Investment and Economic Update
Third Quarter 2020

The investment results in September were certainly nothing to brag about, but overall, the markets have done something interesting: large cap indices are up while small and midcap stocks have posted modest losses. Given the persistent decline in the U.S. economy and the uncertainties around the resurgent pandemic, the investment situation could have been a lot worse. Is it possible that in the midst of a raging pandemic that is experiencing its second wave, and the associated loss of GDP, that the markets will deliver a positive return for 2020?

The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—gained 9.14% in the most recent quarter and is now hanging onto a 5.54% gain so far this year. The widely quoted S&P 500 index of large company stocks gained 8.47% in the third quarter and is now up 4.09% for calendar 2020.

The Russell 2000 Small-Cap Index is down 9.64% so far this year. The technology-heavy Nasdaq Composite Index gained 12.27% in the third quarter and stands at a remarkable 23.55% gain through the first nine months of the year.

International investors are generally in the red so far this year. The broad-based EAFE index of companies in developed foreign economies gained 4.20% in the third quarter but is still down 8.92% for the year. EAFE's Far East Index meanwhile, gained 5.21% in the third quarter, but for the year it, too, is in losing territory, down 4.56%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, gained 8.73% in the most recent quarter, but is still down 2.93% for the year.

In the bond markets, rates are still scraping along the bottom. Coupon rates on 10-year Treasury bonds stand at 0.69%, while 3-month, 6-month and 12-month bonds are still sporting coupon rates of roughly 0%. Five-year municipal bonds are yielding, on average, 0.29% a year, while 30-year municipal bonds are yielding 1.67% on average.

In the early days of the pandemic, most economists and market analysts would have been surprised that the investment markets have held up as well as they have at this point in the year. They would not have been surprised that—as reported by the U.S. Commerce Department—the American economy suffered its sharpest contraction in at least 73 years during the second quarter. GDP plunged at a 31.4% annualized rate, with consumer spending down 33.2% (annualized). April alone saw the loss of 20.5 million jobs. The most optimistic pundits were touting the return of 749,000 payroll jobs in September. At that rate, a full economic recovery could take years, but we should know more when the third quarter's economic data is compiled at the end of October.

Will the September declines lead to more losses as we approach the November election? Nobody can predict the future, of course. Looking at history, over the last ten times when the S&P 500 dropped at least 3.5% for the month of September, seven of those following Octobers showed gains for the month. On the other hand, how many of those times have we seen, as we have recently, stock prices exceeding their earnings by increasing margins? The road ahead for stocks is uncertain, but when in all of market history has that not been true?

Below, we've summarized some of the widely quoted indexes for your reference. As a reminder the challenge is, the DJIA is not the same as the S&P 500, which is not the same as the NASDAQ – and none of these indexes is likely to match your own distinct mix of assets and their expected returns, especially if you own a globally diversified portfolio with exposure to stocks and bonds, large and small companies, value and growth companies, and U.S. and non-U.S. based companies. The following returns are quarter, year-to-date and the rolling 1-year; respectively:

S&P 500: 8.47%, 4.09%, 12.98%
Dow Jones: 7.63%, -2.65%, 3.21%
NASDAQ Composite: 12.27, 23.55%, 39.61%
Russell 2000 (Small-Cap): 4.60%, -9.64%, -1.03%
MSCI EAFE (International): 4.20%, -8.92%, -1.80%
Barclay's Capital US Aggregate Bond: 0.62%, 6.79%, 6.98%