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# Q3

## Global Market Review

Third Quarter 2020

# Global Market Review

Third Quarter 2020

This report features world capital market performance and a timeline of events for the past quarter and the last year. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the impact of globally diversified portfolios and features a relevant quarterly topic.

## Overview:

*View from the Hill: When Choosing Value vs. Growth, History Favors Sticking with Value*

Market Summary—Quarterly & Long Term

World Stock Market Performance—Quarterly & Long Term

Impact of Diversification

US Stocks

International Developed Stocks

Emerging Markets Stocks

Real Estate Investment Trusts (REITs)

Fixed Income

Global Fixed Income

Wealth Planning Stress Testing

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# When Choosing Value vs. Growth, History Favors Sticking with Value

Third Quarter 2020

The logic of valuation theory and decades of data provide the basis for expecting a value premium larger than a growth premium for stocks. Science and statistics offer a guide for planning strategies that target higher potential returns than the market itself. There is pervasive evidence that value stocks outperform popularly traded growth stocks. Nearly a century of US market data, and nearly five decades of data outside the US, support the intuitive notion that value stocks—those with lower prices relative to book value and cash flows than growth stocks—*should* have higher expected returns.

Over the past decade growth stocks have outperformed vs. their value counterparts. This is like what happened back in the 1990s. Growth stocks came to have unsustainable prices. But while disappointing periods happen as history shows, the principle that lower relative prices lead to higher expected returns is sound. Overpaying for assets *must* lead to lower realized returns over the long term. 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, even a series of years with performance negatively related to growth is a statistically possible outcome. There is always the probability that unperforming periods may be ten years or longer.

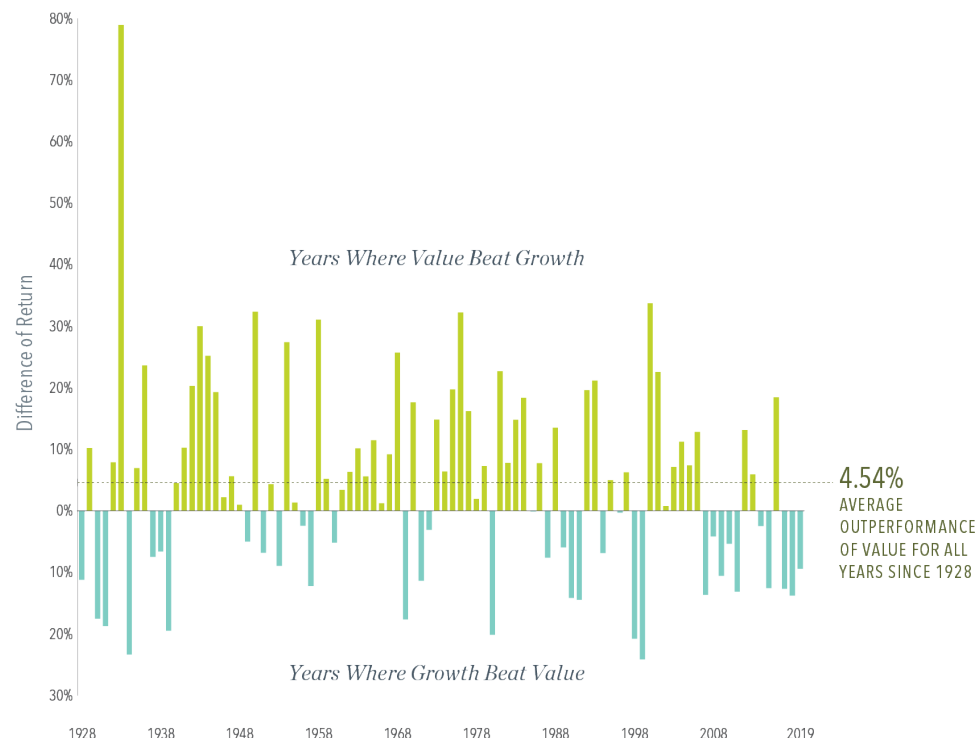
We believe investors are best served by setting policy decisions based on sound economic principles supported by a preponderance of evidence.

Changing strategy based on even a decade of disappointing past performance is very likely to be hazardous to your wealth. The longer you hold value stocks, the more likely you are to realize the value premium. Even so, in combination with dimensions of size and profitability combined with innovative trading, clients have seen total returns much like the market itself.

Value investing is premised on the notion that paying less for a series of future cash flows is associated with a higher expected return for that stock. That is a fundamental tenet of investing strategy. Combined with the enormous empirical data supporting the value premium, studies still show that orienting portfolios toward value continue to be a reliable way for investors to increase their long-term expected returns.

## 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).*

# When Choosing Value vs. Growth, History Favors Sticking with Value

(continued from page 3)

