INVESTOR QUARTERLY

Economies Rebound But Gains Seem Tenuous

Fiscal Aid from Governments Begins to Ebb Just as New Virus Hot Spots Flare Up

Central Banks and governments responded forcefully to the pandemic, helping to fuel a V-shaped 3Q20 global economic rebound. But the gains seem tenuous as political infighting limits additional policy responses, and virus flare ups continue to hinder important parts of the global economy. We remain focused on several events influencing asset prices.

Rockingstone Performance

We posted a solid third quarter as equities performed well and client portfolios continued to benefit from overweights in risk assets and growth sectors. We did, however, begin to reduce risk as 3Q20 progressed including select trimming (AAPL, APPN, MSFT, PING, PYPL, SHOP, TTD) in technology. Our historical annualized returns include: YTD + 12.0%; 1-yr +19.47%; 3-yr +10.15%; 5-yr +10.45%; and 10-yr +9.54%.

3Q20 in Review

Financial markets continued their rebound, with equity markets in general, and technology stocks in particular, rising rapidly through mid-August in a parabolic move amid widespread enthusiasm. However, stocks declined and bonds rose in September on profit taking, a lack of progress on a new stimulus package, election concerns and virus second wave fears.

Still Planning for a "W-Shaped" Recovery

Given ongoing fears of infection from re-opening, we still expect the virus to impede a rapid return to normalcy. Yet we note the combination of a Fed back-stop, decent key sector economic performance and progress on an effective vaccine or therapeutic treatment is keeping us overweight risk assets for now (even with our recently reduced tech exposure).

S&P500 Forecast & Other Key Indicators

Our updated forecasts include: EPS (2020/2021: $116/$150), S&P500 (2021 year end = 3500), GDP (2020/2021: -5.0%/+4.7%), Gold ($2000), Oil ($37.50), 10-yr US Bond Yield (0.8%), Inflation (1.25%), 5-yr expected CAGR (US Large Cap +1.4%, US Mid Cap +4.6%, US Small Cap +15.2%, Developed +3.6%, Emerging +8.6%).

ABOUT US

Rockingstone Advisors LLC is a boutique asset management and corporate advisory firm co-managed by Brandt Sakakeeny and Eric Katzman, CFA.

As an SEC-registered investment advisor, we provide multi-asset investment strategies to individuals, families and small institutions through separate accounts.

Our investment strategies attempt to capitalize on pricing inefficiencies across broad asset classes and then across individual securities, with a strong emphasis on fundamental research and analysis.

Thank you for your interest. You can find more information (and some interesting articles) at:

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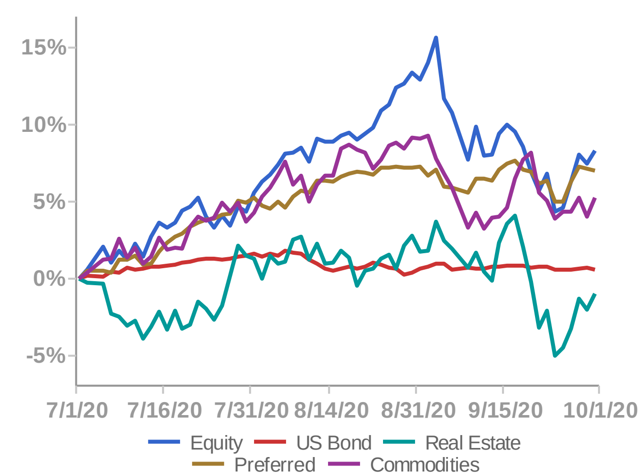
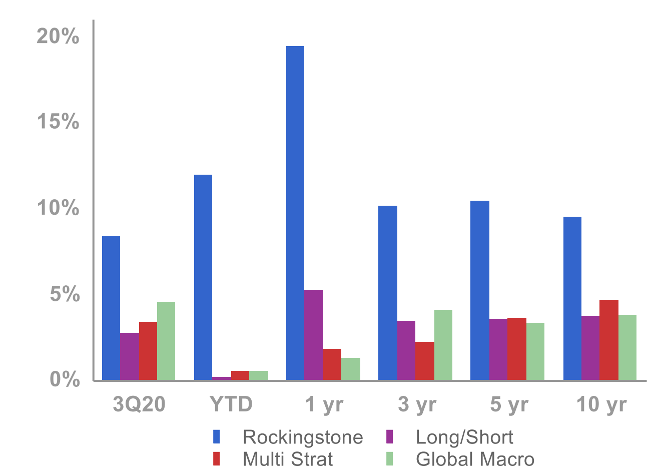
Figure 1: 3Q20 Asset Class Performance[i]



Source: FactSet

Figure 2: Rockingstone: 3Q20 & Historical Annualized Returns[ii]



Source: Rockingstone Advisors, Morningstar, DJ Credit Suisse Indices

Please see our End Notes and Disclosures (pages 29-30 of this Investor Quarterly) for important information regarding performance measures. Form ADV available upon request.

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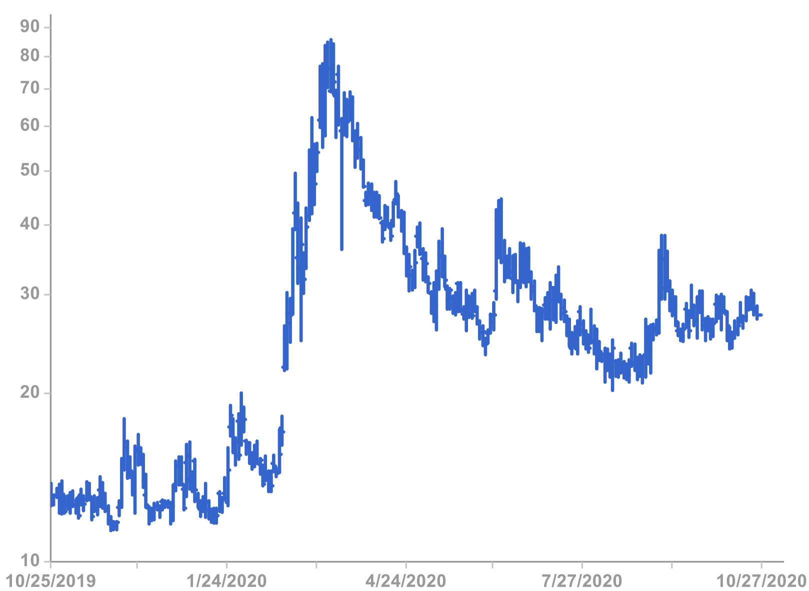
Asset Prices Continue to Rebound

Overwhelming policy response drives asset prices higher

The third quarter, in many ways, felt like an extension of the second quarter. The asset purchases and stimulus measures adopted by central banks and sovereign governments in an effort to stem the liquidity crisis in financial markets have performed as expected: keeping interest rates artificially low and helping to fuel the early stages of an economic recovery. That financial assets have been the biggest beneficiary of the Fed's policy is not surprising given the impact of low rates on discounted cash flows. The efforts, at this point, appear to have been successful, although as our newsletter noted last quarter, the seeds of the next crisis are almost always sown by policy makers solving the current crisis.

By any measure US markets have returned to normalcy, or at least how a market would normally behave when supported by the promise of $6 trillion in quantitative easing and fiscal stimulus! Bond yields have fallen, spreads have narrowed, equities have rallied, the US dollar has declined, liquidity has returned and volatility (see below) has declined. No doubt while central banks can take the bulk of the credit for the speed and breadth of their actions, several federal stimulus packages have moved money directly into the pockets of laid-off employees through generous unemployment benefits and $1,200 checks, as well as directly into businesses through forgivable PPP loans and other vehicles. Markets have also been aided by positive news on both the therapeutic and vaccine fronts.

Figure 3: CBOE Volatility Index



Source: FactSet

Using the VIX suggests a "V" shaped recovery is more likely

For investors unfamiliar with the VIX, it is a measure of volatility that uses forward looking options to gauge investor views on future price probabilities. As evidenced in Figure 3, during the latest crisis fueled by the global pandemic, the VIX hit a high of 85.5 on March 18, 2020, a few days before the market bottomed on Monday, March 23rd.

Subsequently, the VIX has generally declined through 2Q20 and 3Q20. As noted previously, the sources of the decline in volatility and the rise in asset prices were due to a combination of a flood of liquidity from central banks and fiscal stimulus from governments, a sense that the sell-off had gone too far too fast, and lastly, perhaps a view that ultimately the health crisis would be contained within a finite period of time, say one- to two years, three at worst, and life would subsequently return to pre-pandemic levels. While not to pre-pandemic levels, the VIX in our view suggests the market is still favoring a reasonably quick recovery in macro-economic trends and corporate profits. Keeping track of the VIX gives us a sense as to investor uncertainty, with the understanding it is a coincident and imperfect gauge.

Sharing the playbook outside the US

Looking outside the US, the playbook used by central banks and governments has been largely the same, including aggressive easing of interest rates and debt-fueled fiscal stimulus. The EU, which was dysfunctional before the pandemic, appeared to weather the storm although as this newsletter goes to print, virus cases are accelerating and economic-draining closures are being implemented across the continent (as well as the UK). China, where the virus originated, appears to have recovered, although its economy remains export oriented and therefore risk to the country's GDP continues.

But in our view the asset gains across many markets seem somewhat tenuous given the amount of life support necessary to keep the economy running. While no doubt businesses and households have adapted to the new reality of operating in a pandemic (some more successfully than others), financial markets are clearly being supported by an implicit Fed "backstop" at the same time the economy's fiscal support is beginning to fade. Whether that fiscal support is replenished and at what level has been the focus of financial markets (stocks want to see it, bonds do not) throughout the third quarter.

Few believe the economy is strong enough to continue the pace of its recovery without additional stimulus. The problem is that Congress cannot yet decide how much stimulus is too much such that debt fueled funding does more harm than good. The questions being raised include: the distortion of labor markets for an extended period, increasing sovereign and municipal debt burdens, and sustaining struggling businesses in a way that prevents the economic adjustments (private and public) necessary for efficient capital allocation until a return to normalcy.

Of course, when "normalcy" returns is a critical question. Indeed, how to define the "new normal" is a key question with no clear answer. Consistent with the expectations of most epidemiologists, as the US economy re-opened and testing ability improved, case numbers would accelerate, and that, unfortunately, is exactly what has happened. But the rise in case numbers has not yet translated into the type of CFRs (case fatality rates) that were seen earlier this spring in New York, northern Italy and parts of Spain. As social animals, people's desire to return to normal is evident, but it remains to be seen whether virus flare ups and public policy concerns over ICUs being overwhelmed will allow for such a return.

What is clear, though, is that until a viable and effective vaccine is deployed in large numbers, the global economy will continue to need some degree of external stimulus and policy makers will have to continue to "bridge the gap." How effective these additional measures are – and what the long-term implications are for those actions – will be of critical importance.

Near-term investment framework: How we are navigating the markets

During the third quarter, our investment decisions were based on a framework that rested on three pillars: (i) the size and strength of the governmental response, which effectively removed the risk of a chain of multiple bankruptcies; (ii) the nature of the shut-down of the pandemic, which resulted in a clear bifurcation between haves and have nots among businesses and individuals, and (iii) the spread of the pandemic, including its ebb and flow across the globe away from hard hit regions into previously unaffected regions, as well as the global pursuit of therapeutics and vaccines and the prospects and timing for success.

A Recap of the Government Response

As we have discussed previously, the measures taken by the Fed and Congress have made the most significant impact, in our view, on the path of the economic recovery.

Figure 4: Federal Reserve Measures to Combat Covid-19 Downturn.

Program	Details	Goal
Interest Rate Cut	150 bps cut to 0%	Help financial conditions
Discount Window	Rate cut to 0.25%, terms extended to 90 days	Boost borrowings
Bank Reserves	Reduced to $0	Boost bank lending
Repo Operations	$6.5B max repo facility Each facility has $500B cap	Ease short-term liquidity funding
Intl Swap Lines	Increase swap lines with 14 non-US Central Banks	Aid $US funding
Asset Purchases	Unlimited quantitative easing	Stabilize US Treasury and MBS agency markets
Commercial Paper (CPFF)	$10B equity backing from Treasury Exchange Stabilization Fund	Aid short term liquidity in commercial paper markets
Primary Dealer (PDCF)	$150B daily usage limits	Improve overnight liquidity for primary dealers
Money Market (MMLF)	$10B equity backing	Backstopping money markets
Term Asset Backed Securities Loan (TALF)	$10B in equity backing, $100B in new financings	Stabilize and support ABS markets
Primary Market Corporate Credit Facility (PMCFF)	$10B equity backing $100B in new financings	Help corporate bond market
Secondary Market Corporate Credit Facility (SMCCF)	$10B equity backing $100B new financings	Aid investment grade secondary corp. bonds
Paycheck Protection Program (PPP) Liquidity Facility	$600B in funding support	Preserve employee paychecks through crisis
Municipal Liquidity Program	$500B funding support	Backstopping municipal bond market

Source: FactSet

The combination of the speed and the unprecedented size of the intervention led us to cover our shorts and build positions in a handful of names that we have always wanted to own but have never been able to justify given the valuations. The calculus was relatively straight forward: our downside was reasonably well protected by a combination of the interventions plus the impact of super low rates on our discounted cash flow models; markets were oversold and the coordinated actions signaled that the government was "all in" and would continue to be supportive.

