Quarterly Market Review - Fourth Quarter 2020

Harpswell CAPITAL ADVISORS, LLC

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Long War on Disinflation

The Vietnam Conflict dragged on for 20 years because national policymakers and much of the American public believed in a false paradigm, or at least, an incomplete paradigm for what was going on. For the Americans, North Vietnam was a proxy of the Soviet Union and China in their war on the free world. If South Vietnam fell, there would be an ensuing domino effect in southeast Asia. For the North Vietnamese themselves, it was a war of independence from European colonialism more so than a communist revolution. Propping up a South Vietnamese government allied to western democracy and keeping the North out of the Soviet/Chinese orbit ended up being mutually exclusive goals.

American policymakers would only come to accept, after the fact, that they had been misled by the paradigm of global communist contagion. If they had an inkling this was the case at the time, their doubts were probably overcome by institutional inertia and by confidence in the military tools at their disposal. *(continue to page 3)*

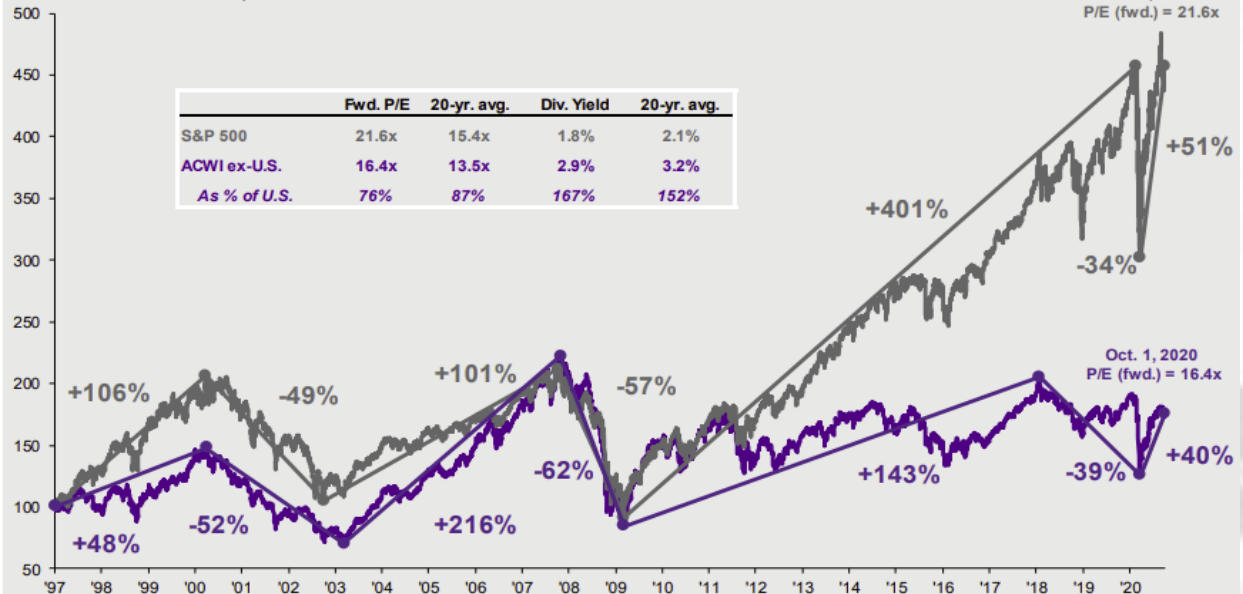
Harpswell's Market Outlook

Harpswell maintains its posture with respect to our avoidance of postulating on COVID-19 theories and prospective outcomes. We can say that, aside from the uncertainties associated with the virus, heightened volatility is most certainly in the cards for the markets in the years ahead. Extraordinary debt levels combined with central banks' and global governments' affinity to avoid any market sell-off by printing currency or issuing debt is a moral hazard just waiting to fail. However, as we have noted on numerous occasions over the last decade, the market is adept at whistling by the graveyard and it can shake off concerns over looming doom for years.

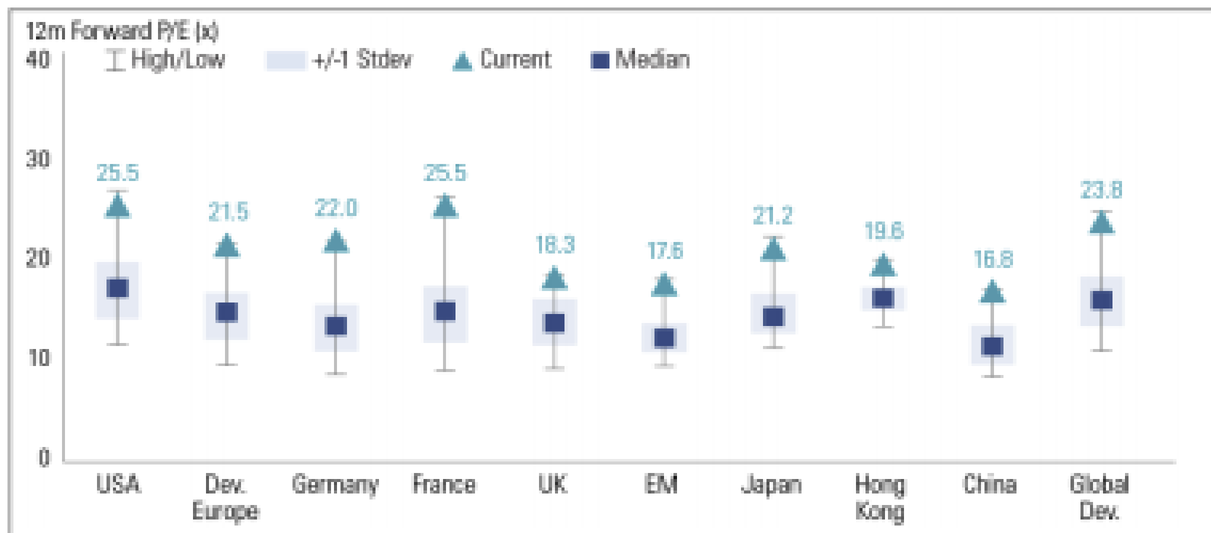
Domestic equity markets continue to bifurcate along the lines of both value and growth as well as large and small cap stocks. Year-to-date, large cap growth stocks are up 25.8% while small cap growth stocks are down 20.4% (Sept 30, 2020). These returns are on the heels of a 34% selloff in 1Q2020 and the ensuing 51% rebound since then. International stocks fell 39% and only rebounded by 40%. Thus, developed ex-US international markets (EAFE) are down 6.7% (YTD) while emerging markets are down 0.9% (Sept 30, 2020).
(continue to page 2)

