

September 25, 2020

# 323 WEEKLY UPDATE

*The Weekly Newsletter of 323 Wealth Management LLC*

## THE LATEST FROM 323:

*Economic Summary - 1*  
*Markets Summary - 4*  
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## ECONOMIC SUMMARY

*Story by Greg Wilson, CFA, CFP, MBA*

Economic data continues to improve, albeit at a slower pace. The exception is the price of oil which is experiencing weakness from a renewed concern over dampening demand due to another wave of virus infections.

The investing public's interest in inflation, bonds, and interest rates has ebbed and flowed over the years. Over the last couple of decades, I have heard investors say, "you can't make money in bonds" or "bonds don't do anything". Certainly, there are years where bond returns lag, but bonds serve a particular purpose in an investment strategy. They should be the anchor. In that, they should not be too exciting. In many cases, the right types of bonds can have an inverse correlation to the stock market so when stock prices are down, those bonds could be up in value which allows you to take some of those profits and use the proceeds to buy more stocks while they are on sale. What would you have thought if I told you last August that over the next year, you would get nearly a 9% return on a 10-year U.S. Treasury bond? As you can see on the JP Morgan chart, Fixed Income (aka bonds), has returned an average of 4.1% over the last 14 years. The majority of that time period was highlighted by low interest rates. Inflation is forecasted to stay lower for the next 5-10 years, so achieving positive real rates of returns (aka inflation adjusted) on bonds may not be as difficult as some experts project.

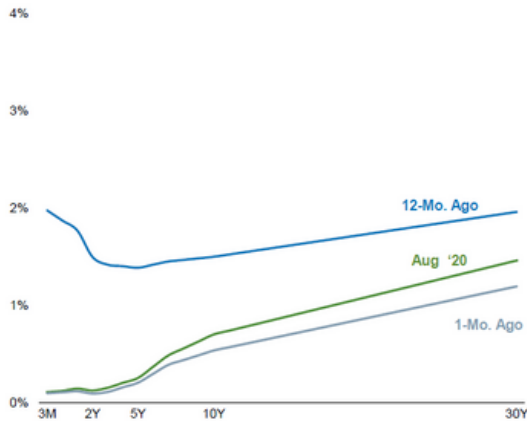
The charts on the next pages will help illustrate the aforementioned economic indicators.



# Fixed Income

## U.S. Treasury yields

U.S. Treasury Yield Curves



Yields & Performance

Security	Yield (%)			Total Return (%)	
	Current	1-Mo. Ago	12-Mo. Ago	1-Mo.	12-Mo.
3-mo. Treasury	0.11	0.10	1.98	0.01	1.26
6-mo. Treasury	0.13	0.11	1.87	0.01	1.70
2-yr. Treasury	0.13	0.10	1.50	-0.04	3.28
3-yr. Treasury	0.16	0.11	1.42	-0.07	4.57
5-yr. Treasury	0.26	0.21	1.39	-0.22	6.52
10-yr. Treasury	0.70	0.54	1.50	-1.33	8.93
30-yr. Treasury	1.46	1.20	1.96	-6.11	13.98

Source: Factset, Morningstar as of 8/31/20. Data provided is for informational use only. Past Performance is not a reliable indicator of future results. See end of report for important additional information.

