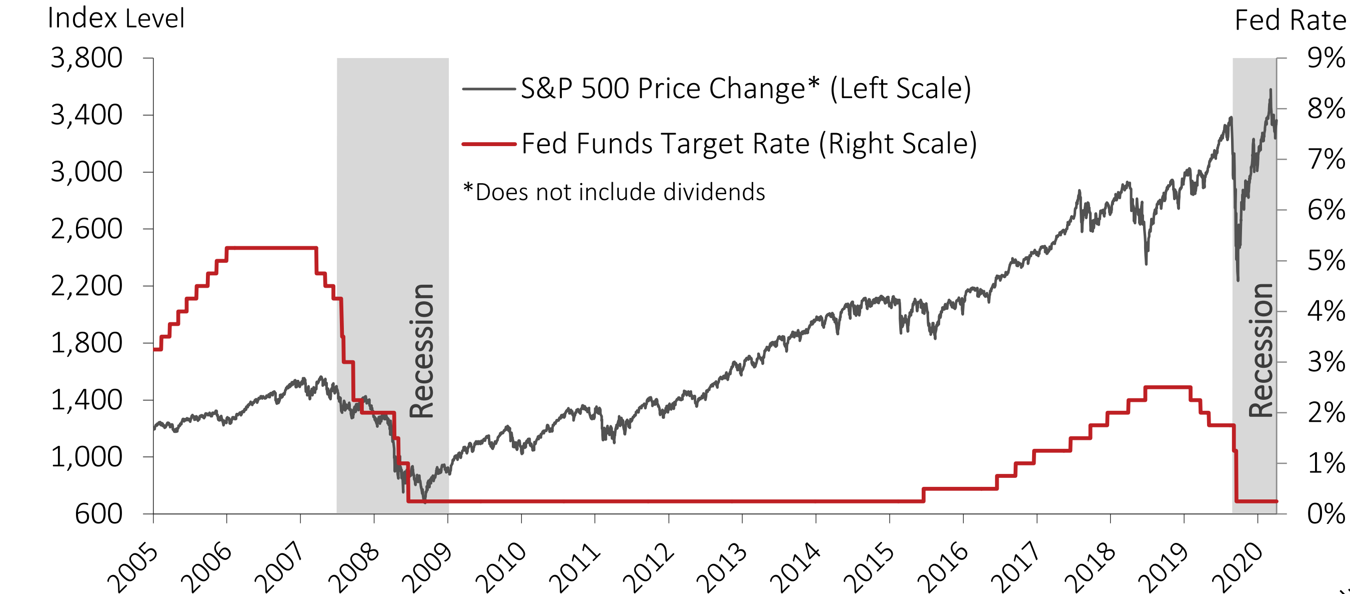
Capital Market Review

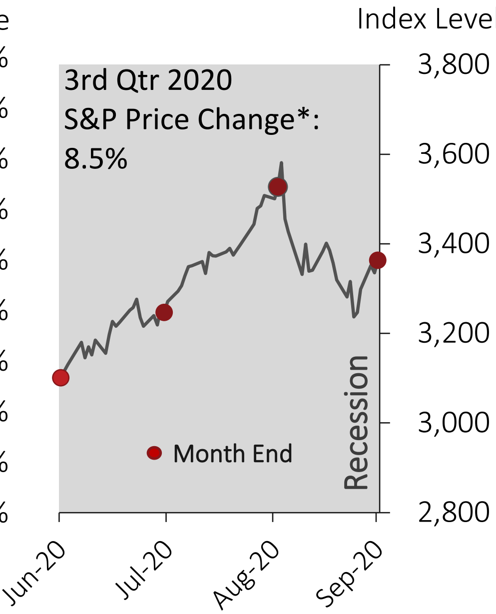
September 30, 2020



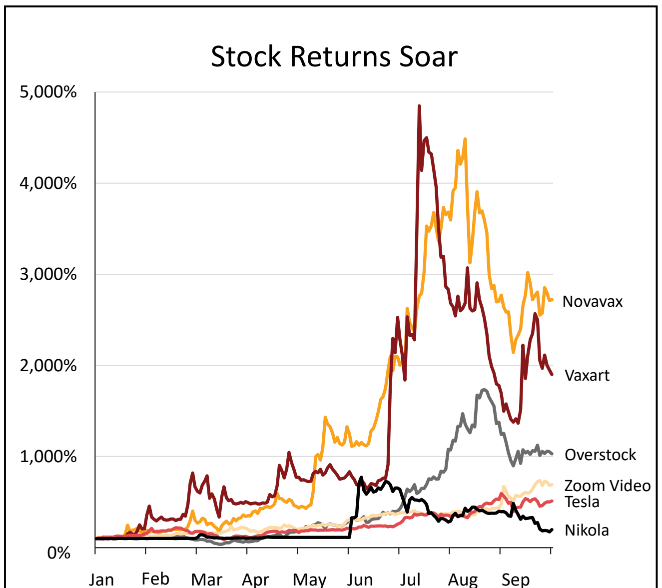

DeMarche

Irrational Exuberance in Tech 2.0?