However, as the initiatial stimulus package wanes, the prospect for a new package—at least before the elections, is now virtually zero. Looking back over the last few weeks, there was a reasonably wide gap between Democrats and Republicans, with the former group unwilling to move off of their $2.2 trillion offer and the latter not sure they had the Senate votes to approve their offer of $1.8 trillion. The composition of the two spending plans differs widely, with Democrats focused on state and local aid while Republicans are focused on aid to individuals and small businesses. Currently the Senate has adjourned until after the US election, making it clear that no agreement will pass near term. The lack of clarity around if or when a stimulus will pass is one major reason, in our view, market volatility has jumped of late.

As this newsletter is set for publication, the consensus appears to be that a Democractic sweep (i.e. continued control of the House, takeover of the Senate and change in the Presidency) is likely. The typical view is that Republicans are more business friendly and thus a Democratic sweep would be negative for equities. Yet we emphasize actual market performance doesn't often align neatly with such sweeping generalizations often because equity markets are discounting mechanisms and hence begin to "price in" a change in political control far ahead of the actual election date.

To the extent the market views additional stimulus as critical, a "Blue Wave" could actually result in a more aggressive spending effort, for example, in the form of a massive infrastructure package. In addition it appears that a Biden-led administration might be more proactive in terms of establishing a more consistent, thoughtful and nation-wide response to the pandemic, rather than leaving it to individual states as the Trump administration has done, which in turn could lead to the US economy getting back to "normal" more quickly.

This of course is balanced against the prospect of overly aggressive influence by the Democrat's progressive wing's policy efforts, heightened regulatory activity and significantly higher corporate, personal income and capital gains taxes, all of which would be a net negative for investors and the economy. Ultimately, however, we believe the ballooning of debt as a result of the pandemic, the next and future administrations will need to deal with a more challenged budgetary landscape.

Bifurcation of the Economy

The second factor driving our investment decisions in the second and third quarters was our conclusion that the while the virus would temporarily disrupt the normal operations of the economy, the bulk of the sustained disruption was fairly isolated to the hospitality (gaming, live events, sports) and travel (airlines, cruise lines, hotels) industries, with some residual impact on real estate and construction.

Moreover, there would be some clear winners, mainly technology companies and technology-enabled companies who deliver digital services direct to consumers, as well as supermarkets and consumer packaged goods providers. Many argue and we agree that a more technology driven economy has simply been accelerated by the virus with stocks linked to such a move discounting rapid adoption by both companies and consumers.

The impact of the virus appears to be exacerbating existing inequalities between skilled and unskilled labor. For example, a disproportionate number of well-paying, highly skilled jobs seem to be largely unaffected by the virus and indeed have benefitted from the aforementioned transition to a more digital economy. Meanwhile, the industries hardest hit generally provide relatively low wages. Thus, while the headline unemployment figures were no doubt jarring, adjusting for relative wage rates across industries, we believe the damage was not as bad as the market was discounting in late March.

From an investment perspective, one could argue the population has been split into two: (1) those who are working remotely where business is booming and typical expenses such as travel or entertainment have plummeted, and (2) those who cannot work remotely such as an airline flight attendant and are struggling with unemployment and financial hardship. The reality is that until Group 1 is comfortable interacting with Group 2, the latter will remain under tremendous day to day pressure and anxiety.

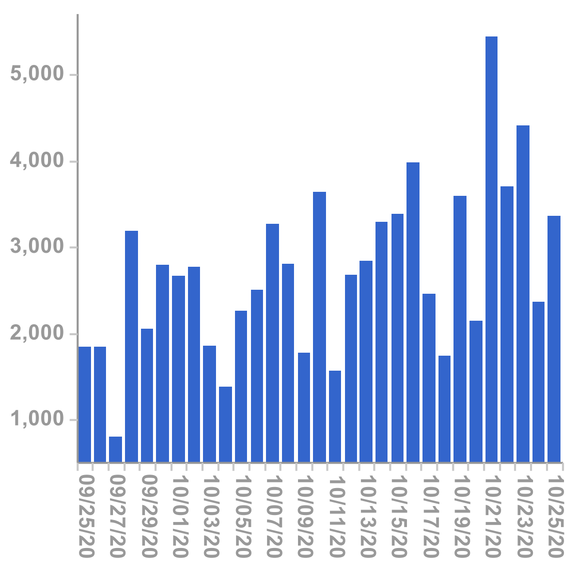
Given the above framework, it is easy to understand why certain sectors of the market (i.e. technology and select e-retailers) have done so well while other areas (restaurants, airlines, cruiseships) have struggled. At some point our investments will need to reflect a recovery in the latter segment, but at this stage we have not made a major move into cyclical and hospitality stocks.

Pandemic Spread

The third factor we assessed in portfolio positioning was progress in both treating Covid-19 (therapeutics) and in prevention (vaccines).

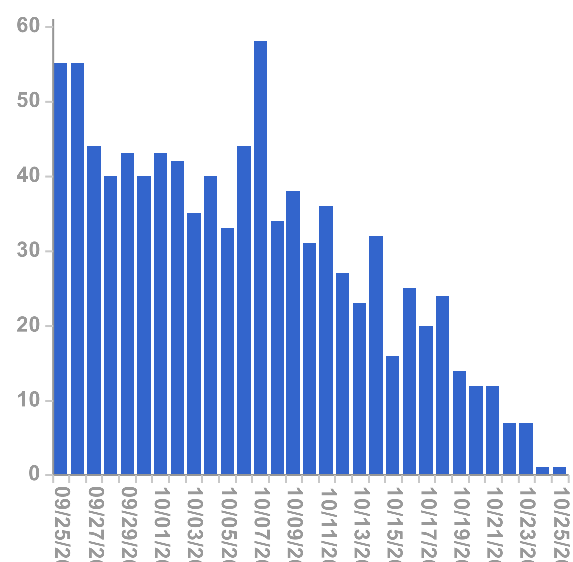
In general, it appears that healthcare providers are getting better at treating the disease (see recent data from Florida below, for example). As we noted previously, it is unclear to us if this is a function of more experience, better therapeutics, younger cohorts or viral mutation. But it is clear that while cases are generally rising, especially in regions without prior exposure, deaths are generally declining.

Figure 5: New Covid Cases, Florida



Source: Florida Dept. of Health

Figure 6: New Covid Deaths, Florida



Source: Florida Dept. of Health

On both the therapeutic front and the vaccine front, the data from early state clinical trials have been promising, and perhaps, at the margin, a bit better than the market feared. Indeed, on a global scale, the health care industry and policy makers are coordinating a response to the Covid-19 threat that is arguably unprecedented in its scope.

On the therapeutics front, the good news is CFRs are declining, as noted above. To date, three therapeutics are approved to treat Covid-19: dexamethasone in the UK, Avigan (Fujifilm Toyama & Zhejiang Hisun Pharma) in China, Italy and Russia; and Veklury (remdesivir-Gilead) in Japan and Australia. Currently, INOpulse (Bellerophon

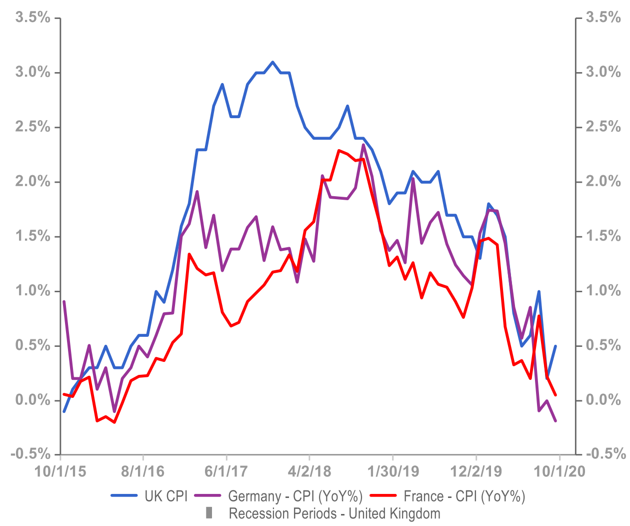
Therapeutics), Veklury, Dexamethasone, Actemra (Roche) and RLF-100 (NeuroRX and Relief Therapeutics) are currently at least in Phase II or Phase II/Phase III studies.

On the vaccine front, there are several candidates on a fast track; it appears that viable vaccines may be available as soon as winter 2020. How effective the vaccines are, how long they provide protection, and whether they can be produced in the type of numbers to protect global citizens will not be evident for several months. But here again the takeaway is that progress on a vaccine appears to be slightly ahead of prior market expectations.

Long-term Investment Framework: Sowing the Seeds of Inflation?

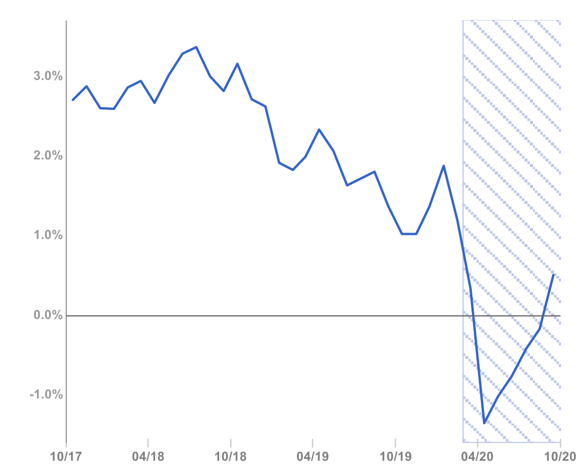
Assessing the long-term implications of the current policy response is fraught with danger. We, like others, worried about the potential risk of inflation given the response to the global financial crisis (GFC) back in 2008 that never quite materialized.

Figure 7: CPI; UK, France & Germany



Source: FRED

Figure 8: US CPI

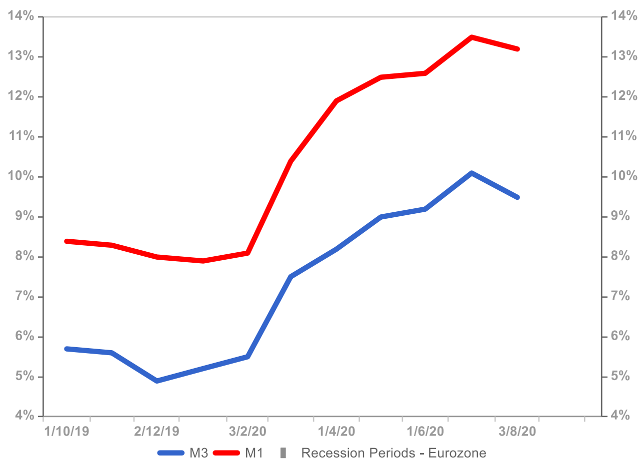


Source: FactSet

There were pockets of inflation over the last decade, but in general the combination of excess capacity, embrace of free trade, an over-supply of oil, aging demographics in the developed world, technological innovation and the rise of low-cost exporters to US markets (China) has led to fairly subdued and declining inflation rates for the last few years. How much of this decline is cyclical vs. secular is tough to divine, but clearly price levels have remained stubbornly low and chronically below the Fed's 2% target.

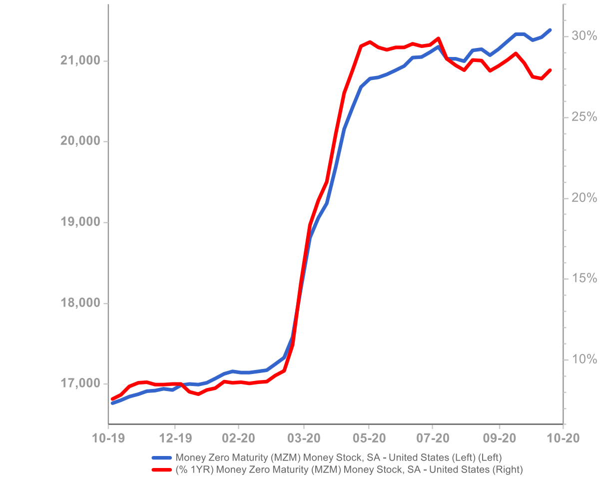
Indeed during the 3Q20 the Fed made a not so subtle shift by prioritizing employment and worrying less should inflation jump beyond 2%. At any other time, such a shift would likely have received much more attention by financial markets. Of course, there is the argument that we are looking for inflation in the wrong places (goods and services) instead of where it really is (financial assets) apparent.