## 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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# 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><br> | <b>4.92%</b><br> | <b>9.56%</b><br> | <b>2.37%</b><br> |  | <b>0.62%</b><br> | <b>0.68%</b><br> |

| <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> |

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# Long-Term Market Summary

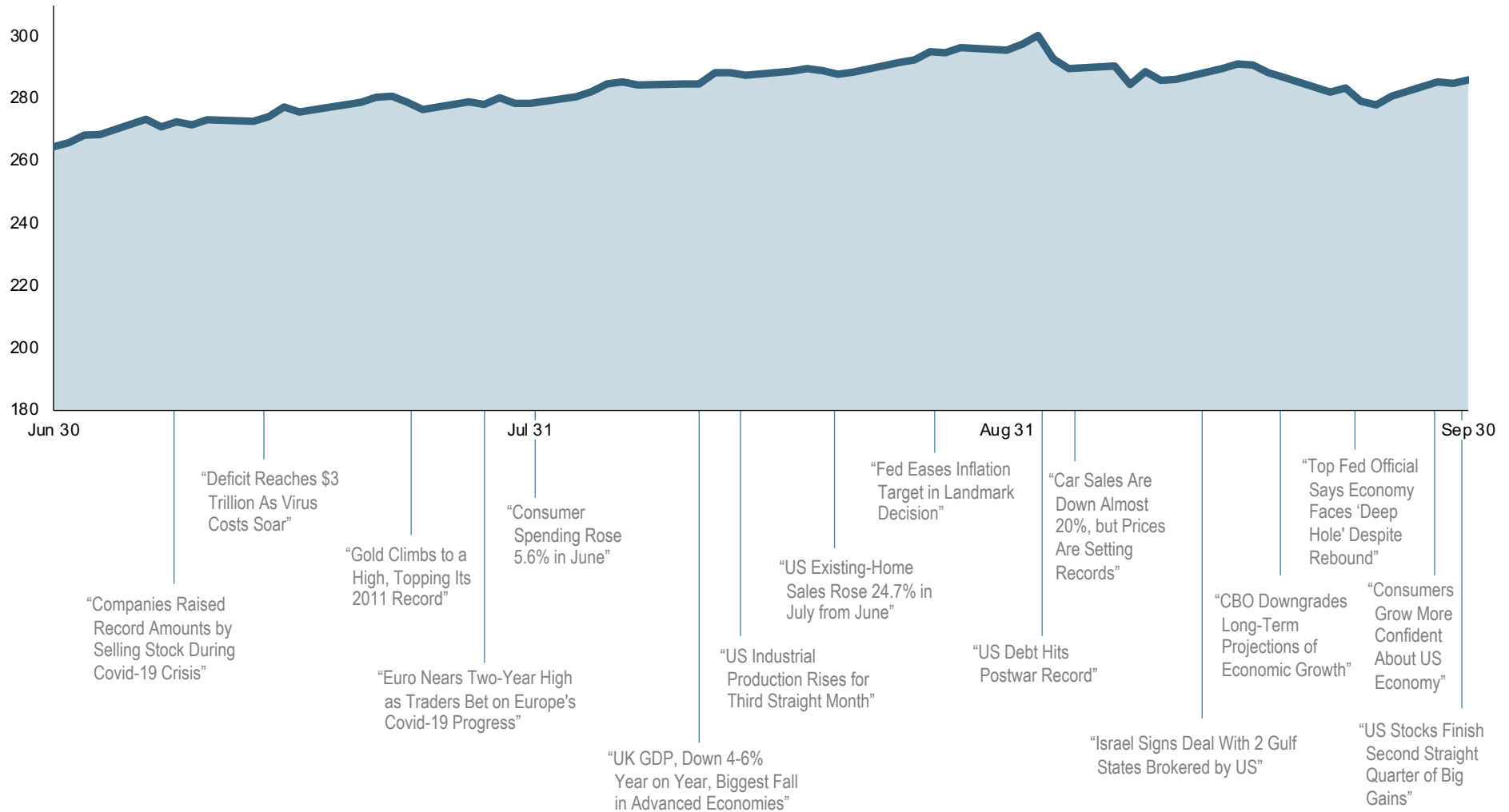
Index Returns as of September 30, 2020

|                 | US Stock Market   | International Developed Stocks  | Emerging Markets Stocks  | Global Real Estate  | US Bond Market  | Global Bond Market ex US  |
|-----------------|---|---|--|---|---|---|
| <b>1 Year</b>   | <b>STOCKS</b>   |   |  |   | <b>BONDS</b>  |   |
|                 | 15.00%  | 0.16%   | 10.54%   | -18.58%   | 6.98%   | 1.82%   |
|                 |    |    |    |    |    |    |
| <b>5 Years</b>  |   |   |  |   |   |   |
|                 | 13.69%  | 5.32%   | 8.97%  | 2.20%   | 4.18%   | 4.33%   |
|                 |   |   |   |   |   |   |
| <b>10 Years</b> |   |   |  |   |   |   |
|                 | 13.48%  | 4.37%   | 2.50%  | 5.58%   | 3.64%   | 4.06%   |
|                 |  |  |  |  |  |  |

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# World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2020



