November 6, 2020

During the third quarter [Q3], the U.S. stock market continued its remarkable recovery from the March 2020 lows as the U.S. economy has proven to be better and more resilient than the dire predictions in late March. A prime example is the unemployment rate, which has improved from a high of 14.7% in April to 6.9% in October. Both U.S. fiscal spending and the monetary support by the Federal Reserve have been unprecedented and successful in contributing to the economic recovery. From the chart below, we summarize the key takeaways from the 2020 Q3 results for the broad asset categories and financial market indices we follow:

- U.S. Stocks gained again in Q3 despite the correction in September. The S&P 500 Index rose by +8.5% in Q3, driving the index up +4.1% for 2020 year-to-date [YTD], and overcoming its worst ever start to a new year. Growth stocks, led by technology, continued to dominate value stocks. The Dow Jones [DJIA] was still down -2.7% for 2020 YTD. Stocks outperformed bonds again in Q3 as bonds barely moved with the Barclays Aggregate Bond Index rising only +0.6%. Despite the surge for Q2 and Q3, stocks [+4.1%] still trail bonds [+6.8%] for 2020 YTD.
- Helped by a falling U.S. dollar, all major foreign stock indices rose during Q3. Emerging outperformed developed international stocks in Q3. In U.S. dollars, the MSCI Emerging Markets Index gained +9.7%, while the EAFE added +4.8%. The top performer for Q3 was China [+12.5%] and Gold [+23.5%] was best for 2020 YTD.

Index Returns for Asset Classes & Broad Market Index Averages (1)	3rd Quarter 2020	2020 YTD
30-Day US Treasury Bills	0.03%	0.42%
Barclays Long-Term US Treasury Bond	0.12%	21.35%
Barclays US Aggregate Bond Index	0.62%	6.79%
S & P 500 Composite Price Index	8.47%	4.09%
Dow Jones Industrials Price Index	7.63%	-2.65%
Wilshire 5000 Total US Stock Mkt Index	8.69%	4.09%
MSCI EAFE Index of Foreign Markets	4.80%	-7.09%
MSCI Emerging Markets Index	9.70%	-0.91%
MSCI Europe Index	4.51%	-8.85%
MSCI Japan Index	6.94%	-0.68%
MSCI China Index	12.50%	16.45%
SPDR GOLD Shares ETF [GLD]	6.61%	23.53%
US Dollar ETF [UUP]	-3.62%	-2.75%
S & P GSCI Commodity Index [Spot]	7.59%	-19.72%
(1) Source: MORNINGSTAR [In USD$]		

CFO Economic and Financial Market Outlook

In our 2020 Q2 report to investors, we wrote that the unique nature of the government policy-imposed economic shutdown and the resulting deep Q1/ Q2 recession makes the macro outlook inherently uncertain to predict. Our viewpoint has not changed. We are still very much in the middle of a pandemic. Both the future path of COVID-19 and any future government policies to contain the virus remain uncertain. Experts have warned of a resurgence this fall and winter coincident with the flu season and students returning to campus, where outbreaks are already on the rise. The COVID-19 pandemic continues to weigh heavily on economic activity and the public's mood and behavior. Most of the population remains vulnerable to infection. The speed of the economic recovery is still very much virus dependent. A full and sustainable recovery is likely only when Americans feel safe enough to revert to pre-COVID behaviors. In short, this will require more than just successful therapeutics. This will most likely require a safe, effective, and widely distributed vaccine.

In the short-term, there are those realities that have driven the economic uncertainty and financial market volatility: The recent Supreme Court appointment, the ongoing Congress futility on the next necessary stimulus package and, of course, the 2020 election results. Those distractions notwithstanding, there is a growing collection of positive economic and financial market data to cheer about. The U.S. economy has rebounded from the depression-level trough in Q2 and has entered into a phase of early economic expansion. Consumer confidence reported in September by the Conference Board was above its long-term average. The various manufacturing indices are all in expansion territory, and core orders and shipments for capex are strong. NDR Research just reported that the flash U.S. services and manufacturing PMIs rose to their best levels in over a year and a half. While still robust, new business and employment growth has slowed somewhat amid uncertainty over the election results and the ongoing pandemic.

