JJ BURNS

2020: 3rd Quarter Summary

"Yes we can can, why can't we? / If we wanna get together we can work it out." The Pointer Sisters, "Yes We Can Can"

Global securities markets continued their buoyant recovery from the COVID bear market in the third quarter of 2020. Returns in all major asset classes were positive for the third quarter and reflected increasing confidence in the search for a vaccine and a return to an economic 'normal' in 2021, possibly sooner.

Risk assets – equities, high-yield bonds and real estate – posted another quarter of good returns, but in more muted tones that in Q2. Large-cap earnings reports generally came in better than expected, but there were some small hurdles to show an earnings 'beat.' International stocks also did well, particularly in the emerging markets (EM) regions, which are dominated by Asian stocks. In fact, EM stocks doubled the returns of U.S. small-cap stocks in Q3 and are ahead YTD through quarter end. Oil prices continue to struggle due to uncertain demand going forward. Real estate also suffers from this uncertainty, as changing habits due to coronavirus may affect malls, retail stores and office space.

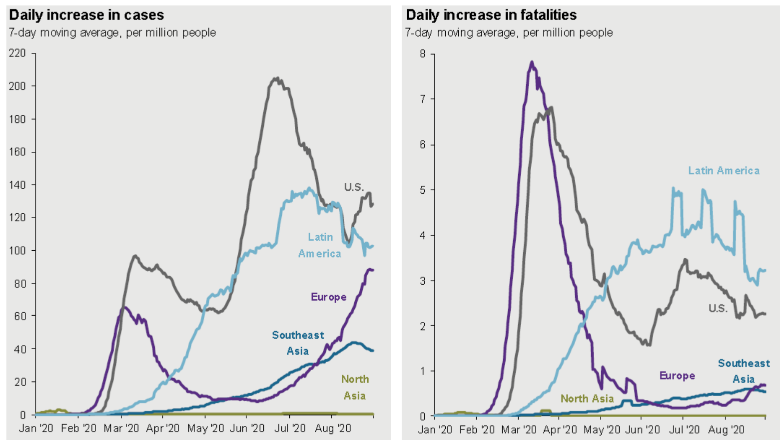
Index Returns
as of 9/30/2020

Index	Q3-20	Q2-20	YTD Sep 2020	2019
BbgBarclays US HY 2% Issuer Cap	4.58%	10.14%	0.57%	14.32%
BbgBarclays Municipal	1.23%	2.72%	3.33%	7.54%
BbgBarclays Global Aggregate	0.73%	2.42%	4.65%	8.22%
BbgBarclays US Agg Bond	0.62%	2.90%	6.79%	8.72%
U.S. STOCKS				
Russell 1000 [Large-cap Stocks]	9.47%	21.82%	6.40%	31.43%
Russell 2000 [Small-cap Stocks]	4.93%	25.42%	<8.69%>	25.52%
S&P 500	8.93%	20.54%	5.57%	31.49%
INTERNATIONAL STOCKS				
MSCI ACWI Ex USA NR [All Stocks]	6.25%	16.12%	<5.44%>	21.51%
MSCI EAFE NR [Developed Markets]	4.80%	14.88%	<7.09%>	22.01%
MSCI EM NR [Emerging Markets]	9.56%	18.08%	<1.16%>	18.42%
REAL ASSETS				
U.S. Dollar	<3.60%>	<1.67%>	<2.60%>	0.22%
S&P GSCI Gold Spot	5.28%	12.77%	24.45%	18.87%
Morningstar US Real Asset Index	<0.15%>	6.52%	<4.87%>	9.87%
Bloomberg Commodity	9.07%	5.08%	<12.08%>	7.69%
S&P GSCI Crude Oil Spot	2.42%	91.75%	<34.13%>	34.46%
S&P United States REIT	1.55%	11.71%	<17.07%>	24.45%
S&P Global Ex US REIT	4.76%	10.97%	<21.33%>	24.75%

