TIMONIER

Wealth Beyond Financial™

# From the Engine Room

**3rd Quarter 2020**

# Quarterly Market Review

Third Quarter 2020

This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the impact of globally diversified portfolios and features a quarterly topic.

*"The best way to predict the future.... is to create it!"*

## Overview:

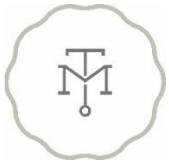
# You Are In Control

*"Self control is strength, calmness is mastery. You have to get to a point where your mood doesn't shift based on the insignificant actions of someone else. Don't allow others to control the direction of your life. Don't allow your emotions to overpower your conscious intelligence.*
Marcus Aurelius, Philosopher

The human condition and its emotional state have been constantly under siege for much of the year. And there's plenty more chaos yet to come. If you are one who feels you are just a skin encapsulated bag of tendons and bones, victim to the world and outer circumstances, ***stressed out*** is only the beginning of describing how you must feel. But if you are rooted in spirit, in consciousness, your religious faith that says you are greater than your body, these times are no more threatening than a peaceful morning sunrise on the beach in solace or with your cherished partner, family, or friends. Though we cannot escape our outer world circumstances, we do control how we respond to these influences and how we interact with those around us. Our wealth management systems have finely tuned processes and people in place to support your financial journey. We may be on the same vessel navigating the stormy seas, but we are all having different experiences. Let's hold each other up. We are all connected.

The coronavirus is still very much with us, as is much of the economic dislocation occasioned by the resulting lockdowns. Granted, humankind is evidently closing in rapidly on a vaccine—indeed, a number of vaccines. But it may be quite some time yet before most of us will get access to a vaccine, and frustration may abound. Thanks to the medical community's ever adjusting treatments with the virus, the morbidity rates have shrunk dramatically. But the virus has revealed the soft underbelly of our nations' health as revealed by the co-morbidity rates to date and the divisiveness it has caused in the diverse social and business approaches from state to state. Violence and lawlessness have been most disturbing in our largest cities. Social isolation, elimination of jobs and businesses...and alterations to many aspects of lifestyles have been materially compromised. Moreover, in the coming weeks we will have to go through a hyper partisan presidential election, with a variety of unique voting issues, as well as dire economic outcomes that the losing contingency is predicting and in fear of. Problem-solving is challenging enough when everyone is working together in harmony. However, these challenges become seemingly insurmountable when there are oppositional parties to the solution. It's like trying to smother a bonfire with half the parties throwing water on it and the other half stoking it with new wood and gasoline.

So, before we're further engulfed by these multiple unknowns, I want to take a moment to review what we as investors should have learned—or relearned—since the onset of the great stock market panic that began in February/March of this year. And then ended when the S&P 500 Index regained its pre-crisis highs in mid-August. Or maybe it didn't!



The lessons, it seems to me, are:

• No amount of study—of global financial metrics, of economic commentary and market forecasting—ever prepares us for really dramatic events, which always seem to come at us out of deep left field. **Thus, trying to make investment strategy out of "expert" prognostication—much less financial journalism—always sets investors up to fail.** Instead, the strategy of having a life-time plan, and finetuning that plan through all the fears (and fads) of a family's journey, tends to keep us on the straight and narrow, and helps us to avoid sudden emotional decisions.

• The equity market went down 34% in 33 days. None of us have ever seen that precipitous a decline before—but with respect to its depth, it was just about average. That is, the S&P Index has declined by about a third on an average of every five years or so since the end of WWII. But in those 75 years, the S&P Index has gone from a price value of about 15 to where it is now…3,363! The lesson is that, at least historically, the declines haven't lasted, and long-term progress has always reasserted itself. **And no one can predict when the declines will occur or how long they will last! On average, they will decline 14% from peak to trough…*annually.*** The weighty evidence of history shows that the price declines are temporary, and the upward trend is permanent.

• Almost as suddenly as the market crashed, it completely recovered, surmounting its February 19 all-time high on August 18. Note that the news concerning the virus and the economy continued to be dreadful, even as the market came all the way back. I think there are actually two great lessons here. (1) The speed and trajectory of a major market recovery very often mirror the violence and depth of the preceding decline. We have already witnessed a V-shaped recovery in the S&P Index prices. (2) The equity market most often resumes its advance, and may even go into new high ground, considerably before the economic picture clears. **If we wait to invest before we see unambiguously favorable economic trends, history tells us that we may have missed a very significant part of the market advance.**

• The overarching lesson of this year's swift decline and rapid recovery is, of course, that the market can't be timed—that the lifetime, goal-focused equity investor is best advised to just ride it out. It's the short-term market timers and tactical asset movement strategists that are at great risk during times of economic volatility. **Lifetime investors can take advantage retrospectively of dramatic price declines! It's intuitively clear.**

Now let me recognize that there are two types of investors based on Human Lifecyle's…*Accumulators* (people still working and saving) and *Spenders* (retirees making withdrawals from the nest egg). **The accumulators should be enthusiastically saving as much as they can during periods of price declines and uncertainty.** Their goal is to accumulate as many shares of global companies as possible before retirement and temporary price declines allow them to buy more shares with the same dollars. Those receiving distributions fall into two camps…those who can live

on social security, pension income, and dividends from their global stock portfolios and those needing more distributions than their dividends can produce. If you are in that small camp of retirees that can live on their dividends alone, you don't care about temporary price declines, you just continue to enjoy a steady and inflation beating income stream from your dividend income. You yawn at stock market price fluctuations. Even BIG fluctuations! You seldom even open your investment statement. Now, if you need more income than the dividends your stocks produce, you will need a Cash Reserve/Bond strategy in place. We know which clients need this…and we suspend selling stock shares while in a price decline and provide the supplemental income needed from bonds allocated in your portfolio that have not declined in price. **So, even a retirement investor with proper planning, never has to be concerned for their financial well-being during turbulent economic times.**

• Wall Street, Insurance Street, the Media, and your hypnotized neighbors and work mates are skilled at creating fear of current circumstances and projecting those worries into the distant future. The human brain is wired for survival. So anytime there is a threat in your life…your inherited DNA is going to fight, flight, or freeze to survive. This works well while being stalked by a lion. But it has disastrous outcomes when applied to managing investment portfolios. Our minds and human experience haven't embedded the reasoned response needed to market conditions as it relates to money matters. **Financial matters are a recent phenomenon in human history. The financial system knows this and takes advantage of you as its consumer. You are their unconscious puppet.** And the more they can manipulate you into moving your money from one investment product to another, from one insurance product to another (IE…annuities), THEY PROFIT! Not you…

If someone is trying to convince you to do something, RUN. They may say they are a professional, an advisor, ***but they are just a salesman***. We at Timonier are here to convince no one. If our story and philosophy resonate…great. If it doesn't…great! Learn to listen to your intuition…and don't confuse this with your gut! Your gut is emotional. Listen to that tiny voice that whispers truth into your awareness. Normally, people ignore this aspect of themselves and have remorse in retrospect for listening to other opinions. So, stop following the herd. This is YOUR life!

• It's obvious that the media doesn't know what is happening with investment returns or the economy. The media would have you think that the stock markets have recovered and are in the plus territory for the year. Even overvalued…whatever that metric is. The media only touts what the Dow 30, the S&P 500, or the NASDAQ are doing. These three indices do not represent the totality of the world markets, much less the US markets. The fact is, only a relatively few companies have done well this year. They by happenstance, were in the right industries to benefit from this uniquely historic pandemic event. Basically, they were the FAANG stocks and Clorox. Most companies in the US and around the globe are down in value year to date. **That makes sense!** *The ground level economies have been devasted by a*

*world that intentionally shut down its business activity.* Additionally, Value Style stocks (historically dominant in returns) and Small Company stocks (also historically dominant in returns) have underperformed quite dramatically their counterpart Growth Styles and Large Company stock brethren for two years now. Such differential in fundamental pricing hasn't been this wide since the Technology Dot Com boom in 2000. And when the global economy inevitably recovers, these underperforming companies will as well. Global economies and its citizens were in a financially healthy position when we entered 2020 (see chart at end of letter). With strong consumer balance sheets, high employment percentages with increasing wage growth, and a growing demand in all consumer and corporate segments, the global economies were primed for an abundant year. The world of commerce will resume with its pent-up animal spirits in just a matter of time. Be patient. We are not microwave investment managers.

