### **By The Numbers...** Q3 2020 Market Update

With Aaron Izenstark, Co-Founder & Chief Investment Officer



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## Market Performance



### **Asset Class Performance**

US equities led underperformance among risk assets last month amid a resurgence in COVID-19 cases, election uncertainty and a pullback in Technology.



Source: Bloomberg LP, State Street Global Advisors

# The Global Economy



### **Global GDP**



Source: J.P. Morgan Asset Management; (Left) Markit; (Right) J.P. Morgan Global Economic Research. PMI is the Purchasing Managers' Index. Global GDP growth is a GDP-weighted measure of real GDP at U.S. dollar market exchange rates. \*1Q20 is a forecast.

### **Crude Oil Market**

Production	2017	2018	2019	2020*	2021*	Growth since '17	\$160 Jul. 3, 2008:	
U.S.	15.7	17.9	19.5	18.7	18.8	20.2%	\$145.29	
OPEC	36.8	36.8	34.7	30.8	34.0	-7.8%	• • • • •	
Russia	11.2	11.4	11.5	10.5	11.1	-1.1%	\$140 -	
Global	98.2	100.8	100.7	94.6	99.3	1.2%		
Consumption							\$120 -	Jun. 201
U.S.	20.0	20.5	20.5	18.4	20.1	0.5%		\$100
China	13.6	14.0	14.5	13.9	15.0	10.2%		11 12
Global		100.6			99.6	0.8%	\$100 -	- H. H.
nventory Change	-0.7	0.3	-0.7	1.5	-0.3			11.04
U.S. crude oil in Million barrels, numb				g cou	int**	г 2,500	\$80 -	r ( r
			•			2,500	\$60 -	
,250 ,200		$\wedge$	~	7		2,000		
,250 ,200 - ,150 ,100 -	$\rangle$	~	~~	J.	$\mathcal{M}$	1,500	\$40 -	
,250 ,200 ,150	$\sum_{i=1}^{n}$		w	2	$\sim$		\$40 \$20 \$20	8

Source: J.P. Morgan Asset Management; (Top and bottom left) EIA; (Right) FactSet; (Bottom left) Baker Hughes.

Oct. 3, 2018: \$76.41

> Sep. 30, 2020: \$40.22

'14 '16 '18 '20

Feb. 11, 2016: \$26.21

#### **Trade Was Bad Before COVID!**



Source: FactSet, J.P. Morgan Asset Management; CPB Netherlands Bureau for Economic Policy Analysis;

## The State of the Union



Industrial activity up – a good sign!

### Chemical Activity Barometer (CAB) Leading Indicator vs. Industrial Production Index





Source: American Chemistry Council

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### Inflation Is Not Currently a Problem



Source: Bloomberg Finance L.P. as of 09/30/2020.

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### **Real Gross Domestic Product (GDP)**



### **Components of GDP (2017 – 2020)**







Source: BEA, FactSet, J.P. Morgan Asset Management.

### **Federal Finances**



Source: CBO, J.P. Morgan Asset Management; (Top and bottom right) BEA, Treasury Department.





### Federal Debt: Total Debt as a % of GDP



Source: Federal Reserve Bank of St. Louis

## The Consumer

### **U.S. Unemployment**



### U.S. Total Employed – Still Down Over 10M



Source: U.S. Department of the Treasury. Fiscal Service

### **The Consumer**

#### Household debt service ratio Debt payments as % of disposable personal income, SA 14% 4Q07: 13.2% 13% 12% 1Q80 11% 10.6% 3Q20\*\*: 10% 9% '80 '85 '90 '95 '00' '05 '10 '15 '20





Source: FactSet, FRB, J.P. Morgan Asset Management; (Top and bottom right) BEA.



Source: J.P. Morgan Asset Management; (Left) BLS, FactSet; (Right) Census Bureau.

# The Markets

### S&P 500 Valuation – High



Source: FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.

### **International Valuation – Low Compared to U.S.**



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.

### **Fixed Income Markets**

	Yield		Return			
U.S. Treasuries	9/30/2020	6/30/2020	2020 YTD			Correlation to S&P 500
2-Year	0.13%	0.16%	3.03%	2 years	0.67	-0.39
5-Year	0.28%	0.29%	7.50%	5	0.92	-0.35
TIPS	-0.94%	-0.68%	9.22%	10	0.58	0.19
10-Year	0.69%	0.66%	12.77%	10	1.00	-0.33
30-Year	1.46%	1.41%	23.91%	30	0.93	-0.34
Sector						
Corporates	2.01%	2.15%	6.64%	12.2	0.42	0.38
U.S. Aggregate	1.18%	1.25%	6.79%	8.2	0.85	0.02
Convertibles	4.98%	6.83%	23.11%	-	-0.30	0.89
High Yield	5.77%	6.87%	0.62%	6.3	-0.25	0.74
Municipals	1.32%	1.50%	3.33%	13.0	0.38	0.09
MBS	1.29%	1.36%	3.62%	3.7	0.81	-0.14
ABS	2.50%	3.10%	2.41%	2.2	-0.01	0.28
Floating Rate	0.63%	0.94%	1.01%	1.7	-0.23	0.45

Source: Barclays, Bloomberg, FactSet, SIFMA, Standard & Poor's, U.S. Treasury, J.P. Morgan Asset Management.