Source: <https://funds.eatonvance.com/monthly-market-monitor.php>

## Asset class returns

GTM - U.S. | 63

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD	2005 - 2019	
																	Ann.	Vol.
EM Equity	REITs	EM Equity	Fixed Income	EM Equity	REITs	REITs	REITs	REITs	Small Cap	REITs	REITs	Small Cap	EM Equity	Cash	Large Cap	Fixed Income	Large Cap	REITs
34.5%	35.4%	39.8%	5.2%	79.0%	27.9%	6.3%	19.7%	38.8%	28.0%	2.8%	21.3%	37.8%	1.8%	35.5%	6.1%	9.0%	22.2%	
Comdty.	EM Equity	Comdty.	Cash	High Yield	Small Cap	Fixed Income	High Yield	Large Cap	Large Cap	Large Cap	Large Cap	High Yield	DM Equity	Fixed Income	REITs	Cash	REITs	EM Equity
21.4%	32.6%	16.2%	1.8%	59.4%	26.9%	7.8%	19.6%	32.4%	13.7%	1.4%	14.3%	25.6%	0.0%	28.7%	0.5%	8.3%	22.1%	
DM Equity	DM Equity	DM Equity	Asset Alloc.	DM Equity	EM Equity	High Yield	EM Equity	DM Equity	Fixed Income	Fixed Income	Large Cap	Large Cap	REITs	Small Cap	Large Cap	Small Cap	Small Cap	Comdty.
14.0%	26.9%	11.6%	25.4%	32.5%	19.2%	3.1%	19.6%	23.3%	6.0%	0.5%	12.0%	21.8%	-4.0%	25.5%	-3.1%	7.9%	18.6%	
REITs	Small Cap	Asset Alloc.	High Yield	REITs	Comdty.	Large Cap	DM Equity	Asset Alloc.	Asset Alloc.	Cash	Comdty.	Small Cap	High Yield	DM Equity	Asset Alloc.	EM Equity	EM Equity	Small Cap
12.2%	18.4%	7.1%	-26.9%	28.0%	16.8%	2.1%	17.9%	14.9%	5.2%	0.0%	11.8%	14.6%	-4.1%	22.7%	-4.5%	7.8%	17.7%	
Asset Alloc.	Large Cap	Fixed Income	Small Cap	Small Cap	Large Cap	Cash	Small Cap	High Yield	Small Cap	DM Equity	EM Equity	Asset Alloc.	Large Cap	Asset Alloc.	High Yield	High Yield	DM Equity	DM Equity
8.1%	15.8%	7.0%	-33.8%	27.2%	15.1%	0.1%	16.3%	7.3%	4.9%	-0.4%	11.6%	14.8%	-4.4%	19.5%	-4.7%	7.2%	17.3%	
Large Cap	Asset Alloc.	Large Cap	Comdty.	Large Cap	High Yield	Asset Alloc.	Large Cap	REITs	Cash	Asset Alloc.	REITs	Asset Alloc.	Asset Alloc.	EM Equity	EM Equity	Asset Alloc.	Asset Alloc.	Large Cap
4.9%	15.3%	5.5%	-35.6%	25.5%	14.8%	0.7%	16.0%	2.9%	0.0%	-2.0%	8.6%	10.4%	-5.8%	18.9%	-9.7%	6.6%	14.0%	
Small Cap	High Yield	Cash	Large Cap	Asset Alloc.	Asset Alloc.	Small Cap	Asset Alloc.	Cash	High Yield	High Yield	Asset Alloc.	REITs	Small Cap	High Yield	DM Equity	DM Equity	High Yield	High Yield
4.6%	13.7%	4.8%	-37.0%	25.0%	13.3%	-4.2%	12.2%	0.0%	0.0%	-2.7%	8.3%	8.7%	-11.0%	12.6%	-11.1%	5.3%	10.9%	
High Yield	Cash	High Yield	REITs	Comdty.	DM Equity	DM Equity	Fixed Income	Fixed Income	EM Equity	Small Cap	Fixed Income	Fixed Income	Comdty.	Fixed Income	Comdty.	Fixed Income	Small Cap	Fixed Income
3.6%	4.8%	3.2%	-37.7%	18.9%	8.2%	-11.7%	4.2%	-2.0%	-1.8%	-4.4%	2.6%	3.5%	-11.2%	8.7%	-13.0%	4.1%	10.0%	
Cash	Fixed Income	Small Cap	DM Equity	Fixed Income	Fixed Income	Comdty.	Cash	EM Equity	DM Equity	EM Equity	DM Equity	Comdty.	DM Equity	Comdty.	DM Equity	REITs	Cash	Fixed Income
3.0%	4.3%	-1.6%	-43.1%	5.9%	6.5%	-13.3%	0.1%	-2.3%	-4.5%	-14.6%	1.5%	1.7%	-13.4%	7.7%	-13.3%	1.3%	3.4%	
Fixed Income	Comdty.	REITs	EM Equity	Cash	Cash	EM Equity	Comdty.	Comdty.	Comdty.	Comdty.	Cash	Cash	EM Equity	Cash	Comdty.	Comdty.	Comdty.	Cash
2.4%	2.1%	-15.7%	-53.2%	0.1%	0.1%	-18.2%	-1.1%	-9.5%	-17.0%	-24.7%	0.3%	0.8%	-14.2%	2.2%	-19.4%	-2.6%	1.0%	

