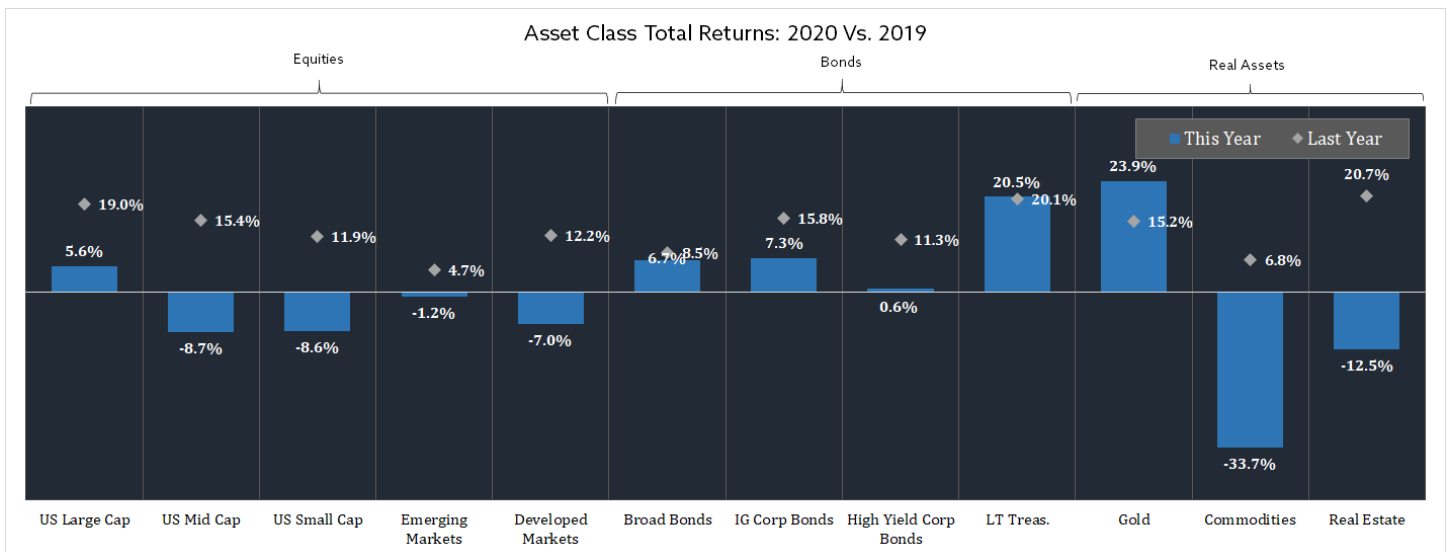


Pendleton Street Advisors
3rd Quarter 2020 Investment Commentary
October 9, 2020

Index Returns	3 rd Quarter	Year to Date	Trailing Twelve Months
S&P 500 US Large Cap Stock Index	8.9%	5.6%	15.1%
Russell 2000 Small Cap Stock Index	4.9%	-8.7%	0.4%
MSCI All Country World Ex-USA Stock Index	6.3%	-5.4%	3.0%
Barclays Capital US Aggregate Bond Index	0.6%	6.8%	7.0%
US Core Consumer Price Index - (Inflation)	1.2%	1.2%	1.7%

