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VIEWPOINTS

3RD QUARTER 2020 *ADVISORY NEWSLETTER*

MARKET COMMENTARY **FREDRIC W. WILLIAMS**

Party Like It's 1999…Reprised…

"Two thousand-zero-zero party over
Oops out of time
We're running out of time
So tonight, I'm going to party like it's 1999"

Unlike Prince's 1982 somewhat pessimistic view of how the world would navigate the transition to the new millennium (with its Y2K date-related concerns), the 2020 remix featured players who had "nothing but time" during this year's middle two quarters…and "party" they did.

Taking advantage of the covid-closures to hone their capital markets trading skills from home, the 90's dot-com day traders were reincarnated as pandemic shut-ins that took advantage of commission free trading via online apps to bid up popular momentum stocks, in an almost herd-like fashion, as the year progressed.

It's estimated that in 2010 individual retail investors accounted for less than 10% of the market's trading volume. Last year that climbed to about 15%, and now in 2020 that figure has hit near 25% on some trading days, having averaged 19.5% in the first six months of the year.

> *"Trading activity among individual investors started climbing late last year, when Schwab and other major brokerages cut stock-trading commissions to zero…a parallel with the dot-com boom in the 1990's, when web-based brokers made it easier to trade stocks, just as a bull market was under way.*
>
> *"It has been called the Robinhood effect, the idea that stampedes of investors using the popular app are driving irrational stock moves."*
>
> \- *A. Osipovich, WSJ 8/31/20*

This dynamic, continuing the superlatives mentioned in this space last quarter, contributed to a head-spinning, and demand-driven, rebound in the market indices, even as the globe continued to wrestle with the economic headwinds of a persistent pandemic.

"The Dow and the benchmark S&P 500 plunged about 35% within six weeks this spring – the fastest ever from record levels into a bear market – as the economy shut down and the virus spread across the country. Since then, U.S. stocks have been on a winning streak that is unprecedented in the modern era of financial markets.

"The S&P 500's journey from record high to a bear market – defined as a drop of 20% or more – ***to a new record*** *took just 126 trading days, the fastest-ever such climb. In previous downturns going back to 1928, it took an average of more than 1,500 sessions for the index to return to record levels, equivalent to about 6 years."*

- *G. Banerji, WSJ 9/15/20*

Clearly, once the rebound commenced, and the first waves of stimulus funds suggested an easing in the economy's declines, FOMO (fear of missing out) was a common theme across the online resources (like Reddit, Facebook, TikTok and Discord) that these newly minted stock traders frequented.

But the rebound in the indices hasn't been spread evenly – by virtue of the market capitalization weighting in the S&P 500, and the price weighting in the Dow, the larger and pricier shares have outperformed the vast bulk of the rest of the market. Banerji continues:

"The five largest companies in the S&P 500 – today that is Apple, Amazon, Microsoft, Alphabet and Facebook – recently made up about 23% of the index, the highest concentration in at least 30 years, according to Goldman Sachs analysts. Apple, the biggest company in the U.S. stock market, has contributed more than half of the index's 4.8% total return this year…

"One way to gauge the outsize influence of those stocks: A version of the S&P 500 that gives every stock an equal weighting is still down 4.4% in 2020, while the standard benchmark has climbed 4.8%. Within the S&P 500, the energy, financials, utilities, real-estate and industrial segments are still in the red."

This disparity is exemplified by the spread between the S&P 500 Growth index and its sibling the S&P 500 Value index, which is at a level (Growth over Value) that exceeds that seen just prior to the popping of the tech bubble nearly 20 years ago. Back then the phrase "it's different now" was the explanation – and while there's no doubt that the tech sector was able to pivot in the pandemic faster than other sectors, there still has to be some consideration about valuations, given that even trees don't grow to the sky. Demand through, and to, the tech sector's goods and services could be influenced by covid-limitations on other retail avenues (bricks and mortar, etc) as well as the discretionary, and absolute, income streams available to consumers. So, if jobless levels remain high, employment recedes as businesses contract into the winter months, or further stimulus support is curtailed, then there could be an impact on the sector's revenue streams given consumer concerns about their potential cash flow sources.

With our society's focus on containing and battling the virus, it may be worthwhile at this point in the market cycle, to heed the advice of one o last century's noted philosopher word-smiths – Yogi Berra:

"The future ain't what it used to be."

Rebalancing portfolios to take advantage of extended gains could provide sector-specific reallocation opportunities to "sell high and buy low" which may prove to be prudent as we continue to move through these challenging times.