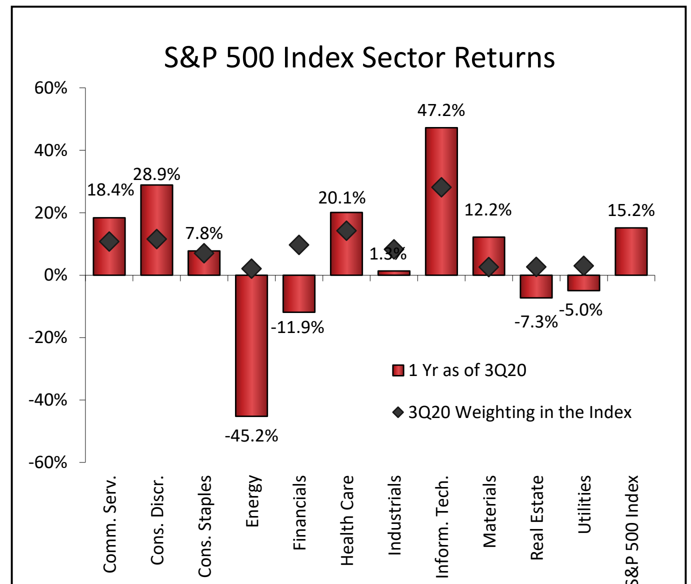


Source: Standard & Poor's, Federal Reserve



Source: Wall Street Journal, Finance.Yahoo.com

The S&P 500 advanced again in the 3rd quarter, moving ahead 8.9% for the quarter in total return. Interestingly, the return for the quarter was led by discretionary, industrial and technology stocks. But over the past year, the dominance of tech alone cannot be denied. Let's compare the returns of that industry to others in order to gain context. Over the past 12 months, tech, the largest capital-weighted sector in the index, has posted over a 47.2% return, handily beating the energy sector, the worst performer (-45.2%), by 92.4 percentage points. It drubbed the second best sector, consumer discretionary, by 18.3 percentage points. While tech dominated as a sector, many stocks were exuberantly rallying during 2020. The chart to the left show the tremendous price growth in certain stocks that are beneficiaries of the aftermath of COVID-19 from biotech companies to Overstock to Zoom.

