

Cherry Bekaert Wealth Management

# Market Update: The Quarter in Review

Useful Information for Your Business & Financial Success

## Summary

### 3rd Quarter 2020

#### US. Stocks

The US equity market posted positive returns for the quarter, outperforming non-US developed markets but underperforming emerging markets. Value underperformed growth across large and small cap stocks. Small caps underperformed large caps in the US.

#### International Developed Stocks & Emerging Stocks

In US dollar terms, developed markets stocks outside the US posted positive returns but underperformed both the US and emerging markets equities for the quarter. Small caps outperformed large caps in non-US developed markets. Value underperformed growth across large and small cap stocks.

In US dollar terms, emerging markets posted positive returns for the quarter, outperforming the US and developed ex US equity markets. Value stocks underperformed growth stocks and small caps outperformed large caps.

#### Fixed Income

Interest rates changes were mixed in the US Treasury fixed income market in the third quarter. The yield on the 5-year US Treasury note decreased 3 basis points (bps),

ending at 0.31%. The yield on the 10-year Treasury note rose by 3 bps to 0.64%. The 30-year Treasury bond yield increased 5 bps to finish at 1.46%.

On the short end of the yield curve, the 1-month T-bill yield decreased to 0.08%, while the 1-year T-bill yield fell by 5 bps to 0.14%. The 2-year Treasury note finished at 0.09% after a yield decrease of 2 bps.

In terms of total returns, short-term corporate bonds returned 0.92% for the quarter. Intermediate-term corporate bonds returned 1.33%.

Total returns for short-term municipal bonds was 0.83%, while intermediate munis returned 1.40%. General obligation bonds underperformed revenue bonds.

#### Global Fixed Income

Government bond interest rates in the global developed markets were mixed during the quarter. Longer-term bonds generally outperformed shorter-term bonds. Short- and intermediate-term nominal interest rates were negative in Japan, while all maturities finished the quarter negative in Germany.

*Source: MSCI. Past Performance is not a guarantee of future results. All non-US equity market returns are in USD, net dividends, unless otherwise noted. Index is not available for direct investment. Performance does not reflect the expenses associated with management of an actual portfolio.*

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# When It's Value vs. Growth, History Is on Value's Side

Third Quarter 2020

Logic and data provide the basis for a positive expected value premium, offering a guide for investors targeting higher potential returns. There is pervasive historical evidence of value stocks outperforming growth stocks. Data covering nearly a century in the US, and nearly five decades of market data outside the US, support the notion that value stocks—those with lower relative prices—have higher expected returns.

Recently, growth stocks have enjoyed a run of outperformance vs. their value counterparts. But while disappointing periods emerge from time to time, the principle that lower relative prices lead to higher expected returns remains the same. On average, value stocks have outperformed growth stocks by 4.54% annually in the US since 1928, as **Exhibit 1** shows.

Some historical context is helpful in providing perspective for growth stocks' recent outperformance. As **Exhibit 1** demonstrates, realized premiums are highly volatile. While periods of underperformance are disappointing, they are also within the range of possible outcomes.

We believe investors are best served by making decisions based on sound economic principles supported by a preponderance of evidence. Value investing is based on the premise that paying less for a set of future cash flows is associated with a higher expected return. That's one of the most fundamental tenets of investing. Combined with the long series of empirical data on the value premium, our research shows that value investing continues to be a reliable way for investors to increase expected returns going forward.

Exhibit 1. Value Add

*Yearly observations of premiums: value minus growth in US markets, 1928–2019*



**Past performance is no guarantee of future results. Investing risks include loss of principal and fluctuating value. There is no guarantee an investment strategy will be successful. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.**

*In US dollars. Yearly premiums are calculated as the difference in one-year returns between the two indices described. Value minus growth: Fama/French US Value Research Index minus the Fama/French US Growth Research Index.*

*Fama/French US Value Research Index: Provided by Fama/French from CRSP securities data. Includes the lower 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).*

*Fama/French US Growth Research Index: Provided by Fama/French from CRSP securities data. Includes the higher 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).*

## GLOSSARY

**Value Stock:** A stock trading at a low price relative to a measure of fundamental value such as book equity.

**Growth Stock:** A stock trading at a high price relative to a measure of fundamental value such as book equity.

**Value Premium:** The return difference between stocks with low relative prices (value) and stocks with high relative prices (growth).

## DISCLOSURES

Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.

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## RISKS

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# Impact of Diversification

Third Quarter 2020

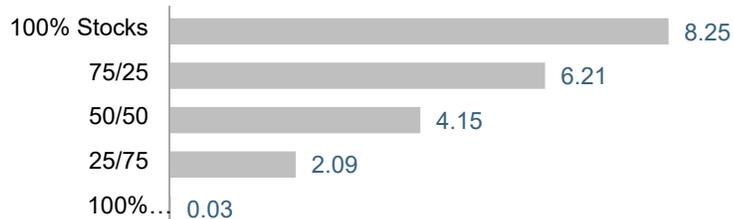
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

## Period Returns (%)

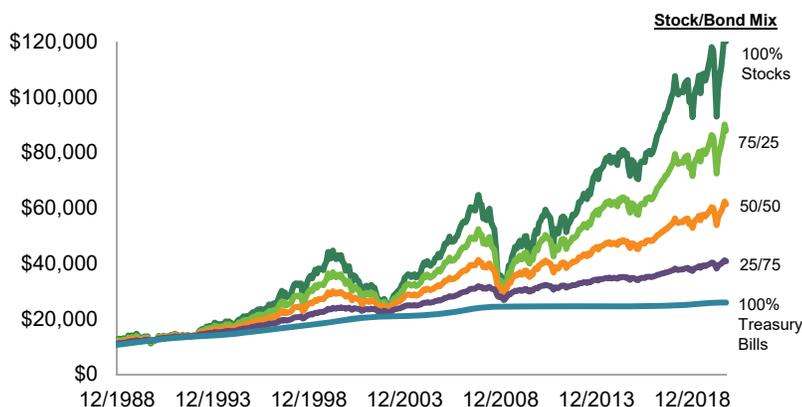
\* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV <sup>1</sup>
100% Stocks	1.77	11.00	7.68	10.90	9.13	13.71
75/25	1.90	8.89	6.40	8.58	7.12	10.28
50/50	1.71	6.48	4.95	6.16	5.01	6.85
25/75	1.22	3.78	3.32	3.65	2.82	3.42
100% Treasury Bills	0.42	0.83	1.54	1.07	0.55	0.23

## Ranked Returns (%)



## Growth of Wealth: The Relationship between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2020, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

# Quarterly Market Summary

## Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
<b>3Q 2020</b>	<b>STOCKS</b>				<b>BONDS</b>	
	<b>9.21%</b>	<b>4.92%</b>	<b>9.56%</b>	<b>2.37%</b>	<b>0.62%</b>	<b>0.68%</b>
						
<b>Since Jan. 2001</b>						
Avg. Quarterly Return	2.1%	1.4%	2.8%	2.3%	1.2%	1.1%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	<b>2020 Q2</b>	<b>2009 Q2</b>	<b>2009 Q2</b>	<b>2009 Q3</b>	<b>2001 Q3</b>	<b>2008 Q4</b>
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-3.0%	-2.7%
	<b>2008 Q4</b>	<b>2020 Q1</b>	<b>2008 Q4</b>	<b>2008 Q4</b>	<b>2016 Q4</b>	<b>2015 Q2</b>

Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2020, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

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Investing risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase these risks.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

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