Investing principles

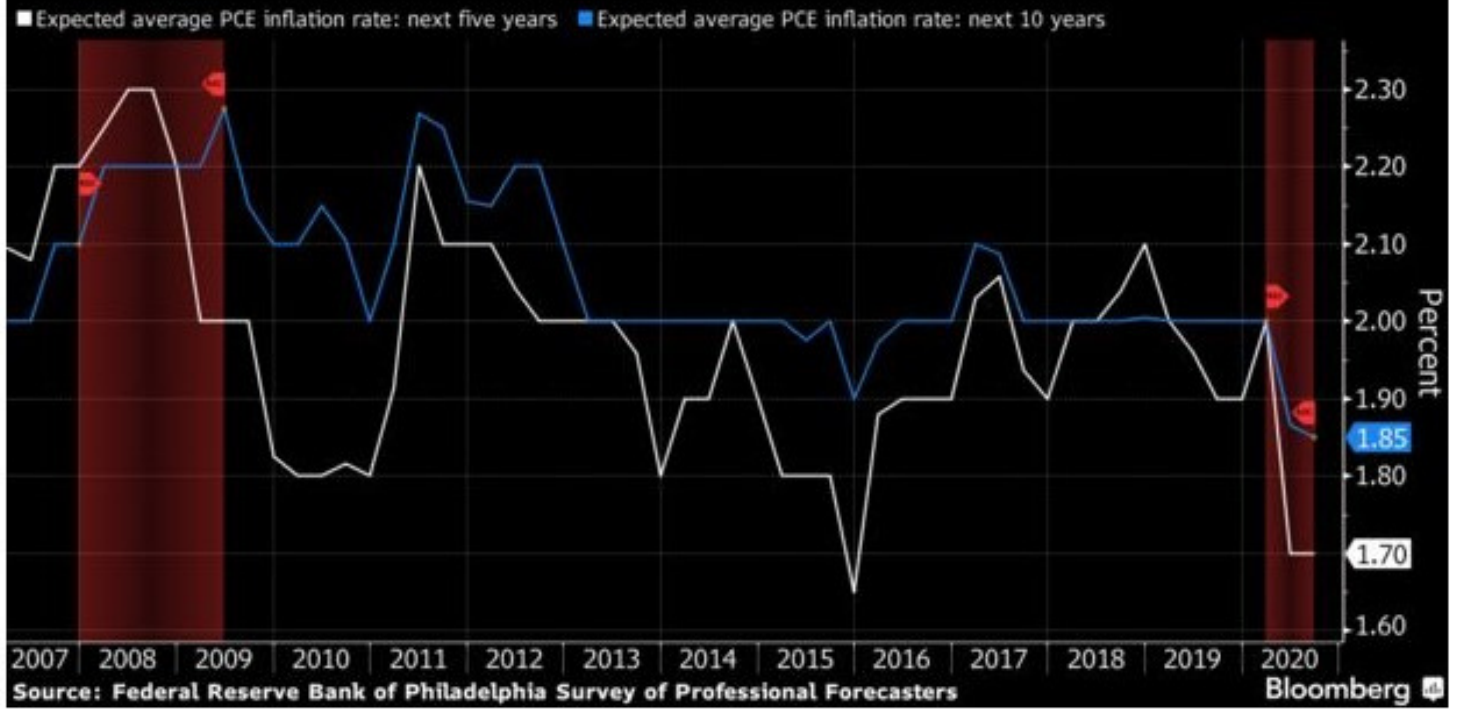
Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management. Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Barclays Global HY Index, Fixed Income: Bloomberg Barclays US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg Barclays 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg Barclays US Aggregate, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period of 12/31/04 - 12/31/19. Please see disclosure page at end of index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns. Guide to the Markets - U.S. Data are as of June 30, 2020.

J.P.Morgan  
Asset Management



## No Confidence

Forecasters don't see 2% average U.S. inflation in next 5-10 years



Source: <https://www.bloomberg.com/news/articles/2020-09-20/powell-calling-new-rate-road-map-powerful-doesn-t-make-it-so?sref=A6lpZuRk>





# MARKET SUMMARY

## *Bifurcation continues*

Most of the major U.S. stock indices were negative again this week. The downtrend was led by the Energy sector which had a dismal week, while Technology was the strongest performer. Growth and Momentum factors led the way while Value and High Dividend Yield factors lagged.

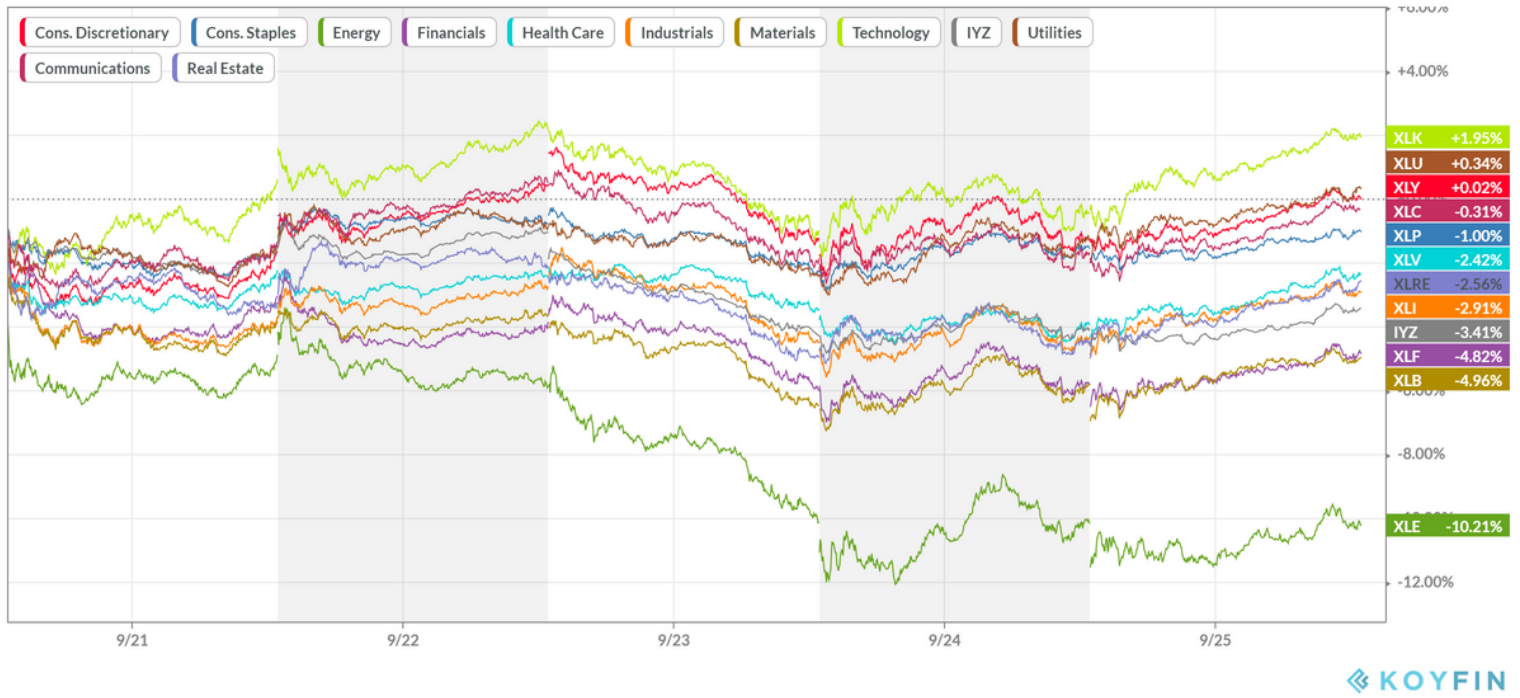
The markets are traditionally a forecasting machine. They are trying to predict a multitude of events and what those events could mean for current and future asset prices. With that, the markets seem to be trying to predict how the U.S. elections will turnout and what that means for the business and investing environment going forward. Whether you believe in the quality of polls or not, the market seems to be taking them somewhat seriously. The polls are showing a tighter race in both the Presidential election and the U.S. Senate races. The options market is used to hedge (protect) positions and to make highly leveraged, speculative investments. The options market is pricing in heightened volatility before AND after the elections. Again, this should not be a surprise. If you have a solid financial plan and a solid investment strategy, periods of higher volatility should present *opportunities* versus challenges. At 323, we have a *plan* for volatility and are prepared to act should the *opportunity* present itself.

