

MarketWise

August 2020 Edition

SAVANT



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Wise Words

Current Events and the Economy

- In the United States, the recent surge in COVID-19 cases has softened but fatalities have been rising slightly as they lag reported cases.
- U.S. Real GDP fell at an annualized rate of 32% in the second quarter, signaling that, as expected, the closure of businesses to slow the spread of the virus had a significant impact on the economy. Unintuitively wage growth exploded upwards alongside unemployment, but this was primarily a result of lower wage workers being the first to lose employment during this crisis. However, a faster than average economy recovery is not out of the question based on the nature of this recession as businesses open and employees return to work.
- Along with warmer weather, the American consumer has begun to spend again but appear to remain wary of public transit, air travel, and dining out.

Asset Performance

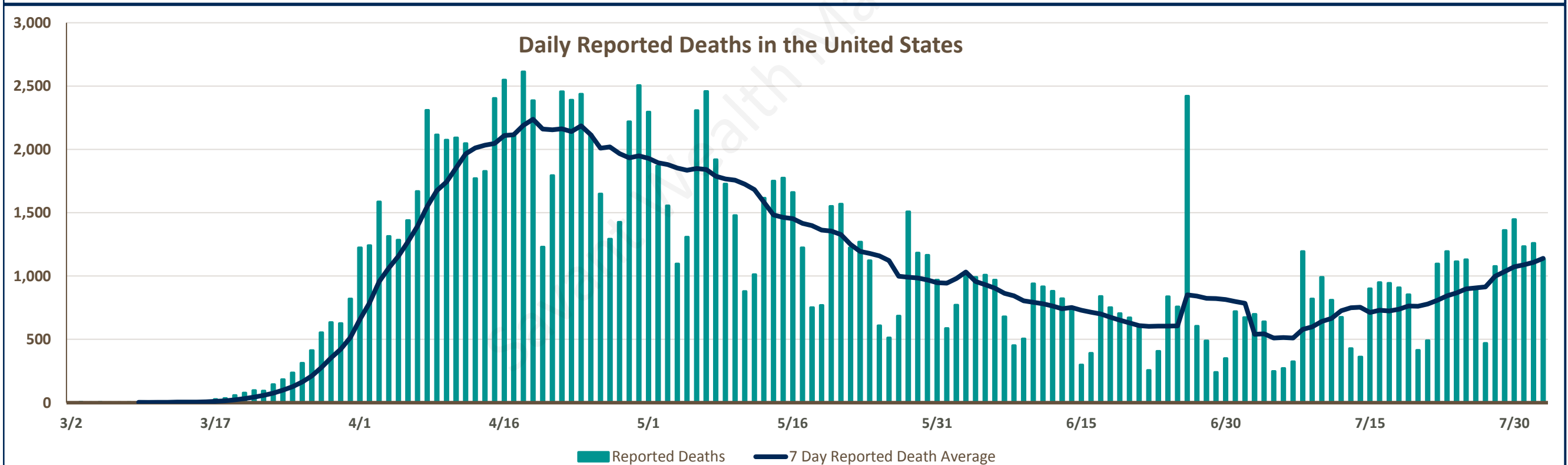
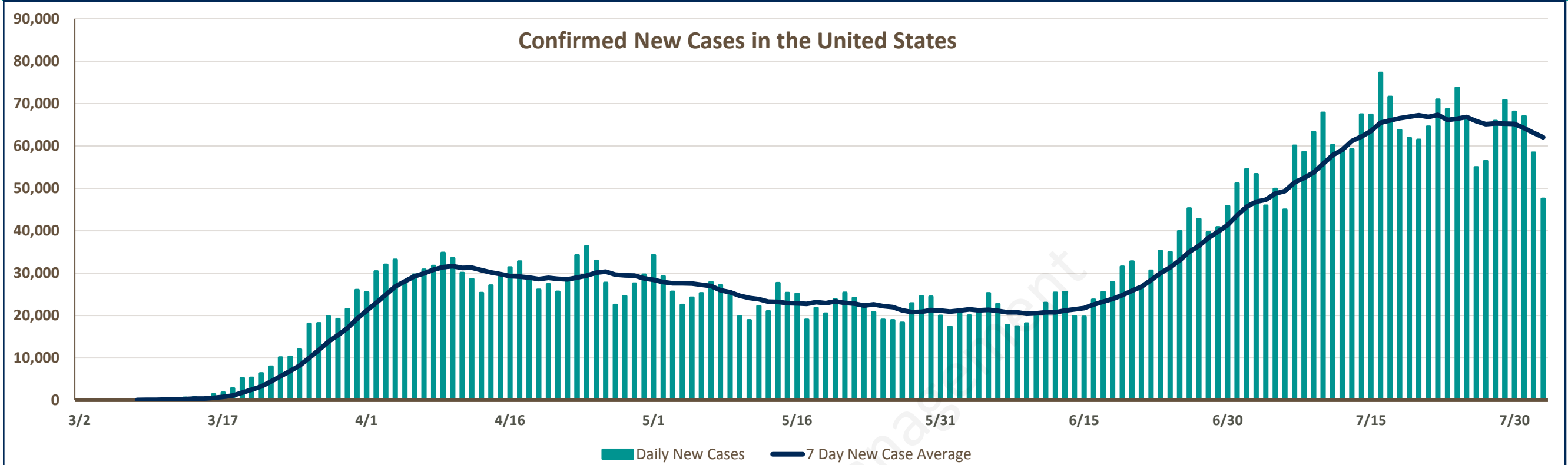
- Last month, U.S. large momentum stocks (+9.2%) and emerging market stocks (+9.1%) were the standout performers. Broadly, U.S. stocks outperformed their international developed counterparts during the month of July.
- From a factor perspective, U.S. large value (+5.1%), U.S. large quality (+6.5%), and U.S. small core (+4.2%) slightly underperformed U.S. large core (+7.3%) as momentum stocks dominated the returns domestically. Internationally, exposure to small stocks was additive in July.
- Multi-Sector bonds (+2.9%) continued their rebound in July, but all fixed income asset classes posted modest returns. Inflation-adjusted (+2.2%) and intermediate-term (+1.5%) bonds were also strong performers as exposure to interest rate risk proved beneficial last month.
- Among alternatives, all asset classes posted positive returns in July as trend following (+1.7%), event driven (+3.0%), reinsurance (+1.3%), and real assets (+2.8%) added return while mitigating risk.

Perspective

- Evidence indicates that over the long-term, tilting towards value and small stocks have been value add strategies despite recent struggles.
- While U.S. stocks have dominated recently, diversifying across U.S. and international stocks has proven to to be a better strategy for long-term investors over the past five decades.
- Over shorter periods rebalancing may seem trivial, but it can add significant value over longer time horizons.

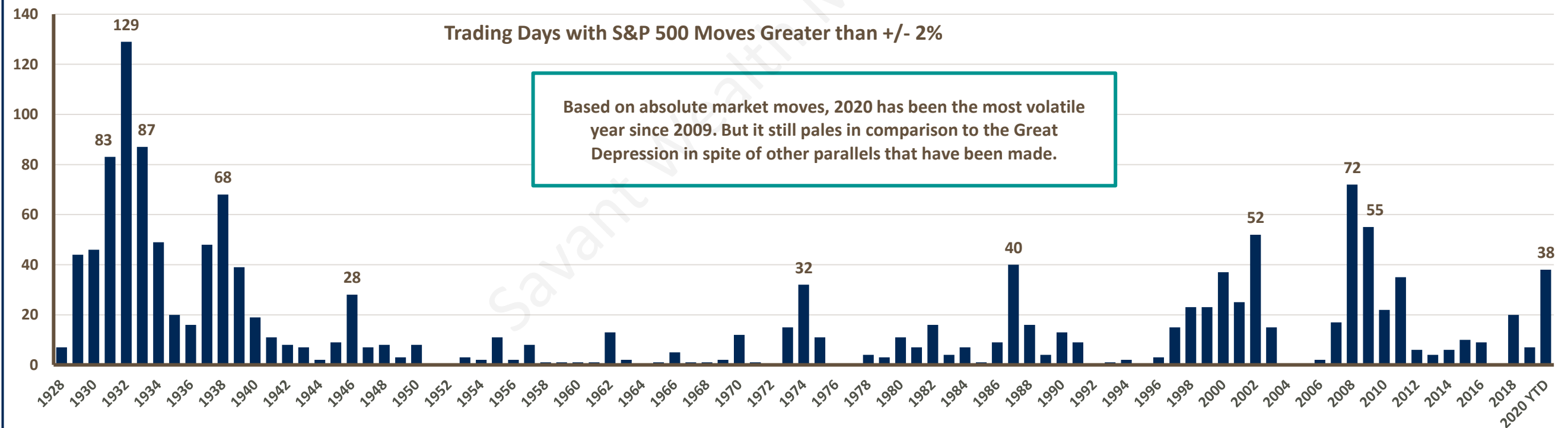
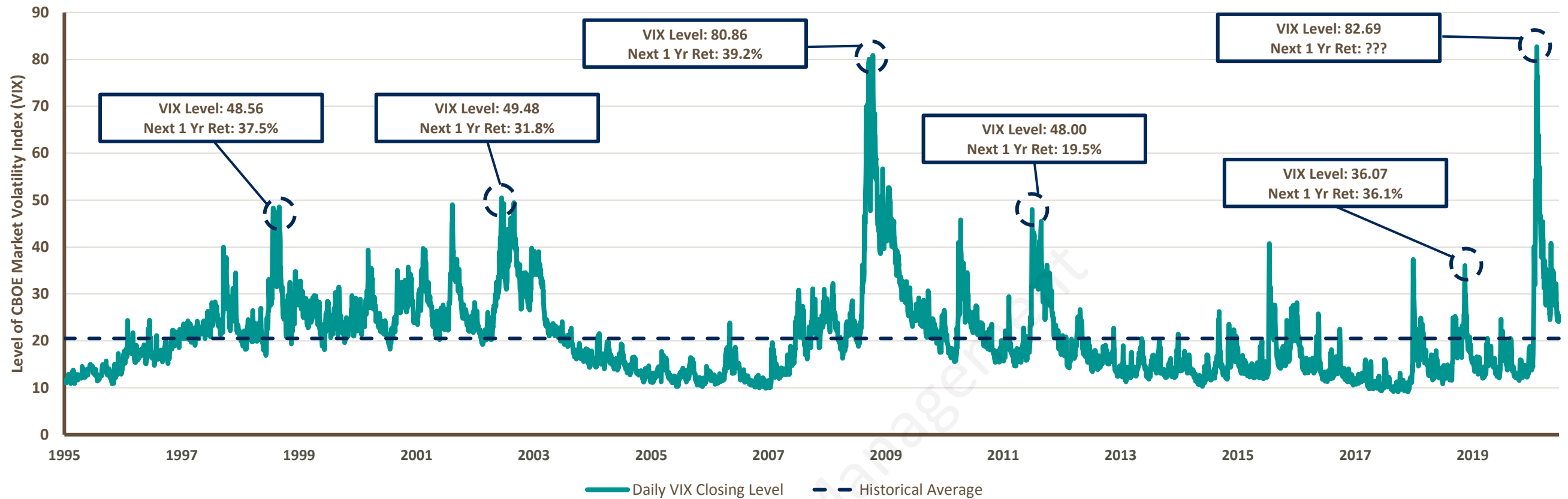


The Coronavirus



Data as of 8/2/2020. Data source: Johns Hopkins University Center for Systems Science and Engineering.

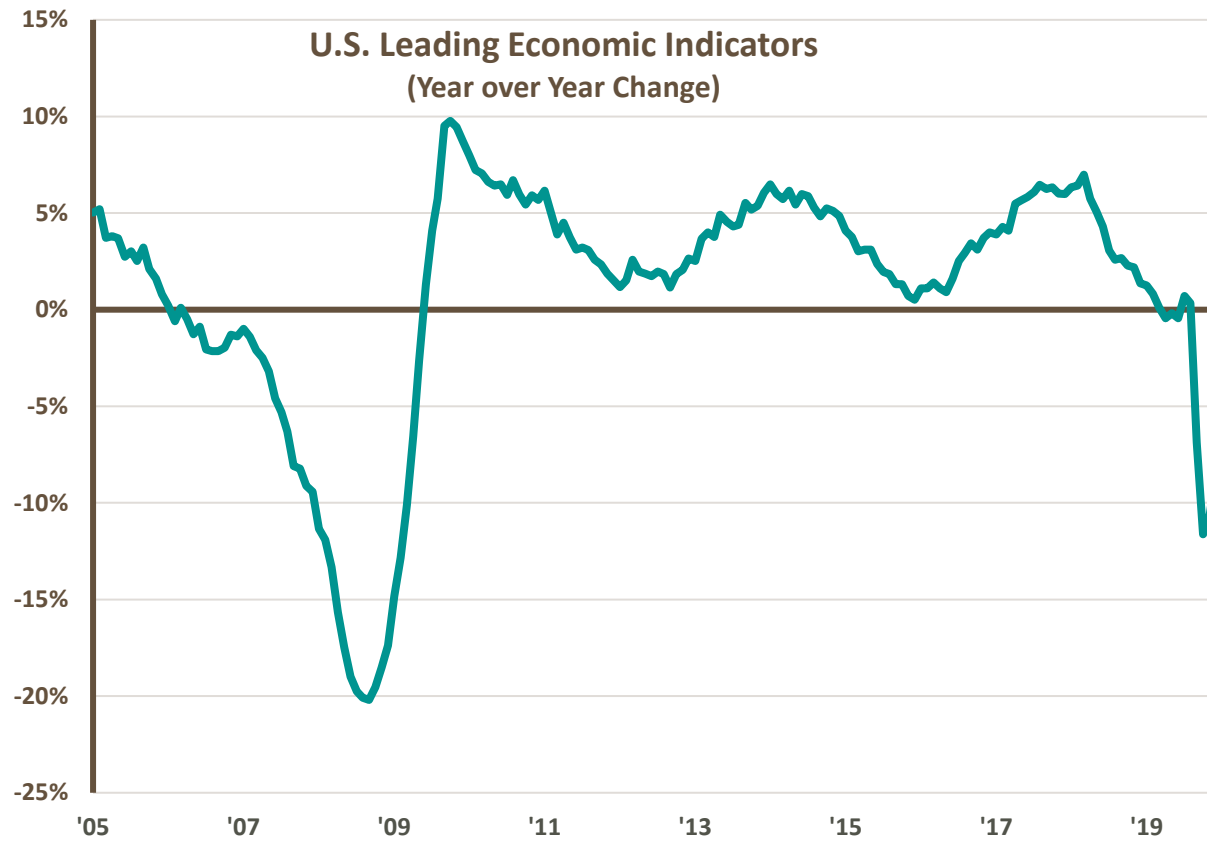
It's Been a Volatile Year



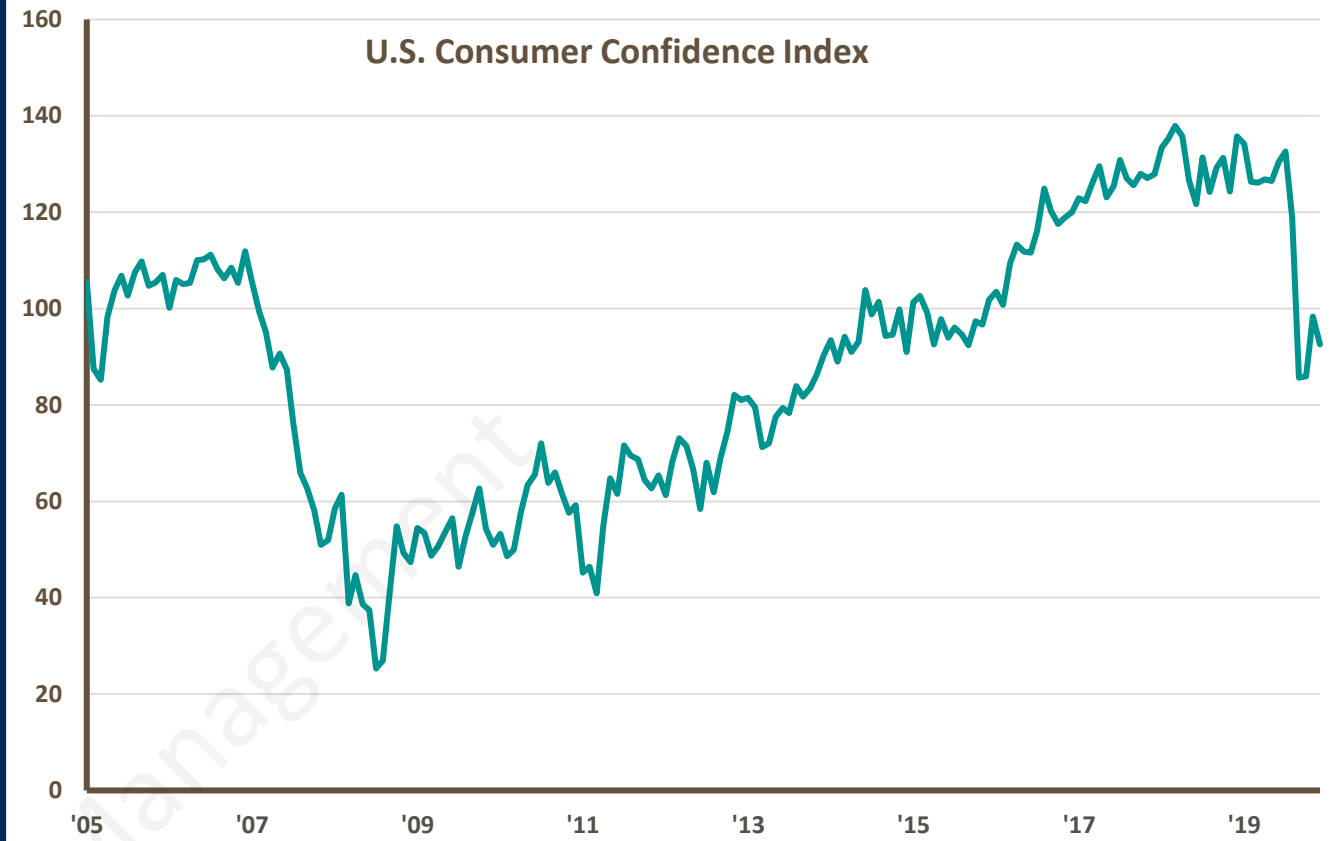
Data as of 7/31/2020. Data source: Morningstar Direct.

