



# Quarterly Themes

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Q3 2020

PASSAGE



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# Quarter Recap

## Capital Market Update

Stocks continued their upward trend in the first two months of the quarter, recovering losses from their March lows. However, September saw renewed volatility across equity markets as investors digested slowing economic improvements as well as an uptick in positive COVID case numbers.

### September Volatility

- September's volatility centered in tech and growth, which had strong relative performance throughout the year, pushing valuations higher amid an uncertain economic backdrop.
- The volatility pushed the Nasdaq Composite Index into correction territory, defined as a drop of at least 10%, in four trading sessions.

Market Total Returns <sup>1</sup>		Jul	Aug	Sep	Q3
	U.S. Stocks	5.6%	7.2%	-3.8%	8.9%
	U.S. Bonds	1.5%	-0.8%	0.6%	0.6%
	Global Stocks	5.3%	6.1%	-3.2%	8.1%
	Global Bonds	3.2%	-0.2%	-0.4%	2.7%

## Economic News and Developments

From the depths of the crisis, pockets of economic data has begun to improve. Data tied to Output and Leading Indicators improved the most over the quarter, though much of economic data still has a long road ahead of it to recover to pre-pandemic levels. Initial unemployment claims continued to report well above the worst GFC readings throughout Q3.

### Federal Reserve

- Multiple comments pointed to near zero rates for the foreseeable future and a higher bar of inflation readings before taking action.

### Consumer Confidence

- While still below pre-pandemic levels, Consumer Confidence rose in September, posting the biggest one-month point gain since 2003.

### Key Figures



25.1%  
Consensus Q3 GDP  
(U.S., QoQ, annualized & seasonally adjusted)



1.3%  
CPI Year-Over-Year  
(August 2020)



837K  
U.S. Initial Jobless  
Claims (September 25)

1. U.S. Stocks represented by the S&P 500 Index; U.S. Bonds by the Bloomberg Barclays U.S. Aggregate Bond Index; Global Stocks by the MSCI ACWI; Global Bonds by the Bloomberg Barclays Global Aggregate Index  
All data latest as of 09/30/20  
Source: Bloomberg, Helios Quantitative Research

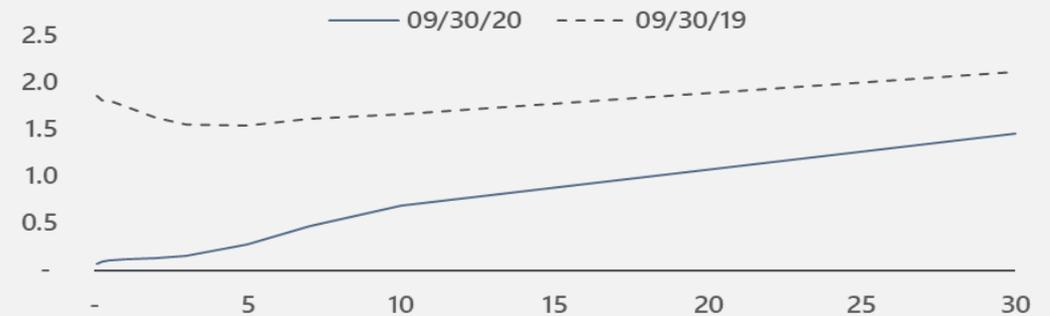
# Theme A

## Federal Reserve Policy

- Across two statements in August and September, the Fed made clear their commitment to maintain the “low rates for longer” policy. For investors, this was a strong signal that the Fed will continue to provide as much support as they can towards the ongoing economic recovery.
  - The August announcement stated that they would be more acceptable of higher inflation following periods of low inflation, while the second was more specific noting they expect near-zero rates through 2023.
- Large scale COVID relief measures have increased some fears of inflation, though the data has yet to see significant upticks in inflation as economic data remains subdued.
- Economist projections compiled by Bloomberg largely remain below the Fed’s long-term policy target of 2%, which, if true, further supports the thought that no monetary tightening is likely to be on the horizon.