Currently, the Global Economy generates a gross domestic product valued at $88 trillion. The US, with 4.5% of the world's population is responsible for an impressive 24% of this output. The global population will grow approximately by another 2.5 billion people in the next 30 years. Hundreds of millions of people will move from poverty to the economic middle class in the next 10 years! The economic pie is growing rapidly…not shrinking. That's how a slice of the pie can be removed and yet there is more pie! **There are more people, living more abundantly, with longer lives than ever before and this will continue.** Short of nuclear war or an asteroid, that's a fact.

**There is never a reason to sell an extremely diversified basket of global stocks based on random and external events.** Most of our client portfolios, both large and small, own over 12,000 companies worldwide! For the past 40 years our clients, our staff, me and my family, implement a buy…hold…rebalance strategy. And when we rebalance, we move outperforming assets into underperforming assets. We applied these rebalance principles back in March and April during the most volatile period this year. We constantly buy shares of companies and when market environments present opportunities to buy stock at deep discounts…we buy even more. **ALL information about why you should sell stocks is NOISE.** *This includes the upcoming election.* I've heard all the stories of why the stock markets will go down if X Candidate wins and will go up if Y Candidate wins…and with a Global Portfolio Allocation of Companies…it doesn't matter! Companies will find their way around the boulders thrown in their way. Both history and current world affairs is our guide. It doesn't matter who wins…owning companies is the right thing to do with your surplus capital and we will continue to accumulate shares of global companies for our client portfolios. Capitalism is dynamic and fluid like water. It's always creating ideas and inventions for a better life (adjusting along the way), producing goods and services to enjoy, providing jobs and social experiences needed by those participating. It represents freedom and brings people together to produce those goods and services who do not know each other, may not be of the same race, religion, and many other opposing life preferences, for the collective good. When a

*"In the 54 years Charlie Munger and I have worked together, we have never forgone an attractive purchase because of the macro or political environment, or the views of other people. In fact, these subjects never come up when we make decisions."*
Warren Buffet, CEO of Berkshire Hathaway

boulder that finds its way into a river, the water just moves around it…and so does Capitalism with *its obstacles*. So, no matter what political party prevails in the upcoming elections (see chart below), no matter what hurricane hits the mainland, no matter what unknown virus finds its way into the human population…owning shares of companies will always be the most productive use of your surplus resources. Capitalism has always operated with an anchor around its neck…its' always just a question of how heavy the anchor is. This time is no different! The best time to buy shares is when you have the cash! **YOU are in control of your destiny.**

• These are the investment policies you and I have been following all along, and if anything, our experience this year has validated this approach even further.

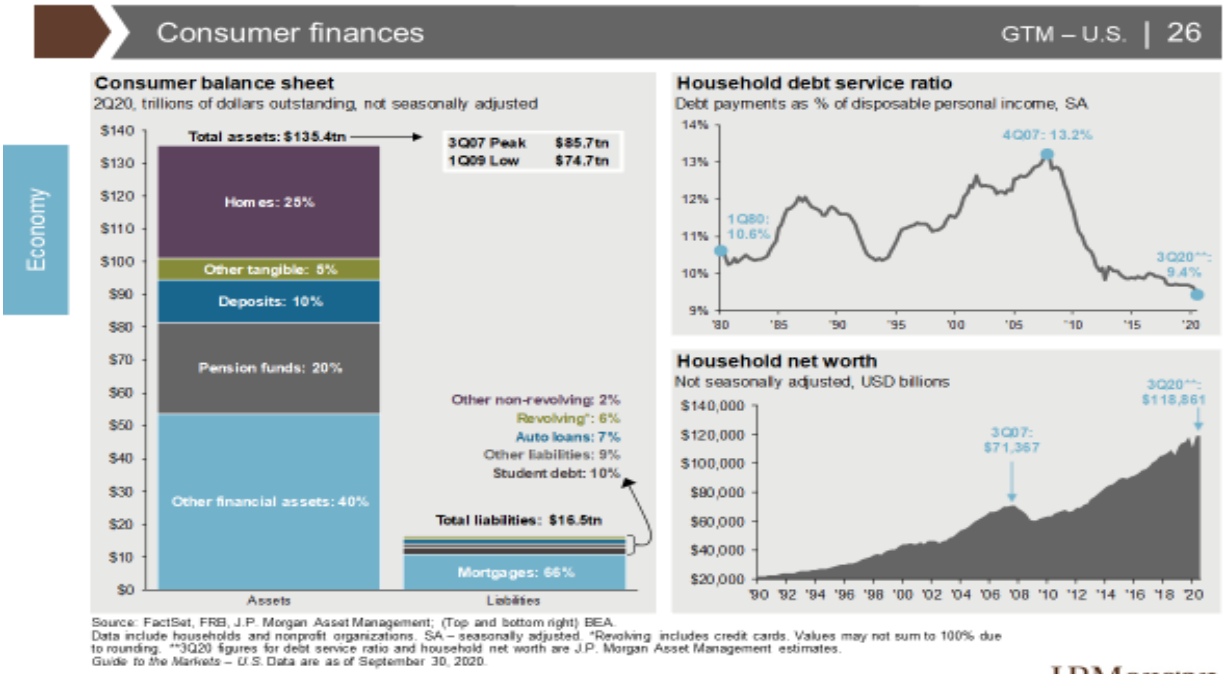
Thank you, as always, for being Timonier's clients. We are in gratitude for you…and it is a privilege to serve you.

Namaste'

Tim L. Baker, CIMA, GFS

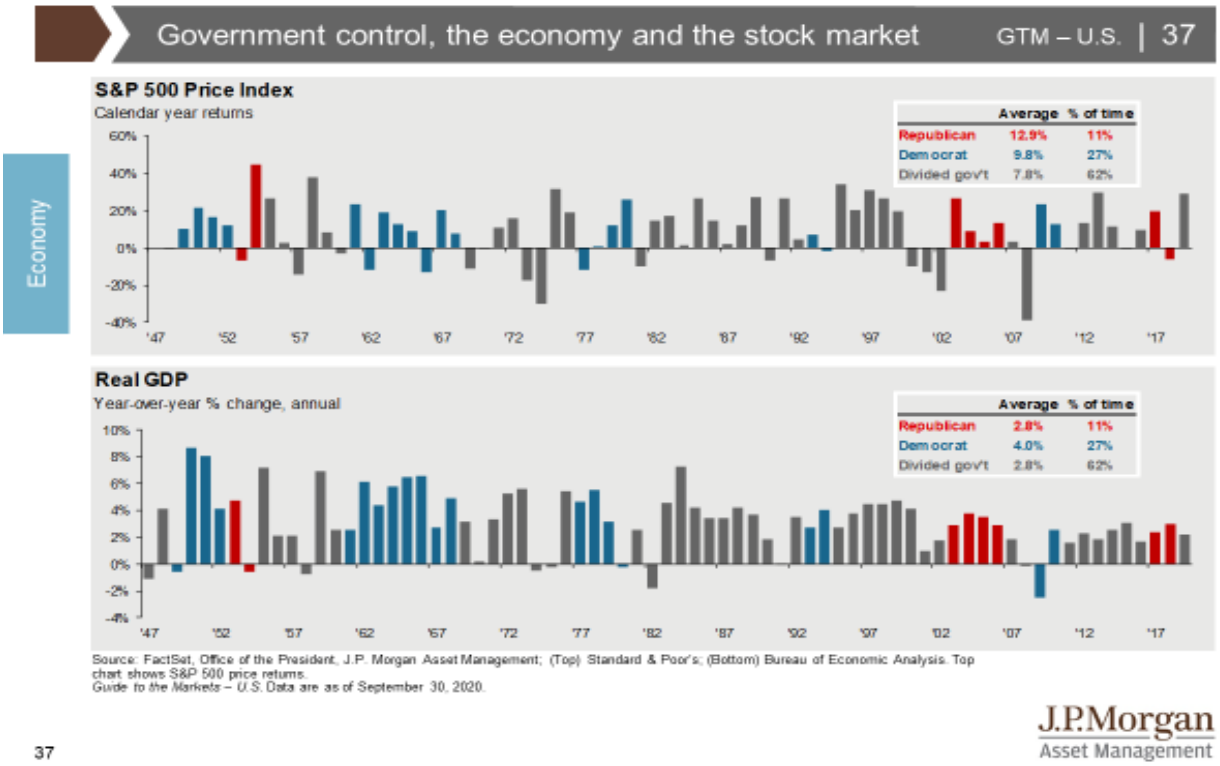
CEO/Wealth Advisor

PS…Chart one below illustrates the financial condition of the American consumer. Quite impressive!



