THIRD QUARTER 2020 MARKET REVIEW:

The equity markets continued to strengthen for much of the third quarter through the return of industry traders from summer vacations in late August early September.

JP Morgan Quarterly review reports that US equities delivered nearly 9% over the quarter and are up over 5% year to date.

The flight to the new defensive sector, technology, led the run up with the capitalization of the five large technology companies dominating across market indices.

The market correction that commenced in September results from investors rebalancing position holdings away from technology to other companies and sectors overlooked in the market run up. Companies with strong balance sheets that have lagged market performance are increasingly opportunity investments. Undoubtedly following the successful addressing of the pandemic and a return to a new-normal of consumer behavior, these companies should perform well in an environment of low interest rates and increased consumer demand. That opinion has considerable consensus view.

Also impacting the markets in the last weeks of the quarter was concern of a prolonged interregnum between election day and when results of the election will be known. The volatility of option trading in the weeks surrounding the election is evidence of this concern. The President's unwillingness to commit to the traditional ready acceptance of election results heightens concerns of turmoil in the weeks following the election.

Financial markets are increasingly pricing in a Biden victory. The possibility of a democratic sweep referred to as a blue wave is also being evaluated by investors. What is the appropriate market positioning should this come to pass? Concern of higher taxes, which will probably occur with a Democratic party sweep of the three branches of the federal government and the drag this may impose on corporate profits is tempered by the belief that Democrat leadership will be slow to raise taxes because of the fear of destabilizing an economy just recovering from recession Further, the aggressive fiscal stimulus and government spending that would come in the wake of such a sweep may well counterbalance the effect of any increase in taxes.

The prospect of a rebalancing trade will gain momentum in the fourth quarter once the market volatility surrounding the election cycle is in the rear-view mirror. The extent of that repositioning may not be fully apparent until the first quarter of 2021. Technology, which has gained so much ground as the new defensive sector throughout this pandemic, may see a slowing of market growth as investors' attention focuses on sectors here-to-fore overlooked. The rate of change in the traditional cyclical companies may outpace the rate of change in technology until some degree of parity returns to the performance among these market sectors.

The COVID- 19 virus spread remained the dominant news worldwide and more so in the United States as this country racked up the greater number of infection cases and deaths over the past three-months. Lock down fatigue, good weather in the late spring and summer months, and the relaxation of protocols designed to maximize space between community members resulted in an increase in virus cases particularly in those states that had not experienced the brunt of the pandemic during the late winter and early spring months. Outdoor activity and an uptick of individuals wearing face masks and adhering to social distancing recommendations advocated by the CDC did reduce the spike in cases by the end of the quarter. There is significant concern that this respite may be short-lived as the fourth quarter will record virus spread resulting from children and young adults returning to schools and colleges. The prognosis for the later months of the fourth quarter are dire as the return of cold weather and the movement of activity indoors offers the possibility of virus spread further amplified by the inevitable return of the seasonal flu.

The economic reopening that has preoccupied the attention of policy makers as well as businesses will be limited until progress is made in developing vaccines and therapeutics, which in turn will allows freer movement of individuals. The virus now hop-skips across states surging and waning as communities relax social spacing controls. The push to revitalize tourism and the hospitality sector in the U.S. and world-wide increases virus spread among populations.

Vaccine trials are progressing positively. There is increasing hope that a regimen will be approved for use before year-end. Vaccinations protocols may begin in the latter part of the fourth quarter and be fully available by the summer of 2021. Progress is also being made with COVID therapeutics.

The end of economic stimulus in the third quarter and the failure of Congress to approve an extension of unemployment as well as an economic support package weighs heavily on the economy. The Federal Reserve has done as much as it can to keep the economy from contracting through a combination of keeping short-term interest rates at or about 0 and the ten-year interest rate in the .40 to.75 bp range. Quantitative easing, the use of the Fed balance sheet to purchase debt instruments across the credit spectrum, has also ensured sufficient financial system liquidity. The Fed has signaled its intent to keep interest rates low as well as to continue to use its balance sheet aggressively to ensure system liquidity. There are limits to what monetary policy can achieve, however. The required aggressive efforts to sustain and revive the economy must come thorough increased fiscal stimulus, which requires congressional action and executive approval.

Big news during the quarter was guidance from the Federal reserve of a change of policy that now focuses on average inflation targeting that will compensate for the extended period of below target inflation of 2%.

The forthcoming election and the gaming of that election has in large part precluded an agreement for additional fiscal stimulus. The Democrats push for more aggressive stimulus spending that addresses business, individual, health care and state and local governmental assistance while the Republicans, returning to their previous position of fiscal conservatism, seek to limit the amount of additional government spending and the increase in federal debt. Both sides are generally in agreement that some relief is better than none. The debate is the amount of additional spending the federal government should commit to.

International market performance was led by the success of Asian countries in controlling the spread of the virus. China's economy roared back to within 90% of pre-pandemic performance as reported by JP Morgan in their Quarterly Review of markets. The same reporting source indicates UK equities were down 3% for the quarter and 20% year to date. European equities were up 2% for the quarter and down 7% year to date.

The below statistics illustrate the breadth of change in the domestic equity and debt markets over the past three months.

Asset Class:	2019	Q-1 2020*	Q-2 2020**	Q-3 2020**
US S&P 500	+31.5%	-19.6%	+20.5%	8.9%
Growth	+34.1%	-15.1%	+25 .6%	19,2%
Value	+28.7%	-26.8%	+12.9%	-14.1%
Small cap	+26.8%	-30.0%	+24.7%	-6.1%
Barclays Aggregate Bond Index	+8.72%	+3.15%*	+0.6%	-0.1%

**Asset Class Data: JP Morgan, Quarterly Review of Markets
* Bloomberg PLC: Barclay Aggregate Bond Index

<u>SESLIA ACTIVITY:</u>

We again completed a review of most client positions during the past quarter. Our objective during this review was to align accounts with a 60-40 equity to income-oriented investment position. Please note, income does not necessarily imply bond or debt investments. Given the unprecedented low interest rate environment the economy is experiencing, we have sought income return by investing in dividend as well as preferred securities alongside bonds and debt, as considered appropriate. We have also sought to ensure a mix of investment in technology (the new defensive sector in an era of pandemic) with exposure to cyclicals, international and small cap stocks, as portfolio funds permit. We believe diversification beyond technology and health care is appropriate as control over the virus will allow these sectors to regain a degree of parity with the technology and health sectors that have both surged in this environment of social distancing.

The heightened economic and by extension market uncertainty inevitable over the next few quarters means that we continue to lean towards being defensive in our investment selections, ostensibly maintaining existing positions.

Investment grade credits will not produce significant returns in this market environment. Some opportunity for higher yield exists in leveraged portfolios but this is minimal and is accompanied by higher risk exposure.

Clients amenable to relaxing investment constraints may choose to consider a more substantial weighing of portfolio allocation to equity investments.