Figure 9: M1 and M3, Eurozone



Source: FRED

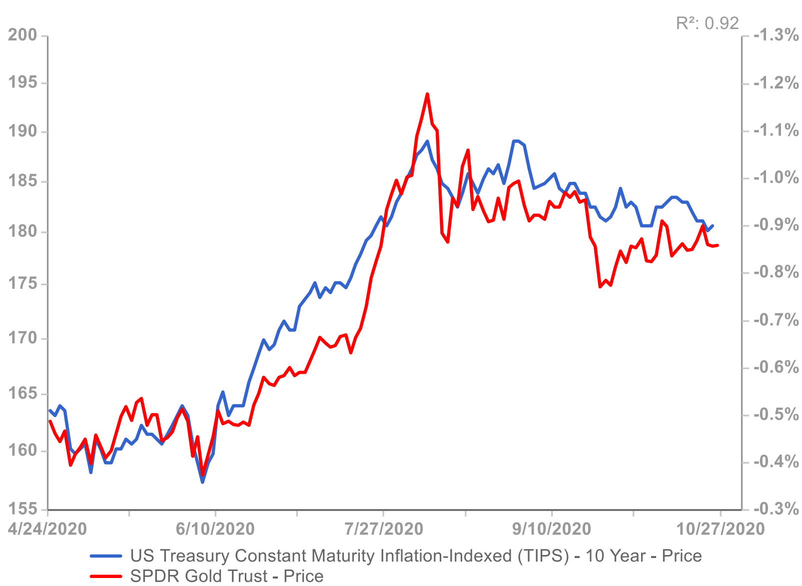
Figure 10: MZM, US



Source: FactSet

While it is clear that price levels have generally been declining since early 2018 in the Eurozone and since the summer of 2018 in the US, broad measures of money supply growth both in the Eurozone and in the US show a material acceleration in the last few months as a result of the policy decisions implemented in response to the pandemic (Figures 9 & 10).

Figure 11: Gold (LHS) vs. TIPS (RHS – Inverted)



Source: FactSet

The rise in the money supply and the potential concomitant rise in price levels has not been lost on investors. Assets generally perceived to be inflation hedges, such as gold and TIPS (Treasury Inflation Protected Securities), have been rising in tandem (R-sq. of 0.92) since early April. We have read various reports that suggest alternative investments (i.e. beyond traditional hedges such as TIPS, gold and real estate), such as bitcoin, could arguably serve as a better inflation hedge going forward. We think an open mind around the topic is reasonable.

If the expansion of the money supply around the globe results in material inflation, investors that fled to cash in March 2020 (and remain in that position) will suffer from poor financial returns in the future. Indeed, one could argue that higher-than-expected inflation would allow governments to effectively pay down their significant borrowings more easily from lenders who were content accepting a fixed risk-free rate of near zero.

It is important to note, though, that an inflationary outlook is embedded in an expectation for another round of fiscal stimulus, as the demand shock due to fears of the virus is naturally deflationary. Moreover, it is also assumed that governments have historically found that once constituents become accustomed to government handouts, it is politically very challenging to remove that entitlement. So we want to stress that one-time actions by the Fed and Congress don't necessarily lead to inflationary pressures, but rather once a government becomes reliant on fiscal and monetary policy to support demand it is very hard to restore fiscal discipline unless required to do so by market forces.

Hence the see-saw effect in the markets: expecations of a stimulus deal drive risk assets higher (equities, commodities, high yield, EM debt and other spread instruments), while fears of a lack of stimulus do the opposite: drive risk-free assets higher (Treasury bonds, high grade corporates) and push the value of risk assets lower.

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Forecast: 2020 & 2021

Rockingstone Advisors: Our Latest Forecasts

We have adjusted our forecasts to reflect the latest views on 2020 and 2021. Whether 2021 experiences a rebound in economic activity clearly has many swing factors from the pandemic to monetary policy to fiscal stimulus.

Figure 12: Key Metric Forecast

	Year End December	
Metric	Band	Point
US Real GDP (2020)	-4.0% to -6.0%	-5.0%
US Real GDP (2021)	+3.5% to +5.5%	4.7%
S&P 500 2020 EPS (RSA/Street)	NA	$116 / $116
S&P 500 2021 EPS (RSA/Street)	NA	$150 / $164
S&P 500 2021 Index	2700-3250	3500
10-Yr US Treasury Yield	0.5% - 0.9%	0.8%
Oil (WTI-2020 End)	$35 - $45	$38
Gold (2020 End)	$1,800 - $2,200	$2,000
Inflation (NTM)	+1.0% to +1.5%	1.3%

Source: Rockingstone Advisors, The Economist, Standard and Poor's, NYSE Arca, St. Louis Federal Reserve

We have updated our key metrics forecast given the current economic environment. We stress once more that given the binomial nature of the pandemic, the uncertainty around the recovery, as well as the impact of current Federal Reserve policy, it is exceptionally hard to forecast with any degree of confidence. Similar to last quarter, we use wider than average bands. A few observations and comments:

1. <u>Gross Domestic Product (GDP)</u>. We now forecast a 5.0% decline (vs. prior -8.0% in US Real GDP for 2020 and a 4.7% rebound (vs. prior +8.4%) in 2021. With stimulus funds and select sectors of the economy performing well, our outlook points to less contraction in 2020 and a more muted rebound in 2021.

2. <u>S&P 500 EPS</u>. For 2020 and with only one quarter left to complete the year, we are matching the street consensus forecast for EPS of $116. This compares to our previous forecast of $105 as we recognize select economic sectors have navigated the pandemic reasonably well and fiscal stimulus spending has helped consumer spending. Looking to 2021, consensus expectations are for a 41% recovery in EPS to $164. We are more cautious with our $150 estimate (but even this lower figure still points to a 29% rebound). Clearly 1H21 comparisons will be relatively easy but we note it will likely take a cyclical recovery (financials, energy) to help boost 2021 S&P500 EPS.

3. <u>S&P500 2021 Index</u>. Looking to 2021, we believe the S&P500 is likely to end the year at 3500. Given the current level, this suggests minimal growth. Mathematically taking our $150 EPS estimate and using a 23x forward P/E multiple is how we derive our target. We also note our long term return analysis (see the next section) also supports a muted outlook for large cap US returns. We emphasize the interplay between an earnings rebound and record low interest rates makes deriving a S&P price target as more challenging than usual.

4. 10-Yr Treasury Yield. We reiterate that historically low Treasury yields exercise a material impact across all financial assets, as financial assets are generally priced off of this yield. With economic activity muted in many sectors and geographies and the Fed remaining loose with monetary policy, we continue to expect a year end yield of 0.8% on the 10-year.

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Five Year Asset Value Forecast[iii]

Our analysis point to muted long-term equity returns

The pandemic combined with the fiscal and monetary responses continue to make us question our forecast conviction, but our main assumptions regarding capital markets is that asset values mean-revert (with respect to margins and P/E multiples) over time. We see no reason to question this axiom but note it currently makes for more volatility in expected returns, particularly when low profitiability is factored into our calculus.

Our latest calculation for long term returns suggests that asset allocation across geographies and capitalization is very important right now. As evidenced in the table below, there is a significant disparity. It shouldn't come as a surprise to investors that US large cap stocks appear to offer the lowest long term returns from current levels. Valuation for the S&P500 is well above its historical mean, arguing muted returns should be expected. On the flip side, we note that US small caps (using the S&P600) appear to offer significant returns given low current operating margins and more modest headwinds from valuation.

Figure 13: Five-Year Total Equity Return Calculations (Incremental Contribution)

Asset	Index	LT Exp. Return		Sales		Profit Margin		Div.Yield		Valuation
US Large Cap Stock	S&P500	1.4%	=	5.2%	+	0.7%	+	2.1%	-	6.6%
US Mid Cap Stock	S&P400	4.6%	=	4.7%	+	2.1%	+	1.6%	-	3.8%
US Small Cap Stock	S&P600	15.2%	=	5.8%	+	12.9%	+	1.9%	-	5.5%
Foreign DM Stock	MSCI-EAFE	3.6%	=	2.7%	+	3.1%	+	3.5%	-	5.7%
Foreign EM Stock	MSCI-EM	8.6%	=	5.9%	+	4.4%	+	2.9%	-	4.7%

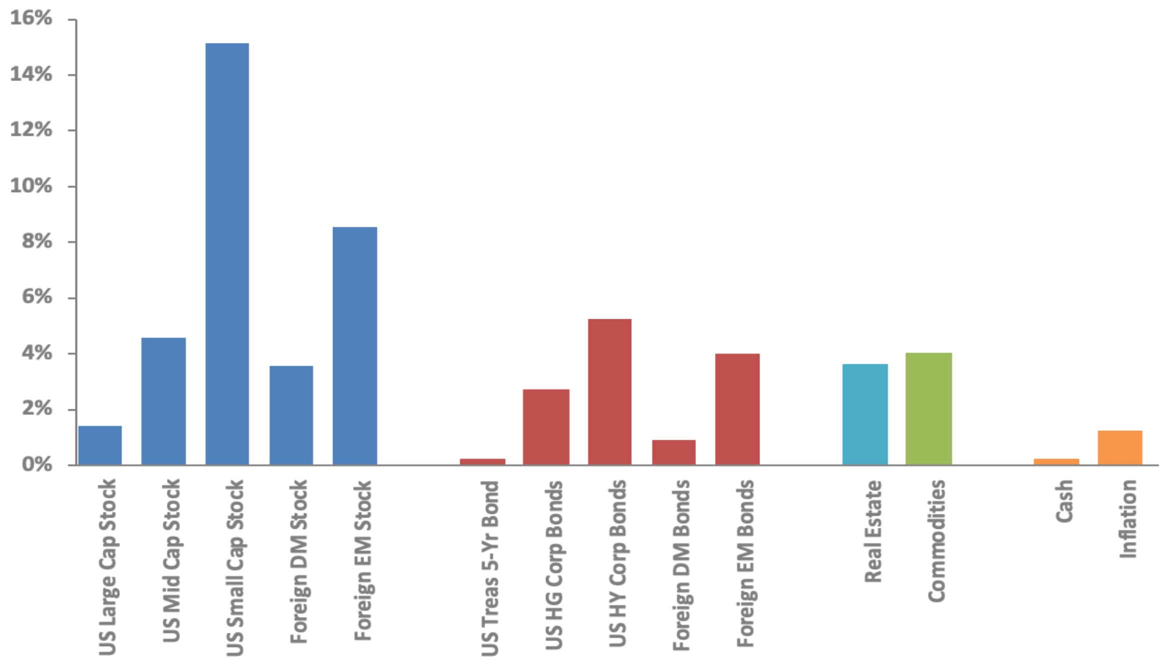
Source: Rockingstone Advisors

We analyze equities using four variables such as (1) historical sales growth, (2) corporate profit margins, (3) dividend yields, and (4) valuation to determine potential long-term returns. Using valuation as an example, P/Es should theoretically decline (if currently above the historical mean) or expand (if currently below the historical mean) over the long term.

Based on our outlook for total returns, we expect the "give" of sales growth, valuation and dividends to be partly offset by the "take" of mean-reverting margins. We expect sales growth to be relatively close to long term average performance although presently the economy suggests lowered expectations are likely prudent. Profit margins are high vs. history but we don't see significant pressure (due to ongoing productivity and cost reduction measures) in the next few years as well as benign inflation.

In fixed income (see the next page for various assumptions), we expect the "give" of coupons will be exceeded by the "take" of mean-reverting inflation and real rates, both of which are below their historical mean. Of course, short-term returns may not necessarily match our longer-term return predictions; markets are significantly more random over the short-run than the long-run.

Figure 14: Five-Year Asset Class Total Return Forecast



Source: Rockingstone Advisors

We note, however, that these results should be given slightly more latitude than normal given the recent volatility of the inputs— specifically the material changes in operating margins and P/E multiples, for instance, that have occurred during the pandemic.

For example, operating margins in US small capitalization stocks have collapsed from a 15-year average of approximately 7.3% to 3.9% currently. Our methodology assumes a return to historical operating margins in five years, which is the most significant positive input to our total return forecast.