	Value	Blend	Growth
Large	-11.4%	6.1%	25.8%
Mid	-12.2%	-1.4%	15.5%
Small	-20.4%	-7.3%	5.6%

Market Outlook *(continued from cover)*



Valuations remain stretched and are well above historic averages for the last 10 years. Harpswell sees low interest rates as the foundation for elevated valuations as securities are ultimately valued by the discounted value of expected cashflows, and if the discount rate goes down, valuations rise. Conversely, future dividends, and earnings, are worth less when interest rates are high and we would expect rising rates, when it eventually occurs, to be a headwind for equity markets.



Market Outlook *(continued from page 2)*

Fixed Income: Interest rates continue to fall as they retreat in a forty-year bull market for bonds. When interest rates fall, the price and total return on bonds rise. Thus, as interest rates have dropped since 1980, investors have enjoyed outsized returns. These returns are very unlikely to be replicated over the next decade.

Historical Data: Freddie Mac. (c) TheMortgageReports.com

Year-to-date, bonds have produced very attractive returns and higher quality government bonds took the lead. US Treasuries earned 8.9% YTD (Sept 30, 2020) while investment grade corporate bonds returned 5.3%. High yield bonds, which are riskier and typically less impacted by changing interest rates, were down 1% in 2020.

Rates are noteworthily low, with 10-year treasuries yielding only 0.68% and most medium-term investment grade corporate bonds yield less than 2%. We can see the once-unthinkable negative interest rates as a reasonable phenomenon in the next year.

Negative interest rates concern the Harpswell team as we see negative interest rates as the canary in the coal mine, potentially indicating higher prospects for deflation. The team sees deflation and government liquidity (the US's inability to issue new bonds) as the precursor to market selloffs which would dwarf 2008 and 2020.✦

Long War on Disinflation *(continued from cover)*

The idea of false paradigms, overconfidence, and inertia are worth bringing up because we may have all three in the realm of monetary policy. Economists and investors are wondering what comes next, now that we have historically high unemployment, historically high government-debt-to-GDP and a Federal Reserve policy rate that is already at zero. Some find a historical parallel to our massive debt in the post WWII period, when the Federal Reserve intervened to cap the yield on 10-year Treasuries at 2.5% (despite inflation running slightly higher), thereby helping the Treasury wipe away the war debt. Others foresee a parallel to the stagflation of the 1970s, characterized by low growth, high unemployment, and severe bouts of inflation (over 10% in some years). These comparisons come at a time when the Federal Reserve is promising to allow inflation to overshoot its 2% target to make up for past inflation below 2%. That policy, unveiled at the end of August, was the result of a comprehensive review of monetary policy launched in 2019, before the COVID-19 Pandemic emerged.

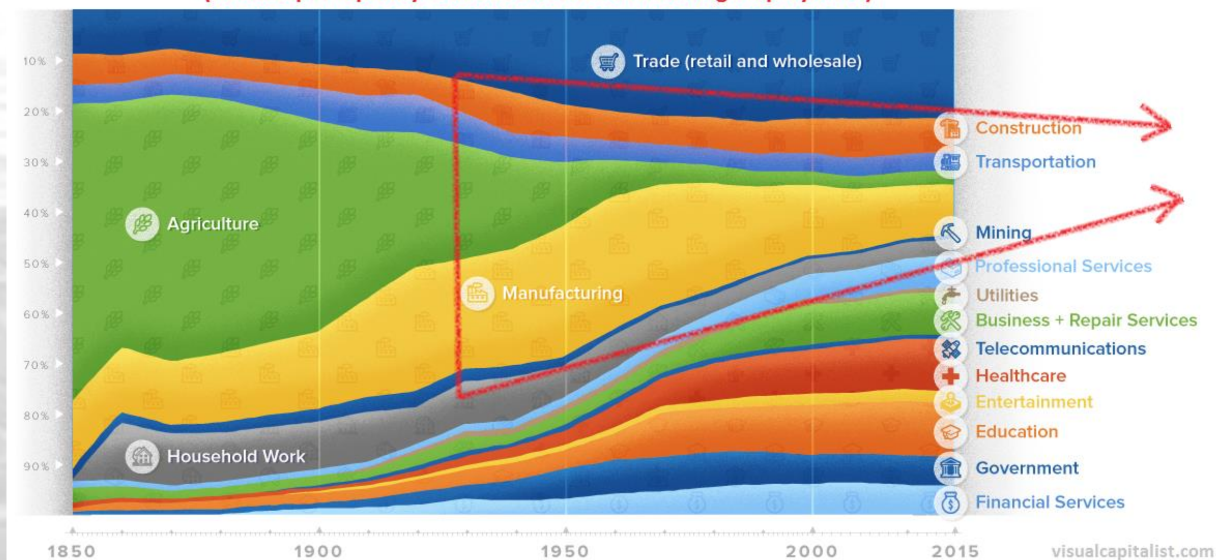
Our monetary policymakers have been in the paradigm of fighting disinflation (below-target inflation) since we entered an abrupt regime shift in the rates of employment and economic growth in 2008. Their tools are essentially liquidity-encouragement tools and inflation-expectations-management tools. To increase inflation expectations, they declare to investors (and now even to the general public on 60-minutes and NPR interviews), that they have a printing press and they're going to use it. This is meant to convince potential borrowers and investors that inflation is coming, so go ahead: borrow, spend, and invest.

