PATHSTONE
THE MODERN FAMILY OFFICE™

MARKET FLASH REPORT

September 2020

KEY TAKEAWAYS

- Another quarter of widespread equity gains, although September was not without its challenges. Volatility reappeared during the month, knocking the S&P 500 off its record highs as the advance of the mega-cap growth names took a breather. Still, the S&P 500 was up 8.9% in Q3.
- Emerging market equities were the top-performing asset class, assisted by strong returns out of China. The MSCI China Index added 12.5% during the quarter, bringing the trailing twelve-month return to over 33%. European equities, while positive, faced headwinds as virus cases in many European countries increased, slowing the economic recovery.
- Interest rates have been pinned at low levels. The 10-year Treasury yield has traded range-bound and sits at roughly 0.7%. Risk-on sentiment through most of the quarter tightened credit spreads, lifting the U.S. High Yield Index.
- The Fed reaffirmed their goals of keeping monetary policy stimulative. The shift to average inflation targeting of 2% and updated recent guidance imply that the fed funds rate may stay near zero through 2023.
- Markets still face many challenges that may add to near-term volatility. Congress has been unable to agree on another fiscal stimulus package, political uncertainty around the November election looms, and ultimately, economic activity and virus trends will play a key role in the market's direction over the months ahead.

ALASKA

CALIFORNIA

FLORIDA

GEORGIA

MASSACHUSETTS

NEW JERSEY

TEXAS

WASHINGTON D.C.

BELLEVUE, WA

SEATTLE, WA

888-750-PATH (7284)

WWW.PATHSTONE.COM

INDEX PERFORMANCE (as of 9/30/20)

Equity	**Q3 2020**	**One-Year**	**Three-Year**
U.S. Large Cap	8.9%	15.2%	12.3%
U.S. Small Cap	4.9%	0.4%	1.8%
Developed Non-U.S.	4.8%	0.5%	0.6%
Emerging Market	9.6%	10.5%	2.4%
Real Assets			
Real Estate	2.9%	-14.7%	-0.7%
Commodities	9.1%	-8.2%	-4.2%
Natural Resource Equities	-7.6%	-26.8%	-12.5%
Fixed Income			
Core Plus			
U.S. High Yield Debt	4.6%	3.3%	4.2%
Emerging Market Debt	0.6%	-1.5%	0.2%
Core Bonds			
U.S. Aggregate Bonds	0.6%	7.0%	5.2%
U.S. Treasuries	0.2%	8.0%	5.5%
U.S. Municipal Bonds	1.1%	4.1%	3.4%

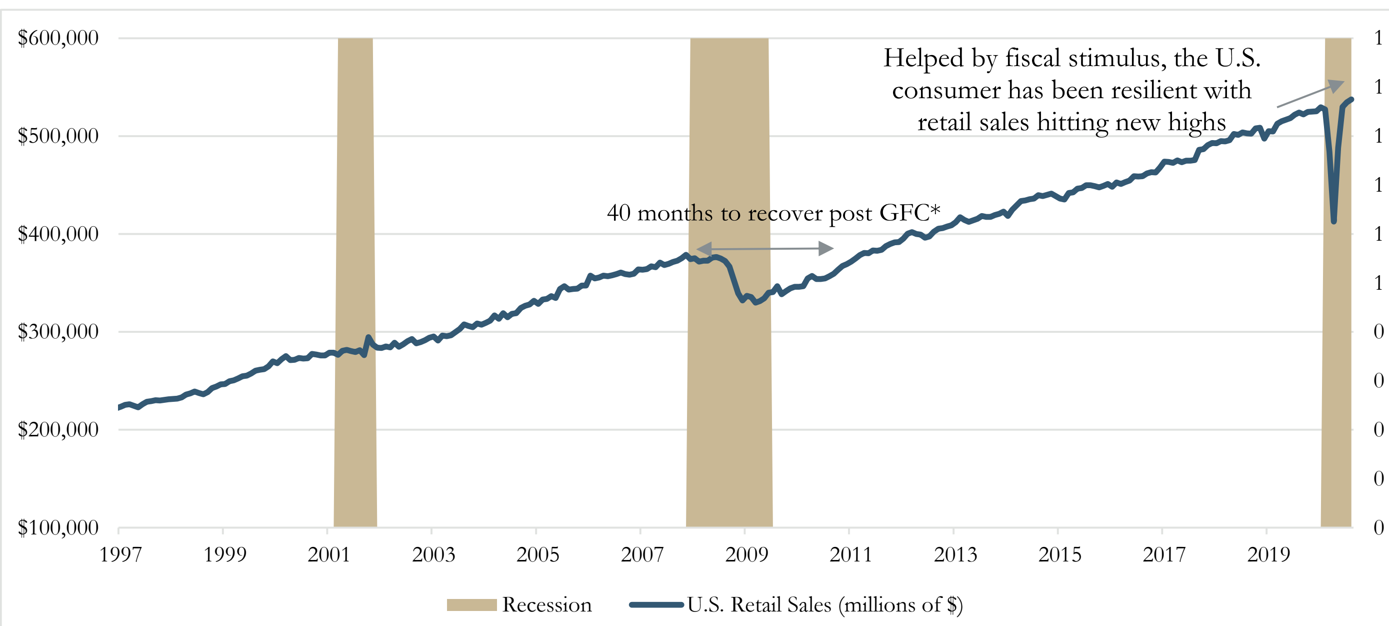
Month-End Values/Yield	**Current**	**Prior Month**	**One-Year Ago**
CBOE Volatility Index	26.4	26.4	16.2
10-Year Treasury Yield	0.7%	0.7%	1.7%