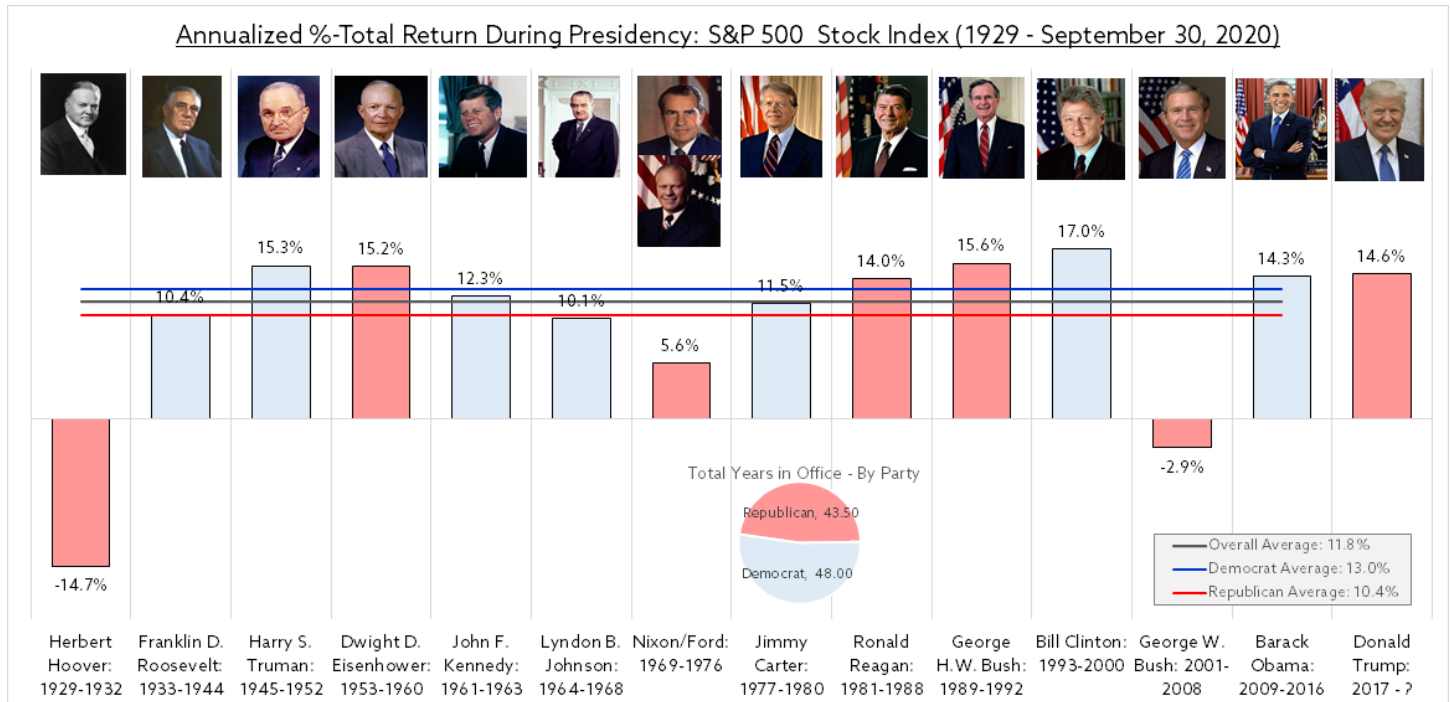
**All figures as of 9/30/20 unless otherwise noted.*

Markets remained resilient during the 3rd quarter of 2020, with major stock indexes increasing across the board while bond markets worked to hold onto gains made in the first half of the year. Looking forward, the issues we discussed in last quarter's commentary (the election, Coronavirus, and fiscal & monetary policy) remain front-of-mind; perhaps none more than the election. As we move into the final 3 months of 2020, we examine the current state of markets and the economy heading into election day, and the actions we have taken to position portfolios to weather the potential volatility over the next 3 – 6 months without sacrificing long-term return objectives.



Election: We expect politics to be top-of-mind for both business owners and investors as we approach the election; and based on our recent conversations with clients of the firm, we can confirm that is the case. Most of our discussions center around concern over Biden's less business-friendly policies, and whether any changes need to be made to the ways people run their businesses and invest their liquidity. From a high-level perspective, the odds are stacked against anyone re-positioning investments based on expectations of election results. Why? Because achieving successful results by repositioning portfolios requires investors to be right about a few big questions that are easy to be wrong about individually, and nearly impossible to be right about collectively: Who will win? How will markets react? How significant will that reaction be? and How long will it last?

