

Capital Market Review

3rd Quarter 2020

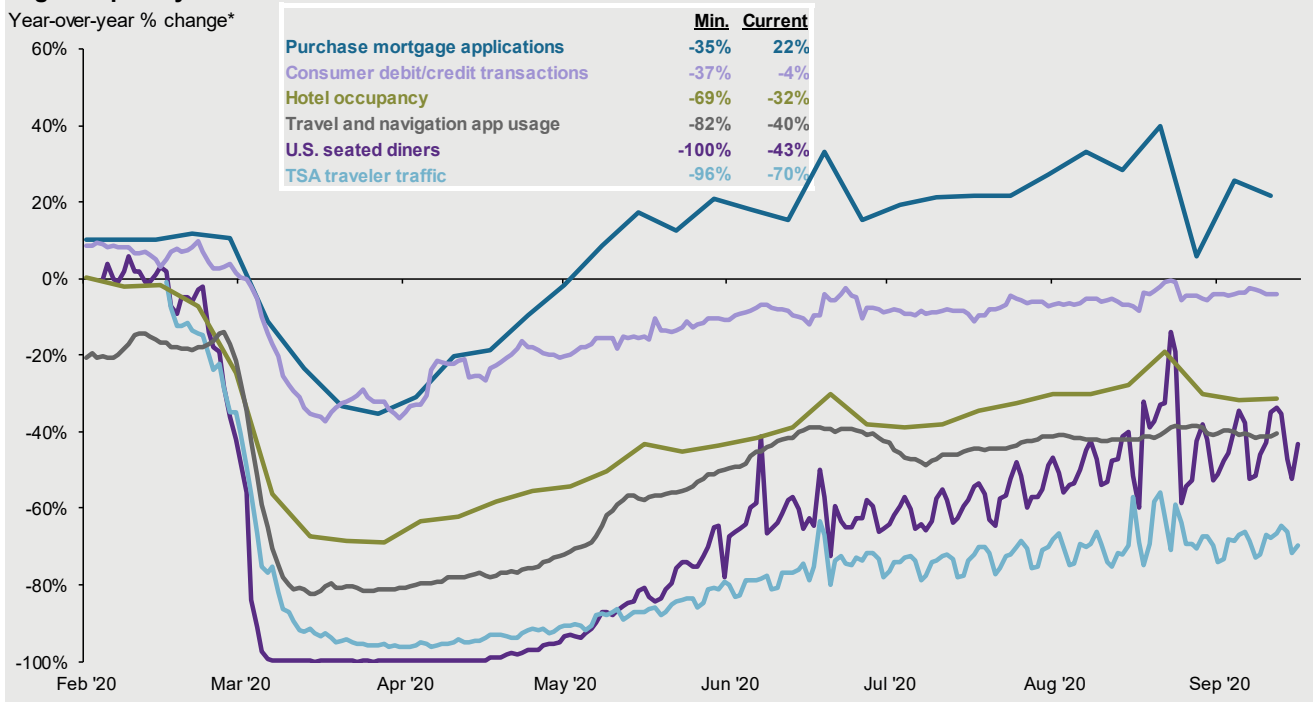
By: Jim Rambo, CFA

The disruption brought by the Coronavirus continues to drive the economic and market themes in 2020. While the pace of reopening has slowed from the second quarter, high-frequency data shows a positive trend as our economy continues to recover. Consumer transactions, which fell by 37% at the shutdown peak, are now only 4% lower than pre-COVID levels. This is an important metric as consumer spending accounts for roughly 2/3 of our total GDP. The consensus economic forecast is for global GDP to recover fully to pre-COVID levels sometime in 2021.

