Recently, in our weekly *The Markets and the Economy* series we've been reflecting on the concept of uncertainty and preparing for an uncertain future. While the path of covid-19 is unknown as we head into flu season, treatments to lessen the effects are still in development, and another stimulus bill to offset the financial burden among families and businesses is still in debate, it remains important to try and stay focused on a positive mindset. As humans we crave security and desire a certain level of control over our lives. Life has a way of changing quickly as evidenced by the onset of the virus. Knowing this can help us to prepare for the unexpected. One example is when it comes to investing, it is important to not let your emotions dictate your decisions. Instead, try to focus on the progress you've made towards your long-term goals. Those goals may be negatively impacted if you react to short-term trends. Stay the course – investing is a long-term game and history shows us the market's long-term trend has always been higher. Just as our human need to connect won't ever change, our commitment here at IMG to building strong long-standing relationships with our clients will never waver.

Enclosed you will find a look back on our markets and the economy over the third quarter of this year. For additional in-depth analysis, you may read our weekly *The Markets & the Economy* series on our Rockland Trust IMG Insights page or on our Rockland Trust IMG LinkedIn page.

Key Takeaways from Q3 2020:

- Uncertainty created volatility in the markets, but S&P 500 remains up 5.57% year-to-date
- The Federal Reserve remains committed to strengthening the US economy by keeping interest rates near zero for the foreseeable future
- A resurgence of covid-19 weighs on investors, but new treatments and positive vaccine development support the markets

US Economy

The COVID-19 pandemic triggered the sharpest economic contraction in modern American history. US Real GDP estimates released in the 3rd quarter showed that our economy contracted at an annualized rate of 31.7% in the second quarter of 2020, as lockdowns were put in place to help contain the spread of the virus. This decline was nearly 3x as sharp as the previous record of 10% in 1958 and nearly 4x the worst quarter in the 2007-2008 Global Financial Crisis. As we entered July and lockdowns were gradually lifted, many had hoped that hotter summer weather would help slow the spread of the virus. Unfortunately this has not been the case, as we have now reached over 33 million cases globally, up from 10 million at the beginning of July. The US alone has reached over 7 million cases, though it is encouraging that the number of daily new cases has continued to decline since the beginning of August. As we enter colder months and the start of flu season, the biggest looming concern is the potential for a second wave. Europe has already begun to experience a second wave, but this time we have seen that improved testing capabilities and methods of contact tracing have allowed policymakers to respond with far more effective measures.

In terms of our economy, the CARES Act passed in March provided $1,200 relief payments to millions of Americas and an extra $600 per week in unemployment benefits which have helped struggling American families meet their spending needs. In addition, the SBA's Paycheck Protection Program (PPP) has helped to keep many small businesses viable in the near-term.

Recent economic indicators show that this stimulus has been effective and our economy began to rebound in Q3. Our economy has benefitted from a strong housing market, spurred by low interest rates, an acceleration in manufacturing activity with new orders rising and inventory restocking, and a resilient consumer whose personal income levels remained strong in part, as a result of the CARES Act stimulus payments. Unfortunately the recovery has been uneven. Areas of our economy dependent on face-to-face interactions, namely service based industries, have been directly impacted by our need to social distance and have not exhibited the same resilience as goods producing or manufacturing based areas of our economy.

The labor market, like the economy has shown significant signs of healing in the third quarter with unemployment falling from its 14.7% peak in April to 7.9% in September as our economy progresses through the reopening phases. While progress has been made on the jobs front, we are still far from the half-century low 3.5% unemployment level we saw in February and while initial and continuing unemployment claims continue to trend lower, they remain at painfully elevated levels.

With the extra unemployment benefits ending at the end of July, Democrats and Republicans continue to debate a new coronavirus relief bill in Washington. Negotiations continue to be stalled and the progress of economic recovery is likely to be slower in the absence of a vaccine or further fiscal support. Monetary policy support is reaching its limits with the Fed Funds rate near 0%, thereby increasing our reliance on government spending to bridge our income and employment gaps. Having said that, the absence of further stimulus or a delay in stimulus does not necessarily mean our economic progress will revert. The sizeable first round of stimulus is still trickling its way through our economy and the sizeable spike in the US Personal Savings rate (currently at 18% vs. a 9%, 70-year average) could help to support spending as economies continue to slowly reopen and our labor market begins to heal.

Traditional Asset Class Returns Q3 2020

Asset Class	Benchmark	Q3
US Stocks	S&P 500	8.93%
US Gov't Bonds	BbgBarc US Govt Intermediate	0.20%
Cash	BbgBarc US Treasury Bill 1-3 Mon	0.03%

US Stocks

The S&P 500 started the quarter off strong, up 13.23% for the two-month period ended August 31. However, volatility began to pick up in September as US/China trade tensions began to rise, news surfaced that a coronavirus vaccine may not be widely available until April of 2021, worse than expected jobs data was released, and the death of Ruth Bader Ginsburg caused fear that stimulus talks could continue to be delayed. The S&P 500 finished down 3.80% in the month of September, but still finished up 8.93% for the quarter and remains up 5.57% year-to-date.

