

### Third Quarter Summary

Stocks continued their sharp rebound from the COVID-19 induced recession, although the drop in September snapped a five month winning streak for equities. The S&P 500 increased 8.9% over the third quarter, it's best since 2010, driven by improving economic fundamentals and progress towards COVID-19 testing and vaccines. Specifically, Abbott Labs' new rapid COVID-19 diagnostic test, which can provide a positive or negative test result within 15-30 minutes, may enable the economy to further open up, even before a vaccine arrives in scale. Speaking of vaccines, at least three – those from Moderna, Astra Zeneca, and Johnson & Johnson (J&J) - have proceeded to Phase III trials, offering some hope that a vaccine is on the horizon. The J&J vaccine candidate has two positive attributes absent from some of the leading competitor products; namely, it does not have to be frozen and may need to be injected only once per year.

Bonds continued to serve as ballast for portfolios, despite their low yields, with the Bloomberg Barclay's Aggregate Index increasing 0.62% over the third quarter. Equities fell in September in part due to remarks by a number of Federal Reserve officials, including Chair Jay Powell, stating that further fiscal stimulus was necessary to nurture the nascent economic recovery. Of course, the problem is that Democrats and Republicans remain more than \$1 trillion apart in their respective fiscal stimulus proposals, resulting in a tangible risk of no additional stimulus through the November elections date. The lack of additional stimulus is especially devastating to small businesses, state/local governments, and the unemployed, raising the specter of a K-shaped recovery. That is, a divergent economic recovery for high income and low income wage earners.

It was an active quarter on the political front, besides the aforementioned stalled stimulus talks. Funeral services occurred in late September to commemorate the path breaking life of the late Supreme Court Justice, Ruth Bader Ginsberg. She was appointed to the nation's highest court by President Clinton and served with distinction since August 1993. President Trump has named Amy Coney Barrett as a replacement candidate for Justice Ginsberg, setting up a contentious approval process that appears to be heading to the Senate by the end of the calendar year, and possibly before the November elections. The first Presidential debate occurred on September 29<sup>th</sup> with headlines garnered not due to policy positions, but a lack of decorum. With the elections roughly a month away we expect continued rhetoric that will reach a fever pitch near Election Day.

### Market Outlook

We remain somewhat cautious on our near-term outlook for equities until we have clarity on the election results and President Trump's COVID-19 illness. There is an increased likelihood that an "official" winner may not be announced on election night, something we have not seen in the U.S. since the Bush-Gore election of 2000. Once the election results are decided we expect the next wave of volatility to occur at the sector and industry levels since the policy positions of the two Presidential candidates are starkly different. As discussed in our recent client webinar, equities tend to rally near the end of the calendar year and over the long-term regardless of which party emerges as victor.

Longer-term we continue to favor equities over fixed income, driven to a great extent by an improving economy and the Fed's suggestion that short-term interest rates are expected to remain close to zero through the end of 2023. Investors with cash on the sidelines may remain patient, but not three-years patient. In our view, a material amount of capital will make its way into global stock markets, especially to those that pay an attractive, stable dividend as investors seek fixed income substitutes. But equities cannot unshackle themselves from stock market volatility, so fixed income will continue to remain a staple in our diversified portfolios. We expect the yield of the benchmark 10 Year Treasury Note to remain in a range between 0.5% to 1.0%

The future path of the COVID-19 pandemic remains the paramount risk, with increases in the virus occurring globally as cooler weather descends upon the bulk of the world. The time gap between now and the widespread production and dissemination of a COVID-19 vaccine, possibly a matter of months, may prove to be a nail biter. Increased

tensions between the U.S. and China cannot be ignored, as each country makes moving towards decoupling rather than increased diplomacy. The drop in oil prices and inexorable march towards alternative energy sources create underlying currents for continued turmoil in the Middle East and Russia.

Beacon has remained fully functional through the pandemic, and is increasingly back to normal with all of our team members back in the office on a regular basis. During turbulent times we realize clients may need us more than ever and we stand ready to meet our responsibilities as your most trusted advisor. All of us at Beacon continue to wish you and your family maximum health, safety, and security during this historic time.

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