



# STUDENT OF THE MARKET

## NOVEMBER 2020

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# Student of the Market

November 2020

**Stock market  
seasonality**

**Long-term  
stock returns**

**U.S. stock  
sectors and  
presidents**

**International  
stock vs. U.S.  
stocks**

**Bonds and  
record-low  
interest  
rates**

**Interest rate  
risk and bond  
funds**

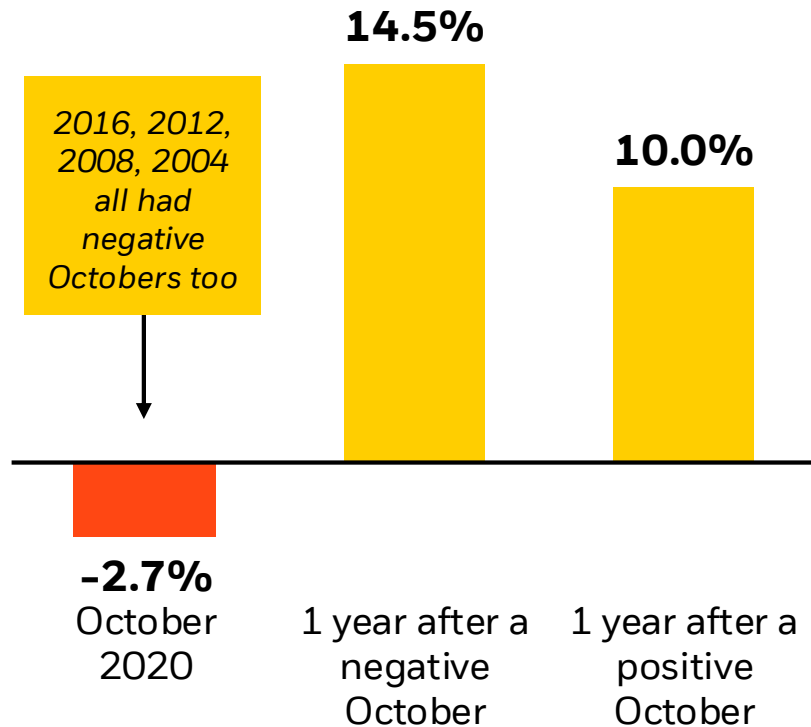
**Diversification  
can feel  
disappointing**

Source: Morningstar as of 10/31/20. Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