The charts on the next pages relate to the comments above.

Understanding the markets can help us build a better plan for our financial futures AND sleep easier at night.

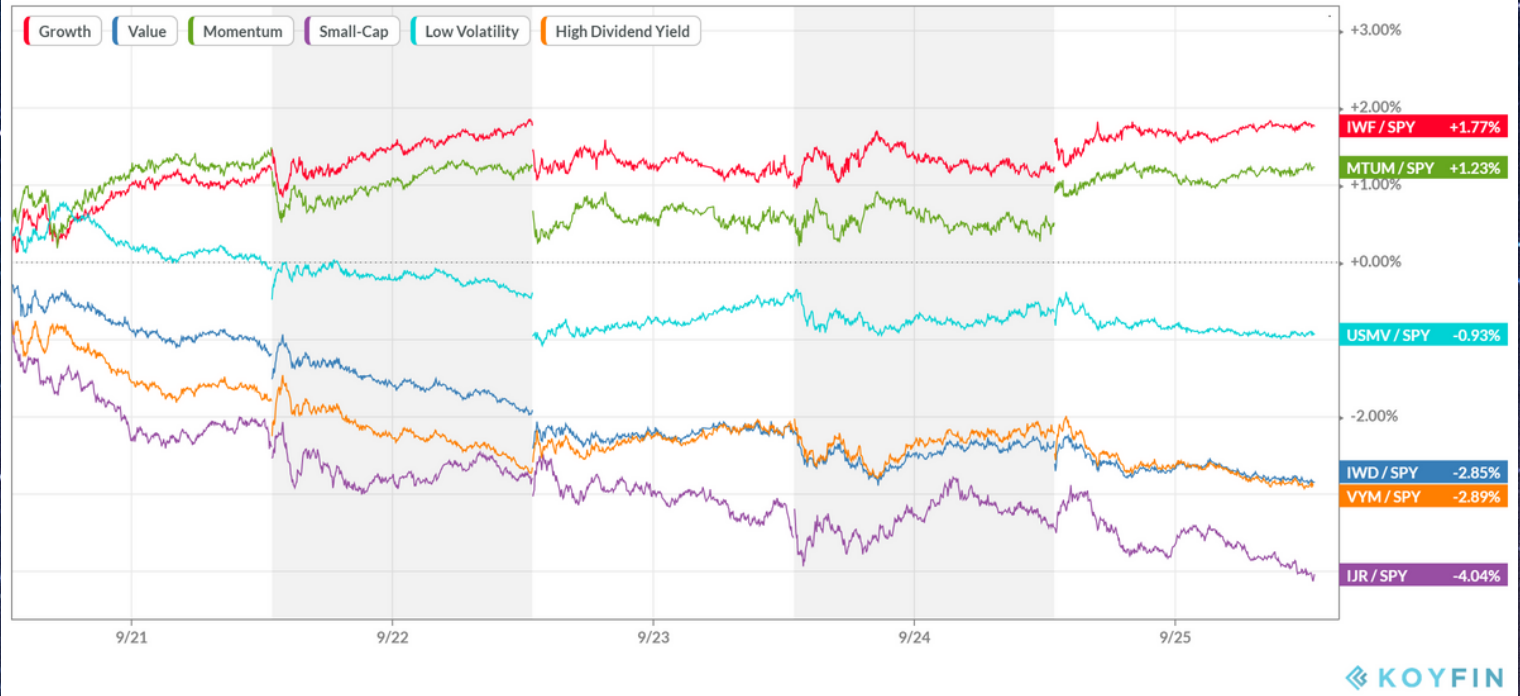


### Normalized Sector Performance



Source: [www.koyfin.com](http://www.koyfin.com)