Economic Recovery

High-frequency data

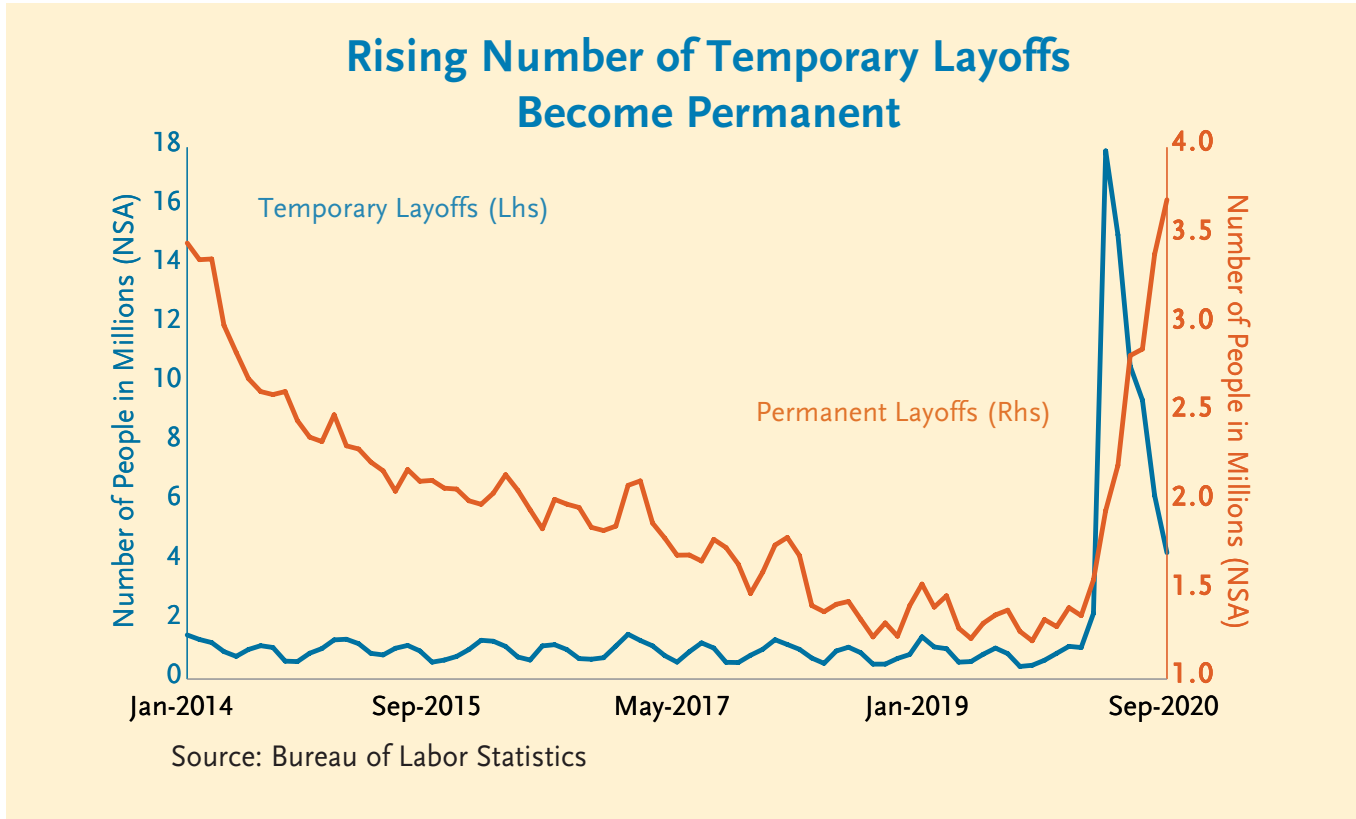
Year-over-year % change*



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.

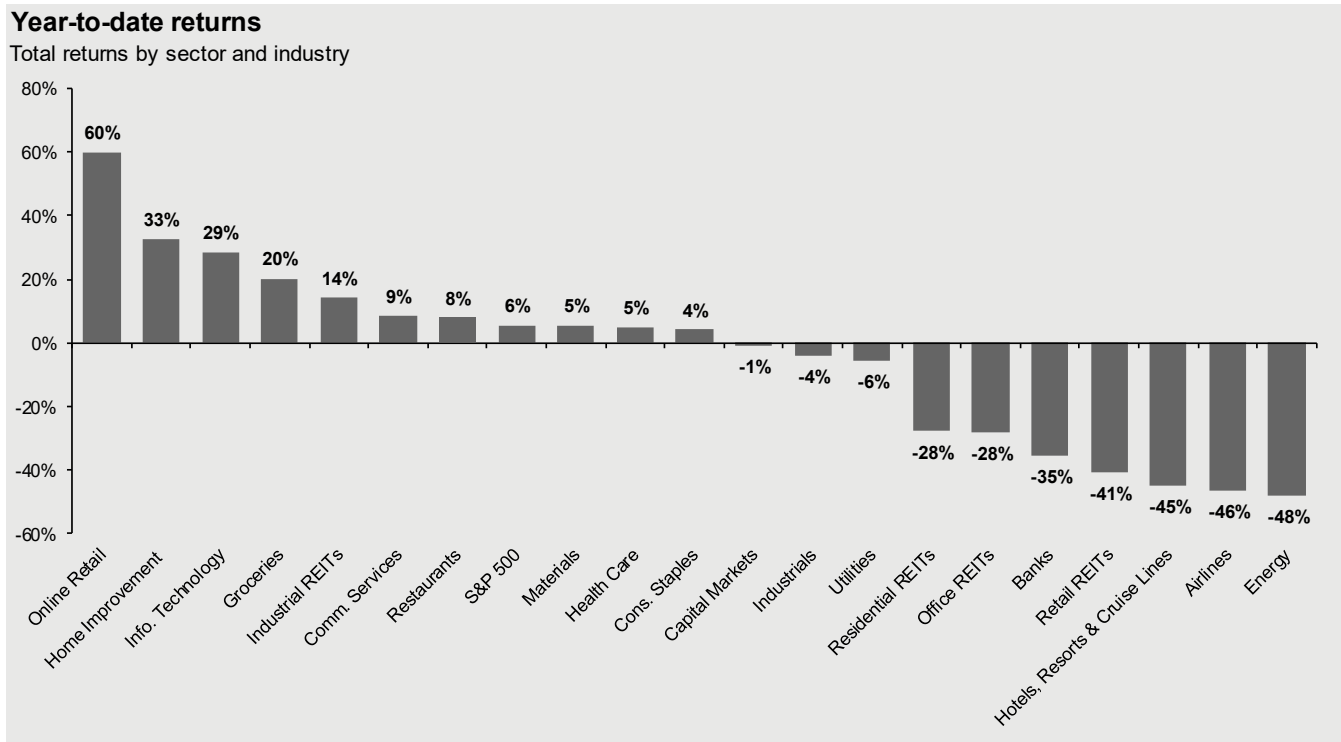
Guide to the Markets – U.S. Data are as of September 30, 2020.

