JOHNSON
INVESTMENT COUNSEL

Quarterly Insight

MARKET UPDATE

2020: THIRD QUARTER

STOCKS RISE DESPITE MAJOR HEADWINDS

Back in March when stocks had fallen 35% in a matter of weeks, the near future looked bleak. With a worldwide shutdown in process and much of the economy at a standstill, it would have been hard to believe the best two-quarter gains in years were just ahead. This year is a reminder that life and markets are always unpredictable, and sometimes market behavior seems out of sync with current events.

The massive second-quarter rally was followed by additional gains in July and August, before a pullback in September pared those gains somewhat. The S&P 500 and NASDAQ both set new records during the quarter, even as uncertainty about the coronavirus continued and the election drew closer. The Nasdaq Composite has gained 45% over the past two quarters, its biggest gain since 2000. The S&P 500 gained 26% during that stretch. Smaller cap stocks and international stocks continue to lag their larger U.S. peers. Interest rates have remained low amidst the turmoil, driving solid year-to-date bond market returns.

REOPENING DRIVES GAINS, ALONG WITH STIMULUS

Stocks had been rebounding even before the shutdown restrictions began to ease, but as that process gained steam it drove further gains. The Fed and Congress also poured on stimulus, providing further fuel. The Fed provided guidance that it would leave benchmark interest rates at historically low levels for as long as necessary to support the recovery. Meanwhile, discussions in Washington continue about further stimulus packages, adding to the trillions of dollars that have already been distributed out into the economy. This has propped up wage earners who lost their jobs or were furloughed, which in turn supported consumer spending. As stimulus wanes, this could leave those still unemployed in a difficult position. The labor market has gradually healed, but there is a long way to go before the employment picture is as strong as it was before the virus struck.

It was never in doubt that the economy would eventually resume growing from the depths of recession. The question was at what speed. The virus and subsequent lockdowns created winners and losers between industries. It's been particularly painful for smaller businesses dependent on physical presence and interaction. It remains unclear how long and how deeply the virus will impact these varying pockets in the months and years ahead. The government's deluge of support may have provided a patch in the short term, but the pandemic's impact will reverberate for years to come. The ongoing recovery will be uneven across industries, likely with fits and starts along the way.

WINNERS AND LOSERS

The disparity of the virus impact played a role in market dynamics in the third quarter. Technology and consumer discretionary stocks remain far and away the big winners. This is true not only in 2020 but in the bull market of the past decade plus.

FEATURING

TOTAL RETURNS

	3Q 2020	2020
S&P 500	8.9%	5.6%
Dow Jones Industrial Average	8.2%	-0.9%
NASDAQ	11.2%	25.3%
Russell 2000	4.9%	-8.7%
MSCI EAFE (International)	4.9%	-6.7%
Barclays Aggregate Bond Index	0.6%	6.8%

» WEALTH MANAGEMENT

» FAMILY OFFICE SERVICES

» TRUST COMPANY

» ASSET MANAGEMENT

The pandemic has created a shortage of available housing, leading to strength for homebuilders and home-improvement businesses. Meanwhile, energy and financial stocks have suffered badly. The travel industry has been decimated, while companies with e-commerce and work-from-home exposure have thrived. However, in the final weeks of September there were some shifts in the landscape, as some companies that could benefit from a longer-term recovery outperformed. The shifting sands can be attributed to the ongoing uncertainty about the path of the recovery and the impact of the virus, both extremely difficult outcomes to predict.

FINAL MONTHS OF 2020 PROMISE TO BE INTERESTING

The fourth quarter is likely to be volatile. No one knows how the virus will behave as the colder months approach. There are several vaccines in the works, some even in their final stages of approval. However, it's hard to know how quickly the public will have access, and even more difficult to predict how many will be vaccinated. This likely means the virus will remain an overhang on stocks well into 2021.

The November election is just days away, with polling data inconclusive. With the surprise outcome of 2016 fresh on voters' minds, few are willing to predict the outcome with any degree of confidence. Worse, there is concern that the outcome would be less than clear, leading to a court battle to decide the winner. And disputes about mail-in ballots and the legitimacy of the election outcome undermine public confidence, and consequently investor confidence.

The strength of the rally over the last six months leaves stock indexes near record highs. This means the stock market is priced for good news. It's never surprising to see market corrections, especially amid a global pandemic and a contentious election. Still, uncertainty is nothing new, and there are plenty of instances of the economy and markets climbing a "wall of worry" in years past.

STAYING FOCUSED AMID UNCERTAINTY

Even and especially when the world around us feels out of control, it is wise for all of us to focus on what we know and what we can control. This is certainly the case when it comes to investing. In times of crisis and uncertainty, adherence to time-tested principles is more important than ever. Long-term success depends on the ability to stay disciplined by maintaining proper asset allocation, rebalancing when appropriate, and investing with an emphasis on quality.

