

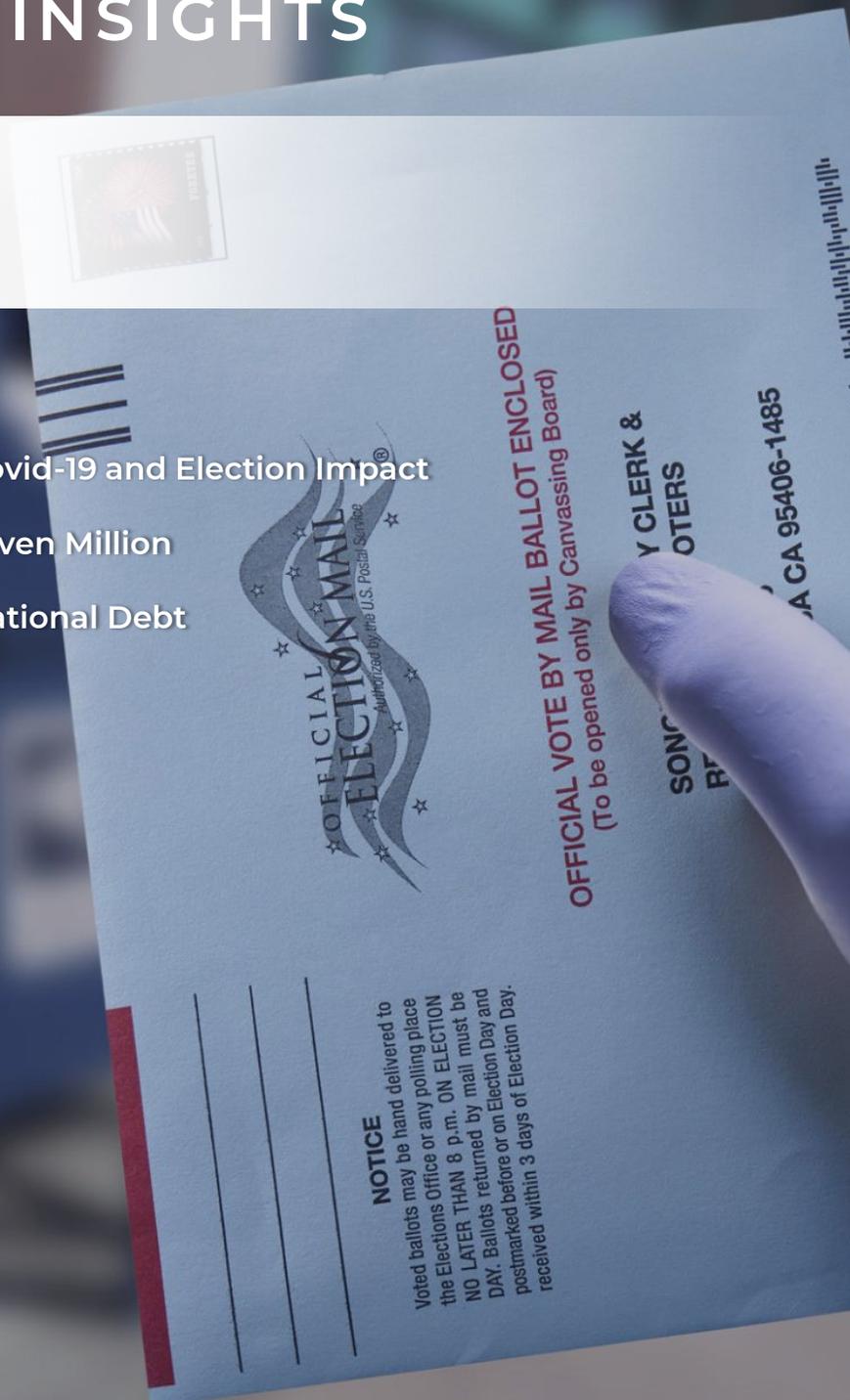


# INVESTMENT INSIGHTS

THIRD QUARTER 2020

## Key Topics

- ◆ Investors Discount Risk of Covid-19 and Election Impact
- ◆ U.S. Covid-19 Cases Reach Seven Million
- ◆ Deficit Spending Balloons National Debt



### NOTICE

Voted ballots may be hand delivered to the Elections Office or any polling place NO LATER THAN 8 p.m. ON ELECTION DAY. Ballots returned by mail must be postmarked before or on Election Day and received within 3 days of Election Day.

**OFFICIAL VOTE BY MAIL BALLOT ENCLOSED**  
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## Investors Discount Risk of Covid-19 and Election Impact

Average new daily Covid-19 cases leveled off in September at 41,000 per day after hitting a peak of 75,000 cases on July 16<sup>th</sup>. Safety precautions such as social distancing, wearing masks and other behavioral adaptations appear to be effective in reducing the virus’s spread. With the knowledge that the virus can be somewhat contained and several promising vaccines in phase-3 trials, the stock market has shown optimism that economic activity will continue its upward trajectory with a return to normalcy on the horizon. Health professionals anticipate spikes in new cases this winter, but it appears that prudent safety measures will prevent another shutdown of the U.S. economy.