Economic Indicators

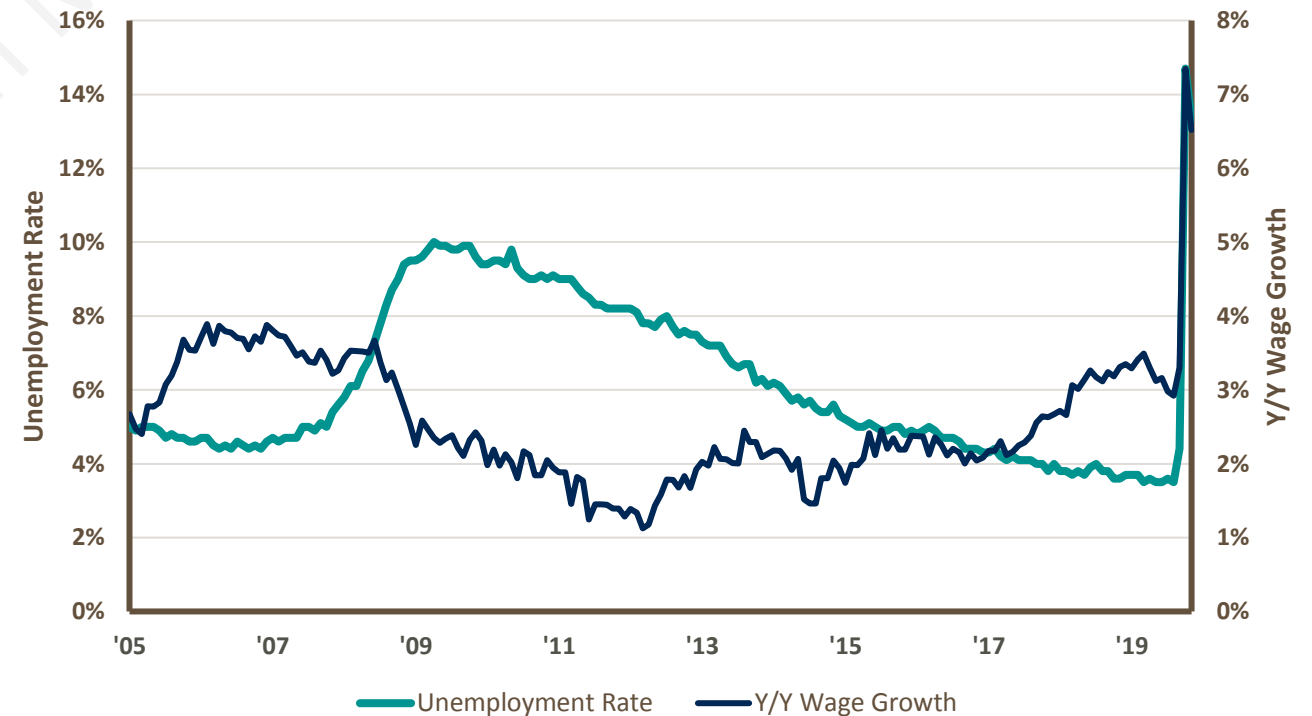
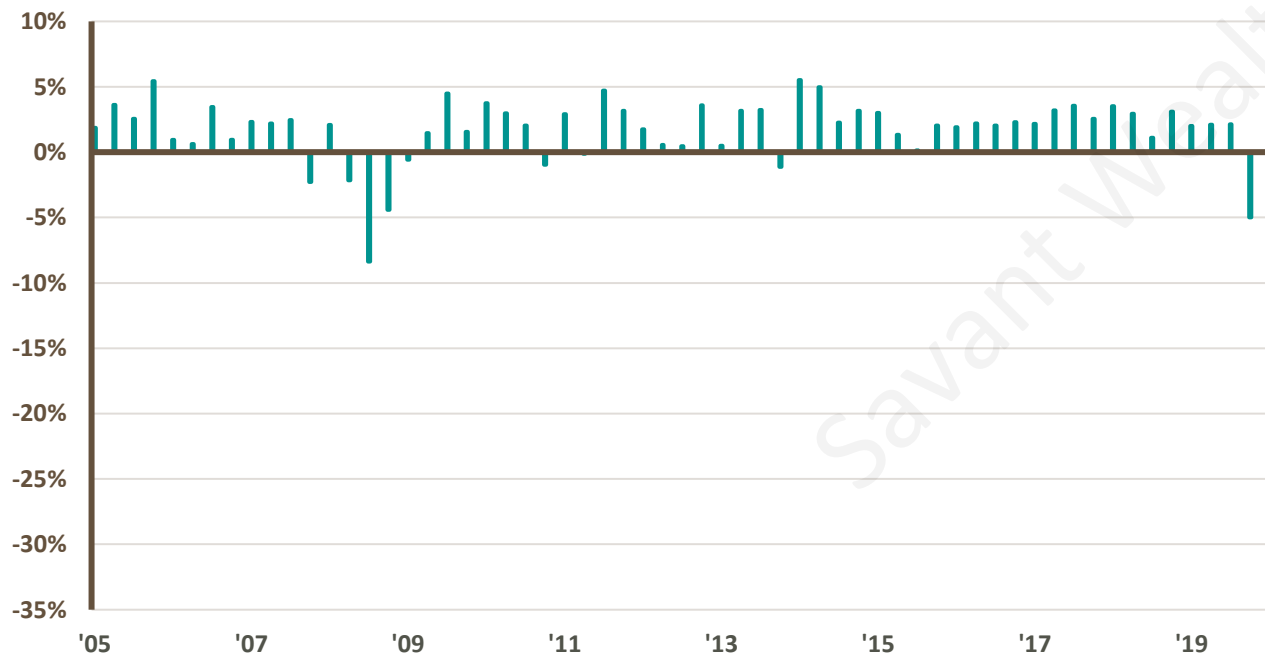
U.S. Leading Economic Indicators
(Year over Year Change)



U.S. Consumer Confidence Index

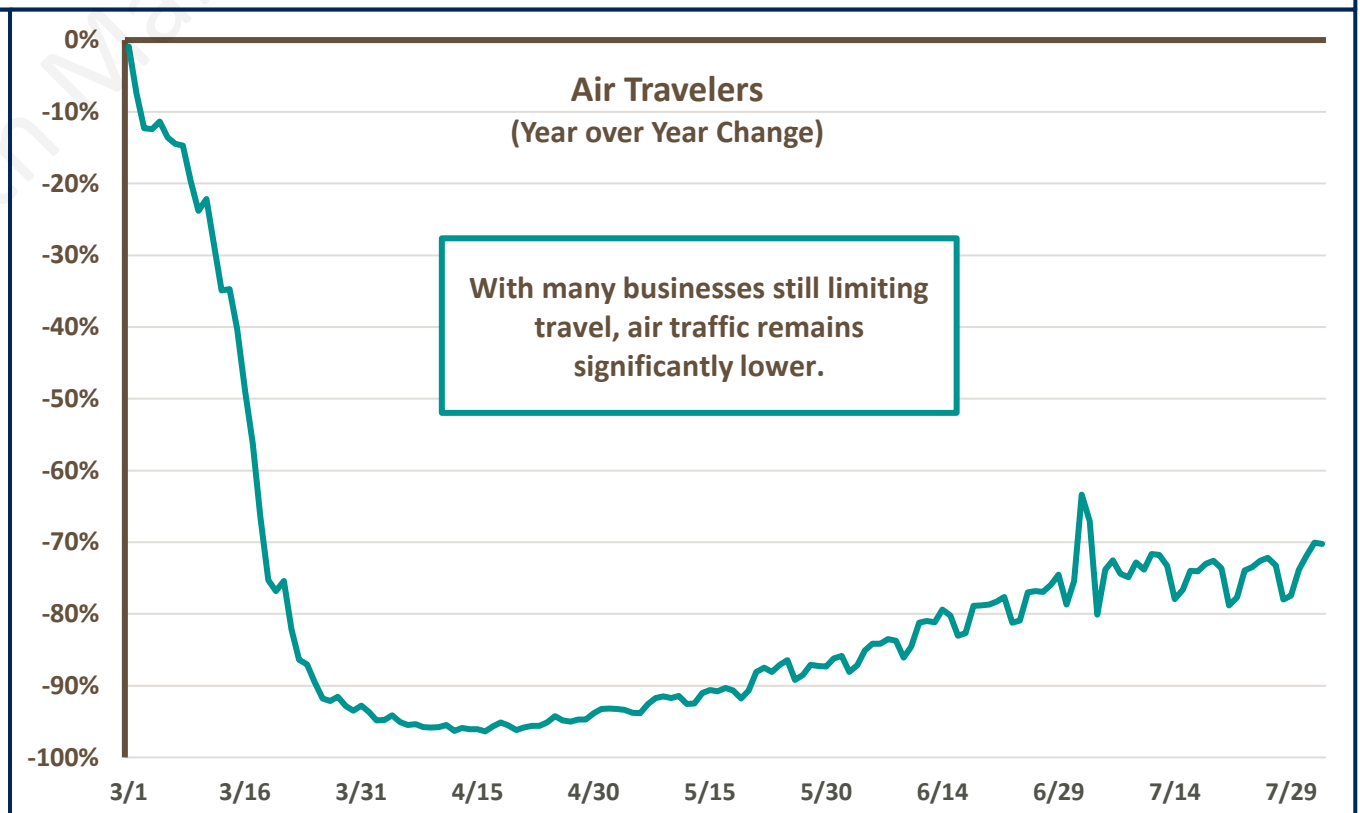
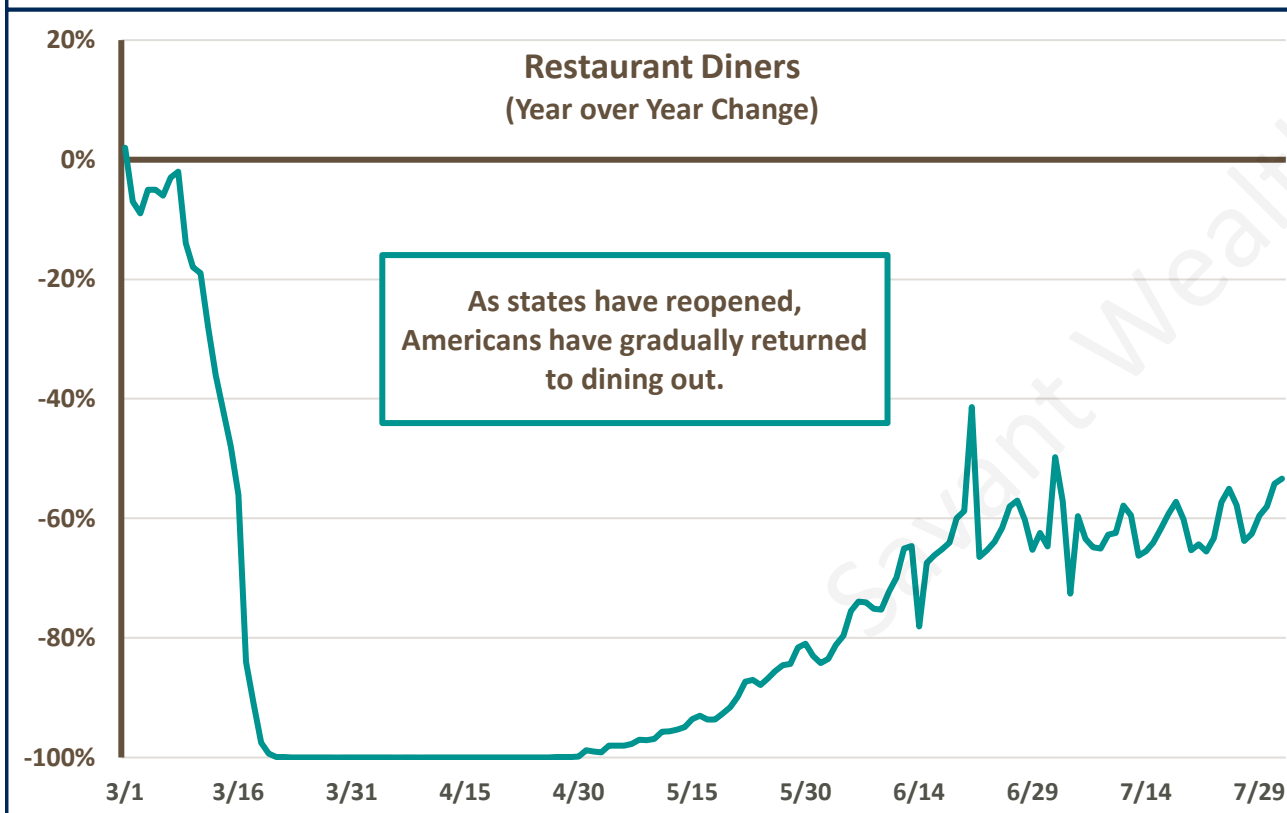
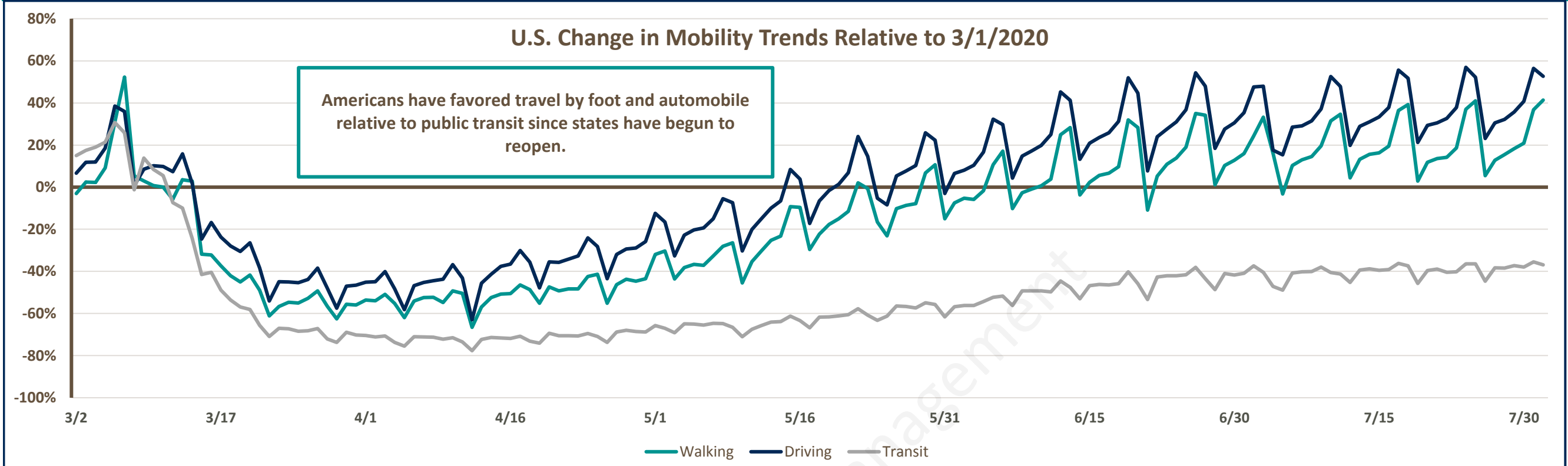


