Quarterly Commentary                October 28, 2020

***As we enter the extended holiday season, the team at MCM sincerely wishes you peace and health for the future. What a year 2020 has been for humankind…***

## MARKET OVERVIEW

| *Market Sector Returns* | *YTD 2020* | *2019* | *2018* |
|---|---|---|---|
| *S&P 500* | ***1.25*** | 31.5 | -4.4 |
| *DJIA* | ***-7.07*** | 25.3 | -3.5 |
| *NASDAQ Composite* | ***22.65*** | 36.7 | -2.8 |
| *Russell 2000 (small cap)* | ***-7.50*** | 25.5 | -11.0 |
| *MSCI Emerging Mkts* | ***-4.67*** | 18.4 | -14.6 |
| *US Aggregate* | ***6.58*** | 8.7 | 0.0 |
| *US Treasury* | ***20.0*** | 6.9 | 0.9 |
| *Municipal Bonds (20 yr)* | ***2.88*** | 7.5 | 1.3 |
| *US Inv. Grade Corp* | ***6.78*** | 14.5 | -2.5 |
| *High Yield Bonds ("Junk")* | ***-1.21*** | 14.3 | -2.1 |
| *Gold* | ***20.93*** | 18.4 | -0.9 |
| *WTI Crude* | ***-39.2*** | 35.3 | -25.3 |
| *BBerg Commodity* | -- | 7.7 | -11.2 |

As I am writing this market update, the DJIA is losing 900+ points, its worst day since June and it is snowing. Why is it down today; who knows, Covid infection rates, disappointing Congressional stimulus talks, a mad-cap Presidential election, or an extremely overbought market – take your pick. Any one of these is a good reason or none of them. The equity markets are beating to a different drum these days. It is hard to know the reasons for many things that are happening in 2020 – they just ARE. It feels like something bigger is happening if you will and that is an uncomfortable for us seasoned investors. The internal conflict between losing money and leaving money on the table has never been more acute in my opinion. The increase in volatility over the past few weeks to the highest levels since the second quarter added to investor anxiety.

Stock market returns have also been disparate as well and completely depended on your sector allocation. Technology (+23) has led the way while energy (-57%) and financial (-30%) stocks have been taken to the woodshed. Gold is up 20 percent along with US Treasury bonds, a match not often made in heaven. The chart below outlines the continuing "winner take all" economy as the "Big 5" dominate the rest of the market. These MEGA stocks are the dominant position in most funds and continue to keep getting more and more investment flow. Also, the new investment craze of ESG investing (environmental, social & governance) is dominated by the mega tech names. Much of this outperformance is warranted by the dominant economic footprint

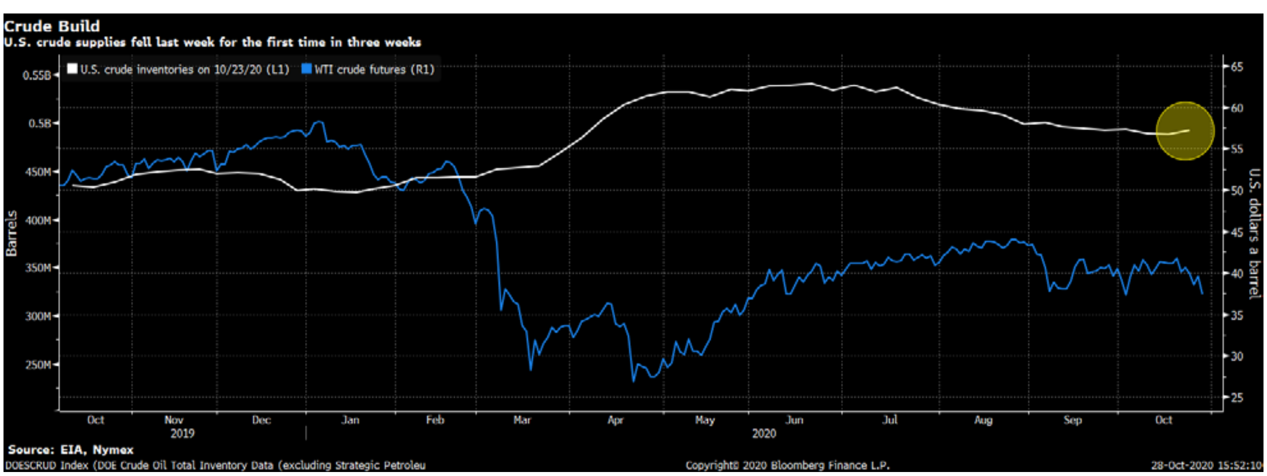
of these tech giants as they gobble up more and more of the consumer and business spending but the imbalances continue to grow.