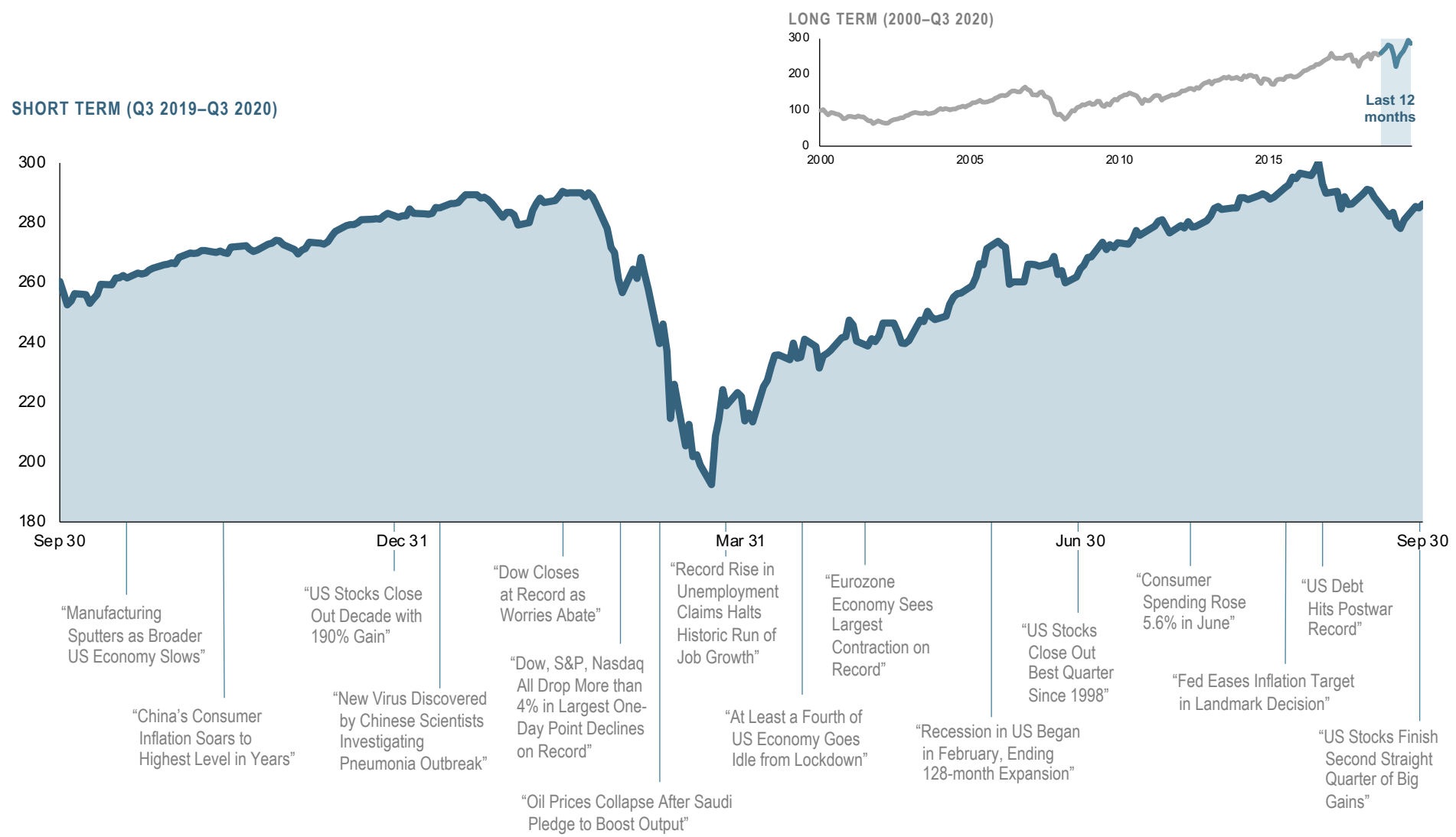
*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2020, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

# World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2020, all rights reserved.  
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# Impact of Diversification

Third Quarter 2020

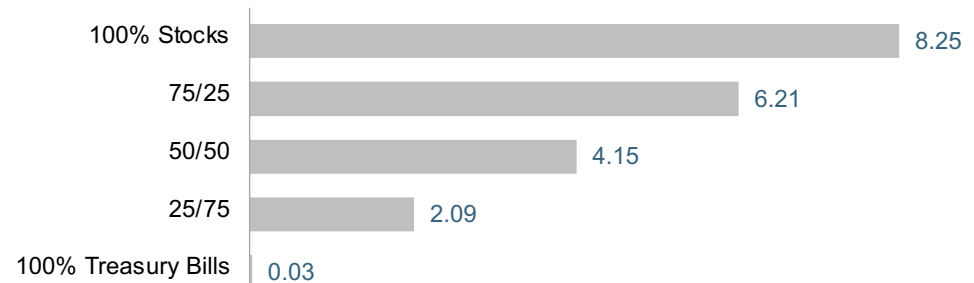
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

## Period Returns (%)

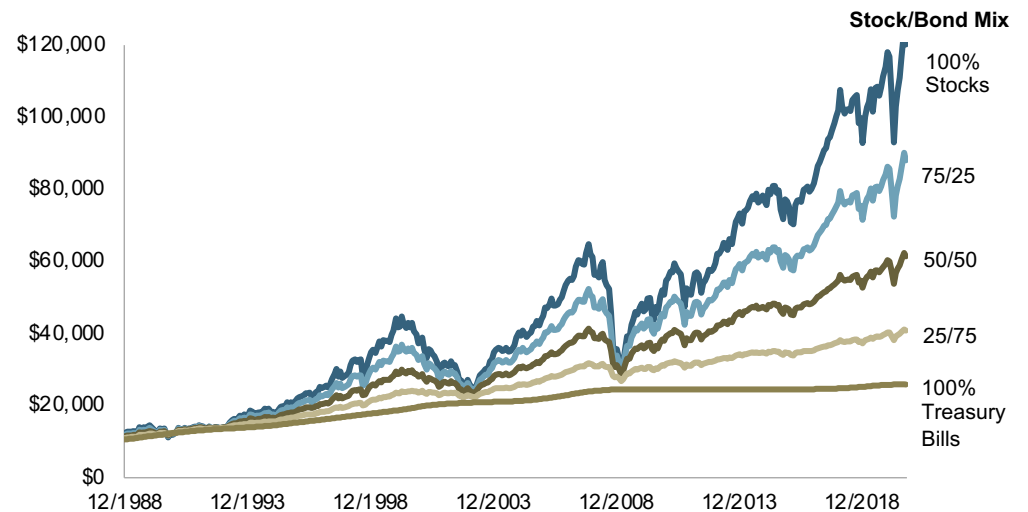
| Asset Class         |     |      |        |        |         | 10-Year |
|---------------------|-----|------|--------|--------|---------|---------|
|                     | YTD | 1 Yr | 3 Yrs* | 5 Yrs* | 10 Yrs* | STDEV%  |
| 100% Stocks         | 1.9 | 11.0 | 7.7    | 10.0   | 9.1     | 13.7    |
| 75/25               | 1.8 | 8.9  | 6.4    | 8.6    | 7.1     | 10.3    |
| 50/50               | 1.7 | 6.5  | 5.0    | 6.2    | 5.0     | 6.9     |
| 25/75               | 1.2 | 3.8  | 3.3    | 3.7    | 2.8     | 3.4     |
| 100% Treasury Bills | 0.4 | 0.8  | 1.5    | 1.1    | 0.6     | 0.2     |