*"We didn't want to leave the hanger and we could hardly wait to get up each morning."*
Wilbur Wright, Inventor of first airplane

**AND,** chart two as noted above, illustrates the US stock market returns during times when Republicans were in full control, when Democrats were in full control, and when the power was split. Overall, it doesn't matter who is in political power…***Capitalism is Always in control!!!***




*"The main purpose of meditation is to remove your attention from the environment, your body, and the passage of time so that what you intend, what you think, becomes your focus instead of these externals. You can then change your internal state independent of the outside world."*
***Dr. Joe Dispenza, Neuroscientist-Author-Teacher***

# Quarterly Market Summary

## Index Returns

| | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | US Bond Market | Global Bond Market ex US |
|---|---|---|---|---|---|---|
| **3Q 2020** | **STOCKS** | | | | **BONDS** | |
| | **9.21%** | **4.92%** | **9.56%** | **2.37%** | **0.62%** | **0.68%** |
| **Since Jan. 2001** | | | | | | |
| Avg. Quarterly Return | 2.1% | 1.4% | 2.8% | 2.3% | 1.2% | 1.1% |
| Best Quarter | 22.0% **2020 Q2** | 25.9% **2009 Q2** | 34.7% **2009 Q2** | 32.3% **2009 Q3** | 4.6% **2001 Q3** | 4.6% **2008 Q4** |
| Worst Quarter | -22.8% **2008 Q4** | -23.3% **2020 Q1** | -27.6% **2008 Q4** | -36.1% **2008 Q4** | -3.0% **2016 Q4** | -2.7% **2015 Q2** |

**Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). 

# Long-Term Market Summary

Index Returns as of September 30, 2020

| | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | US Bond Market | Global Bond Market ex US |
|---|---|---|---|---|---|---|
| | STOCKS | | | | BONDS | |
| 1 Year | 15.00% | 0.16% | 10.54% | -18.58% | 6.98% | 1.82% |
| 5 Years | 13.69% | 5.32% | 8.97% | 2.20% | 4.18% | 4.33% |
| 10 Years | 13.48% | 4.37% | 2.50% | 5.58% | 3.64% | 4.06% |

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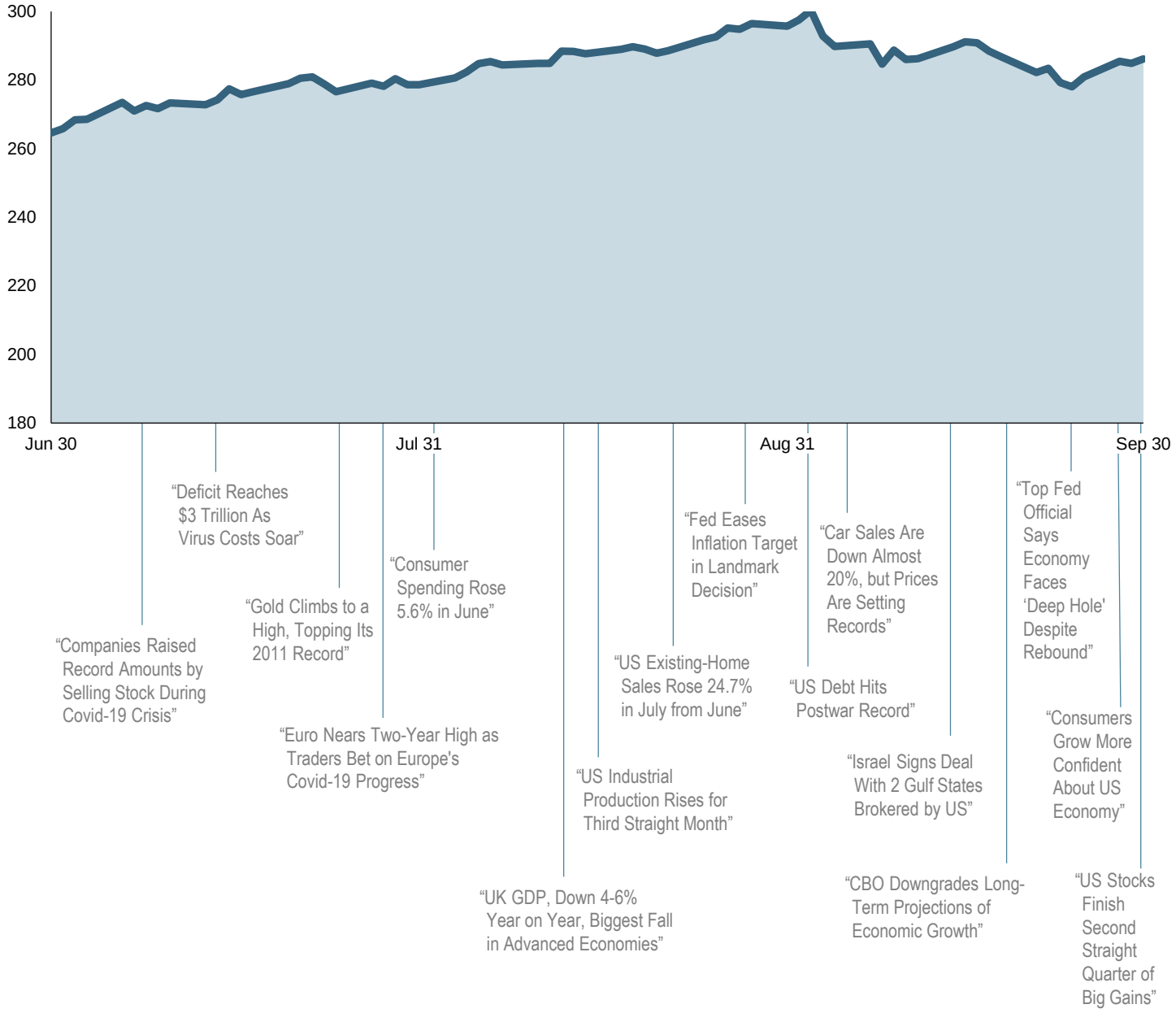
# World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2020