Total earnings for the 206 S&P 500 firms that have reported this quarter are down 11.3 percent, on 3.5 percent lower sales. This is an IMPROVEMENT from earlier in the year. Full year 2020 S&P 500 earnings are expected to be down -19.1 percent on -4.4 percent lower sales; again an improvement from earlier. Growth is expected to pick back up in 2021 and the comparisons should be easy assuming a "normalized" business environment – that, is a big assumption.

## Fed Policy

As most of you know, we have been advocating for several years that the Federal Reserve will have a difficult time raising short term interest rates very aggressively and that longer term rates will remain "lower for longer." The pandemic has done nothing to change this thesis. Furthermore, since the market crash in March, the global central banks are back to work buying everything they can to assist in "stimulus" and to avoid a bad debt meltdown. The Fed has made it clear that rates will not increase until 2022 at the earliest unless "inflation" the way they measure it moves meaningful above their 2 percent target. Now, the Fed and other foreign Central Banks (CB) are discussing the use of digital currency to possibly direct payments to citizens as a way to provide stimulus faster and with less "friction." Stay tuned, we will discuss this in more detail in an upcoming letter.

As discussed earlier, gold, silver, and digital currencies (bitcoin) have made a run since April as some investors are beginning to think the massive monetary and fiscal stimulus will end in higher levels of inflation and therefore currency debasement. It is hard not to think this way. The offset to this has been the crash in oil and natural gas pricing. As the shutdown endured, crude inventories peaked in the summer months and have declined somewhat in the fall. However, crude oil pricing has remained weak as production cuts have not matched demand destruction. Both Exxon and Chevron are now trading at stock levels not seen since 2003 and other firms are in worst shape. This is a carnage like we have not seen since the 1990s. There is an increase in merger activity in the oil and gas industry not for growth but now for efficiency. Many more layoffs are coming in the next quarter.



## Q4 and Election Outlook

Increased infection numbers (but less death) are now worrying the markets as politicians are tempted to reclose the non-distancing sectors of our economy. This strategy has not proved to work yet but makes the politicians look like they are "doing something." As citizens, we do need to act responsibly and have consideration for our fellow man and act appropriately. I am concerned about the concerted campaign to confuse a virus with political agitation. The world is moving into a strange space with regard to tolerance and understanding. When politicians of major cities promote violence and rioting that helps to destroy private property that maintains their city, we have a massive problem.

Our outlook on the election fallout and investment opportunities will depend on our indicators for value, yield, and underlying company fundamentals. We see better economic activity moving forward so long as blanket shutdowns are avoided. Whether good or bad, there is very high probability of large fiscal and monetary support for income and lending no matter which political party assumes the Presidency. Volatility is high and is likely to continue to be during the next few weeks. Hang on to your hat and take deep breaths. Thanks for your trust.

Do not hesitate to call with any questions and/or concerns. We always look forward to hearing from you.

Eric McDonald, CFA
Tyler Sturdivant

**MCDONALD CAPITAL MANAGEMENT**

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|---|---|---|---|
| **PRINCIPAL/SENIOR PORTFOLIO MANAGER** | Eric C. McDonald | emcdonald@mcdcap.com | Contact Information |
| **ASSOCIATE PORTFOLIO MANAGER, TRADER** | Tyler Sturdivant | tsturdivant@mcdcap.com | Islay Capital Management, LLC dba McDonald Capital Management 8001 Quaker Avenue, Suite J Lubbock, TX 79424 (806)744.8617 (800)734.8617 |
| **CLIENT SERVICES** | Yolanda Roe | yhiracheta@mcdcap.com | |
| | Mark Hayden | mhayden@mcdcap.com | |