MARKET AND ECONOMIC
REVIEW & OUTLOOK

AN UPDATE FROM THE ADVISORS AT GASKIN ASSET MANAGEMENT ***CHARLOTTE, NORTH CAROLINA***

The following letter was written for you by the undersigned. The opinions expressed are those of your advisors at Gaskin Asset Management and do not necessarily reflect the opinions of Raymond James or its affiliates. We know this is a long letter, but we hope you will invest five minutes in reading it. Thank you.

What a year this has been for all of us. We began 2020 with the impeachment trial of our nation's president, followed by the shock of the coronavirus pandemic, and a global economic shutdown which sparked the deepest (and possibly shortest) recession we have seen in postwar U.S. history. Naturally, a bear market ensued which was then followed by an immediate bull market (not natural). We also lost RBG only to be quickly replaced by ACB. Oh, and we have an election in just a few days. It seems that nothing is "normal" or predictable this year. Anything is possible in 2020. So, we hold our breath and await the election results, a COVID-19 vaccine, and whatever 2021 might bring.

While no one can possibly predict with certainty how the rest of this year or next year will play out for the economy and the financial markets, there are still guideposts we can look to for direction. We have been endeavoring to do just that throughout the volatility of this year and we remain focused on what we do know and what we can do in the midst of so much uncertainly.

While the S&P 500* is up 8.88% year to date, this has not been a good year for all stocks[i]. As of October 23, 2020, the S&P 500 Information Technology sector is up 30.56% and the Communication Services sector is up 13.95% while the Energy sector is down -47.46% and the Financial sector is down -16.27%. The market's performance has become increasingly concentrated over the last several years. According to Goldman Sachs Asset Management, the top five companies in the S&P 500 are up 35% year-to-date as of September 30, 2020 while the remaining 495 companies are down -3% on average over the same timeframe[ii].

Source: Bloomberg and GSAM as of September 30, 2020. Chart shows the year to date performance of the S&P 500 Index, the 5 largest companies in the S&P 500 on a market capitalization weighted basis (Apple, Microsoft, Amazon, Facebook, and Alphabet) and the rest of the index. Past performance does not guarantee future results, which may vary.

The nationwide shutdown of "non-essential" businesses has produced significant and sometimes surprising effects. Historically, recessions have led to a reduction in household spending on discretionary purchases such as televisions, motorcycles, and cars. However, with many workers working from home and the financial fuel of the CARES Act[iii], many individuals and families have reallocated dollars from travel and dining-out to household purchases, home entertainment, and remodeling projects. According to First Trust Advisors Chief Economist Brian Wesbury, car and light truck sales rose at a 246% annualized rate in the 3rd quarter.[iv] Wesbury also notes that retail sales beyond the auto sector grew at an annualized rate of 49.8%. This supply –

demand imbalance has resulted in increased valuations for discretionary stocks as seen in the 27.72% gain YTD for the S&P 500 Consumer Discretionary sector as of October 23, 2020.

We are lifelong students of the financial markets. Consequently, we spend a good portion of our time simply observing market movements with the objective of determining current trends while projecting future directions. This year has presented us with much to consider. High-flyers such as Tesla Inc. are trading like it's 1999 in our judgement. Tesla's price recently traded at a price to earnings (P/E) ratio of 1,095. Put simply, Tesla is earning roughly 38 cents per share while recently priced at $416[v]. Electric cars may very well be our future and Tesla may lead the way. Nevertheless, we believe it is too expensive for our taste. There are quite a few other stocks that are over-priced by our metrics.

Another important observation we have made this year is the performance divergence of growth stocks from value stocks. Growth Stocks[vi] are typically those companies which grow their earnings at a rate faster than the overall market on average. They tend to trade at higher than average price to earnings (P/E) multiples and typically do not pay dividends. By contrast, Value Stocks[vii] tend to trade at lower P/E multiples and usually pay dividends. Technology companies are generally considered to be growth stocks while banks & utilities are examples of value stocks.

The Russell 1000 Value & Growth indices** are often used as proxies for the performance of U.S. growth & value stocks. As of October 23, 2020, the Russell 1000 Value Index is down -7.68% YTD while the Russell 1000 Growth Index is up +27.62% YTD[viii]. The 35.3% spread between U.S. large cap value & growth stocks is the largest we have seen in our careers. According to Jason Zweig of *The Wall Street Journal*., this represents the largest spread recorded since the 26% margin in 1999 which was followed by the dot-com bust of 2000[ix]. As market observers and participants, we believe the spread in valuations between U.S. growth & value stocks may very well present an opportunity going into 2021 as we push through the pandemic and into a new year. We cannot know for certain when the pendulum will swing in favor of value stocks over growth. However, we interpret the current market conditions and valuation levels as an opportunity to begin reducing growth stock allocations in favor of value stocks.

We believe that investors should always carefully consider their portfolio allocations for not only growth and income potential but also price volatility. Regardless of the outcome of the election, we believe volatility will be with us for the foreseeable future. In our judgement, this is an appropriate time for investors to evaluate the risk exposure they may have to changes in interest rates and economic conditions, as well as U.S. fiscal & monetary policy.

We welcome the opportunity to review these general issues and any personal matters that might be on your mind. Best wishes for you and your family as we approach the holiday season and the end of this crazy year!

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Investments mentioned may not be suitable for all investors.

Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations.

*S&P 500 Index – [a registered trademark of the McGraw Hill Companies] is an unmanaged index of common stocks representing 500 industrial, utility, transportation and financial companies of the US markets (mostly NYSE issues).

**The Russell 1000 measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the investible U.S. equity market. The Russell 1000 is highly correlated with the S&P 500 and is reconstituted annually on May 31.

The Russell 1000 Value Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and lower forecasted growth values.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Sector Investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Investing in the energy sector involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for investors. The companies engaged in the communications and technology industries are subject to fierce competition and their products and services may be subject to rapid obsolescence.

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[i] Source: Morningstar, Raymond James "Weekly Market Flash", October 16, 2020
[ii] "Concentrating on Market Concentration", Goldman Sachs Asset Management, September 30, 2020
[iii] https://home.treasury.gov/policy-issues/cares
[iv] Wesbury, Brian, "GDP Soars in Third Quarter", First Trust Advisors, October 19, 2020
[v] https://www.marketwatch.com/investing/stock/tsla
[vi] https://www.investopedia.com/terms/g/growthstock.asp
[vii] https://www.investopedia.com/value-stocks-4689740
[viii] Source: Morningstar, Raymond James "Weekly Market Flash", October 16, 2020
[ix] Zweig, Jason, "Our Performance Sucks. Here's Your $10 Billion Back", The Wall Street Journal. October 23, 2020, p.B5