### Normalized Factor Performance

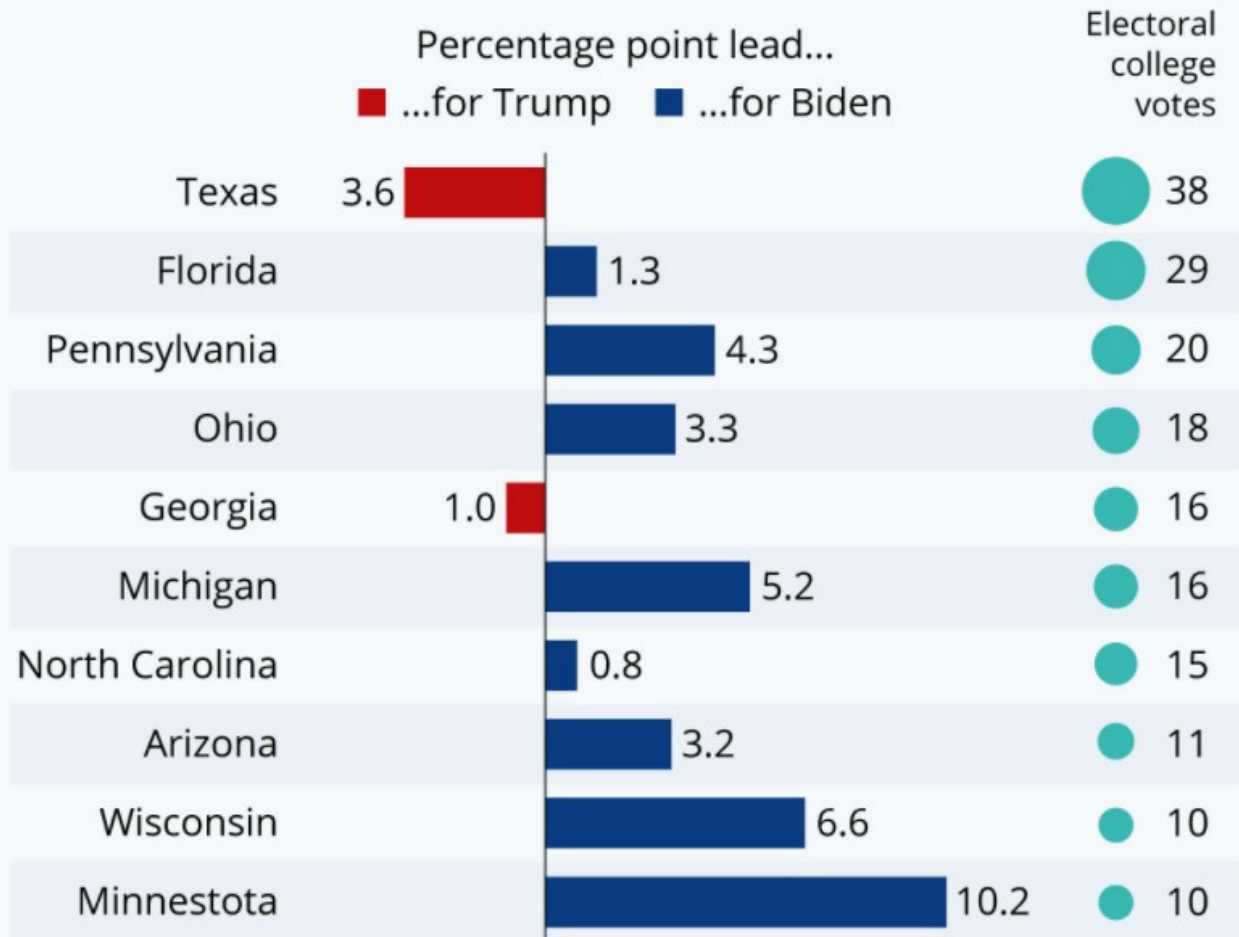


Source: [www.koyfin.com](http://www.koyfin.com)



# 2020's Battleground States

Average poll margins in favor of Donald Trump/Joe Biden in major swing states in the 2020 presidential election



As of September 25, 2020

Source: RealClearPolitics







# CORONAVIRUS

## CORONAVIRUS UPDATE

*Is anyone surprised to see second waves?*

As we have discussed from the beginning of the pandemic, we expected 3 waves. The timing of which would be geographically and policy dependent. The data clearly indicates that Europe and the UK are experiencing their second waves. The good news is that they appear to be following a similar trend of substantially lower death rates as here in the U.S.

Additionally, there was an interesting article in *The Economist* ([www.economist.com](http://www.economist.com)) regarding the Southern Hemisphere and the reduced severity of flu season. Perhaps there is hope that we can experience the same here in the U.S. and perhaps for all of the Northern Hemisphere...*perhaps* being the operative word.