# Is a negative October good for stocks?

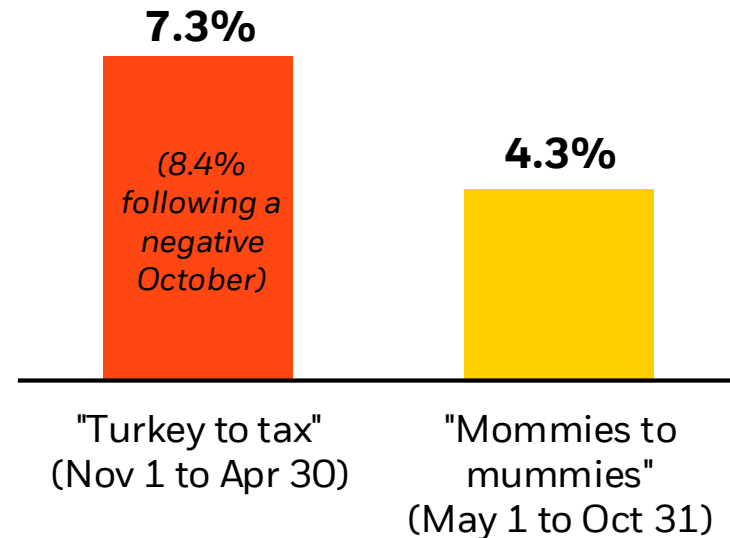
## U.S. stock market performance

Average return, 1/1/26 – 10/31/20



## Seasonal U.S. stock market performance

Average return, 1/1/26 – 10/31/20

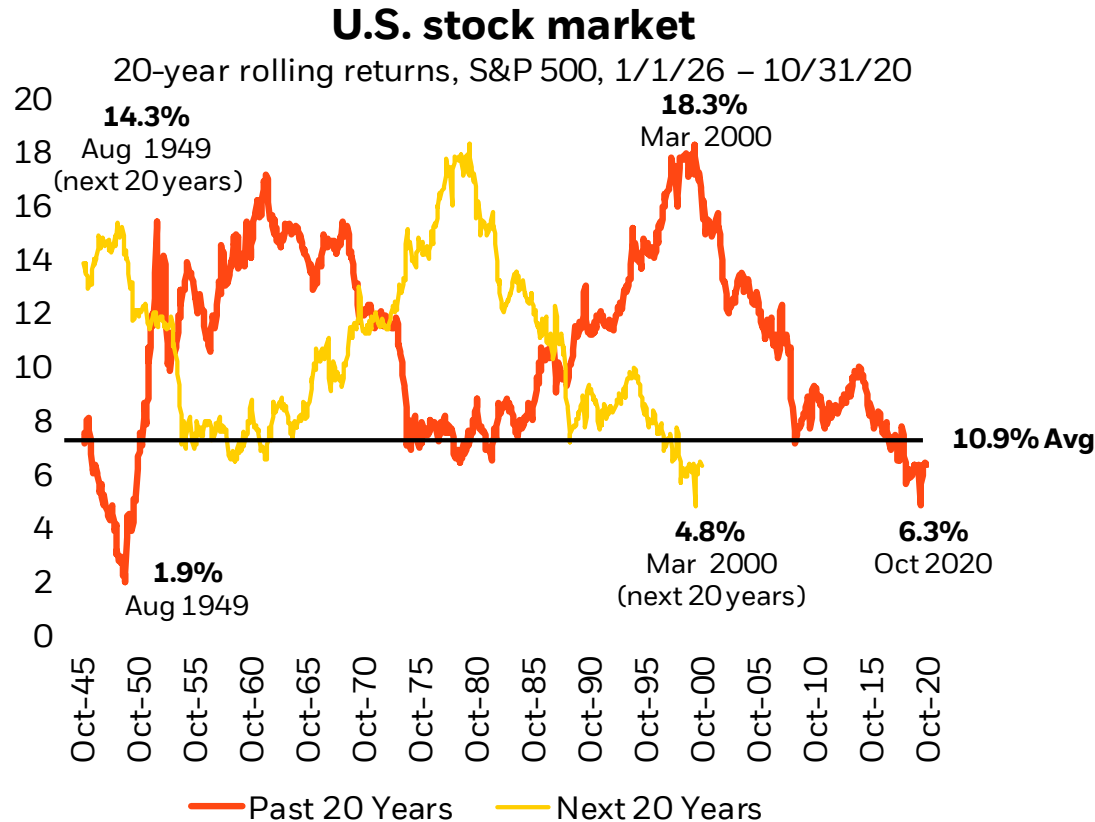


Source: Morningstar as of 10/31/20. Stock market represented by the S&P 500 Index from 1/1/70 to 10/31/20 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

LONG TERM STOCK RETURNS

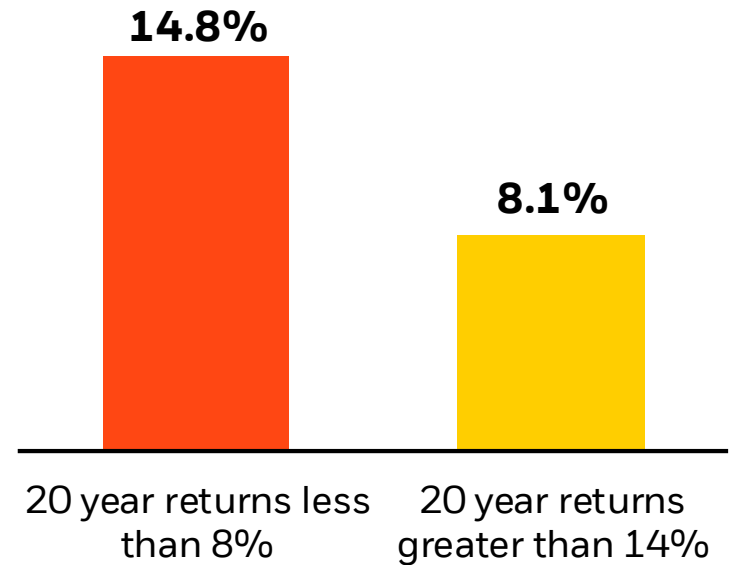
# Will low return expectations hold up?