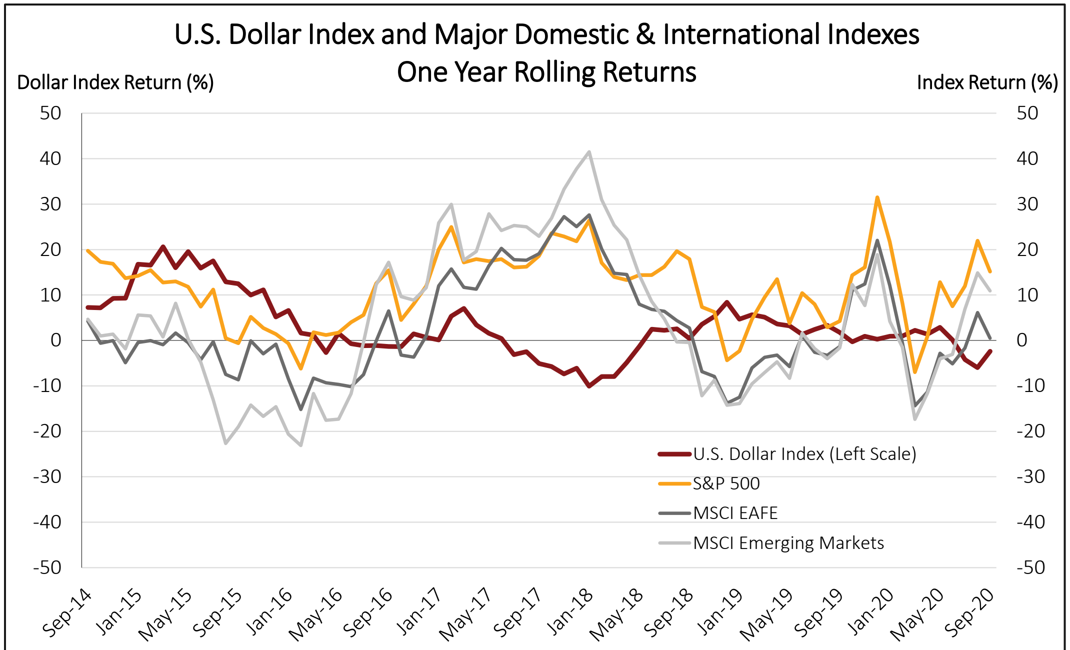


Source: DeMarche, Morningstar

INDEX	3rd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	7.9	1.7	10.4	7.7	10.5	9.4
DeMarche 3000	8.8	2.9	12.1	8.7	11.6	10.5
Russell 3000	9.2	5.4	15.0	11.6	13.7	13.5
S&P 500	8.9	5.6	15.1	12.3	14.1	13.7
MSCI EAFE USD	4.8	-7.1	0.5	0.6	5.3	4.6
BlmBarc Aggregate	0.6	6.8	7.0	5.2	4.2	3.6
FTSE Non-US Gov't Bond	4.6	5.7	5.6	3.5	3.9	1.3
BlmBarc Global Aggregate	2.7	5.7	6.2	4.1	3.9	2.4
NCREIF (Private RE)	0.7	0.5	2.0	5.1	6.3	9.4
Bloomberg Commodity	9.1	-12.1	-8.2	-4.2	-3.1	-6.0

*Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized. *Does not include Canada or Brazil.*

Indicator Year Ending 9/30	2020	2019	2018	2017	50-YEAR Average
GDP Annual Growth Rate	-2.9	2.1	3.1	2.4	2.7
Unemployment	7.9	3.5	3.7	4.2	6.3
Inflation (CPI)	1.4	1.7	2.3	2.2	3.9
10-Year Interest Rates	0.7	1.7	3.1	2.3	6.2



Source: Federal Reserve, S&P, MSCI

- Markets across the globe continued the 2nd quarter rally into the 3rd quarter. Domestic stocks are now in positive territory year-to-date, and one-year returns are in the double digits. International stocks still lag domestic stocks by over 1,000 basis points, but are now positive for the year.
- Interest rates remain low and are expected to be for the foreseeable future. Federal Reserve Chair Powell is on the record as stating that, "maximum employment is a broad based and inclusive goal." He went on to say that "a robust job market can be sustained without causing an outbreak of inflation."
- Commodity prices continued to advance in the 3rd quarter, as agricultural products paced the recovery. However, over the longer term prices still show a decline. The 40+ percentage point fall in energy prices over the past 12 months has fueled the appreciation in precious metals prices and agricultural products.
- The chart to the left shows the inverse relationship between the dollar and international returns. When the dollar weakens (red line going down), as it has in the past year, the rolling returns of international stocks tend to advance. The return of the S&P 500 also tends to advance as the dollar weakens, primarily due to the positive earnings impact of overseas revenues being translated into a weaker dollar.

DeFact

The global race to develop coronavirus vaccines is approaching a key milestone, with the first results from broad trials expected in the coming weeks. Late stage trials are signing up tens of thousands of volunteers, but some side effects have popped up. Subsequently, some trials have been halted, such as when AstraZeneca halted theirs in September due to unforeseen side effects. Its stock price has been a reflection of the vaccine's success, rallying 15% upon the announcement of positive vaccine news in July, only to fall back in September.