Correlations are based on 15-years of monthly returns for all sectors.

### **The Yield Curve**



Source: Bloomberg Finance, L.P. as of September 30, 2020.

### **Fed Funds**



Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

### What a difference from 2019!

#### Federal funds rate expectations

FOMC and market expectations for the federal funds rate



Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

### **Fed's Balance Sheet Trillions!**

#### Fed Balance Sheet

observation_date	Fed Total Assets	Weekly Change	4- Week Change
2020-06-10	7168936	3,719	234,709
2020-06-17	7094690	(74,246)	57,432
2020-06-24	7082302	(12,388)	(15,014)
2020-07-01	7009040	(73,262)	(156,177)
2020-07-08	6920716	(88,324)	(248,220)
2020-07-15	6958604	37,888	(136,086)
2020-07-22	6964755	6,151	(117,547)
2020-07-29	6949032	(15,723)	(60,008)
2020-08-05	6945237	(3,795)	24,521
2020-08-12	6957277	12,040	(1,327)
2020-08-19	7010637	53,360	45,882
2020-08-26	6990418	(20,219)	41,386
2020-09-02	7017492	27,074	72,255
2020-09-09	7010614	(6,878)	53,337
2020-09-16	7064475	53,861	53,838
2020-09-23	7093161	28,686	102,743
2020-09-30	7056129	(37,032)	38,637

#### Federal Debt Total

observation_date	Total Debt	Weekly Change	4- Week Change
5/29/2020	\$ 25,746,260	232,939	797,277
6/5/2020	\$ 25,919,713	173,453	766,607
6/12/2020	\$ 26,062,414	142,701	756,803
6/19/2020	\$ 26,240,743	178,329	727,422
6/26/2020	\$ 26,316,891	76,148	570,631
7/3/2020	\$ 26,447,922	131,031	528,209
7/10/2020	\$ 26,485,086	37,164	422,672
7/17/2020	\$ 26,532,365	47,279	291,622
7/24/2020	\$ 26,536,793	4,428	219,902
7/31/2020	\$ 26,524,953	(11,840)	77,031
8/7/2020	\$ 26,498,433	(26,520)	13,347
8/14/2020	\$ 26,508,740	10,307	(23,625)
8/21/2020	\$ 26,597,012	88,272	60,219
8/28/2020	\$ 26,636,913	39,901	111,960
9/4/2020	\$ 26,723,310	86,397	224,877
9/11/2020	\$ 26,710,879	(12,431)	202,139
9/18/2020	\$ 26,790,387	79,508	193,375
9/25/2020	\$ 26,810,898	20,511	173,985

Source: IRON Financial, Fed

### **High Yield Bonds**





# Opportunity

### **Understanding Losses**

- The more you lose, the more gains you need to break even
- First and foremost, limit losses wherever you can

If you lose	You need
10%	11.1%
25%	33.3%
50%	100%
60%	150%
80%	400%

### **Diversification, Diversification, Diversification!**

Diversification does help when stocks tumble!



March 24, 2000 – October 09, 2002

### Bear Markets S&P 500 vs. Bonds

	First Gulf War	Russian Financial Crisis	Internet Bubble	Financial Crisis	Euro Crisis	Covid Meltdown
Name	Return 1990-07-15	Return 1998-07-19	Return 2000-03-26	Return 2007-10-28	Return 2011-05-01	Return 2020-02-16
	to 1990-09-22 USD	to 1998-10-03 USD	to 2002-10-05 USD	to 2009-03-21 USD	to 2011-10-01 USD	to 2020-03-21 USD
S&P 500 TR USD(1936)	-14.60	-15.22	-45.79	-48.15	-16.26	-31.66
FTSE USBIG Treasury 10+ Yr	-3.27	7.90	40.19	18.53	26.64	6.79
EDV ETF						9.45%
ZROZ ETF						10.84%

Source: IRON Financial, Morningstar

### **Diversification, Diversification, Diversification!**

What about Year to date?



- Vanguard Extended Duration Trs ETF Price % Change
- SPDR® Gold Shares Price % Change



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