



Outlook and Opportunities

## The Investment Puzzle: Putting the Pieces Together

September 30, 2020 10:00 am

This seminar is being  
presented as a webinar

Like a jigsaw puzzle, economic conditions, corporate performance, the international backdrop and your investment decisions fit together to form a larger picture. But it can be hard to see a pattern among the various pieces of our investment outlook.

We'll look at these key questions facing investors today:

When will the economy recover from the downturn caused by COVID-19?

Will interest rates go lower or even negative?

How will the economic downturn affect the equity market?

Will global markets keep underperforming?

What impact will politics have on the markets?

What are the risks to our outlook?

What common mistakes can I avoid?

How can I put all the pieces together?



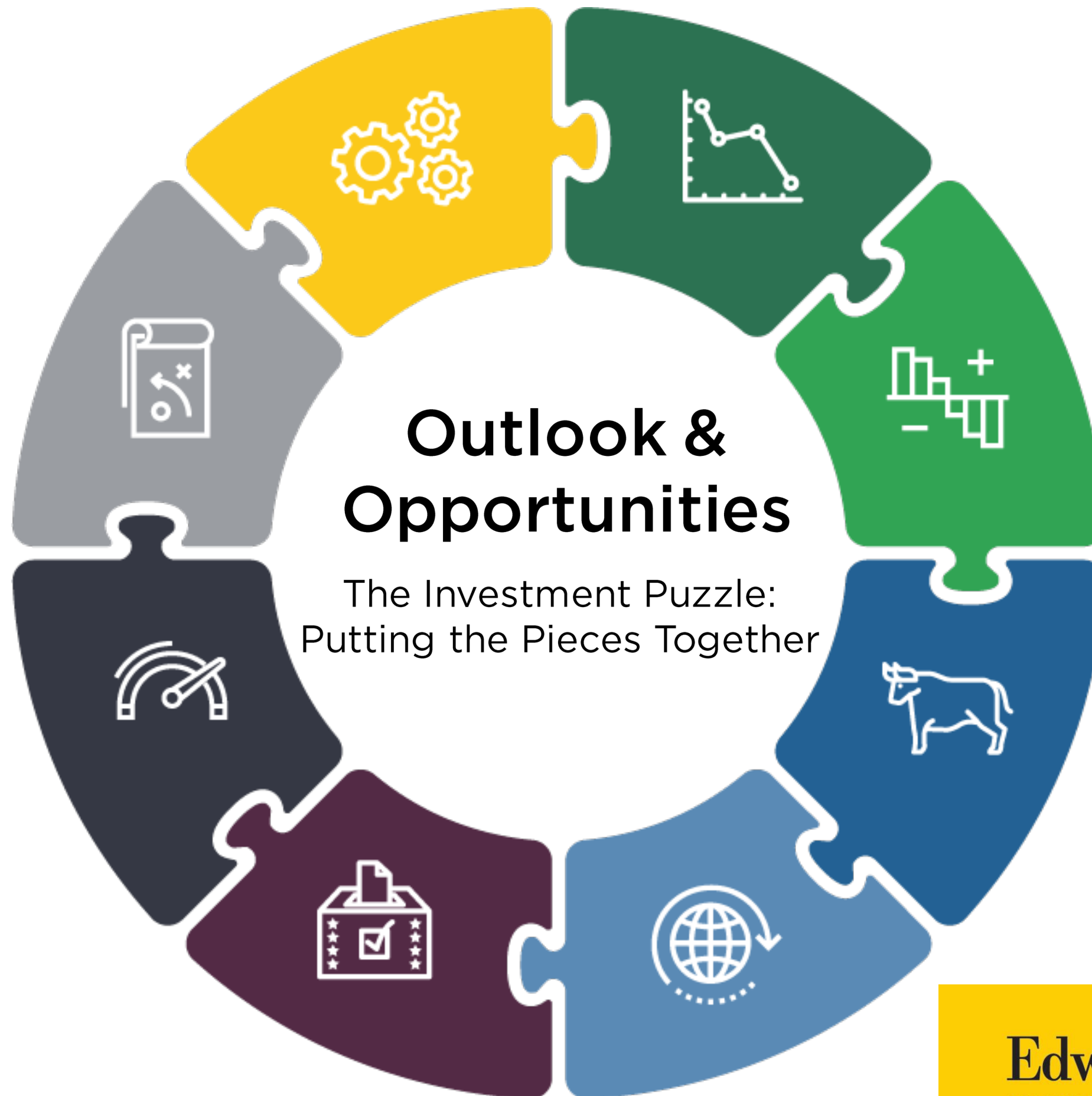
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Financial Advisor

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Fredericksburg, VA 22407

540-898-7222



# Seminar Overview

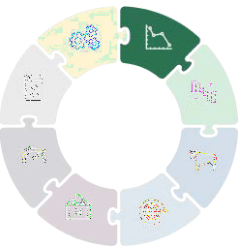


- 01 When will the economy recover from the downturn caused by COVID-19?
- 02 Will interest rates go lower or even negative?
- 03 How will the economic downturn affect the equity market?
- 04 Will global markets keep underperforming?
- 05 What impact will politics have on the markets?
- 06 What are the risks to our outlook?
- 07 What common mistakes can I avoid?
- 08 How can I put all the pieces together?

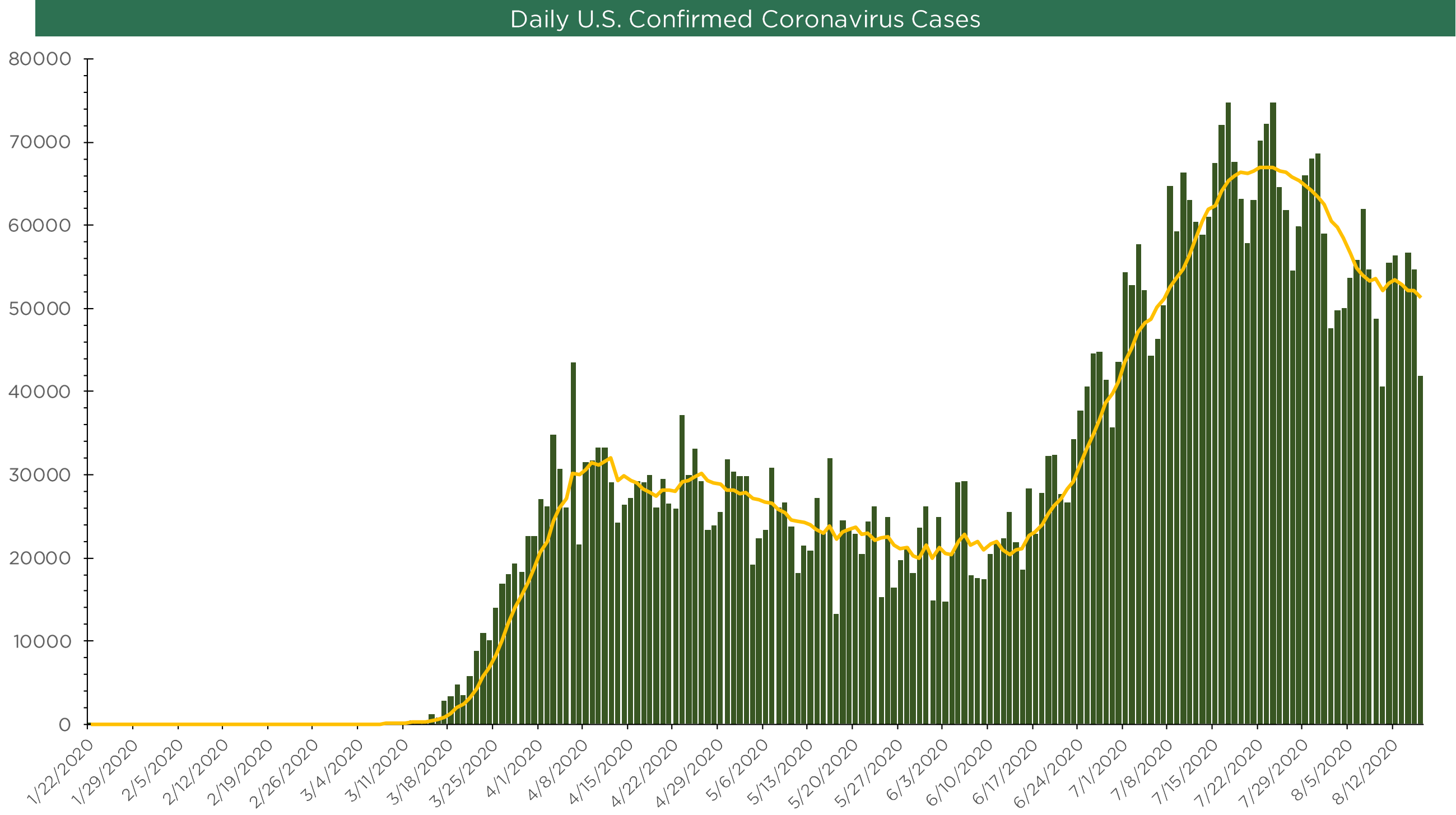
01

When will the economy recover from the downturn caused by COVID-19?





# Daily U.S. Confirmed Coronavirus Cases

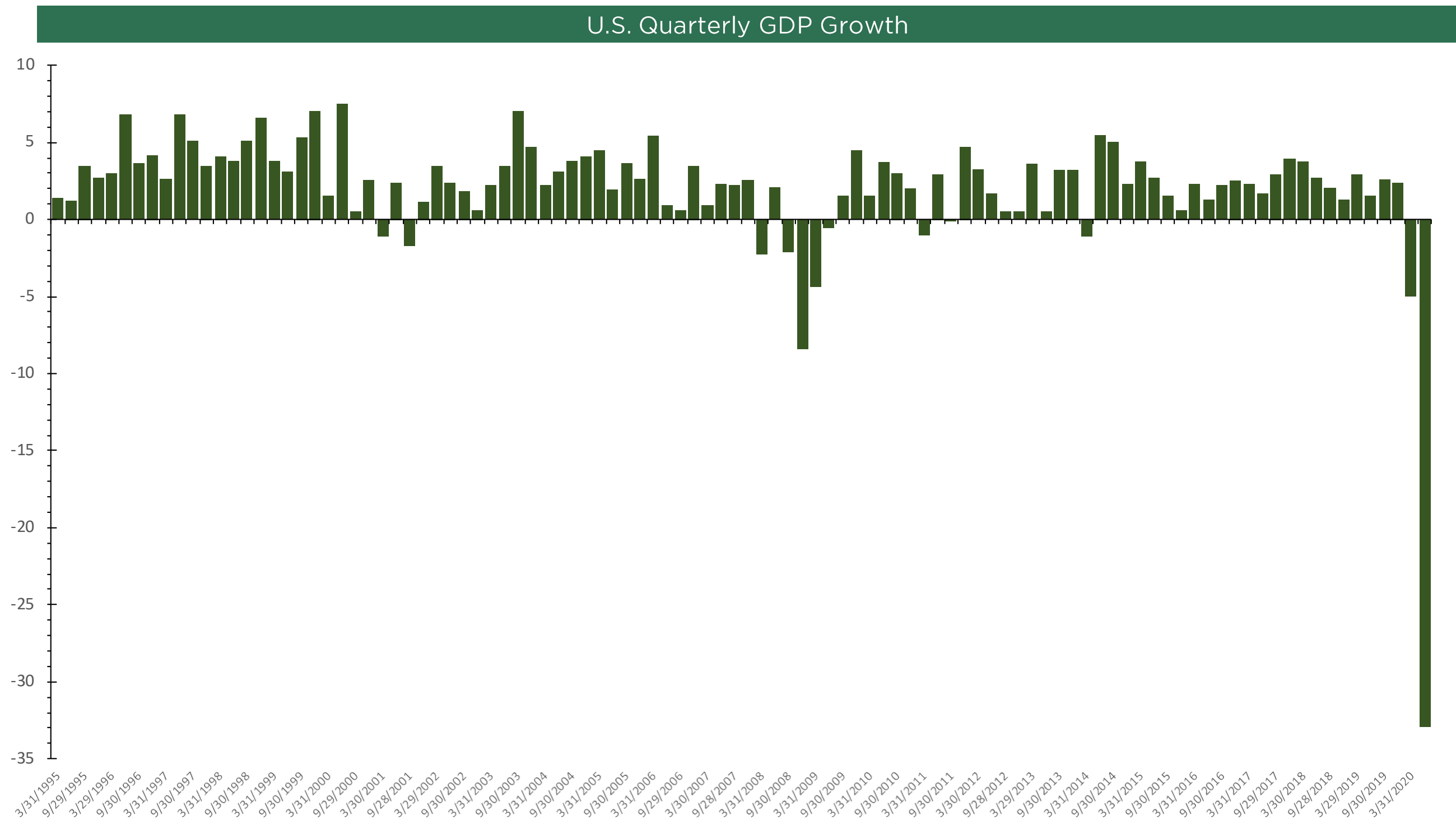


Source: CDC, 8/24/2020.





# COVID-19 Impact - U.S. Economy Enters Recession

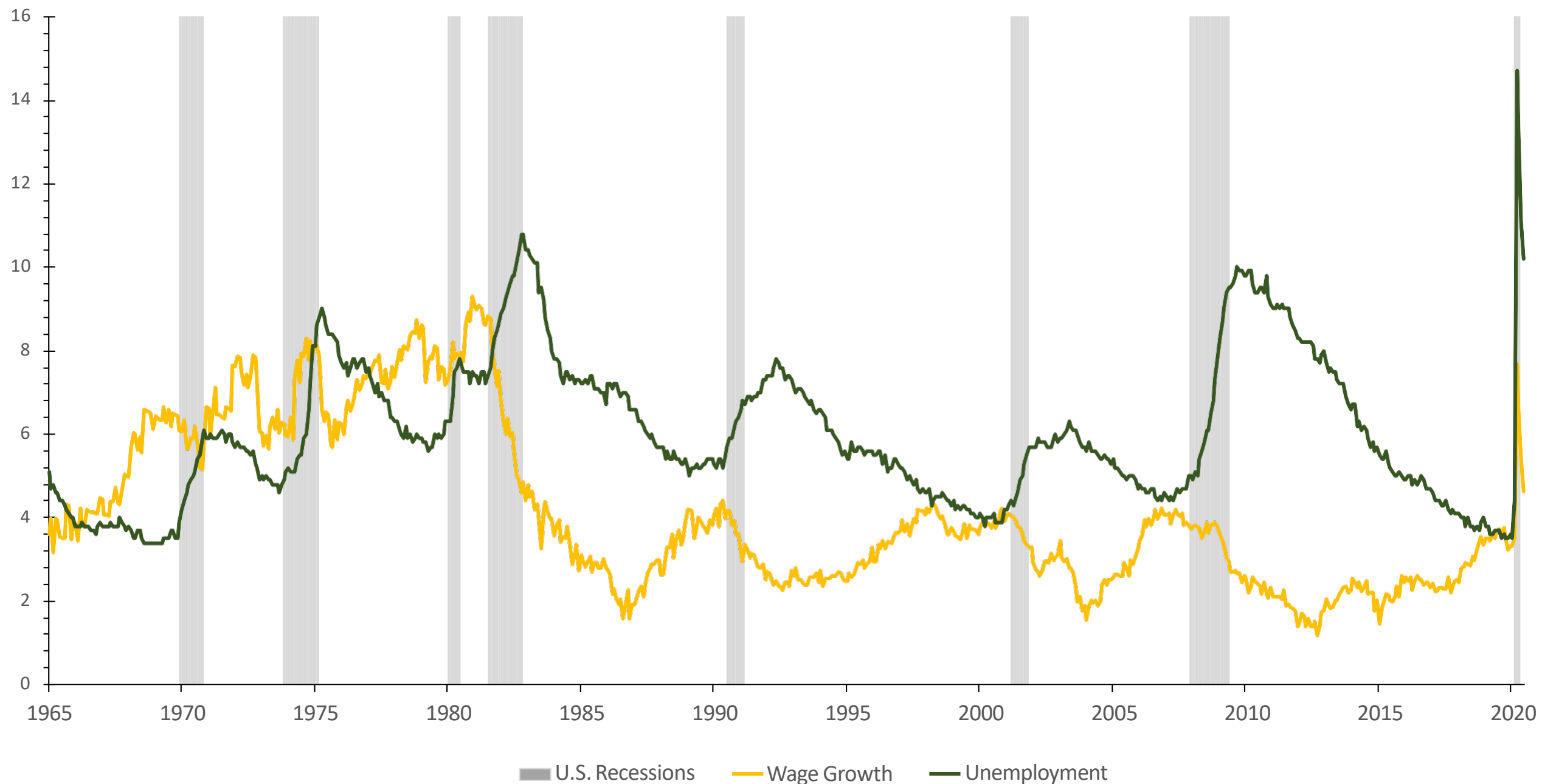


Source: FRED, 6/30/2020.



