ACM QUARTERLY MARKET COMMENTARY
THIRD QUARTER 2020

Capital Markets

Global stocks posted strong gains in the third quarter, completing a full recovery to pre-pandemic levels. Stock prices were propelled higher in the summer by better than expected economic data but sputtered in September as Covid cases around the world saw a resurgence. The iShares ACWI ETF gained 8.4% in the quarter and is now up 1.7% on the year. U.S. stocks, and in particular large U.S growth stocks, continue to outpace the rest of the market by a wide margin. The Schwab U.S. Large-Cap Growth ETF jumped 13.6% in the quarter and is now up an impressive 24.6% year-to-date. This stands in contrast to the other major areas of the stock market that are all in the red this year: U.S. Large Value -10.6%, U.S. Small Growth -7.8%, U.S. Small Value -22.7%, International Growth -1.8%, International Value -14.3%, Emerging Markets -0.9%. Not since the dot-com bubble in the late 1990s, have investors seen such lopsided market performance. Based on our analysis, large U.S growth stocks are now overvalued by more than 70% versus the rest of the global equity markets.

Portfolio Updates

Overall, we find stocks to be relatively attractive in terms of valuation, especially in comparison to fixed income investments. We see global stocks generating annual total returns of about 7% over the next decade, which represents a large equity risk premium over U.S. aggregate bonds that are yielding a little over 1%. Another indication of the value advantage for stocks is that for the first time ever, more than 75% of the stocks in the S&P 500 have dividend yields that are higher than the yield on the 10-Year U.S. Treasury. Given that stock returns are also once again outpacing bonds, they represent an attractive combination of relative valuation and price trends. As such, and generally speaking, our portfolios are running ahead of target equity allocations, and we would likely view a correction as an opportunity to further increase exposure.

Within our equity allocation, we continue to emphasize large U.S. growth stocks, despite their lofty valuations, in recognition that self-perpetuating bubbles like this often rise higher and last longer than a rational investor could ever predict. Eventually, however, large U.S. growth stocks will begin to falter, at which point our trend-sensitive equity models will lead us to emphasize other areas of the global stock market. We are also overweight emerging markets in our equity portfolio. Based on our analysis, emerging markets offer attractive value, and more recently, an improving relative price trend.

Within fixed income, we also favor emerging markets, as the Vanguard Emerging Markets Government Bond ETF is yielding 4.3% and has been outperforming U.S. aggregate bonds since the March pandemic lows. Additionally, we are overweight intermediate corporate bonds, which have generated relatively strong returns over the past six months and offer fair value with a yield of 1.8%. In tax-managed accounts, municipal bonds remain very attractive. The iShares National Muni Bond ETF is yielding just as much as the iShares Core U.S. Aggregate Bond ETF, despite being free from Federal income tax.

Looking Forward

Looking forward to the balance of the year, the Presidential election looms large and will certainly be a source of volatility in the short-term. In the long-term, though, take comfort in the fact that over many decades U.S. stocks have generated fairly comparable returns regardless of which party was in control. Also know that interest rates represent a much more powerful force than politics. Irrespective of the election outcome, interest rates will likely remain very low for years to come, which will help support stock prices.

As we look into next year, the Covid-19 pandemic will continue to dominate headlines and have an outsized impact on the economy and capital markets. The development of an effective vaccine would be a game-changer, and hopeful signs point to possible widespread global availability by this time next year. Even so, the pandemic has inflicted damage to the economy, here and abroad, that will take years to heal and, in some cases may be permanent. It will no doubt be a tough slog, but, over the past century, our economy has shown an ability to adapt and overcome major shocks. No matter how things play out, we believe that our disciplined approach to portfolio management, based on a combination of valuation and price trends, will allow us to successfully navigate the capital markets on your behalf over the next decade.

The Ackerman Difference.

A financial partner in navigating the complexities and unique opportunities that come with significant wealth.

SEC-regulated Registered Investment Adviser (RIA). Ackerman Capital Management is s SEC-regulated Registered Investment Advisory (RIA) firm with $450+ million in assets under management (AUM). In contrast, RIAs with less than $100 million are regulated at the state level.

Experience & Expertise. In 1969, our firm opened its doors and launched the first hedge fund in Dallas, Texas. Over five decades, academic research and new technology have fueled our investing innovation and fiduciary services from generation to generation.

Independent, Fiduciary Advice. All RIAs are accountable to a "fiduciary" standard. This standard requires that a client's financial interest is placed ahead of their own when providing advice. An "Independent" RIA should be free from bias towards in-house products or fee arrangements.

Co-invested Accountability. We operate at the highest level of client performance accountability - investing alongside our clients. We prefer to "eat our own cooking" by using the same research, same trading decisions, and the same strategies to manage client wealth as we do our own.

COMMENTARY DISCLOSURES

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