FINITY GROUP, LLC

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Third Quarter Market Update

In the third quarter, global markets continued their rebound from the COVID-19-induced March lows with all major asset classes ending in positive territory for the period. Emerging Markets Equity (represented by the MSCI EM Index) led all major indices while gaining 9.70%, although it is still down .91% year to date. Led by the continued out-performance of growth sectors, the S&P 500 gained 8.93% during the quarter and is up 5.57% year to date. Developed International Equity, represented by the MSCI EAFE gained 4.88% for the period, although it is negative 6.73% year to date. Fixed income markets, represented by the Bloomberg Barclays Aggregate Bond Index, gained .62% for the period, and are up 6.79% year to date.

Election Impacts?

Every four years we tend to get a fair number of questions about how politics can impact portfolios. Going into the 2016 election, we reviewed studies to determine if either party would provide an edge for investors, but found little evidence of statistical significance. We feel that these findings are still valid. We found that some studies showed that parts of equity markets have historically performed better under Democrats (Santa-Clara and Valkanov, Journal of Finance, 2003) while fixed-income markets have outperformed under Republicans (Johnson, Chittenden, and Jensen, Journal of Portfolio Management, 1999).

While we found little indication that the political party in question significantly impacted markets, we did find that the Federal Reserve had a significant impact. In a study that looked at a combination of both political and monetary factors, in their paper "Don't Worry about the Election, Just Watch the Fed", (Journal of Portfolio Management, 2004) the authors Beyer, Jenson and Johnson found that when looking at both monetary policy and the political landscape simultaneously, the previously referenced relationships begin to break down. "Overall, our evidence indicates that equity investors have consistently benefited from an expansive Fed monetary policy relative to a restrictive policy. In contrast, there is no consistent evidence suggesting that shifts in the political landscape have been systematically related to security returns. This evidence suggests that market participants should focus their attention on the actions of the election outcomes as a minor distraction."

We feel the above continues to hold true and we would highlight the fact that the Federal Reserve has been extremely accommodative through a broad array of actions in 2020. In March, the Federal Funds rate was slashed to a range of 0%-.25%, which is the lowest level on record. Additionally, the Federal Reserve Board has indicated that they look to maintain accommodative monetary policy stance in the near term, with the expectation that rates will not increase until their goals of maximum employment and 2% inflation are reached. This backdrop of expansionary monetary policy has provided support for global equities during the COVID-19 pandemic, and we expect continued benefit from this "easy money" environment in the near term.

Furthermore, as companies begin to report earnings for the third quarter, we expect results to provide further economic clarity through the availability of additional fundamental data and forward-looking guidance from management teams. This clarity should provide more insight into the long-term economic impacts of Covid-19. This insight may expedite and/or shape future potential fiscal stimulus from Washington, which is currently being negotiated as of this writing.

While the above comments are positive for markets, we would note that we anticipate elevated levels of volatility between now and election day. This said, we would encourage investors to place less emphasis on this potential volatility and instead focus on their long term goals and the facts that for the foreseeable future markets have a tailwind from the accommodative Federal Reserve and likely further support from Washington if the next stimulus program is passed. We feel these policies combined will likely have a greater long-term impact on the capital markets than election results.

As we work through the homestretch of the election, we would encourage investors with diversified portfolios and invested in multiple asset classes to focus on their goals and rebalance back to their targeted asset allocation that is designed to match their time horizons and risk tolerances. If your situation has changed, or if you would like to speak to one of our advisors, we would be happy to connect with you at your convenience.

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Index	Closing Price: 9/30/2020	Closing Price: 6/30/2020	Q3 2020 Return	2020 YTD Return	Trailing 12 Months
S&P 500	3,363.00	3,100.29	8.93%	5.57%	15.15%
S&P 500 Value	1,114.12	1,070.38	4.79%	-11.47%	-2.68%
S&P 500 Growth	2,334.46	2,094.22	11.75%	20.61%	30.64%
Russell 2000	3,746.99	3,582.16	4.93%	-8.69%	0.39%
Russell 2000 Value	5,406.04	5,299.27	2.56%	-21.54%	-14.88%
Russell 2000 Growth	6,826.32	6,377.71	7.16%	3.88%	15.71%
MSCI EAFE	1,855.32	1,780.58	4.88%	-6.73%	0.93%
MSCI EM	1,082.00	995.10	9.70%	-0.91%	10.91%
BBgBarc US Agg Bond	2,376.13	2,361.51	0.62%	6.79%	6.98%

Written by Finity Group

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