# Unemployment Rate Rises Sharply from Historic Lows

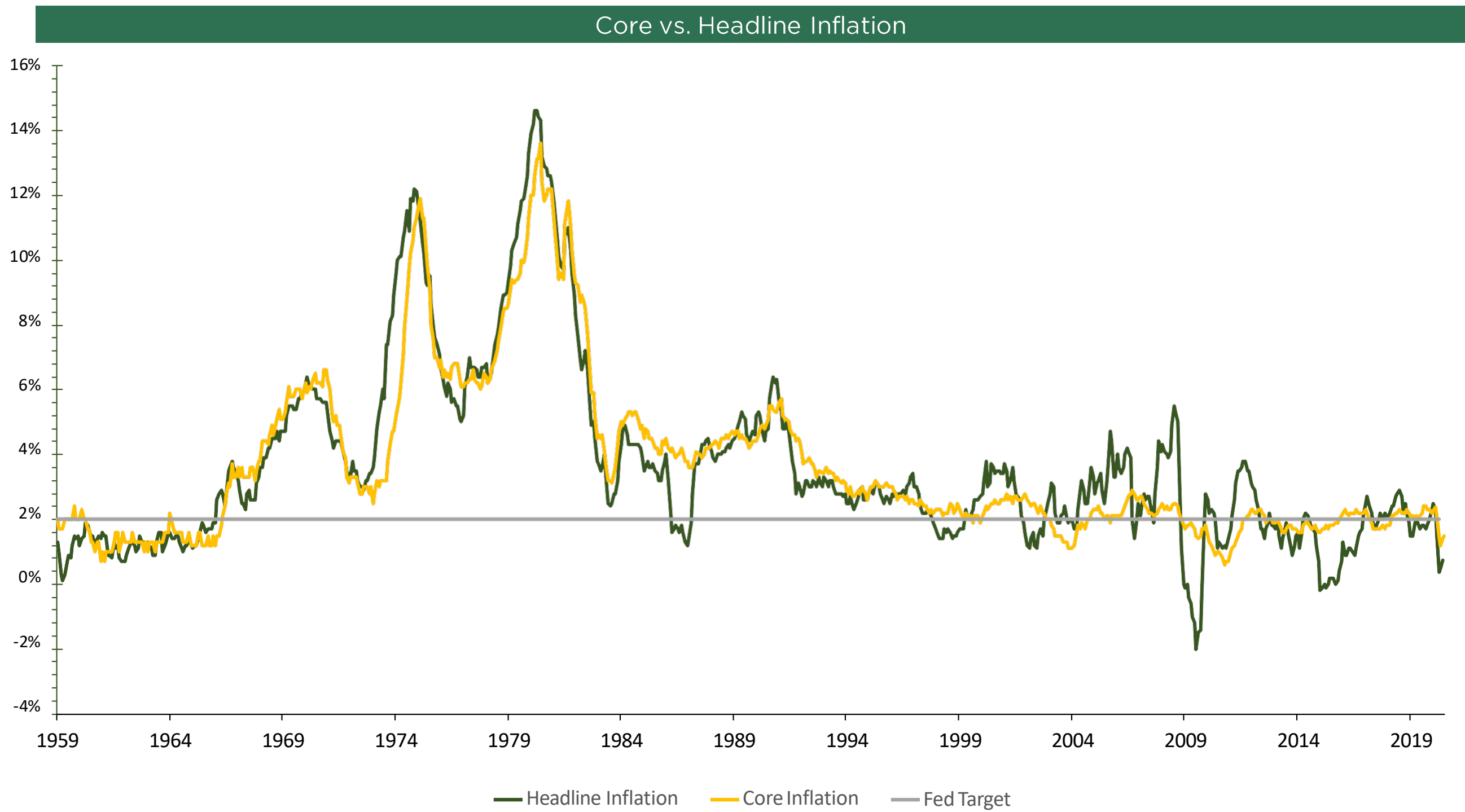
Wage Growth vs. Unemployment Rate (%)



Source: FRED, 7/31/2020.



# Inflation Falls Below Fed Target

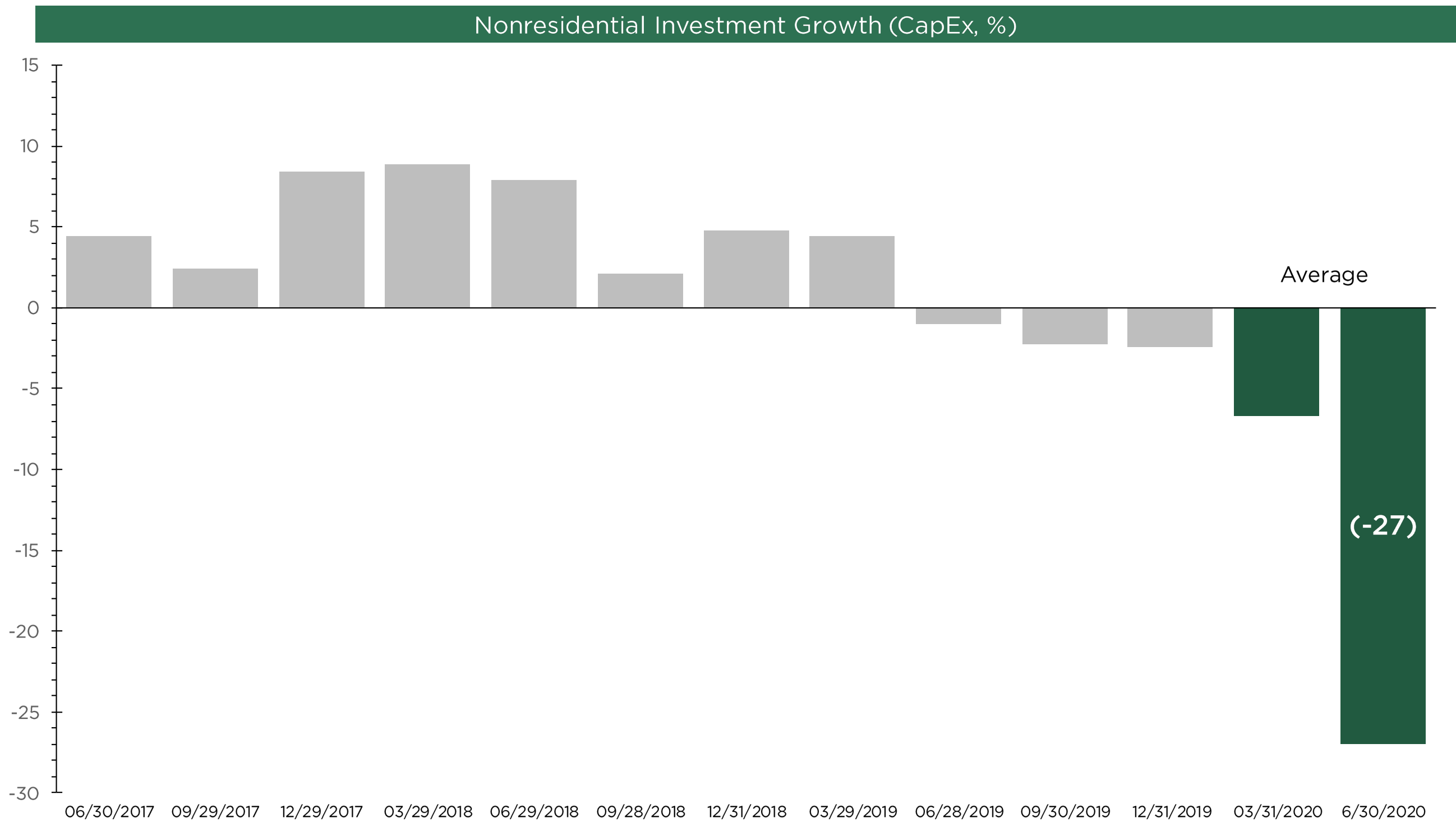


Source: FRED, 5/19/2020.



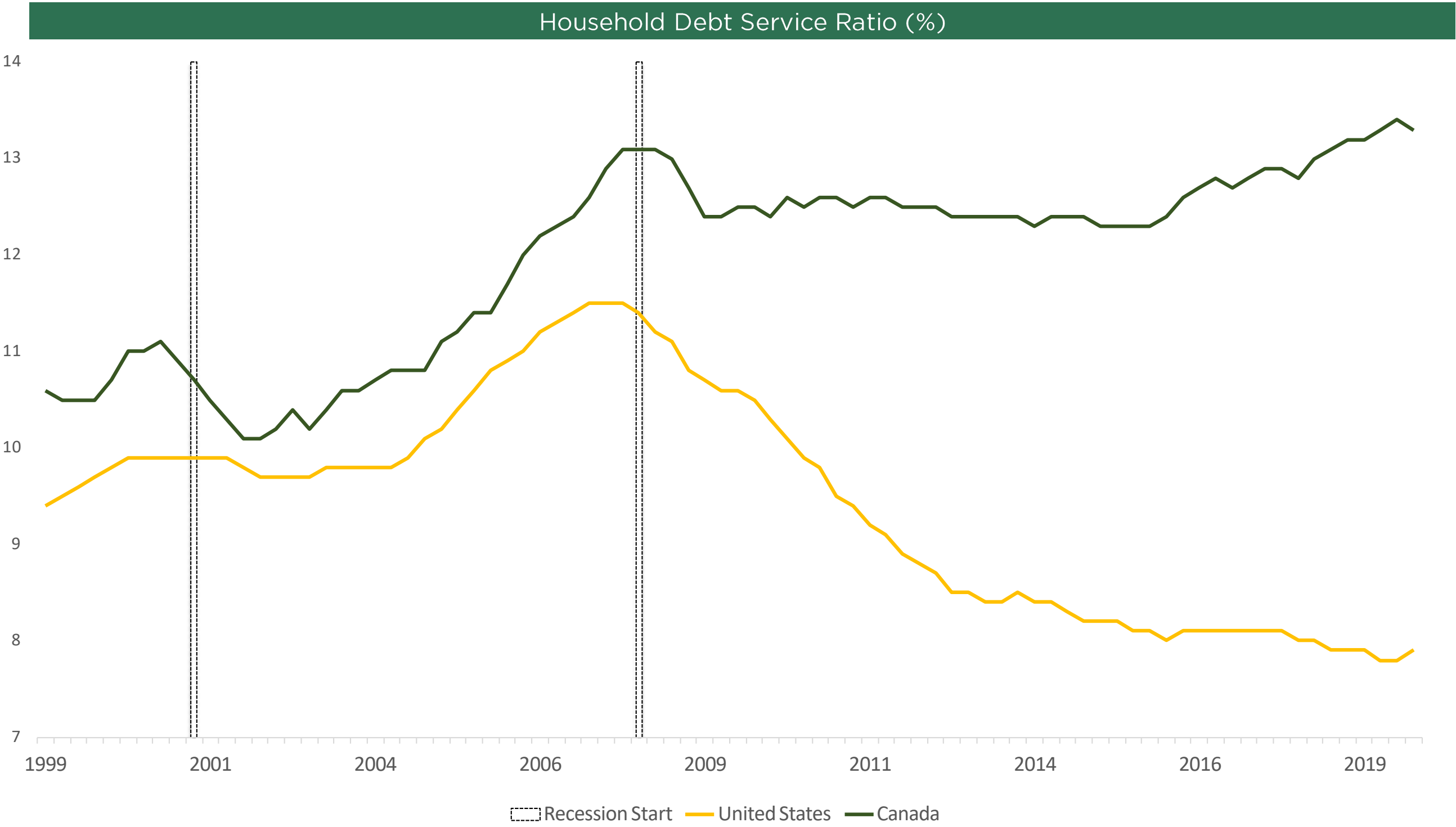
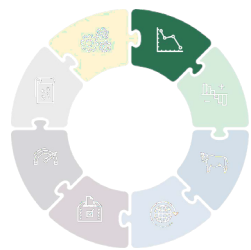


# Business Investment Drops Sharply from Last Year



Source: FactSet, 8/19/2020.

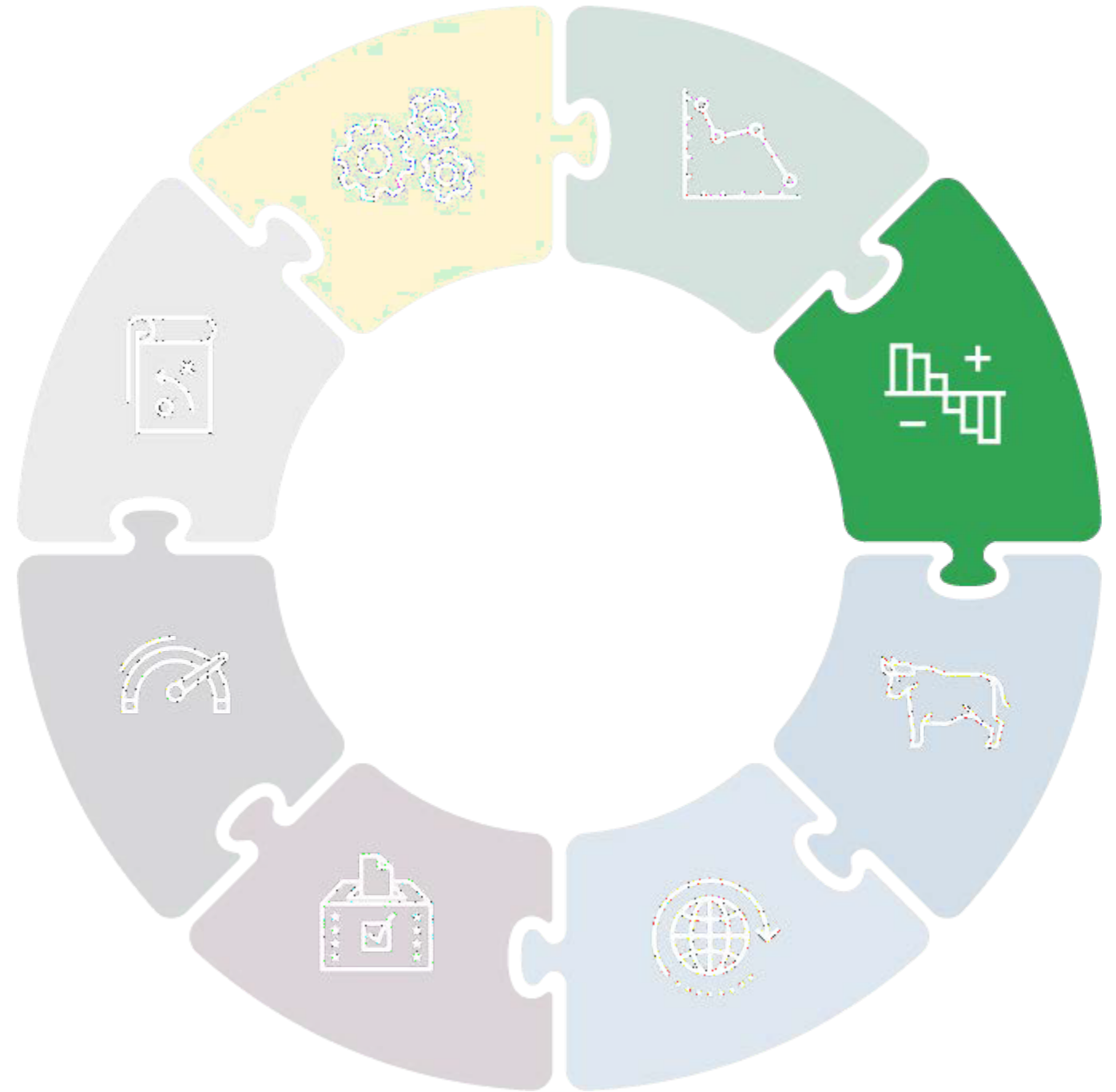
# Household Balance Sheets Matter



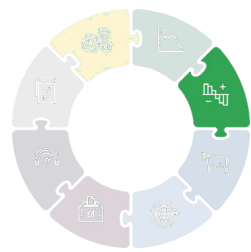
Source: Bank of international settlements.