10 out of 11 sectors in the S&P 500 posted positive returns in the quarter. The Consumer Discretionary (+15.06%), Materials (+13.31%), and Industrials (+12.48%) sectors were the best performers. The worst performing and only negative sector was the Energy sector, which was down 19.72% for the quarter.

From a market capitalization standpoint, Large Cap stocks (+9.47%) outperformed Small Cap stocks (+4.93%) in the quarter. On a year-to-date basis, Large Cap stocks are outperforming Small Cap Stocks by 15.09%. From a style perspective, Growth stocks continue to significantly outperform. Growth stocks, stocks that are expected to grow sales/earnings faster than the market but typically trade at higher valuation multiples, outperformed Value stocks by 7.63% in the quarter and by 35.91% year-to-date.

US Bonds

For the second consecutive quarter US interest rates were essentially unchanged as we continue to see yields trading within a narrow range across the yield curve. The 10-year Treasury began the 3rd quarter at .67% and finished the quarter at .68%, well below where we started the year at 1.92%.

Throughout the summer months the markets grappled with how to interpret economic data showing an uneven pace of economic recovery. The Federal Reserve has remained committed to bolstering the US economy by announcing it intends to keep interest rates at zero for the next few years and will maintain its buying program in the near-term. In August, the Fed also announced a monetary policy shift with respect to inflation – the unanimous vote by officials will allow for periods of inflation to rise above the 2% target to make up for prior periods of lower inflation. Fixed income markets will look to the last two scheduled meetings of 2020 for specific details of how the Fed expects to achieve the target 2% inflation average.

While the Central Bank has remained "all in" to support the recovery through monetary policy, Chairman Powell has repeatedly stated it will take a fiscal response from Congress as well. The market is looking for another stimulus package to continue to support those individuals and businesses impacted by the recession. Investors will be closely watching Congress and the White House to see if a stimulus bill can be passed as we head into the November 3rd Presidential election, a potentially volatile period for markets.

Overall for the 3rd quarter, performance was positive with high yield as the best preforming fixed income sector at 4.60%. Year to date, all of the domestic fixed income sectors have positive returns with the overall investment grade sector leading at 5.92%.

Diversifying Asset Classes

Many of the equity-related diversifying asset classes failed to add value relative to the S&P 500 in the quarter. Emerging Market stocks (+9.56%) benefitted from the reopening of their economies and unprecedented fiscal and monetary stimulus. Mid Cap Growth stocks (+9.37%) benefitted from their heavy exposure to the Technology sector. Commodities (+9.07%) benefitted from increases in industrial metals, grains, and livestock. The worst performing equity asset class was MLPs (-16.26%) due to continued volatility in crude oil prices.

Many of the fixed-income related diversifying asset classes added value relative to Intermediate Government and Corporate bonds in the quarter. Riskier High Yield Corporate Debt (+4.60%), International Bonds (+4.59%) and Bank Loans (+4.13%) all outperformed in the quarter as economies began to reopen and governments stepped in to support their corporate credit markets.

Asset Class	Benchmark	Q3
Foreign Stocks	MSCI EAFE	4.80%
Emerging Markets Stocks	MSCI Emerging Markets	9.56%
US Mid Cap Stocks	Russell Mid-Cap	7.46%
US Small Cap Stocks	Russell 2000	4.93%
REITs	MSCI US REIT	1.63%
Commodities	Bloomberg Commodity	9.07%
MLPs	Alerian MLP	(16.26%)
Managed Futures	Morningstar US Managed Futures	(0.62%)
Foreign Bonds	FTSE WGBI Non-USD	4.59%
Emerging Market Bonds	JPM EMBI Global	2.28%
US Inflation Protected Bonds	BbgBarc US Treasury TIPS	3.03%
Floating Rate Loans	Credit Suisse Leveraged Loan	4.13%
US High Yield Bonds	BbgBarc US Corp High Yield	4.60%
Convertible Bonds	ICE BofAML Convertible Bonds	13.93%

Conclusion

So what can be done about uncertainty? Prepare for it. At Rockland Trust Investment Management Group, our research team focuses on finding securities of companies that can thrive regardless of the political landscape. We do so by investing in diversified investments such as precious metals (to fight inflation), real estate (to provide income), and international holdings (not focused on US tax rates or political changes), which complement a client's core allocation. Time will tell what the remainder of the year will have in store for our country. We commit to accepting the challenges that come with navigating the uncertainties, protecting what is valuable to you, and creating new opportunities best suited for your financial future.

Sincerely,

David B. Smith, CFA
Chief Investment Officer
Investment Management Group