### U.S. Treasury Yield Curve

Q3 vs. Year Prior (%)



### Inflation Projections

CPI YOY, Q4 2009 to Q1 2022 (%)



All data latest as of 09/30/20

Source: Bloomberg, Helios Quantitative Research



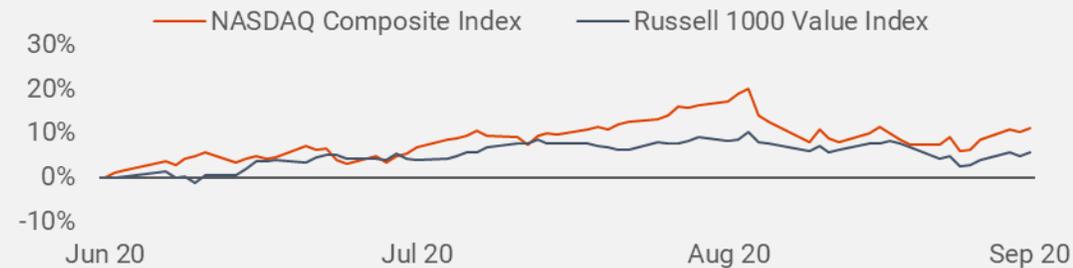
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## Theme B

# Growth and Technology's Tale of Two Cities

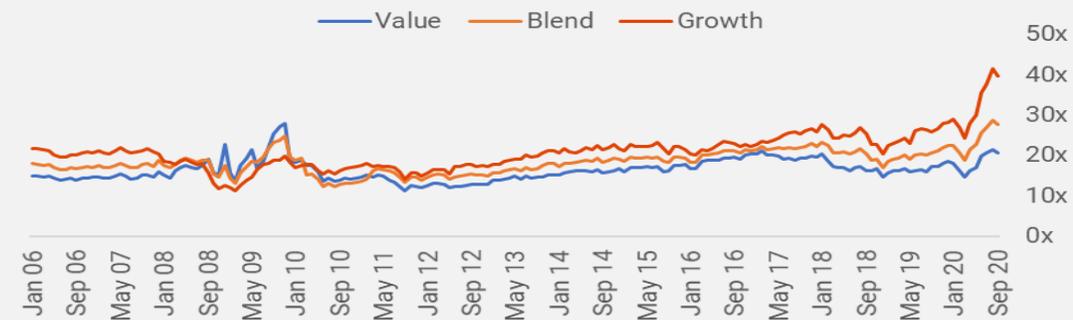
### Tech vs. Large Cap Value Total Returns

June 30, 2020 to September 30, 2020



### Valuation of U.S. Large Cap Styles

P/E Ratio, January 2006 to September 2020



- Growth, dominated by technology stocks, has demonstrated long-term outperformance related to other sectors and styles across equity markets. Over the last 10 years, the S&P 500 Growth Index has outperformed the S&P 500 Value index by nearly 6% annually.
- Growth stocks fared so well during COVID, with more people working remotely and needing better technology and no real supply chains to be disrupted, that it had even been somewhat jokingly referred to as the “new defensive.”
  - However, with relatively high valuations, the NASDAQ Composite Index found itself in correction territory faster than ever before during the beginning of September.
- Since late-2018 the absolute and relative valuation of Large Cap Growth stocks has grown, which can lead to notable performance divergences, like we saw in September, as well as muted future return expectations.

All data latest as of 09/30/20

Source: Bloomberg, Helios Quantitative Research



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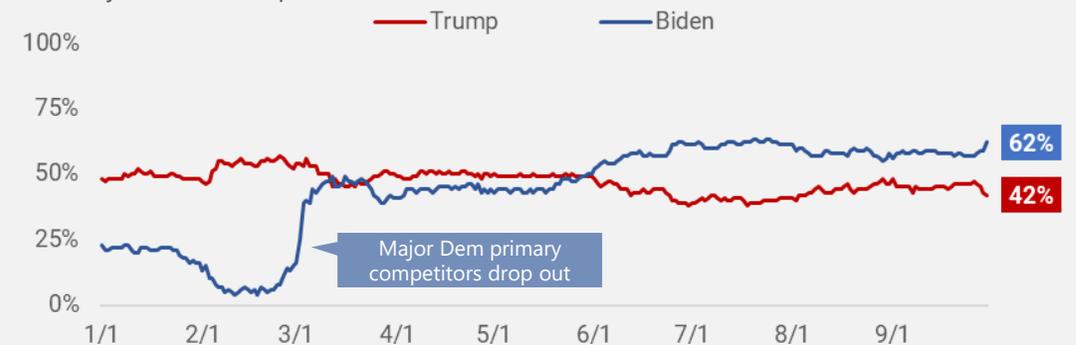
## Theme C