# 02

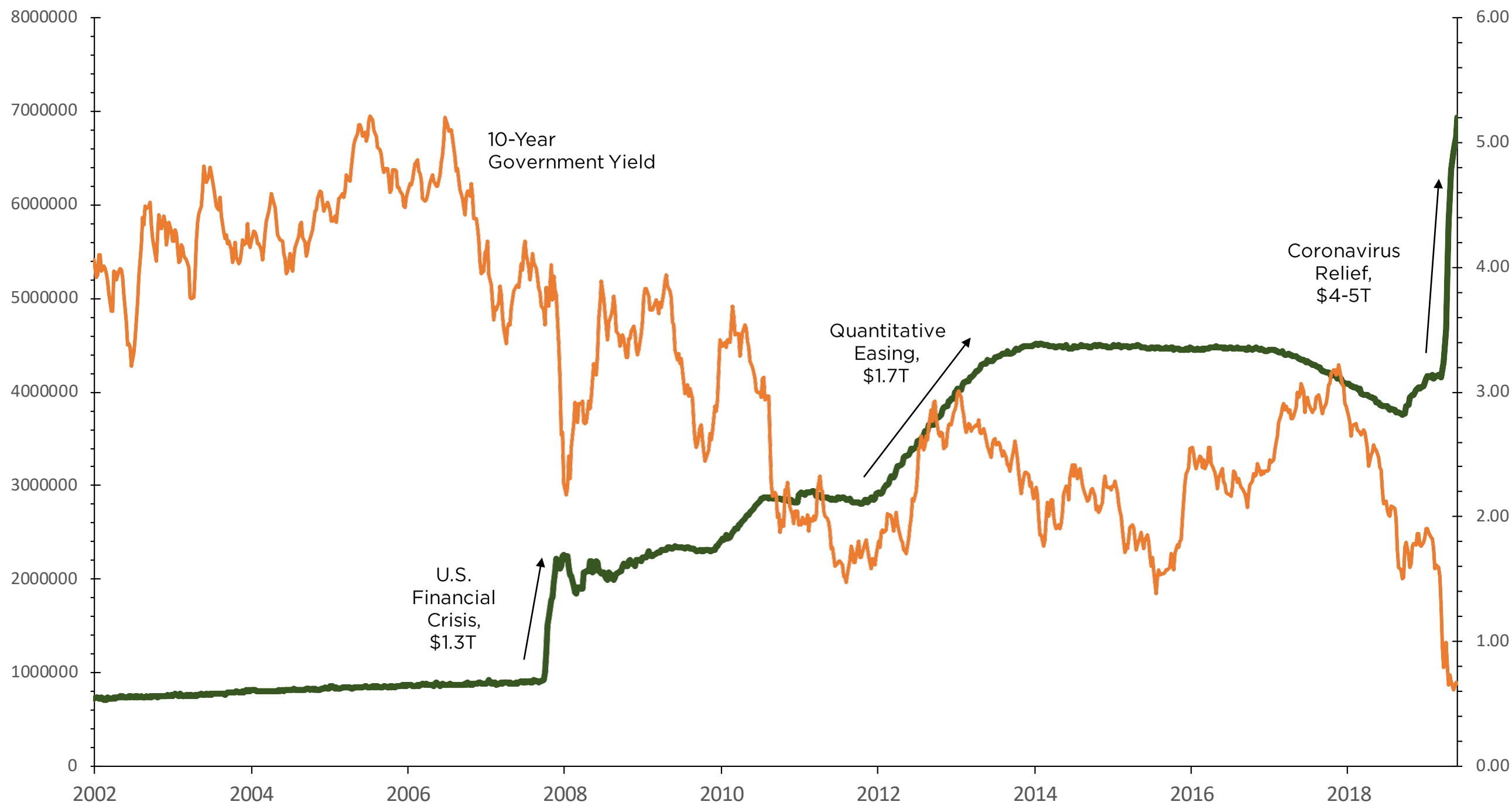
Will interest rates go lower or even negative?



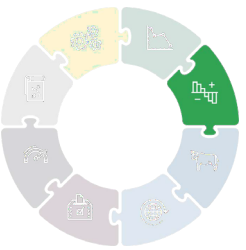
# The Effect of Interest Rate Cuts



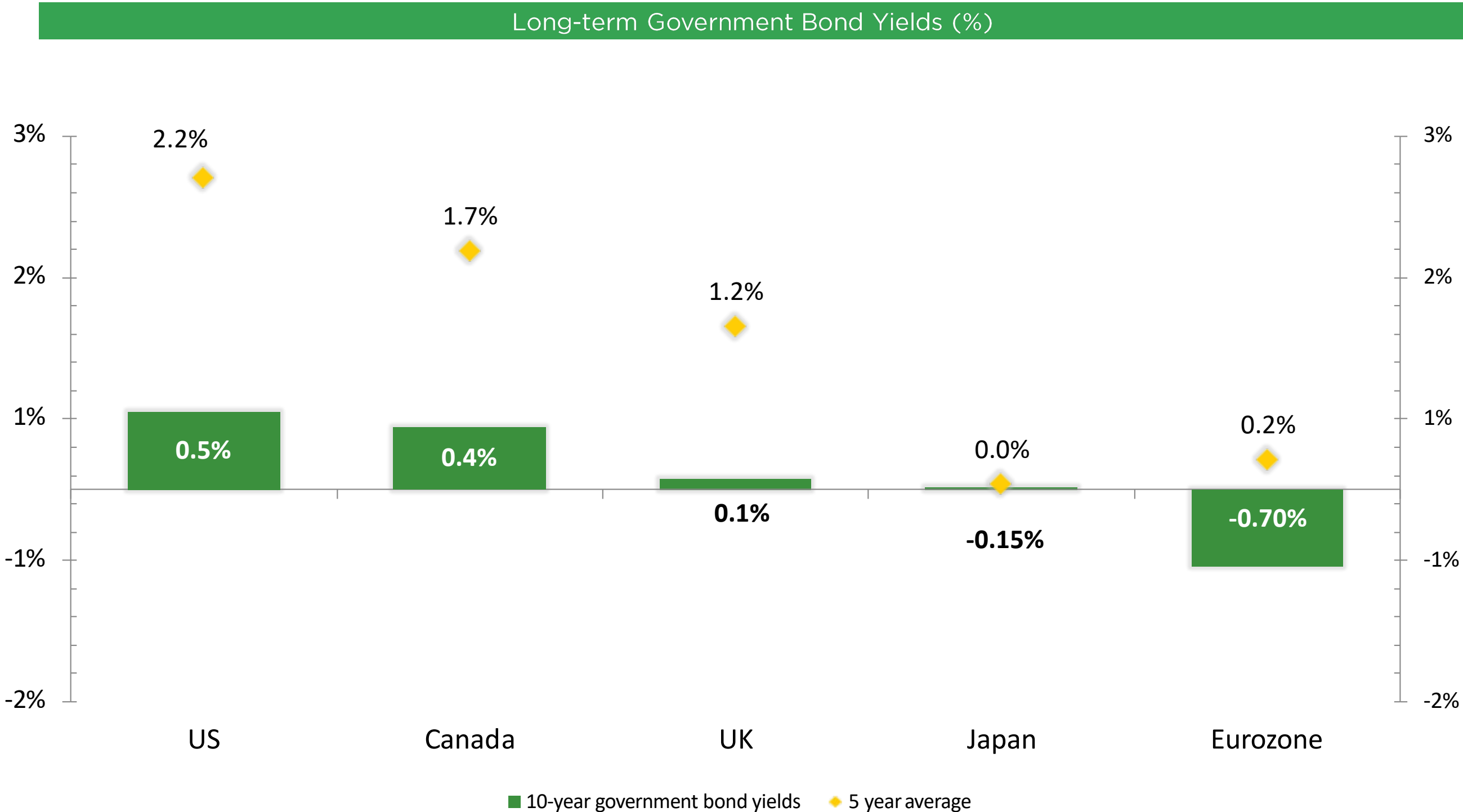
Federal Reserve Balance Sheet



Source: Board of Governors of the Federal Reserve System (US), Effective Federal Funds Rate [FEDFUNDS], retrieved from FRED, Federal Reserve Bank of St. Louis; January 6, 2020.



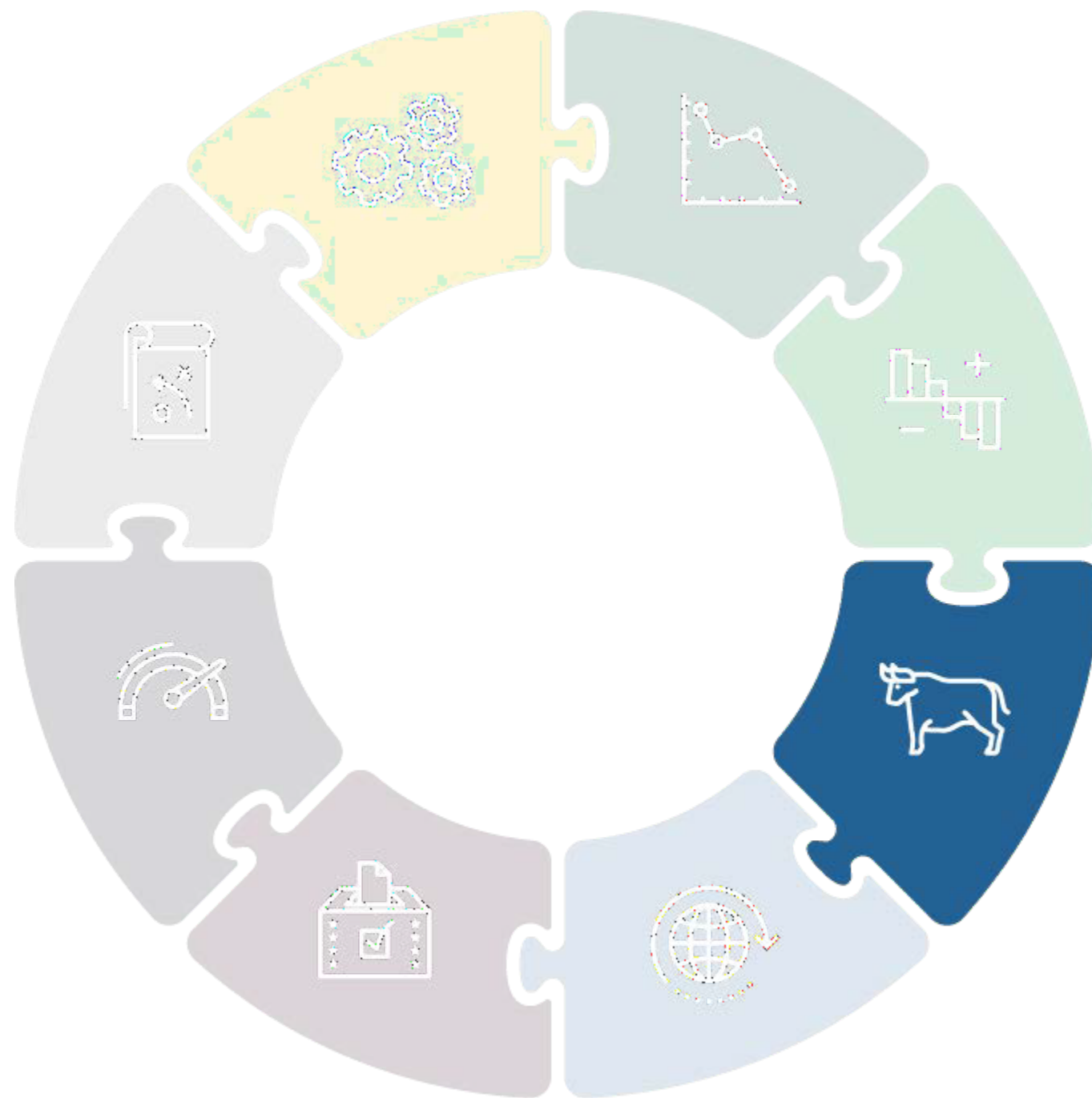
# How Have Long-term Government Bonds Fared?



Organization for Economic Co-operation and Development, Long-term Government Bond Yields: 10-year: Main (Including Benchmark) for Japan [IRLTLT01JPM156N], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/IRLTLT01JPM156N> February 10, 2020.