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Index Returns			
Equities	*Percentage Change for the 3rd Quarter*	*Percentage Change for the Year*	*Annualized 10-Year Returns*
S&P 500	**8.93%**	5.57%	13.74%
Bloomberg Commodity Index	**9.07%**	-12.08%	-6.03%
MSCI EAFE*	**4.80%**	-7.09%	4.62%
MSCI Emerging Markets*	**9.56%**	-1.16%	2.50%
FTSE NAREIT Equity REIT Index	**1.44%**	-17.54%	7.90%
Fixed Income			
Bloomberg Barclays U.S. Aggregate Bond	**0.62%**	6.79%	3.64%
Bloomberg Barclays U.S. Treasury Inflation-Linked Bond	**3.03%**	9.22%	3.57%

Source: BlackRock, Bloomberg, FTSE™, NAREIT®.
*Returns are calculated with net dividends in USD

Index returns are for illustrative purposes only and do not represent actual performance of any investment. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Domestic and Global Market Recap…

FRANCIS J. DAVIES, III

In a year that continues to baffle, the performance of US equity markets in the third quarter of 2020 was on brand. A river of liquidity from the Federal Reserve overcame worries of a global pandemic with economic shutdowns, the deepest US recession since the 1930s, and the prospect of a contested presidential election. In a remarkable display of risk on investing, US stocks continued their upward momentum in the third quarter. After fitting record highs, returns were slightly tempered by a September pullback. Bonds had a quiet quarter with the Fed`s reassurance that it would keep interest rates low for an extended period.

July and August were helped by improving labor markets, exponential growth in big tech and the Fed. Growth stocks, which have benefited from the shift online caused by Covid-19 this year, came under some pressure in early September. The stocks had gotten ahead of themselves and awareness spread that Fed support had peaked and fiscal help was lost in gridlock. Widespread unemployment is a difficult challenge, earnings face high comparisons, and fiscal deficits were huge and mounting. The market had a 10% retracement in September as technology came back to earth and value stocks (Deere, Cocoa-Cola) moved higher. Equity markets were powered by large cap growth – with FAAMG leading – as stocks continued a narrow-breadth advance. With risk on – S&P 500 was up 9.24% for the quarter and 5.84% for the year while the tech heavy NASDAQ gained 11.24% and is up 25.33% for 2020.

With over $7 trillion of market cap, FAAMG (Facebook, Apple, Amazon, Microsoft and Google) makes up over 25% of the S&P 500 index. This brings up bad memories of the nifty fifty of the 1970s and tech bubble in 1999-2000, but there are critical differences. Valuations and market weight remain below the concentration in 2000 and in the 1970s. More importantly, the companies' businesses remain strong and produce most of the S&P growth. A few numbers courtesy of Yardeni research. From 2013 – Q3 2020:

- The S&P 500 is up 130%, while FAAMG has gained 540%. The S&P without FAAMG return is 89%.
- S&P revenue growth is 19.5%, FAAMG 132% and S&P without FAAMG 5.8%
- Earnings growth for the S&P is 24.5%, FAAMG %116, S&P without FAAMG 9%
- The S&P currently trades at 21 times earnings. Without the FAAMG, the price earnings multiple only drops to 18

While the big five dominates the S&P 500, they are not wildly overpriced. Monopolistic business practices are a separate discussion.

Certain sectors continue to grow despite global shutdown while others have been decimated. Manufacturing continues to rebound more quickly than services, which remain restrained by elevated virus cases in some regions. Disney laid off 28,000 people in US theme parks and Royal Dutch Shell fired 9,000 employees. Retailers filing bankruptcy included: Lord & Taylor, Pier One, JC Penny (again?), Neiman Marcus (again?), Lane Bryant, and J Crew. Mall traffic is down and there are a lot of ex-employees looking for work. Also filing were Cirque de Soleil, Hertz, and Aeromexico. A Yelp survey stated that of the restaurants still closed, 50% will not reopen. More folks are looking for work as temporary lay-offs become permanent.

The abundant liquidity from central banks underpinned a rally in riskier global assets. Global equities rebounded for the second quarter in a row, extending a broad-based recovery from steep Q1 declines. India saw the largest number of new Covid-19 infections during the quarter and now trails only the US for total cases. Indian stocks gained 16.7%. Asian equities returned over 10% helped by China's success in containing the Covid-19. China's return to normal is seen in subway passengers. In its major cities, passenger numbers are 10% below 2019 levels, compared with the tube in London, with usage down more than 60% there. Chinese equities gained 13.3% leading undervalued emerging markets in the risk on environment.

Like the US, the UK faces a lack of continued fiscal stimulus and rising unemployment. With no progress in the Brexit negotiations (still), British stocks fell 3% and are now down 20% year to date. A hard exit would be unprecedented on par for 2020. In Europe, support for workers affected by the virus were extended. EURO equities gained 2% in the quarter and are down 7% year to date.

