Parkside Financial
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Monthly Market Update - September 2020

Global Economy

The US economy continues to rebound from the pandemic-induced recession but faces a new hurdle as Commerce Department figures show personal income falling with the expiration of government aid. Countries around the world continue to grapple with increasing case counts and new lockdowns. Fed policy is likely to remain accommodative for the foreseeable future, but new fiscal support remains elusive as Congress has failed to reach an agreement. Controlling the virus will ultimately be the key to sustained economic momentum. Experts are generally optimistic a Covid-19 vaccine will be produced, but the timing and effectiveness remain uncertain. Following a record GDP decline in the 2nd quarter of 2020, many potential outcomes for the size and speed of recovery remain. In the midst of one of the sharpest recessions in history, valuations provide limited cushion against a bumpy path forward.

The Federal Open Market Committee met in September but did not change policy rates. The meeting statement added language to reflect the changes in inflation targeting and employment objectives outlined at the prior month's Jackson Hole Summit. Forward guidance indicated strong support within the committee for maintaining the current target range through 2023. After expanding rapidly early in the pandemic, the Fed balance sheet has remained stable in recent months as strained financial conditions have eased, hovering around $7 trillion and rising only modestly in September.

The third estimate of 2Q-20 real GDP indicated the US GDP contracted at a record rate of -31.4% annualized, a moderate improvement from the initial and second estimates. The upward revision in the third estimate primarily reflected an increase to personal consumption expenditures that was partly offset by downward revisions to exports and to nonresidential fixed investment. Analysts are expecting a significant recovery for 3Q-20, with estimates ranging from +15.0% to +30.0% annualized.

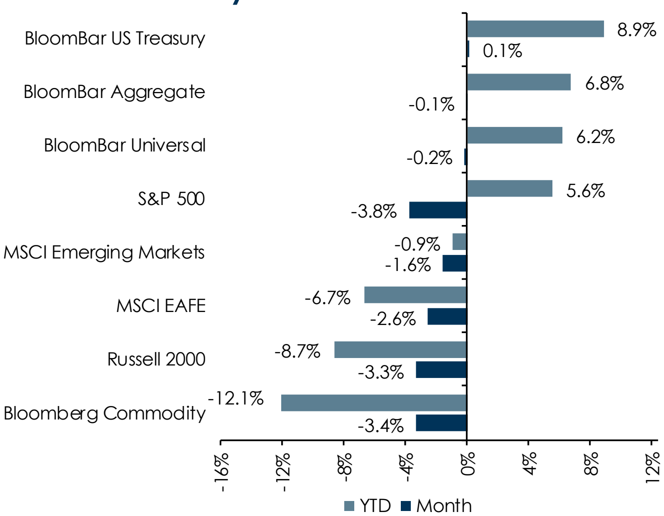
More than 62 million US workers have filed initial unemployment claims since mid-March. Weekly initial claims continued to trend downward in September but remain elevated. There were 661,000 jobs added in the month as unemployment fell to 7.9%, the smallest gain since the recovery began in May. Every sector added jobs except government, which saw layoffs of temporary Census workers and in-state and local government education departments. Core CPI rose to +1.7% year-over-year, while the FOMC's preferred measure, Core PCE, increased to +1.6% year-over-year through August.

	Current	Dec-19
US GDP (%)	-31.4	2.10
US Unemployment (%)	7.9	3.50
CPI (Core) (%)	1.7	2.30
Fed Funds (%)	0.00 – 0.25	1.50 – 1.75
10 Year UST Yld (%)	0.69	1.92
S&P 500 Div Yld (%)	1.79	1.82
S&P 500 P/E (Trailing)	26.14	21.60
Gold/oz.	$1,887.50	$1,523.10
Oil (Crude)	$40.22	$61.06
Gasoline (Natl Avg)	$2.26	$2.66
USD/Euro	$1.17	$1.12
USD/GBP	$1.29	$1.33
Yen/USD	¥105.48	¥108.61

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns for all major equity indices were negative in September amid mixed economic data, reduced optimism for fiscal stimulus, and renewed coronavirus fears. The S&P 500, which represents large US-based entities, declined for the first time since March with a -3.8% return. Materials(+1.1%) and Utilities(+0.8%) led the way and were the only positive performing sectors in the month. Energy (-14.6%), Communication Services (-6.5%), and Information Technology (-5.4%) had the largest declines among sectors. Small cap stocks, as represented by the Russell 2000, also declined but outperformed large caps with a -3.3% return. Sector performance saw less dispersion than in large caps, with no positive performers and Energy (-12.3%) and Communication Services (-8.0%) leading the decline. Value outperformed Growth in large cap stocks, while Growth continued its advantage over Value in small caps.

In the broad international developed markets, the MSCI EAFE index fell -2.6% as all sectors and most countries were negative for the month. Health Care (-0.3%) and Information Technology (-0.5%) were the best performers, while Energy (-13.5%) and Financials (-7.9%) were the laggards. Among developed countries, Denmark (+1.3%) and Japan (+1.1%) were the only positive performers during the month, with most others generally in the -3.0% to -8.0% range. Austria (-8.8%), Israel (-8.8%) and Norway (-8.0%) had the lowest developed market performance.

Emerging market stocks, as represented by the MSCI Emerging Markets index, outperformed their developed market counterparts at -1.6%. South Korea (+3.1%), Saudi Arabia (+2.4%), and Taiwan (+2.1%) were the best performers in the month. South Korea, Taiwan, and China remain the only countries in the index with a positive YTD return.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was negative for the month but performed in-line with most equities, returning -3.0%. The energy-related Alerian MLP continued to trail other equities at -13.6%. The near-month NYMEX oil also declined in September (-5.6%) and remains off by -34.1% year-to-date. Gold failed to continue its 2020 rally, falling -4.2% for the month. The diversified Bloomberg Commodity index also fell (-3.4%) due to growing concern regarding the economic impact of a second wave of the pandemic.