\* Annualized

## 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).

# US Stocks

## Third Quarter 2020 Index Returns

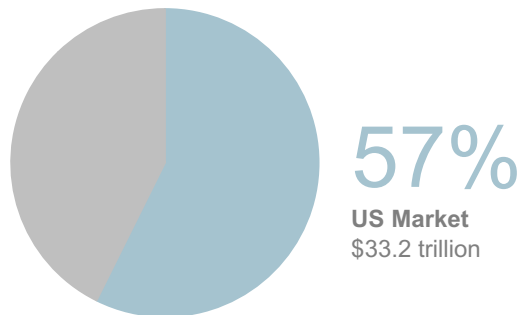
The US equity market posted positive returns for the quarter, outperforming non-US developed markets but underperforming emerging markets.

Value underperformed growth across large and small cap stocks.

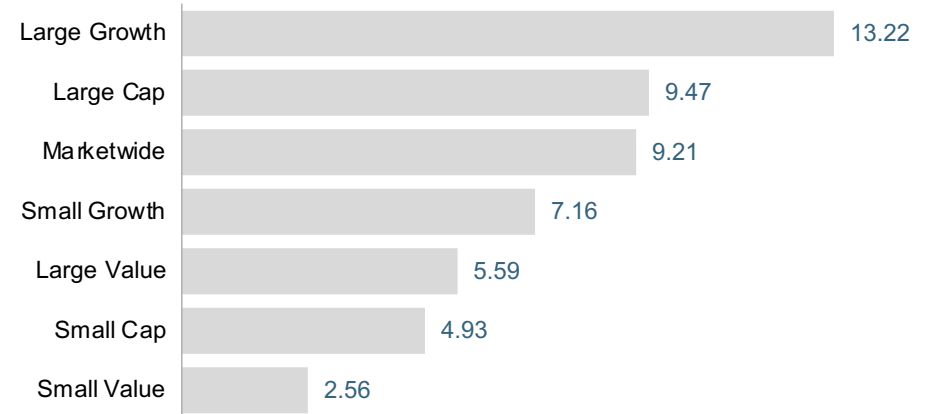
Small caps underperformed large caps.

REIT indices underperformed equity market indices.

### World Market Capitalization—US



### Ranked Returns (%)



### Period Returns (%)

\* Annualized

| Asset Class  | YTD   | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|--------------|-------|--------|----------|----------|-----------|
| Large Growth | 24.3  | 37.5   | 21.7     | 20.1     | 17.3      |
| Large Cap    | 6.4   | 16.0   | 12.4     | 14.1     | 13.8      |
| Marketwide   | 5.4   | 15.0   | 11.7     | 13.7     | 13.5      |
| Small Growth | 3.9   | 15.7   | 8.2      | 11.4     | 12.3      |
| Small Cap    | -8.7  | 0.4    | 1.8      | 8.0      | 9.9       |
| Large Value  | -11.6 | -5.0   | 2.6      | 7.7      | 10.0      |
| Small Value  | -21.5 | -14.9  | -5.1     | 4.1      | 7.1       |

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# International Developed Stocks

## Third Quarter 2020 Index Returns

Developed markets outside the US posted positive returns for the quarter but underperformed US and emerging markets equities.

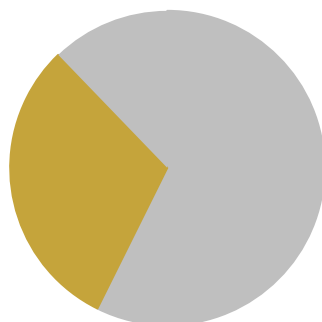
Value underperformed growth.

Small caps outperformed large caps.

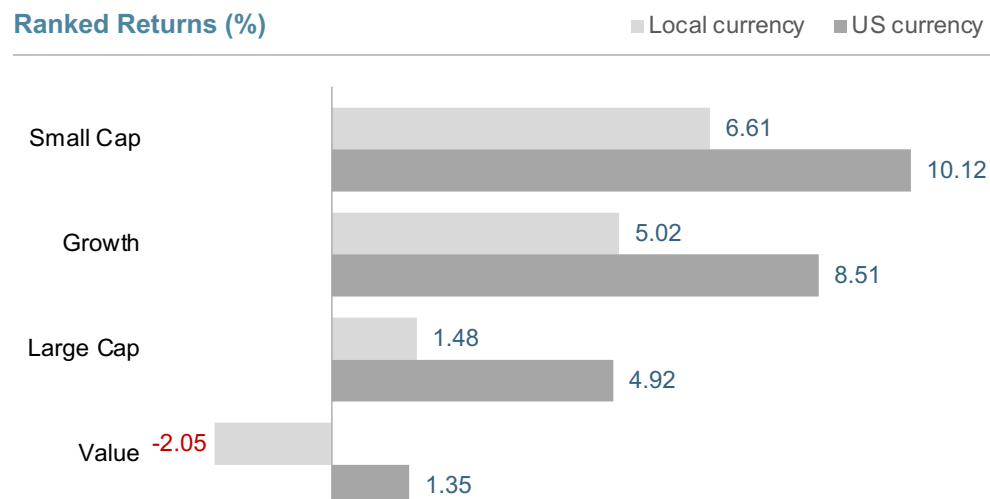
### World Market Capitalization—International Developed

