Shuttleworth & Company Market Commentary—Third Quarter of 2020

COVID-19 virus, high unemployment, political discourse, social unrest, foreign relations under strain, market volatility - these headlines have continued to dominate the news again this quarter. The financial markets have experienced a high rate of volatility in 2020, which has led to much anxiousness among investors. Third quarter returns for the major market indices were unexpectedly strong given this backdrop building on the gains of the second quarter. The sheer velocity and strength of the gains seems confusing and to be out-of-step with the economy. Many investors attribute the market's strong performance to a steadily improving economy as well as a powerful surge in big technology stocks whose business models have flourished in this constrained economy. Year-to-date returns are mixed, with the tech heavy Nasdaq having a notably strong double-digit return. The table below illustrates Year-To-Date and Third Quarter returns as of 9/30/2020 (amounts are for total returns):

Time Period	Dow Jones	S&P 500 Index	Nasdaq Composite	Barclays U.S. Aggregate
Year-To-Date	-0.9	5.6	24.5	6.8
Third Quarter	8.2	8.9	11.0	0.6

The trend of the financial markets continues to be positive, however ...

The three major indices were dramatically up in the third quarter, as stocks defied the pandemic in continuing the upward price momentum of the second quarter. The rally since the lows in March has moved the S&P 500 and Nasdaq Composite stock indices positive for the year. However, the performance has been uneven with five of the eleven S&P Sectors having negative returns year-to-date and an Equal Weight S&P 500 index having a negative 6.3% return through 9/30/2020 in comparison. The S&P 500 and Nasdaq Composite indices made a string of higher highs in the summer before selling returned in September resulting in a very fast correction to the Nasdaq Composite. The markets continue to react to the status of the pandemic and its impact on the economies of the world. Consumer spending has ticked up and hiring in the U.S. has picked up for four consecutive months. The Federal Reserve has been most accommodative to maintaining low interest rates and recently stated a change in policy on setting rates that will keep them low for years. As a result, mortgage rates remain at record lows. Home sales and prices have gone through the roof. Since the pandemic individuals are building new homes in the suburbs, while existing homeowners are taking advantage of the low rates by refinancing their existing mortgage. The markets appear fragile based upon the velocity and magnitude of short term moves and trading, which is most likely attributable to the major uncertainties of the upcoming election and the continued impact of the coronavirus on the economy and our lives.

Expect the unexpected

What will impact the markets the balance of the year? We believe the major factors will be the *Continued Impact of Coronavirus to Employment and the Economy, and the Presidential Election.* These two factors among others will have major impact on the financial markets. If there is a significant second wave of infections of the coronavirus and there is a prolonged economic recovery the markets will react. The outcome of the Presidential election will have consequences that are very difficult to accurately predict. We do believe the markets will continue to be volatile in the days and weeks ahead including for a period after the election as results are being calculated. Hopefully, once the election news is behind us, the volatility will subside. Widely expected changes in tax law, legislation and industry regulation will certainly impact multiple market sectors in the years to come. We take these factors into consideration in making portfolio management assessments, based upon the availability of data.

Under our management style the 24-hour news cycles does not impact our investment decisions. Interest rates are near all-time lows and therefore risk-free returns are near zero. Regarding fixed income investing, we are focused on liquidity and managing risk. The Federal Reserve has backstopped the bond markets with bond purchases or promise thereof, and consequently prices are high and returns low. It is difficult to find attractive individual bonds being offered. We are utilizing ETFs (exchange traded funds) to meet our fixed income needs where appropriate. Please call or email us if you have questions.

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