03

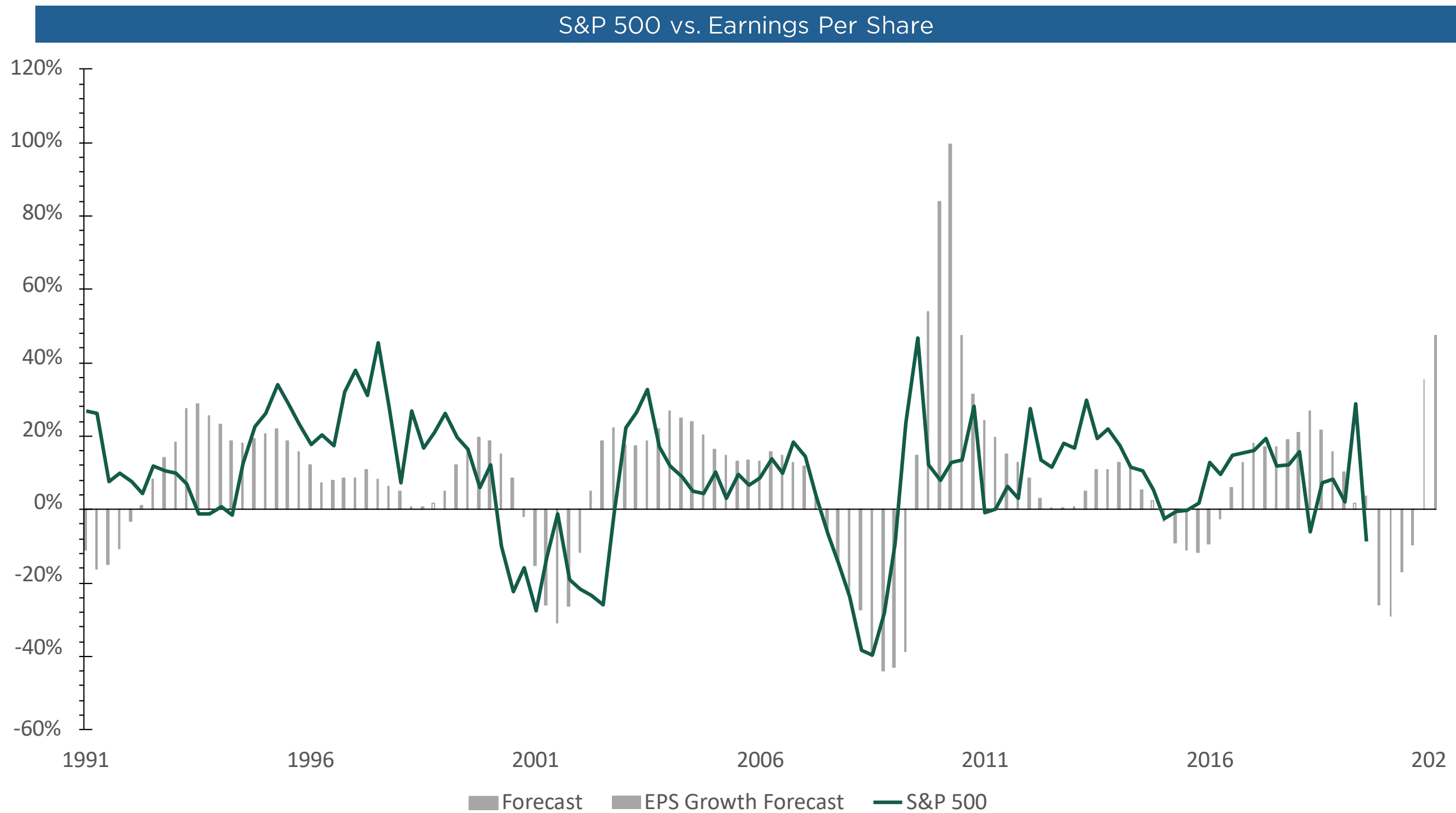
How will the  
economic downturn  
affect the equity  
market?







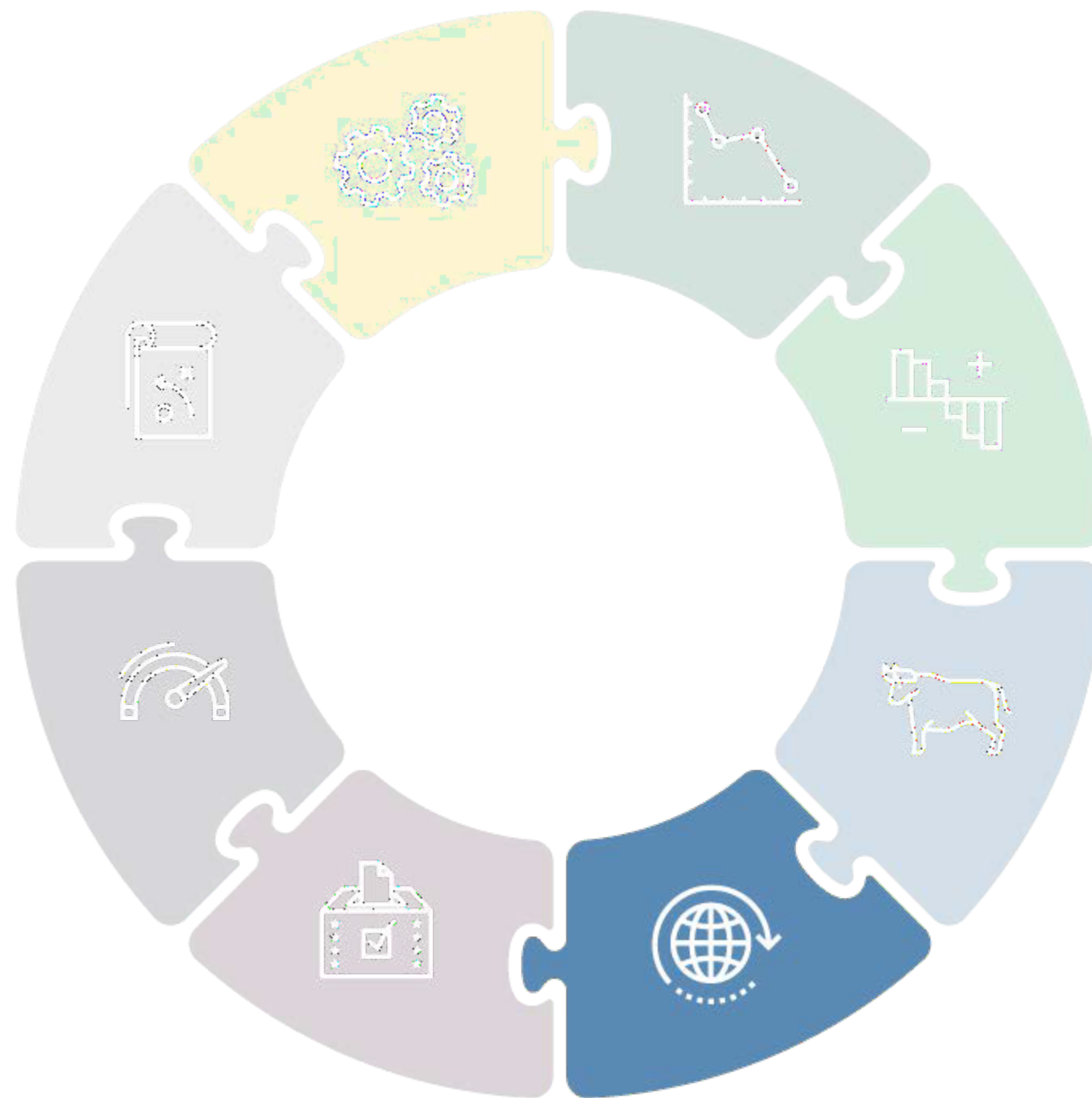
# Earnings Growth in 2020 Uncertain



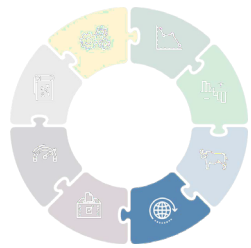
Source: S&P Indices.

04

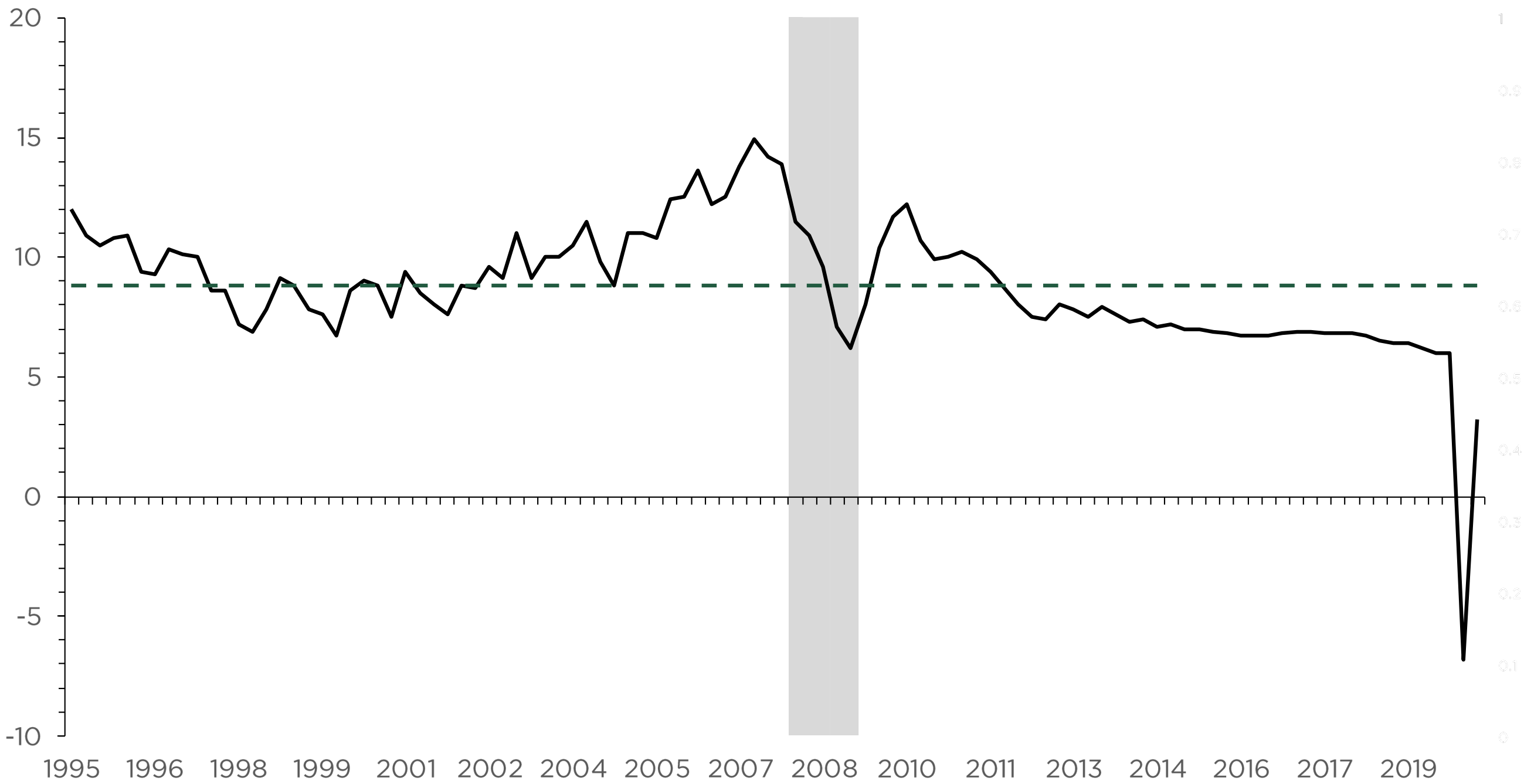
Will global  
markets keep  
underperforming?



