Investment Tally & Perspective

MAJOR ASSET CLASS RETURNS	3rd Qtr. 2020	1-Year	3-Year	5-Year
Equities				
S&P 500	8.9%	15.1%	12.3%	14.1%
MSCI EAFE	4.8%	0.5%	0.6%	5.3%
MSCI Emerging Markets	9.6%	10.5%	2.4%	9.0%
Fixed Income				
Barclays Capital US Aggregate	0.6%	7.0%	5.2%	4.2%
Barclays Capital US Corp. Inv. Grade	1.5%	7.9%	6.4%	6.0%
Barclays Capital Emerging Market	2.4%	4.1%	4.2%	6.2%
Other Assets				
MSCI US Reit Index	1.6%	-17.8%	0.3%	4.0%
S&P GSCI	4.6%	-27.8%	-9.5%	-7.9%
ICE WTI Crude Oil	2.2%	-25.1%	-7.4%	-7.0%
Comex Gold	4.8%	27.6%	13.2%	11.1%

Source: Capital IQ — All returns greater than one year are annualized

Market Activity –

In the third quarter equities continued the strong rebound that started in late March. Returns from bonds, as measured by the Barclays Aggregate, were relatively meager, as rates ended the quarter where they started.

Economic Activity –

The U.S. economy continues to mend with notable areas of disruption. Layoffs and hiring remain elevated, with the net result being continued job additions.

Personal income as of August is 2.0% higher than the income recorded in February. The largest components of personal income are wages and salaries, and government transfers. Wages and salaries, which represent 48% of personal income, are still 3.9% below February levels. Government transfers, 21% of personal income, are up 30% from February, yet down 37% from the peak seen in April (when stimulus checks were sent). The flip side of household's profit and loss statement is expenditures. Total personal consumption expenditure (PCE) is down 3.4% from February, with goods 5.6% above levels earlier in the year and services -7.4%. Combing the two, spending and income, creates the picture of a strong consumer balance sheet.

Businesses are making progress as manufacturing industrial production is down 6.6% from last year in August, an improvement from down 19.7% in April. Non-defense capital goods orders (excluding aircraft), which serves as a proxy for business capital investment, is back above 2019 levels.

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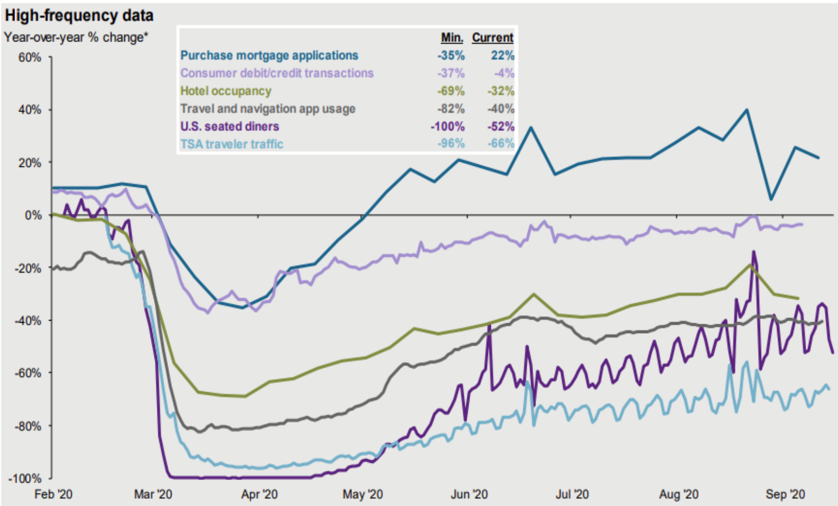
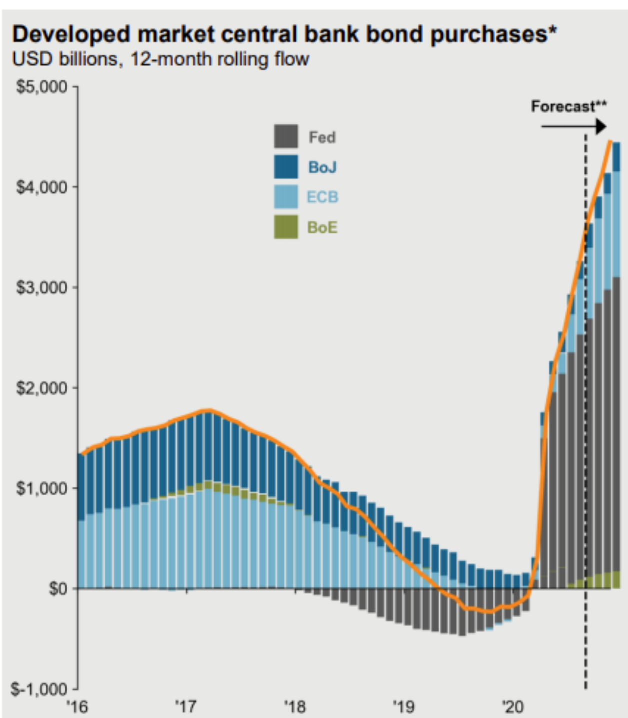