# Election Season Ramps Up

- The election season kicked into high speed as early voting began around the country. Based on betting market odds, the Democrats are the favorite to win the White House, as well as both houses of Congress, though the Senate is more competitive (56% odds vs. 84% odds in the House)
  - At this time in the last election PredictIt's odds of a Trump win were lower, at 28%, than they are today.
- Regardless of what happens in November, there will be plenty of big claims by pundits, but historically larger factors drive market returns, along with the overall health of the economy and innovations.
  - Big events tend to drive the data when looking at large spans of time vs. who sits in the Oval Office, such as the Great Depression, Dot Com Boom, and the Global Financial Crisis.

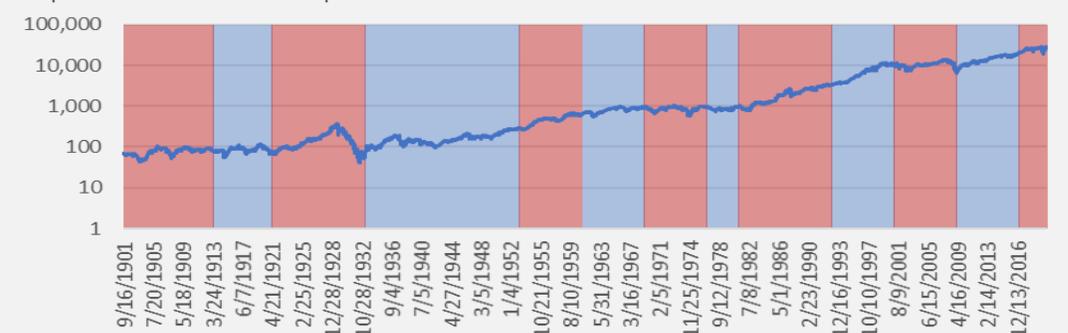
### Betting Markets Election Odds

January 1, 2020 to September 30, 2020



### Rep vs. Dem Movements in the Dow

September 16, 1901 to September 30, 2020



All data latest as of 09/30/20

Source: Bloomberg, PredictIt, Helios Quantitative Research



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# Notable Mentions

## COVID-19

Coronavirus continues to drive major headlines with the U.S. death toll surpassing 200,000 and cases topping 7 million. Europe also saw an uptick in cases leading to fears of renewed restrictions and lockdowns to combat the virus.

Meanwhile Dr. Anthony Fauci told Congress there is “growing optimism” over a vaccine being found by late 2020 or early 2021.

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WORLD

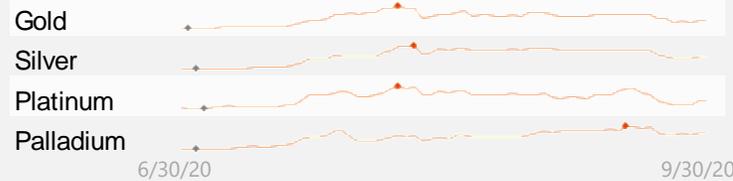
### U.S. Coronavirus Death Toll Tops 200,000

Grim milestone is reached as some guidelines and practices for stopping disease's spread have been questioned

## PRECIOUS METALS

Gold and other precious metals had a significant run up during the quarter, prompting record flows into ETFs that track the metals, as well as a lot of headlines and investor questions.

It appeared to be largely driven from inflation fears on the back of signs of some (albeit slowing) economic recovery data along with the Fed's commitment to low rates.



Gold surges on waning dollar, Fed policy shift

## RELIEF BILL

Congress failed to pass a replacement bill following the expiration of parts of the CARES Act. The delay likely slowed parts of economic recovery as consumer income was hurt.

The fight over the Supreme Court seat may take up a lot of the limited time between now and the election, reducing hopes for a passable bill, though it appeared negotiations restarted at the end of September.

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### Supreme Court Fight Complicates Coronavirus Aid Talks, Spending Bill

Death of Justice Ginsburg injects more uncertainty into delicate negotiations

Source: Bloomberg, The Wall Street Journal, CNBC, Helios Quantitative Research

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