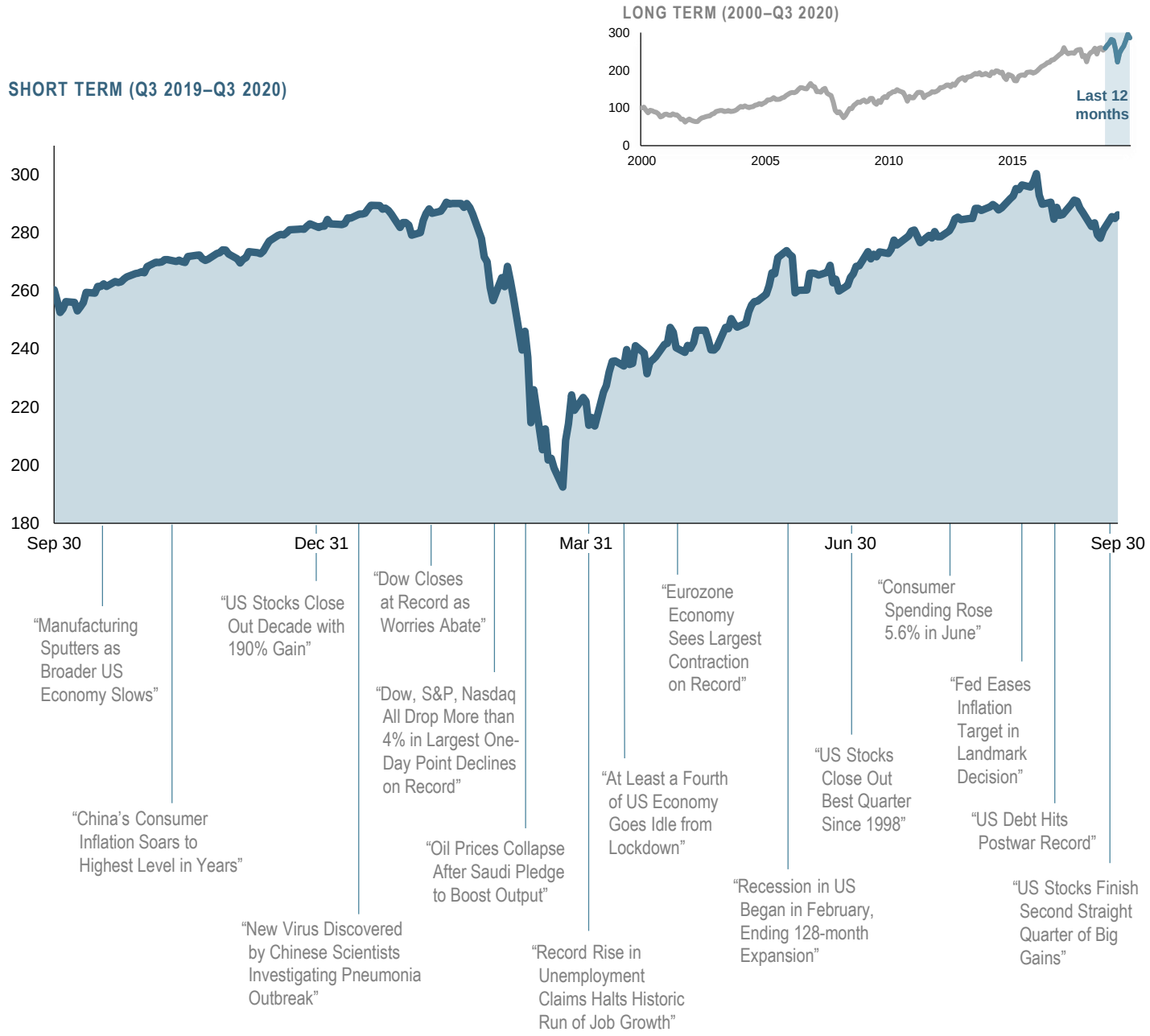



***These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.***

Graph Source: MSCI ACWI Index [net div.]. 
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

# World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months

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Graph Source: MSCI ACWI Index [net div.]. 
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

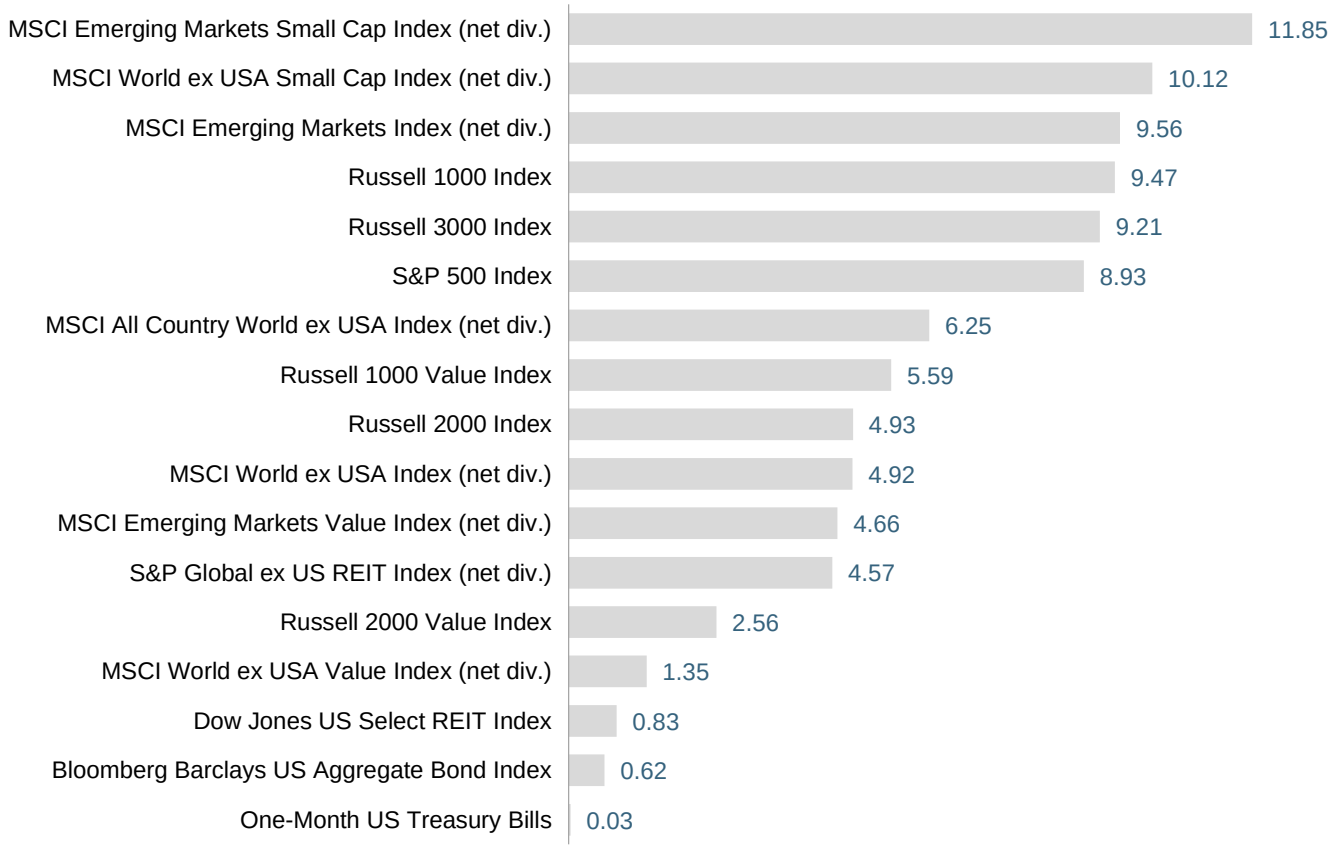
# World Asset Classes

## Third Quarter 2020 Index Returns (%)

Equity markets around the globe posted positive returns in the third quarter. Looking at broad market indices, emerging markets equities outperformed US and non-US developed markets for the quarter.

Value underperformed growth across regions. Small caps outperformed large caps in non-US developed and emerging markets but underperformed in the US.

REIT indices underperformed equity market indices in both the US and non-US developed markets.

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# US Stocks

## Third Quarter 2020 Index Returns

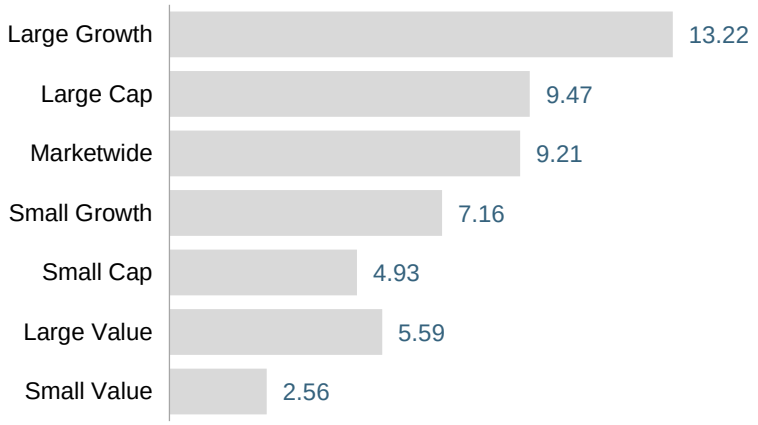
The US equity market posted positive returns for the quarter, outperforming non-US developed markets but underperforming emerging markets.

Value underperformed growth across large and small cap stocks.

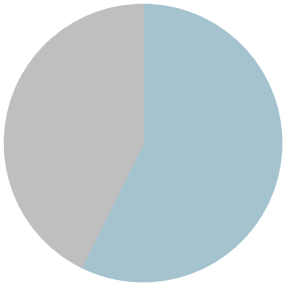
Small caps underperformed large caps.

REIT indices underperformed equity market indices.

### Ranked Returns (%)




### World Market Capitalization—US



57%

**US Market**
$33.2 trillion

### Period Returns (%)

** Annualized*

| Asset Class | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|---|---|---|---|---|
| Large Growth | 24.33 | 37.53 | 21.67 | 20.10 | 17.25 |
| Large Cap | 6.40 | 16.01 | 12.38 | 14.09 | 13.76 |
| Marketwide | 5.41 | 15.00 | 11.65 | 13.69 | 13.48 |
| Small Growth | 3.88 | 15.71 | 8.18 | 11.42 | 12.34 |
| Small Cap | -8.69 | 0.39 | 1.77 | 8.00 | 9.85 |
| Large Value | -11.58 | -5.03 | 2.63 | 7.66 | 9.95 |
| Small Value | -21.54 | -14.88 | -5.13 | 4.11 | 7.09 |

**Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Dow Jones US Select REIT Index used as proxy for the US REIT market. Frank Russell Company is source and owner of trademarks, service marks, and copyrights related to Russell Indexes. MSCI data © MSCI 2020, all rights reserved.