Long War on Disinflation *(continued from page 3)*

To encourage liquidity, they print permission slips called bank reserves (which are not actual money) and hand them out to banks. From there it's up to the private banking system to actually lend the money into existence. The combination of these tools is meant to encourage the transformation of short-term money (working capital) into long-term productive assets (fixed capital), and this transformative process is meant to require the employment of people.

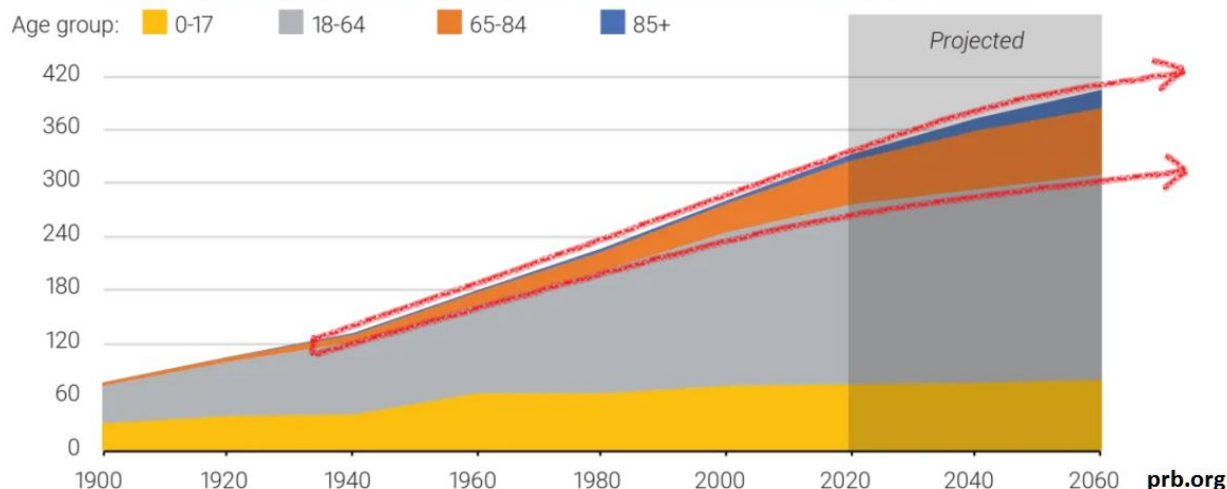
So, what is broken or incomplete about the monetary policy paradigm? Does basically-free short-term capital actually encourage the formation of long-term capital, and does that activity transmit into more jobs and consumer spending (from which rising inflation should be the result)? The problem may be that a simple quantitative model is being applied to a qualitatively diverse economy. The real economic actors (on the production side and consumption side) may not fit the model in several important ways.

For starters, when technology-enabled services can be produced in limitless quantity with essentially zero marginal cost, a little bit of working capital in the hands of the right entrepreneurs is extremely deflationary and not a big boost to employment. At the same time, a whole lot of cheap working capital in the hands of zombie companies (those who earn just enough revenue to service their debt but not enough to pay it off) is also deflationary, because their goods and services are still coming to market while their employment growth remains static. Goods and services that roll off the global supply chain continue to get better and/or cheaper, while goods and services that require a skilled human touch become more expensive. The former effect overwhelms the latter, and the inflation statistics referenced by the central bankers continue to signal disinflation.



Long War on Disinflation *(continued from page 4)*

The model continues to fail on the consumption side as cheaper working capital fails to produce employment gains. When young workers receive a paycheck, they typically leverage that paycheck to access increasing levels of consumption, which bids up the prices of consumer goods. Durable goods in particular benefit from the household-formation stage of life, and providing those goods requires fixed capital investment. Borrowing to consume also creates financial assets in the banking system, and these assets become collateral for more credit creation. However, when a company uses new borrowing to roll over old debts, cheaper financing just means lower coupon payments to bond holders. Retired people receiving bond coupons already don't go through a lot of durable goods or ignite more credit creation by borrowing to consume. They extinguish the credit-expansion process by consuming at or below the level allowed by their savings and social security, which is deflationary.

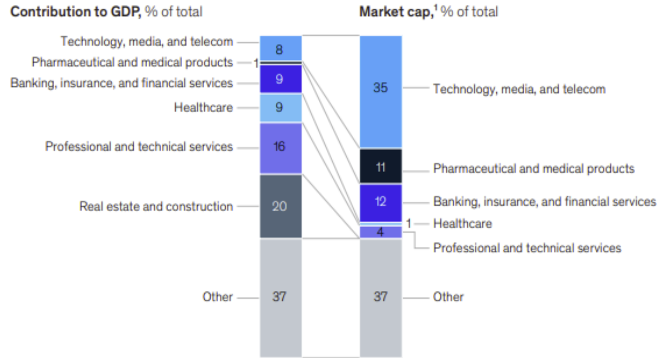


If the model isn't accurate when it predicts a beneficial chain reaction, from cheaper liquidity to capital transformation and employment, why is the model believed without question when it predicts a destructive chain reaction, from lower prices to bankruptcies and mass unemployment? That deflationary chain reaction, of which the Great Depression is the prime example, is the domino theory behind everything the central bankers have done since 2008. Just like the domino theory behind the Vietnam conflict, it is accurate in some respects but not a complete description of reality, and it prescribes a course of action that is in many ways counterproductive.