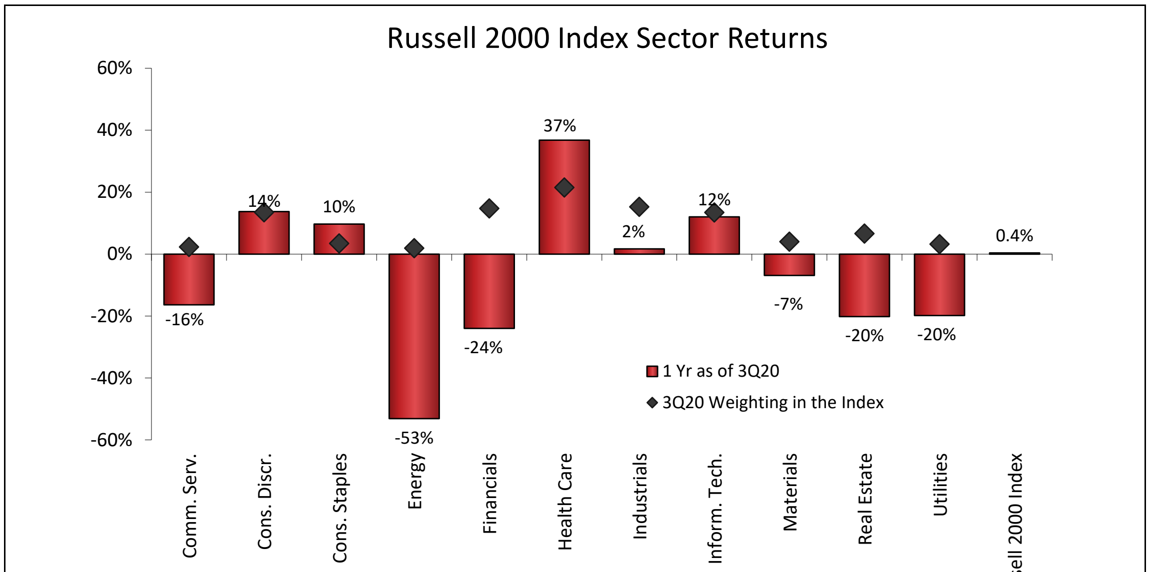
~Bloomberg, NY Times

Domestic Equities

September 30, 2020

INDEX	3rd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	11.9	13.8	26.0	15.4	16.1	13.7
DeMarche Value	1.1	-17.7	-12.6	-2.8	3.8	5.3
DeMarche Aggressive	15.4	11.7	26.2	8.8	10.7	8.8
DeMarche Defensive	8.3	2.4	11.3	8.8	11.7	10.6
S&P 500	8.9	5.6	15.1	12.3	14.1	13.7
S&P Mid-Cap 400	4.8	-8.6	-2.2	2.9	8.1	10.5
S&P Small-Cap 600	3.2	-15.2	-8.3	-0.3	7.2	10.6
Russell 1000	9.5	6.4	16.0	12.4	14.1	13.8
Russell 1000 Growth	13.2	24.3	37.5	21.7	20.1	17.3
Russell 1000 Value	5.6	-11.6	-5.0	2.6	7.7	9.9
Russell 2000	4.9	-8.7	0.4	1.8	8.0	9.9
Russell 2000 Growth	7.2	3.9	15.7	8.2	11.4	12.3
Russell 2000 Value	2.6	-21.5	-14.9	-5.1	4.1	7.1

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.



Source: DeMarche, Barrow Hanley

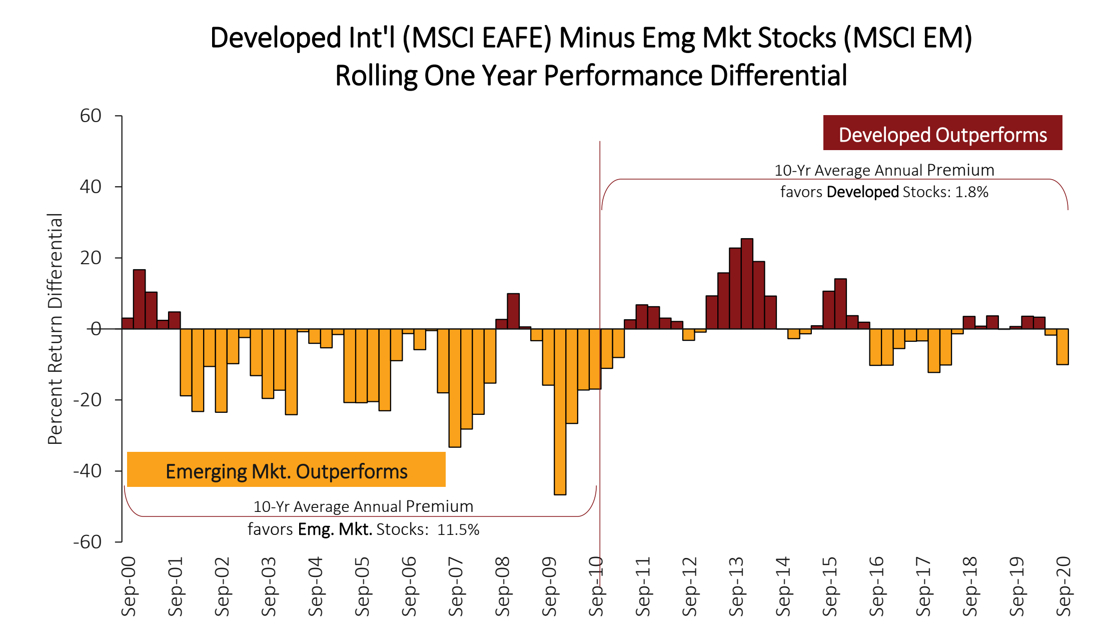
- Large cap stocks outperformed small cap stocks in the quarter after trailing last quarter. The one-year return differential has widened to 15.6 percentage points, from 14.1 percentage points last quarter. The dominance of large cap continues as even the generally unfavored large cap value stock index beat small cap.
- More narrowly, the dominance of large cap growth stocks continues. Large cap growth stocks posted a 13.2% return for the quarter, as measured by the Russell 1000 growth index. It widened its lead over value stocks by an amazing 42.5 percentage points over the trailing 12 months.
- Like large cap growth, small cap growth was no slouch, posting a 7.2% return for the quarter. It outperformed small cap value stocks by 30.6 percentage points over the trailing 12 months. As we have discussed before, small cap growth index returns are dominated by health care stocks, which have led the charge over the past year.
- The chart to the left further shows the dichotomy in small cap stocks. Small cap value stocks have large exposures to financials, which have done poorly in the past 12 months. As mentioned above, small cap health care stocks have posted the best return across all small cap sectors, besting technology by a wide margin.

