Market Commentary

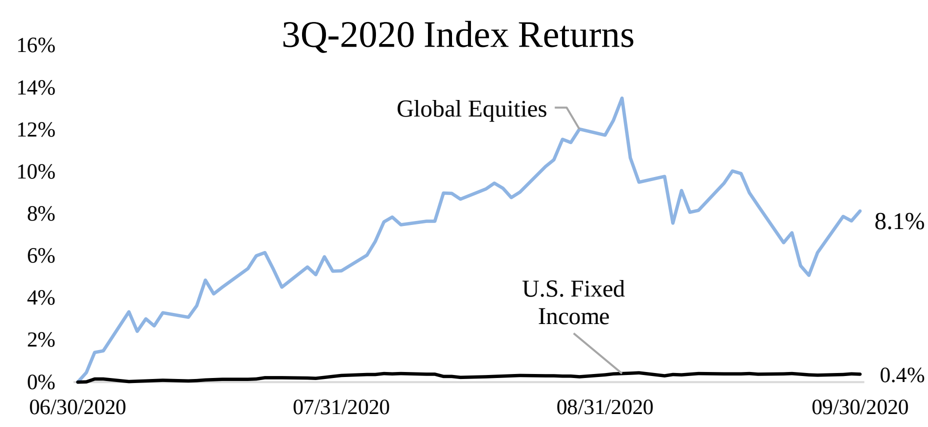
October 1, 2020 | 3Q2020

The market recovery continues, albeit with increased market volatility.

Global markets continued to recover from the market lows due to COVID-19. Diversified portfolios benefited as most major asset classes produced positive returns for the quarter. Equities rallied sharply in July and August. However, the smooth sailing came to a halt as we entered September. Equity returns slid due to concerns over a possible resurgence of COVID-19, Federal Reserve comments, the uncertainty around the upcoming U.S. Presidential Election and an overvalued U.S. stock market. U.S. equity markets, which were up 15% (led by technology stocks) at one point during the quarter, had a 10% sell-off (also led by technology stocks). A pull-back after such a strong extended rally is not that unusual. Other equity indices, including non-U.S. equities, also registered positive gains in the quarter. Fixed income markets were relatively quiet and stable.

"The individual investor should act consistently as an investor and not as a speculator."

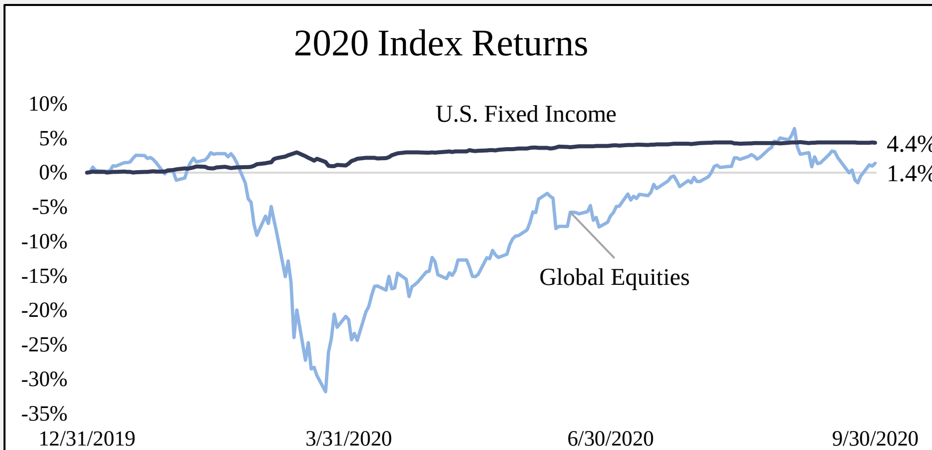
- Ben Graham



Source: YCharts, GSIS

3Q Highlights

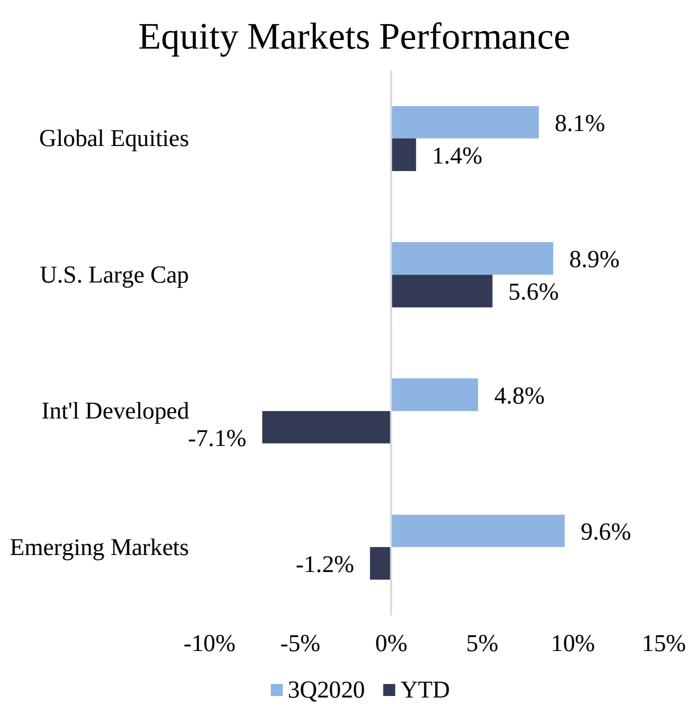
1. Markets continue to rally.
2. Equity markets drive balanced portfolio returns.
3. Volatility increases in September.
4. Federal Reserve commits to accommodative monetary policy.