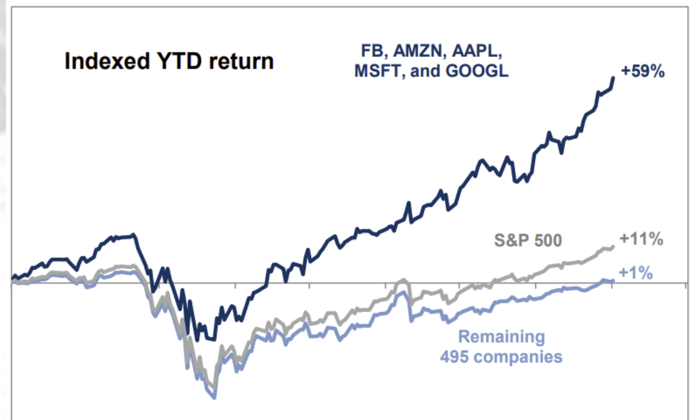
Now that we are starting a new decade with an abrupt deflationary shock and a period of economic fallout from the COVID-19 crisis, a re-evaluation of the policy paradigm seems even less likely. What has changed is that the deflationary forces, and the willingness of central bankers to tolerate higher inflation, are both greater than before. This combination means the war on disinflation will most likely grind on without success, but - at the same time - with a danger of extreme outcomes in either direction. ✥

What's Halloween without FANGS?

The infamous FANG stocks account for the unprecedented concentration of the largest domestic companies in the S&P 500. These stocks (Microsoft, Apple, Amazon, Facebook and Alphabet) now comprise over 25% of the S&P 500 and over 30% of the Russell 1000 index. As the graph below highlights, this concentration handedly exceeds that from the tech bubble.



This concentration is the byproduct of a narrow section of the market rocketing upward. These stocks, just as their peers two decades ago, represent the economy of tomorrow and they reflect optimism in their ability to maintain a dominant position relative to competitors and new arrivals. However, we see a disconnect between these stocks and their respective contributions to GDP.



World's Largest Companies					
1999	2004	2009	2014	2019	2030??*
Microsoft	GE	PetroChina	Apple	Microsoft	NEW FANG
GE	Exxon	Exxon	Exxon	Amazon	TenCent
Cisco	Microsoft	ICBC	Alphabet	Apple	Alibaba
Exxon	Pfizer	Microsoft	Microsoft	Alphabet	Amazon
Walmart	Citi	ChinaMobile	Berkshire Hathaway	Facebook	JPMorgan
Intel	Walmart	Walmart	Johnson-Johnson	Berkshire	Walmart
NTT	BP	China Construction	Shell	Alibaba	Biotech
Lucent	AIG	Petrobras	GE	Tencent	Biotech
Nokia	Intel	Johnson-Johnson	Wells Fargo	Visa	New Asian Tech
BP	Band of America	Shell	Roche	Johnson-Johnson	Alphabet – new iteration

- *Harpswell's Conjecture – not regarded as investment recommendations.

Do Elections have Consequences?

As we approach the 2020 elections, the markets remain remarkably calm considering the heightened prospects for change. While changes seem plausible, and the consequences appear to be material, do party politics drive market returns?

James Carville coined the phrase "it's the economy stupid" in the 1992 elections as Bill Clinton defeated George Bush (41). While there were many factors at play, few debate the notion the economy played a major role in 41's defeat. In fact, as the chart below highlights, for the last 100 years, elections during recessions and depressions didn't work out well for incumbents.

A Recession or Depression is a Surefire Way to Lose an Election

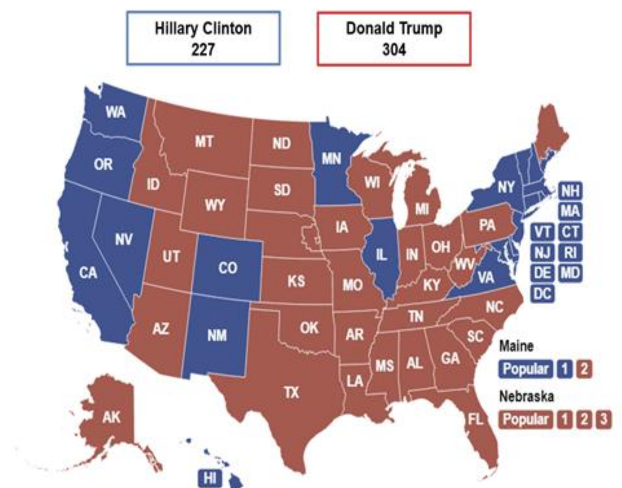
President	Herbert Hoover	Gerald Ford	Jimmy Carter	George H. W. Bush	Donald Trump
Years in Office	1929–1933	1974–1977	1977–1981	1989–1993	2017–Present
Lost Election (Successor)	1932 (FDR)	1976 (Jimmy Carter)	1980 (Ronald Reagan)	1992 (Bill Clinton)	?
Unemployment Rate	23.6%*	7.8%*	7.5%*	7.4%*	10.2%
Recession or Depression?	Yes	Yes	Yes	Yes	Yes
Annualized Return	(35.6%)	14.4%	5.7%	13.5%	11.2%

Past performance does not guarantee future results.
As of July 31, 2020
*Unemployment Rate at time of Election.
Annualized Return of Dow Jones Industrial Average during Presidential Term.
Source: Bloomberg and AB

2020 – coming down to the wire

There are many folks who are still wondering what happened in the 2016 elections. While the popular polls were reasonably accurate in 2016, the electoral college drove us in a different direction. Once again, all eyes are on a few key states: Arizona, Ohio, Pennsylvania, Michigan, and Florida.