# China's V-shaped Recovery

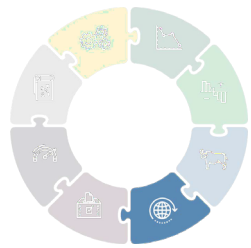


China's GDP Growth

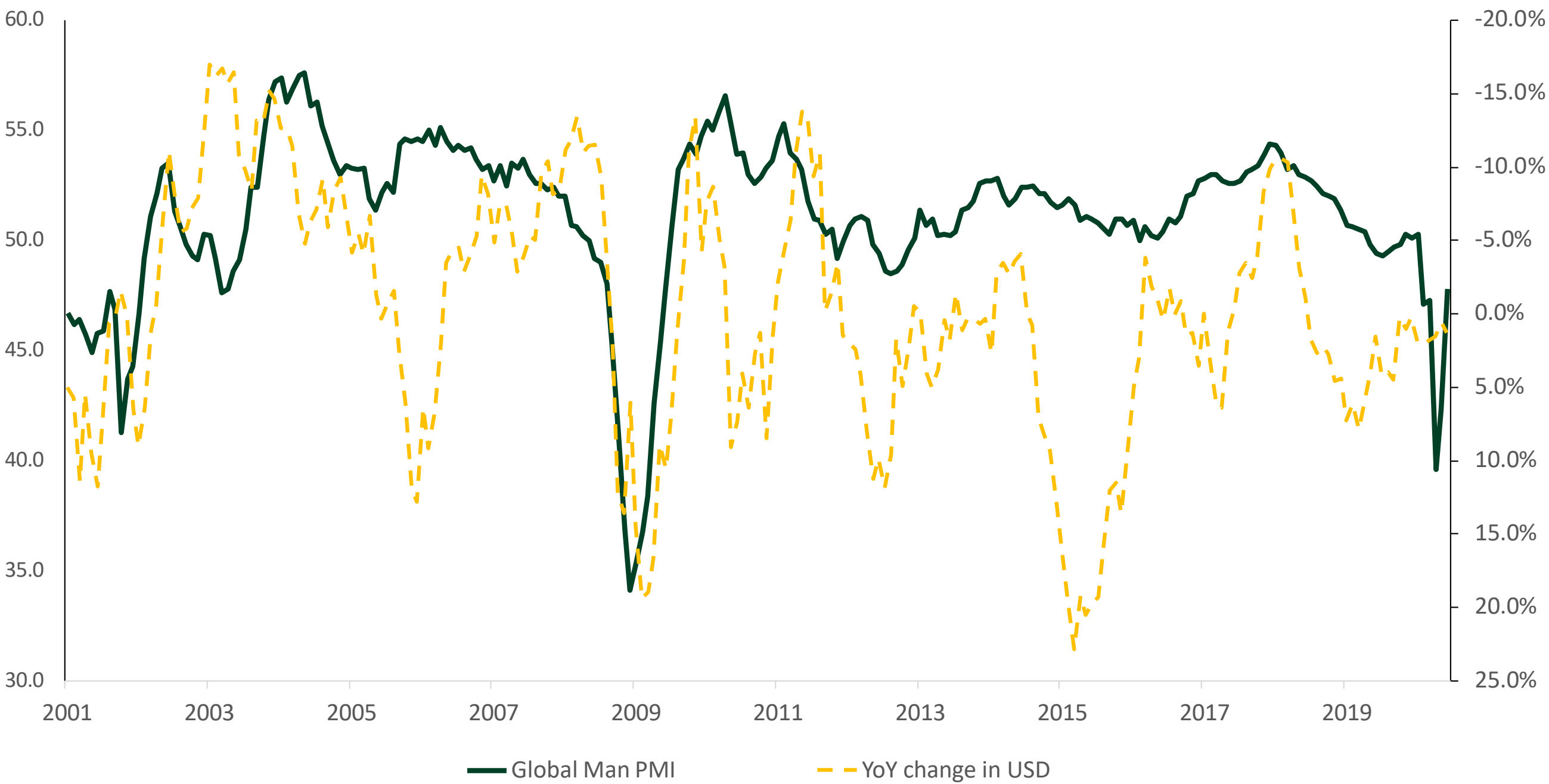


Source: FactSet, Q2 2020

# A Look at the Global Manufacturing PMI

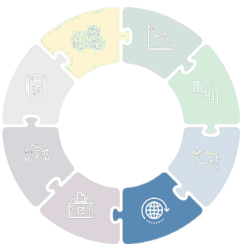


The USD Is Negative Correlated with Global Growth

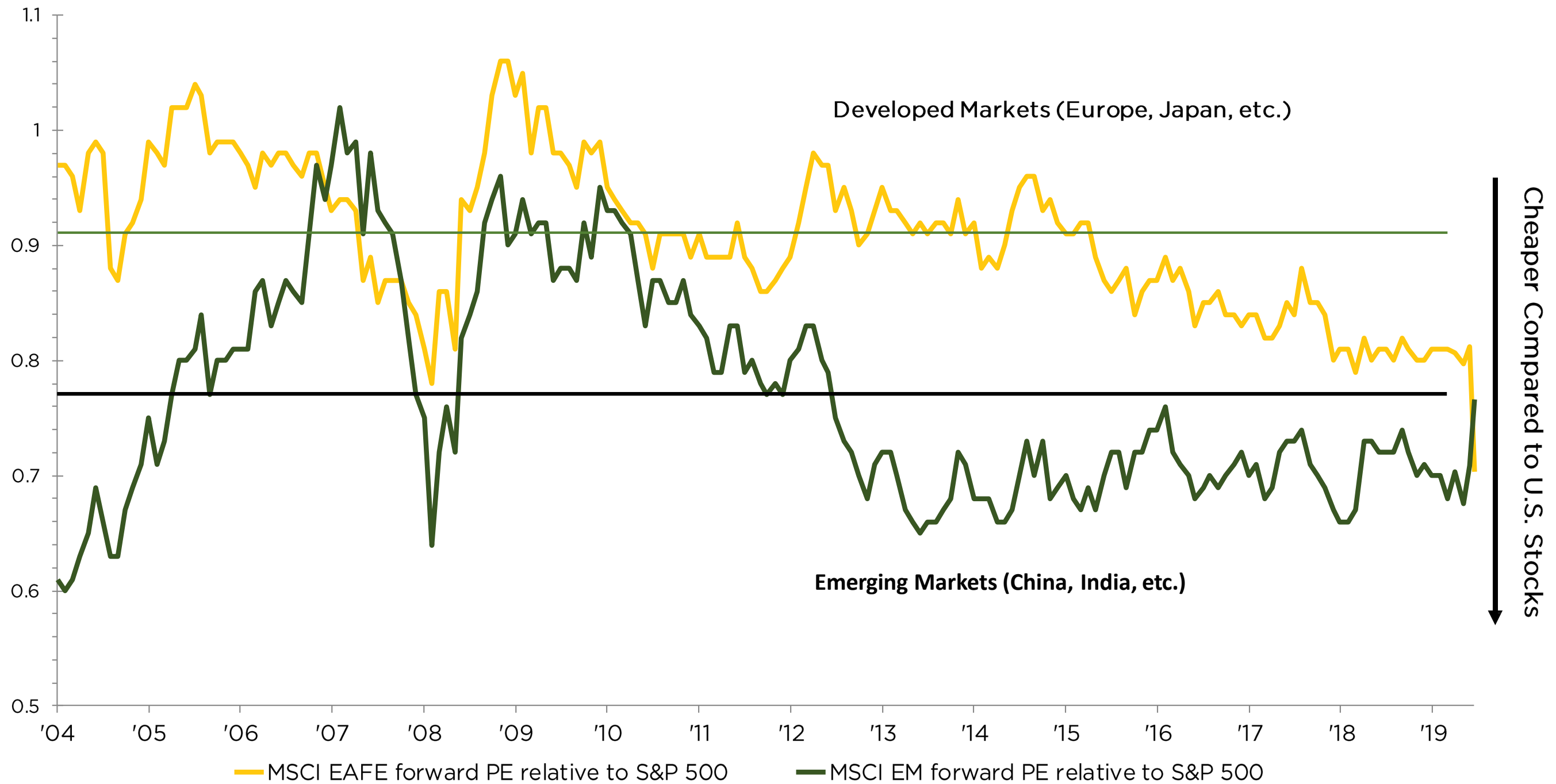


Source: FactSet, 8/2020

# Overseas Market Valuations



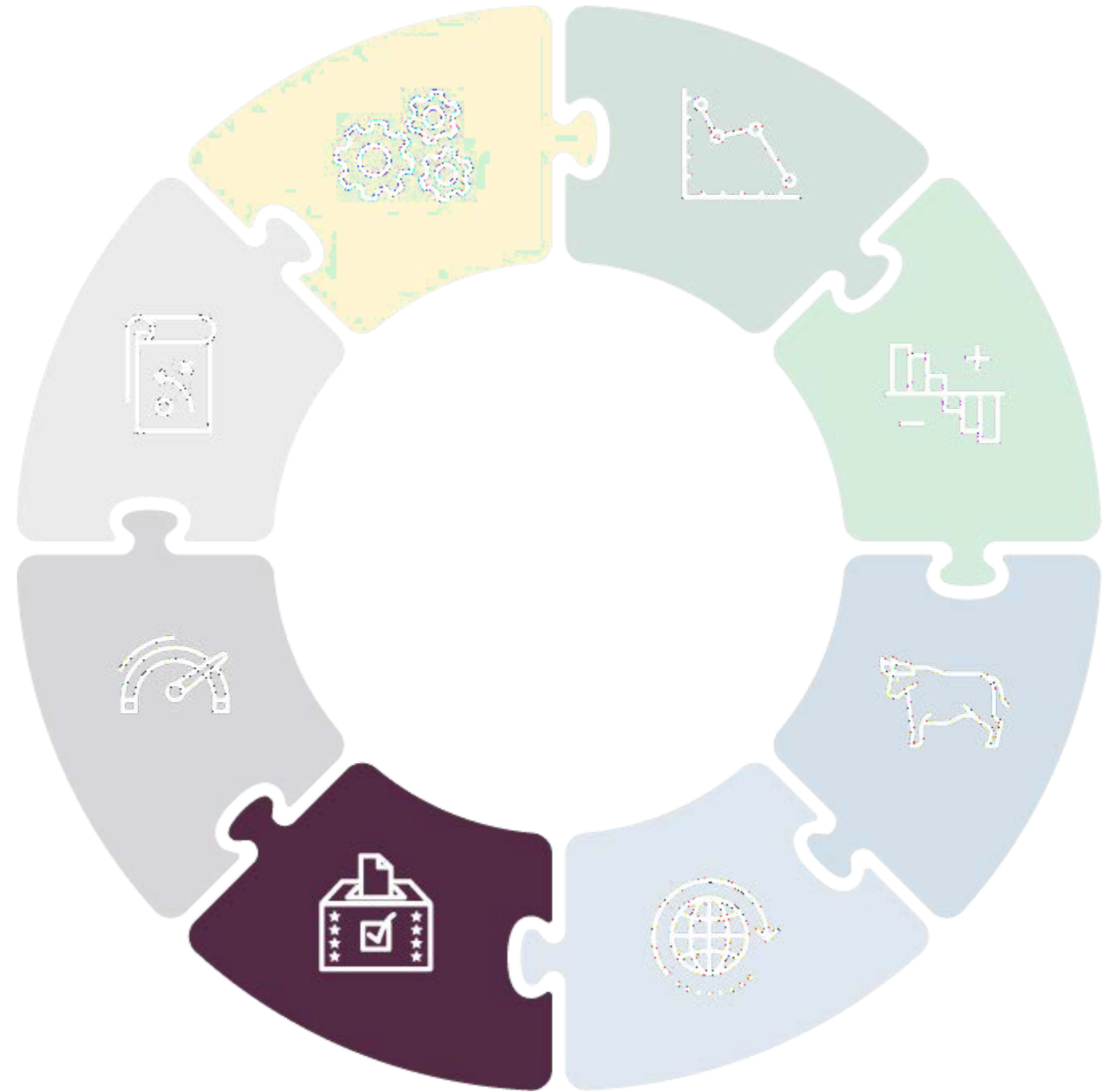
Overseas Market Valuations Relative to the S&P 500



Source: FactSet  
Series: MSCI EAFE, MSCI EM

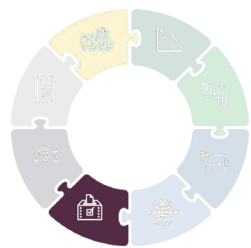
05

What impact will  
politics have on  
the markets?

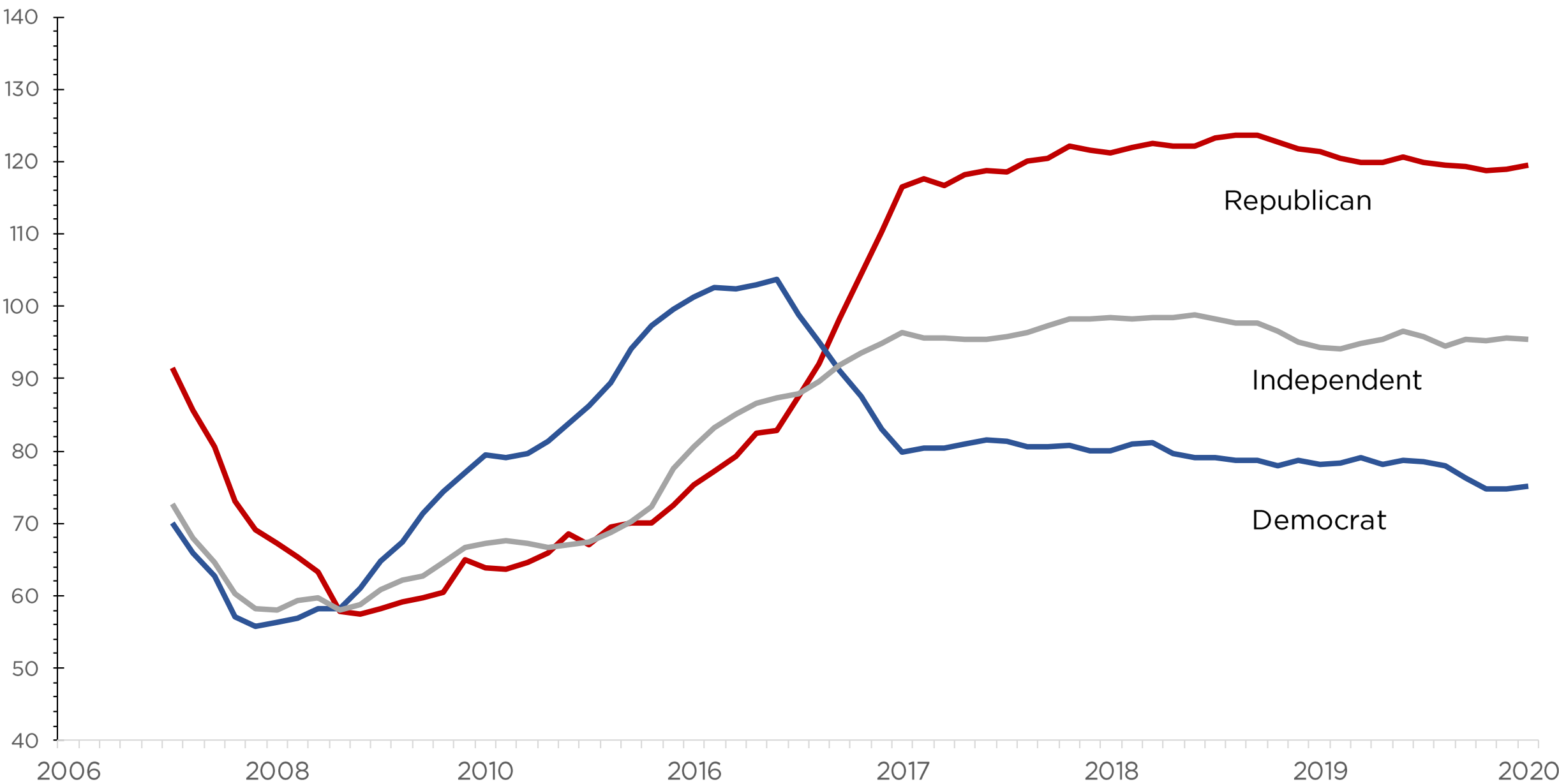




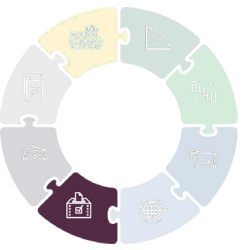
# An Election Year Elevates Uncertainty



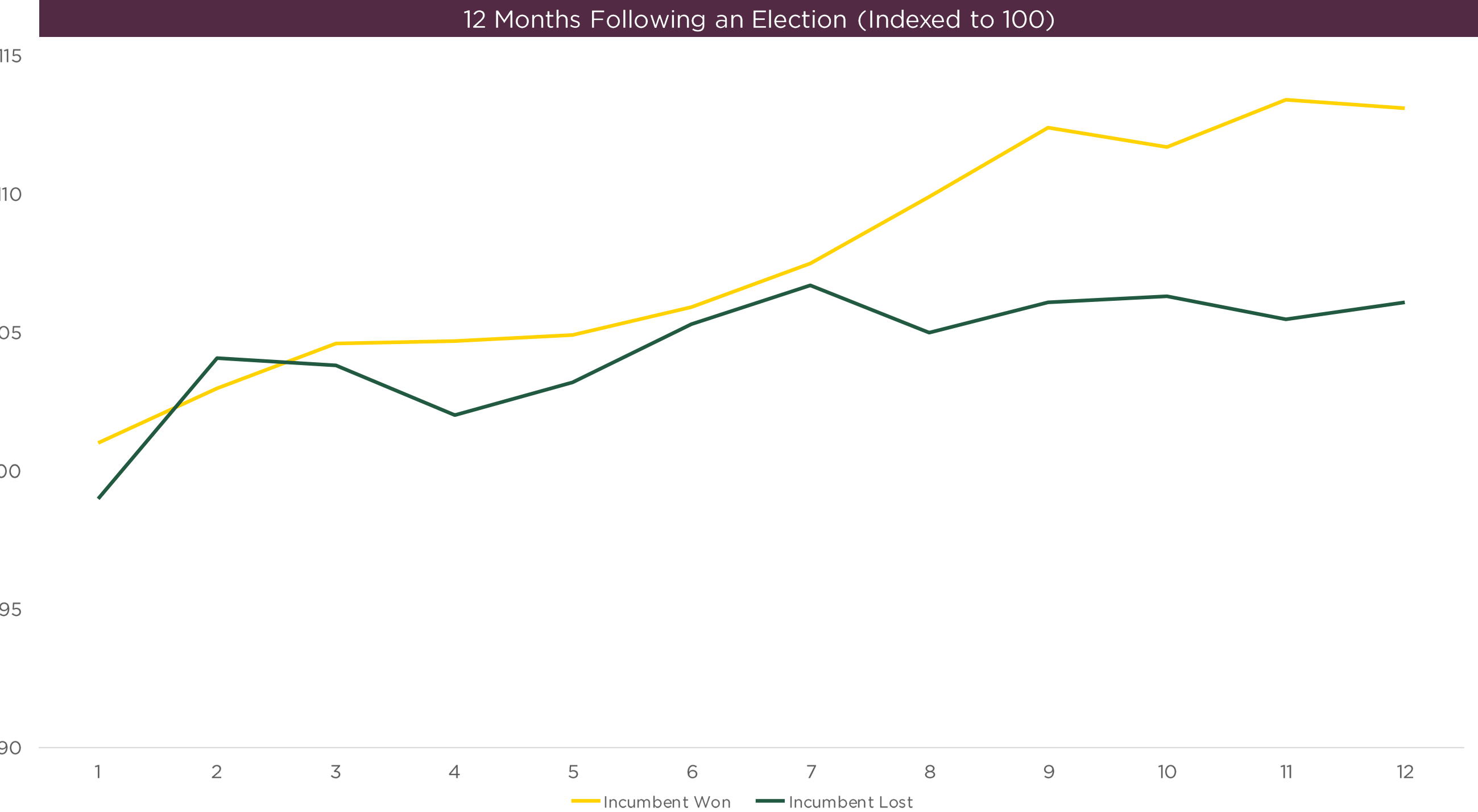
U.S. Consumer Confidence by Political Affiliation



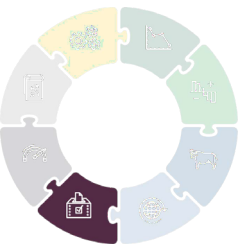
Source: Michigan University Consumer Confidence Survey, Rolling 6-Month Average