**30%**

International  
Developed Market  
\$17.6 trillion



### Ranked Returns (%)



### Period Returns (%)

| Asset Class | YTD   | * Annualized |          |          |           |
|-------------|-------|--------------|----------|----------|-----------|
|             |       | 1 Year       | 3 Years* | 5 Years* | 10 Years* |
| Growth      | 5.1   | 13.6         | 7.1      | 9.1      | 6.6       |
| Small Cap   | -4.1  | 6.9          | 1.4      | 7.4      | 6.6       |
| Large Cap   | -7.1  | 0.2          | 0.6      | 5.3      | 4.4       |
| Value       | -18.9 | -12.7        | -5.9     | 1.4      | 2.0       |

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# Emerging Markets Stocks

## Third Quarter 2020 Index Returns

Emerging markets posted positive returns for the quarter, outperforming the US and developed ex US equity markets.

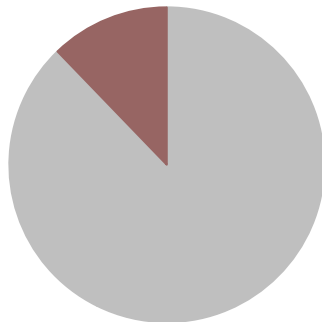
Value underperformed growth.

Small caps outperformed large caps.

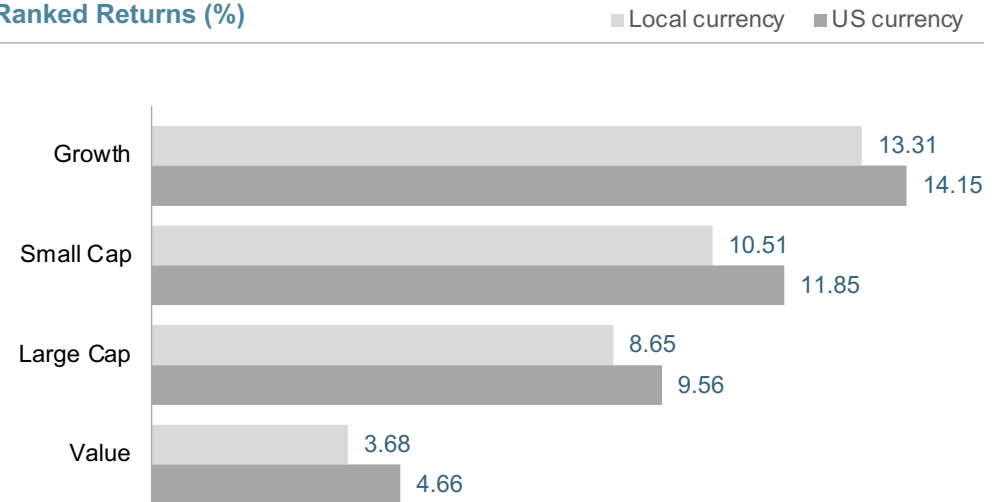
### World Market Capitalization—Emerging Markets

**12%**

Emerging Markets  
\$7.1 trillion



### Ranked Returns (%)



### Period Returns (%)

| Asset Class | YTD   | 1 Year | * Annualized |          |           |
|-------------|-------|--------|--------------|----------|-----------|
|             |       |        | 3 Years*     | 5 Years* | 10 Years* |
| Growth      | 12.4  | 27.8   | 7.5          | 13.3     | 5.3       |
| Large Cap   | -1.2  | 10.5   | 2.4          | 9.0      | 2.5       |
| Small Cap   | -2.4  | 6.9    | -1.1         | 4.6      | 1.0       |
| Value       | -14.2 | -5.7   | -2.9         | 4.5      | -0.4      |

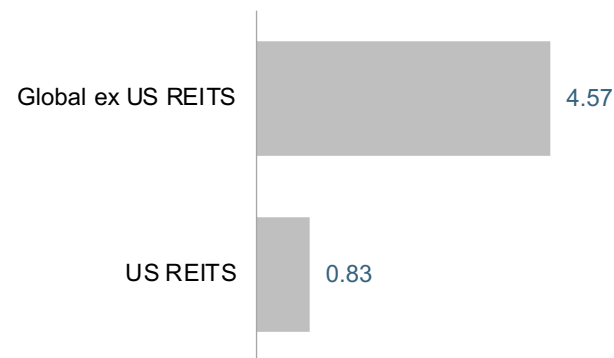
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# Real Estate Investment Trusts (REITs)

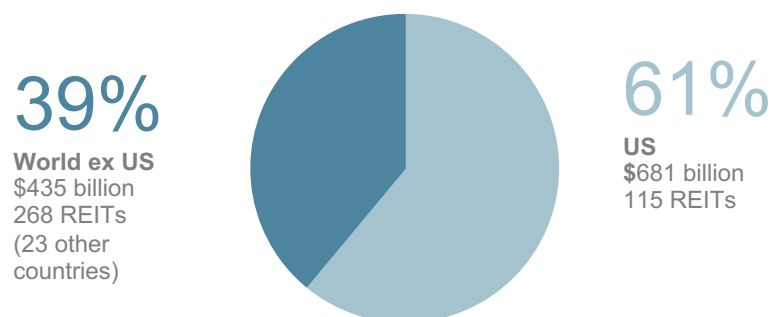
## Third Quarter 2020 Index Returns

US real estate investment trusts underperformed non-US REITs during the quarter.