Equity Performance Review

Stocks shrug off SARS-CoV-2 case numbers

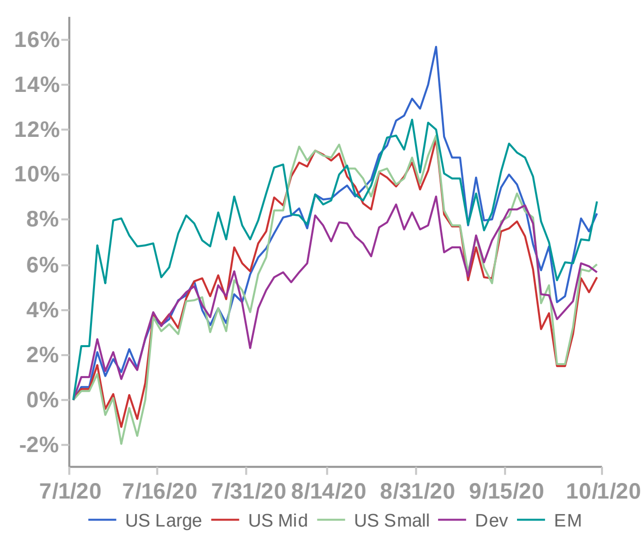
After a wild ride down in the first quarter, global equities staged a remarkable recovery in the second quarter, and that recovery continued through August, when stocks peaked. September witnessed profit taking as the August move was simply too far, too fast, and already-stretched valuations became simply unjustifiable, even in an extraordinarily low interest rate environment. Tech shares, which had led the market higher through the rebound, sold off in September, underperforming small- and mid-cap US.

During the third quarter, equity returns were driven by Emerging Markets (EM), which slightly bested US large-cap returns. EM stocks in particular are viewed more favorably by investors in an inflationary environment as EM equities and currencies tend to outperform given the resource-driven nature of their economies.

US mid-cap, Foreign Developed and US small-cap stocks trailed, although still posted solid single-digit returns. Foreign developed stocks had several headwinds, including accelerating waves of Covid cases, a strengthening dollar in September as well as fears surrounding a "hard" Brexit. Small-caps have continued to underperform their larger cap competitors as small regional banks comprise a disproportionate share of the index and hence underperform under a low interest rate environment.

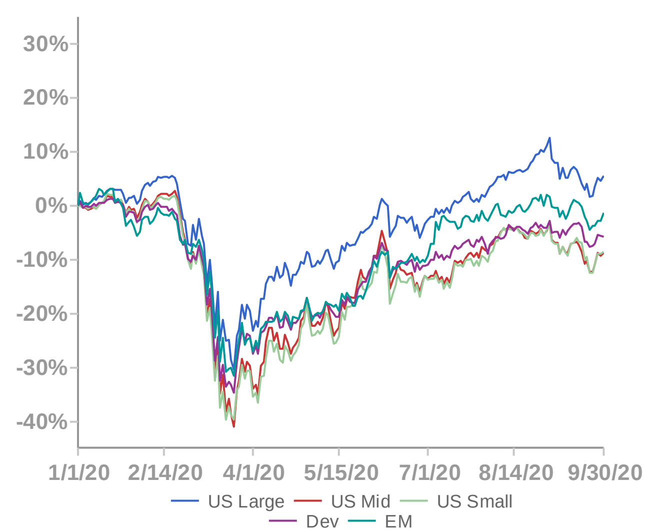
We highlight the following performance metrics regarding 3Q20 and 9M20, respectively, results: US Large Cap (+9.0% and +5.3%), US Mid Cap (+7.9% and +0.1%), US Small Cap (+5.0% and -8.7%), Developed (+6.0% and -5.9%), Emerging (+10.2% and -1.3%). We note that of all equity indices, only US large-cap is up for the year.

Figure 15: 3Q20 Equity Performance [iv]



Source: FactSet

Figure 16: 9M20 Equity Performance



Source: FactSet

Fixed Income Performance Review

Sharp reversal in fixed income performance as riskiest bonds rally

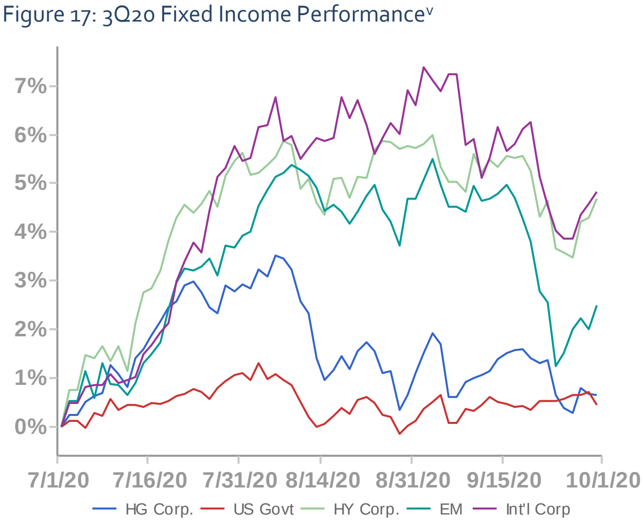
Treasuries were the sole bright spot during the first quarter; however, during the third quarter treasuries and high grade corporate debt lagged as investors chased "spread" products: high yield bonds and international corporates, which posted the strongest returns during the period. EM bonds also posted a decent quarter, while treasuries and US high grade debt were flat.

The move in international corporates may just have been a "catch up" trade as those bonds lagged their US equivalent during the second quarter rebound, yet also benefit from the bond purchasing programs of the central banks. EM bonds benefit from many of the attributes that drove EM equities higher: inflation-resistant currencies and resource-driven businesses.

Like the second quarter, the third quarter saw tremendous new issuance activity. High yield issuers raised $52.9B in August alone, bringing the 8m20 total to $291.9B, + 71% YoY. Investment grade plus securitized bond issuers raised more than $1.33 trillion through August 17th. Clearly companies are responding and taking advantage of the Fed's extremely easy monetary policy.

We note the following performance figures for 3Q20 and 9M20, respectively: US High Grades (+0.8% and +7.3%), US Governments (+0.2% and +11.4%), US High Yield (+4.5% and -1.3%), International developed (+1.0% and +3.5%), Emerging Markets (+2.4% and −0.6%). Outside of the bonds depicted below, mortgage-backed bonds were up +0.2% in the quarter and +3.8% for the nine-month period.

Figure 17: 3Q20 Fixed Income Performance[v]



Source: FactSet

Figure 18: 9M20 Fixed Income Performance

Source: FactSet

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Commodity Performance Review

Precious metals retain their luster

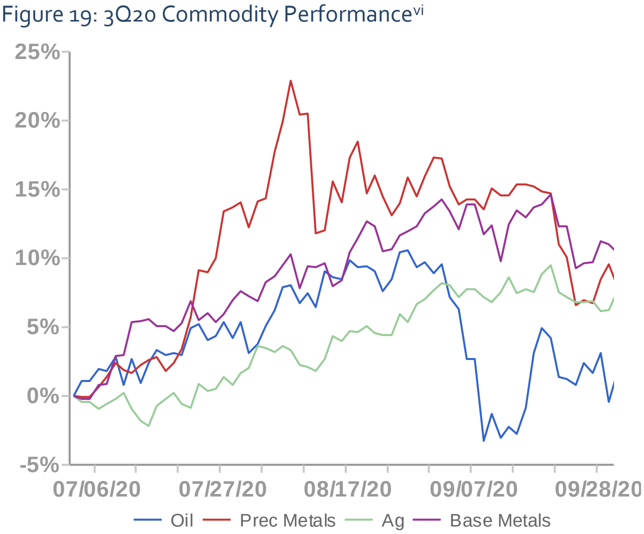
Investors should normally expect greater volatility in commodity prices relative to equities or bonds. This is because unlike stocks and bonds, commodities do not generate a stream of free cash flows that can be discounted back to present value. Commodities are also frequently susceptible to sudden supply and demand shocks impacting price.

Through 2020, oil (indeed the entire energy complex) has sustained a slew of negative developments. As governments closed transportation networks, demand for jet and auto fuel collapsed. Lower electricity from shuttered factories reduced demand for natural gas. Combined these factors helped to reduce demand for oil by about 25-30 million barrels a day (mb/d). However, on April 12, 2020, major oil producing countries settled on a new agreement to cut production by about 7.7 mb/d a day; this agreement was extended in early June and then again in September. OPEC members expect to revisit supply levels at their December meeting. Yet we note these supply agreements have not been sufficient to offset the lower demand.

Outside of energy commodities, gold retained its historical role as a store of value and an inflation hedge. In fact, all precious metals performed well in the quarter, rising close to 8%. Gold settled at $1886/oz as of September 30th and has continued its run past $1900 into 4Q20. To the extent investors fear a second wave and/or inflation post the pandemic, it is likely gold remains at elevated levels.

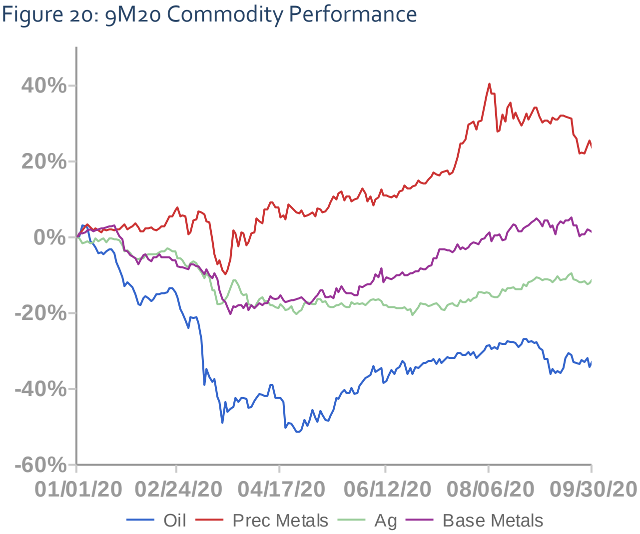
As a reminder, Rockingstone will typically invest in commodities via ETFs and the below graphs display what we view as representative performance for the underlying commodities. We point to the following returns during the 3Q20 and 9M20, respectively: Oil +2.9% and -32.6%), Precious Metals (+7.3% and +23.4%), Agriculture (+9.1% and -11.0%), Base Metals (+11.2% and +1.3%).

Figure 19: 3Q20 Commodity Performance[vi]



Source: FactSet

Figure 20: 9M20 Commodity Performance



Source: FactSet

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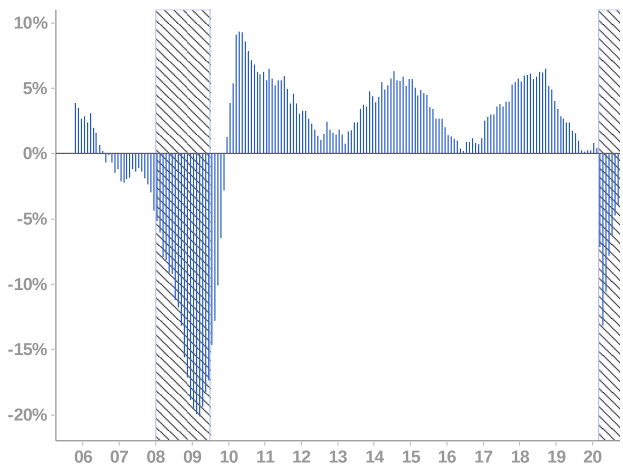
Chart Book