U.S. Annualized Real GDP Growth



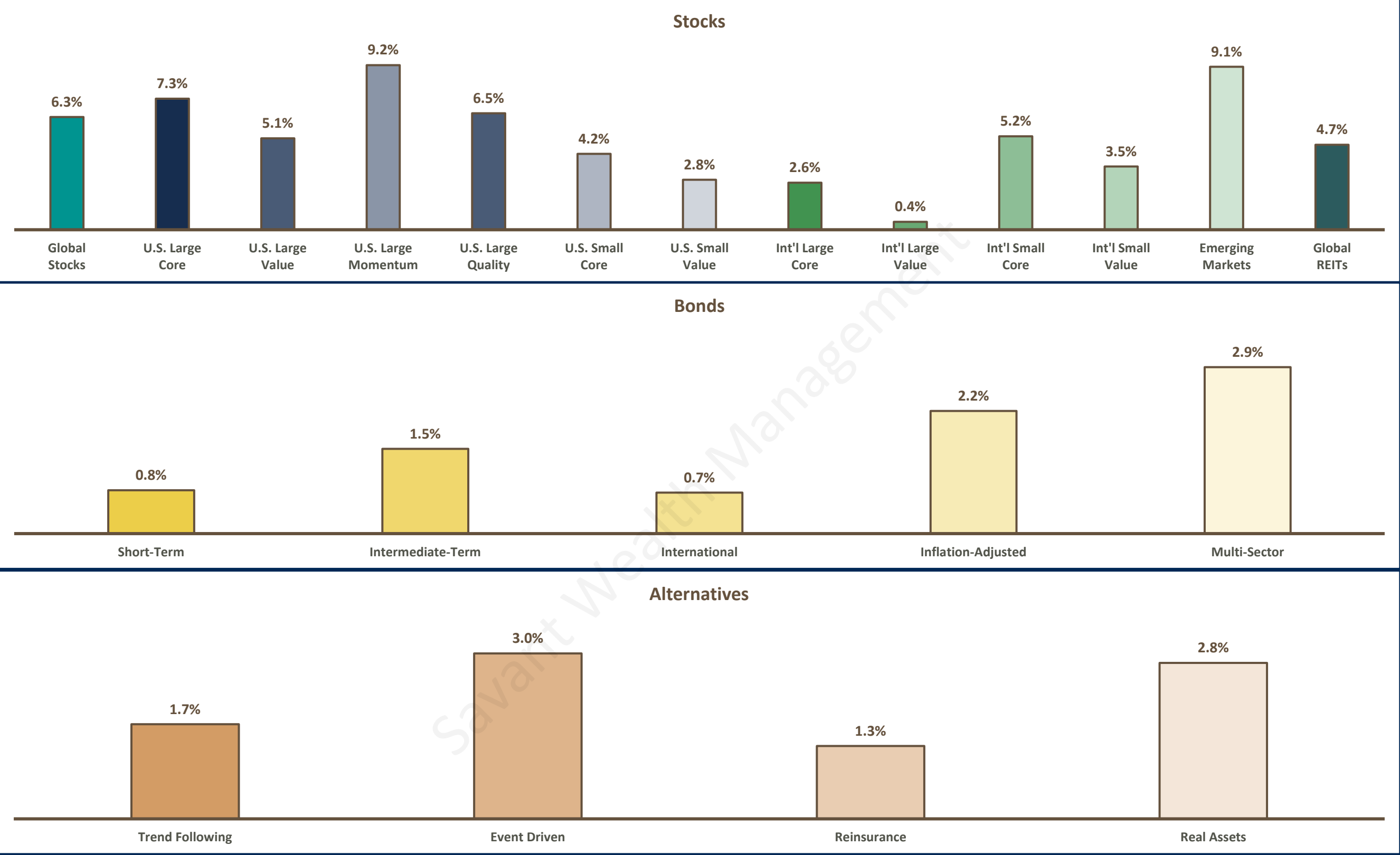
Data as of 6/30/2020. Data sources: Morningstar Direct, FRED, The Conference Board.

Getting Back to It



Data as of 8/1/2020. Data sources: Apple, OpenTable, TSA.

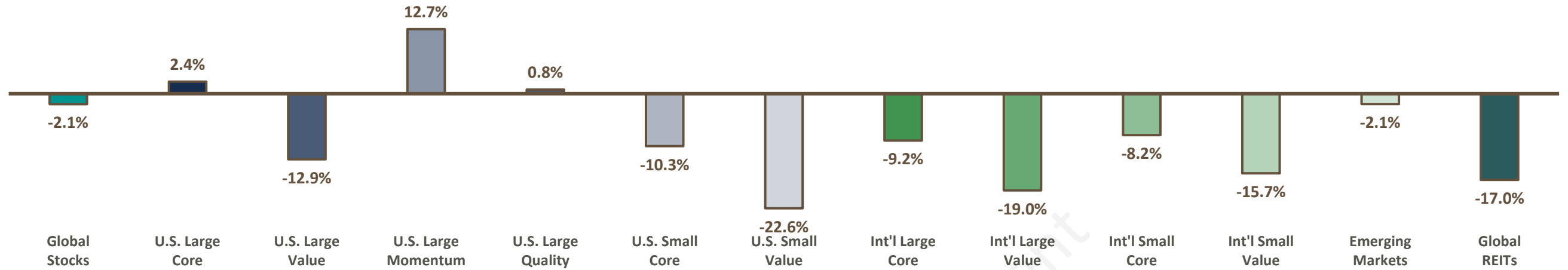
Asset Class Performance: Last Month



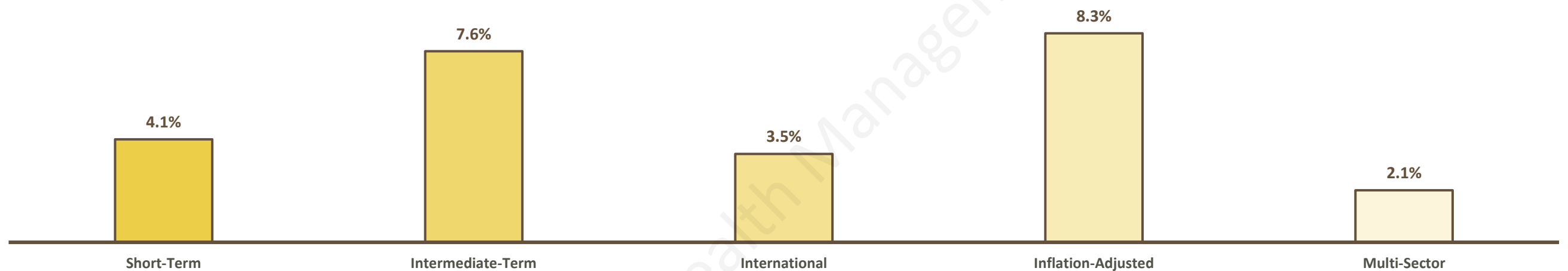
Data as of 7/31/2020. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

Asset Class Performance: Year to Date

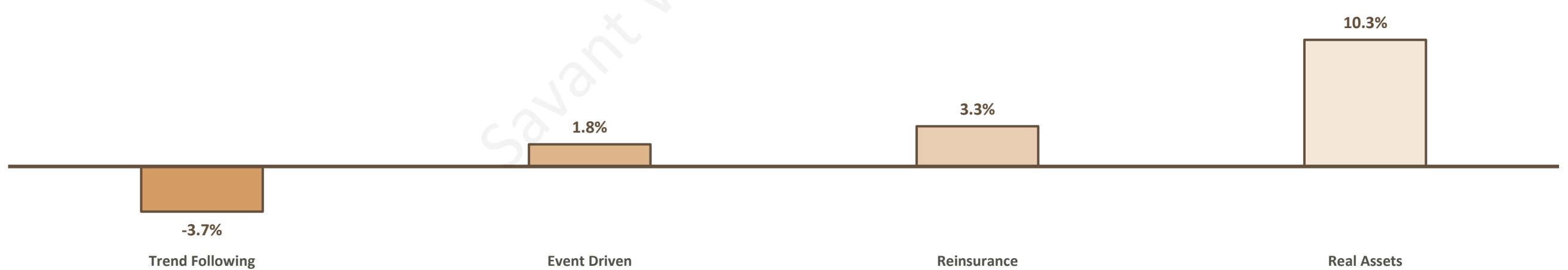
Stocks



Bonds



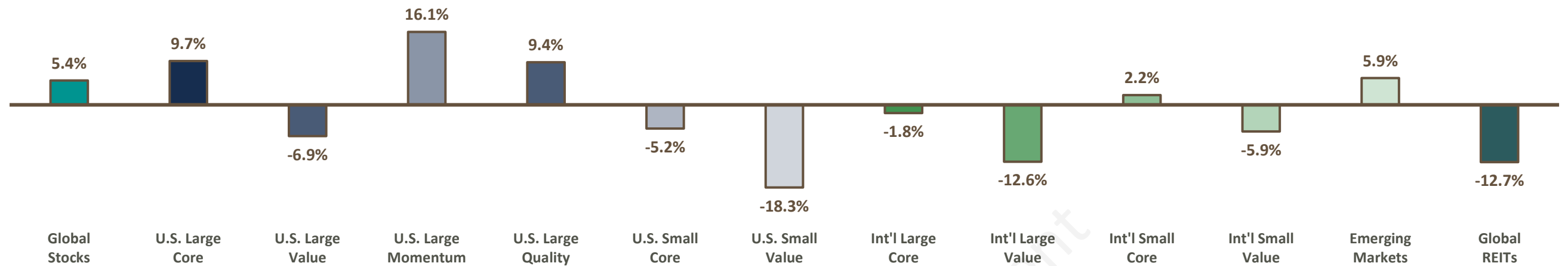
Alternatives



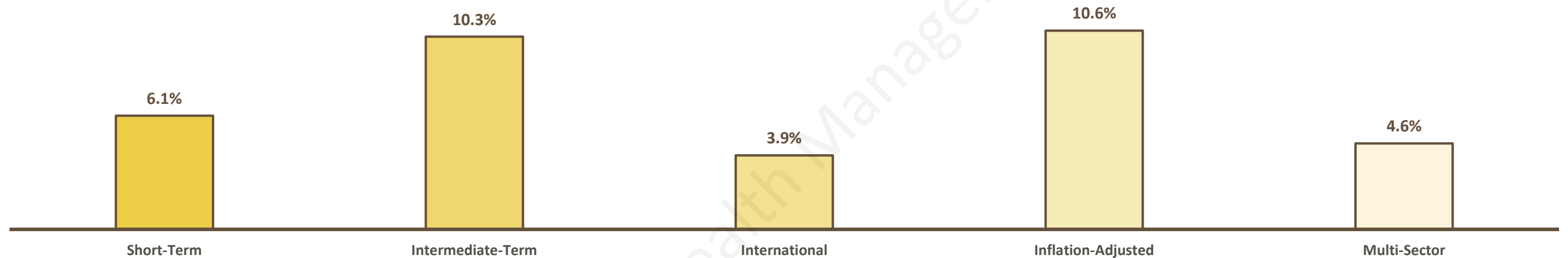
Data as of 7/31/2020. Data source: Morningstar Direct. See Endnote 1 for additional disclosures..