Regardless of who wins the presidency or gains a congressional majority, it is important to note that while politics are one important driver for markets, **market performance has been positive in all but 2 presidencies since 1929**. Both times returns were negative, Republicans were in office (see accompanying chart). We are not assuming causation, but instead pointing out that historically, factors outside of the control of any one person (even the President of the United States) drive market performance.

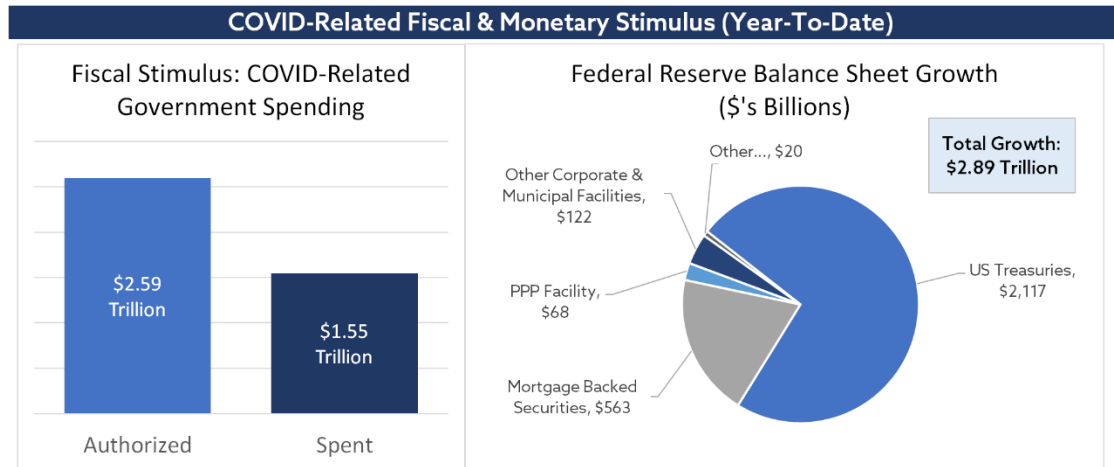


While the prior point is based on a broad historical study, it does not speak to the uniqueness of the current circumstances. In our last commentary, we discussed the upcoming presidential election in terms of each candidate's policy approaches to issues that intersect with markets. To recap:

