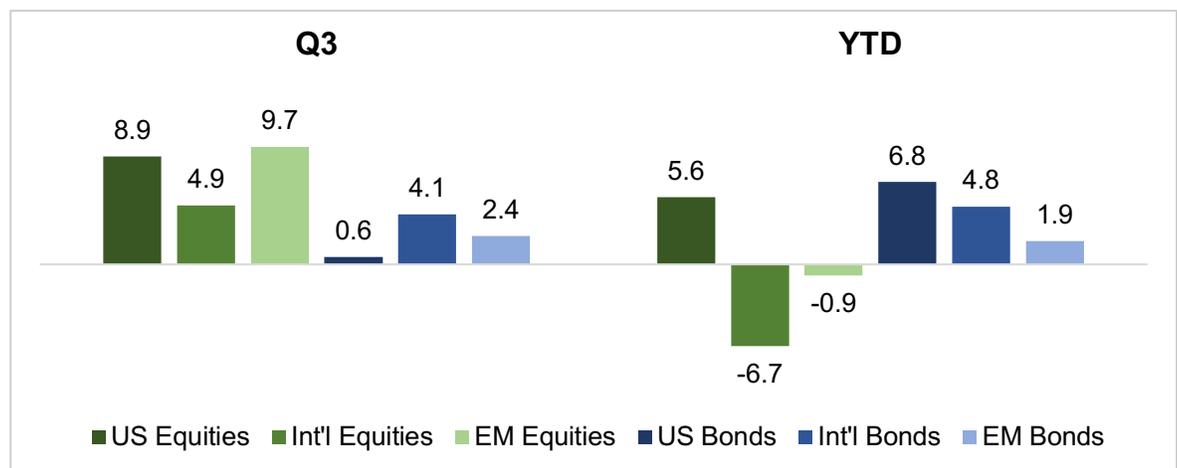


# QUARTERLY Market Review



## Market Review

- **The third quarter started strong, then markets fell in the final month of the quarter, as the elections took center stage along with questions over reopening the economy.** However, all equity markets remained in positive territory for the quarter with Emerging Markets leading the way. An impressive 6-month run for the US equity markets, up 31.3%-- the best since 2009, saw year-to-date returns turn positive at 5.6%.<sup>1</sup>



Source: Morningstar

- **Two stocks, Apple and Amazon, made up over 10% of the index and drove 25% of the S&P 500 return for the quarter.** Outside of these two stocks, the S&P 500 saw some broadening of contribution to returns, as staple companies like Berkshire Hathaway, Procter & Gamble, UPS and Mastercard made it into the top ten contributors. Year-to-date, the dominance of FANAMA – Facebook, Amazon, Netflix, Apple, Microsoft, Alphabet (Google) - remained, contributing 8.9% to the S&P 500 return while the other 494 stocks detracted 3.3%.<sup>2</sup>
- **Five sectors saw double-digit returns for the quarter, with three of them seeing returns over 40% for the six-month period.** Consumer discretionary continued to lead the pack returning 15.1% for the quarter, but we started to see some broadening of leadership with industrials and materials rounding out the top three sectors. The value heavyweights of energy, real estate and financials lagged in the quarter; energy was the only sector with negative returns at -19.7%. The collapse of global oil demand resulted in a -48.1% return for energy year-to-date.<sup>3</sup>
- **Smaller-caps reverted back to trailing larger-caps and growth stocks extended their run relative to value.** Mid-caps and small-caps trailed the S&P 500 by 4.2% and 5.8%, respectively, for the quarter. Large-cap growth outperformed large-cap value by

7% for the quarter and by over 32% for the year-to-date period, which is the second-largest gap (missed being top by 10bps, which occurred in 1997!) on record for the first nine months of the year. The next largest gap between growth and value was 22% in 2019.<sup>4</sup>

- **Despite over half the countries in the global equity index seeing positive returns, only two countries – U.S. and China – made up for over 90% of the index local currency return for the quarter.** A second solid quarter for Emerging Markets led to an impressive 29.7% return for the past six months, but not quite enough to turn the year-to-date return positive. In the U.K., continuing fallout from the pandemic and Brexit resulted in the weakest returns across the developed regions.<sup>5</sup>
- **US Bond markets saw generally paltry returns for the quarter.** Credit was the one area of relative strength with high-yield bonds up 4.6% and investment grade credit up 1.5%. Otherwise, Treasuries, Agencies and Mortgage-Backed Securities saw returns below 0.5% for the full quarter. However, as market volatility picked up in September, it was only Treasuries and Agencies that saw positive returns with the flight to safer assets.<sup>6</sup>
- **REITS trailed equities, but commodities outperformed during the quarter.** There were broad gains across most of the commodity sectors during the quarter with silver being the biggest winner, up 25%. However, during the market volatility in September, Gold and Silver both fell and saw negative returns despite normally being a safe-haven.<sup>7</sup>