In 2016, Hillary's popular vote trumped Trump: 65,853,514 vs 62,984,828. While the margin was almost 3 million voters, she only received 227 electoral votes. The first candidate to 270 votes wins the race.



Do Elections have Consequences? *(continued from page 7)*

Looking ahead, the map below highlights the battlefield states. The tan colored states are expected to be where the election will be won and lost. We would expect both candidates to focus exclusively on these states and only give the blue and red states moderate attention.

2020 Electoral Map: The Sun Belt and Midwest Will Determine the Election

What are the consequences of 2020?

While there are several key policy considerations associated with various political outcomes, Harpswell's primary near-term concern relates to taxes on stock gains. Historically, a moderate increase in capital gains has resulted in a meaningful sell off and the proposed change by the Biden campaign is greater than that we have seen in the past. We think investors will anticipate a retroactive change dating back to January 1 and therefore a flood of selling could materialize between November 3rd and December 31st.

Other policy differences associated with various election outcomes are highlighted in the chart below. We would expect both candidates' and parties' agendas to ultimately be watered down to some degree. While a Red or Blue wave would move us away from the center, we have faith in the nation and feel some degree of diplomacy will prevail.

Do Elections have Consequences? *(continued from page 8)*

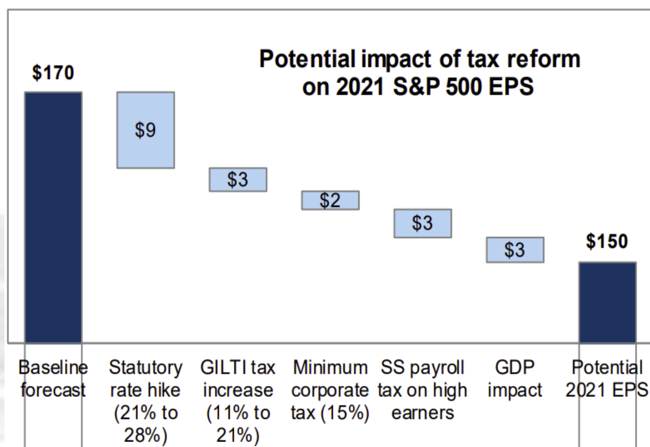
Impact of 2020 Elections*				
	Red Wave	GOP White House/Democratic Senate	Blue Wave	Democratic White House / GOP Senate
Executive Orders	Continued erosion of Obama era policies and further deregulation	Continued erosion of Obama era policies and further deregulation	Repealing Trump era policies on trade, environment, healthcare and labor	Reduce Trump era policies on trade, environment, healthcare and labor
Legislature	Continued deregulation and moderated COVID support	Policy standstill & No new judges; expect more executive orders	Expand the Supreme Court, new judges, higher taxes, reregulation	More executive orders restoring Obama era policies; gridlock on legislation
Taxes	Targeted reductions in the short-term – HIGHER long—term. Higher state burden	Limited short-term reductions – long-term increases. Higher state burden	Progressive increases immediately. Higher corporate taxes and support for states and municipalities.	Moderate increases immediately, higher corporate taxes. Moderate municipal support
Trade	Accelerated Trade war with retaliation(s)	Slightly moderated tensions	DEFCON 5 – trade tensions ease	DEFCON 4 – trade tensions ease
Energy	Fracking wins – renewables take a backseat	Fracking takes a hit, renewables keep momentum	RIP fracking. Green, green green! Increased production from Iran	Fracking takes a big hit, renewables progress, reduced sanctions increase production from Iran
U$ Dollar	Weaker Dollar driven by debt funded stimulus	Moderate short-term dollar strength	Short-term dollar strength. Longer-term weakness	Status quo
Sectors Most Impacted	Energy (+) Pharma (-)	Energy (+) Infrastructure (+) Pharma (-)	Energy (-) Renewables (+) Pipelines (--) Insurance (-)	Energy (-) Pipelines (-) Autos (+)
***Not regarded as investment advice.**				

Do Elections have Consequences?

(continued from page 9)

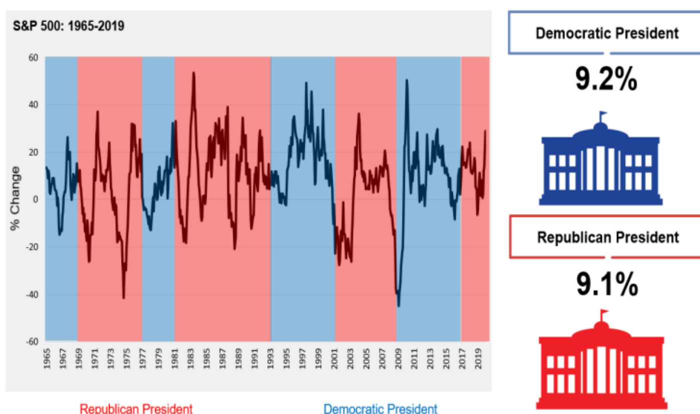
Impact of Taxes on the S&P 500

As the graph below illustrates, a Biden victory would likely result in a reduction in 2021 S&P 500 earnings from $170 to $150. The biggest impact off the baseline estimate ($170) would result from the increased taxes. The anticipated downward revision to GDP accounts for a smaller portion of the impact.