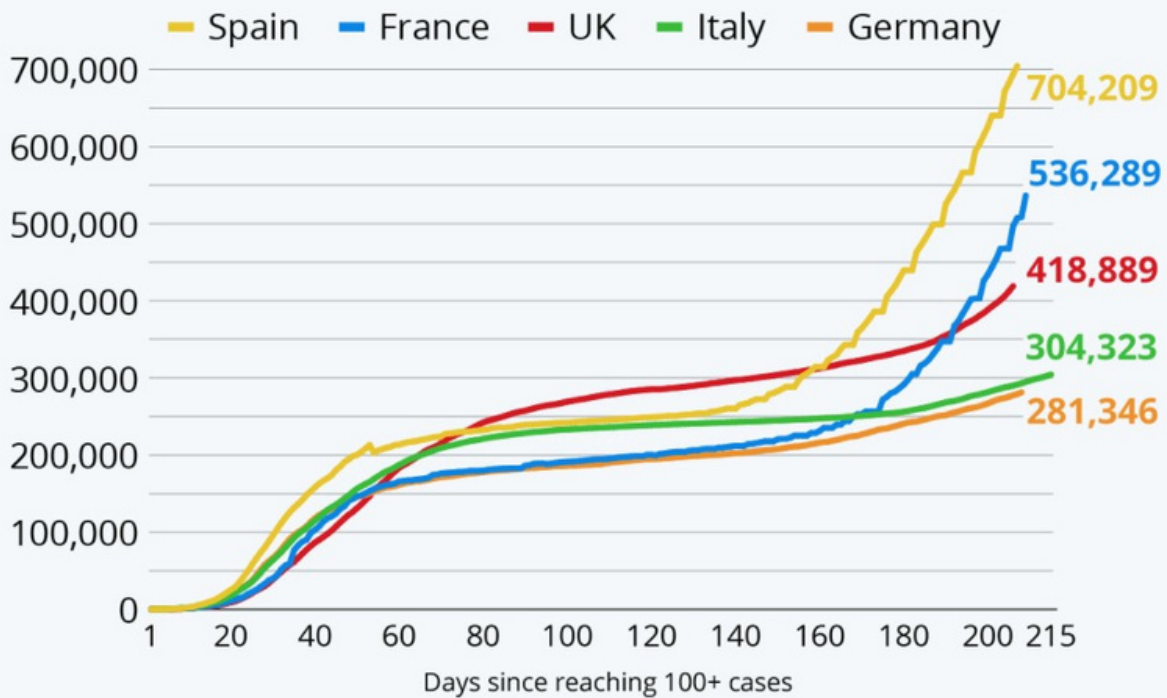
Please continue to stay safe and take the necessary precautions during this difficult time.

Keeping up to date on the pandemic will hopefully help you plan your finances as well as your life.



# Coronavirus Returns to Europe

Cumulative confirmed COVID-19 cases in selected European countries from day 1 after 100+ cases