Not based on stocks' historical 20-year return



### U.S. stock market performance following 20-year rolling returns

Average annualized return, 1/1/26 – 10/31/20



Source: Morningstar as of 10/31/20. Stock market represented by the S&P 500 Index from 1/1/70 to 9/30/20 and IASBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# U.S. stock sectors by President

## Sector performance

Average annual return for length of presidency, each sector of the S&P 500

Clinton	Bush	Obama	Trump
Tech 30.3%	Energy 9.9%	Consumer Disc. 18.6%	Technology 26.8%
Financials 22.4%	Materials 6.6%	Technology 16.4%	Consumer Disc. 18.6%
Healthcare 21.8%	Consumer Staples 4.2%	Healthcare 14.2%	Healthcare 12.7%
Industrials 18.5%	Utilities -0.1%	Consumer Staples 12.8%	Utilities 9.9%
Energy 16.0%	Industrials -1.0%	Industrials 12.7%	Materials 9.9%
Comm. Services 15.1%	Healthcare -2.2%	Real Estate 12.7%	Comm. Services 9.1%
Consumer Disc. 14.0%	Consumer Disc. -2.3%	Utilities 10.9%	Industrials 8.5%
Utilities 13.4%	Financials -4.4%	Materials 10.1%	Consumer Staples 7.4%
Consumer Staples 13.0%	Comm. Services -5.1%	Comm. Services 9.5%	Financials 6.8%
Materials 6.6%	Technology -8.7%	Financials 7.2%	Real Estate 6.5%
		Energy 5.0%	Energy -16.4%

The top 3 performing sectors have been the same under Obama and Trump

The worst performing sector has been the same under Obama and Trump

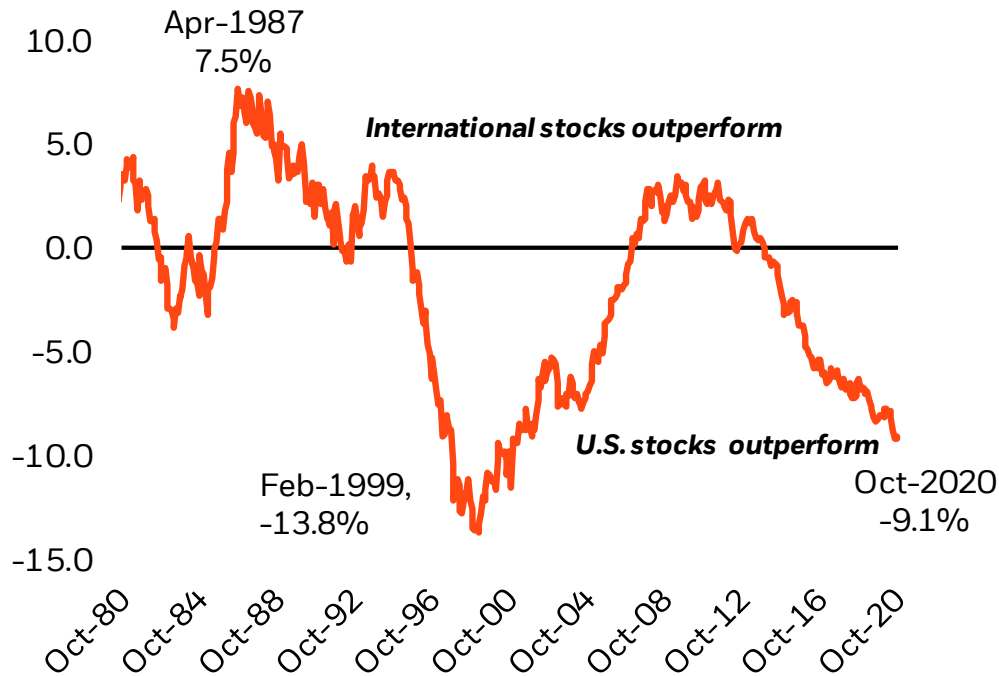
Source: Morningstar as of 10/31/20. Technology represented by the S&P 500 information technology sector index, Health care represented by the S&P 500 health care sector index, Financials represented by the S&P 500 financial sector index, Industrials represented by the S&P 500 industrial sector index, Materials represented by the S&P 500 materials sector index, Consumer discretionary represented by the S&P 500 consumer discretionary sector index, Communication services represented by the S&P 500 communication services sector index, Real estate represented by the S&P 500 real estate sector index and Consumer staples represented by the S&P 500 consumer staples sector index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index. Clinton period is from 11/4/1992 to 12/13/2000, Bush time period from 12/14/2004 to 11/4/2008, Obama time period from 11/5/2008 to 11/8/2016 and Trump time period from 11/9/2016 to 10/31/2020.