Global Markets (continued)

US Treasury yields were virtually unchanged for the month, ending within 1-2 bps of their August finish. Treasury rates traded in a tight range, and treasury bond volatility has been falling with the Fed's forward guidance calling for near-zero rates for several years. Given this backdrop, the overall UST complex was positive for the month at +0.1%, with year-to-date returns at an impressive +8.9%. Sovereign yields outside of the US were mostly lower, and the global stock of negative yielding debt increased to $15.5 trillion from $14.2 trillion.

The BloomBar US Aggregate Bond index underperformed risk-free US Treasuries on both an absolute and duration-matched basis as credit spreads closed the month wider. While the benchmark lost -0.1% in September, the 12-month performance of +6.8% remains impressive given prevailing yield levels. IG corporate issuance remained high in September with supply reaching a new record. Investor demand was strong but spreads still widened modestly by 7 bps amid the volatile market backdrop. With moderately higher spreads across most categories and flat UST yields, the benchmark's yield-to-worst rose 3 bps to just 1.18%.

The BloomBar 1-15-Year Municipal index slightly underperformed US Treasuries, returning +0.1% in September. Issuance remained strong in the month, but uncertainty around fiscal support continues to temper demand. Despite the uncertainty tax-exempt yields were little changed in the month. Prospects for a stimulus bill before the election remain questionable, leaving the outlook for future aid to cash-strapped local governments unclear.

The BloomBar US Corporate High Yield index returned -1.0% for the month, directionally consistent with higher-risk equities. Benchmark spreads were 40 bps wider on average amid heavy supply and equity market weakness. All-in yields rose in the month and are now at 5.77%. Default volume has tapered but is forecast to close the year higher. Bank loans continued to recover while emerging market bonds tracked other risk-assets with negative returns in the month.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	**Dec-19**
Japan	0.01	-0.02
Germany	-0.52	-0.19
France	-0.24	0.12
United Kingdom	0.23	0.82
Spain	0.25	0.46
United States	0.69	1.92
Italy	0.87	1.41
Mexico	6.11	6.89
Brazil	7.59	6.79

Source: Bloomberg

Indices Report (Periods Ending September 30, 2020)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	-3.80	5.57	15.15	12.28	14.15	13.74	9.19
Russell 1000	-3.65	6.40	16.01	12.38	14.09	13.76	9.28
Russell 1000 Growth	-4.70	24.33	37.53	21.67	20.10	17.25	11.95
Russell 1000 Value	-2.46	-11.58	-5.03	2.63	7.66	9.95	6.35
Russell 2500	-2.59	-5.82	2.22	4.45	8.97	10.81	7.92
Russell 2000	-3.34	-8.69	0.39	1.77	8.00	9.85	7.03
Russell 2000 Growth	-2.14	3.88	15.71	8.18	11.42	12.34	8.90
Russell 2000 Value	-4.65	-21.54	-14.88	-5.13	4.11	7.09	4.93
Wilshire 5000 Cap Wtd	-3.74	5.54	15.12	11.70	13.83	13.50	9.21
MSCI ACWI	-3.19	1.77	11.00	7.68	10.90	9.13	7.02
MSCI ACWI ex US	-2.42	-5.08	3.45	1.65	6.74	4.48	4.56
MSCI EAFE	-2.55	-6.73	0.93	1.11	5.77	5.11	4.21
MSCI EAFE Local Currency	-0.95	-9.08	-4.33	1.04	5.34	6.76	4.30
MSCI EAFE Growth	-0.63	4.91	13.81	7.47	9.64	7.39	5.96
MSCI EAFE Value	-4.53	-17.91	-11.45	-5.30	1.74	2.68	2.34
MSCI Emerging Markets	-1.58	-0.91	10.91	2.79	9.37	2.87	6.16
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.03	3.05	3.58	2.64	1.80	1.28	2.29
BloomBar US Aggregate	-0.05	6.79	6.98	5.24	4.18	3.64	4.48
BloomBar Gov't Bond	0.14	8.81	7.97	5.47	3.73	3.10	4.09
BloomBar US Credit	-0.27	6.39	7.50	6.19	5.75	4.92	5.44
BloomBar 10 Yr Municipal	0.04	3.77	4.59	4.44	4.01	4.22	4.74
BloomBar US Corp High Yield	-1.03	0.62	3.25	4.21	6.79	6.47	7.10
FTSE World Govt Bond	-0.22	7.14	6.77	4.37	3.95	1.86	3.56
BloomBar Global Aggregate	-0.36	5.72	6.24	4.10	3.92	2.36	3.78
BloomBar Multiverse	-0.43	5.31	5.99	4.00	4.08	2.50	3.90
Real Assets							
NCREIF Property	0.00	-0.29	1.26	4.86	6.12	9.29	7.38
NFI ODCE Net	0.00	-1.00	0.25	4.16	5.63	9.23	5.69
FTSE NAREIT US Real Estate	-3.26	-17.54	-18.16	0.20	3.95	7.90	5.85
Bloomberg Commodity	-3.35	-12.08	-8.20	-4.18	-3.09	-6.03	-4.82
Cash and Equivalents							
US T-Bills 90 Day	0.01	0.64	1.10	1.69	1.20	0.64	1.30

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