Plan in decades, think in years, live in days.

And wear comfortable shoes.

Bangor Wealth Management

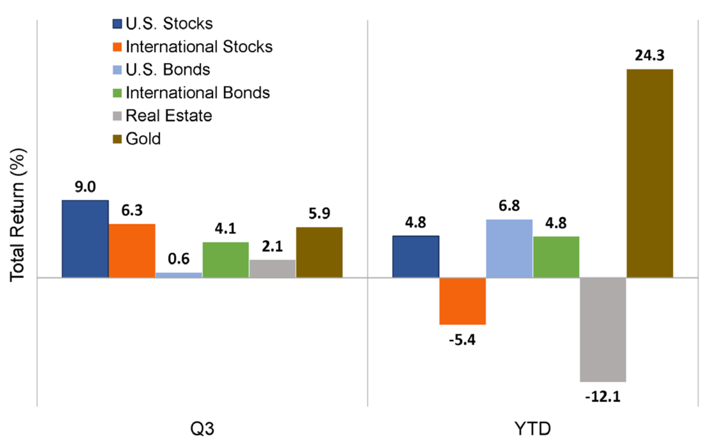
Key Takeaways

- The third quarter saw continued strength in stock returns across all asset classes
- The pandemic has not treated all companies equally, as growth has significantly outpaced value
- Fixed income also had a positive quarter, but with no real movement in interest rates
- The Federal Reserve has signaled low rates will be here for the foreseeable future
- The US Presidential Election represents a challenge for the markets

Stocks Move Higher

Third quarter delivered strong returns across many asset classes, building upon the recovery that began in the second quarter. Equities were at the front of the pack, although gold and commodities also had a strong showing (Fig 1.) Within stocks, large-capitalization growth companies fared best, continuing a trend that has been in place for a couple of years now. Over that time frame, companies that are able to grow sales above 15% have become a rarity. As of the end of August, they represented just 10% of the S&P 500. It is no

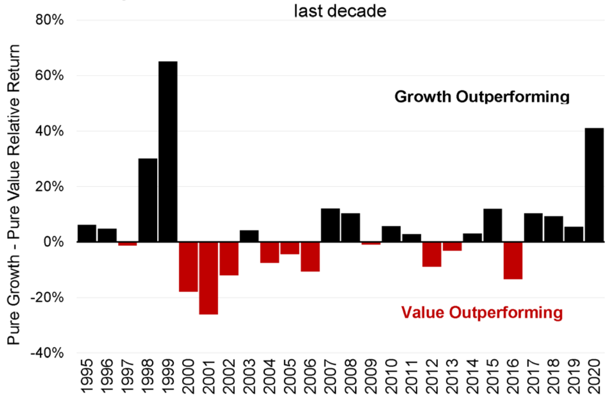
Fig 1. All major asset classes showed gains in the quarter, led by the U.S. equity market



Data Sources: Bloomberg Financial LP, Bangor Savings Bank

wonder that investors have been piling into the same familiar growth stocks. This trend has been driving a huge disparity between the growth and value styles over the last few years (Fig 2). The majority of value stocks reside in old economy

Fig 2. Growth stocks have dominated value stocks over the last decade



Data source: Bloomberg LP, S&P 500 Pure Growth and Pure Value calendar year total return; 2020 market data as of 9/30/20

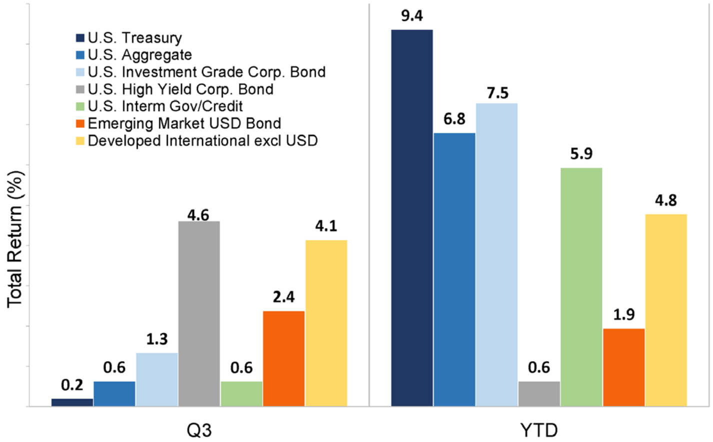
sectors like energy, financials, and industrials. These sectors have been hardest hit by the pandemic.Growth company stocks, often found in new economy sectors like technology and consumer discretionary, have enjoyed an acceleration in all things virtual and digital. So while there have been parts of the stock market that have performed extremely well, pockets of weakness aren't obvious without looking deeper beneath the broad market indices' surface.