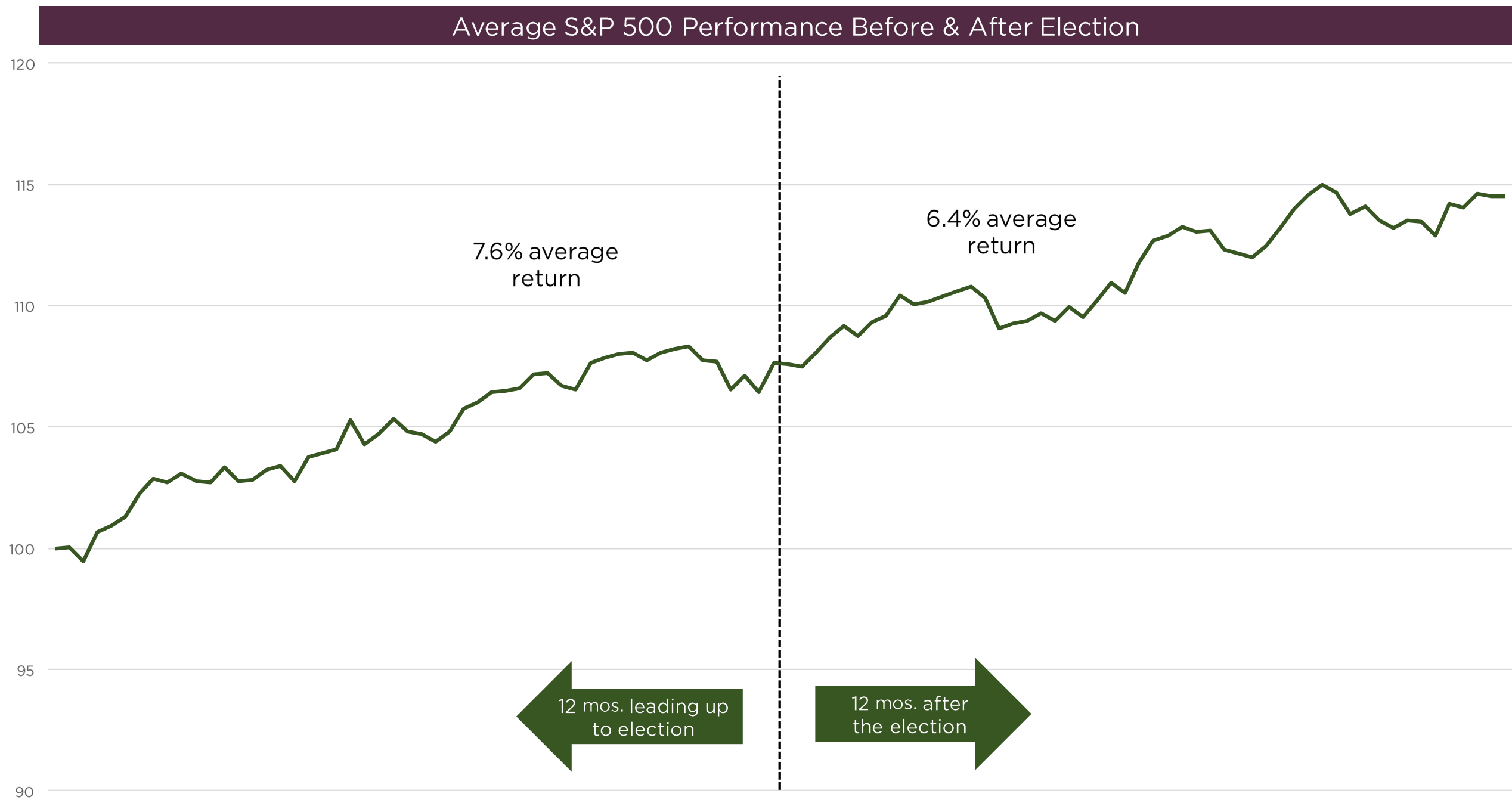
# How Do Stocks Perform Following an Election?



Source: Morningstar (1936-2019), Edward Jones Calculations, the S&P 500 is an unmanaged index and cannot be invested in directly. Past performance is not a guarantee of what will happen in the future.



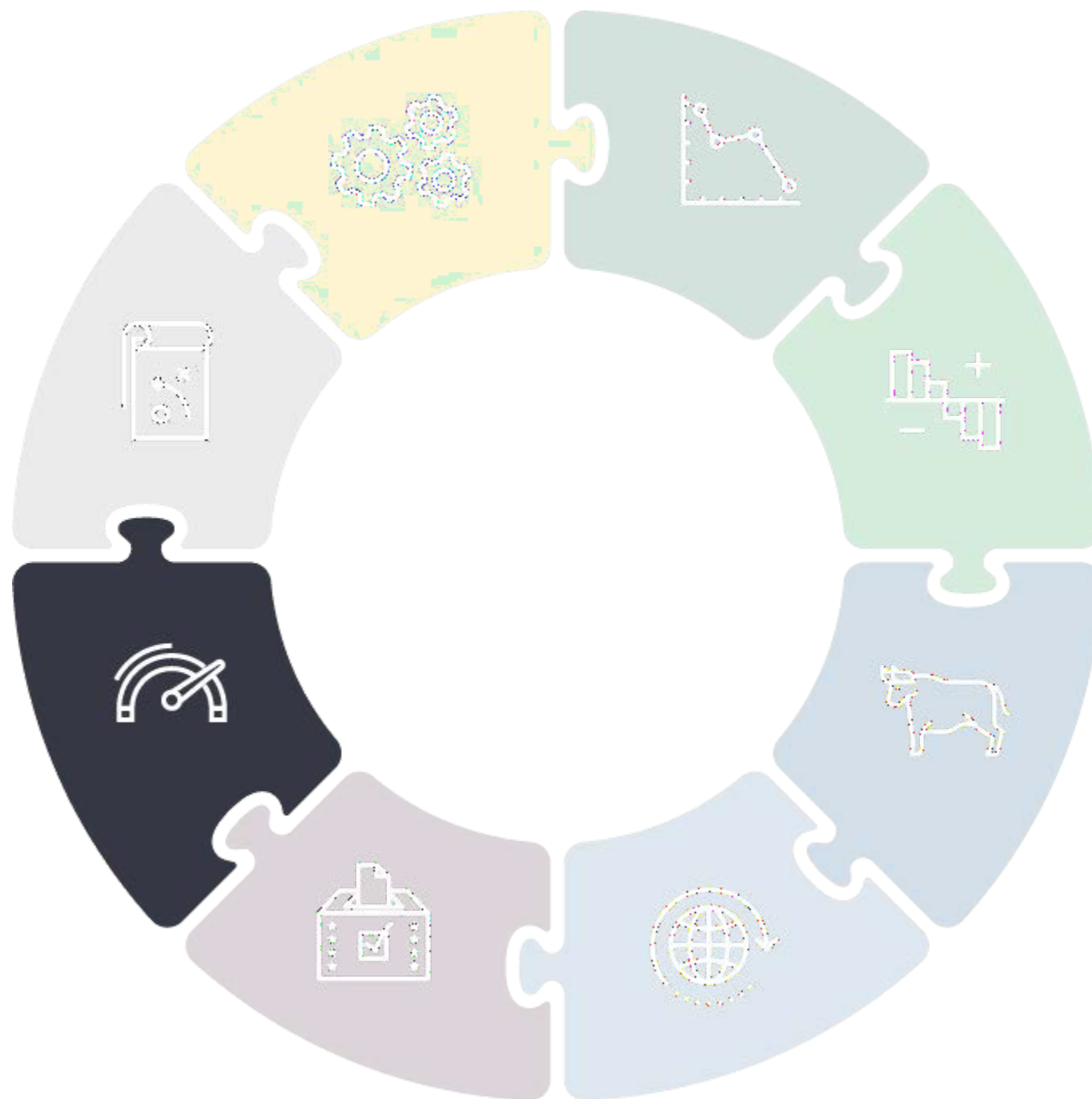
# Average Returns Before and After an Election

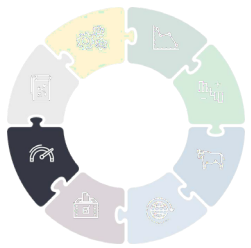


Source: Morningstar (1936-2019), Edward Jones calculations. The S&P 500 is an unmanaged index and cannot be invested in directly. Past performance is not a guarantee of what will happen in the future.

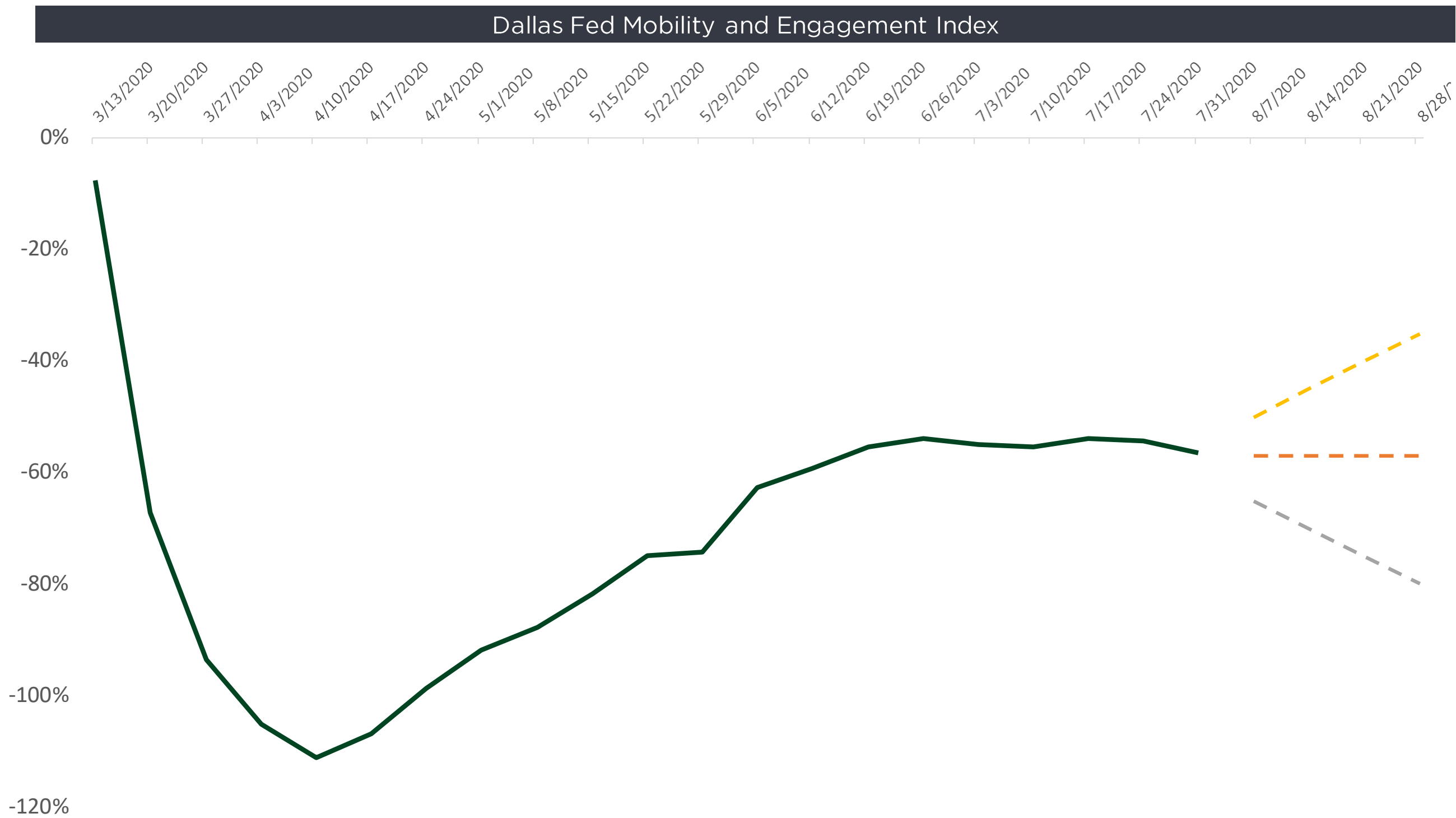
06

What are the risks  
to our outlook?



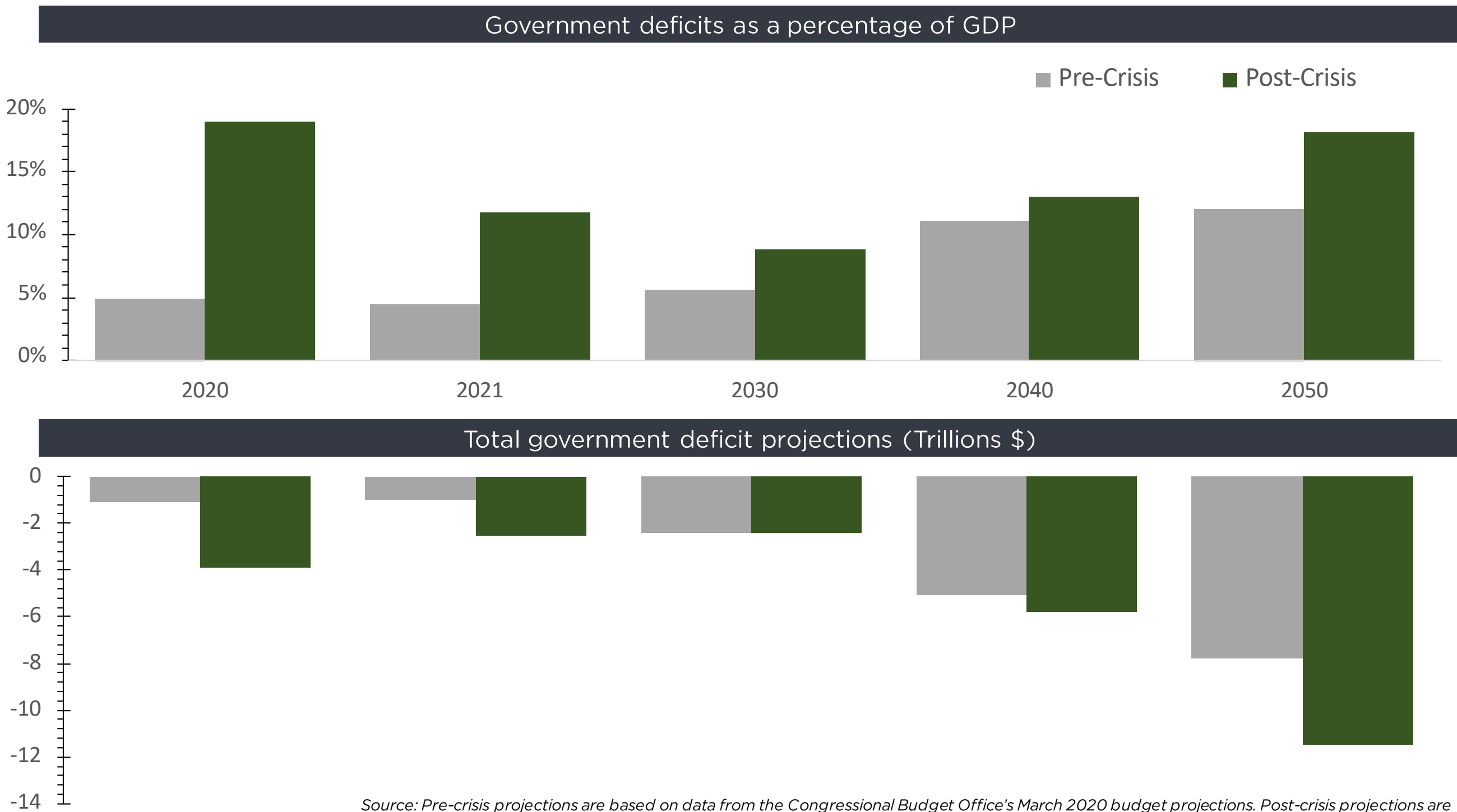
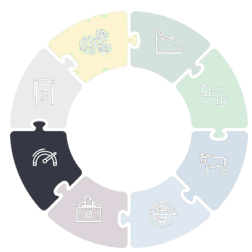