Continuing the risk on theme in fixed income, emerging market sovereign debt, convertible bonds and high yield paper beat treasuries and investment grade bonds. High-yield bonds rose 4.8% in the third quarter, and the emerging-markets bond index returned 2.7%. The U.S. Treasury yield curve was basically unchanged throughout the third quarter. The big news was the Fed's decision to allow inflation to run above target to try to make up for its having remained below-target for some time. This suggests the Fed will keep rates lower for longer.

Treasury Inflation-Protected Securities posted a strong quarter as the Fed's policy stance led investors to hedge against the potential for higher inflation. US 10-year treasuries ended the quarter with a yield of 0.7%, flat for Q3 and down from 1.9% at the start of the year. The 2-year US note yielded 0.13% at quarter end, the 10-year note 0.69% and the 30-year bond 1.46%, all basically unchanged. On the year, long bonds have outperformed the S&P 500.
The possibility of flexibility on inflation led to a rally in gold and a decline US dollar suffered. The dollar dropped 2.7% from the start of the quarter, and gold prices reached a new high at $2,063 an ounce. Silver had a strong quarter, gaining over 25%. Crude oil posted a pyrrhic gain of 2.4%, down 34% on the year.

We can confidently predict the final quarter of 2020 could be eventful. By January, we should know the outcome of the US elections, whether the UK managed to reel past a no-deal Brexit, if fiscal stimulus is finally coming out of Washington, and, importantly, we should be closer to a vaccine. The election outcomes will shape the fiscal outlook for 2021 and policy decisions may influence asset returns. If the recovery gains momentum and a new economic cycle begins, the normal beneficiaries are smaller, cyclical companies. Stock prices typically rally coming out of a recession but 2020 saw a sharp bounce-back that may have used up the gains seen early in the recovery cycle. All these variables plus the prospect of higher inflation makes diversification crucial.

Sector Highlights… **RICHARD "CHIP" HARLOW**

US stocks continued to rebound during the quarter with every sector turning in a positive quarter with exception of energy. On a year to date basis, it's still a mixed bag with some sectors still negative and some positive. Manufacturing activity is starting to rebound nicely while services are still lagging. The quarter was capped with September turning negative for the markets and most sectors. Performance by sector/industry is actually what you might expect. On a year-to-date basis, the best are Online Retail at +60%, Home Improvement at +33%, Technology at +29%, all the way down to Hotels & Resorts at -45%, Airlines at -46%, and Energy at -48%. Quite a divergence!

Consumer Discretionary
Consumer Discretionary was the best performing sector during Quarter 2, with a 15.1% return and with 23.4% for the Year to date. Consumer Discretionary is also the top performing sector since both the Market peak in February 2020 and the market low in March 2020. This sector is heavily influenced by one stock, Amazon! Online retail and Home Improvement stores have contributed mightily to the performance. As the new normal takes hold due to the pandemic, one would think this trend would continue. Momentum has been the leading factor in market performance and so sectors that are doing well will probably continue to outperform until something changes.

Materials
The Materials sector was up 13.3% for the quarter and turned positive for the year with a 5.5% YTD. This sector includes chemical companies, companies that make construction materials, paper and forest products, as well as packaging products. Also included are metal and mining companies. The materials sector is heavily influenced by the health of the economy and so it seems bets on an economic recovery have propelled a rebound in prices

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for commodities like oil and industrial metals. New orders from manufacturers have also been up for three months, according to the Institute for Supply Management, while inventories have been contracting. Companies are starting to rebuild after the pandemic induced economic collapse and are placing orders for things like lumber, copper, zinc and packaging materials. A trip to Home Depot or Lowes will reveal the ongoing shortage of pressure treated lumber. Everyone is staying home and deciding to do renovations!

Industrials

The Industrial sector was up 12.5% for the quarter but has still not been able to turn positive for the year. The sector is still down 4.0% on a YTD basis. The favorable quarterly performance of the Industrial sector can also be contributed on bets being made for an improving economy and companies rebuilding their inventories. Industrials are made up of Capital Goods type companies like 3M and Honeywell, Transportation companies from air freight to trains and airlines, and lastly Aerospace & Defense companies. With the exception of airlines, most of these companies are finally seeing pickups in their businesses and in fact some are seeing surges in demand for their products; 3M for example with face masks and respirators. This pickup in economic activity should continue into 2021. It remains to be seen when air travel will return to normal.

PLANNING CONCEPTS

College Savings With a 529 Plan… — BEN DAIGLE & JAKE KENYON

It's not a shock to see that the cost of college continues to rise. In fact, a 2019 study published by The College Board showed that tuition and fees at public four-year institutions increased at an average rate of 2.2% per year beyond inflation between school years 2009-10 and 2019-20. With no foreseeable slowdown to the increase in education costs coming we recommend coming up with a plan for your family's future education expense needs. One of the best ways to do this is with a 529 college savings plan.