# International Developed Stocks

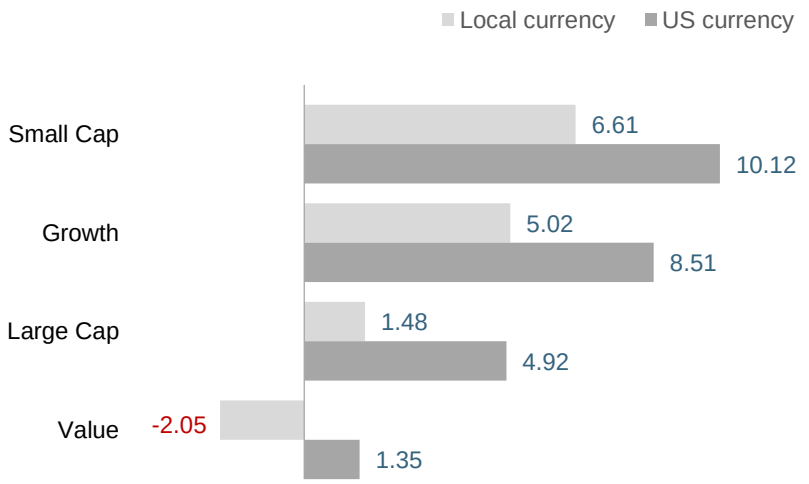
## Third Quarter 2020 Index Returns

Developed markets outside the US posted positive returns for the quarter but underperformed US and emerging markets equities.

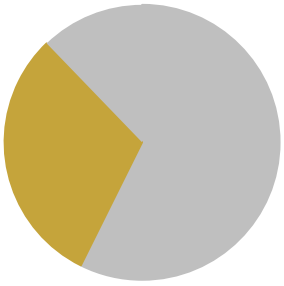
Value underperformed growth.

Small caps outperformed large caps.

### Ranked Returns (%)




### World Market Capitalization—International Developed



**30%**

**International Developed Market**
$17.6 trillion

### Period Returns (%)

** Annualized*

| Asset Class | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|---|---|---|---|---|
| Growth | 5.13 | 13.64 | 7.06 | 9.09 | 6.61 |
| Small Cap | -4.05 | 6.88 | 1.42 | 7.35 | 6.55 |
| Large Cap | -7.13 | 0.16 | 0.62 | 5.32 | 4.37 |
| Value | -18.88 | -12.74 | -5.88 | 1.38 | 1.99 |

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# Emerging Markets Stocks

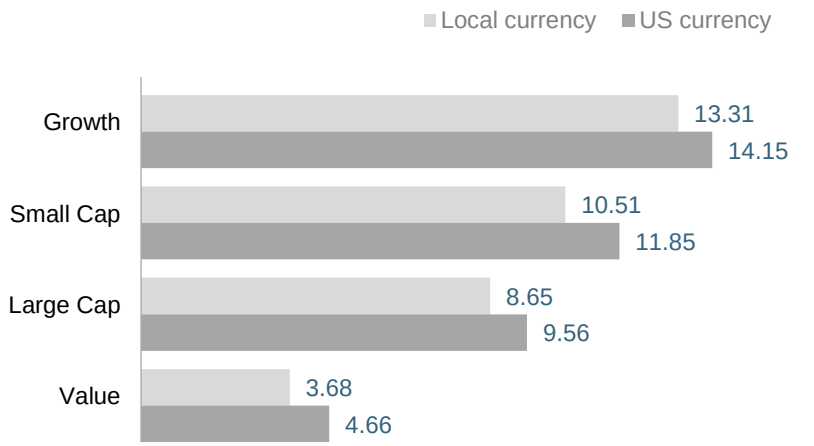
## Third Quarter 2020 Index Returns

Emerging markets posted positive returns for the quarter, outperforming the US and developed ex US equity markets.

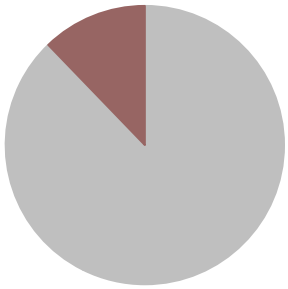
Value underperformed growth.

Small caps outperformed large caps.

### Ranked Returns (%)




### World Market Capitalization—Emerging Markets



12%

**Emerging Markets**
$7.1 trillion

### Period Returns (%)

** Annualized*

| Asset Class | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|---|---|---|---|---|
| Growth | 12.41 | 27.80 | 7.45 | 13.26 | 5.29 |
| Large Cap | -1.16 | 10.54 | 2.42 | 8.97 | 2.50 |
| Small Cap | -2.40 | 6.89 | -1.09 | 4.60 | 1.03 |
| Value | -14.23 | -5.70 | -2.89 | 4.45 | -0.44 |

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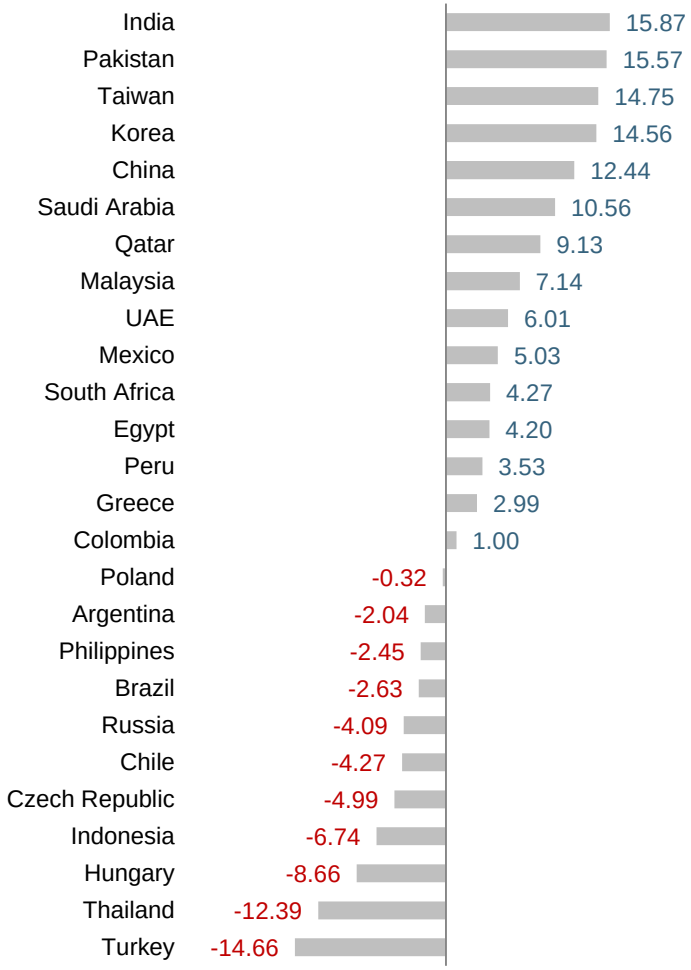
# Select Market Performance

## Third Quarter 2020 Index Returns

In US dollar terms, Sweden and Denmark recorded the highest country performance in developed markets, while Portugal and Spain posted the lowest returns for the quarter. In emerging markets, India and Pakistan recorded the highest country performance, while Turkey and Thailand posted the lowest performance.