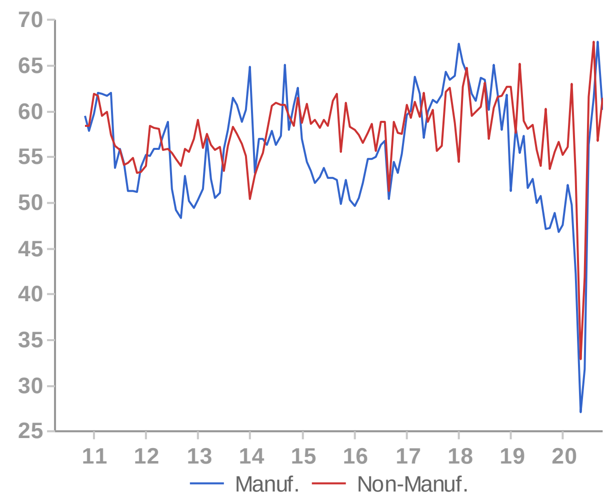
Leading Indicators

Figure 21: Index of Leading Economic Indicators



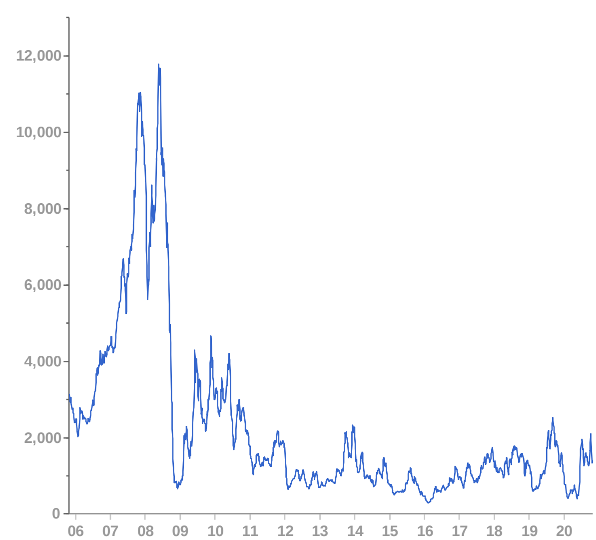
Source: FactSet

Figure 22: ISM New Orders



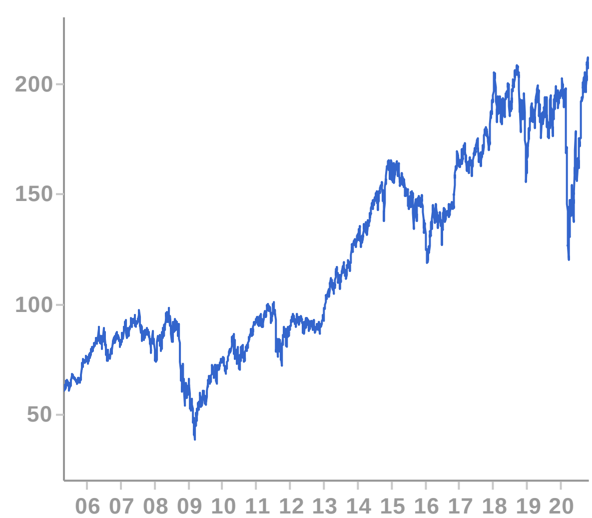
Source: St. Louis Federal Reserve, FRED Database

Figure 23: Baltic Freight Index



Source: FactSet

Figure 24: DJ Transports

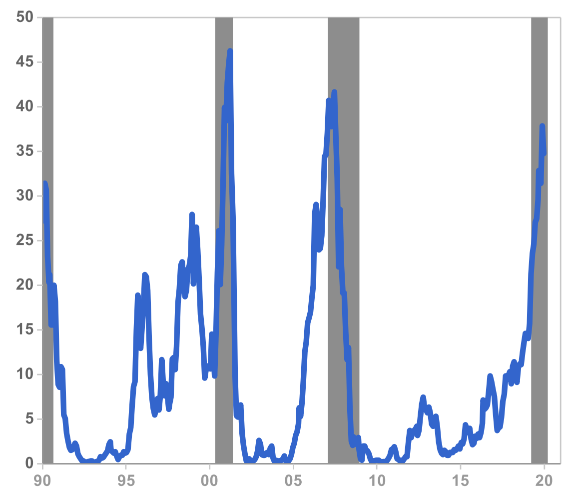


Source: FactSet

Rockingstone Advisors LLC

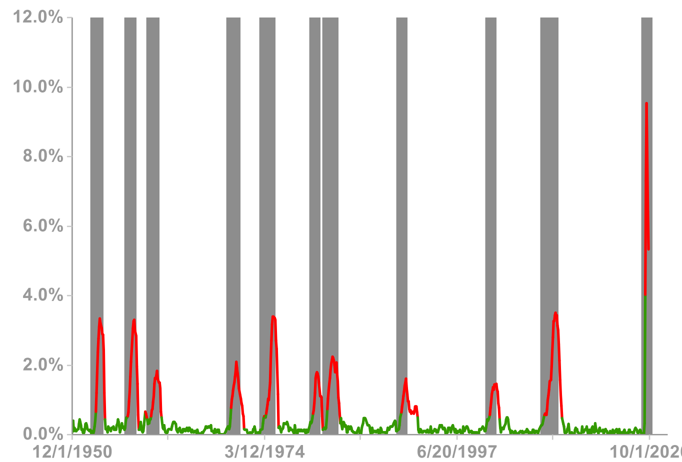
Real-time Recession Risk Indicators

Figure 25: Treasury Spread Recession Predictor



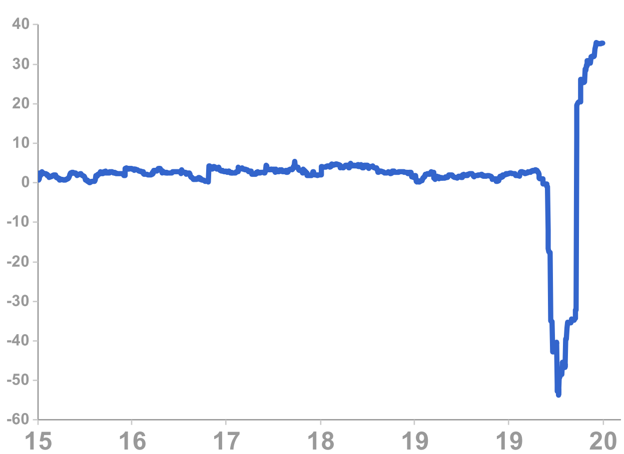
Source: FactSet, FRED Database

Figure 26: Sahm Real-time Recession Predictor



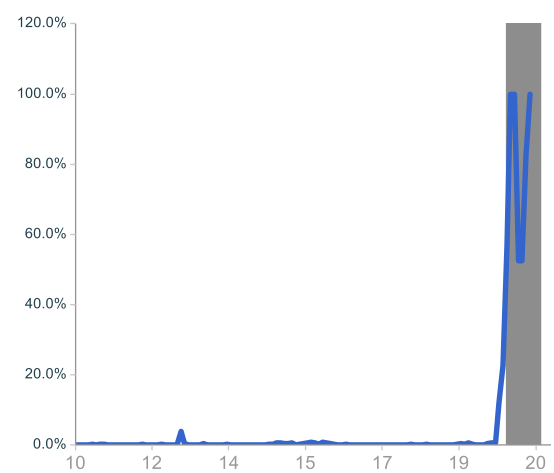
Source: St. Louis Federal Reserve, FRED Database

Figure 27: GDP Now (Atlanta Fed)



Source: FactSet; FRED Database

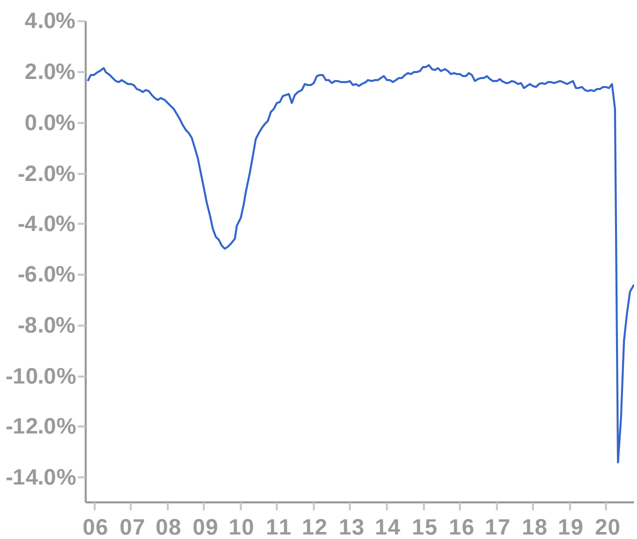
Figure 28: Smoothed US Recession Probabilities



Source: FactSet; FRED Database

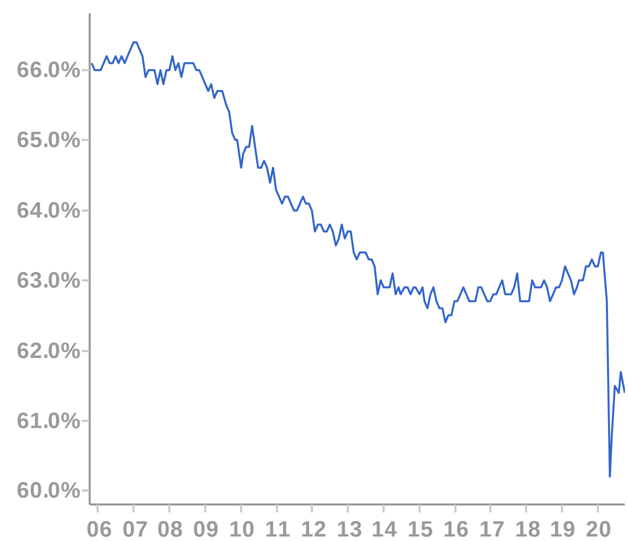
Labor Market Indicators

Figure 29: Payroll Growth (Establishment Survey, % Chg YoY)



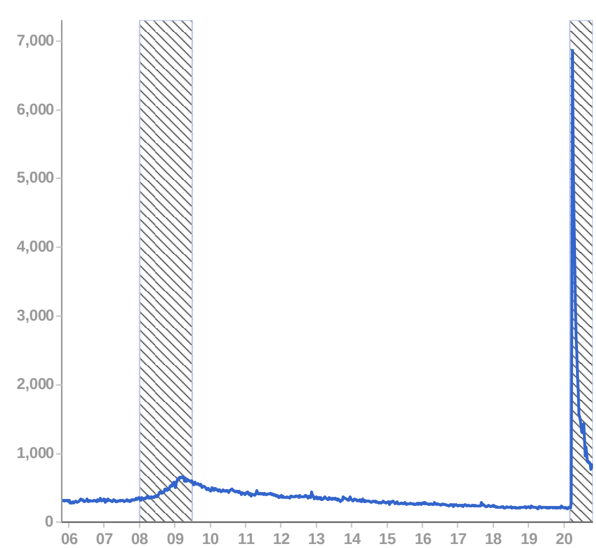
Source: FactSet

Figure 30: Labor Participation Rate (% of Workforce)



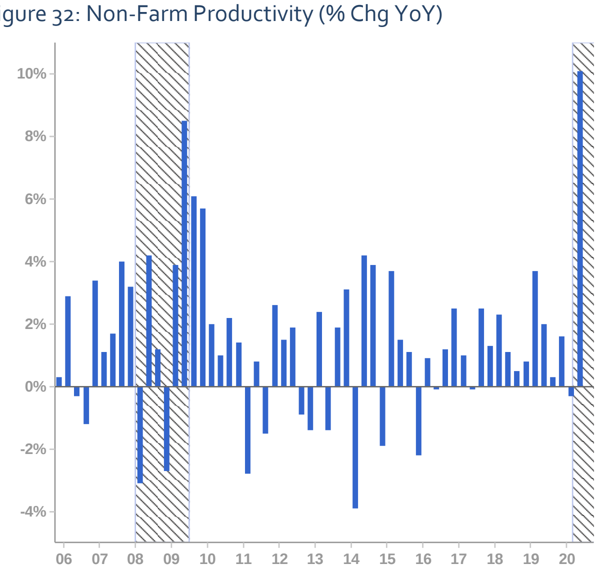
Source: FactSet

Figure 31: Initial Unemployment Claims



Source: FactSet

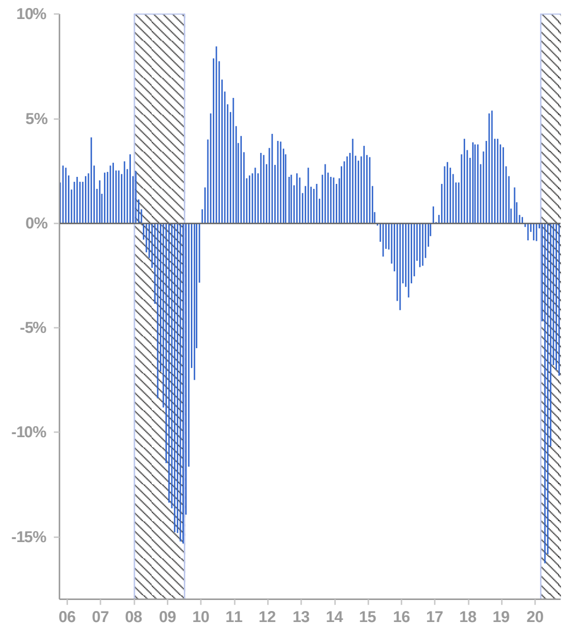
Figure 32: Non-Farm Productivity (% Chg YoY)