ELECTIONS AND MARKETS

ELECTIONS AND MARKETS LOOKING BACK AND LOOKING FORWARD

We are just days away from another consequential election, and the volume of related news is reaching a fever pitch. The latest polling data, every speech, debate, town hall and tweet is instantaneously communicated to our ubiquitous screens. While this election is unique for many reasons, no election in history has occurred in the context of the speed, magnitude, and hyperbole associated with our exposure to so much information. This dynamic, we fear, has provoked so many toward a myopia that this election is by far the most consequential of our nation's 244-year history. So let's take a step back from the pinging devices and take a deeper look into what history can teach us about our investment and wealth-building strategies moving forward.

THE MOST IMPORTANT ELECTION...EVER?

Voters on both sides of the ideological aisle are claiming 2020 will be a tipping point for the future of our nation. This is certainly an important election, as they all are. And there are important issues at stake. But history is full of examples of elections that, at least in hindsight, made a lasting impact.

For example, when Jefferson was elected in 1800, there had not yet been a transfer of the presidency between political parties. Many scholars say this was the most important election not only in the history of the United States, but maybe the modern world. This set the precedent of peaceful transfer of power between parties we have enjoyed for over two centuries.

In 1828, a "westerner" from Tennessee named Andrew Jackson finally broke through to win the White House, demonstrating for the first time that a person not born of privilege could realistically set their sights on the nation's highest office and win, as remains the case today.

And who knows what would have happened if Abraham Lincoln wasn't elected in 1860 or 1864?

We could go on with many more examples. An enormous amount of ink has been spilled analyzing the impact of the elections of presidents (and defeats of would-be presidents). But the only sense in which we know this is the most important election ever is that it's happening now. This doesn't guarantee it will be the most impactful on the economy or the markets.

ELECTIONS AND MARKETS - LOOKING BACK AND LOOKING FORWARD

HISTORY IS FULL OF CHALLENGES AND SURPRISES

Reminding ourselves that political turmoil is not unique to today is critical to understanding the nature of investing moving forward. Indeed, one could argue today's environment is less intimidating than those investors of the past had to endure. Think of investors in the 1930s and 1940s, navigating a Depression and a World War. Or more recently, investing in the days after 9/11. In both cases, investors were better off staying the course by remaining invested. Historical context is a crucial perspective and can often act as a mental ballast against knee-jerk, fear driven and often irrevocable financial decisions that are usually misguided.

IS NEAR-TERM VOLATILITY INEVITABLE?

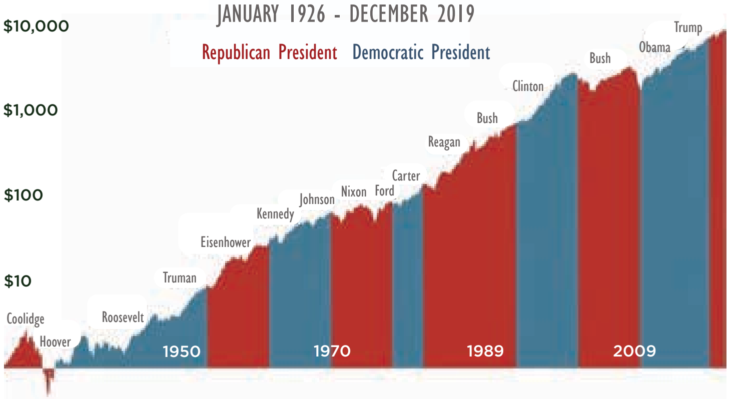
In today's 24-hour news cycle it can be so easy to fall victim to the impression that markets are always more volatile around elections and the best move is to aggressively sell stocks before sharp losses ensue. But recent studies have shown that returns have been higher and volatility roughly the same in election years compared to other years. Attempts to front-run volatility by timing in and out of markets is extremely risky, and rarely yields any benefit. In some cases it has led to disastrous mistakes that take years to overcome.

THE FOLLY OF INVESTING BASED ON POLITICS

Short-term market timing solely based on elections isn't wise – but what about over the long term? What about the idea that "it's different this time" and that if our preferred candidates do not get elected, our portfolios will realize sharp declines?

Again, applying this mindset has been a wealth-destroying strategy that could have detrimental effects on the ability to attain financial goals. As shown in the chart immediately below, if a person invested based on whether their preferred political party occupied the White House, they would have robbed themselves of the resources to reach their financial goals.