### Ranked Developed Markets Returns (%)


### Ranked Emerging Markets Returns (%)

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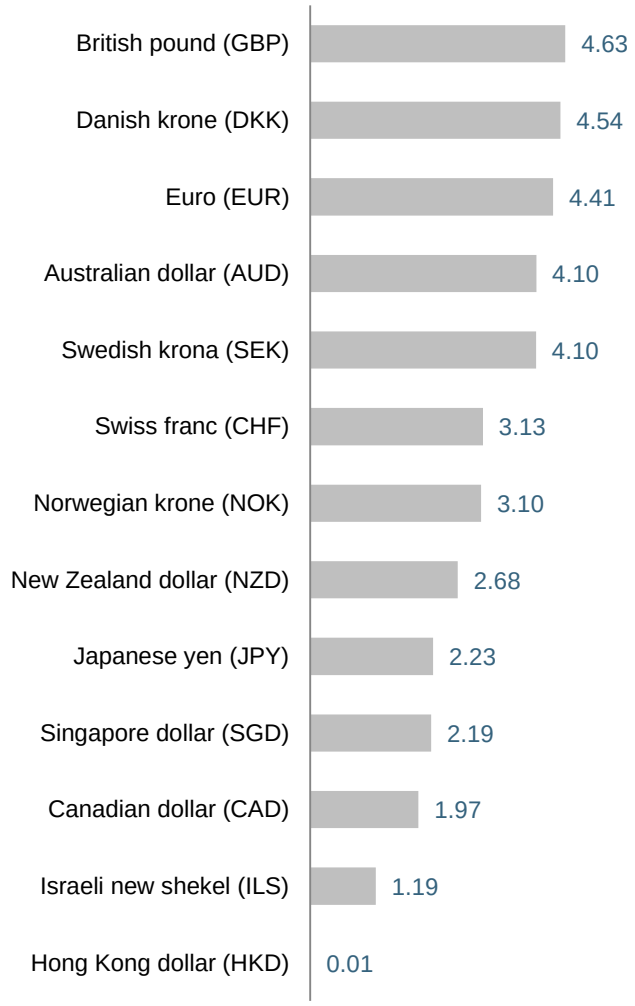
# Select Currency Performance vs. US Dollar

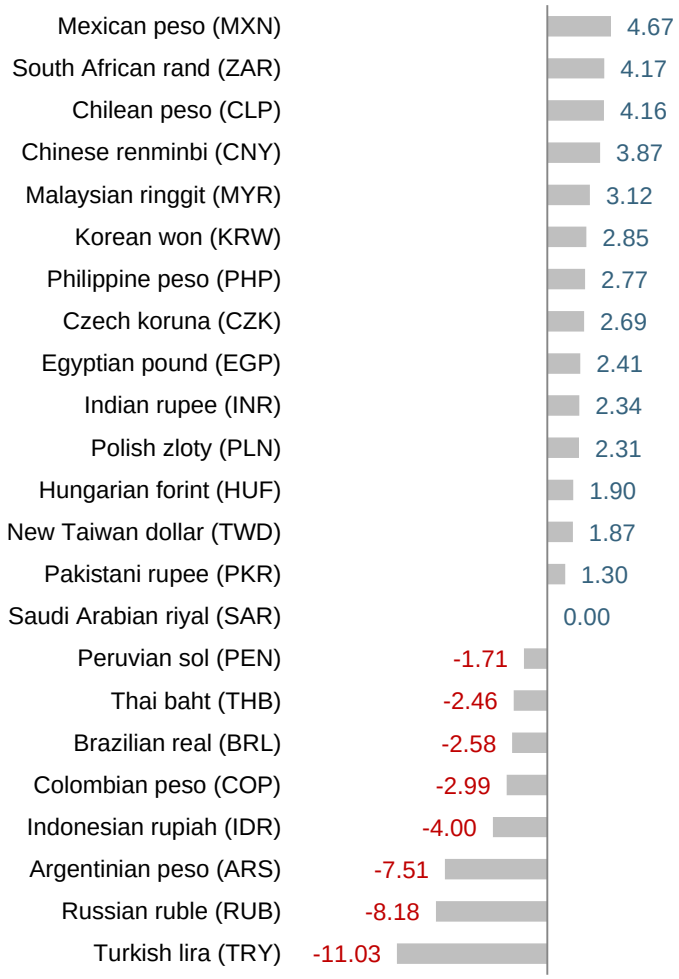
Third Quarter 2020

In developed markets, all currencies appreciated versus the US dollar. In emerging markets, currency performance versus the US dollar was mixed. Most currencies generally appreciated versus the US dollar, but some, notably the Turkish lira and Russian ruble, depreciated.

### Ranked Developed Markets Returns (%)




### Ranked Emerging Markets Returns (%)



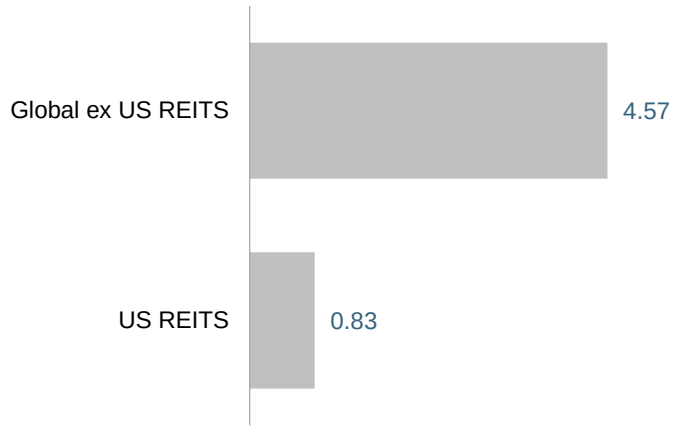

**Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.**

# Real Estate Investment Trusts (REITs)

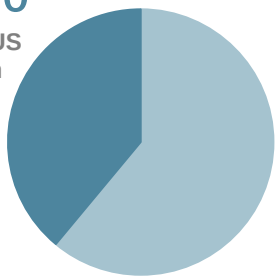
## Third Quarter 2020 Index Returns

US real estate investment trusts underperformed non-US REITs during the quarter.

### Ranked Returns (%)




### Total Value of REIT Stocks



**39%**
**World ex US**
$435 billion
268 REITs
(23 other countries)

**61%**
**US**
$681 billion
115 REITs

### Period Returns (%)

** Annualized*

| Asset Class | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|---|---|---|---|---|
| US REITS | -21.36 | -22.33 | -1.85 | 1.99 | 7.03 |
| Global ex US REITS | -21.84 | -18.37 | -1.62 | 1.67 | 4.13 |

**Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. 

# Commodities

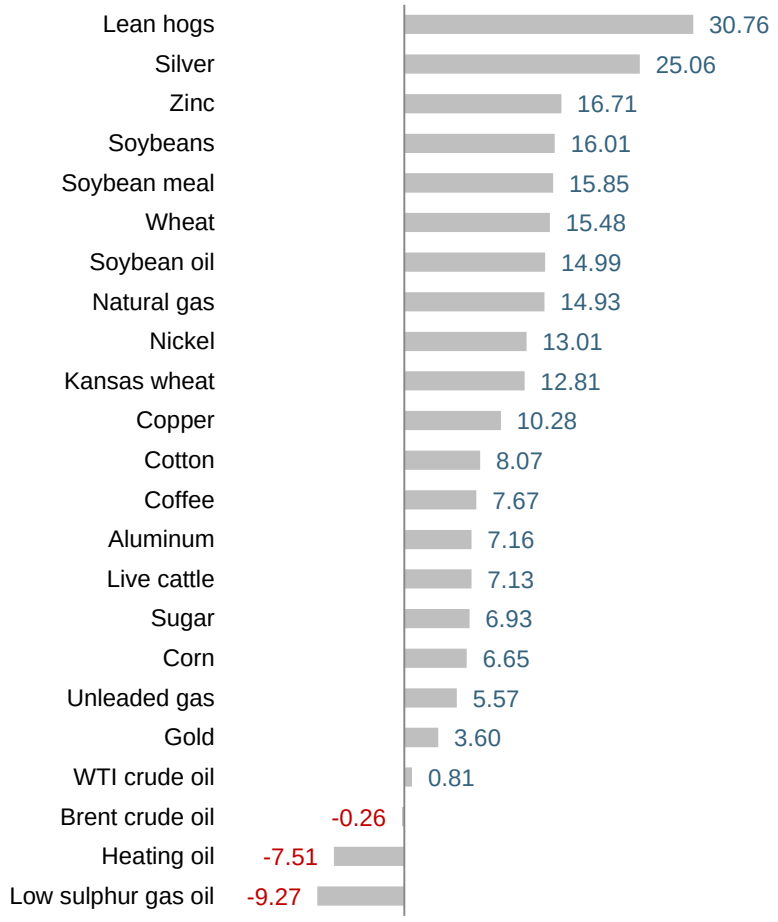
## Third Quarter 2020 Index Returns

The Bloomberg Commodity Index Total Return returned 9.07% for the third quarter of 2020.

Lean hogs and Silver were the best performers, returning 30.76% and 25.06%, respectively.

Low sulfur gas and Heating oil were the worst performers, declining 9.27% and 7.51%, respectively.