Asset Class Performance: Previous 12 Months

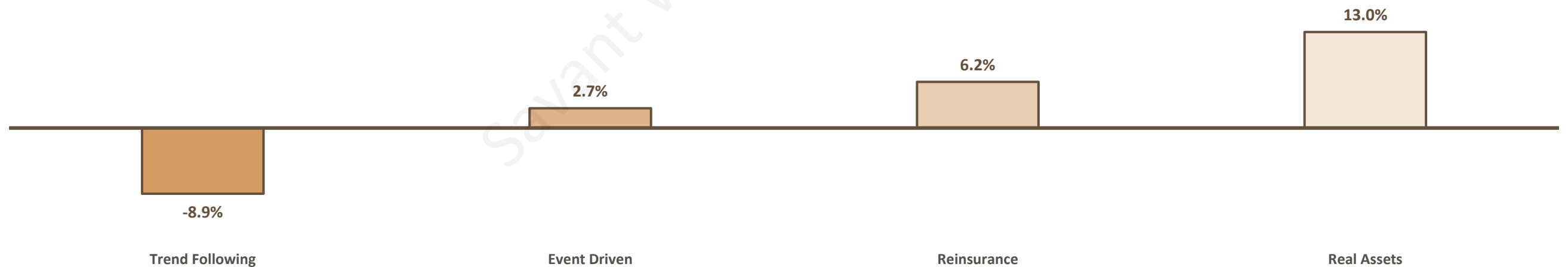
Stocks



Bonds

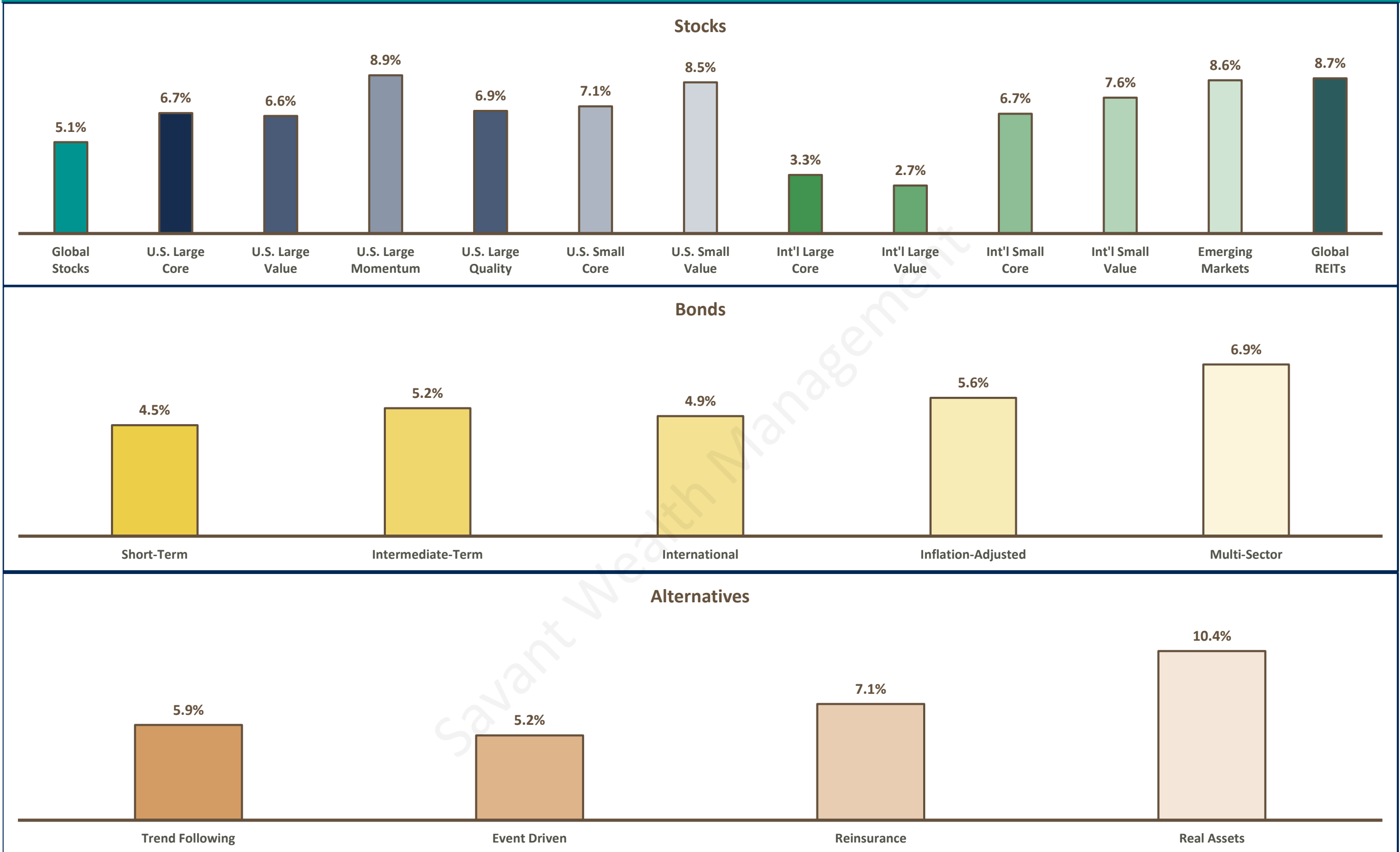


Alternatives



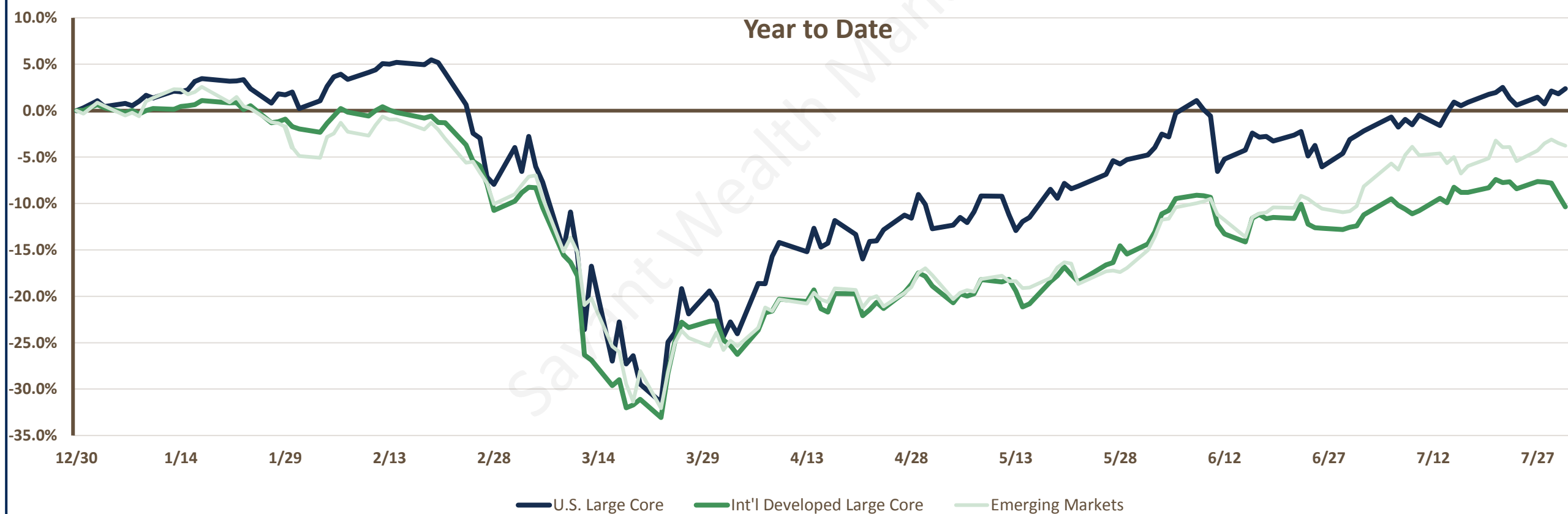
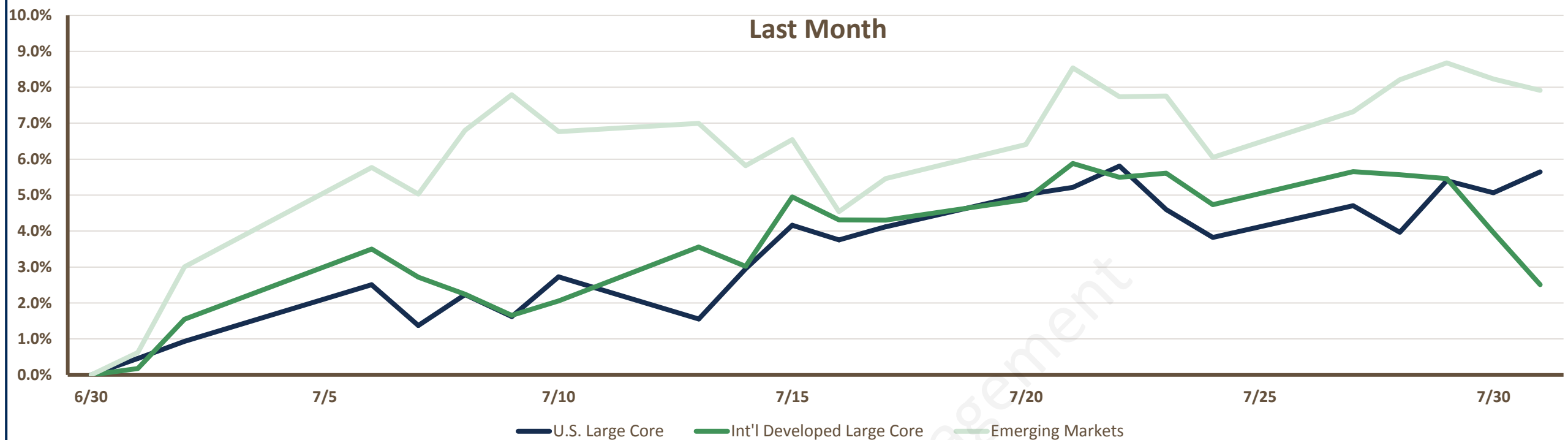
Data as of 7/31/2020. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

Asset Class Performance for the Long Term Investor: Previous 20 Years



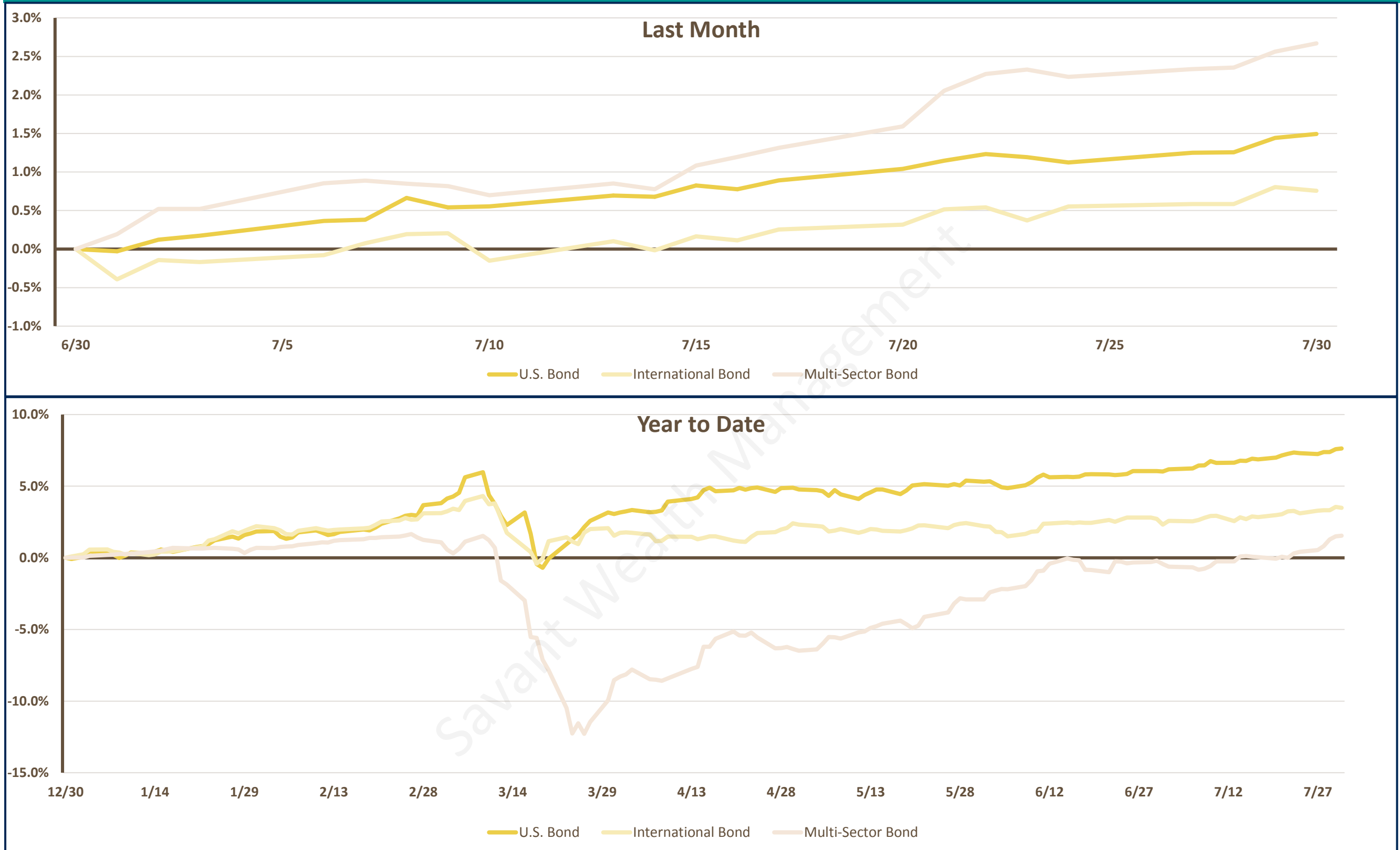
Data as of 7/31/2020. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

Equity Performance Tracker



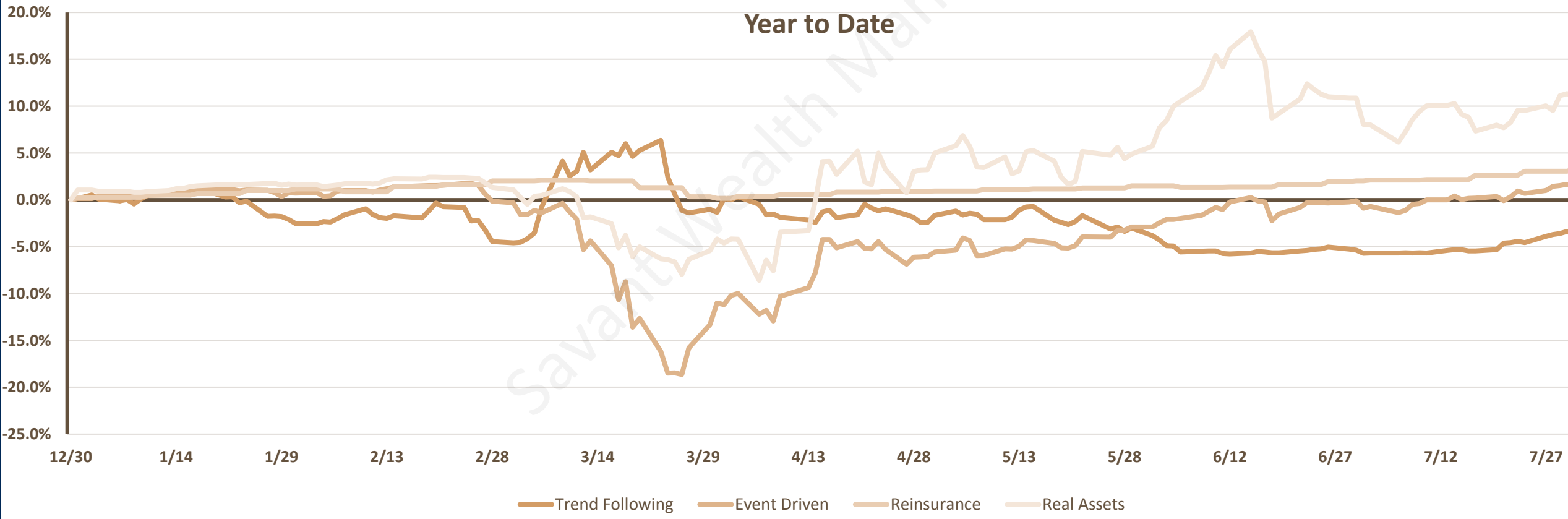
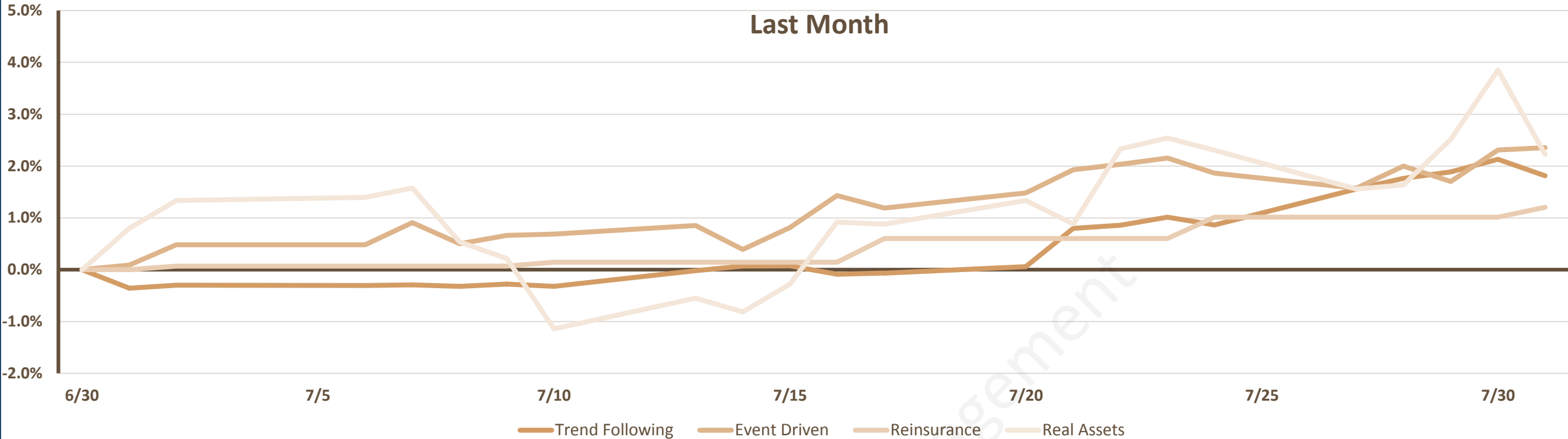
Data as of 7/31/2020. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

Fixed Income Performance Tracker



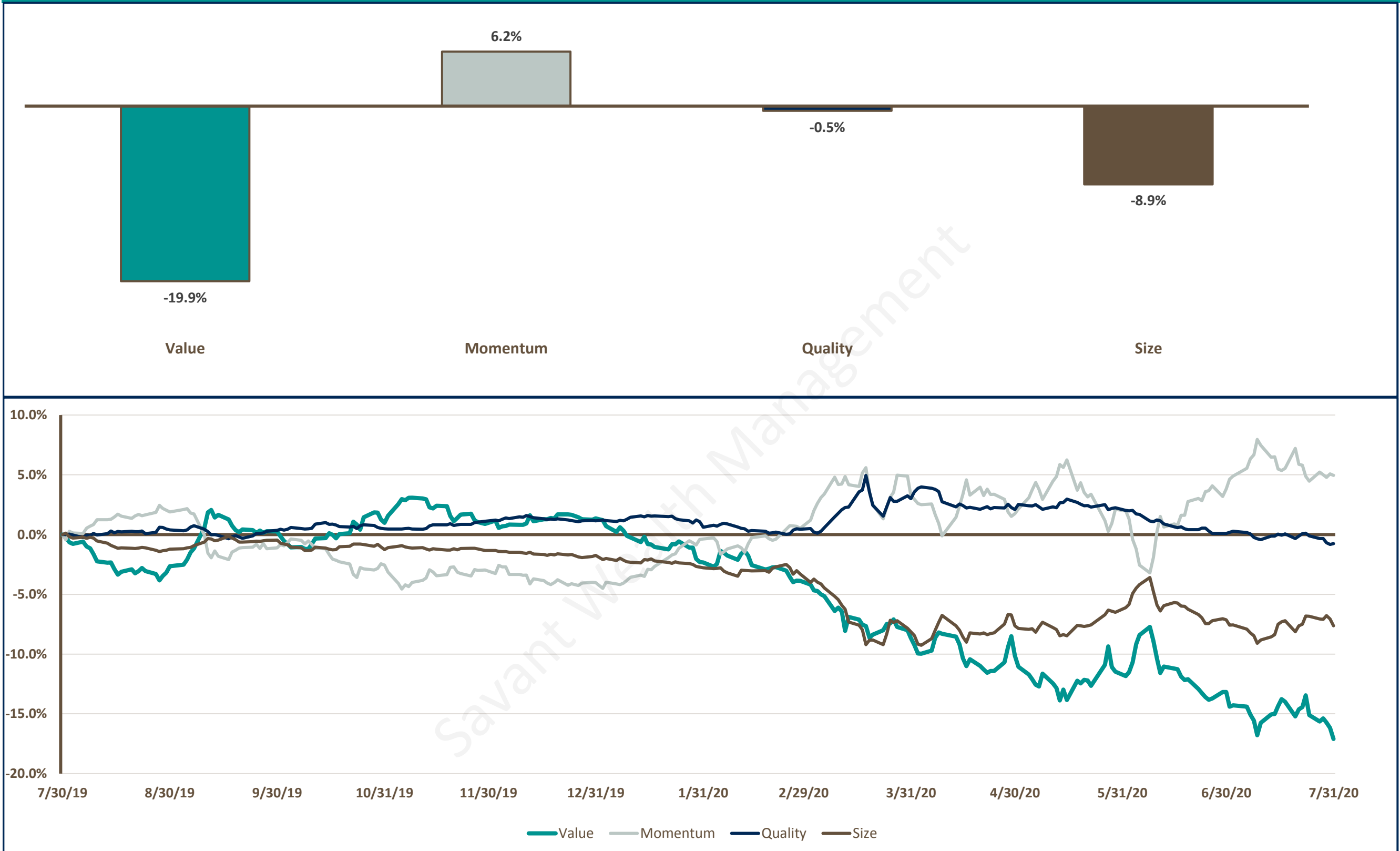
Data as of 7/31/2020. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