It has hardly been, however, a straight line up for growth stocks. For example, two of the largest mega-cap technology stocks, Apple and Microsoft, experienced double-digit declines from record highs in September. Tesla fell 33% before bouncing higher. It is too early to say if this may mark a shift away from growth and into value, but it is certainly worth watching.

Bonds Hold Their Own

Fixed income returns were also positive, although more muted after the strong showing we saw in Q1 (Fig 3). With

Fig 3. Federal Reserve liquidity and credit support calmed the fixed income market and lower quality high yield corporate bonds benefited the most in Q3



Data Sources: Bloomberg Financial LP, Bangor Savings Bank

interest rates already low and no further movement in the quarter, returns were a function of tightening credit spreads within investment-grade corporate and high yield bonds. Yields are unlikely to be a major contributor to returns going forward, given their current low levels. The Federal Reserve has also indicated they will keep interest rates low for a long time. During the quarter, they announced a new framework in how they think about inflation targeting. This new policy, combined with a weaker economic environment, means that we will likely be at near-zero policy rates for at least another year if not longer. Chairman Jerome Powell even put a date on it, venturing that rates were likely to stay low until 2023. This is an unusual statement for the Federal Reserve, who historically would not commit to any future actions, much less a statement that they will likely be on hold for three years.

The End of the Recession

On the economic front, it would appear that the stock market has accurately predicted the end of the pandemic induced recession. With the end of lockdowns, activity has rebounded, and leading economic indicators are firmly in expansionary territory. There have been and will continue to be casualties as society grapples with the new normal, and consumer behaviors shift. For example, COVID-19 has accelerated online shopping and hastened the demise of some already struggling retailers. Regal Cinemas announced they will be temporarily closing all of their US theatres, as streaming services pick up the slack. Growth will be slower as we work through these transitory times, but the broader trend seems positive.

Challenges Ahead

As we look forward to closing out of 2020, there are still plenty of challenges to consider. Obviously there is still the risk of another major wave of COVID-19 as we enter the winter season. Cases have been on the rise in some parts of the country and some other parts of the world, but hopefully can be managed and contained locally as outbreaks occur. This approach is far preferable to across the board lockdowns and the negative economic consequences that entails.

Last but not least we have a US Presidential election to contend with, which is quite likely to alter the political landscape. We are often asked about the upcoming election and the risks that it may hold for stock investors. The primary issue around elections is that the market hates uncertainty. The incumbent party, regardless of political affiliation, represents a known quantity. When the incumbent loses, there is potential for a whole host of changes that may or may not be perceived positively by the market. But if change doesn't materialize over time (campaign trail promises are forgotten or fail to become actual policy) the longer term effect tends to negate the short term reaction. What we can be reasonably sure of is that there will be volatility, though it is difficult to say in what direction. In practice, choosing the appropriate allocation for your portfolio is a more effective means of balancing risk than predicting political outcomes.

Here at Bangor Wealth Management, we remain focused on delivering investment results consistent with your goals. We have been operating on a rotating schedule between our offices and home, but are always available whether in person, by phone, or video chat. Should you have questions, please do not hesitate to reach out to your Portfolio Manager or Relationship Manager.

Bangor Wealth Management

A Division of Bangor Savings Bank

Wealth Management products are:
Not FDIC Insured | No Bank Guarantee | May Lose Value