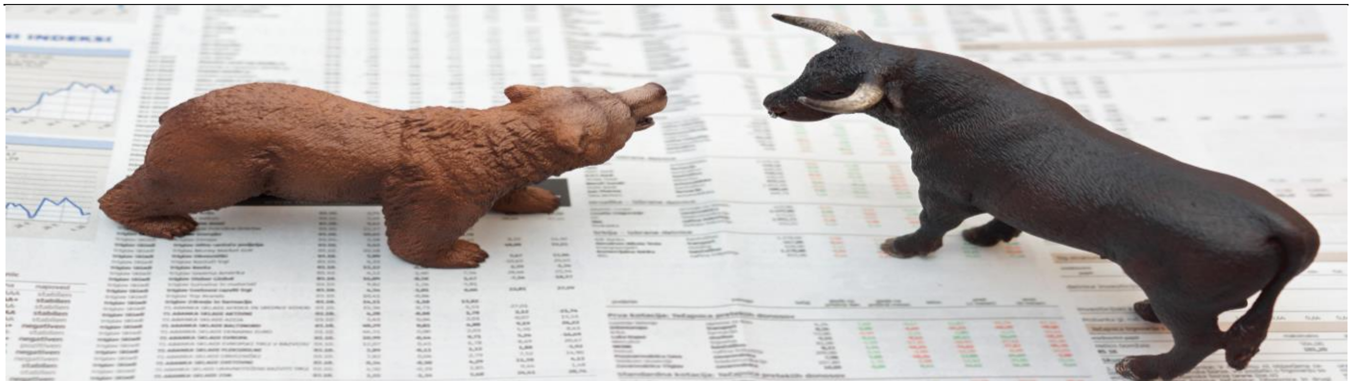


SEPTEMBER 2020 MARKET COMMENTARY

Summer quickly passed us by. All of us at Hightower Financial Principles hope that you have remained safe and healthy during these unprecedented times. With the upcoming Presidential Election, along with the COVID-19 Pandemic still a part of our daily lives, including its massive impact on the economy, we have been having many conversations to address our clients' questions and concerns. We hope that you have found our monthly market commentaries and newsletters informative and helpful. As always, should you have any questions, please do not hesitate to contact our office.

The domestic equity markets experienced one of the shortest-lived bear markets ever this year, which came after forming a trough in March. Ever since then, the equity markets have been in an upward trend. Equity market returns have been uneven with technology giants dominating the market. This can create frustration for many who at the end of August saw the broad Standard and Poor's 500 Index up 8.34% for the year as the majority of those returns are concentrated in five major tech giants and are less representative of diversified portfolios and the overall economy. In comparison, the Dow Jones Industrial Average, which has less of a technology weighting, stands flat (down 0.38%) on the year (as of August 31, 2020).

With a strong equity market rebound in the headlines but GDP data still showing the broad economy in recession, unemployment figures still at highs, and a hotly contested Presidential Election on the horizon, most investors are wondering why there is such a divergence in the underlying economic data and the stock market performance, and what may come next. This divergence of positive market performance and soft economic data is being fueled by optimism over declining coronavirus cases (and a vaccine) and an unprecedented monetary and fiscal stimulus from the Federal Government.

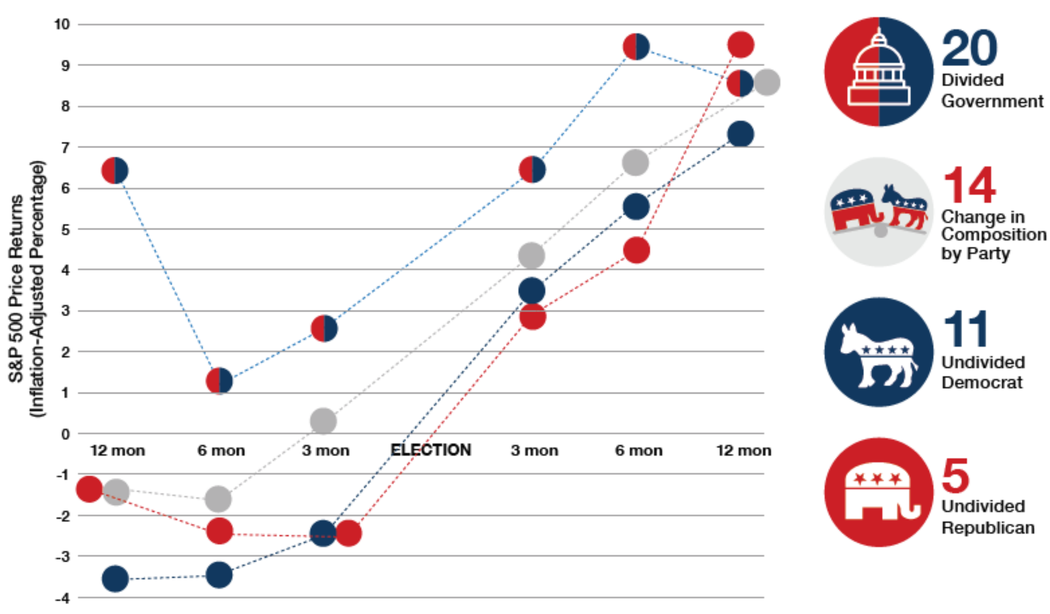
While we remain optimistic that the economy, as it always has, will return to expansion with more full employment, we would not be surprised if the recovery takes longer than markets are predicting. Without strong rebounds in economic data as we enter the Fourth Quarter in a few short weeks, markets very well may look for any excuse to take a step back, or at the very least a breather (as we have seen here in the first week of September).

In the coming few months, we are eyeing coronavirus numbers and the election as two major sources of potential equity market volatility. As more major economies are reopening and we enter flu season there is an elevated risk of a rise in coronavirus cases, especially without the release of a vaccine. Even when a vaccine is released, we will not have strong data as to its efficacy which poses a big risk as we become laxer in our social distancing and precautions.

On the election front, we as Americans face a very hotly contested election cycle. Perhaps the most contentious in recent history as tensions rise around the country from social unrest, economic worries, and a national public health emergency. *Historical data tells us that markets don't care whether there is a Republican or Democrat in the White House. The markets also don't care who controls Congress. But the data does show us is that markets do not like uncertainty. In the time leading up to elections there are generally more muted returns while markets tend to move higher after elections are passed.*

Figure 1. A Look at Market Returns Before and After Elections

Real (inflation-adjusted) Price Return in select periods around U.S. Federal Elections, 1948-2016



Real (inflation-adjusted) S&P 500 price returns are inconclusive when it comes to measuring election impact.

Source: Lord Abbett analysis of Bloomberg data tracking S&P 500 price returns from 1948 through November 2017.

With that said, this election cycle can very well bring unwanted volatility to equity markets in the coming two months as it plays out.

We have remained cautious throughout this year and have been patient to seek better entry points when putting new money into the markets for clients. Over the past few months that has been a difficult task, but in the coming months we remain vigilant, ready to take advantage if we see markets take a breather, and we advise clients to remain committed to their long-term financial plans.

As always, if you have any questions, please do not hesitate to contact our team. Be safe, be well.

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