please contact information@feg.com