INTERNATIONAL STOCKS VS. U.S. STOCKS

# International versus U.S. stocks

## Outperformance of indices flips back and forth

International stock index returns minus U.S. stock index returns, 10-year average annual rolling returns, 1/1/80 – 10/31/20



**International outperforms  
after extended U.S. runs**

**2.2%**

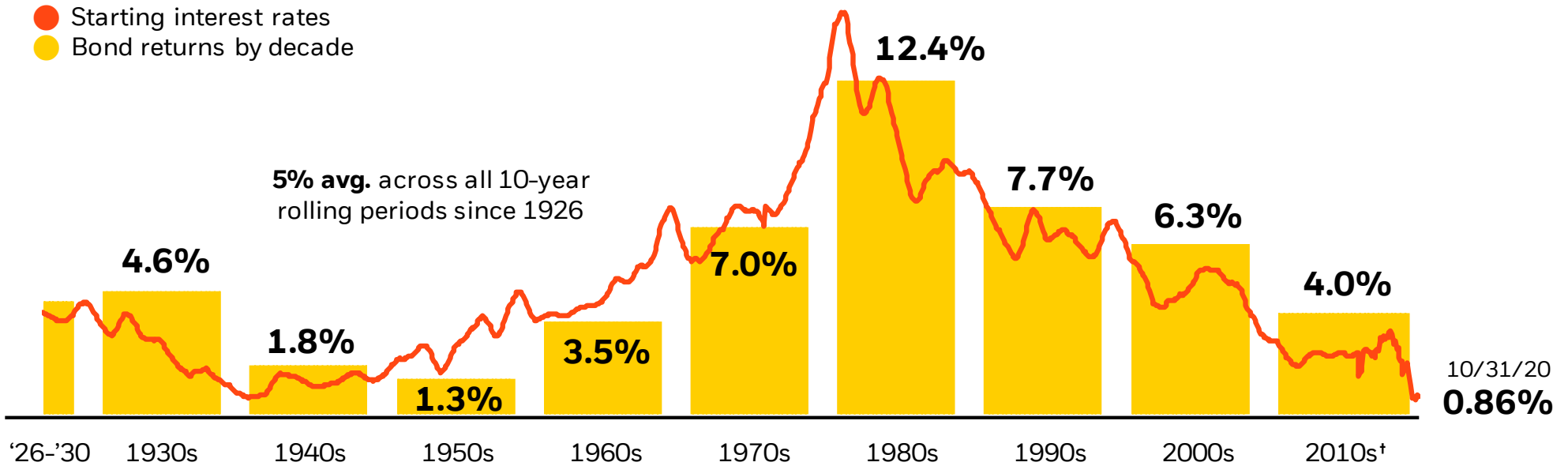
Average annual outperformance for international stocks over 10 years whenever U.S. stocks have outperformed by >8% for 10 years

Source: Morningstar as of 10/31/20. U.S. stock index represented by the IA SBBI U.S. Large stock index and international stocks represented by the MSCI EAFE NR USD index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Lower bond returns taking hold

Bonds on pace for the lowest returns since the 1960s

## U.S. bond returns follow interest rates (Avg. annual 10-year returns since 1926)

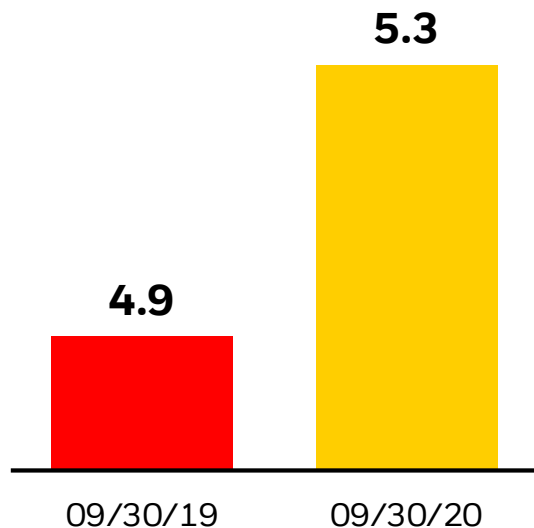


Source: Morningstar and U.S. Treasury as of 10/31/20. †Represents return decade-to-date (1/1/10 to 10/31/20). U.S. Bonds represented by the IA USIT Govt Tr Index before 1979 and by the BBgBarc US Agg Bond Index after 1979. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Bond fund interest rate risk creeps higher