GROWTH OF A DOLLAR INVESTED IN THE S&P 500
JANUARY 1926 - DECEMBER 2019



In addition, it appears markets seem to appreciate the limitations that result from opposing parties in the White House and Congress. In fact, since 1933, the highest returns for the S&P 500 among all "mixes" of the House of Representatives, the Senate, and the White house have been realized with a conflicting House and Senate. When this occurs, the S&P 500 has averaged a return of 13.5% annually.

WHAT'S DIFFERENT THIS TIME... AND WHAT'S THE SAME?

While these history lessons may provide some comfort, we view them as guides, not rules, for the future. In working with our clients, we still critically analyze new policies and how they impact investment portfolios and our wealth planning strategies. Accordingly, we remain steadfast in our commitment to analyzing today's crosscurrents to the markets and the economy including:

1) Potential changes to income tax, corporate tax, and estate tax law

2) The impact of government spending and stimulus from either party

3) Federal Reserve policy with respect to accommodative interest rates

4) Federal, state, and local governments reactions to coronavirus-related policies

5) The timing and impact of a coronavirus vaccine

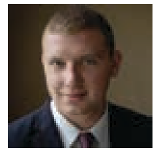
The potential impact of these and other policies span the spectrum of investing, tax planning, estate planning and retirement cash flow planning, all of which must be considered when constructing a cohesive plan.

But while all of today's factors will be in tomorrow's history books, we know that over time a well-researched and balanced portfolio has successfully served as the growth engine for our clients achieving their goals. Over many decades, maintaining a healthy balance of growth-generating stocks and loss-buffering bonds has served our clients well.

So while we keep a sharp eye on this coming election, the potential changes to government policies and market impacts, we view our investment and wealth planning counsel through the lens of history. And we remain confident in the wisdom of planning for the long term.

PROMOTIONS

We are pleased to announce that these individuals have been promoted to new positions:


Morrissey

> **Bradley P. Morrissey**
> Credit Analyst

NEW DESIGNATIONS

Johnson is committed to continuing education to provide personal development for our employees and better service to our clients. Congratulations to Portfolio Manager Assistant, Joseph Carlo, CFP®, and Associate Portfolio Manager, Laura Mattern, CFA, CFP®, who have earned their Certified Financial Planner® designations. Senior Trust Associate, Leah Quortrup, CTFA, has earned her Certified Trust and Financial Advisor designation, and Managing Director, Jay Wertz, CFP®, CAP® has earned the Chartered Advisor in Philanthropy designation.


Carlo


Mattern


Quortrup


Wertz

LEADERSHIP RECOGNITION

Brian Butt, CFA, has been selected as a member of the Cincinnati Business Courier's 2020 Forty Under 40 class. This annual award recognizes the next generation of leaders in Greater Cincinnati who are establishing successful careers while also giving back to their communities.

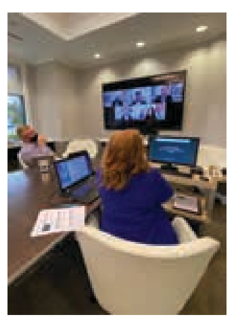

Butt

JIC Director of Marketing, Jamie Horn, has been selected as a member of the Cincinnati USA Regional Chamber 2020 WE Lead class. WE Lead is a 10-month executive leadership development program for high-potential, goal-oriented women who are preparing for the next level of their career.


Horn

COVID RESTRICTIONS USHER IN NEW TECHNOLOGY

In October, JIC hosted our first-ever Virtual Wealth Management Forum. Our panel of speakers shared economic and market updates, a discussion on wealth and estate planning, as well as a brief review of the upcoming election and its potential impact on the markets. Our IT and Marketing Departments coordinated the technology for a seamless presentation to more than 700 registered attendees. While we look forward to a return to in-person events, we are thankful for the ability to connect with clients virtually. View the presentation on the "Perspective" page of our website.



NEW ADDITIONS TO THE TEAM

> **Karen S. Byrd**
> Client Support Assistant

> **Steven E. Horn**
> Facilities & Office Services

> **Alexander M. Wertz**
> Portfolio Manager Assistant

If you are a client of Johnson Investment Counsel, you should receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains your assets. You are urged to carefully review all custodial statements for accuracy. If you are not receiving custodial statements, please contact our Chief Compliance Officer, Scott Bischoff at (513) 661-3100.

JOHNSON
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ABOUT US

Johnson Investment Counsel, Inc. is one of Ohio's largest independent wealth management firms, managing over $12.9 billion in assets. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-based, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs, and more. Johnson Investment Counsel has built strong, long-term relationships with individuals, families, charitable organizations, foundations, and corporations through four integrated divisions.

- WEALTH MANAGEMENT
- FAMILY OFFICE SERVICES
- TRUST COMPANY
- ASSET MANAGEMENT

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