

Market summary

The S&P 500 Index has shown admirable resilience since the virus-related bottom in March, but much of the index's returns have come from just a handful of companies. In fact, the top five companies in the S&P 500 now make up 23% of the index's total value compared to only 12% just three years ago. This concentration amongst the largest companies masks the struggles of many smaller companies. While the S&P 500 is up 5.6% year-to-date through September, the median stock in the S&P 500 index is down almost 3.5% with small cap and non-U.S. stocks also still in the red for 2020. We believe this divergence provides opportunities for contrarian investors.

We expect continued volatility in the near-term. Significant uncertainty remains around the outcome of upcoming elections and the impact, if any, those elections will have on important economic drivers like tax rates and global trade relations. Ongoing negotiations for additional fiscal relief may also swing investor sentiment on a day-to-day, or even hour-by-hour basis.

Further, the Covid-19 virus remains a threat to the economy. For that reason, we emphasize the importance of a long-term perspective and reliance on fundamentals and valuation, rather than news headlines that create short-term volatility.

Equities

Equities continued their rebound during the third quarter of 2020. The S&P 500 returned 8.9% for the past quarter, even after declining 3.8% in September. Large growth stocks continued to lead the way, with the Russell 1000 Growth Index returning 13.2% compared to 5.6% for the Russell 1000 Value Index.

Small and mid-sized companies also posted positive returns last quarter, though continue to lag the larger-company S&P 500. The Russell 2000 Index of smaller companies returned 4.9% and the Russell Mid-Cap Index returned 7.5% over the last three months. Almost every sector posted positive returns last quarter, except for the struggling energy sector which declined another 19.5%.

Non-U.S. companies also held their own during the quarter with the MSCI EAFE Index up 4.8%. The MSCI Emerging Market Index returned 9.6% during the quarter, led in large part by China, which makes up 40% of that index. The MSCI China Index generated a 12.5% return last quarter.

Fixed Income

Most interest rates nudged slightly lower during the quarter, leading to modest gains for fixed income asset classes. The Federal Reserve recently implied a willingness to let inflation run above its 2% target, suggesting that rates could remain low for quite some time.

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As a result, short-term Treasury rates declined anywhere from 0.03% to 0.05%, while longer-term 30-year Treasury rates increased 0.04% to 1.45% at the end of the quarter. The Bloomberg Barclays U.S. Aggregate Bond Index returned 0.6% over the past three months.

Corporate bonds also held up well during the quarter, supported by the ongoing economic recovery. Investment grade bonds, measured by the Bloomberg Barclays U.S. Corporate Bond Index returned 1.5% last quarter, while Bloomberg's index of high yield bonds returned 4.6%.

Commodities

The Bloomberg Commodity Index gained 9.1% during the third quarter of 2020. Gold prices also continued their upward climb with the Dow Jones Commodity Gold Index returning 3.6%. Investors have flocked to gold bullion over the past twelve months due in large part to economic uncertainty and to hedge inflation risk that may arise due to massive global monetary stimulus. Oil prices were volatile during the quarter, but ended the three-month period flat around \$40 per barrel of West Texas Intermediate crude oil.

Important Information:

The Standard & Poor's 500 Index, often abbreviated as S&P 500, is an American stock exchange market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices.

The Russell 1000 Growth Index is a broadly diversified index predominantly made up of growth stocks of large U.S. companies.

The Russell 1000 Value Index is a broadly diversified index predominantly made up of value stocks of large U.S. companies.

The Russell 2000 Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. The index is maintained by FTSE Russell, a subsidiary of the London Stock Exchange Group.

The Russell Microcap Index measures the performance of the microcap segment of the U.S. equity market. It includes 1,000 of the smallest securities in the Russell 2000 Index based on a combination of their market cap and current index membership and it also includes up to the next 1,000 stocks.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.

The MSCI Emerging Markets Index is an index designed to measure equity market performance in global emerging markets.

The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

About Mesirow

Mesirow is an independent, employee-owned financial services firm founded in 1937. Headquartered in Chicago, with locations around the world, we serve clients through a personal, custom approach to reaching financial goals and acting as a force for social good.¹ With capabilities spanning Global Investment Management, Capital Markets & Investment Banking, and Advisory Services, we invest in what matters: our clients, our communities and our workplace culture.

The Bank of America Merrill Lynch High Yield Bond Index tracks the performance of below-investment-grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

The LBMA Gold Price Index is the global benchmark for unallocated gold and silver delivered in London.

The West Texas Intermediate (WTI) oil, also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content.

Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements.

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