So what's the bottom line?

With all of that said, it appears as though the political party of the White House occupant has had a de minimis impact on market returns. From 1937 to December 31, 2019, the markets earned 9.2% when a democrat held the office and 9.1% when the GOP was in power.



Past performance does not guarantee future results. An investor cannot invest in an index.
As of December 31, 2019
Returns reflect annualized returns for each Presidential Term dating back to 1937, based off the Dow Jones Industrial Average.
Source: Thomson Reuters, Bloomberg and AB

Brief History of Silver

Silver started the year at $18/ounce and made a 7-year high of $28 in August, ending the quarter at $24. While the idea of transacting in silver coins seems outlandish today, it's useful to take a look at the history of silver as money, and the unexpected relationship between hard money and credit money.

The use of silver as money started 5,000 years ago with the silver shekel in Mesopotamia (modern day Iraq). During the first 2,000 years of its use, however, silver wasn't being passed around as coins. The shekel was actually a unit of weight (from the Semitic verb root sh-k-l meaning "to weigh something"), but that doesn't mean people spent 2,000 years weighing out lumps of silver for every transaction. Typical on-the-spot transactions, and more importantly debt arrangements and the settlement of debts, were carried out much like in modern times, by making accounting entries. These entries were recorded on clay tablets in a script that wasn't deciphered until the 1850s.

Silver, then, was the standard, not the medium, of accounting and exchange. The metal itself was used for ornamental purposes by temples and wealthy families, and for political/ceremonial tribute payments.

Brief History of Silver *(continued from page 10)*

For common people, the shekel-standard pertained to wages, property inheritance, and legal settlements. A shekel of wheat was the amount it took to sustain a laborer for a month. There were 60 shekels in a mina, or five years' worth of wages for a laborer. Interest was charged at a rate of one shekel per mina per month, a 20% annual rate. Finally, there were 60 minas in a talent. It was primarily at this higher-level that the metal itself was used in transactions between religious and political elites.

Money-as-accounting-entries is a system that only works so long as the obligations are enforceable. People have historically adopted hard money and transactional relations over credit money and ongoing relations when political certainty and social interconnectedness are lost, which happens when there is war and political fragmentation, or internationalization of trade, which tend to occur simultaneously. This was the backdrop for the invention of the first coins in the Lydia (modern day Turkey) around 600 BC, as well as for the resurgence of coins in Europe during the protestant reformation in the 16th century.

American English gets the word "dollar" from this later period. In German a "thaler" was a large silver coin minted in the town of Joachimsthal (modern day Jachmov in the Czech Republic). Joachimsthal means "Joachim's Valley" and a silver coin from there was called a "Joachimsthaler", later shortened to "thaler". These silver coins circulated in northern German states beginning in the 16th century, as political boundaries shifted and religious sects waged war on each other. Before sailing to the New World to establish the Plymouth Colony, hundreds of English separatists spent a decade trying to settle in Holland, which was a rare haven from sectarian conflict at the time. It was probably there that they became familiar with the German "thaler" and brought the word "dollar" to America.

For each of us today, our own future can be thought of as a foreign country that we haven't been to yet. When we perceive the future as a threatening, chaotic place, we become very cautious about entering financial arrangements with the people living there. For savers, this often means looking for a safe haven, like silver, to protect their money from inflation. At the same time, people in the business of lending money into existence (private banks) originate fewer loans, which leads to less inflation, until optimism and trust in the future can be restored. ✥

Fiscal 2020 Endowment Returns

Returns for college and university endowments were not noteworthy in FY 2020 (12ME June 30, 2020). It appears core returns were generally in the 5%-8% range for the top tier endowments with Brown University being the most noteworthy outlier. We reached out to a colleague who is a member of Brown's Investment Committee to inquire about what drove returns: "People. Process. Integration. Manager selection. Duration".

Cambridge Associates mean return was 0.8% and the returns for the top 5 percentile were 4.9%. Furthermore, returns were clearly correlated with the size of the endowment, as they typically are.

We wanted to help put the figures in context relative to the overall market. If you were simply invested in the S&P 500 Index as well as the Barclays bond aggregate, the 60/40 and 70/30 respective returns would have been 8.58% and 8.38%. If you replaced with S&P 500 with a global stock index (ACWI), returns were 5.61% and 4.94%. This data highlights how bonds outperformed equities and domestic equities outperformed international equities.

Fiscal 2020 Endowment Returns *(continued from page 11)*

Furthermore, the endowment returns listed below suggest alternative investments (venture capital, private equity and hedge funds) underperformed stock and bond indices.

While Harpswell did not include our returns, we can say we are quite pleased and would be more than happy to share our figures if you would be interested in discussing.

College / University	FY2020 Returns	College / University	FY2020 Returns
MIT	8.3%	Cornell	1.9%
Yale	6.8%	Columbia	5.5%
Dartmouth	7.6%	Amherst	6.6%
Bowdoin	5.9%	Villanova	4.6%
Princeton	5.7%	Rice	-0.7%
Harvard	7.4%	Williams	3.3%
Duke	0.7%	U Chicago	3.2%
Vanderbilt	-0.1%	Wellesley	8.8%
Penn	3.4%	Wesleyan	8.8%
Virginia	5.3%	Brown	12.1%
Notre Dame	7.4%	Texas	2.2%
Amherst	6.6%	Oberlin	4.7%
Denison	4.8%	Michigan	2.3%
U. Maine System	1.1%	U. Maine Foundation	0.8%
Cambridge Associates Mean	0.8%	Cambridge Associates top 5%	4.9%

Maine's Maud Muller inspires Whittier

"Maud Muller" is a poem written in 1856 by John Greenleaf Whittier (1807–1892). The poem was actually inspired by an experience Whittier had in York, Maine in 1855. Furthermore, if you are so inspired, you can visit the "Maud Muller" spring in York. There is a granite marker which commemorates the location and the poem. Reach out if you would like the details on the location.