DeFact

Over the years, the FAANG acronym has become synonymous with the large cap tech stocks leading the S&P 500 forward. In a twist this quarter, one of the leaders is an HVAC (**H**eating, **V**entilation and **A**ir **C**onditioning) company. Carrier Global (ticker CARR) is up 37% for the 3rd quarter, outpacing the tech sector by over 25 percentage points. With more and more people working from home, people have come to realize their AC units are not up to par and they are being replaced at record rates. In addition, offices and schools are upgrading ventilation scrubbing units to combat COVID.

INDEX	3rd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI EAFE Local	1.2	-9.4	-4.7	0.6	4.8	6.3
MSCI EAFE USD	4.8	-7.1	0.5	0.6	5.3	4.6
Growth	8.4	4.6	13.4	7.1	9.2	7.0
Value	1.2	-18.3	-11.9	-5.9	1.1	2.1
MSCI Japan	6.9	-0.7	6.9	3.9	7.5	6.2
MSCI AC Asia-ex Japan	10.7	5.4	17.8	4.9	10.6	5.4
MSCI China	12.5	16.4	33.6	7.9	13.5	6.5
MSCI Germany	8.3	0.1	10.0	-1.1	5.9	5.3
MSCI France	2.8	-13.5	-6.2	-1.3	5.4	4.1
MSCI UK	-0.2	-23.4	-15.8	-5.6	-0.4	2.0
MSCI EAFE Small Cap	10.3	-4.2	6.8	1.4	7.4	7.3
MSCI EM	9.6	-1.2	10.5	2.4	9.0	2.5
MSCI All Country-ex US	6.3	-5.4	3.0	1.2	6.2	4.0

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.



Source: DeMarche

- International stocks, like domestic stocks, continued to rebound in the 3rd quarter. Year-to-date returns are still negative, but the trailing 12 months moved into positive territory. In previous reports, we have discussed the trailing 12-month underperformance differential of international stocks (MSCI EAFE) to large cap domestic (Russell 1000). It now stands at 15.5 percentage points, widening from 12.6 percentage points last quarter. This outperformance is due to the dominance of US large cap tech stocks.

- The dollar continued to weaken versus a trade weighted basket of currencies during the quarter. International stocks, translated to dollar returns, are boosted by a weakening dollar. With interest rates low in the US for the foreseeable future, the interest rate differential around the globe is narrower. This provides less of an incentive for foreign investors to own dollars to purchase dollar-denominated debt.

- Emerging market stocks outperformed domestic large cap stocks in the quarter, but just barely, by 10 basis points. The trailing 12-month returns are now in double digits. This is quite an improvement from last quarter, where the trailing 12-month returns were still negative.