## Asset weighted average duration

Last 12 months, all taxable fixed income mutual funds and ETFs



## Select fund categories with the biggest changes in duration

Last 12 months

	September 2019	September 2020	Duration Change
Nontraditional bond	1.3	3.7	+2.4
World bond	5.7	7.4	+1.7
Bank loans	0.3	0.8	+0.5
Short-Term bond	2.20	2.5	+0.3
Ultrashort bond	0.7	1.0	+0.3
Short Government	2.1	2.4	+0.3

Morningstar as of 9/30/20. Nontraditional bonds represented by the Morningstar nontraditional bond category, world bonds by the Morningstar world bond category, Bank loans represented by the Morningstar bank loan category, Short-term bonds represented by the short-term bond category, Ultrashort bonds represented by the Morningstar ultrashort bond category and Short government bonds represented by the Morningstar short government bond category. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.










DIVERSIFICATION CAN FEEL DISAPPOINTING

# A diversified portfolio can work even though it never feels good

Last 20 years

40% U.S. stocks, 10% international stocks, 5% small cap stocks, 5% emerging market stocks, 30% U.S. bonds, 10% high yield bonds

Years	S&P 500	Diversified Portfolio	
2000–2002 <sup>†</sup>	-18.4%	-6.8%	 "I lost money"
2003–2007	82.9%	80.1%	 "I didn't make as much"
2008	-37.0%	-24.0%	 "I lost money"
2009–2019	351.0%	195.9%	 "I didn't make as much"
2020 <sup>†</sup>	-30.4%	-20.7%	 "I lost money"
2020 <sup>‡</sup>	51.8%	30.0%	 "I didn't make as much"
<b>Total Return</b>	<b>247.1%</b>	<b>253.5%</b>	 "Diversification can work even when it feels like its losing"
<b>Gr \$100K</b>	<b>\$347,100</b>	<b>\$353,530</b>	

Source: Morningstar as of 9/30/20. <sup>†</sup>Performance is from 10/1/2000 to 12/31/02. <sup>\*\*</sup>Performance is from 1/1/20 to 3/23/20. <sup>‡</sup>Performance is from 3/24/20 to 9/30/20. Diversified Portfolio is represented by 40% S&P 500 Index, 10% MSCI EAFE Index, 5% Russell 2000 Index, 30% Bloomberg Barclays US Aggregate Bond Index, and 10% Bloomberg Barclays US Corporate High Yield Index, 5% FTSE Emerging Stock Index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Student of the Market: November 2020

Returns as of 10/31/2020	Total Ret 1 Year	Total Ret 5 Years	Total Ret 10 Years
BBqBarc US Agg Bond TR USD	6.19	4.08	3.55
BBqBarc US Corporate High Yield TR USD	3.49	6.32	6.25
FTSE Emerging TR USD	7.88	8.38	2.76
IA SBBI US IT Govt TR USD	7.70	3.95	2.89
IA SBBI US Large Stock TR USD Ext	9.71	11.71	13.01
MSCI EAFE NR USD	-6.86	2.85	3.82
S&P 500 TR USD	9.71	11.71	13.01
US Fund Bank Loan	-0.28	2.90	3.16
US Fund Nontraditional Bond	1.95	3.07	2.58
US Fund Short Government	3.00	1.62	1.18
US Fund Short-Term Bond	3.10	2.35	1.94
US Fund Ultrashort Bond	1.43	1.74	1.18
S&P 500 Sec/Information Technology TR USD	34.48	23.31	19.13
S&P 500 Sec/Commun Services TR USD	15.81	9.25	9.40
S&P 500 Sec/Financials TR USD	-14.65	6.35	9.45
S&P 500 Sec/Cons Disc TR USD	24.69	14.33	17.21
S&P 500 Sec/Health Care TR USD	10.06	9.39	14.73
S&P 500 Sec/Industrials TR USD	-1.20	8.60	11.13
S&P 500 Sec/Utilities TR USD	0.59	11.18	11.10
S&P 500 Sec/Cons Staples TR USD	4.91	7.56	11.12
S&P 500 Sec/Materials TR USD	11.27	9.20	8.64
S&P 500 Sec/Energy TR USD	-46.44	-12.43	-4.12
S&P 500 Sec/Real Estate TR USD	-10.27	5.75	9.67

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