Large company stocks rose 16.8% to new all-time highs earlier in the third quarter before declining 7.5% to end the quarter with an 8.9% gain. The S&P 500 declined by 3.7% in September, breaking a streak of five consecutive positive months. Small company and international stocks trailed large U.S. companies while achieving gains of 4.9% and 6.3%, respectively. Real estate stocks again lagged other asset classes and rose by just 1.6%. Bonds were flat this quarter and gained 0.6%.

As the election approaches, investors will increasingly focus on who will hold the presidency and which party will control the Senate. While the outcome will shape the U.S. far beyond the next four years, the party controlling the government usually has limited impact over long-term investment returns. Furthermore, the election likely will not change individual investor goals or the optimal investment plan to achieve these goals. While political rhetoric may instill a desire to make investment changes, the best path is typically to follow one’s long-term investment plan.

## Comparative Returns

	Annualized Performance					
	Q3 2020	YTD	1 Year	3 Years	5 Years	10 Years
Large Cap U.S. Stocks <sup>1</sup>	8.9%	5.6%	15.1%	12.3%	14.1%	13.7%
Small Cap U.S. Stocks <sup>2</sup>	4.9%	(8.7%)	0.4%	1.8%	8.0%	9.9%
International Stocks <sup>3</sup>	6.3%	(5.4%)	3.0%	1.2%	6.2%	4.0%
Real Estate <sup>4</sup>	1.6%	(17.1%)	(17.8%)	0.3%	4.0%	7.9%
U.S. Bonds <sup>5</sup>	0.6%	6.8%	7.0%	5.2%	4.2%	3.6%

<sup>1</sup> S&P 500 index, which includes 500 of the largest U.S. companies in all sectors of the economy

<sup>2</sup> Russell 2000, which includes the 2000 smaller stocks of the Russell 3000 index

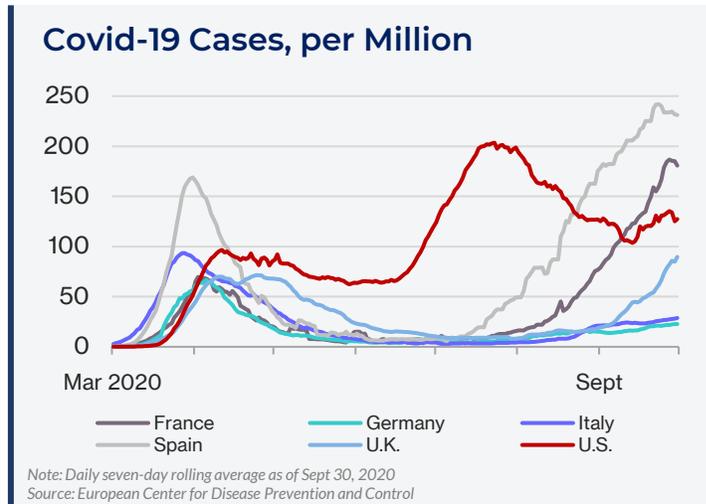
<sup>3</sup> MSCI ACWI ex-U.S. index, which includes large and mid-capitalization stocks from developed and emerging international markets

<sup>4</sup> MSCI U.S. REIT index, which includes domestic publicly traded real estate stocks

<sup>5</sup> Bloomberg Barclays Aggregate Bond index, which includes a representation of the performance of the entire U.S. investment grade bond market

## U.S. Covid-19 Cases Reach Seven Million

Total new U.S. infections hit one million in September as schools reopened and more people returned to work. Several European countries have experienced a resurgence in infections per million people, which may lead to renewed lockdowns and further economic loss. In Spain and France, new cases per million far exceed prior peak infection rates reached in the spring.



A number of promising phase-3 vaccine trials are underway and show progress. Although these are positive developments that bring hope, it is far from certain when a safe and durable vaccine will be ready for broad distribution. Many experts believe it could still be up to a year away.

This risk of rising cases is particularly concerning to older Americans. The mortality rates by age group for Covid-19 according to the CDC are as follows in the U.S.

## U.S. Covid-19 Mortality Rates by Age

18-29: 0.1% 30-39: 0.2% 40-49: 0.6% 50-64: 2.2% 65-74: 8.0% 75-84: 17.5% 85+: 28.3%

## Deficit Spending Balloons National Debt

The lockdown recession and new government spending programs increased the 2020 federal budget deficit to a record \$3.3 trillion. This negative shortfall between taxes and spending pushed the national debt held by the public to \$21 trillion. While excessive debt is suboptimal, deficit spending can be beneficial during recessions and times of economic stress to maintain productivity and national output, which is precisely why the stimulus bill was passed this year.

Since countries vary in size, the magnitude of a country's debt is less important than its ratio of debt to Gross Domestic Product (GDP), which helps determine creditworthiness. This ratio for the U.S. has risen dramatically since 2007 from just 35% of GDP to almost 100% today. While the U.S. ratio compares favorably to a country such as Japan (248%), our recent deficit expansion is clearly unsustainable long-term. While markets today remain unconcerned, it is an important metric for investors to monitor.

## U.S. Public Debt Held as a Share of GDP



Source: Congressional Budget Office as of Sept 2020



## ABOUT US

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