Alternatives Performance Tracker



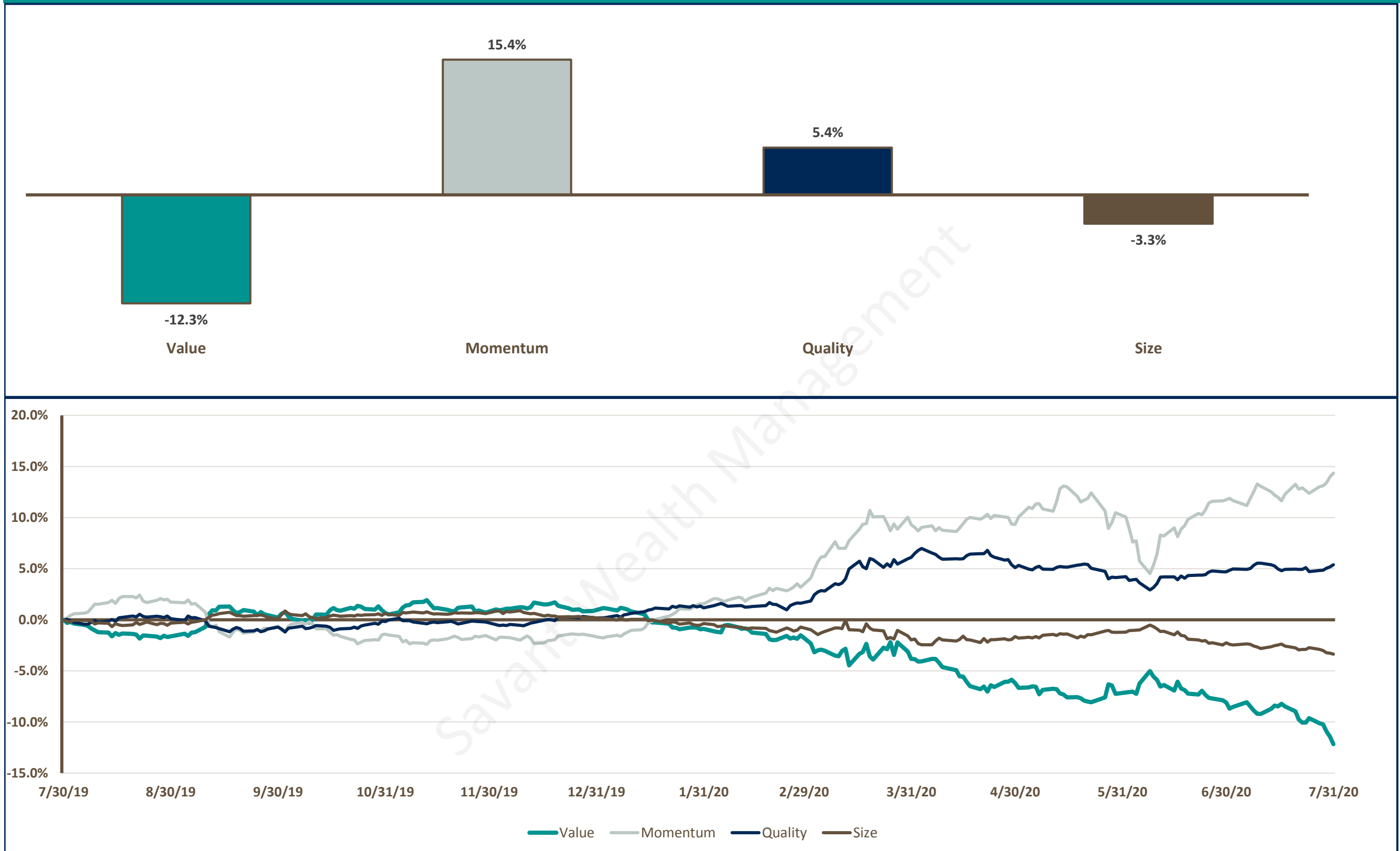
Data as of 7/31/2020. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

U.S. Equity Factor Performance: Previous 12 Months



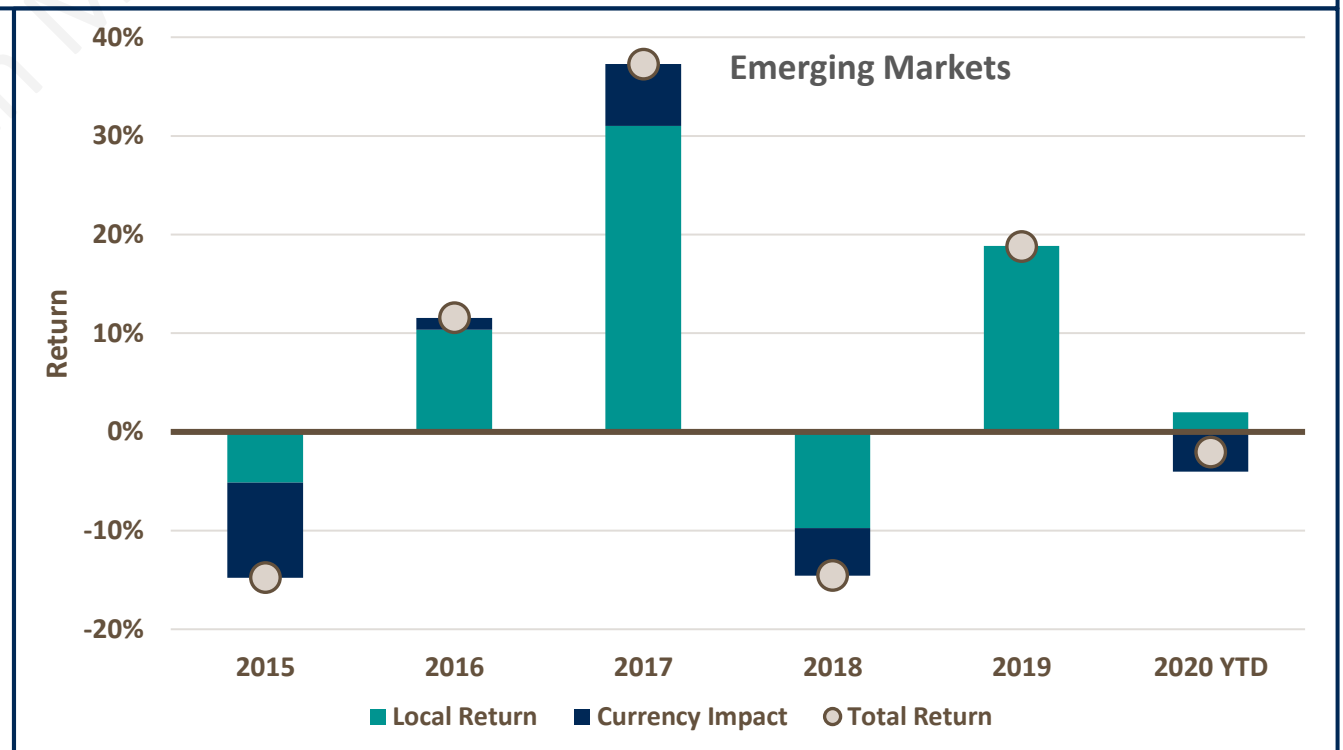
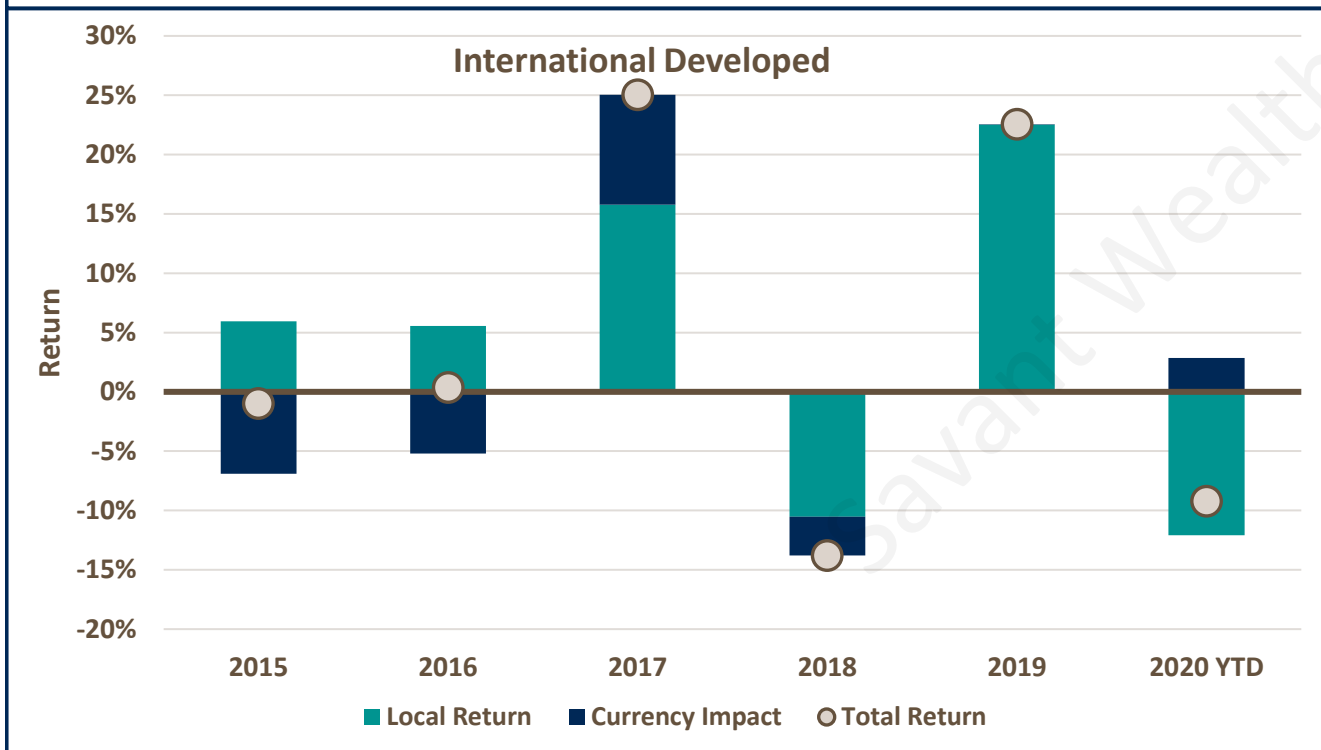
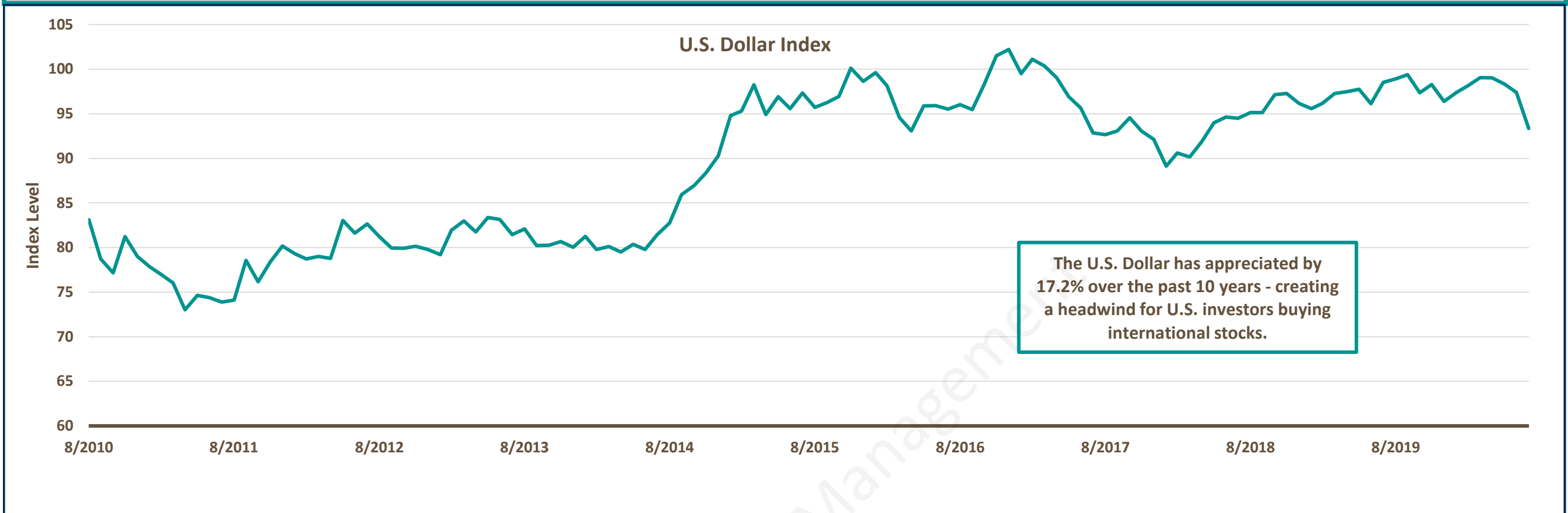
Data as of 7/31/2020. Factor performance calculated relative to broad index. See Endnote 2 for additional disclosures.

International Equity Factor Performance: Previous 12 Months



Data as of 7/31/2020. Factor performance calculated relative to broad index. See Endnote 2 for additional disclosures.