### Ranked Returns (%)



### Total Value of REIT Stocks



### Period Returns (%)

\* Annualized

| Asset Class        | YTD   | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|--------------------|-------|--------|----------|----------|-----------|
| US REITs           | -21.4 | -22.3  | -1.9     | 2.0      | 7.0       |
| Global ex US REITs | -21.8 | -18.4  | -1.6     | 1.7      | 4.1       |

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

# Fixed Income

## Third Quarter 2020 Index Returns

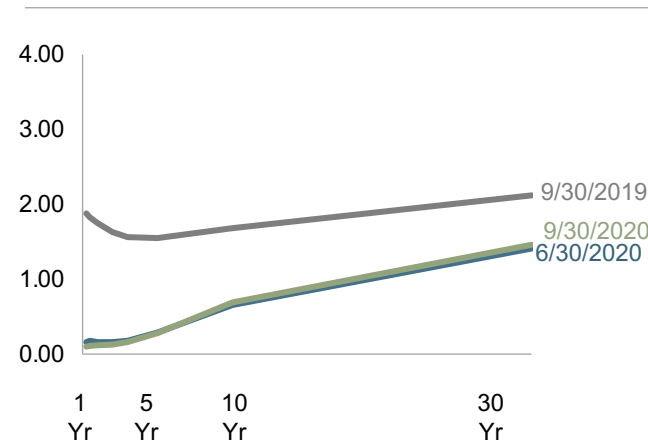
Interest rate changes were mixed in the US Treasury fixed income market during the third quarter. The yield on the 5-year US Treasury note decreased by 3 basis points (bps), ending at 0.31%. The yield on the 10-year US T-note rose by 3 bps to 0.64%. The 30-year US T-bond yield increased by 5 bps to 1.46%.

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

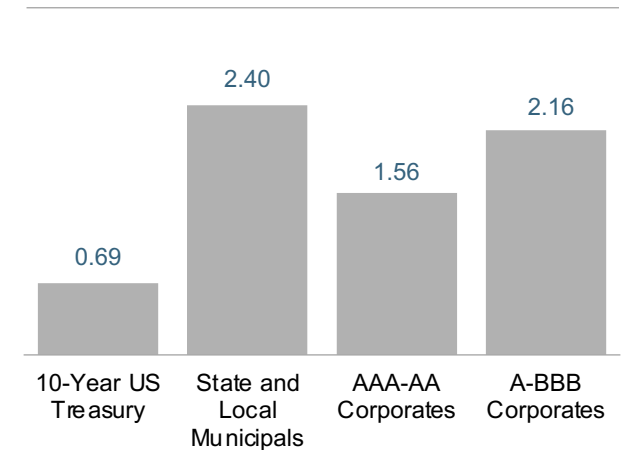
In terms of total returns, short-term corporate bonds returned 0.92% for the quarter. Intermediate-term corporates returned 1.33%.

The total return for short-term municipal bonds was 0.83%, while intermediate munis returned 1.40%. Revenue bonds outperformed general obligation bonds.

### US Treasury Yield Curve (%)



### Bond Yield across Issuers (%)



### Period Returns (%)

| Asset Class  | QTR | YTD  | 1 Year | *Annualized |          |           |
|--|-----|------|--------|-------------|----------|-----------|
|  |     |      |        | 3 Years*    | 5 Years* | 10 Years* |
| Bloomberg Barclays US High Yield Corporate Bond Index      | 4.6 | 0.6  | 3.3    | 4.2         | 6.8      | 6.5       |
| Bloomberg Barclays US TIPS Index                           | 3.0 | 9.2  | 10.1   | 5.8         | 4.6      | 3.6       |
| FTSE World Government Bond Index 1-5 Years                 | 2.0 | 4.2  | 5.2    | 2.0         | 2.0      | 0.2       |
| Bloomberg Barclays Municipal Bond Index                    | 1.2 | 3.3  | 4.1    | 4.3         | 3.8      | 4.0       |
| Bloomberg Barclays US Aggregate Bond Index                 | 0.6 | 6.8  | 7.0    | 5.2         | 4.2      | 3.6       |
| FTSE World Government Bond Index 1-5 Years (hedged to USD) | 0.2 | 3.0  | 3.2    | 3.0         | 2.3      | 1.9       |
| Bloomberg Barclays US Government Bond Index Long           | 0.1 | 21.1 | 16.2   | 11.8        | 8.2      | 7.2       |
| ICE BofA 1-Year US Treasury Note Index                     | 0.1 | 1.8  | 2.4    | 2.2         | 1.5      | 0.9       |
| ICE BofA US 3-Month Treasury Bill Index                    | 0.0 | 0.6  | 1.1    | 1.7         | 1.2      | 0.6       |

One basis point (bps) equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2020 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2020 ICE Data Indices, LLC. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