Source: FactSet

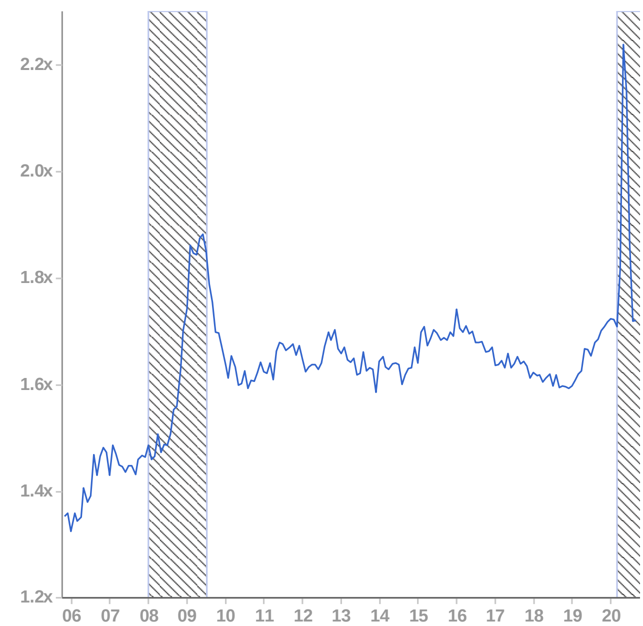
Production and Business Activity Indicators

Figure 33: Industrial Production (% Chg YoY)



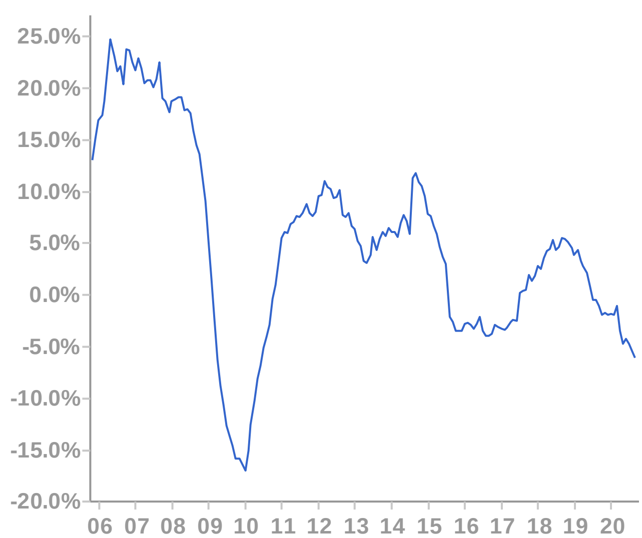
Source: FactSet

Figure 34: US Inventory to Shipment Ratio



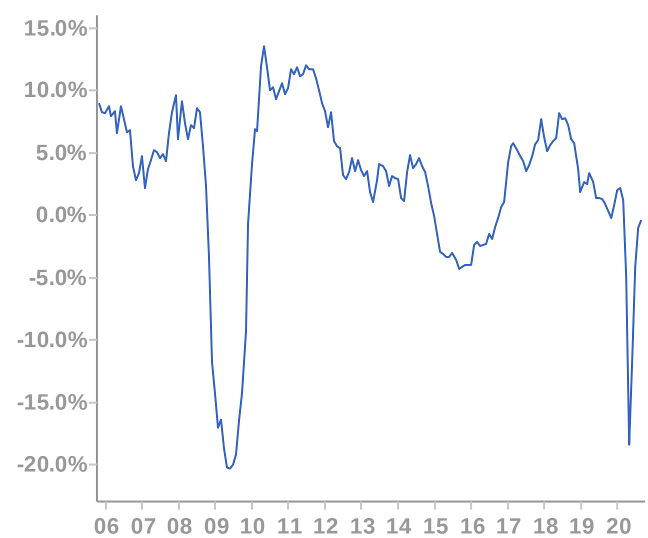
Source: FactSet

Figure 35: Unfilled Orders (% Chg. YoY)



Source: FactSet

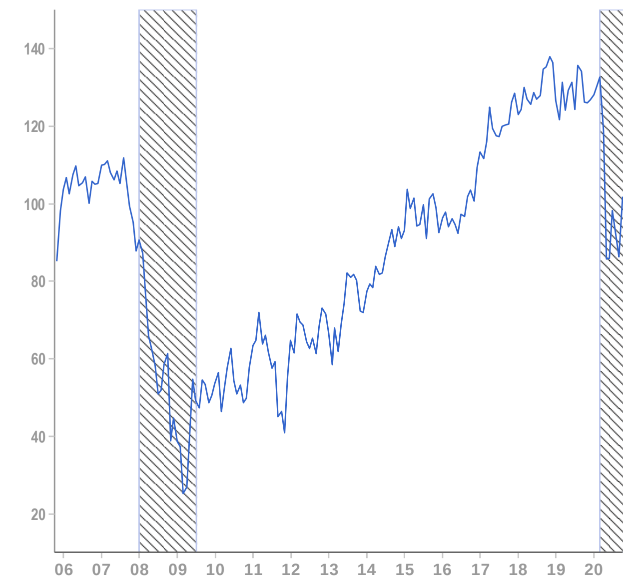
Figure 36: Business Sales (% Chg. YoY)



Source: FactSet

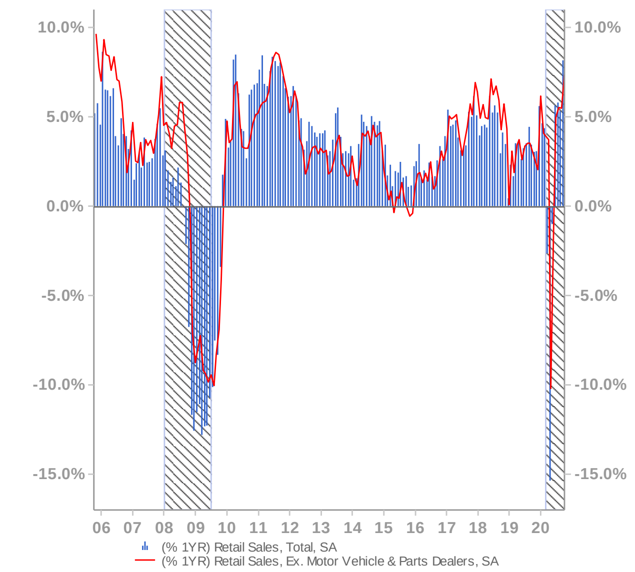
Consumer and Household Activity Indicators

Figure 37: University of Michigan Consumer Sentiment



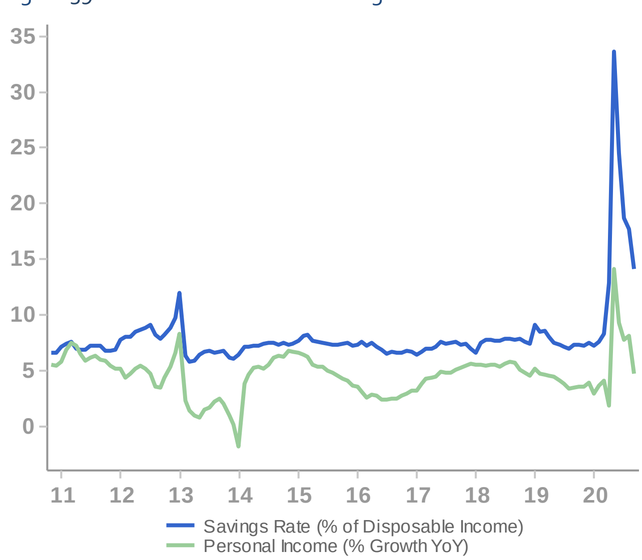
Source: FactSet

Figure 38: Retail Sales



Source: FactSet

Figure 39: Personal Income and Savings Rate



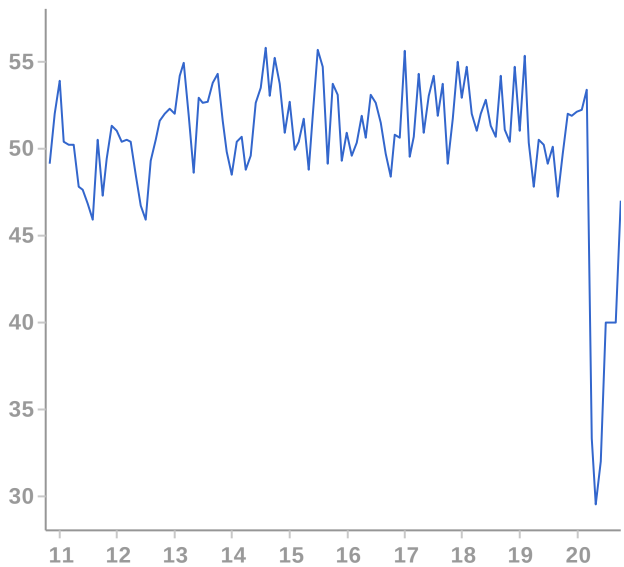
Source: FactSet

Figure 40: Household Debt

Source: FactSet

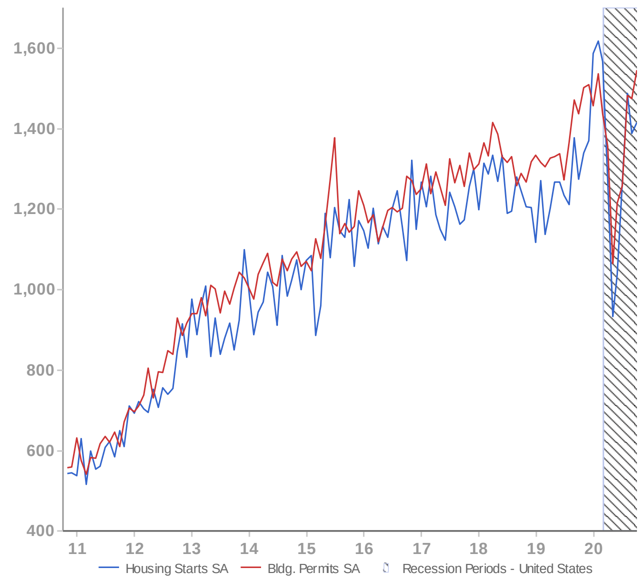
Housing and Construction Indicators

Figure 41: Architecture Billings Index



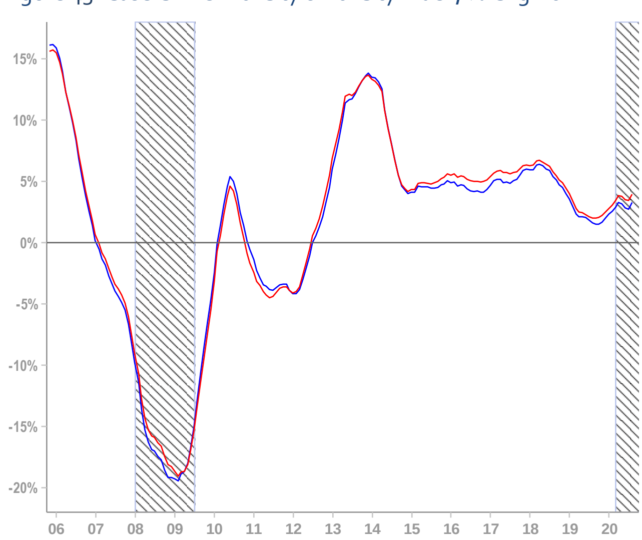
Source: FactSet

Figure 42: Housing Starts and Building Permits



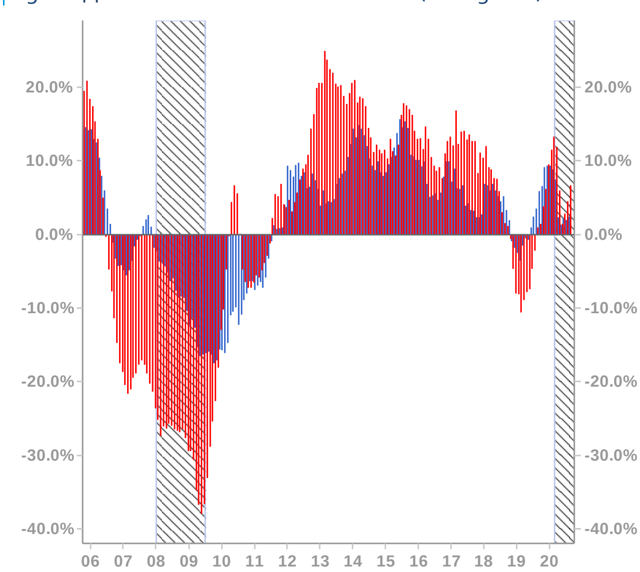
Source: FactSet

Figure 43: Case-Shiller 20-City & 10-City Index, % Chg YoY



Source: FactSet

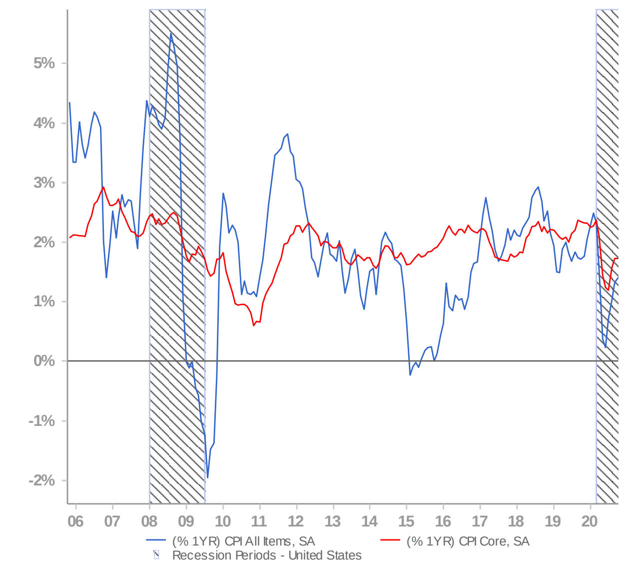
Figure 44: Private and Total Construction (% Chg YoY)