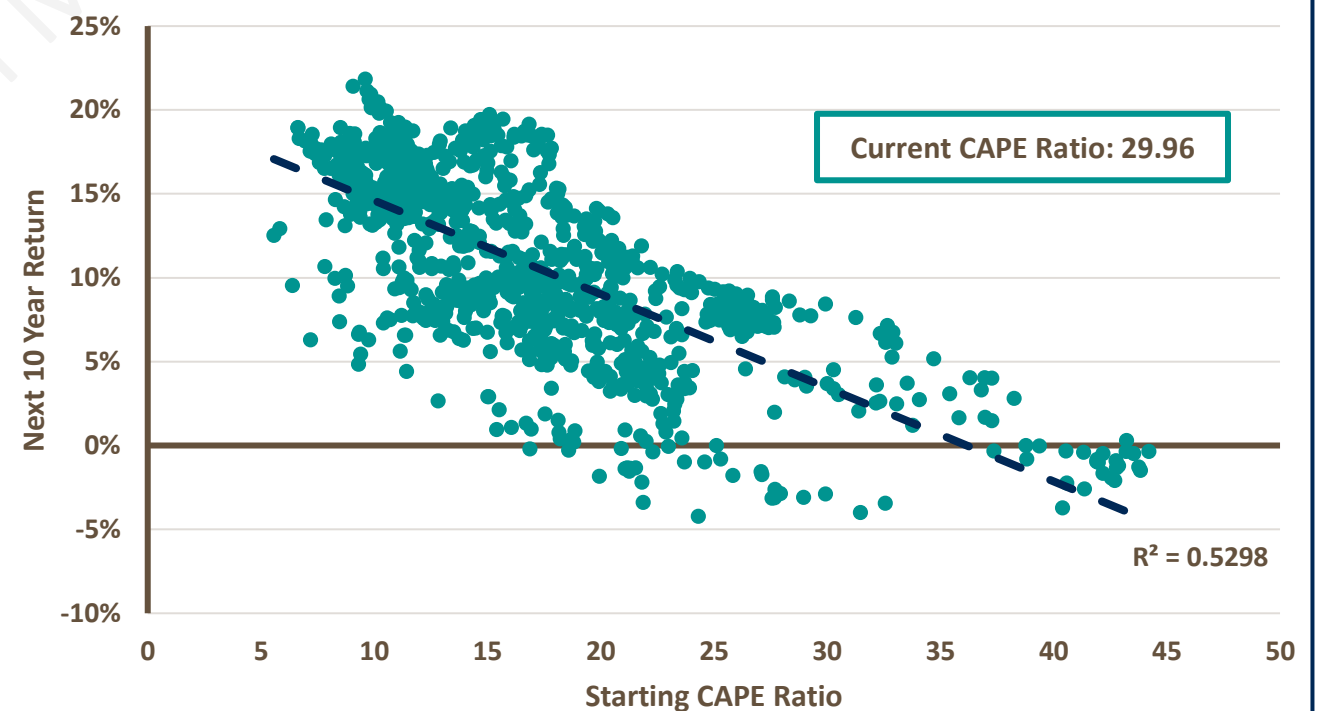
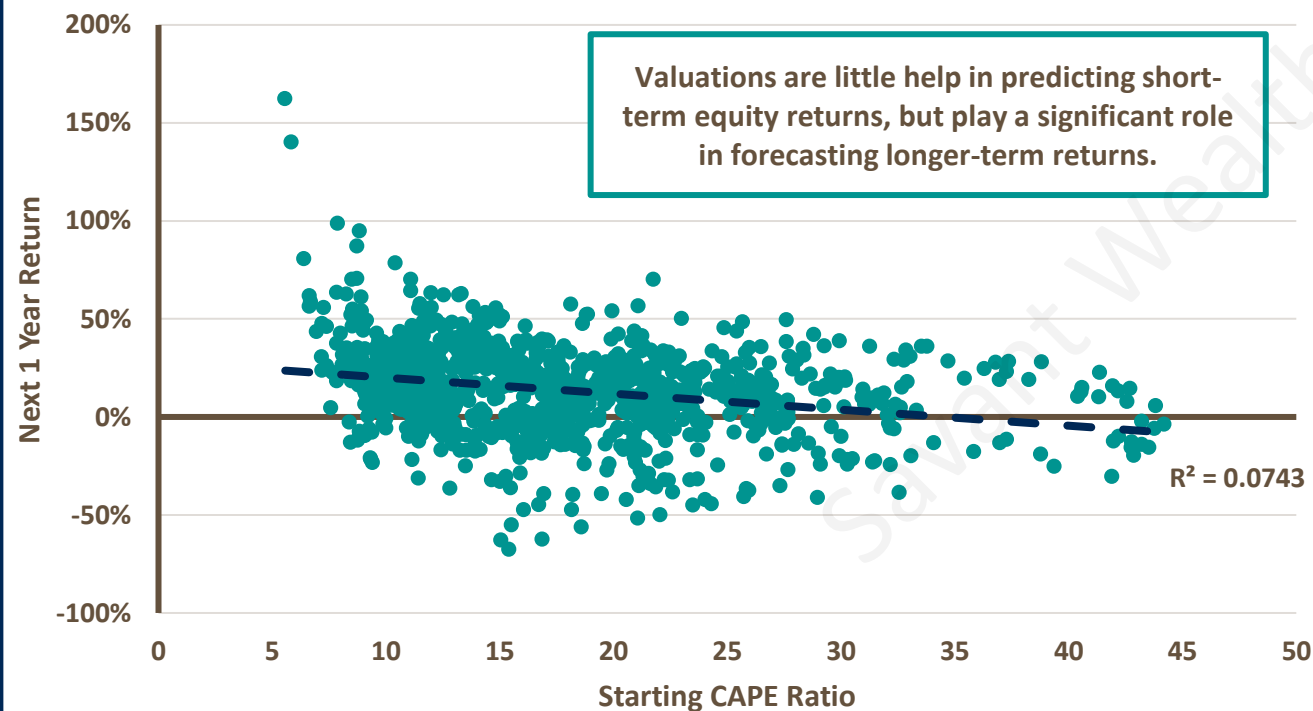
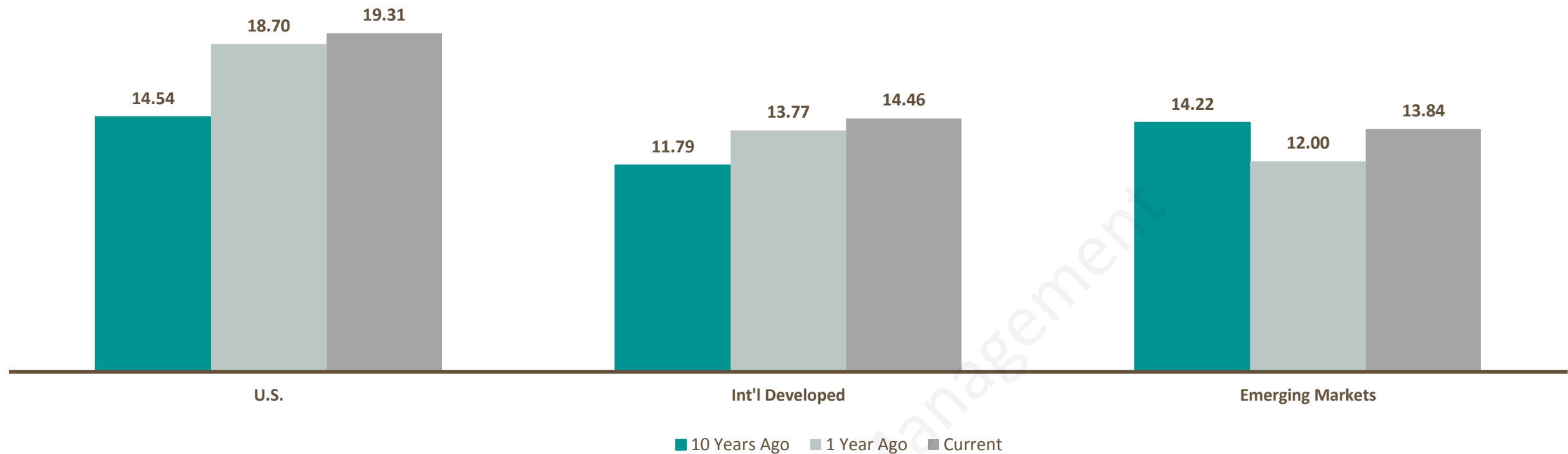
Currency Impact on International Equity Returns



Data as of 7/31/2020. Data source: Morningstar Direct. See Endnote 3 for additional disclosures.

Current Equity Valuations and The Impact on Future Returns

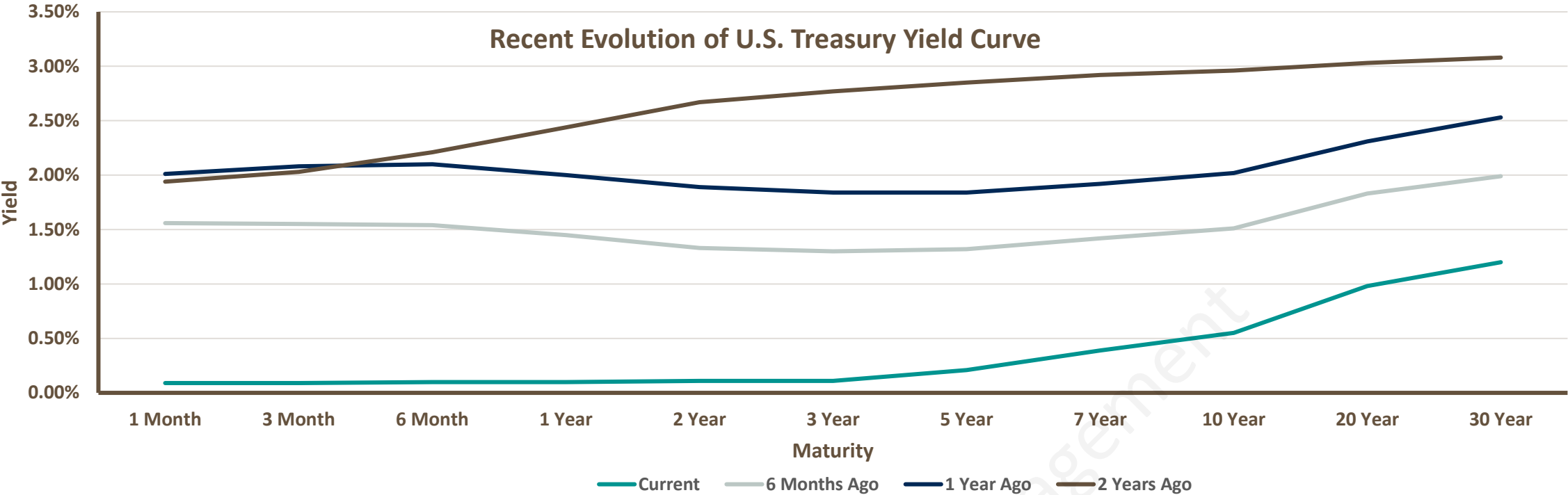
Trailing Twelve Month P/E Ratios by Region



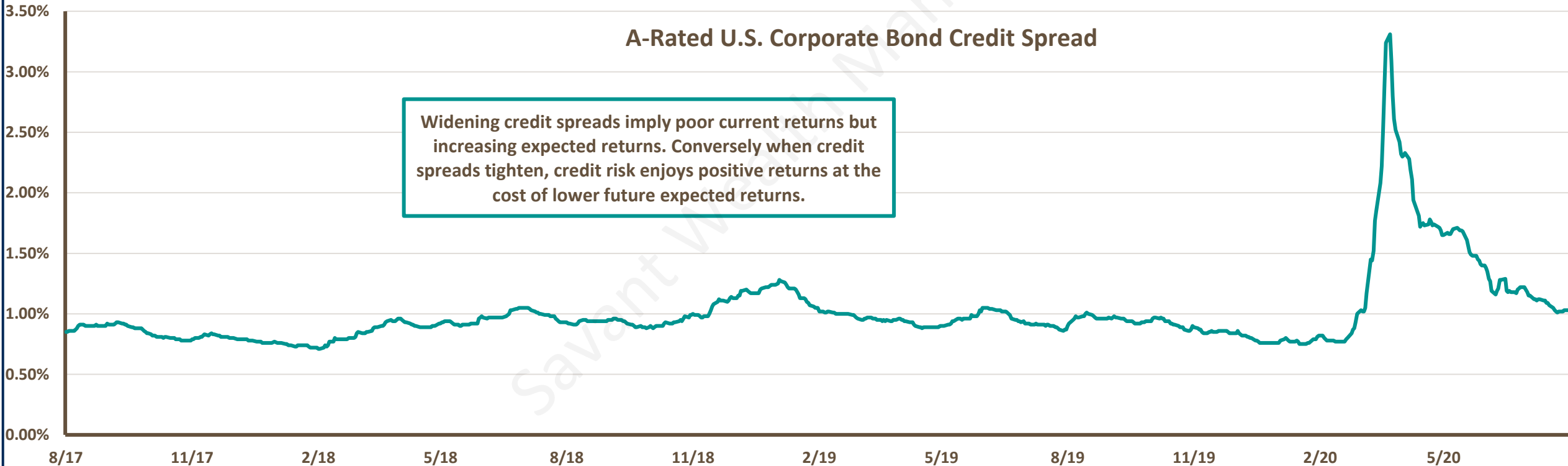
Data as of 6/30/2020. R2 refers to the predictive power a variable has in a regression. A higher R2 (maximum of 1.0) implies a variable is more significant. See Endnote 4 for additional disclosures.