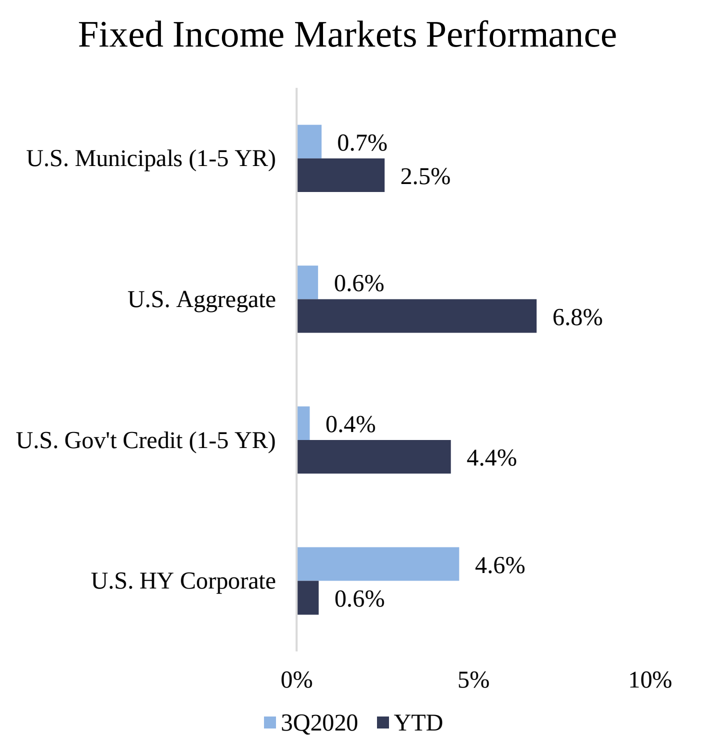
Source: YCharts, GSIS

Equity markets globally drive portfolio returns higher.

In the 3rd Quarter, Global Equities returned 8.1%, driven by strong performance in emerging markets and U.S. equities. U.S. equities rose 8.9% in 3Q and year to date are now positive by 5.6%. Non-US developed markets were up 4.8% in 3Q and year to date were down -7.1%. The best performing equity asset class for the quarter was emerging market equities which returned 9.6%, driven by strong returns in China and India.



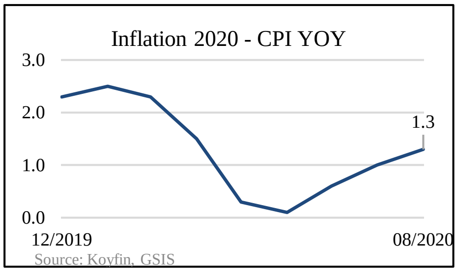
Source: Ycharts, GSIS, MSCI, S&P Dow Jones

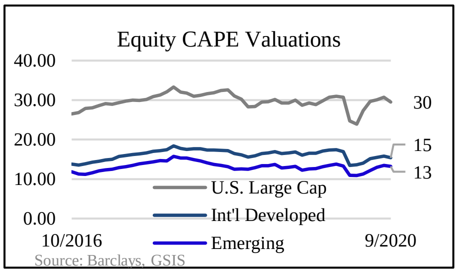


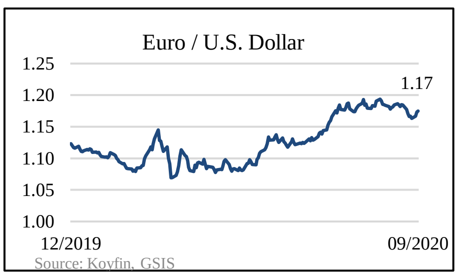
Source: YCharts, GSIS, Bloomberg

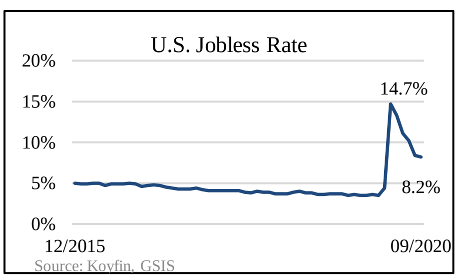
Fixed income returns were stable during the quarter and have provided strong returns for the year.