# Economic Rebound Could Follow Several Paths



Source: Congressional Budget Office

# Corporate Debt Levels

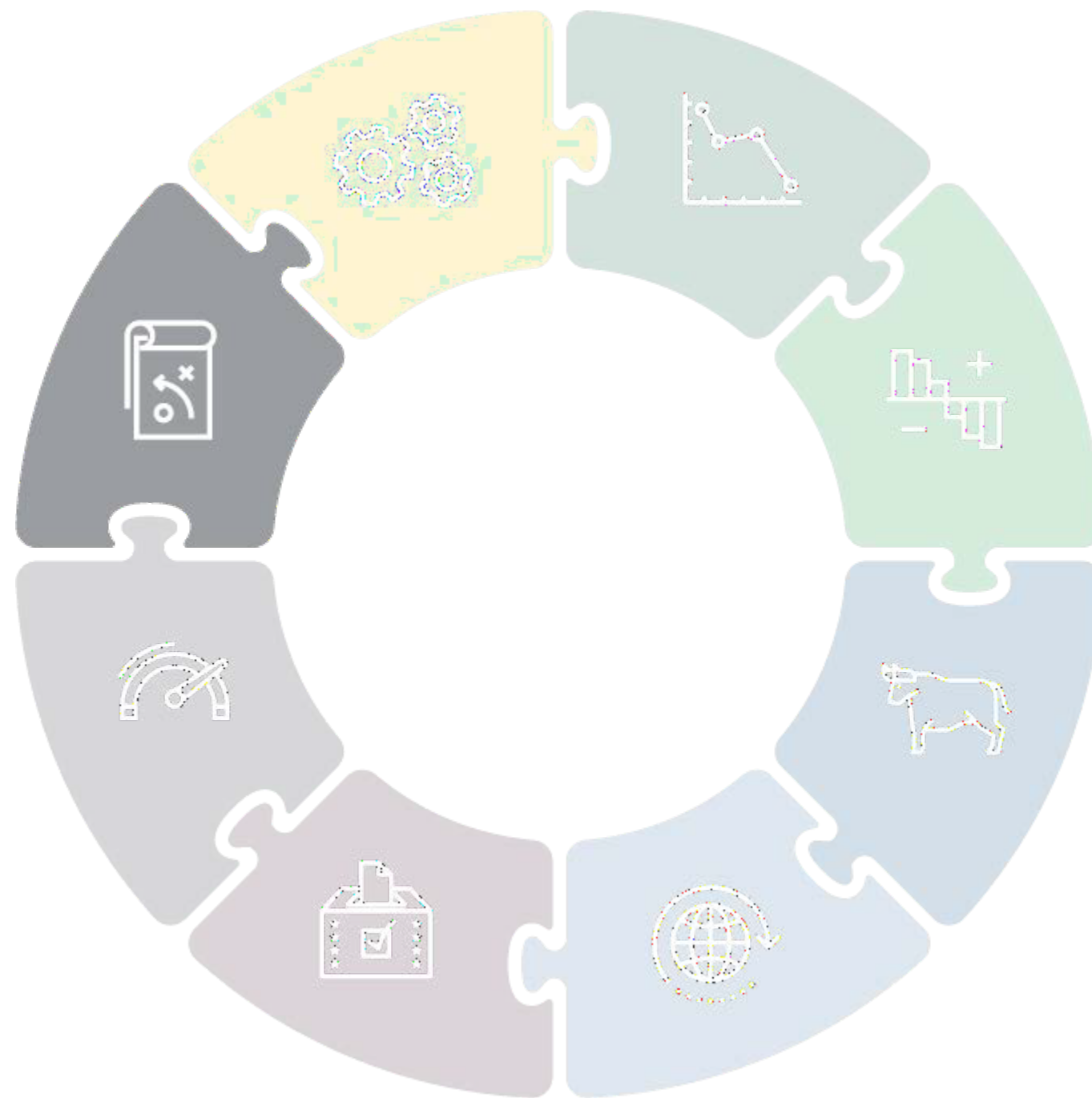


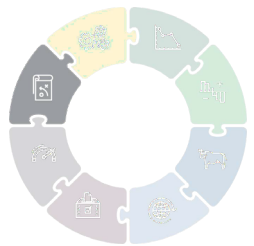
Source: Pre-crisis projections are based on data from the Congressional Budget Office's March 2020 budget projections. Post-crisis projections are based on the Congressional Budget Office's April 2020 near-term budget projections and its May 2020 Interim Economic Projections. \*Pre-crisis Alternative Scenario projections assume discretionary spending grows with GDP and various expiring tax provisions are continued; post-crisis Alternative Scenario projections assume the aforementioned but also assume an additional \$1 trillion of fiscal relief is enacted.



07

What common mistakes can I avoid?



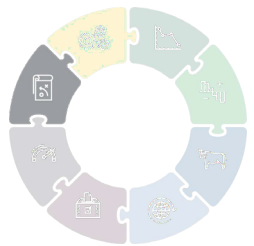


# Returns by Asset Class

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
REITs 27.9%	REITs 8.3%	International Small Cap Stocks 20.0%	U.S. Small Cap Stocks 38.8%	REITs 28.0%	International Small Cap Stocks 9.6%	U.S. Small Cap Stocks 21.3%	Emerging Markets Stocks 37.3%	Cash 1.9%	U.S. Large Cap Stocks 31.5%
U.S. Small Cap Stocks 26.9%	U.S. Bonds 7.8%	REITs 19.7%	U.S. Mid Cap Stocks 34.8%	U.S. Large Cap Stocks 13.7%	REITs 2.8%	High Yield Bonds 17.1%	International Small Cap Stocks 33.0%	U.S. Bonds 0.0%	U.S. Mid Cap Stocks 30.5%
U.S. Mid Cap Stocks 25.5%	High Yield Bonds 5.0%	Int'l High Yield Bonds 19.60%	U.S. Large Cap Stocks 32.4%	U.S. Mid Cap Stocks 13.2%	U.S. Large Cap Stocks 1.4%	Int'l High Yield Bonds 14.3%	International Large Cap Stocks 25.0%	High Yield Bonds -2.1%	REITs 28.7%
International Small Cap Stocks 22.0%	International Bonds 4.4%	Emerging Markets Stocks 18.2%	International Small Cap Stocks 29.3%	U.S. Bonds 6.0%	U.S. Bonds 0.5%	U.S. Mid Cap Stocks 13.8%	U.S. Large Cap Stocks 21.8%	International Bonds -2.1%	U.S. Small Cap Stocks 25.5%
Emerging Markets Stocks 18.9%	Int'l High Yield Bonds 3.12%	International Large Cap Stocks 17.3%	International Large Cap Stocks 22.8%	U.S. Small Cap Stocks 4.9%	Cash 0.1%	U.S. Large Cap Stocks 12.0%	U.S. Mid Cap Stocks 18.5%	REITs -4.0%	International Small Cap Stocks 25.0%
U.S. Large Cap Stocks 15.1%	U.S. Large Cap Stocks 2.1%	U.S. Mid Cap Stocks 17.3%	High Yield Bonds 7.4%	High Yield Bonds 2.5%	International Large Cap Stocks -0.8%	Commodities 11.4%	U.S. Small Cap Stocks 14.7%	Int'l High Yield Bonds -4.1%	International Large Cap Stocks 22.0%
High Yield Bonds 14.9%	Cash 0.1%	U.S. Small Cap Stocks 16.3%	Int'l High Yield Bonds 7.3%	Int'l High Yield Bonds .01%	U.S. Mid Cap Stocks -2.4%	Emerging Markets Stocks 11.2%	International Bonds 10.5%	U.S. Large Cap Stocks -4.4%	Emerging Markets Stocks 18.4%
Int'l High Yield Bonds 14.8%	Commodities -1.2%	U.S. Large Cap Stocks 16.0%	REITs 2.9%	Cash 0.0%	Int'l High Yield Bonds -2.7%	REITs 8.6%	Int'l High Yield Bonds 10.4%	U.S. Mid Cap Stocks -9.1%	Commodities 17.6%
Commodities 9.0%	U.S. Mid Cap Stocks -1.5%	High Yield Bonds 15.8%	Cash 0.1%	Emerging Markets Stocks -2.2%	U.S. Small Cap Stocks -4.4%	U.S. Bonds 2.7%	REITs 8.7%	U.S. Small Cap Stocks -11.0%	High Yield Bonds 14.3%
International Large Cap Stocks 7.8%	U.S. Small Cap Stocks -4.2%	U.S. Bonds 4.2%	Commodities -1.2%	International Bonds -3.1%	High Yield Bonds -4.4%	International Small Cap Stocks 2.2%	High Yield Bonds 7.5%	International Large Cap Stocks -13.8%	Int'l High Yield Bonds 12.6%
U.S. Bonds 6.5%	International Large Cap Stocks -12.1%	International Bonds 4.1%	U.S. Bonds -2.0%	International Large Cap Stocks -4.9%	International Bonds -6.0%	International Bonds 1.5%	Commodities 5.8%	Commodities -13.8%	U.S. Bonds 8.7%
International Bonds 4.9%	International Small Cap Stocks -15.9%	Commodities 0.1%	Emerging Markets Stocks -2.6%	International Small Cap Stocks -5.0%	Emerging Markets Stocks -14.9%	International Large Cap Stocks 1.0%	U.S. Bonds 3.5%	Emerging Markets Stocks -14.6%	International Bonds 5.1%
Cash 0.1%	Emerging Markets Stocks -18.4%	Cash 0.1%	International Bonds -3.1%	Commodities -33.1%	Commodities -32.9%	Cash 0.4%	Cash 0.9%	International Small Cap Stocks -17.9%	Cash 2.3%

- International Bonds represented by the Barclays Global Aggregate Ex U.S. Index.
- U.S. Bonds represented by the Barclays U.S. Aggregate Bond Index.
- High-yield Bonds represented by the Barclays U.S. HY 2% Issuer Cap Index.
- Cash represented by the Barclays U.S. Treasury Bellwethers 3Mon TR USD Index.
- Commodities represented by the S&P GSCI TR USD Index.
- REITs represented by the FTSE NAREIT All Equity REITs Index.
- Emerging-market Stocks represented by the MSCI EM Index.
- U.S. Small-cap Stocks represented by the Russell 2000 Index.
- U.S. Mid-cap Stocks represented by the Russell Midcap Index.
- U.S. Large-cap Stocks represented by the S&P 500 TR Index.
- International Small-cap Stocks represented by the S&P Developed Ex-U.S. SmallCap Index.
- International Large-cap Stocks represented by the MSCI EAFE NR Index.

Past performance does not guarantee future results. An index is unmanaged and is not available for direct investment. Performance does not include payment of any expenses, fees or sales charges, which would lower the performance results. Returns include dividend reinvestment. The prices of small-cap stocks are generally more volatile than those of large-company stocks. There are special risks inherent in international and emerging market investing, including currency fluctuations and political, social and economic risks. Investments in stocks involve risk. The value of your shares will fluctuate and you may lose principal. Bonds, if held to maturity provide a fixed rate of return and fixed principal value.  
Source: MorningStar direct, 12/31/2019. Int'l high yield bonds represented by the Barclay's global high yield index.



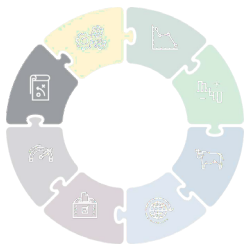
# Returns by Sector

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Consumer Discretionary 27.7%	Utilities 19.9%	Financials 28.8%	Consumer Discretionary 43.1%	Utilities 29.0%	Consumer Discretionary 10.1%	Energy 27.4%	Technology 38.8%	Health Care 6.5%	Technology 50.3%
Industrials 26.7%	Consumer Staples 14.0%	Consumer Discretionary 23.9%	Health Care 41.5%	Health Care 25.3%	Health Care 6.9%	Telecom 23.5%	Materials 23.8%	Utilities 4.1%	Communication Services 32.7%
Materials 22.2%	Health Care 12.7%	Telecom 18.3%	Industrials 40.7%	Technology 20.1%	Consumer Staples 6.6%	Financials 22.8%	Consumer Discretionary 23.0%	Consumer Discretionary 0.8%	Financials 32.1%
Energy 20.5%	Telecom 6.3%	Health Care 17.9%	Financials 35.6%	Consumer Staples 16.0%	Technology 5.9%	Industrials 18.9%	Financials 22.2%	Technology -0.3%	S&P 500 31.5%
Telecom 19.0%	Consumer Discretionary 6.1%	S&P 500 16.0%	S&P 500 32.4%	Financials 15.2%	Telecom 3.4%	Materials 16.7%	Health Care 22.1%	S&P 500 -4.4%	Industrials 29.4%
S&P 500 15.1%	Energy 4.7%	Industrials 15.3%	Technology 28.4%	S&P 500 13.7%	S&P 500 1.4%	Utilities 16.3%	S&P 500 21.8%	Consumer Staples -8.4%	Consumer Discretionary 27.9%
Consumer Staples 14.1%	Technology 2.4%	Materials 15.0%	Consumer Staples 26.1%	Industrials 9.8%	Financials -1.5%	Technology 13.9%	Industrials 21.0%	Communication Services -12.5%	Consumer Staples 27.6%
Financials 12.1%	S&P 500 2.1%	Technology 14.8%	Materials 25.6%	Consumer Discretionary 9.7%	Industrials -2.5%	S&P 500 12.0%	Consumer Staples 13.5%	Financials -13.0%	Utilities 26.3%
Technology 10.2%	Industrials -0.6%	Consumer Staples 10.8%	Energy 25.1%	Materials 6.9%	Utilities -4.8%	Consumer Discretionary 6.0%	Utilities 12.1%	Industrials -13.3%	Materials 24.6%
Utilities 5.5%	Materials -9.8%	Energy 4.6%	Utilities 13.2%	Telecom 3.0%	Materials -8.4%	Consumer Staples 5.4%	Energy -1.0%	Materials -14.7%	Health Care 20.8%
Health Care 2.9%	Financials -17.1%	Utilities 1.3%	Telecom 11.5%	Energy -7.8%	Energy -21.1%	Health Care -2.7%	Telecom -1.3%	Energy -18.1%	Energy 11.8%

Industry sector performances are based on the returns of the S&P 500 Sector Indexes, which are weighted by market capitalization and are subsets of the S&P 500. For example, the return of the Health Care industry sector is based on the return of the S&P 500 Health Care Index. 2018 reflects the newly formed Communication Services sector, replacing the Telecom sector. The renamed sector includes previously classified Telecom companies like AT&T (T) and Verizon (VZ), media companies from the Consumer Discretionary sector, like Disney (DIS) and Omnicom (OMC), and Technology companies like Facebook (FB) and Alphabet (GOOGL). An index is unmanaged and is not available for direct investment. Past performance does not guarantee future results.

Performance does not include payment of any expenses, fees or sales charges, which would lower the performance results. This information is approved for use with the public. It is intended for informational purposes only. It is believed to be reliable, but its accuracy and completeness are not guaranteed. Returns include dividend reinvestment. Dividends may be increased, decreased or eliminated at any point without notice.