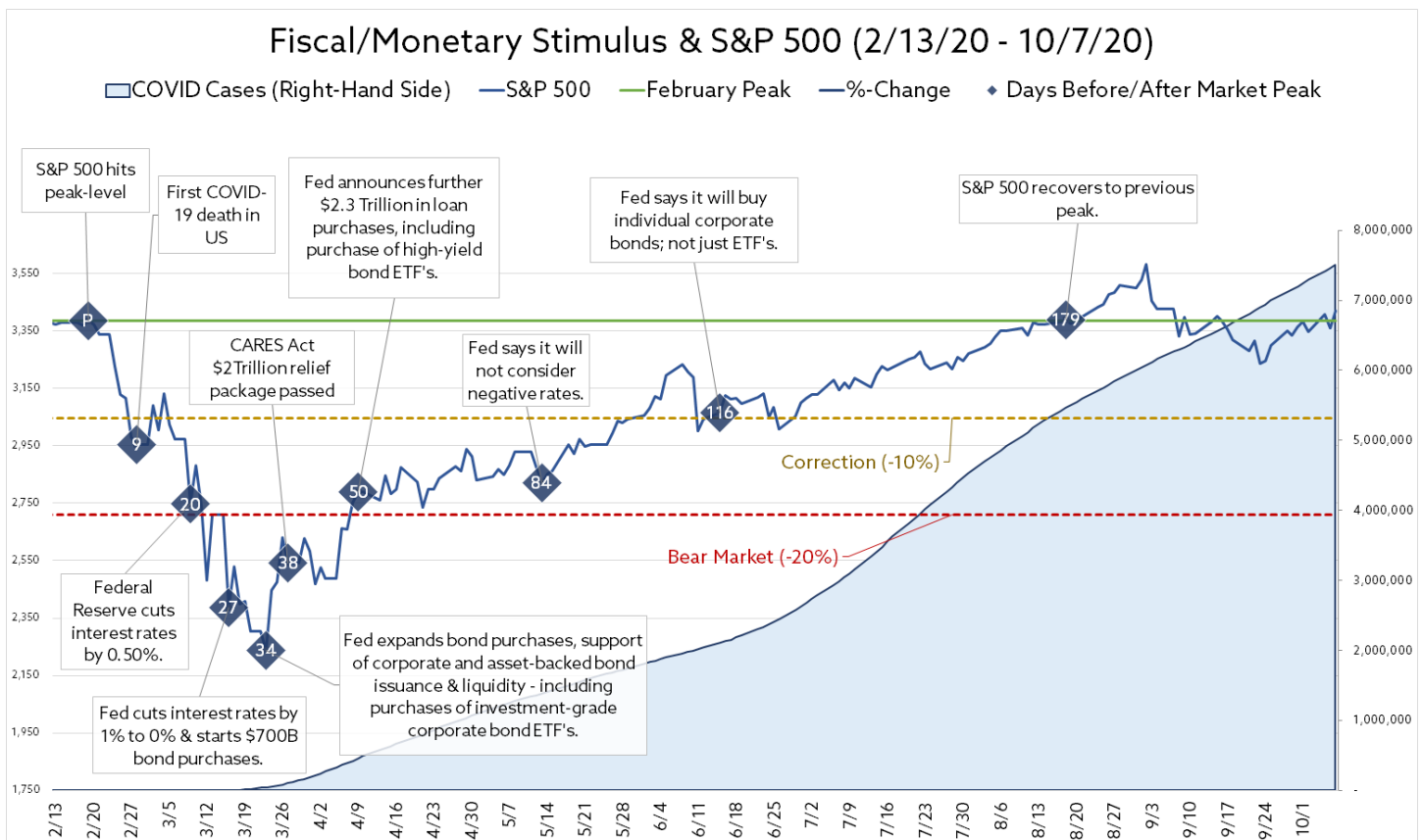
- Trump's stated initiatives are undeniably friendlier to the business environment. He wants to keep taxes low, roll back the Affordable Care Act, continue pressing on all sides to give American businesses an advantage over foreign businesses, and keep minimum wage where it is.
- Biden wants to roll back Trump's tax cuts, further build out the Affordable Care Act, take a consensus-driven, diplomatic approach to foreign trade challenges, and raise minimum wage.
- In other words, **if Trump is the proverbial bull in the china shop, then Biden sees himself as the shopkeeper eagerly awaiting the bull's departure so he can get busy cleaning up and reorganizing.**

Based on those policy differences, it is easy to see why investors are anxious. But assume for now that Biden wins AND successfully implements the policy changes outlined above. Most of those changes are extensions of Obama's policies, and stock returns during Obama's presidency were above-average, historically speaking. Yet, prior to both of Obama's elections we heard concerns similar to the worries we hear about a Biden win. **While the concerns are understandable, changing investments based on similar concerns has proven to be counterproductive in the recent past.** That anecdote is not enough to hang our hats on, but it does provide some perspective and hopefully alleviates fear that a Biden White House will necessarily cause markets to collapse.

Beyond that, the last 15 years have shown that perhaps the most significant impact presidents can have on markets is their approach to fiscal and monetary policy. In fact, we believe a primary reason markets outperformed during Obama's presidency and have recovered so quickly since April is the continuous flow of fiscal and monetary stimulus into the economy and markets.