Sources: Bloomberg, Morningstar, treasury.gov. S&P Dow Jones Indices.
You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved.

QUARTERLY COMMENTARY

- Macro-data has steadily improved, both in the U.S. and across the globe. Different sectors of the economy are recovering at different rates, but trends are largely positive, and fundamentals look significantly better relative to the state of the economy back in the spring.
- The current environment is unlike traditional business cycle recessions. The declines have been deeper, but the recovery so far has been steeper.
- Housing has snapped back thanks to historically low mortgage rates. Consumer sentiment is more optimistic about the near-term outlook. Manufacturing is ramping up as demand for goods has remained strong. Labor markets have seen the re-hiring of many workers who lost their jobs in March and April.
- Impressively, retail sales have climbed higher, setting new highs just five months after their January 2020 peak. In the aftermath of the Global Financial Crisis, the recovery in retail sales took 40 months.
- With better fundamentals and firming forward-looking earnings expectations, equity markets have rallied sharply from their lows. Credit markets appear healthy with few signs of stress thanks to support from the Fed.
- So far this year, equity index performance has been concentrated across a handful of the largest growth companies, many of which now hold valuations that seem to be priced for perfection. Opportunities outside of U.S. Lage Cap growth appear more compelling, particularly as fundamentals continue to progress.
- Markets may be choppy in the weeks ahead, as investors work to navigate the uncertainty that this fall will bring. However, the Fed has indicated they will maintain a stimulative approach for the foreseeable future, and fiscal measures can go a long way towards keeping the economic recovery on track.
- Long-term investors should continue focusing on the trends in underlying fundamentals and not the daily swings in sentiment.

Tracking the Recovery: Retail Sales



* Global Financial Crisis

Sources: Bespoke Investment Group. U.S. Census Bureau, Advance Retail Sales: Retail and Food Services, Total [RSAFS], retrieved from FRED, Federal Reserve Bank of St. Louis.

You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved.

DISCLOSURE

Past Performance Is No Guarantee Of Future Performance. Any opinions expressed are current only as of the time made and are subject to change without notice. This report may include estimates, projections or other forward looking statements, however, due to numerous factors, actual events may differ substantially from those presented. The graphs and tables making up this report have been based on unaudited, third-party data and performance information provided to us by one or more commercial databases. Additionally, please be aware that past performance is not a guide to the future performance of any manager or strategy, and that the performance results and historical information provided displayed herein may have been adversely or favorably impacted by events and economic conditions that will not prevail in the future. Therefore, it should not be inferred that these results are indicative of the future performance of any strategy, index, fund, manager or group of managers. While we believe this information to be reliable, Pathstone bears no responsibility whatsoever for any errors or omissions. Index benchmarks contained in this report are provided so that performance can be compared with the performance of well-known and widely recognized indices. Index results assume the re-investment of all dividends and interest. Moreover, the information provided is not intended to be, and should not be construed as, investment, legal or tax advice. Nothing contained herein should be construed as a recommendation or advice to purchase or sell any security, investment, or portfolio allocation. Any investment advice provided by Pathstone is client specific based on each clients' risk tolerance and investment objectives. This presentation is not meant as a general guide to investing, or as a source of any specific investment recommendations, and makes no implied or express recommendations concerning the manner in which any client's accounts should or would be handled, as appropriate investment decisions depend upon the client's specific investment objectives.

U.S. Large Cap Equity is represented by the S&P 500 Index, with dividends reinvested. U.S. Small Cap Equity is represented by the Russell 2000 Index. Developed Non-U.S. Equity is represented by the MSCI EAFE Index. Emerging Market Equity is represented by the MSCI EM Index. Real Estate is represented by the S&P Global Property Index. Commodities are represented by the DJ UBS Commodity Index. Natural Resource Equities are represented by the S&P North American Natural Resources Index. U.S. High Yield Debt is represented by the Bloomberg Barclays U.S. Corporate High Yield Index. Emerging Market Debt is represented by the JPM GMI-EM Global Diversified Index. U.S. Aggregate Bonds is represented by the Bloomberg Barclays U.S. Aggregate Bond Index. U.S. Treasuries is represented by the Bloomberg Barclays U.S. Treasury Index. U.S. Municipal Bonds is represented by the Bloomberg Barclays Municipal 1-10yr Index.