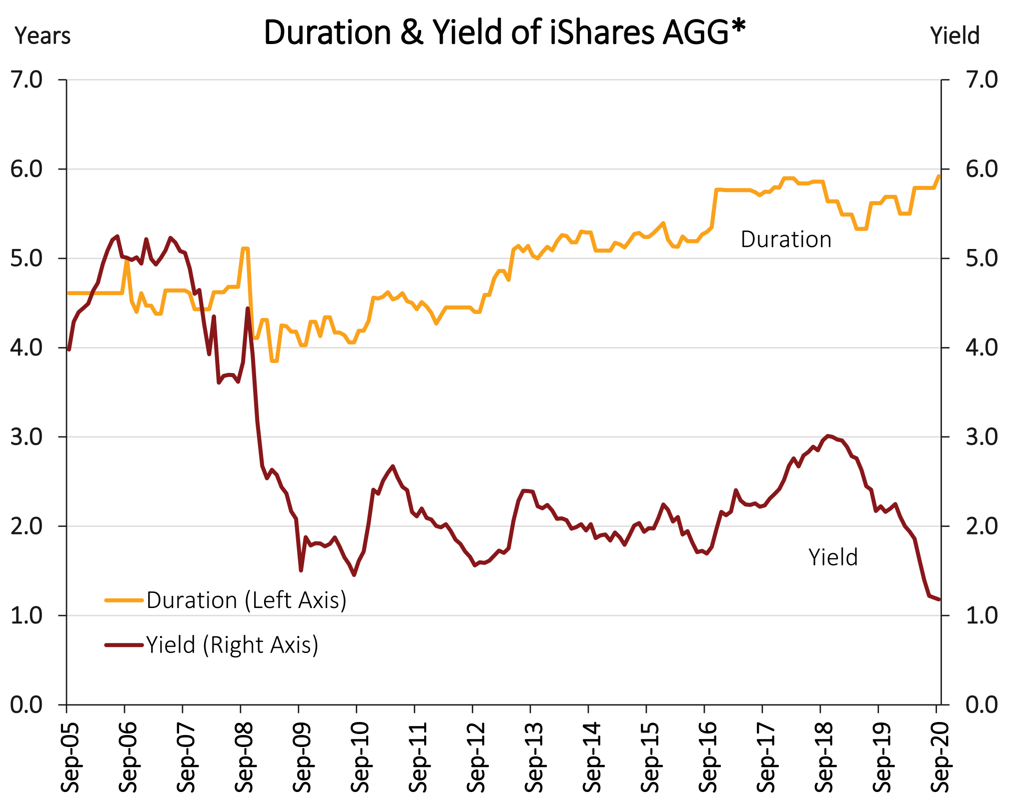
- Emerging market stocks have underperformed international developed stocks over the past decade after significant outperformance from 2000 to 2010. Emerging market stocks over the last five years have shown renewed life. The ebb and flow of emerging market and international stocks points to the benefit of diversification within global portfolios over the longer term.

DeFact

Similar to the Fed Chairman Powell's remarks on inflation and full employment, Christine Lagarde, ECB President, stated that the ECB is poised to tweak its inflation targets. The ECB is currently more worried about the risk of prices growing too slowly rather than too fast. Euro zone consumer prices fell 0.3% in September, following a 0.2% drop in August. Strangely enough, even with the ECB rate at zero, a negative inflation rate means that real rates are above zero while the real rate in the US is negative. ~Reuters

INDEX	3rd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
BlmBarc 1-3 Gov Credit	0.2	3.1	3.7	2.8	2.1	1.6
BlmBarc Aggregate	0.6	6.8	7.0	5.2	4.2	3.6
BlmBarc Gov Credit Long	1.2	14.2	12.9	10.2	8.8	7.4
BlmBarc US TIPS	3.0	9.2	10.1	5.8	4.6	3.6
Merrill Lynch High Yield	4.7	-0.2	2.3	3.8	6.6	6.3
CSFB Leveraged Loan (bank loans)	4.1	-0.8	0.8	3.2	4.0	4.4
BlmBarc Global Aggregate	2.7	5.7	6.2	4.1	3.9	2.4
JPM EmgMkt Bd Glbl Dvrsfd (hard)	2.3	-0.5	1.3	3.5	6.1	5.4

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.



*Source: Morningstar Direct, iShares AGG. *Data are net of fees and expenses of the ETF.*