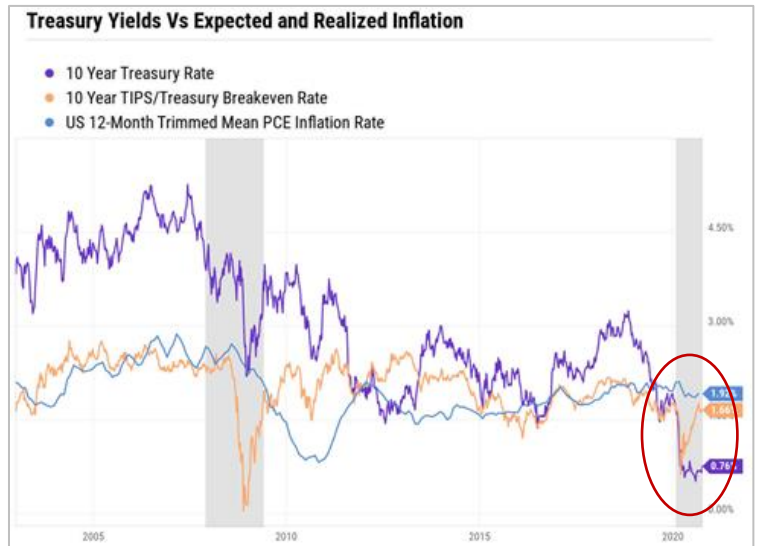


Bottom Line: If, for a moment, we put aside concerns about growing national debt, crippling inflation, and the potential moral hazards of saving failing businesses and enabling overleveraged consumers to continue borrowing more, government stimulus has been good for markets and portfolios. Both candidates have indicated they are willing to continue fiscal stimulus and encourage monetary stimulus in order to stabilize the economy and the markets, which lowers our concerns – purely from a market perspective – about who ends up winning.

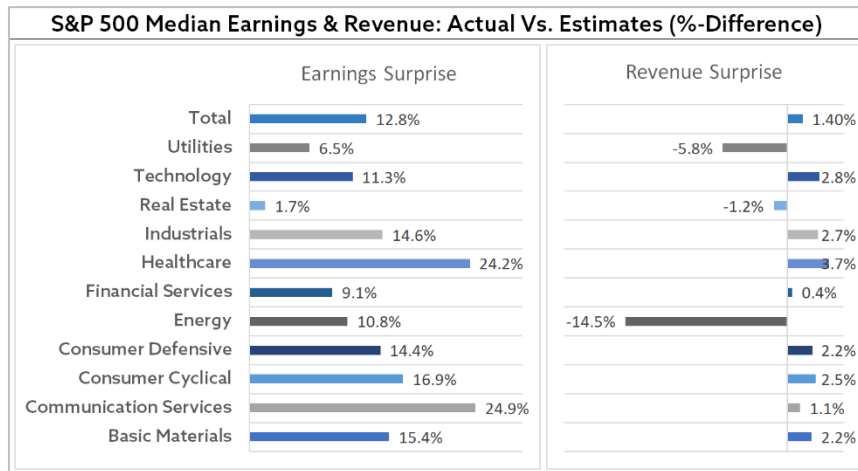


Markets: Markets continued upward during the 3rd quarter, extending gains that began after reaching low points in late March. We believe markets have continued upwards as a result of a few key developments:

- As highlighted above, **government stimulus** has provided a sense of safety to markets as well as reduced the impact of the pandemic on consumers by providing funding to businesses (allowing them to maintain payroll) and increasing unemployment benefits for those who have been laid off. Consumers (which make up approximately 70% of GDP) are the engine of the US economy.
- The return of **bond yields** to levels below both realized and expected rates of inflation causes investors to shift allocations towards riskier securities (such as stocks) to have a better chance of maintaining purchasing power and meeting long-term return objectives.