Asset classes are represented by the following indexes:

|                                  |   |
|----------------------------------|---|
| <b>US Equities</b>               | <b>S&amp;P 500</b> – is an unmanaged index that is generally considered representative of the US equity market, consisting of 500 leading companies in leading industries of the US economy (typically large cap companies) representing approximately 75% of the investable US equity market.  |
| <b>International Equities</b>    | <b>MSCI EAFE</b> – is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of countries considered to represent developed markets, excluding the U.S. and Canada.   |
| <b>Emerging Markets Equities</b> | <b>MSCI Emerging Markets</b> – is a free float-adjusted, market capitalization index that is designed to measure the equity market performance of countries considered to represent emerging markets.   |
| <b>US Bonds</b>                  | <b>Barclays US Aggregate</b> — measures the market of USD-denominated, investment grade, fixed-rate taxable bond market of SEC-registered securities, including bonds from the Treasury, government-related, corporate, mortgage-backed securities (agency fixed-rate and hybrid ARM passthroughs), ABS and CMBS sectors. US Agency Hybrid Adjustable Rate Mortgage (ARM) securities were added to the US Aggregate Index on April 1, 2007.           |
| <b>International Bonds</b>       | <b>Bloomberg Barclays Global Aggregate ex USD</b> - is a flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. Country eligibility and classification as Emerging Markets is rules-based and reviewed annually using World Bank income group and International Monetary Fund (IMF) country classification.        |
| <b>Emerging Markets Bonds</b>    | <b>Bloomberg Barclays Emerging Markets USD Aggregate</b> - is a flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. Country eligibility and classification as Emerging Markets is rules-based and reviewed annually using World Bank income group and International Monetary Fund (IMF) country classification. |
| <b>Consumer Discretionary</b>    | S&P 500 Consumer Discretionary-measures the performance of companies involved in industries such as: automobiles and components, consumer durables, apparel, hotels, restaurants, leisure, media and retailing.   |
| <b>Energy</b>                    | S&P 500 Energy -measures the performance of companies involved in the development and production of crude oil, natural gas and provide drilling and other energy-related services.  |

|                               |  |
|-------------------------------|--|
| <b>Small Caps</b>             | <b>S&amp;P 600</b> - measures the performance of 600 small-sized companies in the U.S. Constituents generally have a market-cap between \$400 million and \$1.8 billion and meet criteria to ensure they are liquid and financially viable.  |
| <b>Mid Cap</b>                | <b>S&amp;P 400</b> – designed to measure the performance of mid-cap equities. Constituents have total market capitalizations ranging from \$2.4 billion to \$8.2 billion. The index covers approximately 7% of the total US stock market.  |
| <b>Large Cap Growth</b>       | <b>S&amp;P 500 Growth</b> -measures the performance of large-cap growth stocks in the U.S., which are identified by sales growth, price-to-earnings and momentum. Constituents generally have a market-cap above \$5 billion.  |
| <b>Large Cap Value</b>        | <b>S&amp;P 500 Value</b> - measures the performance of value stocks in the U.S., which are identified by sales growth, price-to-earnings and momentum. Constituents generally have a market-cap above \$5 billion.   |
| <b>High-Yield Bonds</b>       | <b>Bloomberg Barclays US Corporate High Yield</b> - measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt.   |
| <b>Investment-Grade Bonds</b> | <b>Bloomberg Barclays US Corporate Investment Grade</b> - is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements. |
| <b>Silver</b>                 | <b>Bloomberg Silver Sub-index</b> - is designed to measure the performance of silver as represented by the price of COMEX silver futures contracts.  |

<sup>1</sup> Source: Morningstar, S&P 500

<sup>2</sup> Source: Bloomberg

<sup>3</sup> Source: Morningstar, S&P 500 sector indices

<sup>4</sup> Ibid.

<sup>5</sup> Source: Ned Davis Research, Morningstar, MSCI indices

<sup>6</sup> Source: Morningstar, Bloomberg Barclays indices

<sup>7</sup> Ibid.

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