# Global Fixed Income

## Third Quarter 2020 Yield Curves

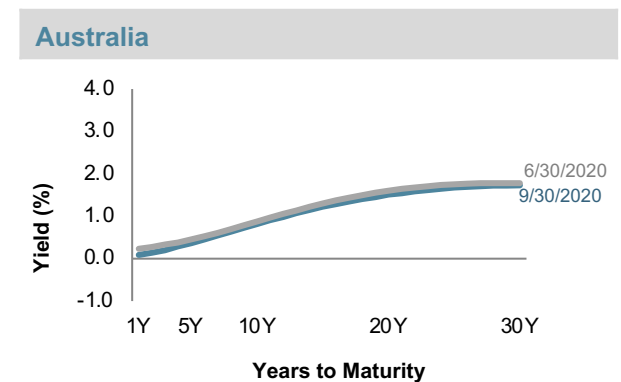
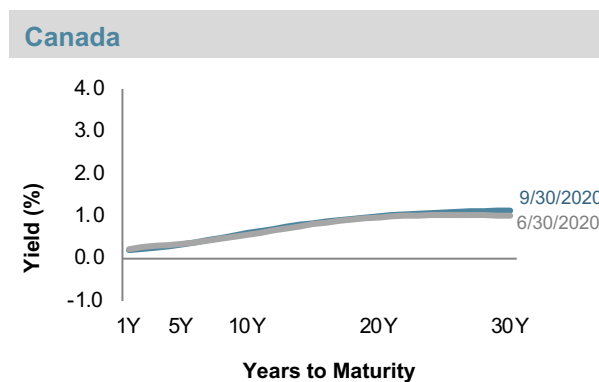
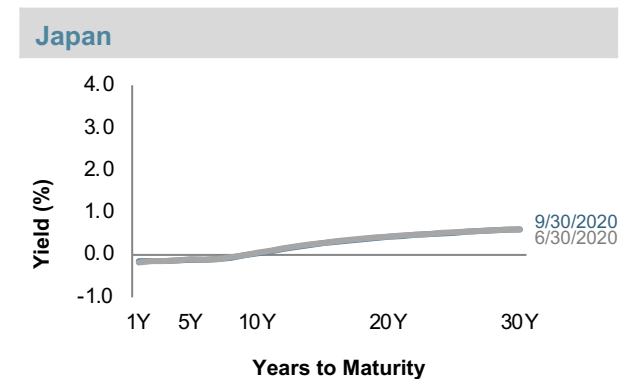
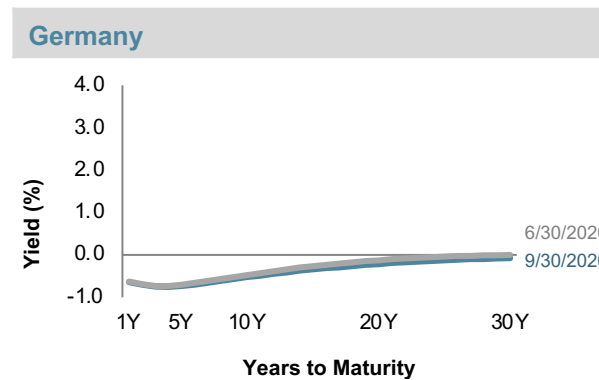
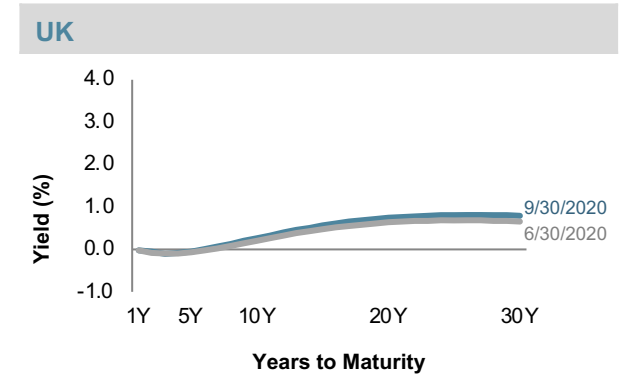
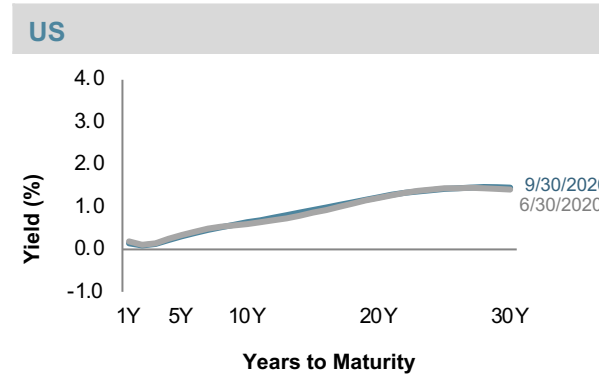
Changes in Government bond interest rates in the global developed markets were mixed for the quarter.

Longer-term bonds generally outperformed shorter-term bonds in global ex-US developed markets.

Short- and intermediate-term nominal interest rates were negative in Japan, while all maturities finished the quarter in negative territory in Germany.