Source: Morningstar Direct



# The Chances of Positive Returns Over Time

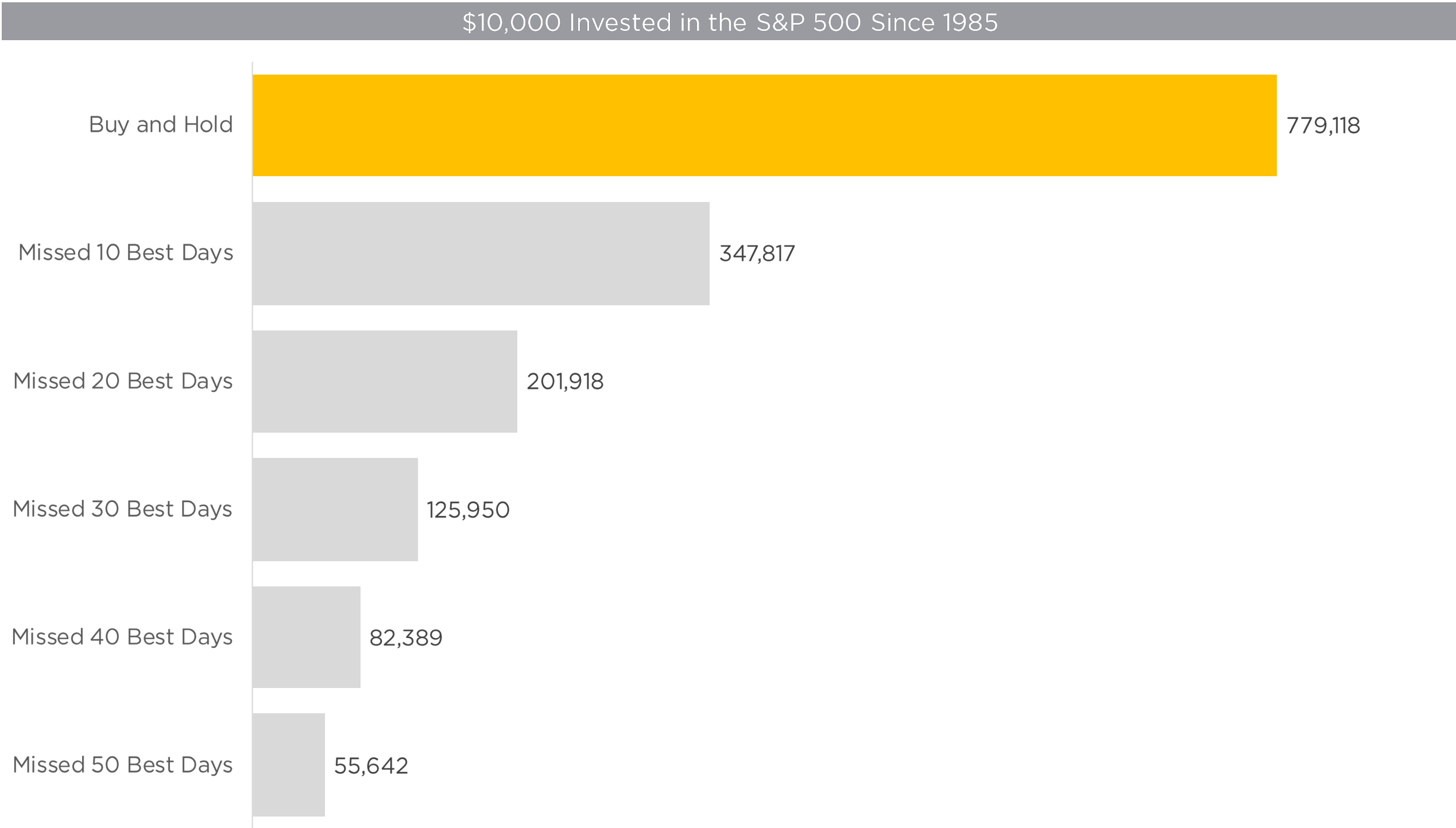
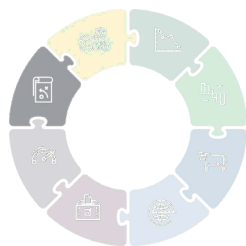
Time Horizon	100% U.S. Stocks	65% U.S. Stocks 35% U.S. Bonds	65% U.S. & International Stocks 35% U.S. Bonds
1 Month	64.5%	65.6%	66.4%
1 Year	81.7%	84.4%	86.5%
3 Years	88.1%	90.2%	90.4%
5 Years	89.6%	99.1%	99.1%
10 Years	93.7%	99.7%	100.0%

Source: Morningstar Direct, 1/1/1976 - 2/7/2020. The hypothetical portfolios are for illustrative purposes only. Results may vary for a portfolio with similar holdings. The hypothetical portfolios consist of: 1) 100% stocks represented by the S&P 500 Total Return Index. | 2) 65% stocks represented by the S&P 500 Total Return Index and 35% bonds represented by the Barclays U.S. Aggregate Bond Index. | 3) 48.75% U.S. stocks represented by the S&P 500 Total Return Index, 16.25% international stocks represented by the MSCI EAFE NR Index, and 35% bonds represented by the Barclays U.S. Aggregate Bond Index. The hypothetical portfolios are for illustrative purposes only. Results may vary for an individual portfolio with similar holdings. Indexes are unmanaged and are not available for direct investment. Investing in stocks involves risk. The value of your shares will fluctuate, and you may lose principal. The prices of bonds can fluctuate, and an investor may lose principal value if the investment is sold prior to maturity.

Diversification does not guarantee a profit or protect against loss in declining markets.

Past performance is no guarantee of future results. Special risks are inherent to international investing, including those related to currency fluctuations and foreign political and economic events.

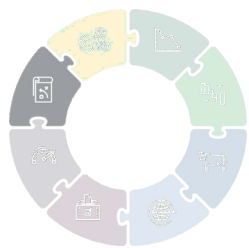
# Don't Chase Performance



Source: FactSet, Edward Jones calculations, 5/15/2020.  
Past performance is not a guarantee of future results. The S&P500 is an unmanaged index and not available for direct investment.



# Understanding Volatility



Source: Ned Davis, 12/31/2019. Copyright © Ned Davis Research, Inc. All right reserved. Further distribution prohibited without prior permission. Past performance is not a guarantee of what will happen in the future.

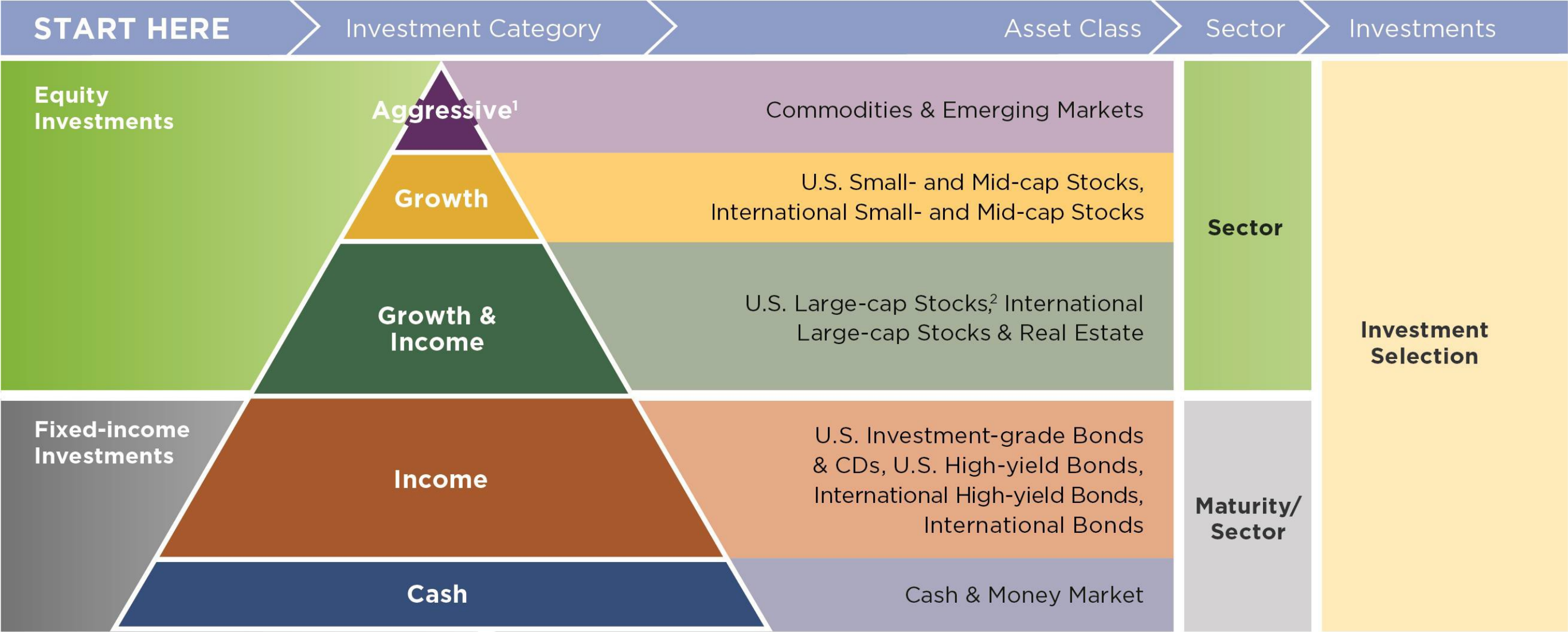
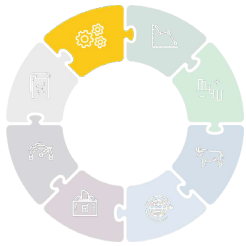


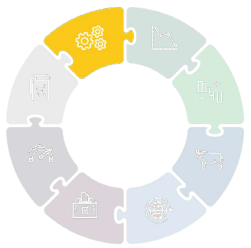
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How can I put all  
the pieces  
together?

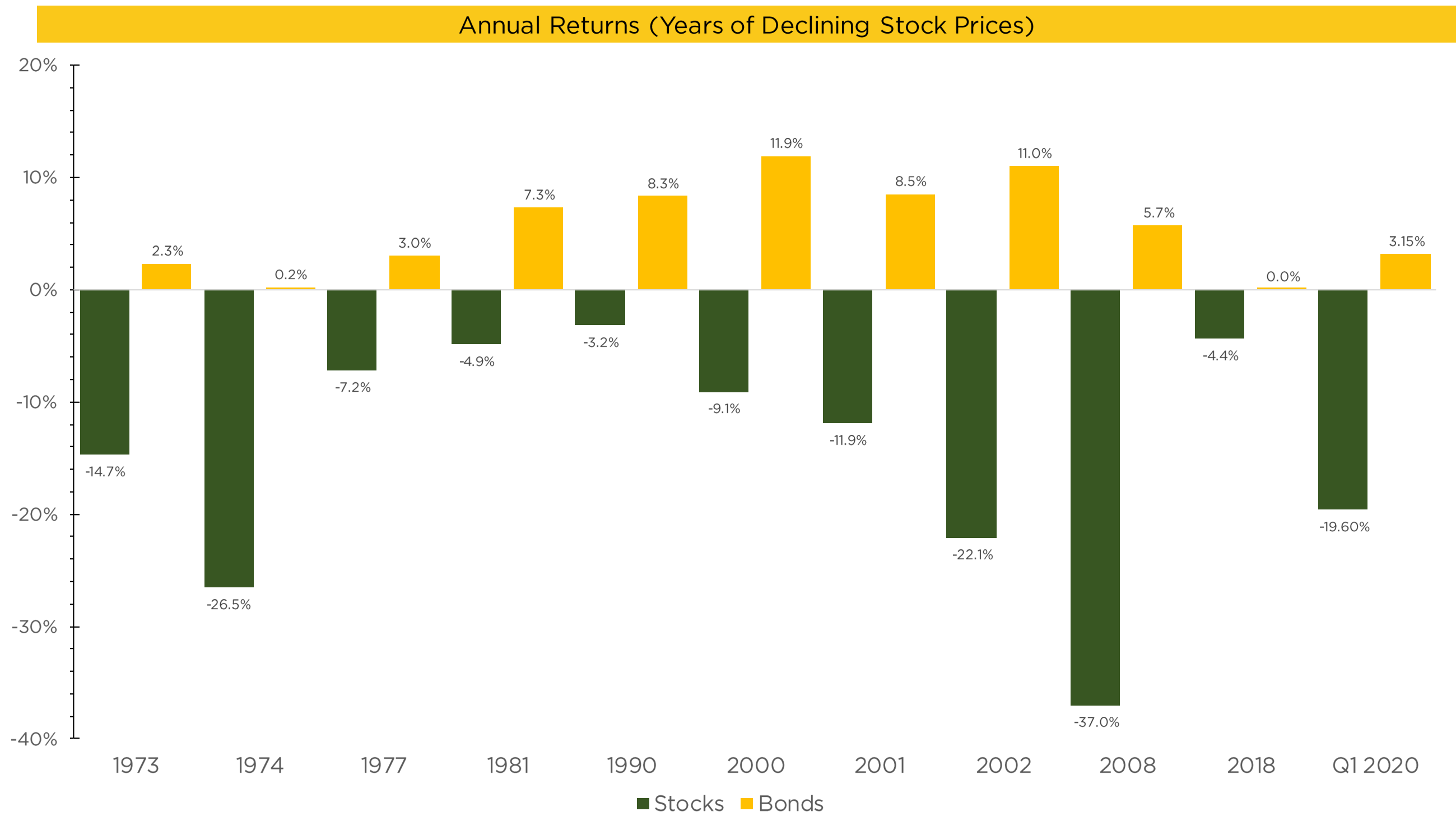


# Portfolio Construction

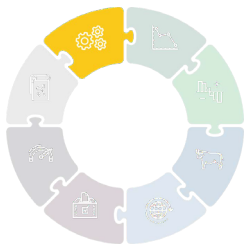




# Stock and Bonds Often Move in Opposite Directions



Source: Morningstar, total return. Stocks represented by the S&P 500 total return index. Bonds represented by the Barclays U.S. Aggregate Bond Index. Investment indices are unmanaged and cannot be invested in directly. Past performance is not a guarantee of future results.



# Staying Invested in a Balanced Portfolio

	Bear Market Tech Crash '00-'02	Bull Market Housing Boom '02-'07	Bear Market Financial Crisis '07-'09	Bull Market Current Expansion '09-'19	Entire Period Return '00-'19
Stock Market	-46%	115%	-55%	493%	217%
Balanced Portfolio	-20%	84%	-34%	168%	217%

Stock market measured by the total return of the S&P 500 index.  
Balanced portfolio measured by 65% equities and 35% Barc Bond Fund Rebalanced Annually  
Periods: 3/23/2000-10/9/2002, 10/9/2002-10/9/2007, 10/9/2007-3/9/2009, 3/9/2009-12/31/2017, 12/31/2017-12/31/2019, 3/23/2000-12/31/2019.

*Past performance is not a guarantee of future results. The indexes represented are unmanaged and not available for direct investment. The hypothetical portfolios are for illustrative purposes only. Results will vary for a portfolio with similar holdings.*



# Summary

The economy entered recession this year as a result of the global coronavirus pandemic, ending the longest expansion in U.S. history.

Despite significant short-term headwinds associated with the virus, we think investing in the U.S. market continues to be attractive because of:

- Positive conditions before the pandemic, including solid household balance sheets
- Low interest rates
- Modest inflation
- Highly accommodative monetary policy

Remember that pullbacks can create opportunities to add quality investments at lower prices.

As volatile times come and go, focus on the bigger picture of your long-term goals.

Seek opportunities for a complete investment mosaic this year and throughout your investment horizon.

# Questions & Answers

# Thank You