Drivers of Fixed Income Performance

Recent Evolution of U.S. Treasury Yield Curve



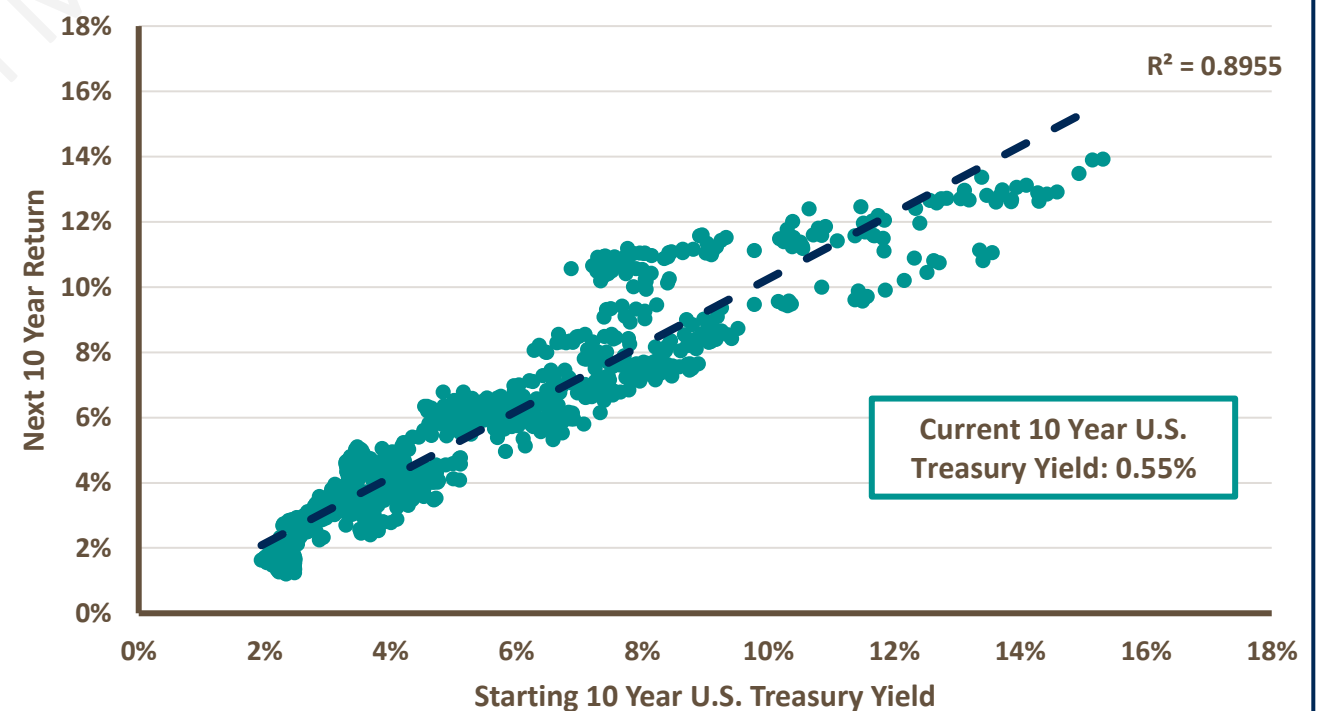
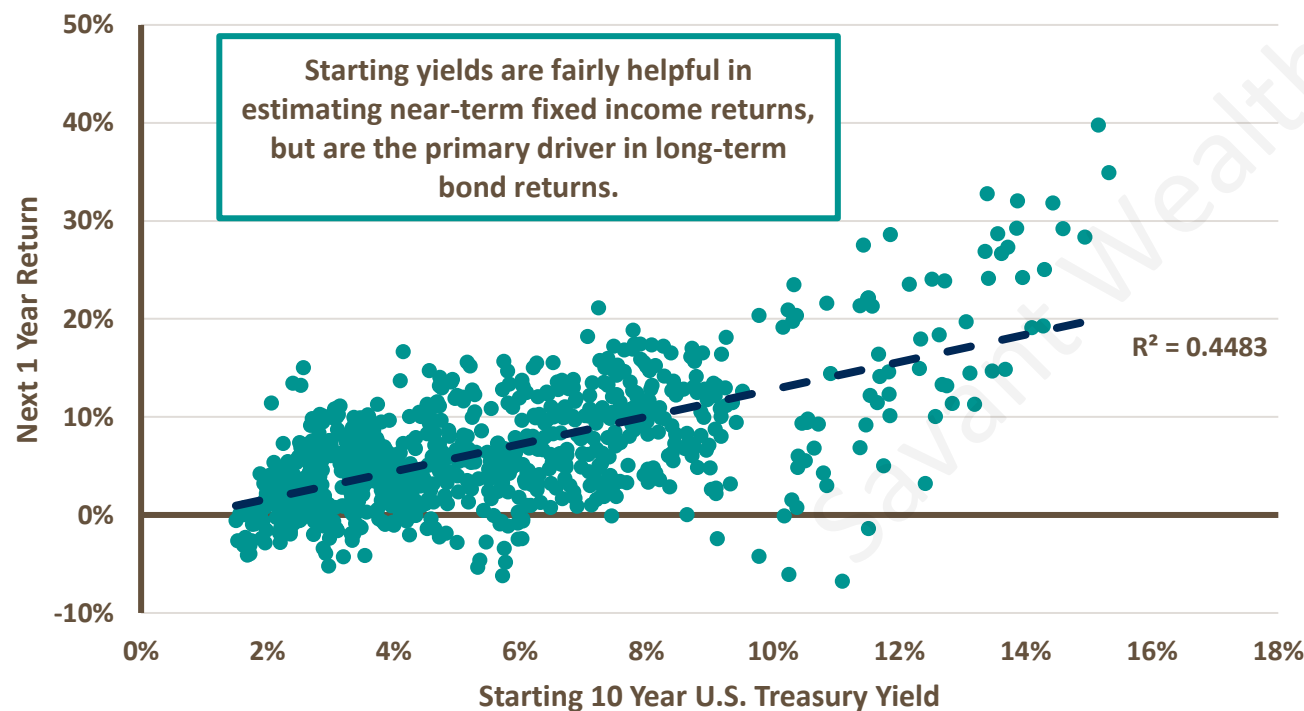
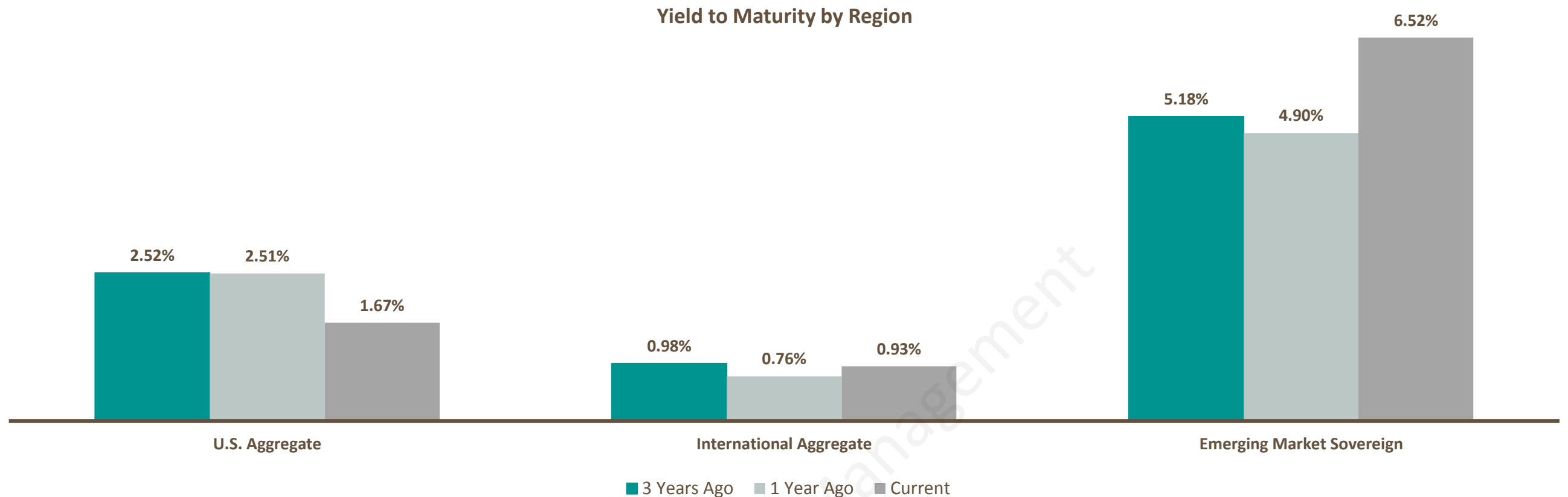
A-Rated U.S. Corporate Bond Credit Spread



Data as of 7/31/2020. Data sources: Morningstar Direct, FRED. A-Rated U.S. Corporate Bond Credit Spread is measured by the ICE BofA Single-A US Corporate Index Option-Adjusted Spread.

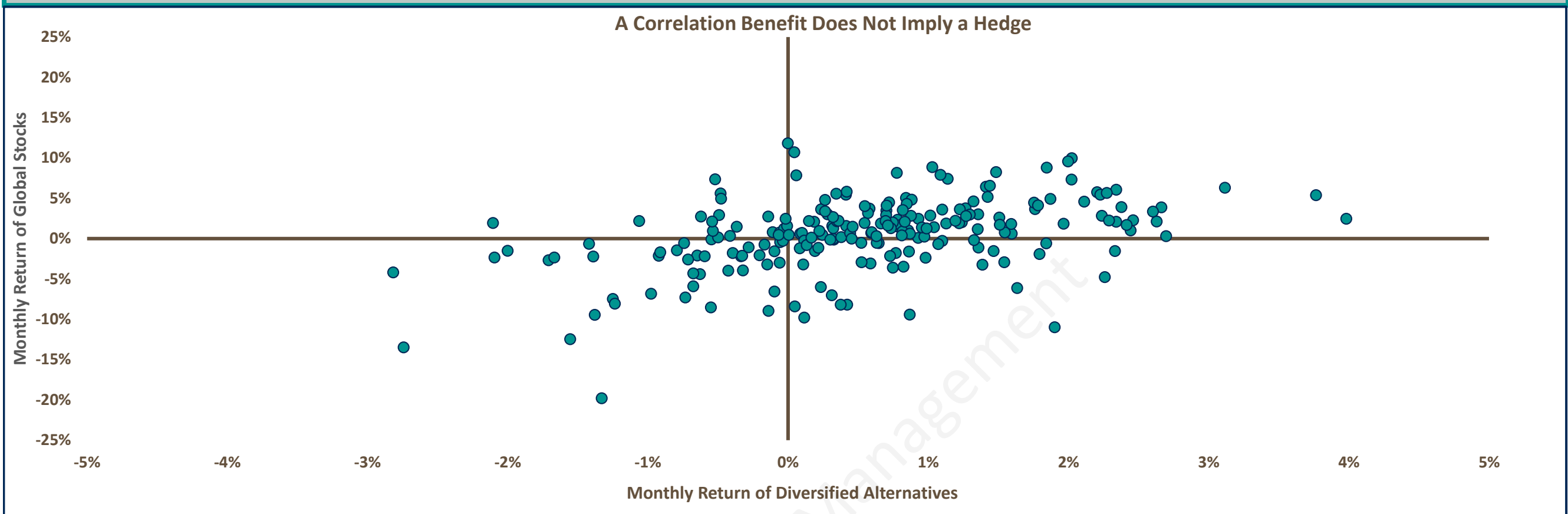
Current Fixed Income Yields and The Impact on Future Returns

Yield to Maturity by Region

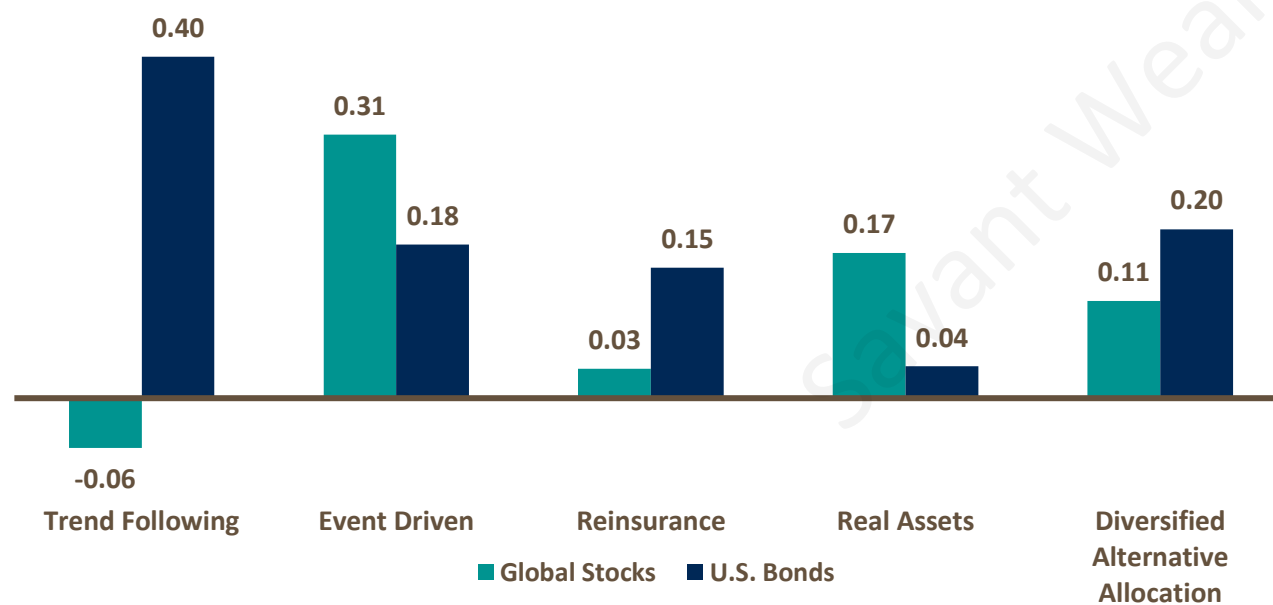


Data as of 6/30/2020. R2 refers to the predictive power a variable has in a regression. A higher R2 (maximum of 1.0) implies a variable is more significant. See Endnote 5 for additional disclosures.

A Diversified Alternative Allocation Provides a Correlation Benefit

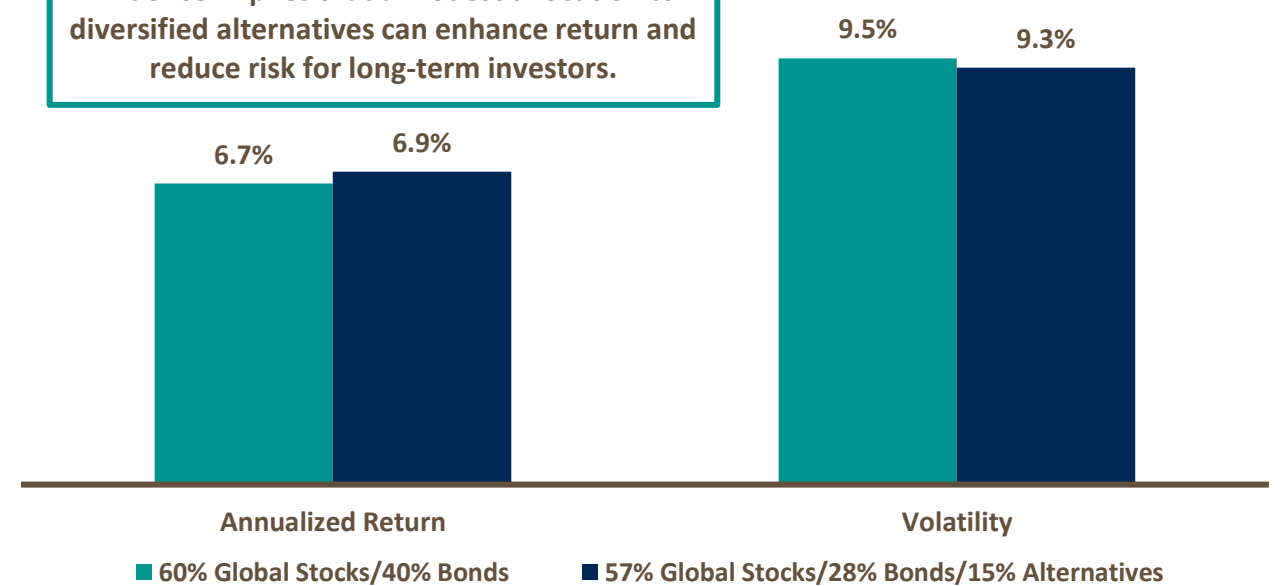


Beta of Alternatives to Traditional Assets
(Last 15 Years)



Historical Performance

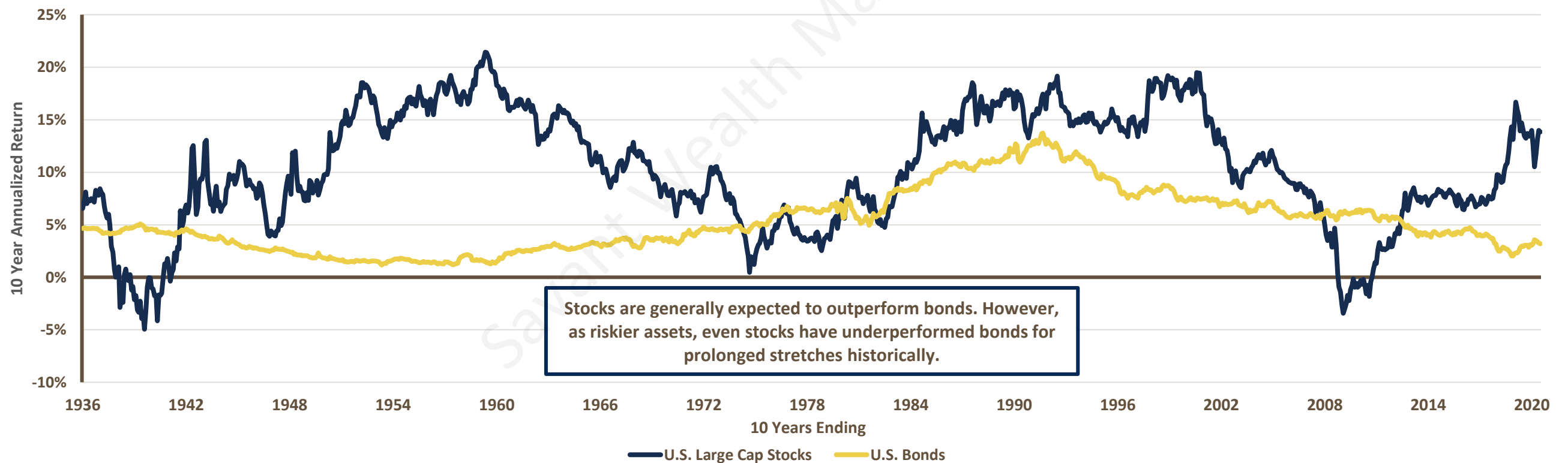
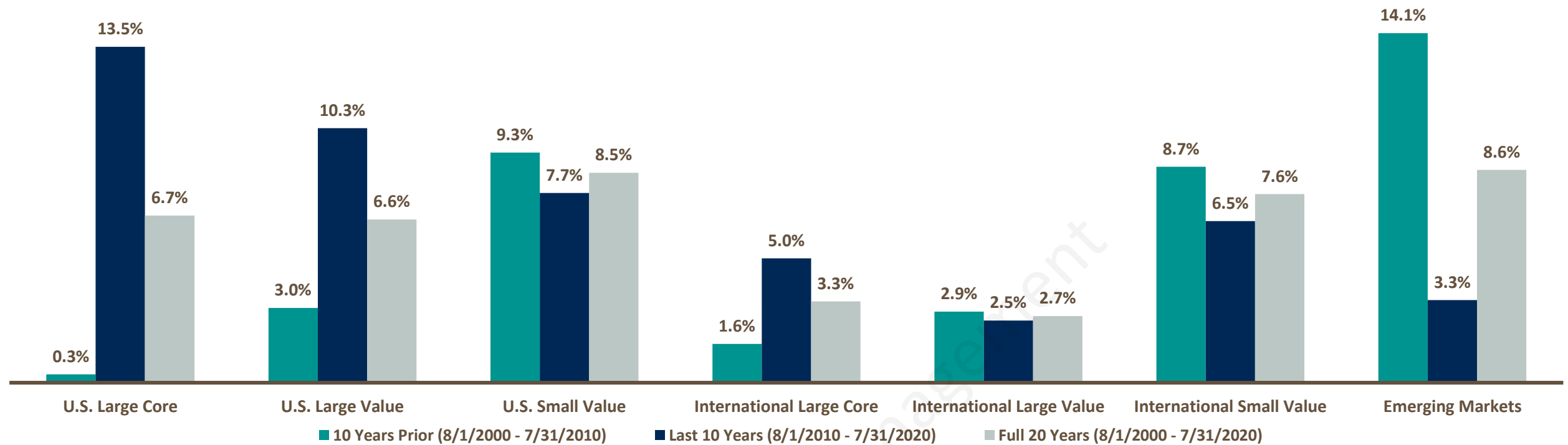
Evidence implies that a modest allocation to diversified alternatives can enhance return and reduce risk for long-term investors.



