

THIRD QUARTER 2020

2040

Financial markets continued to rebound in the third quarter, helped by ongoing improvement in consumer and business-related economic data. Investors assessed a number of developments including COVID-19 in addition to the U.S. election outlook and prospects for additional fiscal stimulus in the U.S. Global equities exceeded pre-virus highs in the quarter – though a down month in September reduced the quarterly gain to about 8%. Across regions, U.S. equities generally topped their non-U.S. peers with help from continued strong performance in large technology companies. Central bank policy globally remains extremely accommodative with little in the way of policy changes in the quarter, though the Federal Reserve announced an update to its inflation targeting framework. U.S. interest rates remained stable throughout the quarter, while credit spreads declined overall despite a modest uptick in September.

In the third quarter, risk assets generally outperformed risk control assets despite losing some momentum in September after strong gains in the first two months of the quarter. Returns were stronger in global equities compared to real assets and high yield fixed income. Risk control assets saw low-single-digit positive returns with slightly higher returns in inflation-linked fixed income compared to investment grade fixed income. Across the spectrum of Goal Engineer portfolios, the GE 2040 portfolio posted the highest return for the quarter, while the GE Stable Income portfolio posted the lowest return. This is as we expected since GE portfolios earlier in the glidepath have a higher allocation to risk assets than portfolios later in the glidepath. The GE portfolios underperformed in the quarter with somewhat more underperformance in the portfolios earlier in the glidepath due to more drag from factor-based equity fund implementation. From a fund implementation standpoint, the top contributors to relative performance in the quarter were our global listed infrastructure strategy (NFRA) and our value-scored high yield fixed income strategy (HYGV), while the main detractors for the quarter were our quality dividend U.S. equity strategy (QDF), our quality large cap U.S. equity strategy (QLC) and our quality dividend international equity strategy (IQDF).

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