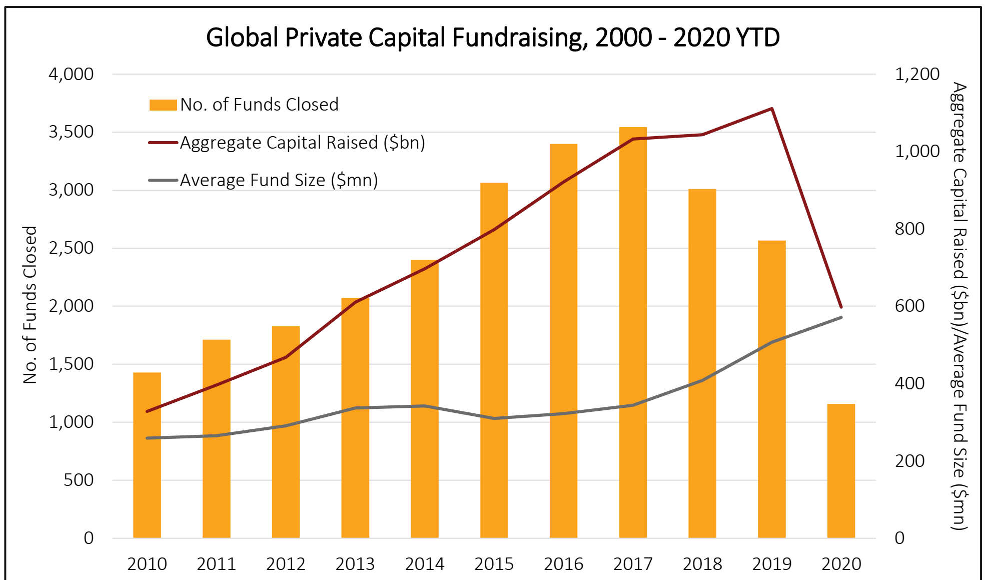
- Interest rates, as measured by the 10-year Treasury, started the quarter at 65 basis points and ended the quarter at 68 basis points. In previous reports, we have talked about how the absolute low level of interest rates impacts returns, and this quarter bears that out. Without the tailwind of falling rates to boost bond prices, the Barclays Aggregate index only returned 60 basis points for the quarter.
- Non-investment grade bonds, high yield, and bank loans collectively returned over 4.0% for the quarter. Credit spreads to Treasuries have narrowed, providing a tailwind to credit exposure. That being said, in a low interest rate environment, non-investment grade coupon rates can be attractive to investors.
- Emerging market debt posted another positive quarter after a strong 2nd quarter. Longer-term returns remain above short-term returns as the dismal 1st quarter 2020 impacts the shorter-term returns to a greater degree. A weakening dollar helped provide a tailwind to the asset class.
- The chart to the left shows the evolution of the Barclays Aggregate. The duration has extended and the yield has bottomed due to longer-term bond issuance and lower interest rates. As of quarter-end, the yield is now just over 1%. Looking ahead, given the Fed's stance on keeping interest rates low, the future expected return for the index is pretty minimal.

DeFact

Green bond issuance so far during 2020 has exceeded that of the same period in 2019. Issuance of green bonds, which typically fund capital intensive environmental projects, reached $200 billion this year. Green bonds make up only a small portion of the overall bond market, but they are attracting more attention as electrical grids need trillions in capital to upgrade systems in the coming decade. ~Reuters

INDEX	3rd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	0.7	0.5	2.0	5.1	6.3	9.4
Apartment	0.5	0.8	2.3	4.7	5.7	9.1
Industrial	3.0	6.8	10.1	12.6	12.6	12.9
Office	0.3	1.1	2.8	5.4	5.9	8.7
Retail	-0.5	-6.3	-6.3	-0.4	3.1	8.2
NCREIF Timberland	0.0	0.2	0.2	2.1	2.6	4.4
NCREIF Farmland	1.0	1.5	3.8	5.3	6.1	10.9
NAREIT (Public RE)*	1.5	-13.8	-13.3	2.7	6.3	8.9
Bloomberg Commodity	9.1	-12.1	-8.2	-4.2	-3.1	-6.0
HFR FOF Composite	4.1	2.4	5.6	2.8	3.1	2.9
Conservative	2.3	0.3	1.9	2.2	2.3	2.6
Diversified	3.7	2.6	5.4	3.1	3.0	2.9
Strategic	5.8	3.4	8.0	3.0	3.8	3.2
Private Market Indexes as of 3/31/2020	**Qtr**	**YTD**	**1-YEAR**	**3-YEAR**	**5-YEAR**	**10-YEAR**
Preqin Private Equity	-6.9	3.7	3.7	10.8	11.0	12.5
Preqin Private Debt	-7.9	-4.0	-4.0	3.3	4.2	7.5
Preqin Infrastructure	-5.3	1.8	1.8	7.4	8.5	9.4

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.
**Public RE is not a less liquid strategy. It is listed for comparative purposes.*