In the 3rd Quarter, the U.S. Aggregate bond index (which is a mix of investment grade corporate, government, asset backed, mortgage backed, and commercial mortgage backed securities) returned 0.6%, driven by strong performance in U.S. investment grade corporate bonds. Municipal bonds also had a positive quarter returning 0.7%. High Yield bonds were the best performer during the quarter returning 4.6% as yields continued to compress.









Global Strategic NextGen OCIO

16220 N. Scottsdale Road, Suite 208
Scottsdale AZ 85254
Phone: 480-935-2136
Email: info@gsisus.com
www.gsisus.com

Looking Forward

- The U.S. Presidential election is roughly 4 weeks away. We expect markets to remain volatile as the winner remains uncertain.
- The Federal Reserve (Fed) announced it will keep interest rates low until the U.S. economy recovers from the effects of COVID-19. Fed Chair Powell reinforced the message that the Fed does not plan on raising interest rates in the intermediate term.
- Inflation is currently subdued and below the Fed's target long-term target rate. The Fed has decided to anchor interest rates at extremely low levels even if we experience reasonable rises in inflation.
- The U.S. dollar has weakened relative to non-U.S. currencies, which has improved the relative performance of non-U.S. equities.
- Equity valuations remain elevated on an absolute basis in the U.S. but are fairly valued relative to risk-free bonds. However, equity valuations in international markets range from fair value to cheap on historical averages and represent a long-term opportunity.
- Any positive COVID-19 vaccine news will serve as a tailwind for risk assets, specifically those sectors that have been greatly affected.
- The unemployment rate continues to improve but remains several percentage points away from pre-COVID levels.

Election outcomes, COVID-19 vaccine timelines, and their impact on the markets are hard to predict with foresight. We will continue to diligently monitor risk factors and manage our clients' portfolios with a patient, long-term, disciplined approach.

Thank you for your trust and confidence in us.

Nick Botticelli
Chief Investment Strategist

Matt Underwood, CFA®, CAIA®
Director of Research & Portfolio Management

GSIS - Index definitions

All indexes are unmanaged, and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

Equities:
The **MSCI ACWI (All Country World Index), "Global Equities",** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.
The **MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.
The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.
The **Russell 1000 Index**® measures the performance of the 1,000 largest companies in the Russell 3000.
The **Russell 1000 Growth Index**® measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
The **Russell 1000 Value Index**® measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
The **Russell 2000 Index**® measures the performance of the 2,000 smallest companies in the Russell 3000 Index.
The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The S&P 500 Index focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.
The **MSCI ACWI (All Country World Index)** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

Fixed Income:
The **Bloomberg Barclays US 1-5 year Government/Credit Float-Adjusted Bond Index, "U.S. Fixed Income",** is a float-adjusted version of the US 1-5 year Government/Credit Index, which tracks the market for investment grade, US dollar-denominated, fixed-rate treasuries, government-related and corporate securities.
The **Bloomberg Barclays US Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).
The **Bloomberg Barclays Municipal Index**: consists of a broad selection of investment- grade general obligation and revenue bonds of maturities ranging from one year to 5 years. It is an unmanaged index representative of the tax-exempt bond market.
The **Bloomberg Barclays US High Yield Index** covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.
The **Bloomberg Barclays US TIPS Index** consists of Inflation-Protection securities issued by the U.S. Treasury.

Other Indices:
The **VIX, or the Volatility Index**, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. It provides a measure of market risk and investors' sentiments. (CBOE SPX Volatility Index (VIX))
The **Consumer Price Index (CPI)** is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. Changes in the CPI are used to assess price changes associated with the cost of living. (United States Inflation Rate (CPI_YOY))
The **CAPE Ratio (also known as the Shiller P/E or PE 10 Ratio)** is an acronym for the **C**yclically-**A**djusted **P**rice-to-**E**arnings Ratio. The ratio is calculated by dividing a company's stock price by the average of the company's earnings for the last ten years, adjusted for inflation.
The **United States Unemployment Rate** is the percent of the labor force that is jobless. (United States Unemployment Rate (USURTOT))
The **Currency Pair EUR/USD** is the shortened term for the euro against U.S. dollar pair, or cross for the currencies of the European Union (EU) and the United States (USD). The currency pair indicates how many U.S. dollars (the quote currency) are needed to purchase one euro (the base currency). (Euro/United States Dollar (EURUSD))

GSIS - Disclosures

This material is presented solely for informational purposes and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. Information is obtained from sources deemed reliable, but there is no representation or warranty as to its accuracy, completeness, or reliability. All information is current as of the date of this material and is subject to change without notice. Third-party economic or market estimates discussed herein may or may not be realized and no opinion or representation is being given regarding such estimates.

Past performance is no guarantee of future results.