

FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW THIRD QUARTER 2020

What Happened:

It was another solid quarter for the markets. The speed of the market recovery—the fastest and most robust in 80 years—has been breathtaking. Many investors are in disbelief. How can this be happening amid a pandemic? Have investors lost their minds?

Make no mistake, the pandemic is still affecting our lives and our businesses in profound ways. However, as we have said many times before, the market is forward looking. It sees beyond the pandemic to a stronger economy down the road. Of course, we realize that some sectors, such as technology, are better able to weather the coronavirus situation than other sectors, such as hotels and airlines. On balance, however, the market sees a future that looks brighter than today.

The Federal Reserve and Congress have provided trillions of dollars of financial assistance to American citizens and to small businesses in response to the pandemic. There is no question that these measures have helped. What's more, we are seeing many encouraging economic signs such as upticks in manufacturing activity and consumer spending. Also, hiring has picked up in many sectors. Employment overall is still behind pre-pandemic employment levels, but we're gaining ground.

As expected, the upcoming elections have thrown another layer of uncertainty into an already chaotic market environment. However, despite dire warnings from political pundits, history suggests that the market is not overly concerned with election outcomes. In fact, long-term investment performance does not favor either political party. Rather, other factors, such as corporate earnings growth, are much more significant to performance than political regimes. As investors, we should expect short-term volatility, but a prolonged downturn is not imminent based solely on election results.

Third Quarter 2020 Performance:

S&P 500 Index (large stocks)	8.9%
Russell 2000 Index (small stocks)	4.9%
MSCI EAFE Index (international stocks)	4.8%
Barclays U.S. Aggregate Bond Index (bonds)	0.6%

Prognosis:

The pandemic has created challenges that have truly tested us all. However, every challenge also presents opportunities. Brilliant and creative people will discover ways to make our lives richer than ever, in ways that we have never imagined.

In the meantime, the race for a Covid-19 vaccine is nearing the final stages of testing. With luck, vaccines will start to become available in the coming months which will bring us closer to resuming our normal lives. The market is a barometer of the future and it is telling us that brighter days are ahead.

Stay patient. Stay safe. Think long-term.

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