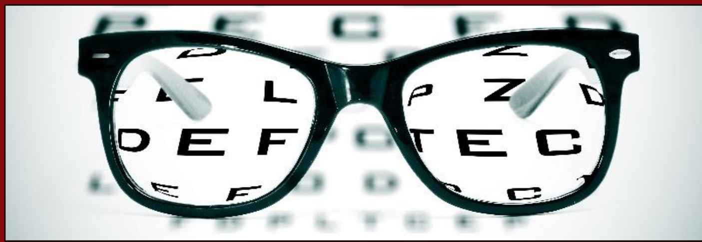


Source: Preqin

- REITs had a positive quarter to somewhat mitigate a poor 2020 and trailing 12 months. Similarly, large and small cap value stocks, of which REITs are included in the respective indexes, have posted negative returns during the past year.
- Hedge funds advanced in the quarter, building on 2nd quarter's positive result. As global equities advanced, so did equity long/short hedge fund strategies. More conservative strategies, such as global macroeconomic exposures, found it more difficult to manage the volatile September month and lost ground.
- Real estate prices rebounded in the quarter after a second quarter drop. However, the retail sector continues to be hit by the virus and the trend toward online shopping. The industrial sector, conversely, has been the beneficiary as the need for warehousing has increased with the increase in online activity.
- The chart to the left shows the impact of COVID-19 upon the rapid growth of the private capital. Capital continues to concentrate in the hands of a few larger players. Private capital assets under management grew 18.3% to $8 trillion in 2019 with $1.1 trillion added through new fundraisings. In 2020, investors seem to be sticking with established players for a sense of security as virus restrictions make due diligence efforts problematic.

DeFact

This year ranks as one of the best on record for investors in gold. The price of gold is up 25% year-to-date after hitting an all-time high in August. Gold prices have been a prime beneficiary of the FED's determination to leave interest rates low. With real yields on government bonds below zero, gold's lack of income has less of a downside and has lived up to its status as a safe haven from stock volatility. ~WSJ



2020 Client Conference

This year, you can get more out of the *2020 DeMarche Client Conference*. **Recordings of all three general sessions are now available** to everyone who registered for the conference. Whether you want to re-watch a key presentation or watch a session that you missed the first time, the recordings are available on the conference website.

PDF copies of the presentation slides are available for downloading at the Attendee Information Booth on the exhibitors tab. You can also access white papers and additional information about conference topics and presenters at the virtual sponsor booths.

https://cvent.me/gZBg9V

Watch Recordings of the Client Conference Sessions at Your Convenience

General Session 1

Conference Welcome - Tim Marchesi, CFA, President & CEO, DeMarche
Introduction: "Generations in Congress 2020" - Coleen Trimble, Senior Consultant, DeMarche
Keynote Address: Generations in Congress 2020 - David Rosen, Founder – First Person Politics
Facing the Curveball - Jim Dykstal, CFA, Senior Consultant, DeMarche
Orlando's Outlook: The Coronavirus Curveball - Phil Orlando, Chief Equity Strategist, Federated
ESG Integration – A Case Study - Peg VanWagoner, Senior Consultant, DeMarche
ESG Integration and the Secular Shift to Value - Leo Harmon, CFA, CAIA, Managing Director, CIO, and Portfolio Managers, Mesirow Financial

General Session 2

Opportunistic Fixed Income - Travis Newman, Senior Consultant, DeMarche
Opportunistic Investing in Fixed Income - Jeff Klingelhofer, CFA, Co-Head Investments & Mng. Director Jason Brady, CFA, Pres. & CEO, Thornburg Investment Mgmt.
An Introduction to Middle Market Private Credit - Dan Venker, Research Analyst, DeMarche
Middle Market Direct Lending - Thomas Hall and Jens Ernberg, Managing Directors, Co-Heads of Private Credit, Capital Dynamics
Infrastructure as a Fixed Income Replacement - Mark Andes, Consultant, DeMarche
Infrastructure as a Fixed Income Replacement - Akhil K. Unni and Michael Rose, Managing Directors, Infrastructure Investments, Grosvenor
General Session Summary - Tom Woolwine, Vice Chairman, DeMarche

General Session 3

Inefficient Asset Classes - Ryan Pickert, Consultant, DeMarche
Current Opportunities in Emerging Markets Equity - Kathryn Langridge, Senior Managing Director and Senior Portfolio Manager, Manulife Investment Management
Introduction - Catching the Wave: Why Secular Growth Matters - Mike Marsh, CFA, Consultant, DeMarche
Catching the Wave: Why Secular Growth Matters - Jim Callinan, CFA, CIO Emerging Growth & Portfolio Manager, Osterweis Capital Management
Investing in a Zero Yield World - Fred Cornwell, CAO, DeMarche
Emerging Markets Debt - Arif T. Joshi, CFA, Managing Dire ctor, Portfolio Manager/Analyst, Lazard Asset Management LLC