Source: Morningstar, Inc. USD data with dividends and interest

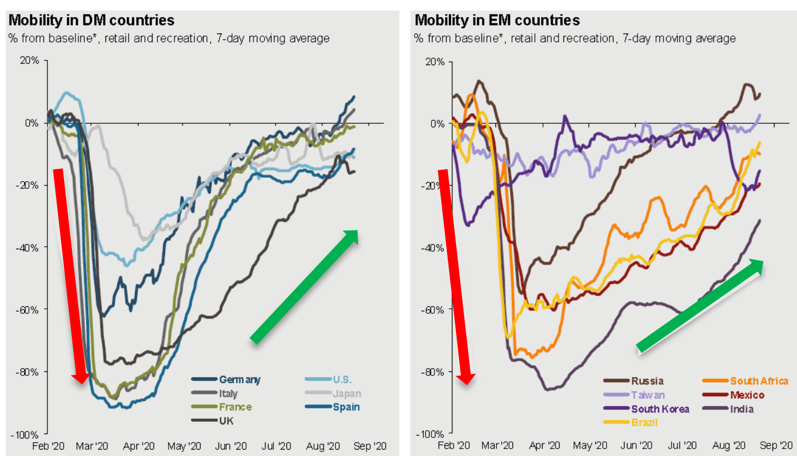
“You gotta free me / 'Cause I can't give the best / Unless I got room to move." ***John Mayall & the Bluesbreakers, “Room to Move”***

Despite some of the excellent market results detailed above, we firmly believe that how nations grapple with the economic and medical effects of COVID will determine the longer-term strength of the recovery. This implies that (1) the stock market is NOT the economy, and (2) the virus ‘cure’ and the return to a form of economic normal are not imminent. Data indicates that we are in fact entering a second wave of the pandemic, as quarantine fatigue, relaxed social behaviors and school re-openings have presented new challenges. These changes are evident in the data below, which show rising cases on the left and fatality increases on the right. The good news around these numbers is that the treatment protocols for the virus appear to becoming more effective as time passes.



JP Morgan Asset Management, Inc.

We can extrapolate that some of the increase in these cases has occurred due to increasing global mobility, which recovered fairly quickly, as demonstrated below:



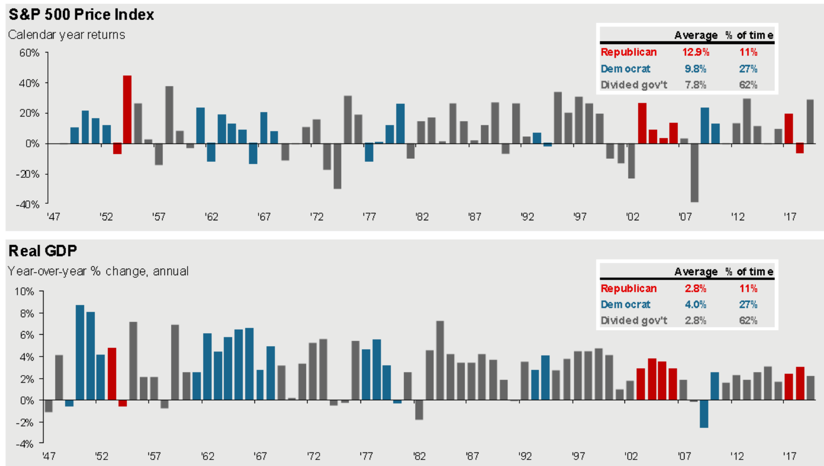
Source: Google Mobility Reports, J.P. Morgan Asset Management.

It’s generally assumed that vaccine research and production are moving rapidly, and it’s important to note that we must inoculate the world population with an *effective* vaccine. This implies a valid, large-sample test and an effective production-and-distribution protocol as well. Ultimate widespread distribution may not occur until sometime in the latter half of 2020.

“The battle outside ragin' / Will soon shake your windows / And rattle your walls / For the times they are a-changin'" ***Bob Dylan, “The Times They Are A-Changin’”***

Understandably, in this confusing and difficult time, the world is very focused on the American elections in November. History reveals that there has often been market volatility in the few months before an election, but we think the good news for investors is that over the long term, a president’s policies don’t seem to have much effect on the returns in the stock market.

Divided government is the broad historical norm, and some average returns for each of the two-party composites are on this chart:

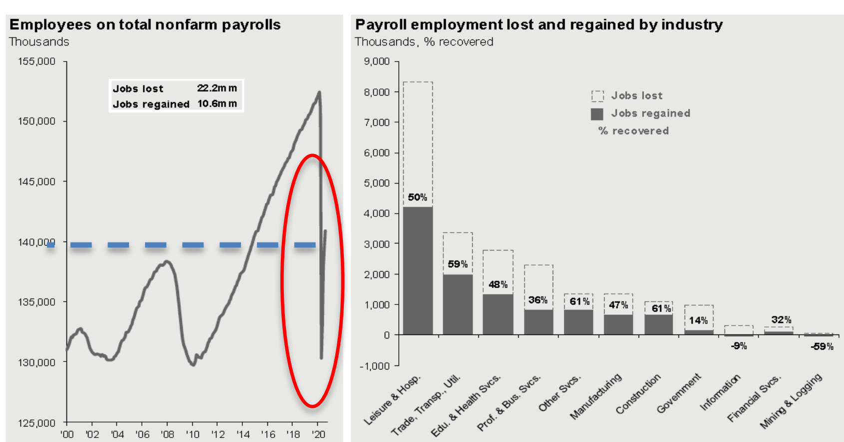


Source: FactSet, Office of the President, J.P. Morgan Asset Management; (Top) Standard & Poor's; (Bottom) Bureau of Economic Analysis. Top chart shows S&P 500 price returns.