Source: FactSet

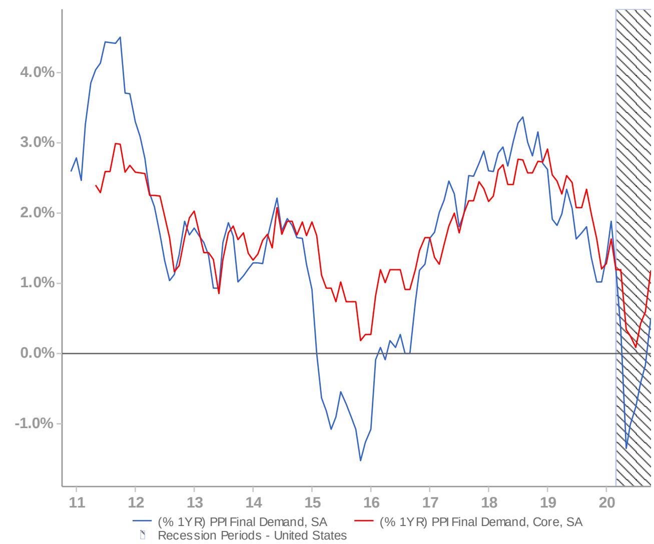
Price Indicators

Figure 45: Consumer Price Index



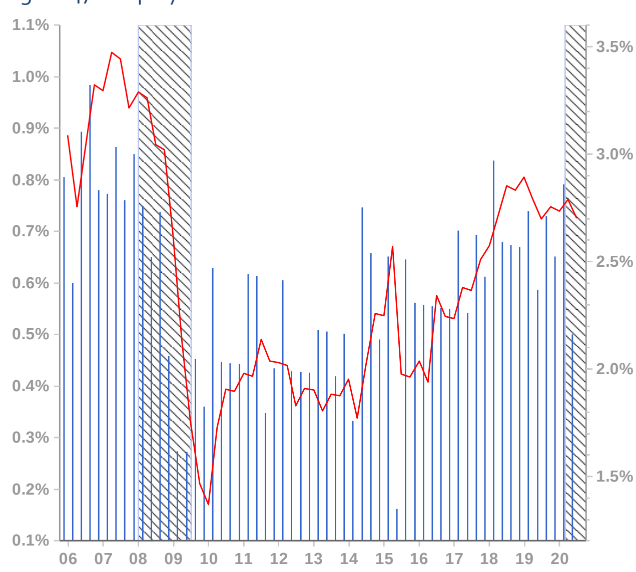
Source: FactSet

Figure 46: Producer Price Index



Source: FactSet

Figure 47: Employment Cost Index



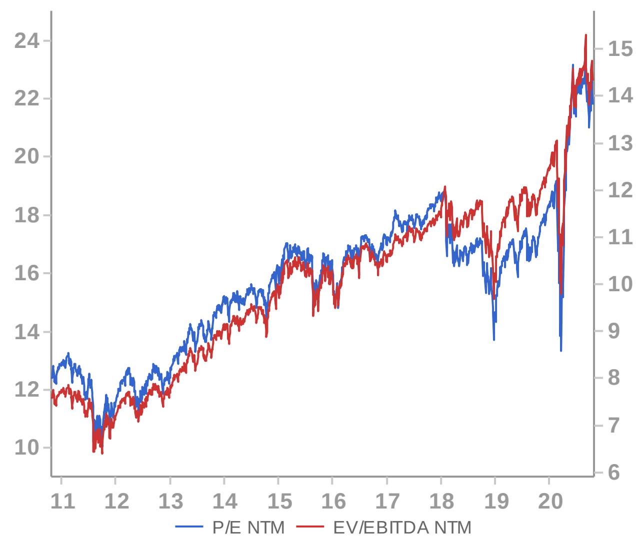
Source: FactSet

Figure 48: 10-Year, 5-Year Forward Inflation Expectations

Source: FactSet

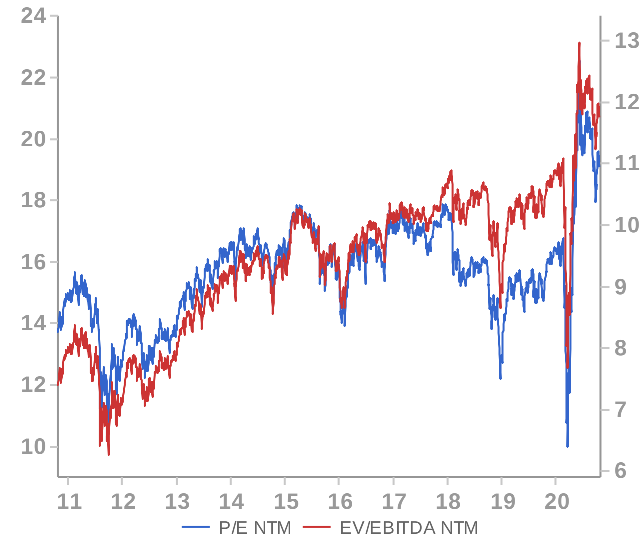
Valuation Indicators

Figure 49: S&P 500 P/E (LHS) & EV/EBITDA (RHS)



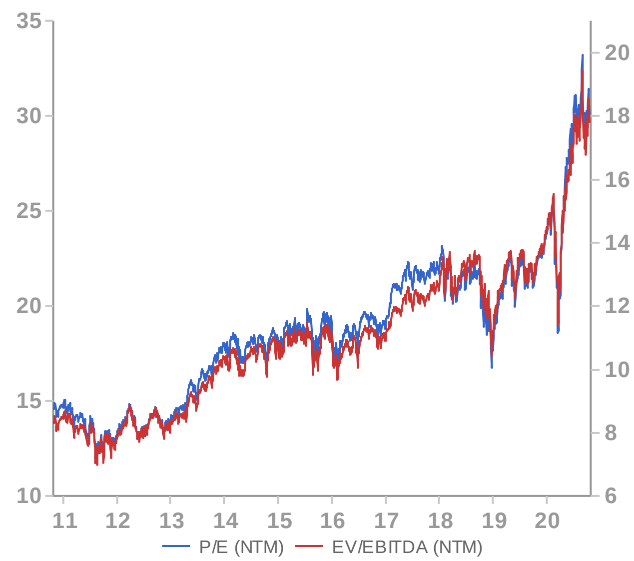
Source: FactSet

Figure 50: S&P Midcap 400 P/E (LHS) & EV/EBITDA (RHS)



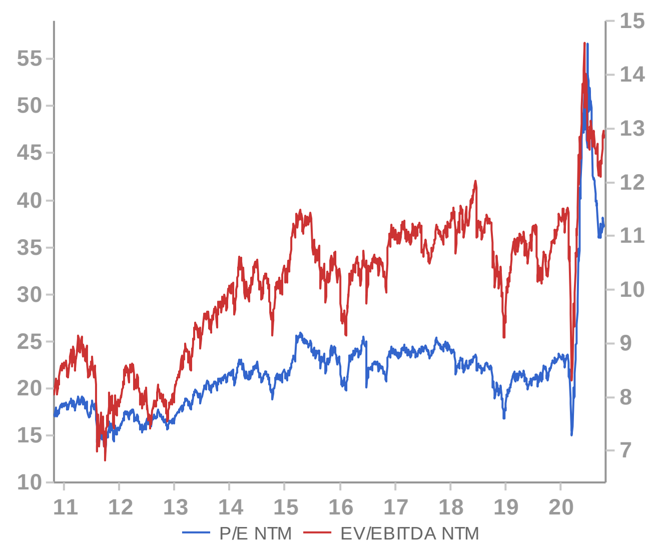
Source: FactSet

Figure 51: Nasdaq 100 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

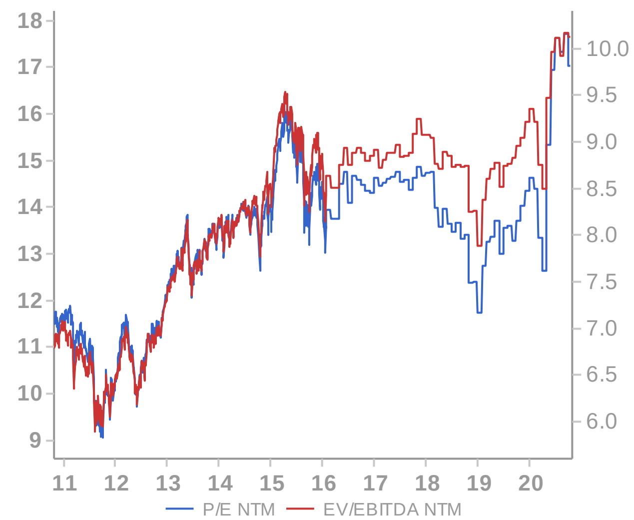
Figure 52: Russell 2000 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

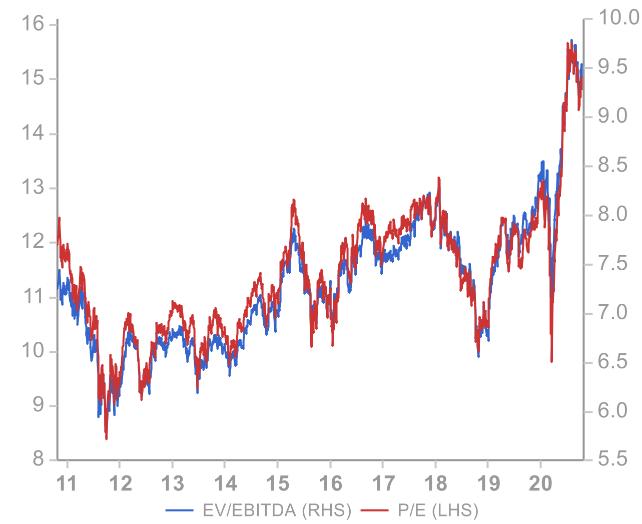
Valuation and Volatility Indicators

Figure 53: Intl Developed P/E (LHS) & EV/EBITDA (RHS)



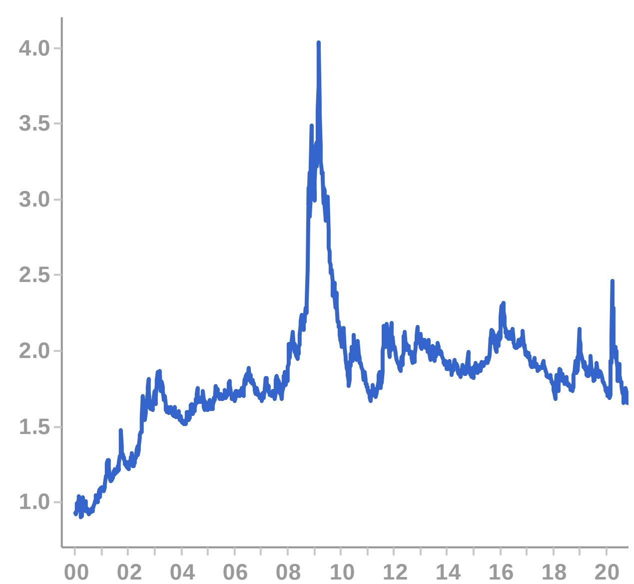
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 54: Emerging Markets P/E (LHS) & EV/EBITDA (RHS)



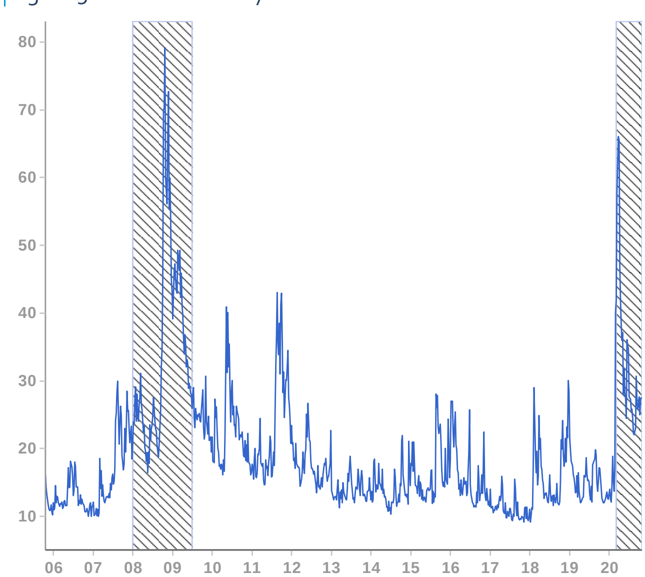
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 55: S&P 500 Dividend Yield