### Ranked Returns (%)




### Period Returns (%)

** Annualized*

| Asset Class | QTR | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|---|---|---|---|---|---|
| Commodities | 9.07 | -12.08 | -8.20 | -4.18 | -3.09 | -6.03 |

**Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Commodities returns represent the return of the Bloomberg Commodity Total Return Index. Individual commodities are sub-index values of the Bloomberg Commodity Total Return Index. Data provided by Bloomberg.

# Fixed Income

## Third Quarter 2020 Index Returns

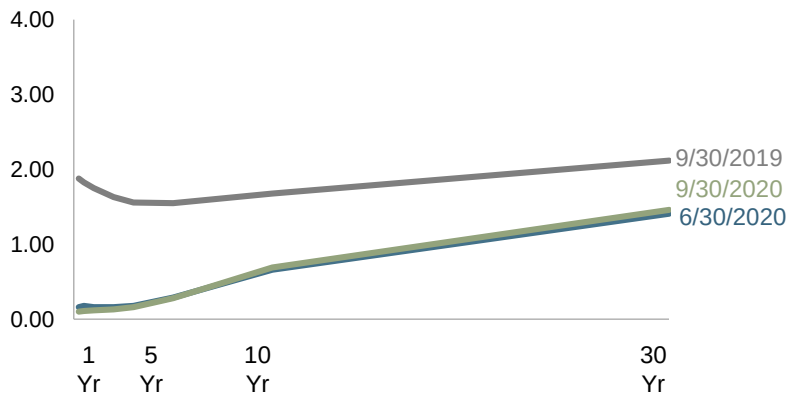
Interest rate changes were mixed in the US Treasury fixed income market during the third quarter. The yield on the 5-year US Treasury note decreased by 3 basis points (bps), ending at 0.31%. The yield on the 10-year US T-note rose by 3 bps to 0.64%. The 30-year US T-bond yield increased by 5 bps to 1.46%.

On the short end of the yield curve, the 1-month US Treasury bill yield decreased to 0.08%, while the 1-year T-bill yield decreased by 5 bps to 0.14%. The 2-year US T-note yield finished at 0.09% after a decrease of 2 basis points.

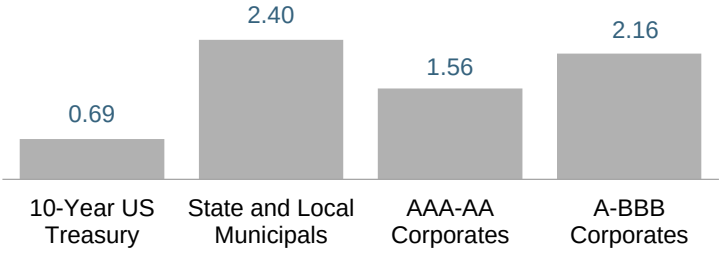
In terms of total returns, short-term corporate bonds returned 0.92% for the quarter. Intermediate-term corporates returned 1.33%.

The total return for short-term municipal bonds was 0.83%, while intermediate munis returned 1.40%. Revenue bonds outperformed general obligation bonds.

### US Treasury Yield Curve (%)




### Bond Yields across Issuers (%)




### Period Returns (%)

*Annualized

| Asset Class | QTR | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|---|---|---|---|---|---|
| Bloomberg Barclays US TIPS Index | 3.03 | 9.22 | 10.08 | 5.79 | 4.61 | 3.57 |
| FTSE World Government Bond Index 1-5 Years | 2.01 | 4.16 | 5.21 | 2.03 | 2.01 | 0.21 |
| Bloomberg Barclays Municipal Bond Index | 1.23 | 3.33 | 4.09 | 4.28 | 3.84 | 3.99 |
| Bloomberg Barclays US Aggregate Bond Index | 0.62 | 6.79 | 6.98 | 5.24 | 4.18 | 3.64 |
| FTSE World Government Bond Index 1-5 Years (hedged to USD) | 0.24 | 3.04 | 3.22 | 3.02 | 2.31 | 1.90 |
| Bloomberg Barclays US Government Bond Index Long | 0.13 | 21.13 | 16.21 | 11.79 | 8.18 | 7.18 |
| ICE BofA 1-Year US Treasury Note Index | 0.08 | 1.77 | 2.37 | 2.19 | 1.54 | 0.93 |
| ICE BofA US 3-Month Treasury Bill Index | 0.04 | 0.64 | 1.10 | 1.69 | 1.20 | 0.64 |

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA US Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). FTSE fixed income indices © 2020 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2020 ICE Data Indices, LLC. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

# Global Fixed Income

## Third Quarter 2020 Yield Curves

Changes in Government bond interest rates in the global developed markets were mixed for the quarter.

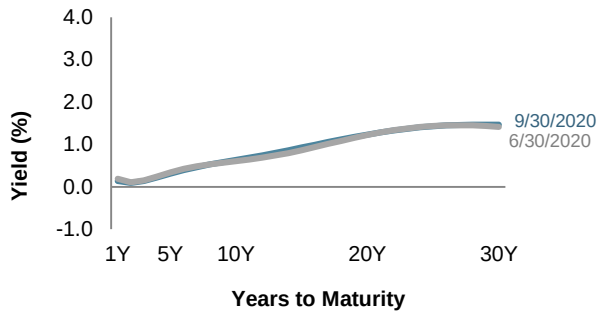
Longer-term bonds generally outperformed shorter-term bonds in global ex-US developed markets.

Short- and intermediate-term nominal interest rates were negative in Japan, while all maturities finished the quarter in negative territory in Germany.

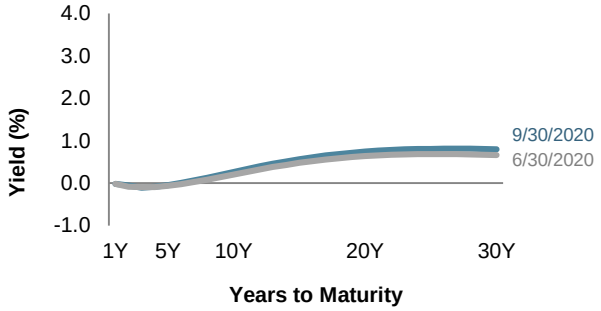
Changes in Yields (bps) since 6/30/2020

| | 1Y | 5Y | 10Y | 20Y | 30Y |
|---|---|---|---|---|---|
| US | -5.4 | -3.3 | 3.4 | 1.3 | 5.3 |
| UK | 0.0 | 1.8 | 6.1 | 10.7 | 13.9 |
| Germany | -2.0 | -2.8 | -5.7 | -9.2 | -7.6 |
| Japan | 3.0 | -1.1 | -1.2 | -1.2 | 0.2 |
| Canada | -2.1 | -1.9 | 3.9 | 2.6 | 12.2 |
| Australia | -14.5 | -8.3 | -5.9 | -9.6 | -5.1 |

