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The U.S. equity markets posted further gains during the third quarter, but it was an uneven journey. Bolstered by loosening lockdown restrictions and hopes for continued monetary and fiscal policy accommodation, the S&P 500 gained over 14% in the first 2 months, to a new all-time high. The rally was narrow, however, with Technology shares up over 20%, while most sectors' performance ended up between healthcare's 7% gain and energy's 7% loss. Growth stocks accelerated their dominance over value, as the Russell 1000 Growth Index gained over 30% while the Russell 1000 Value Index actually fell 9.2%. In addition to the Growth vs. Value divide, small and mid-cap stocks posted materially lower results than large caps. In September, the rally reversed as high valuations and concerns around Congress' ability to pass another round of stimulus weighed on markets, with the strongest performers from earlier in the quarter taking the brunt of the losses.

Our Kirwan Capital Strategy portfolios gained 10.26% for the quarter**, versus the market as measured by the S&P 500 ETF*, which finished with a gain of 9.04%. The quarter's performance leaves our average compound annual return after fees since Jan 1, 2013 at 12.99%, which would have turned a $10,000 investment into $25,770 in 7 3/4 years.

Our returns were boosted during the quarter by Apple (up 27%) and Amazon (up 14%), which continued to power higher on ideas that these businesses will be helped rather than hurt by the Covid pandemic. Hanesbrands (up over 40%) also helped significantly, boosted by a speedy retooling to produce protective garments for the private and public sectors, which helped to offset pandemic related sales weakness. At the risk of sounding like a broken record, we were again hurt by Wells Fargo (down almost 8%). At some point regulators will presumably remove the asset cap placed on the bank, and valuations should improve as the pandemic eventually subsides. We sold minor stakes in Apple and Amazon early in the quarter, and used the proceeds to purchase additional shares of Hanesbrands, JP Morgan, Wells Fargo, and AB Inbev on ideas that valuations were stretched on the former two and cheap on the latter, and that the long term trend in growth outpacing value is growing long in the tooth and must reverse at some point.

Patrick J. Kirwan
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* The benchmark I use against which to gauge our performance is the SPDR S&P 500 ETF (ticker symbol SPY). It's purpose is to closely track the stocks in the S&P 500 Index. Often cited as a proxy for the U.S. equity market, it is the most heavily traded security in the world. It can thus easily be purchased by any investor, as opposed to the oft quoted S&P 500 Index, which is simply a calculation, and does not include costs of ownership.
** Kirwan Capital Strategy quoted returns are calculated using the quarterly composite average of all accounts using the strategy in aggregate. Due to the individually managed nature of our accounts, not all accounts have similar performance. Factors such as available cash, tax considerations, and timing of previous purchases or sales can effect returns. Transactions noted may or may not have been made for all accounts. Past performance is not indicative of future results and investing entails a degree of risk and potential loss of principal. The Kirwan Capital Strategy uses fundamental analysis in an attempt to measure the intrinsic value of securities with the objective of buying undervalued securities and realizing dividends and capital gains over a long-term (at least one year) holding period.