The poem is about a warm, albeit brief, conversation a local judge has with a charming woman who is raking hay in a field. The two dream about an idyllic future the two could share yet matrimony never materializes as they remain confined by timeless class barriers.

"Maud Muller" 's most well-known quotation has fueled emotions in aesthetes for generations: "For of all sad words of tongue or pen, the saddest are these: 'It might have been!'"

MAUD MULLER on a summer's day,
Raked the meadow sweet with hay.

Beneath her torn hat glowed the wealth
Of simple beauty and rustic health.

Singing, she wrought, and her merry glee
The mock-bird echoed from his tree.

But when she glanced to the far-off town,
White from its hill-slope looking down,

The sweet song died, and a vague unrest
And a nameless longing filled her breast,—

A wish, that she hardly dared to own,
For something better than she had known.

The Judge rode slowly down the lane,
Smoothing his horse's chestnut mane.

He drew his bridle in the shade
Of the apple-trees, to greet the maid,

And asked a draught from the spring that flowed
Through the meadow across the road.

She stooped where the cool spring bubbled up,
And filled for him her small tin cup,

And blushed as she gave it, looking down
On her feet so bare, and her tattered gown.

"Thanks!" said the Judge; "a sweeter draught
From a fairer hand was never quaffed."

He spoke of the grass and flowers and trees,
Of the singing birds and the humming bees;

Then talked of the haying, and wondered whether
The cloud in the west would bring foul weather.

And Maud forgot her brier-torn gown,
And her graceful ankles bare and brown;

And listened, while a pleased surprise
Looked from her long-lashed hazel eyes.

At last, like one who for delay
Seeks a vain excuse, he rode away.

Maud Muller looked and sighed: "Ah me!
That I the Judge's bride might be!

"He would dress me up in silks so fine,
And praise and toast me at his wine.

"My father should wear a broadcloth coat;
My brother should sail a painted boat.

"I 'd dress my mother so grand and gay,
And the baby should have a new toy each day.

"And I 'd feed the hungry and clothe the poor,
And all should bless me who left our door."

 (continued from page 13)

The Judge looked back as he climbed the hill,
And saw Maud Muller standing still.

"A form more fair, a face more sweet,
Ne'er hath it been my lot to meet.

"And her modest answer and graceful air
Show her wise and good as she is fair.

"Would she were mine, and I to-day,
Like her, a harvester of hay;

"No doubtful balance of rights and wrongs,
Nor weary lawyers with endless tongues,

"But low of cattle and song of birds,
And health and quiet and loving words."

But he thought of his sisters, proud and cold,
And his mother, vain of her rank and gold.

So, closing his heart, the Judge rode on,
And Maud was left in the field alone.

But the lawyers smiled that afternoon,
When he hummed in court an old love-tune;

And the young girl mused beside the well
Till the rain on the unraked clover fell.

He wedded a wife of richest dower,
Who lived for fashion, as he for power.

Yet oft, in his marble hearth's bright glow,
He watched a picture come and go;

And sweet Maud Muller's hazel eyes
Looked out in their innocent surprise.

Oft, when the wine in his glass was red,
He longed for the wayside well instead;

And closed his eyes on his garnished rooms
To dream of meadows and clover-blooms.

And the proud man sighed, with a secret pain,
"Ah, that I were free again!

"Free as when I rode that day,
Where the barefoot maiden raked her hay."

She wedded a man unlearned and poor,
And many children played round her door.

But care and sorrow, and childbirth pain,
Left their traces on heart and brain.

And oft, when the summer sun shone hot
On the new-mown hay in the meadow lot,

And she heard the little spring brook fall
Over the roadside, through the wall,

In the shade of the apple-tree again
She saw a rider draw his rein.

And, gazing down with timid grace,
She felt his pleased eyes read her face.

Sometimes her narrow kitchen walls
Stretched away into stately halls;

The weary wheel to a spinnet turned,
The tallow candle an astral burned,

And for him who sat by the chimney lug,
Dozing and grumbling o'er pipe and mug,

A manly form at her side she saw,
And joy was duty and love was law.

Then she took up her burden of life again,
Saying only, "It might have been."

Alas for maiden, alas for Judge,
For rich repiner and household drudge!

God pity them both! and pity us all,
Who vainly the dreams of youth recall.

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For further information please contact Harpswell Capital Advisors at
www.harpswelladvisors.com | info@harpswelladvisors.com | 877.427.7227

 (continued from page 14)

For of all sad words of tongue or pen,
The saddest are these: "It might have been!"

Ah, well! for us all some sweet hope lies
Deeply buried from human eyes;

And, in the hereafter, angels may
Roll the stone from its grave away!

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www.harpswelladvisors.com | info@harpswelladvisors.com | 877.427.7227

September 2020 Flash Report

Overview: Economy – August sales rose by 0.6% relative to July, the slowest pace since April lows. While Online Retail & Grocery sales strengthened, service sector businesses such as travel, bars and restaurants continue to lag as social distancing continues. Rent collection has improved since April for both office space and apartments but could be pressured from the expiration of eviction freezes and supplemental unemployment benefits. **Budget Deficit** – The Congressional Budget Office estimated that the deficit will triple in 2020 to $3.3 trillion, up from $1.0 trillion in 2019, representing 16% of projected GDP. **Employment -** 837,000 individuals filed new jobless claims in the last week of September, marginally below the 873,000 reported for the prior period. Continuing claims are estimated to be just below 12 million. **Federal Reserve -** Given the ongoing pandemic recession , Federal Reserve policymakers signaled this month that their benchmark short-term interest rate could remain at zero at least through 2023 and probably even longer.