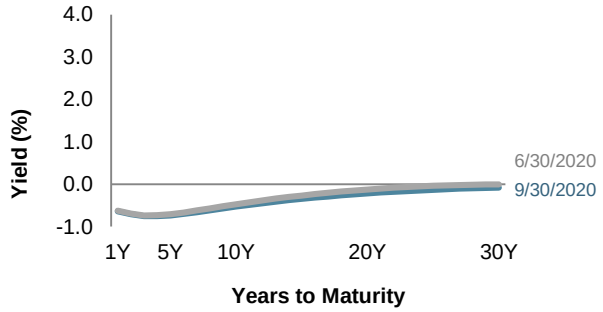
### US



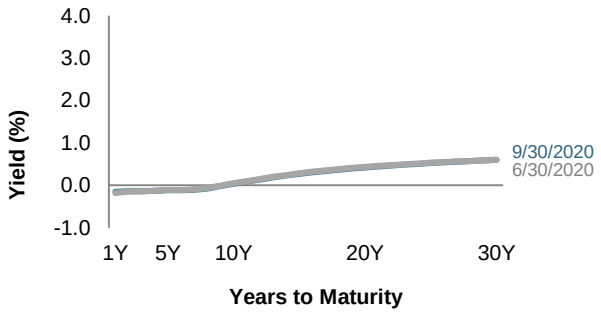

### UK



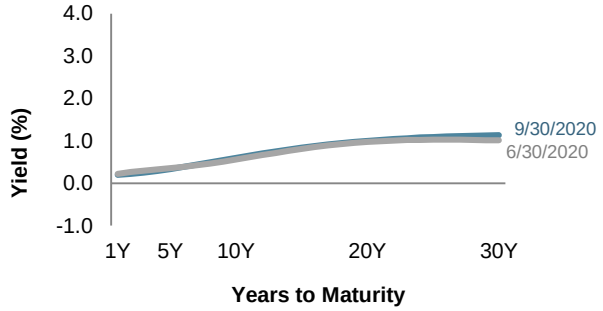

### Germany



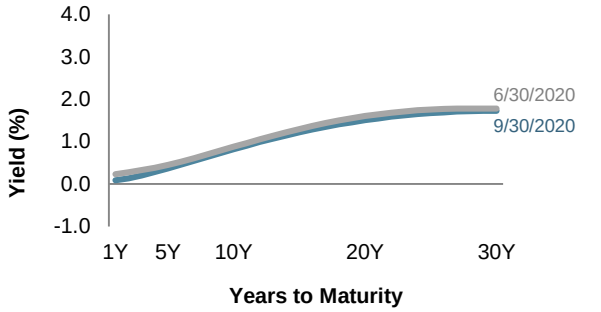

### Japan




### Canada




### Australia



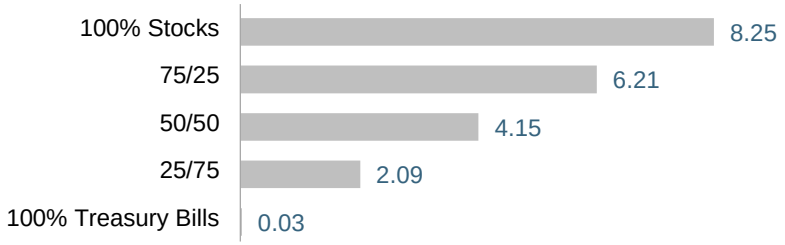

One basis point (bps) equals 0.01%. Source: ICE BofA government yield. ICE BofA index data © 2020 ICE Data Indices, LLC.

# Impact of Diversification

Third Quarter 2020

These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

## Ranked Returns (%)

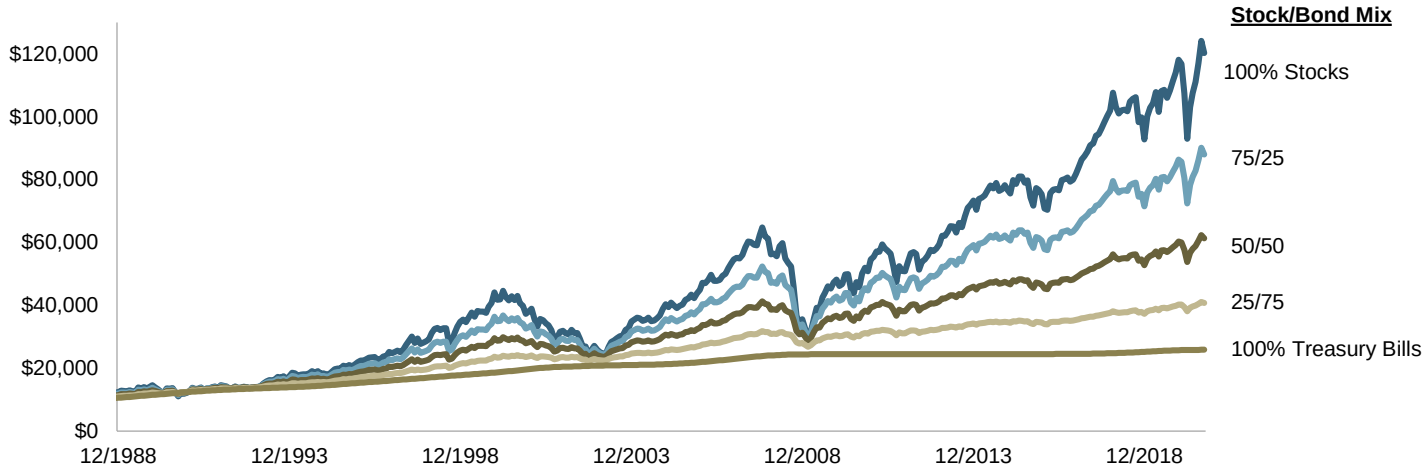



## Period Returns (%)

** Annualized*

| Asset Class | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* | 10-Year STDEV[1] |
|---|---|---|---|---|---|---|
| 100% Stocks | 1.77 | 11.00 | 7.68 | 10.90 | 9.13 | 13.71 |
| 75/25 | 1.90 | 8.89 | 6.40 | 8.58 | 7.12 | 10.28 |
| 50/50 | 1.71 | 6.48 | 4.95 | 6.16 | 5.01 | 6.85 |
| 25/75 | 1.22 | 3.78 | 3.32 | 3.65 | 2.82 | 3.42 |
| 100% Treasury Bills | 0.42 | 0.83 | 1.54 | 1.07 | 0.55 | 0.23 |

## Growth of Wealth: The Relationship between Risk and Return




1.STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2020, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).

# When It's Value vs. Growth, History Is on Value's Side

Third Quarter 2020

Logic and data provide the basis for a positive expected value premium, offering a guide for investors targeting higher potential returns. There is pervasive historical evidence of value stocks outperforming growth stocks. Data covering nearly a century in the US, and nearly five decades of market data outside the US, support the notion that value stocks— those with lower relative prices—have higher expected returns.

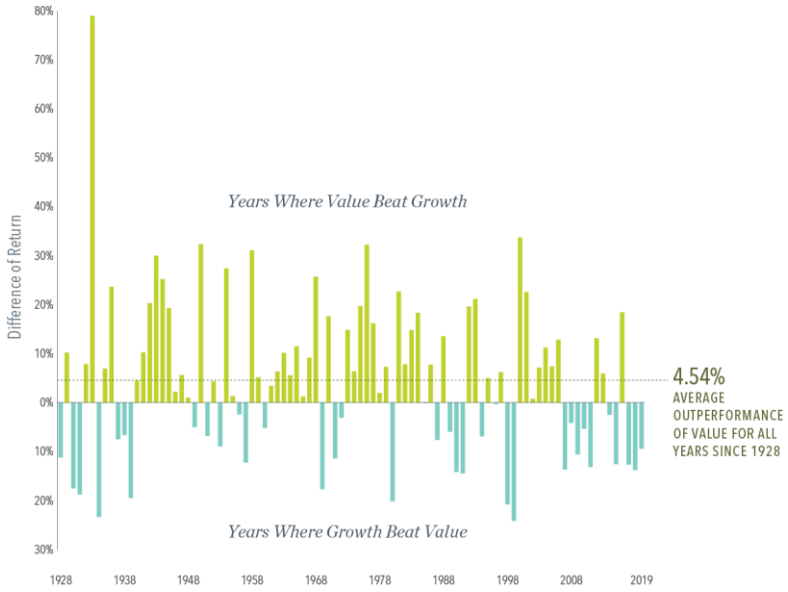
Recently, growth stocks have enjoyed a run of outperformance vs. their value counterparts. But while disappointing periods emerge from time to time, the principle that lower relative prices lead to higher expected returns remains the same. On average, value stocks have outperformed growth stocks by 4.54% annually in the US since 1928, as **Exhibit 1** shows.

Some historical context is helpful in providing perspective for growth stocks' recent outperformance. As **Exhibit 1** demonstrates, realized premiums are highly volatile. While periods of underperformance are disappointing, they are also within the range of possible outcomes.

We believe investors are best served by making decisions based on sound economic principles supported by a preponderance of evidence. Value investing is based on the premise that paying less for a set of future cash flows is associated with a higher expected return. That's one of the most fundamental tenets of investing. Combined with the long series of empirical data on the value premium, our research shows that value investing continues to be a reliable way for investors to increase expected returns going forward.

Exhibit 1. Value Add

*Yearly observations of premiums: value minus growth in US markets, 1928–2019*




**Past performance is no guarantee of future results. Investing risks include loss of principal and fluctuating value. There is no guarantee an investment strategy will be successful. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.**

*In US dollars. Yearly premiums are calculated as the difference in one-year returns between the two indices described. Value minus growth: Fama/French US Value Research Index minus the Fama/French US Growth Research Index.*

*Fama/French US Value Research Index: Provided by Fama/French from CRSP securities data. Includes the lower 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).*

*Fama/French US Growth Research Index: Provided by Fama/French from CRSP securities data. Includes the higher 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).*