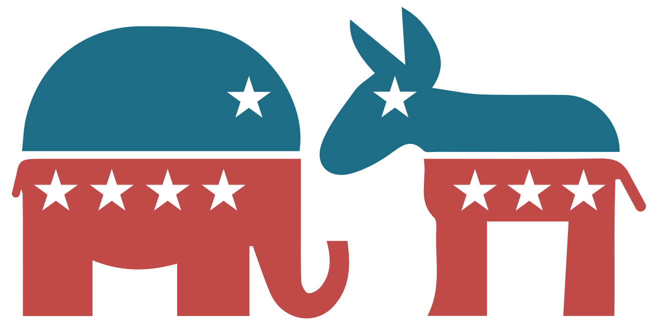
OCTOBER 2020 | Monthly Economic and Financial Market Commentary

fnbo Wealth Management

The 2020 presidential election is right around the corner and as expected we are receiving many questions from clients about how the election will impact their portfolios. Our philosophy remains consistent that while elections create noise and short-term volatility, what matters most are the longer-term policy changes. We believe it is the implementation of these changes rather than the day-to-day news that drives economic growth and ultimately investment returns. During periods of uncertainty and increased volatility, like an election, our advice is to remain vigilant, to stay invested and maintain a well-diversified portfolio across appropriate asset classes. Once the election results are resolved, we can begin to look to the potential policy changes as they take shape and try to identify investment opportunities.

When looking at potential impacts to investment portfolios, the policies that have the most impact on the economy are usually taxation, regulation and spending. In this particular election, trade and immigration will also play an important role. It is still too early to make investment changes based on anticipated policy changes. Even after the election has been determined, what we typically find is that candidates often propose one thing and by the time their proposed policy makes its way through Congress and becomes law, the policy is different or has changed entirely. With a closely contested election like this one, there are too many unknowns to predict. For a more in depth look at our election outlook, follow the link in the green section below.



Market Returns

Source: Morningstar Direct data as of September 30, 2020

Asset Class	Index	Total Return 1 Month	Total Return YTD	Total Return 1 Year	Annualized 3 Year	Annualized 5 Year
Global Equities:	Diversified Equity Benchmark*	-3.39	2.00	10.91	8.96	11.64
Domestic Equities:	S&P 500 (Large Cap)	-3.80	5.57	15.15	12.28	14.15
	Russell 2000 (Small Cap)	-3.34	-8.69	0.39	1.77	8.00
International Equities:	MSCI EAFE (Developed)	-2.60	-7.09	0.49	0.62	5.26
	MSCI Emerging Market	-1.60	-1.16	10.54	2.42	8.97
Fixed income:	Barclays Intermediate U.S. Gov't/Credit	-0.01	5.92	6.32	4.43	3.39
	Barclays Muni Short-Interm 1-10 Years	0.11	3.12	4.03	3.21	2.70
	Barclays Global Intermediate	-0.45	4.78	5.39	2.68	2.62

What you should know about investing in an election year

With elections around the corner, many investors are concerned about potential downside volatility. Learn about our Investment Management team's take and their guidance for investing as the election draws near.

Read more from our blog here.

Stocks slowing down before election

In the last few weeks, we've seen a bit of a correction in the stock markets. After hitting new highs in early September, the S&P 500 dropped around 6% by the end of the month. This is likely due to a number of reasons. As kids went back to school, COVID cases started increasing again. But it appears most of these new cases aren't as severe as what we saw in earlier waves. Stocks may also be starting to anticipate the upcoming election. As the race gets tighter, more uncertainty about the outcome may develop. But as we have discussed earlier this year, a likely reason for the correction is valuation.

Stocks have been on a persistent climb, but earnings are still trying to catch up. The current price/earnings multiple on the S&P 500 is around 18X. This is still well above historical averages around 15X. Earnings will catch up eventually, but stock prices might be more volatile in the interim. We continue to keep portfolios well diversified and allocated to their long-term targets, as we work with higher valuations in both stocks and bonds.

Stock Market Valuations

Equities	2020 P/E	2015 Year Avg P/E	P/E Premium
U.S. Large-Cap	21.6x	14.8x	45.6%
U.S. Mid-Cap	18.3x	15.8x	15.5%
U.S. Small-Cap	20.3x	16.8x	19.7x

Source: FactSet (calculation) as of 10/1/2020

Please see important disclosures on the next page.

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Sources:
Bloomberg, Morningstar, FactSet, Crandall Pierce

*Benchmark consists of Russell 3000 (76%), MSCI ACWI ex US (20%) and FTSE EPRA/NAREIT Global (4%)

Index Definitions:
Barclays Global Intermediate: Index that measures global investment grade debt from 24 local currency markets, including treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Barclays Intermediate US Government/Credit Index: a broad-based flagship benchmark that includes investment grade, US dollar-denominated, fixed-rate Treasuries, government-related and corporate securities, within a 2-10 year maturity range.

Barclays Municipal Short-Intermediate 1-10 Years: Index that measures the performance of US municipal bonds with time to maturity of between one and ten years.

FTSE EPRA/NAREIT Global: an index used to track the performance of listed real estate companies and REITS in both developed and emerging markets.

MSCI ACWI ex US: an index that captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries. With 2,136 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

MSCI EAFE - Developed International: created to reflect the performance of small- to large-cap stocks across the developed regions of Europe, Australasia, and the Far East (EAFE). The index was developed by Morgan Stanley Capital International (MSCI) in 1969 and lists 926 stocks from 21 countries in the EAFE.

MSCI Emerging Market: an index used to measure equity market performance in global emerging markets, consisting of 23 economies including Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

Russell Indices: The Russell 3000 is a market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S. traded stocks which represent about 98% of all U.S. incorporated equity securities. The Russell 2000 index measures the performance of approximately 2,000 of the smallest companies in the Russell 3000 index.

S&P Indices: The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. Other popular indices include the S&P MidCap 400, which represents the mid-cap range of companies and the S&P SmallCap 600, which represents small-cap companies. The S&P 1000 is a combination of the S&P 400 and 600, representing the small and mid-cap market.The S&P 500, S&P MidCap 400 and S&P SmallCap 600 combine to create a U.S. all-capitalization index known as the S&P Composite 1500.