Changes in Yields (bps) since 6/30/2020

|           | 1Y     | 5Y    | 10Y   | 20Y   | 30Y   |
|-----------|--------|-------|-------|-------|-------|
| US        | (5.4)  | (3.3) | 3.4   | 1.3   | 5.3   |
| UK        | 0.0    | 1.8   | 6.1   | 10.7  | 13.9  |
| Germany   | (2.0)  | (2.8) | (5.7) | (9.2) | (7.6) |
| Japan     | 3.0    | (1.1) | (1.2) | (1.2) | 0.2   |
| Canada    | (2.1)  | (1.9) | 3.9   | 2.6   | 12.2  |
| Australia | (14.5) | (8.3) | (5.9) | (9.6) | (5.1) |



## Wealth Planning Stress Testing

In these uncertain times, you may know a friend, family member or colleague who may have a difficult situation, or who wonders whether they are getting the right advice, or simply needs sound professional advice but doesn't get it. That's not uncommon. Studies suggest that over 80 percent of "middle-class millionaires" would value a second opinion for planning.\*

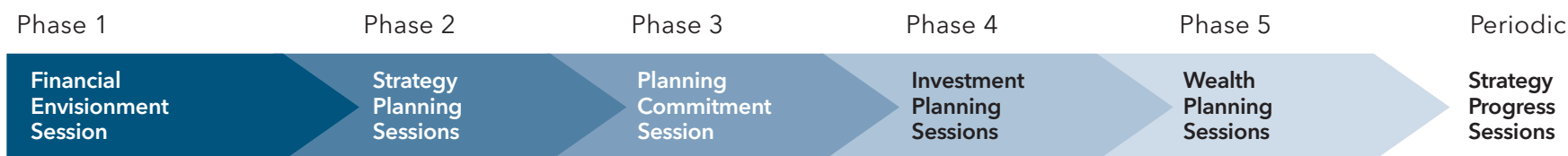
In order to help those you care about achieve their goals and dreams, we provide a complimentary **Wealth Planning Stress Testing** for those people. We're pleased to offer your friends, family and colleagues the same guidance and expertise that you've experienced as a valued client of Professional Financial.

**Paul Byron Hill**, MBA, MFP, MSFS, ChFC®, RICP®, CFP® is a nationally recognized Wealth Management Certified Professional™ and Certified Financial Planner™ Professional, written about in *Fortune*, *Forbes*, *Bloomberg Businessweek*, and *Money*. As co-author of *Retire Abundantly*, Paul was interviewed by James Malinchak, of ABC-TV's hit series, *Secret Millionaire*, and by Dimensional Fund Advisors for their "Value of an Advisor" series. Reuters AdvisePoint has recognized Mr. Hill as one of 500 "Top Advisers" and prominently featured him on their website.

Paul founded Professional Financial Strategies, Inc. as one of the first fiduciary advisory firms in 1993 that now specializes in retirement and wealth planning for affluent and aspiring families. Paul is a personal chief financial officer who acts in the best interest of clients. He brings together a distinctive management process and a network of specialists for making informed decisions for scientifically-structured investing, secure income, mitigating taxes, protecting assets, and preserving wealth for family and causes that make an enduring impact.

Mr. Hill received a BA with distinction from the University of Rochester and later an MBA in finance from its Simon School of Business. He earned an MS in financial services from The American College along with his Chartered Financial Consultant and Retirement Income Certified Professional designations, and then received an MS in financial planning from the College for Financial Planning (now at the University of Phoenix). The College for Financial Planning appointed him as adjunct faculty, and he has taught at St. John Fisher College. Who's Who presented Paul with the Albert Nelson Marquis Lifetime Achievement Award in 2018 and featured him with other recipients in *The Wall Street Journal*.

### THE PROFESSIONAL WEALTH MANAGEMENT PROCESS



\*Source: Russ Alan Prince and David A. Geraciotti, *Cultivating the Middle-Class Millionaire*, 2005.



# Wealth Planning Stress Testing

## Working with experts who defined the professional wealth management process

Ask ten investors to define wealth management. Rather, ask ten financial advisors you meet to do so. You'll probably get ten different answers, and most replies will focus on investing or only products. As a client of Professional Financial, however, you benefit from a team of CFPs® with a network of experts sharing a distinctive vision of integrative wealth management.

## Our professional planning process

At Professional Financial we approach each engagement with a time-tested, collaborative process. We'll have an open conversation so we can learn about your values, goals and dreams. This proven process enables us to expertly tailor an individual plan that works toward your wealth and legacy goals. As a valued client, you'll recognize each of the six steps above. In our **Wealth Planning Stress Testing**, we offer a portion of our consultative service, complimentary, to your friends, family and colleagues.

## What to expect from wealth planning stress testing

We will meet with your friends and family in a conversation to explore their concerns and opportunities to see if we can help. If there is a fit and a benefit, we will invite them back for a follow up conversation. We may confirm whether they are on the right track with their existing financial advisors. Or if we are not the right fit, we will suggest another qualified professional firm that may be more appropriate. Either way, they will receive constructive advice and recommendations regarding their planning situation—easily a value of \$5,000 or more.

### STRESS TESTING CONVERSATION

Phase 1

Phase 2

Financial  
Envisionment  
Session

Strategy  
Planning  
Session

### PURPOSEFUL WEALTH MANAGEMENT

#### INVESTMENT MANAGEMENT

- Strategic planning
- Goal monitoring
- Performance evaluation
- Risk evaluation
- Portfolio structuring
- Manager due diligence

#### WEALTH PLANNING

- Wealth enhancement, including tax minimization and liability restructuring

- Asset Protection
- Security of Heirs' Lifestyle
- Legacy Planning
- Charitable Impact

#### RELATIONSHIP CONSULTATIONS

- Regularly scheduled calls, emails, reviews and in-person meetings
- Professional network, including accounting, tax, legal, insurance, actuarial and benefits experts

**Let us help those you care about. Contact us today.**

**Paul Byron Hill**, MBA, MFP, MSFS, ChFC®, RICP®  
CEO | Certified Financial Planner™  
Wealth Management Certified Professional™

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