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Nauset Market Commentary
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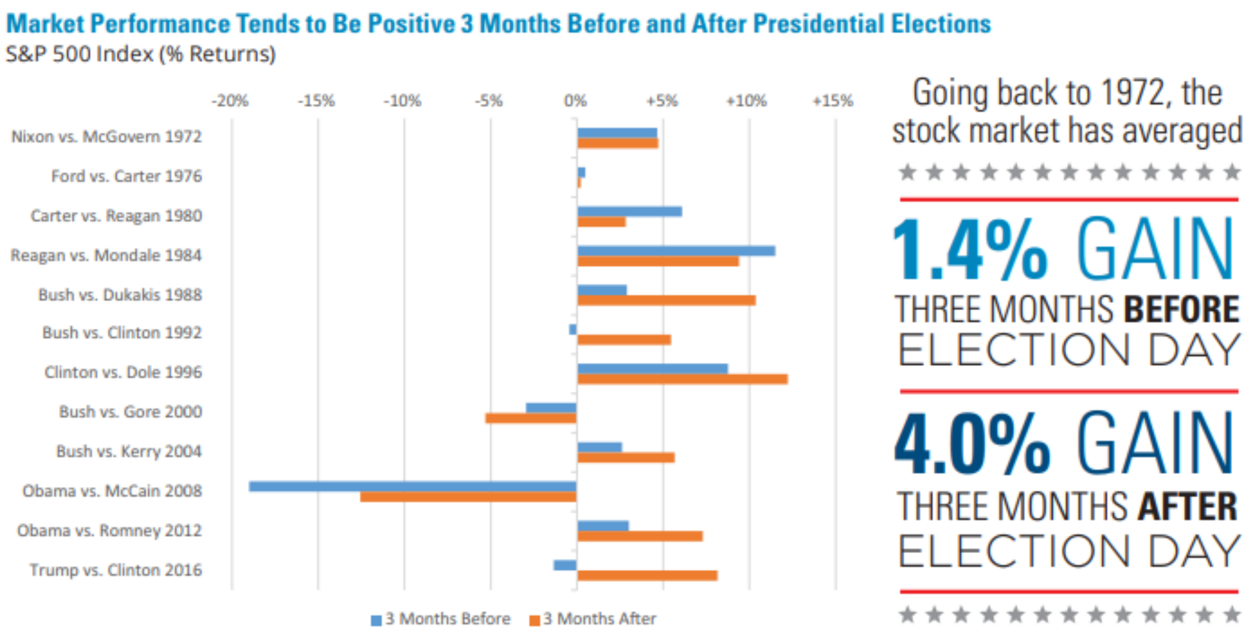
Market Performance Recap: **Stocks Rally to New Highs**

The sharp rally of Q2 continued into Q3 with large cap US stock indices hitting new all-time highs before a pullback in September. As the US economy slowly reopened for business, the Russell 1000 rose +9.5% in the quarter and is up +6.4% year-to-date through September. The upswing was once again led by technology, consumer discretionary, and industrial stock sectors. US small cap stocks were positive for the quarter, though not as strong as large caps, with a gain of +4.9%, but remain off -8.7% year-to-date. The non-US MSCI EAFE developed country index gained +4.8% for Q3, now down -7.1% for 2020, while the emerging market index added +9.6% in the quarter and is down only -1.2% year-to-date. Bond prices were steady during Q3 as Barclays Intermediate Gov't/Credit bond index edged up +0.5%.

Economic & Market Discussion: **Gauging the Election Impact**

The Presidential election is fast approaching, bringing a rash of fear-inducing headlines. Will the election outcome affect the track of the financial markets? Should we get defensive to protect portfolios from potential policy changes of a new administration? Here is how we view the upcoming political event.

- Elections Are Usually Positive – For the past fifty years of Presidential elections, the S&P 500 stock index has gained about +4% on average for the three months following a Presidential election. The chart below shows that the market usually drives forward after an election regardless of who is at the wheel. The key takeaway is that Presidential elections are but one factor in determining market direction, and are usually not as powerful as the three fundamental factors we track: corporate earnings growth, interest rates, and market valuations.



Source: Morningstar, 9/20. **Past performance does not guarantee future results.** The Index is unmanaged and not available for direct investment. For illustrative purposes only.

- Manage to Actual Policy Shifts – While much has been written about what each candidate will do post-election, our view is to wait for policies to be enacted before adjusting our asset allocation strategies. In the short term, we expect supportive fiscal policies to continue to help the economy recover from the negative effects of the pandemic. Beyond that, we know that major shifts in trade or fiscal policy usually take time, and are often modified to less impactful new legislation. On the monetary side, the

Fed has prioritized employment over inflation which keeps rates low and provides support for market valuations. Therefore, our most prudent course is to be more reactive than proactive with regard to post-election fiscal policy changes.

- Contested Election Risk – A worrisome development is the potential for a contested election which could delay the final outcome. This scenario would occur if one or more state votes are challenged and subject to review and possible recounts. While specific rules and margin thresholds may limit the actual recounts, any uncertainty will be viewed as a negative by the markets until resolved. Once resolved, we believe investors will move on and refocus on the economy. We will, of course, monitor any such developments closely.

The history lesson on Presidential elections and investments: Elections matter less for markets than most anticipate, so don't be too defensive in the face of potential political shifts. Instead, focus on the current economic scenario. While today's pandemic recovery track is unique and uncertain in many ways, we remain positive on the markets and the economy following a victory by either party.

Portfolio Strategy: **Optimism Amid Headwinds**

Despite market choppiness during the past month and uncertainty regarding new fiscal stimulus, we believe that two key elements will continue to support the markets: synchronized global economic recovery and extremely low interest rate policies. As such, here is how we are managing portfolios going forward.

- Stay with Stocks – Even with the strong recovery rally, we believe that stocks continue to show favorable relative value compared to other asset classes. Therefore, we hold slightly overweight equity allocations for most portfolios.
- Quality Rules – Our emphasis for both stocks and income-producing securities is on quality during the continued pandemic-induced uncertainty. We favor investments with a margin of safety, such as large cap US tech and health care stocks, as well as US Treasury and investment-grade bonds.
- Maintain Flexibility – As the economy continues its recession recovery, we expect new opportunities to arise. We intend to seek attractive new investments in credit as well as stock areas that develop over the next several quarters.

Market Performance **% Change for Periods Ended 9/30/2020**

Market Index	Third Quarter	2020 YTD	1-Year	3-Year Annual.	5-Year Annual.
Russell 1000	9.47	6.40	16.01	12.38	14.09
MSCI EAFE – Non-US	4.80	-7.09	0.49	0.62	5.26
Russell 2000	4.93	-8.69	0.39	1.77	8.00
MSCI Emerging Markets Equity	9.56	-1.16	10.54	2.42	8.97
DJ US Real Estate	2.07	-12.08	-11.39	3.72	6.62
NASDAQ Composite	11.24	25.33	40.96	21.05	20.63
Barclays Gov't/Credit Interm. Bond	0.61	5.92	6.32	4.43	3.39
Wilshire Liquid Alternative	2.32	-1.14	0.39	0.83	1.44
3-Month T-Bill	0.03	0.56	1.02	1.65	1.16