Source: FactSet

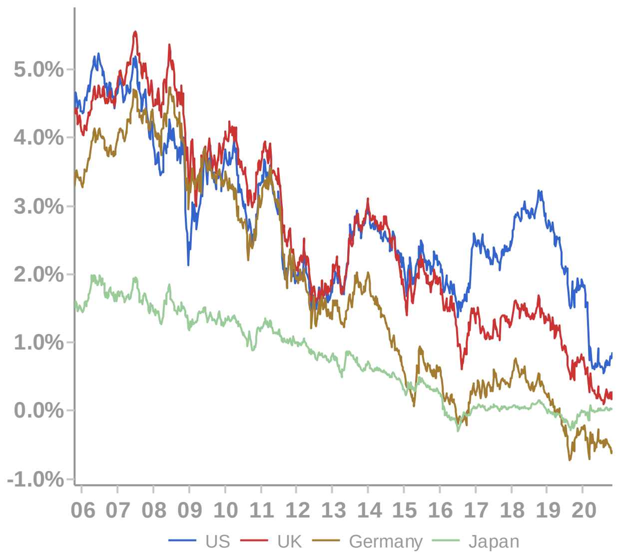
Figure 56: CBOE Volatility Index



Source: FactSet

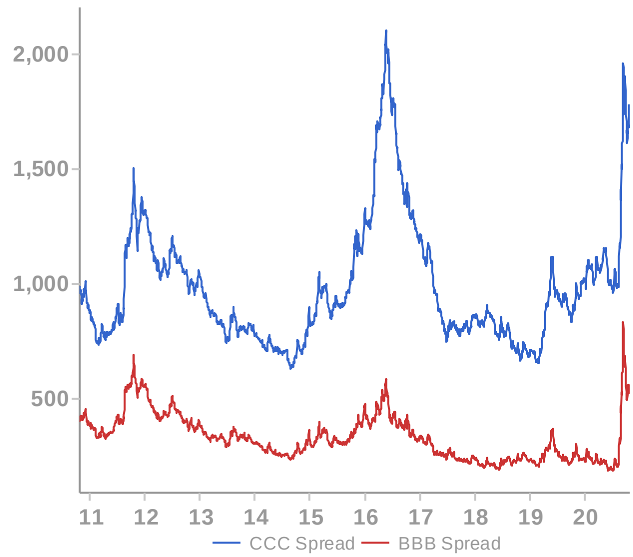
Bond Market Indicators

Figure 57: 10-Year Global Bond Yields



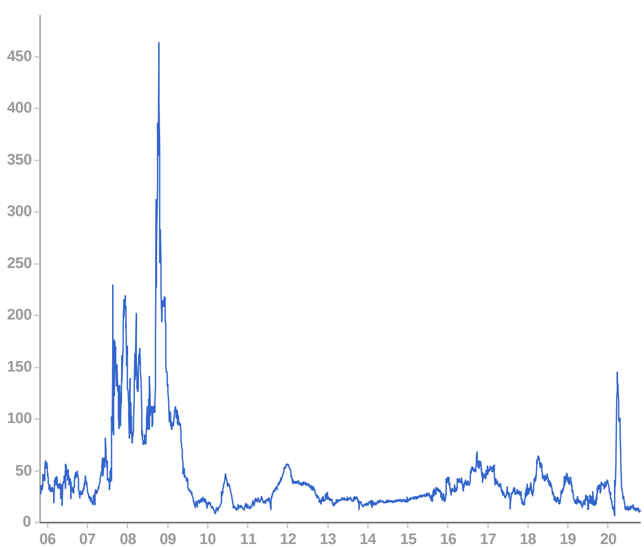
Source: FactSet

Figure 58: CCC and BBB Spreads (Option Adjusted)



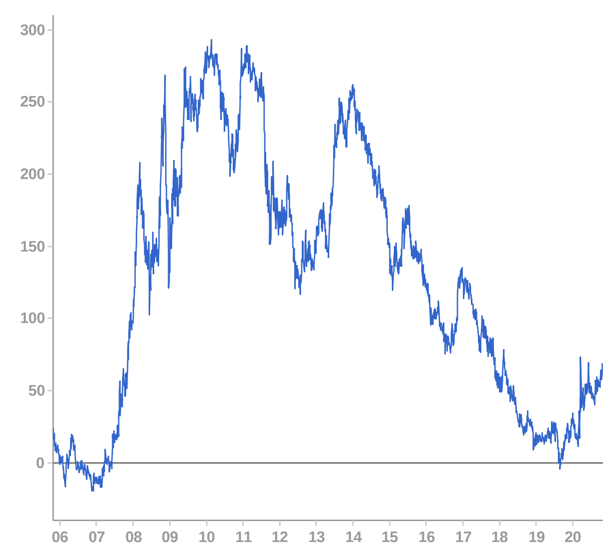
Source: FactSet

Figure 59: TED Spread (bps)



Source: FactSet

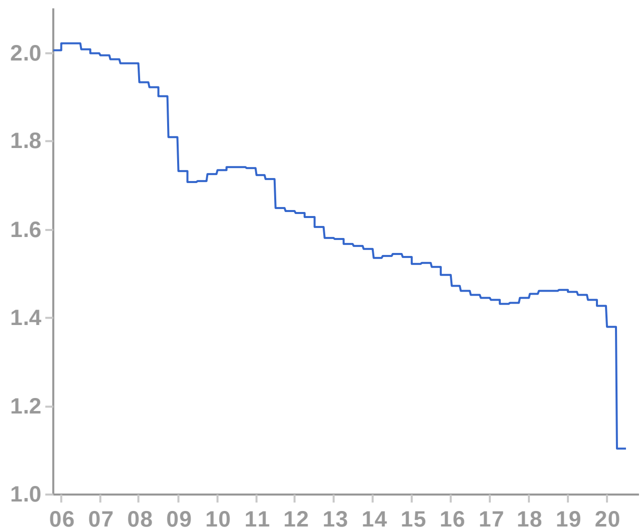
Figure 60: 10-Year Minus 2-Year Treasury



Source: FactSet

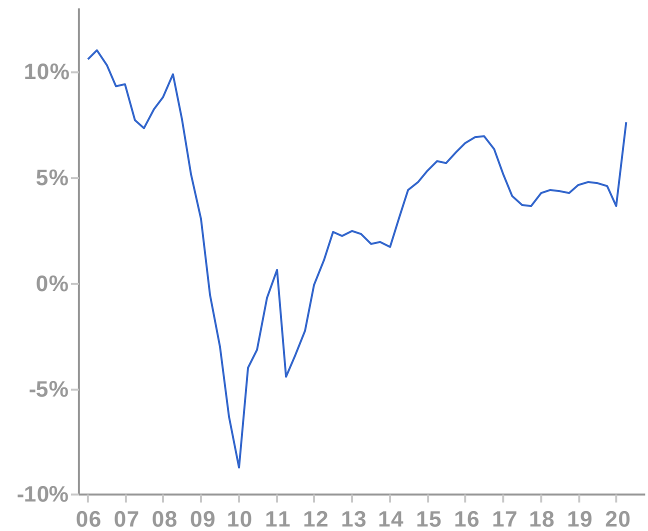
Liquidity and Other Indicators

Figure 61: Velocity of M2 Money Stock



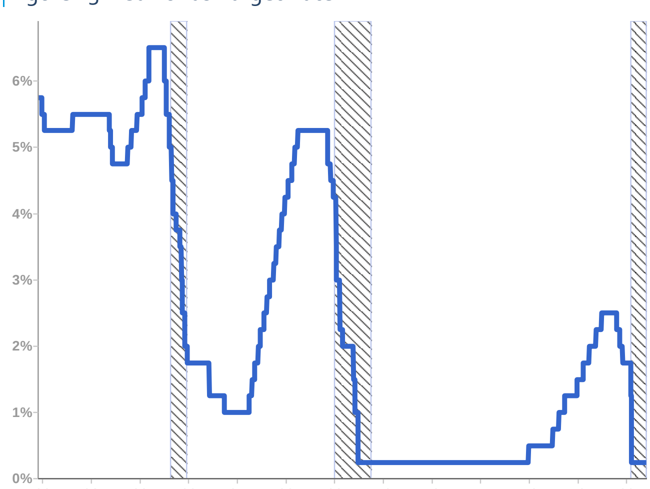
Source: FactSet

Figure 62: Loan Growth (Non-Financial, Private Sector)



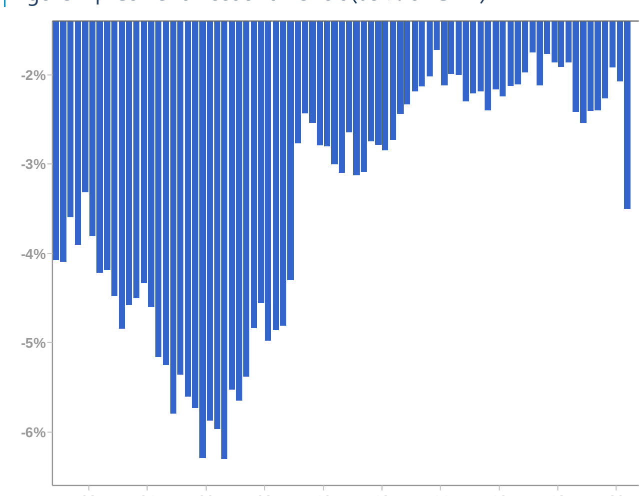
Source: FactSet

Figure 63: Fed Funds Target Rate



Source: St. Louis Federal Reserve, FRED Database

Figure 64: Current Account Deficit (as % of GDP)



Source: St. Louis Federal Reserve, FRED Database

Appendix

Important Regulatory Disclosures and End Notes

Form ADV available upon request. This quarterly is only for informational purposes and not a solicitation to buy or sell securities or as a source of specific investment, legal or tax recommendations.

Rockingstone Advisors is solely responsible for the content of this Quarterly. The information and statistical data contained herein have been obtained from sources we believe are reliable but cannot guarantee.

Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix (composition) of portfolios in any given year and the number of portfolios within the sample set. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors or at cost. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis (except for PiK securities). Annualized return is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time and the mix changes every year. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet "accredited investor" standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is neither indicative of-- nor a predictor of-- future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone's performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

Quarterly Data prices are as of September 30, 2020; most other prices and yields are as of October 23, 2020.

We are happy to provide the raw data and source links for any of the charts or tables in this Quarterly. We are also happy to provide individual account performance data by annual cohort or by IRR (instead of TWM) so you can better understand the range of portfolio returns. We thank you for your interest and always appreciate any feedback.

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Rockingstone Advisors LLC
212-430-2240

brandt@rockingstoneadvisors.com
eric@rockingstoneadvisors.com

[i] Asset class performance charts depict Equity (SPY ETF), Bonds (BND ETF), Commodities (DBC ETF), Preferred (PFF ETF) and Real Estate (VNQ ETF) price change plus dividends and interest during the selected period.

[ii] Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix of portfolios in any given year. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis. Annualized return since inception is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet "accredited investor" standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is not indicative or a predictor of future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone's performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

[iii] Our Five-Year Forecast is updated quarterly and reflects our best judgment on future performance based on current valuations relative to historical valuations, as well as our outlook for earnings and macroeconomic conditions. We caution that predicting outcomes is inherently risky and subject to change.

[iv] Equity performance charts depict U.S. large-cap (SPY ETF), U.S. mid-cap (VO ETF), U.S. small-cap (IWM ETF), International Developed (VEA ETF), and Emerging Markets (VWO ETF) price change plus dividends and interest during the selected period. We note that Vanguard highlighted a trading glitch in the shares of VO during March 31, 2015 that led to prices materially higher than underlying NAV. Hence you should assume VO's valuation and total return was inflated as of the end of the first quarter.

[v] Fixed income performance charts depict Intermediate Government (IEF ETF), High Yield Corporates (JNK ETF), High Grade Corporates (LQD ETF), International Corporates (PICB), and Emerging Markets bonds (EMB ETF) price change plus interest income earned over the selected period.

[vi] Commodity performance charts depict Precious Metals (DBP ETF), Base Metals (DBB ETF), Oil (DBO ETF), and Agriculture (DBA ETF) price change.