WINFIELD ASSOCIATES

Winfield Quarterly
October 2020

Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

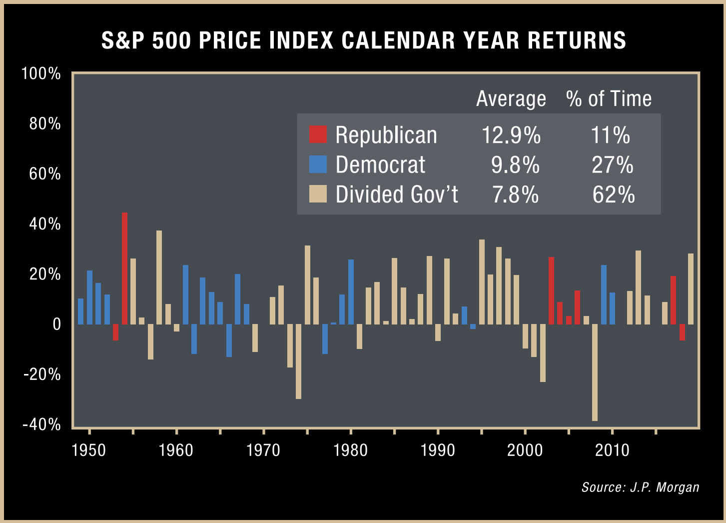
During the third quarter, US equities extended their historic rebound from March 23 lows, reaching an all-time record high on September 2. For the quarter, the S&P 500 rose 8.9%, the Dow Jones Industrial Average (DJIA) climbed 8.2%, the Russell 2000 Small Capitalization Index rebounded 4.9%, while the technology-heavy NASDAQ continued its outperformance, up 11.2%. As we highlighted in our July 2020 *Market Commentary*, large capitalization technology stocks such as Amazon, Apple, Facebook, Google, and Microsoft propelled the NASDAQ higher through the middle of the year, a trend that extended well into the third quarter. Value lagged growth through August but finished up for the period. Investors rotated out of some of 2020's best performing stocks into cyclical sectors in anticipation of a fourth round of fiscal stimulus. Through September 30, US equity market 2020 results remained diffuse with the S&P 500 up 5.6%, the DJIA down -0.9%, the Russell 2000 down -8.7%, and the NASDAQ up a remarkable 25.3%.

US bond markets stabilized in the third quarter due to the unprecedented monetary policy response of the Federal Reserve Bank and the magnitude of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Through the end of September, corporate bond issuance was exceptionally strong - nearly $2 trillion year-to-date. The supply of corporate debt has been met by healthy demand as the underlying economy has shown signs of improvement. Strong demand for US Treasuries as a "safe haven" continued to keep yields near historical lows. As of September 30, the yield of the benchmark 10-year Treasury bond was 0.69%, up slightly from 0.66% at the end of June. The US municipal bond market also remained resilient despite a less than favorable outlook. With state revenues likely to fall significantly as a result of the pandemic (some estimates are by 25%–30%), municipal bond yields approached record lows. The perplexing demand for municipal debt suggests that investors believe the Fed has provided an effective safety net, with near-zero market interest rates and a balance sheet liquidity backstop for municipal issuers. Furthermore, future aid from the federal government is expected despite congressional delays in passing further stimulus.

The US economy is rebounding from its steepest yet shortest recession in history. In the first quarter, US GDP fell -5.0% then proceeded to drop -31.4% in the second quarter. According to the Atlanta Federal Reserve Bank, third quarter GDP growth is estimated to be +35.2% with fourth quarter GDP normalizing at a +3.0% annualized rate. For the year, consensus estimates are for the US economy to shrink by just -3.6%, an incredible outcome given the circumstances of the global pandemic. Without question, the rapid expansion of the Federal Reserve Bank's balance sheet and the coordinated effort of the federal government to boost the US economy with the $2.3 trillion CARES Act staved off what could have been a prolonged economic downturn unlike any the US has experienced since the 1930s.