As of Sept 24, 2020

Source: Johns Hopkins University

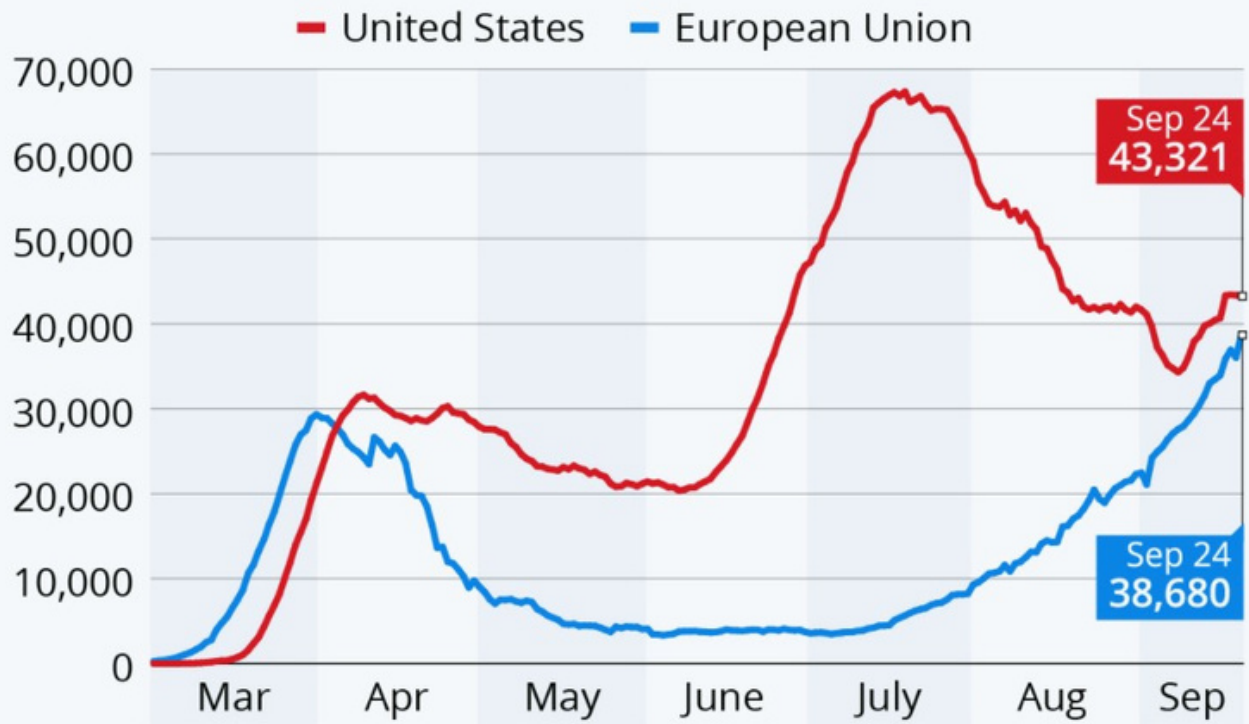


statista



# The State of the Unions

Seven-day rolling average of newly confirmed COVID-19 cases in the U.S. and the European Union



Source: Johns Hopkins University



statista

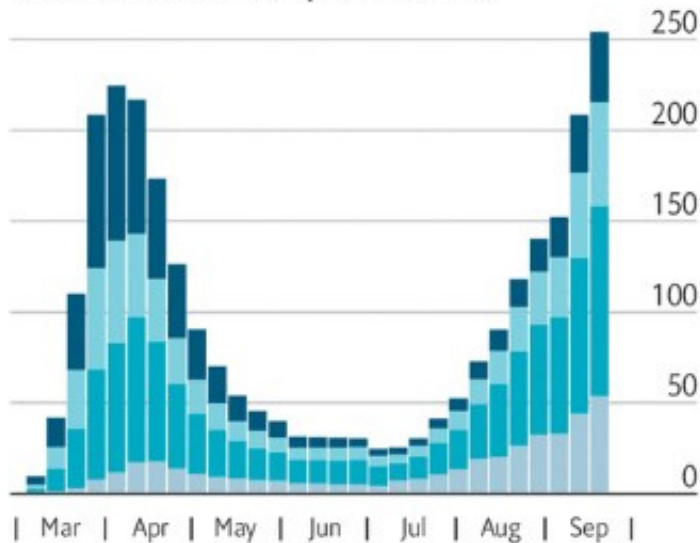


## Nouvelle vague

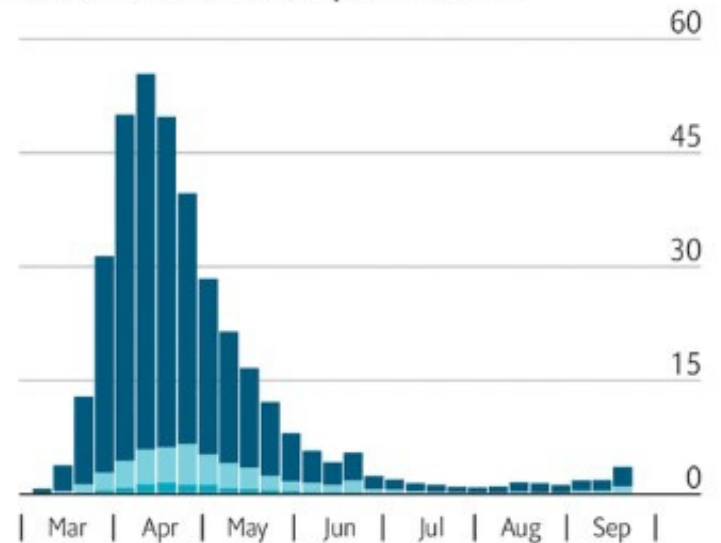
Covid-19 in western Europe\*, to Sep 20th 2020