Source: App Annie, Chase, Mortgage Bankers Association (MBA), OpenTable, STR, Transportation Security Administration (TSA), J.P. Morgan Asset Management. *App Annie data is compared to 2019 average and includes over 600 travel and navigation apps globally, including Google Maps, Uber, Airbnb and Booking.com. Consumer spending: This report uses rigorous security protocols for selected data sourced from Chase credit and debit card transactions to ensure all information is kept confidential and secure. All selected data is highly aggregated and all unique identifiable information—including names, account numbers, addresses, dates of birth, and Social Security Numbers—is removed from the data before the report's author receives it.
Guide to the Markets – U.S. Data are as of September 29, 2020.

While the overall picture is one of progress, the dichotomy of the haves and have nots is stark. The graph to the left shows some key indicators for the most impacted industries.

The economic situation globally is a mixed bag. The service industries, which were the most impacted in the spring, were showing strength this summer. Service sectors rebounded in the UK, Germany, and France; in emerging markets, China is leading the way while India, Brazil, and Mexico lag. More recently there have been signs of weakness, particularly in Europe, as a second wave of infection is weighing on consumption patterns.



Monetary & Fiscal Policy –

From a fiscal policy perspective, while the U.S. government has been the most aggressive supplying stimulus, they are joined by countries around the globe as governments strain to do all they can to help struggling consumers and businesses. A development with potentially large long-term consequences is the European Commission's decision to issue long-term debt to help fund EU countries most impacted by COVID 19. This action moves the Bloc further towards integration and creates a high-quality competitor to U.S. treasury notes.

As previously mentioned, U.S. consumers are in fine shape and have plenty of flexibility, yet those who are unemployed or employed in the most impacted industries will likely need more support. This applies to U.S. small businesses in the most impacted areas as well, as more help may well be needed as previous PPP funds are exhausted.

On the monetary front, global central banks are in full accommodation mode led by the Fed which recently updated and altered its Monetary Policy Framework. The main change results in a more dovish posture, as the Fed is now targeting average inflation of 2%. While this target level is not new, their stated intention is to allow inflation to rise above 2% to make up for periods when inflation is below 2% (previously it tried to keep inflation strictly at 2%). This new framework also abandons the Phillips Curve (a theory suggesting an inverse relationship between unemployment and inflation). In global news, the Bank of England is examining the use of negative interest rates, potentially joining the ECB and BOJ in implementing this unorthodox policy.

<u>Investment Outlook and Strategy</u>

The Economy and the Elections

Several prominent issues are causing high levels of uncertainty, namely the path of the pandemic, the outcome of the November elections, the death of Ruth Ginsberg and her replacement, and the health of President Trump. Beyond the office of president, other elections in this cycle will result in either a government that is further divided or more unified. The outcome or resolution of these issues will certainly result in a changed political landscape with unknown impact on global economies and financial markets.

Following the record-setting economic and market plunge in the first quarter of 2020, we witnessed an extraordinary amount of bipartisanship in fiscal policymaking. Republicans and Democrats came together to provide massive fiscal packages that, combined with monetary stimulus resulted in economic activity rising sharply from the recession low. Yet even the sectors that have bounced most strongly have not yet fully recovered supporting the view that more fiscal medicine is needed.