History

Originally signed into law in 1996, Section 529 of the Internal Revenue Code (IRC) allowed for the tax deferral of investment earnings when used for higher education. In 2001, Section 529 plans received further congressional support with the enactment of the Economic Growth and Tax Relief Reconciliation Act. With the passing of this Act investment earnings within a 529 plan became exempt from federal taxation when used for higher education related expenses.

Plan Flexibility

Today residents of any US state can open a 529 plan. These plans allow for excellent flexibility as there are no income phaseout limits, no mandatory distribution age, and the account owner can re-assign the beneficiary to another eligible student at any time. That's right, if your oldest child decides that they want to forgo school altogether you can change the beneficiary to your next oldest child with no repercussions or penalties. In fact, you could even change the beneficiary to yourself and use the funds to pay for that master's degree you've always wanted.

Fast Facts

- Account owner maintains control of assets
- Account beneficiary can be child, sibling, parent, grandchild, spouse
- No income phaseout limits for contribution eligibility
- No gift tax for contributions up to $15,000 ($30,000 per couple) in 2020
- Deferral of federal taxes on any earnings growth
- No federal taxes on withdrawals used for qualified education expenses
- Most plans have a variety of mutual fund investment options and age-based portfolios

Helping your kids pay for college is often one of the top financial planning priorities for families. There are lots of factors to consider in the college planning process such as financial aid, merit-based aid, loan selection, and in-state vs. out of state tuition rates.

At Old Port Advisors we have tools to assist you with late stage education planning as well as the ability to help you navigate investing in a 529 college savings plan. If you have any questions regarding this topic, please give us a call or inquire through our website at www.oldpoartadvisors.com.

OPA News & Community Events

OPA & More Pandemic Perspectives:

As mentioned previously this year, this space is usually filled with the event calendars for a variety of the non-profit and cultural organizations that we as a firm, our employees, clients or colleagues are involved with. It's through these events, annual or otherwise, that they further their fundraising efforts and support the ongoing delivery of their missions.

And as we've seen thus far in 2020, a good portion of our economy was moved outdoors, with the improving summer weather, as an attempt to mitigate the transmission of Covid-19. For our restaurants and smaller retailers, the ability to move on to sidewalks and streets has provided a temporary lifeline to the revenues they need to survive. For other parts of our cultural community, like the performing arts, many venues have remained shuttered as their limited space has not been sufficient to meet the dimensional requirements for social distancing. All of this is now compounded with the approaching colder months and the inability for commerce to be easily transacted on snowy streets, sidewalks and outdoor performance venues.

All of these businesses employ full and part time workers who are part of the fabric of our community – so saving the businesses is part of saving the jobs (including the musicians, actors, etc trying to ad lib alternate "delivery platforms") – all of which will become ever more challenging as we move into the winter months.

Two organizations (and there are other excellent ones as well) that are attempting to support this space might be worthy of consideration should you have the inclination and capacity:

Re Up Maine Restaurant Relief Fund (https://www.tastemaine.com/) – A collaboration of the HospitalityMaine Educational Foundation, inspirational restaurant leaders and O'Maine Studios, has established a 4 month fundraising campaign and plans to provide financial support for 100-200 grants directly to restaurant reward recipients. Their overall goals are to "keep the business, and keep the jobs".

Maine Music Alliance (https://mainemusicalliance.org/) – MEMA was formed several months ago in an attempt to try and save our performing arts and music venues. They are a team of Maine music professionals and performers working to increase the awareness around the live music venues of Portland and the impact their presence has in our local economy. Allied venues collectively provide hundreds of jobs, millions of dollars in revenues, charitable donations and taxes. Donations to the Alliance will help cover rent, keep current employees on payroll to avoid further losses, and to assist with expenses when they can open their doors again, likely well into 2021.

Again, this is not intended to be a complete list of those organizations doing good work for our community during these tough time, but is provided as a means of suggesting that there are many worthwhile organizations that could benefit from our support as we all navigate this together.

Updated and Improved OPA Website:

As many of you may not know, during the past few months, the team at Old Port Advisors has been working hard to complete the reconstruction of our new website. We are pleased to announce that our new site has officially gone live at www.oldportadvisors.com.

You will find that as we continue to grow, the service we provide will always reflect the finest personal care we are able to give. This new website reflects our commitment. It provides you with many useful resources and details:

- Account access
- Timely articles and videos
- Financial research and planning tools
- Photos and bios of the OPA Team
- Convenient contact information
- And more…

We would love your feedback on our new website. Please check it out and tell us what you think! Should you have any questions, please contact us anytime.

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