Age group 0-24 25-49 50-64 65+

New confirmed cases per week, '000



New confirmed deaths per week, '000



Sources: Johns Hopkins CSSE; WHO; *The Economist*

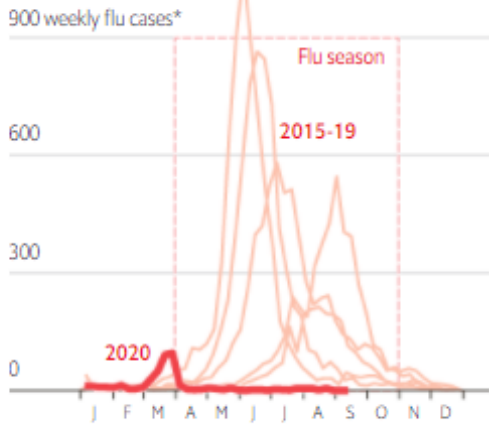
\*27 countries, population=480m

The Economist

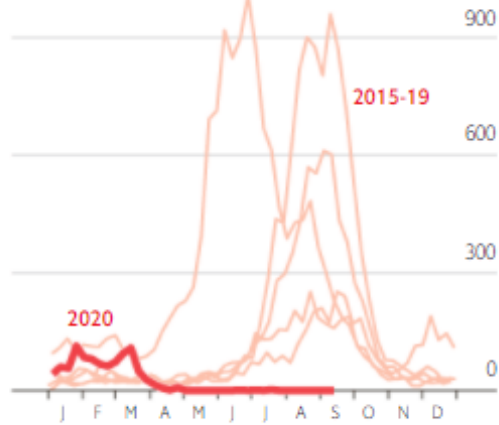


→ Lockdowns have all but eliminated flu season in the southern hemisphere

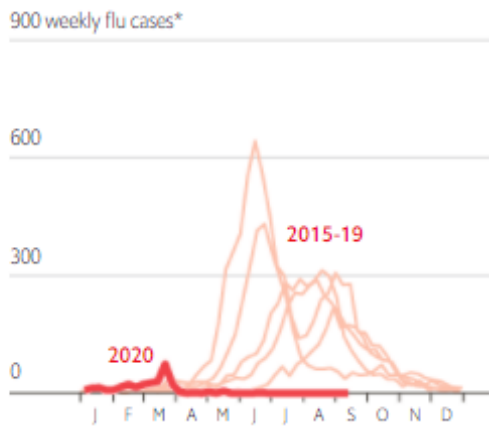
**Argentina**  
 Deaths per 100,000 people  
 Covid-19 2020 23.0  
 Flu average 2015-19 16.2



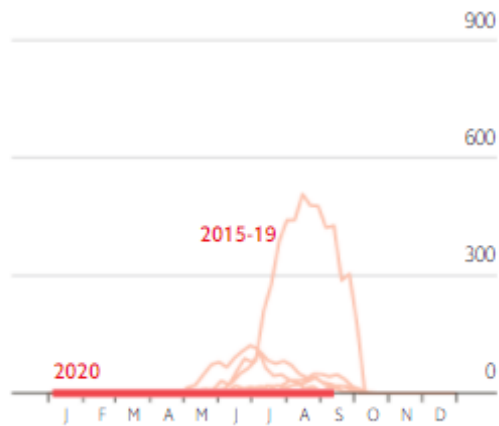
**Australia**  
 Deaths per 100,000 people  
 Covid-19 2020 3.1  
 Flu average 2015-19 2.2



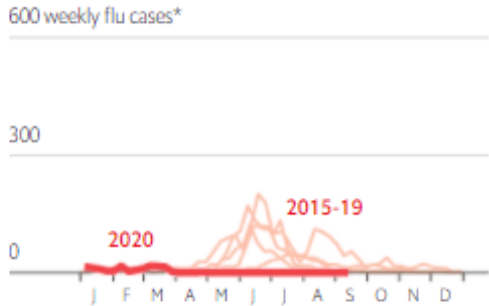
**Chile**  
 Deaths per 100,000 people  
 Covid-19 2020 61.1  
 Flu average 2015-19 12.7



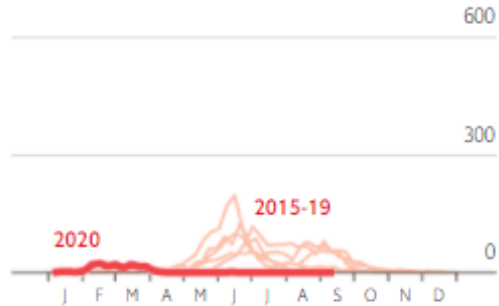
**New Zealand**  
 Deaths per 100,000 people  
 Covid-19 2020 0.5  
 Flu average 2015-19 3.3



**Paraguay**  
 Deaths per 100,000 people  
 Covid-19 2020 6.5  
 Flu average 2015-19 2.6



**South Africa**  
 Deaths per 100,000 people  
 Covid-19 2020 25.4  
 Flu average 2015-19 8.4



\*As reported to WHO's Global Influenza Surveillance and Response System





## FINANCIAL PLANNING UPDATE

### *Is your advisor a fiduciary?*

Some people view being a fiduciary as cumbersome. They see it as a hurdle that they have to meet from a compliance perspective.

I have always viewed being a fiduciary as freeing. It is very clear. Do what is in your clients' best interests. It's that simple.

So, is your advisor a fiduciary?

To find out more about what it means to be a fiduciary, please click the link below for a short explanation.

<https://abm.emaplan.com/ABM/MediaServe/MediaLink?token=67d32b7d2184491e9736108a6f0f3e30>

Financial planning is an ongoing process that evolves with your life's changing circumstances.



# CONCLUSION

## *Politics is politics*

While this third quarter has been good for the stock market, the month of September has not.

Market volatility is to be expected and occasionally we should take advantage of it.

Bonds continue to provide *stability* in the face of stock volatility.

Politics may continue to be the driving force behind market volatility even as corporate earnings are picking up.

If you have questions and/or concerns, please give us a call. We are here to help. If this update has been forwarded to you and you would like to be included on future emails, please subscribe at our website at [www.323wm.com](http://www.323wm.com).

Thank you very much for your time.

# DISCLOSURES

## Note:

The graphs and charts in this email were gathered from Koyfin, The Daily Shot, FactSet, The Economist, Statista, and a Covid tracker

(<https://datastudio.google.com/u/0/reporting/c8a0edc3-2d74-4d85-9b7a-5ab335eb76b6/page/1XLJB>)

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