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Dear Partners in Ministry,

Enclosed is the 2020 3rd quarter statement for your account(s) at the United Methodist Foundation (statements from 7/1/17 are accessible online). Net of fees, the returns of the fund models are:

As of 9/30/2020	3rd Qtr 2020	Year to Date	Last 1 Year†	Last 3 Years†	Last 5 Years†	Last 10 Years†
Aggressive Fund	**8.07%**	**4.60%**	**12.58%**	**9.03%**	**11.07%**	**7.92%**
Agg. Ex-Carbon	n/a	n/a	n/a	n/a	n/a	n/a
benchmark*	6.94%	2.04%	10.08%	7.78%	9.97%	8.16%
Moderate Fund	**5.91%**	**5.02%**	**10.55%**	**7.74%**	**8.72%**	**6.42%**
Mod. Ex-Carbon	5.39%	2.85%	7.60%	n/a	n/a	n/a
benchmark*	5.03%	3.27%	8.93%	7.04%	8.28%	6.91%
Conservative Fund	**3.44%**	**4.82%**	**7.86%**	**5.84%**	**6.07%**	**5.16%**
Con. Ex-Carbon	3.07%	n/a	n/a	n/a	n/a	n/a
benchmark*	2.98%	4.08%	7.22%	5.94%	6.36%	5.48%

*"Benchmark" is a blend of benchmarks for the fund's underlying portfolios of stocks and fixed income, relative to the portfolio allocations within the fund's model. †Rates of return (1+ years) are annualized. See the monthly performance reports online: https://umfnic.org/investment-performance-reports/

Market Commentary from Envestnet | PMC

Brandon Thomas, Chief Investment Officer of Envestnet|PMC, concluded their "Economic and Market Overview: Third Quarter 2020" report with the following observations and commentary:

> "The U.S. economy continues to recover from the unprecedented downturn resulting from efforts to stop the spread of COVID-19. While many economists expect third quarter real GDP growth will exceed 25% Q/Q, the economy is still on track to contract by an estimated 4.3% for the year. Consensus expectations for 2021 indicate that growth should rebound to approximately 3.6%. While the economy has avoided a Depression-level recession, there is still much work to be done to reach pre-COVID levels, with some economists estimating this could take as long as two years. However, there are so-called "green shoots" emerging, particularly in housing and the consumption of goods.
> ...
> The outlook for both the global and US economies remains positive, but how quickly we are able to return to pre-COVID levels will depend on several factors, including how quickly point-of-care testing is available. Stock prices have rallied in a V-shape recovery, and while there are certainly early signs of froth in the market, analysts point out that with an expectation of low interest rates for several years there are few alternatives."[1]

"there are few alternatives"

In the "Third Quarter 2020" report, Envestnet reminded us: "The Federal Open Market Committee (FOMC) maintained the aggressive monetary policy response to the crisis, leaving the funds rate target range of 0% to 0.25% unchanged. The central bank also stated that it is unlikely to consider raising interest rates anytime soon, perhaps not before 2023."[2] As of the writing of this letter, the dividend yield of the S&P 500 index is 1.67%,[3] and the yield on the 10-year Treasury is 0.79%.[4]

"price and value"

Warren Buffett wrote in his 2008 shareholder letter: "Long ago, Ben Graham taught me that 'Price is what you pay; value is what you get.'"[5] Buffett shared that wisdom at the nadir of stock prices in early 2009. Much has changed, of course, since 2009, especially now with stocks near all-time highs … again.

By some traditional measures, such as price-to-earnings (P/E) ratios, stocks look expensive. We must remember, however, P/E is a backward-looking valuation measure. Because of the virus-related shutdowns, corporate earnings are low, but ***the situation with the virus is temporary.*** The combination of a devastating but temporary hit to economic activity coupled with the traditional forward-looking function of markets creates cyclically high P/E ratios. Even so, stocks are paying ***twice as much income*** as the 10-year Treasury.

No one knows what the near-term future holds for stock prices. There are many current factors coalescing to support buoyant stock prices: massive monetary and (more?) fiscal stimulus, stock buybacks, rapidly increasing productivity gains from acceleration in technological changes, an improving economy, a post-election end to political uncertainty (independent of who or what party "wins"), and, yes, desire for stable income. Because of these many factors, it is important to maintain a healthy allocation to stocks for long-term investors. It is too easy to be fooled by stock and index price charts near their all-time highs and think it's time to become more conservative.

Instead of short-term prognostications, charts, and complicated analysis of valuation metrics, successful investment allocation between stocks and bonds should be based more on time frame for spending and investment profile, i.e. tolerance of price volatility. If the wild ride of 2020 has demonstrated anything concrete, it is the power of "staying the course" with your investment plans and allocations.

Be safe and be blessed,

Chris Walters

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[1]https://www.investpmc.com/sites/default/files/documents/PMC_QuarterlyMarketEnvironment.pdf
[2]Ibid, 2
[3]https://www.multpl.com/s-p-500-dividend-yield
[4]https://www.multpl.com/10-year-treasury-rate
[5]https://www.berkshirehathaway.com/letters/2008ltr.pdf