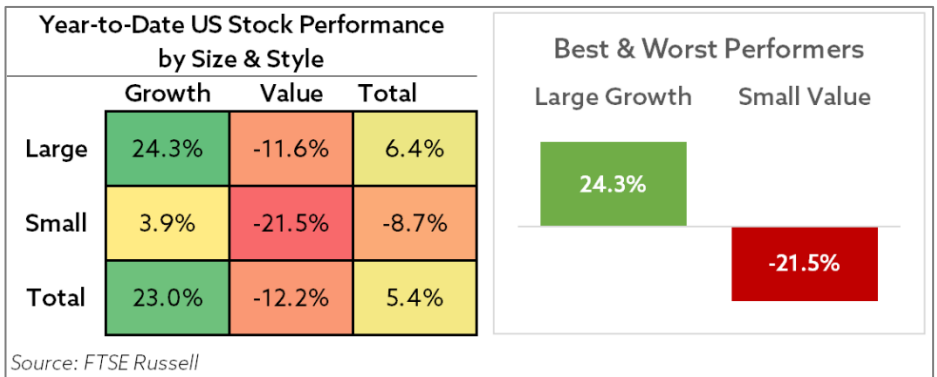
Source: US Federal Reserve Bank



Source: S&P Global

Companies have demonstrated resiliency by exceeding investor **expectations** both in terms of Revenue and Earnings. For example, in the 2nd quarter the median S&P 500 company saw declines of -5.54% and -7.48% in Revenue and Earnings, respectively, but still managed to beat expectations by 1.4% and 12.8%. Overall, this sends a message that the financial impact of COVID on underlying businesses – while bad - is not as dire as expected.
















Yet, as we noted last quarter, performance varies significantly depending on size and sector. Investors' preference for large, growth-oriented businesses continued driving valuations for that market segment higher relative to other market segments. COVID has served as a catalyst for tech-focused companies as they primarily sell intangible products and services that can be used remotely in a socially-distanced and work-from-home environment.



Source: FTSE Russell

The small-cap value segment has so far been a mirror image of large cap growth, in that it has continued to significantly underperform other market segments. We believe this is due in large part to two factors:

- 1) Small cap stocks have traditionally been viewed as a riskier market segment. While bonds continue to be the go-to for portfolio risk-reduction, investors are also over-weighting segments within the broader stock universe that are perceived to be safer and avoiding historically riskier ones.
- 2) Value stocks are historically more closely tied to domestic economic health. Additionally, small cap value stocks generate a much larger share of sales domestically than do most large caps, and they are typically more concentrated in terms of product/service-mix and market niche.

High-Frequency Economic Indicators					
These indicators provide more frequent datapoints with less lag-time than most traditional ones. While they risk a higher noise-to-signal ratio, monitoring them as a group can be useful for evaluating economic health and sentiment.			 Improved Conditions  Worsened Conditions		
COVID Trends					
Average New Cases/Day (7-Day Average)		Average Deaths/Day (7-Day Average)		Hospitalized Cases (Chng vs. 7-Days Ago)	
43,981		730		-292	
10/5/2020		10/5/2020		10/5/2020	
1-Month Ago	Highpoint	1-Month Ago	Highpoint	1-Month Ago	Highpoint
41,642 	67,317 	832 	2,202 	(2,224) 	25,262 
9/5/2020	7/22/2020	9/5/2020	4/18/2020	9/5/2020	4/9/2020
Source: The COVID Tracking Project (covidtracking.com)					
Retail Shopping Trends					
% of Restaurants Open		Seated Diners (%-of-Capacity)		Brick & Mortar Foot Traffic (%-Change Vs. Last Year)	
76.0%		-36.5%		-15.0%	
9/30/2020		10/5/2020		9/21/2020	
1-Month Ago	Lowpoint	1-Month Ago	Lowpoint	1-Month Ago	Lowpoint
71.0% 	39.0% 	-45.6% 	-100.0% 	-17.0% 	-51.0% 
8/31/2020	6/3/2020	9/1/2020	4/12/2020	9/1/2020	4/6/2020
Source: OpenTable		Source: OpenTable		Source: placer.ai	
Shopping Center Rent Payment (%-of-Billings)		Free-Standing Rent Payment (%-of-Billings)		Retail Hours Worked (%-Chng Vs. Last Year)	
81.6%		94.9%		-20.0%	
9/20/2020		9/20/2020		8/28/2020	
1-Month Ago	Lowpoint	1-Month Ago	Lowpoint	1-Month Ago	Lowpoint
80.1% 	49.3% 	90.5% 	70.0% 	-19.0% 	-76.0% 
8/20/2020	5/20/2020	8/20/2020	5/20/2020	8/20/2020	4/12/2020
Source: NAREIT		Source: NAREIT		Source: HomeBase	
Travel Trends					
Hotel Occupancy %		...Vs. Last Year		TSA Checkpoint Volume	
48.7%		-31.5%		33.2%	
9/26/2020		9/26/2020		10/5/2020	
1-Month Ago	Lowpoint	1-Month Ago	Lowpoint	1-Month Ago	Lowpoint
48.5% 	22.0% 	-30.5% 	-62.6% 	36.2% 	4.0% 
8/27/2020	4/25/2020	8/27/2020	4/25/2020	9/5/2020	4/16/2020
Source: STR.com		Source: STR.com		Source: TSA	