Source: JP Morgan Guide to the Markets, 4Q 2020



Source: MedWest Funds, Fixed Income Review MetWest Total Return Bond Fund, Third Quarter 2020

While headline economic data continues to trend in a positive direction, the recovery has been very uneven. From a peak of nearly 15% in March, the overall unemployment rate has steadily declined to the current level of 7.9% in September but still has a long way to go. According to Yelp, half of the retail shops and restaurants open on March 1st have since permanently closed. The hope was that these businesses would only need to close briefly, and the job losses were only temporary. But with restrictions still in place and the threat of COVID still looming, permanent layoffs are rising as small businesses continue to fail.



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. *Guide to the Markets – U.S.* Data are as of September 30, 2020.

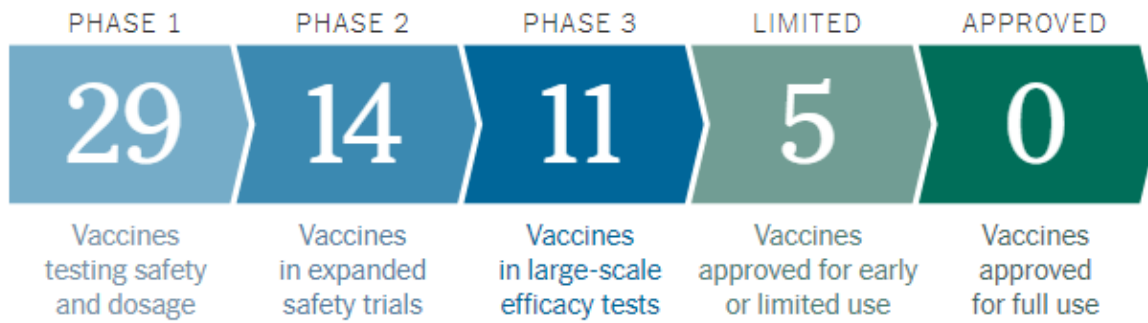
Source: JP Morgan *Guide to the Markets, 4Q 2020*

The S&P 500 has now fully recovered from the 34% March crash with record-setting speed due mainly to the Fed's massive stimulus. The U.S. large-company index is now +5.6% YTD, which would be average over any nine-month period if it weren't for the wild path traveled. Technology companies continue to benefit from the mass adoption of remote work as companies invest in software and equipment to improve their effectiveness. Online retailers have been de facto beneficiaries due to distancing restrictions and forced shutdowns. Online sales have surged 60-80% during the lockdown, while brick and mortar retailers have yet to recover to pre-COVID levels.

Energy companies and travel-related industries such as hotels, resorts, and cruise lines continue to be devastated by the COVID-19 restrictions. TSA traveler traffic remains 70% below pre-pandemic levels. Companies in these industries are desperately hoping for support from the next stimulus bill.

Earnings growth for healthcare companies has been as strong as technology companies, but the stocks have not performed nearly as well. The uncertainty surrounding the upcoming presidential election and the possibility of reform are likely keeping valuations down.

Vaccine Timeline



Source: The New York Times as of 10/14/2020

The possibility of a vaccine being available sooner than anticipated could surprise on the upside. There are eleven vaccines currently in phase three clinical trials. Historically, 85% of candidates who reach Phase 3 successfully pass clinical trials, suggesting a good chance that at least one of the vaccines will be approved. The availability of a vaccine should allow governments to lift restrictions and return to normal life quickly. A burst of pent up demand for traveling, eating at restaurants, and the return of social gatherings could provide a real spark to jumpstart small businesses and restore confidence.

Performance Results

Index Trailing Returns

As of Date: 9/30/2020

	Last Quarter	YTD	1 Year	3 Years	5 Years	10 Years
BBgBarc US Govt/Credit 1-5 Yr TR USD	0.37	4.36	4.88	3.47	2.59	2.09
BBgBarc US Agg Bond TR USD	0.62	6.79	6.98	5.24	4.18	3.64
S&P 500 TR USD	8.93	5.57	15.15	12.28	14.15	13.74
Russell 2000 TR USD	4.93	-8.69	0.39	1.77	8.00	9.85
MSCI EAFE NR USD	4.80	-7.09	0.49	0.62	5.26	4.62
MSCI EM NR USD	9.56	-1.16	10.54	2.42	8.97	2.50

Source: Morningstar Direct



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