In less than a month, the United States will vote to retain President Trump or elect former Vice President Biden to the Executive Office. Regardless of the outcome of the election, it is hard to predict market implications other than continued volatility through November 3. The chances of a prolonged post-election fight while counting mail-in ballots adds to market uncertainty. As signs of a second wave of COVID-19 infections emerges in Europe and the US, it is becoming clearer that the president, regardless of party, will have to push a legislative agenda that includes further stimulus to assist the hardest-hit sectors of the economy.

As election season arrives, investors tend to grow concerned about which party might be more positive for the stock market. Historically, stocks have continued higher regardless of presidential party. Moreover, on average, equities have risen whether the US government is divided by party, or the same party controls the White House, Senate and House of Representatives. The graph below illustrates calendar year returns of the S&P 500 from 1948 to 2019.



(Continued on back)

(Continued from front)

As shown in the graph, the US has been governed more than half of the time (62%) by a divided government with the stock market rising 7.8% annually. Since 1948, Democrats have held the executive and legislative branches of government 27% of the time with the S&P 500 rising 9.8% per year on average. Similarly, the S&P 500 rose 12.9% on average when the Republican party controlled the federal government. As shown, the party in control does not seem to be a significant determinant of market returns. While investing during an election year can be volatile, the message is clear – long-term equity returns are determined by the value of individual companies over time, not by near-term election results.

Although the stock market does not care much about politics, uncertainty surrounding politics can cause volatility. A contested presidential election extending into the end of the fourth quarter would create significant uncertainty and would in all likelihood result in a flight out of risk assets into safety. Perhaps of greater concern is the ongoing response to the pandemic. Controlling the second wave of COVID-19 infections and successfully launching a vaccine are of critical importance to the return of global economic growth. While the election outcome may change our emphasis in certain industry sectors, our overall strategy remains the same. We will invest our client's assets in high quality innovative companies and offset risk with fixed income and cash.

2020 YEAR END ESTATE AND GIFT TAX PLANNING

In December 2017, the US Tax Cuts and Jobs Act (TCJA) became law, representing the most far-reaching change to the US tax code in three decades. One of the most influential changes of the TJCA to estate planning was the doubling of the estate and gift tax exemption from $5.6 million per individual ($11.2 million per married couple) to the current $11.6 million per individual ($23.2 million per married couple). For many individuals with significant wealth, if Vice President Biden wins the presidential election and enjoys support in both the Senate and the House, the best planning strategy to mitigate the impact of a potential reduction in the estate and gift tax exemption will be to use as much of the $11.6 million limit as possible before the end of 2020. While the details of a change to tax law may take months to enact, the lower exemption would likely take effect on January 1, 2021. Importantly, if the exemption amount reverts to a lower threshold, more individuals will inevitably need to explore more complex wealth transfer vehicles in the future. Please contact your tax advisor or estate planning attorney if you have questions.

RETIREMENT CONTRIBUTION LIMITS

	401(k)	IRA
Annual limit per individual	$19,500	$6,000
Age 50+ catch-up amount	$6,500	$1,000
Penalty-free access, if needed	Yes (via a loan)	No

MARKET PERFORMANCE

	3Q 2020	2020 YTD
Dow Jones	8.2%	-0.9%
S&P 500	8.9%	5.6%
Nasdaq	11.2%	25.3%
Russell 2000	4.9%	-8.7%
MSCI EAFE	4.8%	-7.1%
Barclays Agg	0.6%	6.8%

WHEN TO WORK WITH WINFIELD

PRIVATE INDIVIDUAL INVESTORS

- Manage accumulated wealth, inheritances and settlements

ENDOWMENTS AND FOUNDATIONS

- Manage assets with a long-term growth strategy while meeting investment policy requirements

BUSINESS OWNERS

- Customize investment portfolios to lessen risk of concentrated assets
- Defer taxable earnings in profit sharing plans
- Manage and advise 401(k) plans

BUSINESS PROFESSIONALS

- Customize investment portfolios, manage stock options and consolidate 401(k)/IRA plans to lessen risk of concentrated assets

RETIREES

- Customize investment portfolios with the option of drawing income
- Management of IRAs, trusts and taxable accounts

www.winfieldinc.com
700 West St. Clair Avenue, Suite 404 • Cleveland, OH 44113
(216) 241-2575 • (888) 322-2575 • fax: (216) 241-4774