We focused our discussion on these two ends of the size & style spectrum because they most-significantly reflect the two factors, other than the election, that we believe currently impact the outlook for stocks across the spectrum in varying degrees: fiscal & monetary policy, and economic health. We have already covered the impact of low bond yields (monetary policy) and stimulus (government spending) on investors' preference for larger, less economically sensitive stocks, but we have yet to dig into the economy. As expected, due to the pandemic and resulting economic shut/slow-down the economy has been in a recession since March. As the dashboard above indicates, we have seen vast improvement in ground-level indicators of economic activity that were hit the hardest in March. That said, **we do not expect investors to appreciate more economically sensitive market segments until the FDA approves a Coronavirus vaccine and people feel more secure returning to some semblance of pre-pandemic life.**

Portfolios: We have made more strategic and tactical changes to portfolios this year as compared to others, due to quickly and sharply evolving conditions.

- **Early-March:** We sold all direct commodities exposure, and reallocated the proceeds across equities and precious metals.
- **March – Now:** As prices declined in the first quarter, we initiated positions in the stocks of a few high-quality companies and market segments that had previously been too expensive based on our analysis. We have continued to take more actions like this as we find opportunities. For example, we replaced Booking Holdings Inc (online travel) with Amazon; VFC Corp (apparel manufacturing & distribution) with Danaher (healthcare); and a European Financials ETF with a Minimum Volatility ETF. More recently, we also replaced Cognizant Tech Solutions with Microsoft.
- **June/July:** We have been working to simplify portfolios by reducing the overall number of positions. For example, we reduced international stock holdings down from three holdings to one. The change does not reflect a strategic shift in our risk or return expectations for non-US equities. We reduced the number of holdings - *but not the underlying allocations to asset classes and market categories* - so that if our expectations do change we can quickly implement trades across portfolios to reflect those changes.
- **June:** We increased allocations to gold, by replacing holdings in Treasury Inflation Protected Securities (TIPS), because we expect gold to be a better hedge against inflation as interest rates remain low indefinitely.
- **Late August:** Heading into the election, we have raised additional cash (approximately 5% in balanced portfolios) by selling individual securities in the real estate, utilities, and energy sectors. We believe a moderately higher allocation to cash is appropriate given the likelihood of heightened volatility heading into November, but we will be looking for opportunities to redeploy this cash into equities as volatility creates opportunities to find undervalued securities.

Our firm values frequent communication with you to discuss changing conditions and to ensure that we understand and stay updated on your objectives. Our client-service staff will be reaching out to you as usual to schedule a meeting. If you would like to set up a meeting sooner, please contact us at your convenience. We welcome hearing from you.

Contact: Matt A. Morley
Chief Investment Officer
Pendleton Street Advisors
Website: www.pendletonstreetadvisors.com