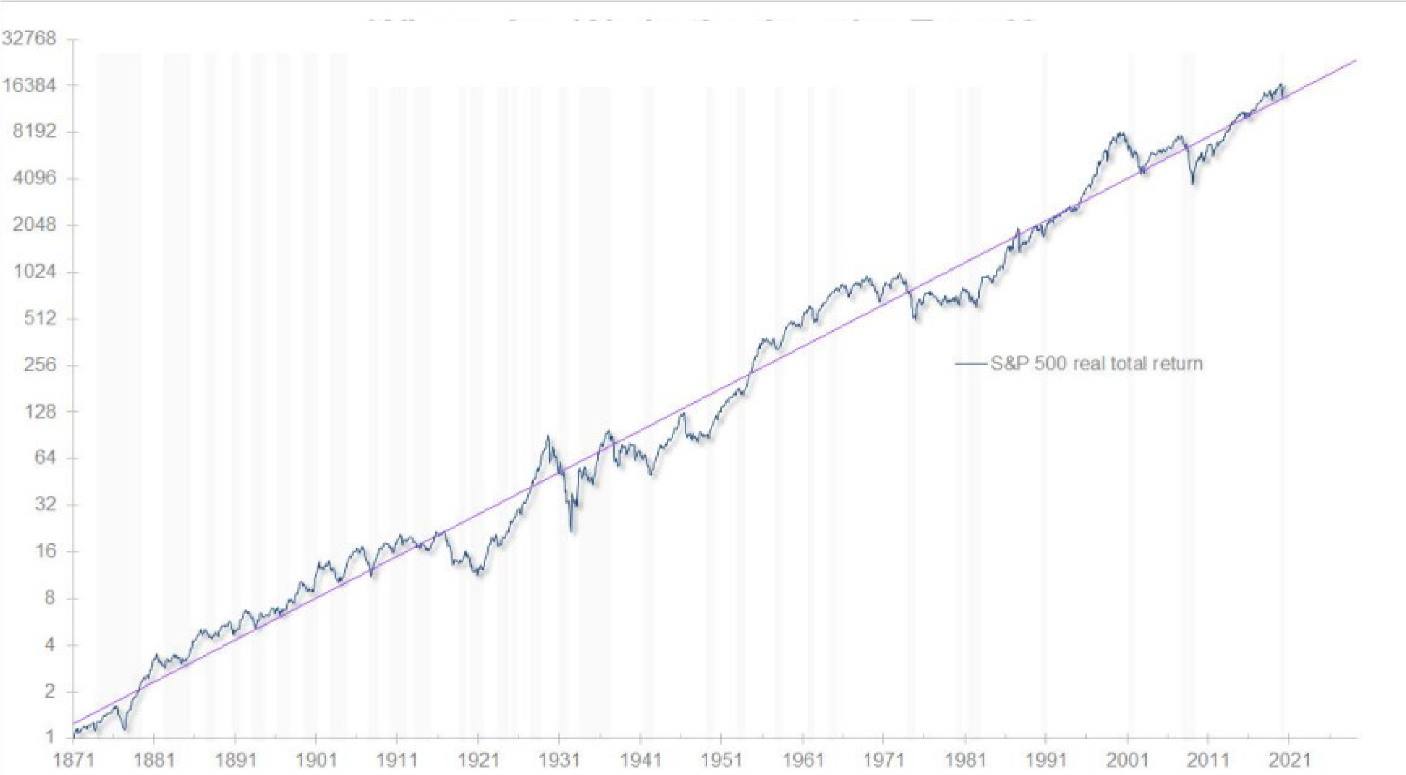
Based on the hopes of another round of fiscal stimulus from the U.S. Congress, businesses in both the manufacturing and service sectors have become more optimistic about their 12-month outlook. The U.S. banking system remains well capitalized, which allows for the critical bank lending that will drive future economic growth. The Federal Reserve continues to implement its ZIRP [zero interest rate policy] combined with increased asset purchases and new emergency lending facilities. With strong forward guidance, the Fed has pledged to keep the federal funds rate close to zero until the labor market is back to "maximum employment" and core PCE inflation is "moderately exceeding 2%" for "some time." That is tantamount to "for a very long time", and confirms a sustained, very accommodative Federal Reserve policy! Finally, foreign central banks are also continuing to pursue expansionary policies. Global economies are also recovering, but like the U.S. face the same virus-related challenges and economic uncertainties from the renewed outbreaks of COVID-19.

Supported by an improving economic back-drop, U.S. Equities still seem to make sense as they provide greater long-term return potential than most other asset categories. With respect to the S&P 500 EPS, the consensus for 2020 is about $135 versus $120 several months ago, and the 2021 consensus is currently about $165 versus $150 of several months ago. There is a lot of commentary in the financial media arguing that stocks are expensive based on their P/E ratios, or the ratio of the stock prices to their corporate earnings. In times of [ultra] low interest rates, it is rational to have somewhat higher P/E ratios. Moreover, stock valuations compared to bonds still look attractive. Perhaps most important of all from a long-term perspective, the U.S. stock market has continued to follow the Secular Trend Line [Please refer to the Charts from Fidelity Investments on page 3]. Foreign stocks also appear comparatively cheap, and usually do well during periods of a declining U.S. dollar, which we expect to continue. We believe that the emerging markets are in an early breakout and that includes China.

Finally, our reasonably upbeat outlook notwithstanding, some caution is still warranted. The election was very close, as in 2000 and 2016 when the eventual president won in the Electoral College but lost the popular vote. We believe that Biden will prevail but post-election scenarios, including legal challenges and court battles, appear complex and potentially very worrisome. Unless there are very clear and widespread examples of election **fraud**, we believe that it would be best for America if Trump would concede defeat and allow our country to heal and move forward. The American people have spoken and that also includes the likely continuation of control of the U.S. Senate by the Republican party and therefore the preservation of a very necessary balance of power going forward into 2021 and for the next four years.

The CFO Capital Management Team

Perhaps most importantly, from a long-term perspective the US Equity Market has continued to follow the Secular Trend line!



Whose path resembles equity bull markets of the 50s & 80s – and both had a deep correction in Year 8

Bull Market Breakout from 2013 vs 1950 & 1980 Breakouts

Source: Factset, as of 09/10/2020

Past performance is no guarantee of future results. It is not possible to invest directly in an index. All market indices are unmanaged. Index performance is not meant to represent that of any Fidelity mutual fund.