In contrast to earlier months, bipartisanship appears lacking today, as evident in the breakdown of negotiations regarding the latest economic relief package. Though the current impasse may be resolved soon, the Senate's primary focus will be on confirming a replacement for Justice Ginsburg. Accordingly, the outlook for additional fiscal legislation will depend on the outcome in November, with a new deal unlikely to be passed before December.

Through official Fed statements and in comments made by Fed Chair Jerome Powell and other Fed governors, the Fed has strongly communicated its intention to maintain a dovish monetary policy with interest rates pegged near zero for two to four more years. While the Fed is unlikely to be affected by the election directly, the lack of additional fiscal stimulus before December may influence the Fed to consider even more accommodative measures at its December FOMC meeting.

If one party controls both the White House and Congress, substantial fiscal stimulus will likely be the primary focus as neither party has shown much aversion to deficits in the current environment.

Investment Outlook and Strategy

Presently, in an irrational world, stock prices are acting in a rational manner. With interest rates being pegged near zero by the Fed, and with expectations for rates to stay low for several years, a reasonable case may be made that stock prices are not excessively valued relative to interest rates and alternative investments. Stocks of many high-quality companies are trading at prices that produce a current dividend yield of 2% to 3%, or more. While these may appear to be meager returns, bear in mind that the yield on a 10-year U.S. Treasury bond is less than 1% (around 0.75%). Further, most companies of substance have a policy of raising dividends, and these figures do not include long-term capital appreciation.

In closing, control of the Senate remains the pivotal factor for determining fiscal, tax, and regulatory policies and legislation in the next two to four years. In one month, we will know which party controls the Senate and, hopefully, the presidency as well.

While we may have opinions or views on the elections and the financial markets, no one really knows whether the stock market will rise or decline before and after the elections. What we do know is that owning well managed companies has been quite beneficial for investors in decades past, and we expect that to continue in 2021 and future years. Accordingly, we are maintaining normal asset allocations with some cash reserves available if buying opportunities arise.

Preparing for Retirement –An Overview with Tibits of Information for Consideration

Planning for retirement can be challenging, especially for those who fail to prepare years ahead of time. It is important to establish your plan(s) prior to retirement to ensure a smooth transition, and to periodically update your plans before and during retirement. Breaking it down into a series of goals with a checklist of items will greatly assist and ease any anxieties so you can enjoy those "golden years".

Retirement Savings - If able, we generally advise clients to maximize their retirement plan contributions. Tax regulations allow those who are age 50 or over to make additional "catch-up" contributions each year. For 401(k), 403(b) most 457 plans, an additional $6,500 may be contributed in 2020, on top of the standard limit of $19,500. For traditional and Roth IRAs, the catch-up contribution is $1,000 for a total of $7,000, and for SIMPLE IRAs the catch-up is $3,000 for a total contribution limit of $16,500.

Review your Asset Allocation - At a younger age, you were well-advised to set your portfolio to "growth" mode, as you had a significant amount of time before you will draw on your retirement assets. As the time frame from when you begin withdrawing from these assets narrows, it is important to evaluate your asset allocation more frequently, as you want to avoid being forced to liquidate risk assets like stocks and real estate during weak market periods. Your risk profile and comfort level will likely change over time which warrants the need for gradual adjustments in your asset management.

Social Security and Medicare - Social Security is a source of income for your lifetime, so deciding when to begin withdrawing is an important step in retirement planning. Although you can begin withdrawing at age 62, the benefit amount increases each year until you reach the age of 70. Although it may seem logical for some to wait for a higher benefit, for others that do not have longevity in their family or retired earlier than their full retirement age, it may be beneficial to start as soon as possible.

Determining Your Income Need – As you approach retirement, it is important to monitor expenses to understand your monthly income need. Expenses should be broken down into essential needs (housing, groceries, utilities, etc.) and lifestyle spending such as travel and hobbies. After monitoring for a full year, you should have a good idea of how much income you will need for the essentials and how much you will have reserved for leisure.

While the thought of retirement planning may be somewhat overwhelming, Lincoln Capital financial advisors are seasoned professionals with the resources to guide your retirement planning from start to completion, and with periodic monitoring. The services provided by our four professionals (three Certified Financial Planners and a Chartered Financial Analyst), and our knowledgeable support staff are designed to convert client anxiety and stress into contentment and feelings of well-being. Please view us and our planning tools as resources available at your convenience and, as always, please contact us if we may be of assistance.