Equities: Domestic – Markets turned negative in September as investors focused on new viral outbreaks and concerns that the economic recovery is losing momentum. The **S&P 500** lost 3.8% ending with a 5.6% return YTD.

In a reversal from previous months, Value stocks protected capital better than Growth companies, losing 2.5% versus 4.7%, respectively. Tech stocks lost their luster this month as investors became concerned with high valuations and a slowing recovery. Energy continues to be the worst performing sector as the pandemic recession weighs heavily on demand for oil.

The **R2000** lost 3.3% in September and remains negative by 8.7% in 2020. Small Value stocks have lost nearly 21.5% this year.

International – **EAFE** lost 2.6% in Sept where the European markets were much weaker than the Pacific region. Brexit concerns continue to hamper Europe. EAFE has a 6.7% loss for the year. A stronger Dollar lowered the month's return by 1.6% but a weakening Dollar in 2020 has added 2.4% YTD.

Emerging Mkts – Emerging markets were negative in September, losing 1.6% but fared much better than EAFE or the US. China lost 2.7% but remains positive for the year by 16.6%. Latin America was particularly weak with Brazil losing 7%. The country closed down nearly 41% for the year.

Fixed Income: The Fed continued to hold rates at near zero and indicated that it intends to do so for some time. Short term yields were basically unchanged and closed at 0.90% for the **90 Day T-bill.** The **10 Year Treasury** yield fell slightly by 2bps to 0.68%. The yield curve remains slightly positive across all maturities. The **30 Year Treasury** yield closed at 1.46%, again virtually unchanged from last month.

Municipal yields were mixed in Sept. The **1 Year Municipal** yield closed at 0.13%, down 2bps again trading at a slight premium to the comparable Treasury. The **30 Year Municipal** yield closed at 1.67%, higher by 5bps; a 21bps premium versus the **30 Year Treasury**. Tax-exempt yields closed at a premium to Treasuries across most maturities with spreads widening on the longer end.

International yields moved lower in September. **German** rates moved lower by 5bps ending with a negative 0.71% yield for the **2 Year Bund** and by 12bps ending with a negative 0.52% yield for the **10 Year**. The **UK 10 Year Gilt** yield fell by 8bps to 0.23%. The **Japanese 10 Year Gov't** bond yield fell by 3bps to 0.01% in September. The **2 Year Yield** moved down by 2bps to negative 0.14%.

High Yield bonds lost 1.0% in September closing with an average yield of 5.7%. The Aggregate Bond Index was slightly negative in the month reflecting an approximate yield of 2.2%.

	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
Domestic Equities						
Dow Jones	-2.2%	8.2%	-0.9%	5.7%	10.0%	14.0%
S&P 500	-3.8%	8.9%	5.6%	15.2%	12.3%	14.2%
Russell LG Value	-2.5%	5.6%	-11.6%	-5.0%	2.6%	7.7%
Russell LG Growth	-4.7%	13.2%	24.3%	37.5%	21.7%	20.1%
Russell 2000	-3.3%	4.9%	-8.7%	0.4%	1.8%	8.0%
NASDAQ	-5.2%	11.2%	25.2%	40.9%	21.0%	20.6%
MLP Index	-13.6%	-16.3%	-46.2%	-48.4%	-20.8%	-11.6%
REIT Index	-2.6%	1.5%	-13.8%	-13.3%	2.6%	6.2%
International Equities						
EAFE	-2.6%	4.9%	-6.7%	0.9%	1.1%	5.8%
EAFE Small Companies	-0.7%	10.3%	-3.9%	7.2%	1.8%	7.8%
Emerging Markets	-1.6%	9.7%	-0.9%	10.9%	2.8%	9.4%
China	-2.7%	12.6%	16.6%	33.8%	8.0%	13.7%
Fixed Income						
US Agg	-0.1%	0.6%	6.8%	7.0%	5.2%	4.2%
US High Yield	-1.0%	4.6%	0.6%	3.3%	4.2%	6.8%
Municipal Bonds	0.0%	1.2%	3.3%	4.1%	4.3%	3.8%
Currencies						
EURO	-1.9%	4.4%	4.4%	7.5%	-0.3%	0.9%
British Pound	-3.5%	4.4%	-2.6%	5.0%	-1.2%	-3.1%
Japanese Yen	0.2%	2.1%	2.9%	2.4%	2.3%	2.8%
Commodities						
Bloomberg Commodity	-3.4%	9.1%	-12.1%	-8.2%	-4.2%	-3.1%
S&P GSCI Crude Oil	-6.5%	0.3%	-66.5%	-62.0%	-25.5%	-21.2%
Gold	-4.2%	3.6%	21.4%	25.4%	12.4%	10.0%

Commodities: WTI Crude Oil lost another **$2.9/barrel to $39.9/barrel** in September. Rising COVID-19 cases, cheating by UAE and Iran and a stronger US dollar have major traders growing more cautious which are all contributing to oil's weakness. . **Gold** prices decreased by **$84/oz to $1890/oz** in the month. Gold's price fell, marking the largest one-month drop since November 2016, driven largely by a stronger dollar and, almost more crucially, by an increase in borrowing rates adjusted for inflation.

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For further information please contact Harpswell Capital Advisors at
info@harpswelladvisors.com or 877.427.7227