We can see that the average annual return for the S&P 500 price index is 7.8% for the divided government, the dominant format, with average Real GDP growth of 2.8%. We can also see that the market posted positive returns more often than negative results. The same conclusion can be drawn from the GDP data in the bottom chart. This data deflates beliefs that particular polices of a single party will always result in better equity returns or GDP growth.

"I'll go back working, I gotta buy my kids a brand new pair of shoes / I drink a little beer in a tavern / Cry a little bit of these working man blues" ***Merle Haggard, "Workin' Man Blues"***

The top requirement for an economic rebound is the classic promise of every politician: jobs. As we can see below, millions of jobs have been lost and regained through the pandemic crisis thus far. The leisure and hospitality and transportation industries have clearly been the hardest hit. As we move into colder weather without a proven vaccine, headlines report increasing permanent layoffs in a variety of industries. While job losses are a feature of every recession, many expected that government assistance and a short shutdown period would promote an equally sharp rebound. As time passes, we are not as sanguine about a recovery without more jobs, which promote the economic growth, productivity gains and inflation the global economy needs to recover and move into a new growth phase.



Source: Bureau of Labor Statistics, J.P. Morgan Asset Management. Jobs lost from February 2020 to April 2020, job regained from April 2020 to present.

"Standing tough under stars and stripes / We can tell / This dream's in sight / You've got to admit it / At this point in time that it's clear /The future looks bright" ***Donald Fagen, "I.G.Y."***

As we look forward almost a year into the pandemic crisis (while falling back into a ‘second wave’), and cognizant of the U.S. elections just a few weeks away, we’ve prepared this broad outlook for the near- and intermediate-term future:

- Pretty much everything depends on how we manage the pandemic, both here and abroad.
- We agree with Fed Chair Powell that more short-term fiscal stimulus is absolutely necessary.
- Interest rates are expected to stay low for at least 3 more years, but credit quality and selection are very important to good results.
- Companies MUST have access to capital in private and public markets to survive.
- Stocks look more attractive in this environment, as a portfolio composed of only bonds at current yield levels won’t be sufficient for long-term growth.
- U.S. large-cap stocks and growth stocks (the classification for many technology names) may be a good investment for the intermediate term.
- Valuations are challenged in some regions and some parts of the market-cap spectrum.

Our long-term optimism has not changed. We are firm believers in the adaptive ability of the U.S. economy, and see growth ahead. The path forward will not always be smooth, and investors should expect additional market gyrations as we move toward and beyond the election. The impending election is not the main reason to buy or sell stocks. In the end, it is the health of the economy, management decisions of companies and ultimately corporate profits that determine if stock prices move higher or lower. We see long-term opportunities ahead that could be punctuated in the short-term by extreme market movements. Investors tend to make long-term decisions while relying on news of the moment. Your portfolio asset allocation should be based upon your needs over the next ten years, not the next ten months. This is the key to successful long-term investing, and we will continue to manage your portfolio with this philosophy in mind.

Please take the time to think about *your* future and to contact us with your comments and questions so that we may put our knowledge and experience to work for you.

—Your Wealth Management Team at JJ Burns & Company

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Barclays US Corporate High Yield 2% Issuer Capped Bond Index is an issuer-constrained version of the flagship US Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index wide on a pro rata basis. The Barclays U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Barclays US Municipal Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed tax-exempt bond market. The index includes state and local general obligation, revenue, insured, and pre-refunded bonds. The Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Returns hedged to various currencies are published for multi-currency indices.

The Morningstar® US Real Asset Index is a diversified portfolio of four different asset classes that have historically displayed high sensitivity to inflation. Real assets are defined as TIPS, commodity futures-based strategies, real estate investment trusts, and inflation-sensitive equities such as upstream commodity stocks and master limited partnerships. The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. The S&P Global ex US REIT index is a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets, excluding the United States. The S&P 500® index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. The S&P GSCI is designed as a benchmark for investment in the commodity markets and as a measure of commodity market performance over time. It is also designed as a tradable index that is readily accessible to market participants.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 23 Emerging Markets (EM) countries. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. The MSCI Emerging Markets Index captures large and mid-cap representation across 23 Emerging Markets (EM) countries. The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. The index currently represents 20 commodities, which are weighted to account for economic significance and market liquidity.