Based on data from 2/2002 through 7/31/2020. Data source: Morningstar Direct. See Endnote 6 for additional disclosures.

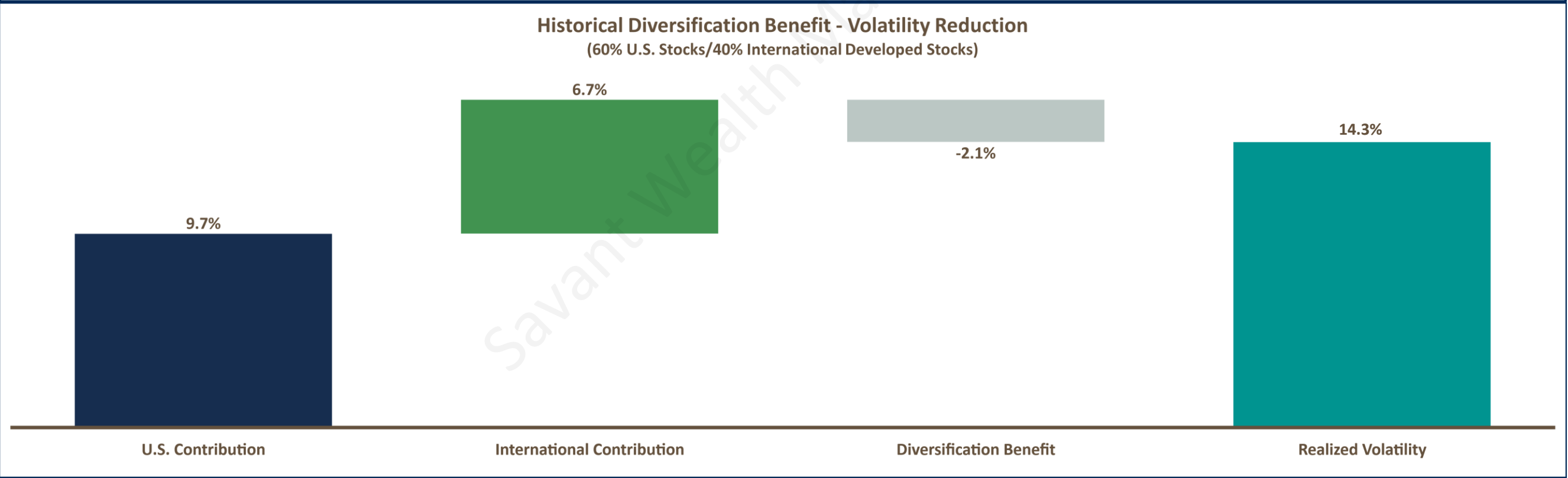
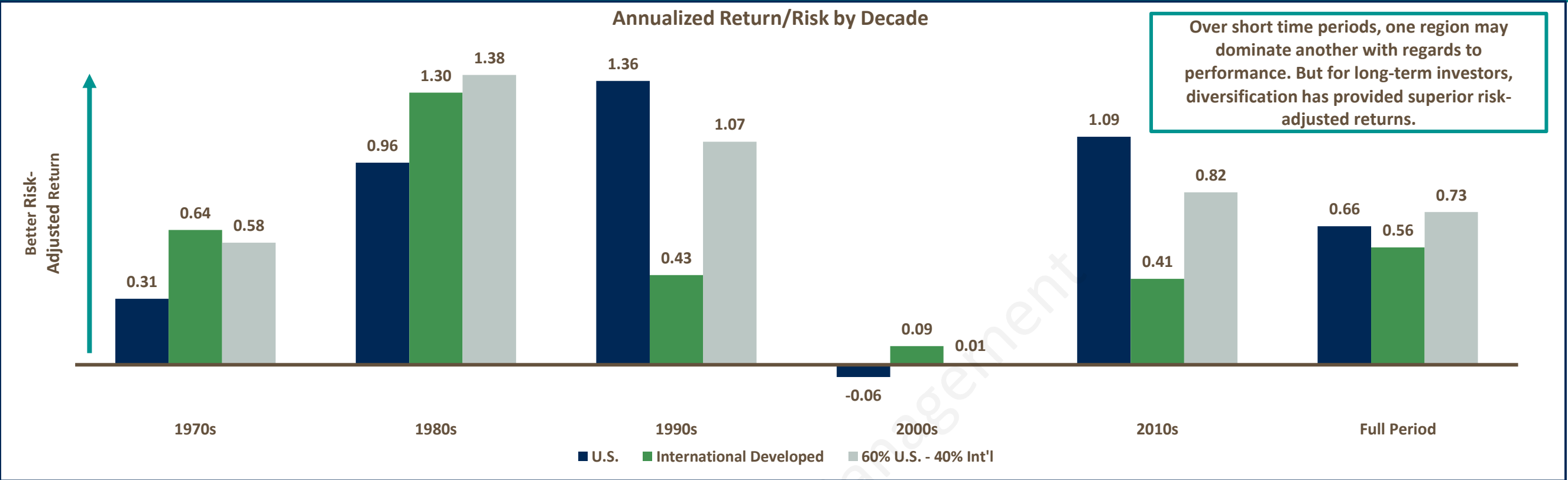
Leadership is Cyclical

One Decade May Not Reflect the Next



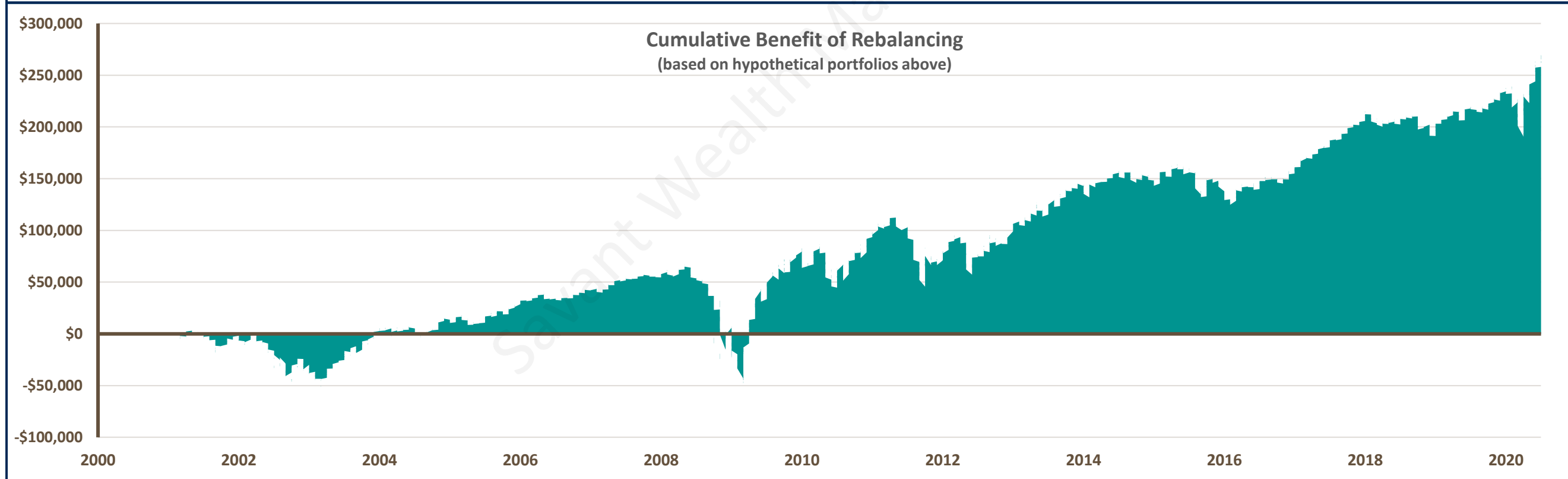
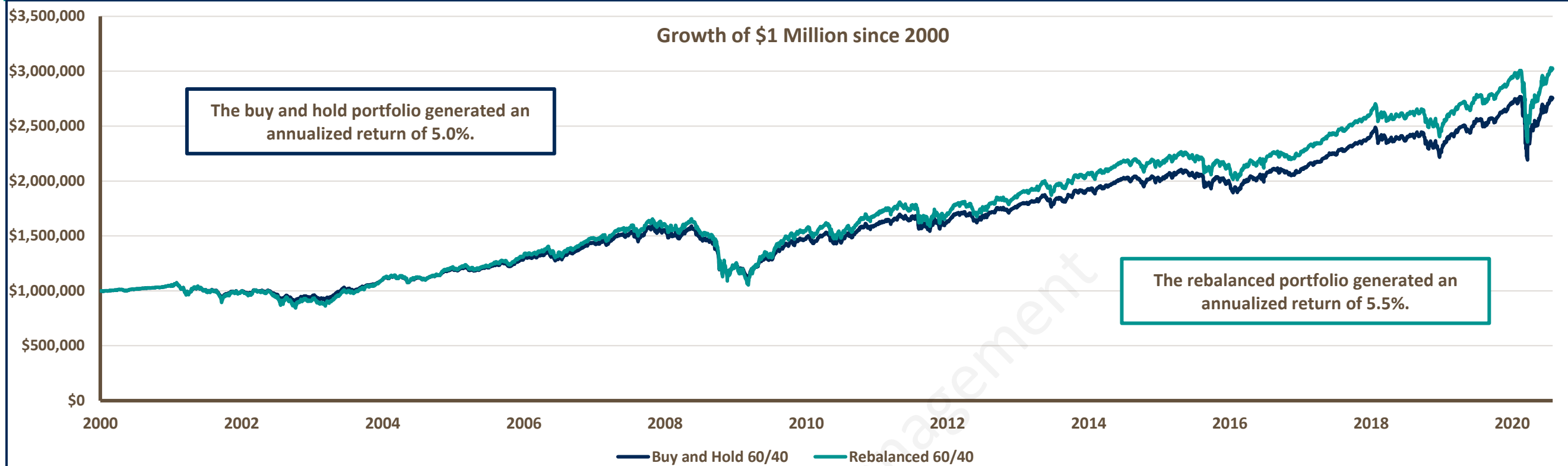
Data as of 7/31/2020. Data source: Morningstar Direct. See Endnote 7 for additional disclosures.

Evidence Supports Global Diversification



Data as of 7/31/2020. Data source: Morningstar Direct. See Endnote 8 for additional disclosures.

A Case Study in Rebalancing



Data as of 7/31/2020. See Endnote 9 for additional disclosures.

Disclosures

Endnote 1: Indices used - Global stocks: MSCI ACWI IMI; U.S. Large Core: CRSP US Total Market; U.S. Large Value: MSCI US Prime Market Value; U.S. Large Momentum: MSCI USA Momentum Index; U.S. Large Quality: MSCI USA Sector Neutral Quality Index; U.S. Small Core: Russell 2000; U.S. Small Value: MSCI US Small Cap Value; International Large Core: MSCI EAFE; International Large Value: MSCI EAFE Value; International Small Core: S&P EPAC Small; International Small Value: S&P EPAC Small Value; Emerging Markets: MSCI EM; Global REITs: S&P Global REIT; Short-Term Bond: BBgBarc Credit 1-5 Yr; Intermediate-Term Bond: BBgBarc US Agg Bond; International Bond: JPM GBI Global ex US TR Hdg USD; Inflation-Adjusted Bond: BBgBarc Gbl Infl Linked US TIPS; Multi-Sector Bond: 1/3 BBgBarc US Corporate High Yield, 1/3 BBgBarc US MBS, 1/3 JPM EMBI Global Diversified; Trend Following: Credit Suisse Mgd Futures Liquid; Event Drive: IQ Hedge Event-Driven (appended with other indices prior to inception - available upon request); Reinsurance: SwissRe Global Cat Bond; Real Assets: In the most recent quarter - DJ Brookeld Global Infra, earlier 1/4 DJ Brookfld Global Infra, 1/4 NCREIF Farmland, 1/4 NCREIF Propert, 1/4 NCREIF Timberland (appended with additional indices prior to inception - available upon request).

Endnote 2: Indices used - U.S. Large Core: MSCI USA All; U.S. Large Value: MSCI USA Enhanced Value; U.S. Large Momentum: MSCI USA Momentum; U.S. Large Quality: MSCI USA Sector Neutral Quality; U.S. Small Core: MSCI USA Low Size; Int'l Large Core: MSCI World ex USA All Cap; Int'l Large Value: MSCI World ex USA Enhanced Value; Int'l Large Momentum: MSCI World ex US Momentum; Int'l Large Quality: MSCI World ex US Sector Neutral Quality; Int'l Small Core: MSCI World Ex USA Low Size.

Endnote 3: Indices used - International: MSCI EAFE; Emerging Markets: MSCI EM. The total return refers to the NR (net return) version of each the index. The local return refers to the LCL (local version of each index). The current impact was determined by subtracting the return of the local return index from the net return index.

Endnote 4: P/E proxies for - U.S. Stocks: iShares Core S&P Total US Stock Market ETF; International Stocks: iShares MSCI ACWI ex US ETF; Emerging Markets: iShares MSCI Emerging Markets ETF. CAPE Ratio data is from the Online Shiller Data Library and refers to valuations of U.S. stocks. The corresponding annualized return uses the IA SBBI US Large Stock index.

Endnote 5: Yield to maturity proxies for - U.S. Bonds: iShares Core US Aggregate Bond ETF; International Aggregate: iShares Core International Agg Bond ETF; Emerging Market Sovereign: iShares JP Morgan USD Em Mkts Bond ETF. 10 Year Treasury data is from the Online Shiller Data Library and refers to valuations of U.S. stocks. The corresponding annualized return uses the IA SBBI US IT Govt Bond Index.

Endnote 6: Indices used - Trend Following: Credit Suisse Mgd Futures Liquid; Event Drive: IQ Hedge Event-Driven (appended with other indices prior to inception - available upon request); Reinsurance: SwissRe Global Cat Bond; Real Assets: In the most recent quarter - DJ Brookeld Global Infra, earlier 1/4 DJ Brookfld Global Infra, 1/4 NCREIF Farmland, 1/4 NCREIF Propert, 1/4 NCREIF Timberland (appended with additional indices prior to inception - available upon request). The 'Diversified Alternative Allocation' is an equal-weight index benchmark, allocating 25% to Trend Following, 25% to Event Driven, 25% to Reinsurance, and 25% to Real Assets via the benchmarks listed above.

Endnote 7: Exhibit 1: U.S. Large Core: S&P 500, U.S. Large Value: MSCI US Prime Market Value, U.S. Small Value: MSCI US Small Cap Value, International Large Cap: MSCI EAFE, International Large Value: MSCI EAFE Value, International Small Value: S&P EPAC Small Value, Emerging Markets: MSCI EM, US Bond: BbgBarc US Agg Bond. **Exhibit 2:** U.S. Large Cap Stocks: IA SBBI US Large Stock, U.S. Bond: IA SBBI US IT Govt Bond.

Endnote 8: U.S. Stocks: S&P 500, International Developed Stocks: MSCI EAFE. The 60% U.S. - 40% Int'l benchmark is 60% S&P 500, 40% MSCI EAFE, rebalanced quarterly.

Endnote 9: Stocks are represented by the MSCI ACWI IMI NR USD Index. Bonds are represented by the BBgBarc US Agg Bond TR USD Index. For the 'Buy and Hold 60/40', the investor is assumed to start with \$600,000 in stocks and \$400,000 in bonds. The investor simply holds the positions and accepts the changes to the portfolio allocation mandated by buy and hold returns. The 'Rebalanced 60/40' investor is assumed to start with the same \$600,000 in stocks and \$400,000 in bonds. However, when this investor's stock allocation drifts below 55% or above 65%, the portfolio is automatically rebalanced back to target. This exhibit does not take taxes strategies such as tax loss harvesting nor tax considerations such as capital gain taxes into account. This case study utilizes returns from 1/1/2000 through last month end.

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