# Quarterly Update

THIRD QUARTER 2020

JOHNSON
ASSET MANAGEMENT

## QUARTER END MARKET STATISTICS

| September 30, 2020 | Q3 | YTD | 1 Year | 3 Year | 5 Year | 7 Year | 10 Year |
|---|---|---|---|---|---|---|---|
| Core Fixed Income (Gross) | 0.81% | 8.85% | 8.77% | 6.29% | 5.12% | 4.92% | 4.40% |
| Core Fixed Income (Net) | 0.75% | 8.65% | 8.50% | 6.03% | 4.86% | 4.66% | 4.14% |
| Barclays Aggregate Index | 0.62% | 6.79% | 6.98% | 5.24% | 4.18% | 3.97% | 3.64% |
| | | | | | | | |
| Intermediate Fixed (Gross) | 0.73% | 6.87% | 7.30% | 5.23% | 4.33% | 3.99% | 3.69% |
| Intermediate Fixed (Net) | 0.67% | 6.67% | 7.03% | 4.97% | 4.07% | 3.73% | 3.43% |
| Barclays Intermediate G/C Index | 0.62% | 5.92% | 6.32% | 4.43% | 3.39% | 3.12% | 2.91% |
| | | | | | | | |
| Short Duration (Gross) | 0.46% | 3.41% | 4.11% | 3.23% | 2.64% | 2.32% | 2.20% |
| Short Duration (Net) | 0.40% | 3.22% | 3.85% | 2.98% | 2.38% | 2.06% | 1.95% |
| ICE BofAML U.S. Corp & Gov't 1-3 Year Index | 0.27% | 3.11% | 3.74% | 2.87% | 2.11% | 1.79% | 1.60% |
| | | | | | | | |
| Enhanced Index (Gross) | 9.16% | 6.81% | 16.44% | 12.87% | 14.74% | 13.28% | 14.44% |
| Enhanced Index (Net) | 9.08% | 6.56% | 16.08% | 12.52% | 14.39% | 12.95% | 14.13% |
| S&P 500 Index | 8.93% | 5.57% | 15.15% | 12.28% | 14.15% | 12.68% | 13.74% |
| | | | | | | | |
| SMID Cap Core Equity (Gross) | 3.38% | -10.23% | -4.89% | 2.54% | 7.82% | 7.41% | 3.38% |
| SMID Cap Core Equity (Net) | 3.13% | -10.91% | -5.84% | 1.52% | 6.75% | 6.35% | 3.13% |
| Russell 2500 Index | 5.88% | -5.82% | 2.22% | 4.45% | 8.97% | 7.70% | 5.88% |

**Dear Friends & Investors:**

As we enter the final quarter of the year, investors will be keeping a close eye on the market's ability to withstand the growing number of economic and political uncertainties. Despite the ongoing pandemic, severe economic recession, and fading fiscal stimulus, the S&P 500 has still managed to rise by roughly 5.5% so far this year. The cooler autumn weather is a good reminder that the November election is now less than a month away. As investors turn their attention toward Washington D.C., policy uncertainty is likely to take center stage. As always, we remain committed to our high-quality investment discipline and are well positioned to continue to deliver consistent investment results, especially during periods of economic and market uncertainty.

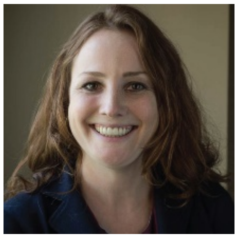
If you have any questions, or if you would like any additional information on our various strategies and how we might tailor them to fit your specific objectives, please do not hesitate to contact a member of our Sales & Client Service Team at 513.389.2770. For more information on the firm and services, you may also visit www.johnsonasset.com.

We appreciate the opportunity to serve you, and as always we invite your questions and comments.

Sincerely,

Emily Fox

**Emily M. Fox, CAIA**
Director of Institutional
Business Development



## THIRD QUARTER MARKET COMMENTARY

### FIXED INCOME

In the context of a year that has been full of historically significant events, the third quarter was relatively calm. The economy continued to gradually heal from the scars inflicted by the spring's economic shutdowns, despite economic output remaining well below pre-COVID levels. Nevertheless, the steady economic improvement has helped risk asset markets remain relatively upbeat. Corporate bond spreads continued to tighten, ending the quarter 14 basis points lower. Our weight in corporate bonds continues to help drive positive excess returns versus the benchmark across all our fixed income strategies. While corporate bond spreads have continued to consistently tighten since peaking in late March, interest rates have remained tightly rangebound. In fact, the 10-Year Treasury has traded in a range of just 0.50% - 0.87% for the past six months. The lack of interest rate volatility is likely a result of the Fed's commitment to keeping monetary policy easy for a prolonged period of time. Recently, the Fed unveiled a new plan called "average inflation targeting", aimed at allowing inflation to run above the Fed's 2% target for a period of time before raising interest rates. This dovish shift in policy likely reinforces the Fed's plan to keep rates low for quite some time. As such, we continue to maintain portfolio duration modestly higher than the benchmark.

Going forward, we continue to remain somewhat cautious in our overall outlook. While the economy has shown encouraging signs of stabilization, a powerful fiscal stimulus has undoubtedly played a role in the recovery. At the same time, policy makers have been unable to agree on a plan to extend emergency unemployment benefits and small business support. Without additional fiscal policy action, the economic recovery may start to lose momentum. The urgency for additional policy action will only add additional scrutiny to an already widely followed Presidential election. While all eyes remain squarely on Washington D.C., we remain committed to our Quality Yield investment discipline. Although spreads have tightened meaningfully and rates remain low, we continue to find compelling opportunities in high quality, intermediate maturity corporate bonds. Additionally, Agency MBS offer investors competitive yields to high quality industrials while moving higher in quality.

### ENHANCED EQUITY

After returning over 20% in the second quarter, large cap equities pushed almost 9% higher again in the third quarter, fully erasing March's decline and moving into positive territory for the year. The S&P 500 briefly touched a record high in early September, despite the unusually elevated volatility for a market setting new highs. Individual stock returns were very uneven, with the S&P 500 being led higher by the strong performance of a handful of its largest constituents, creating a challenging environment for equity managers.

The Enhanced Index strategy outperformed by 0.15% during the third quarter, bringing year-to-date outperformance up to 0.99%, net of fees. Returns on the bond portion of the portfolio were ahead of futures contracts' cost of carry, which remains low with the Fed holding interest rates at zero. Credit spreads tightened modestly, boosting total returns, while interest rates were range-bound on the front end of the curve. Although corporate bond spreads have declined somewhat, we continue to identify value in certain names and sectors. We also believe that a continued allocation to government bonds is prudent in the event downside volatility returns in the months ahead.

### SMID CAP CORE EQUITY

The strong recovery for stocks from the March lows continued in the third quarter as the economy showed progress and central banks' commitment to providing liquidity and monetary stimulus encouraged investors to take on risk. While small-cap stock indexes have not been hitting record highs like their large-cap counterparts, the two-quarter rally in the SMID cap market was the strongest since 2009.

Aggressive positioning can be seen in many areas of the SMID cap market. Biotechnology stocks are dominating the IPO calendar and M&A activity is happening at large premiums. Deep cyclical stocks, such as homebuilders, have soared in hopes that stimulus will continue to spark a housing boom. Investors have piled into growth-driven NASDAQ 100 stocks in volumes not seen since 2000. And while some of the market's fervor for mega-cap growth cooled in early September with the large cap FANG stocks seeing profit-taking, the episode was brief and did not spread to the SMID Cap market. In fact, Russell 2500 Growth performed better than Value in September. Markets favoring speculative growth at the expense of quality value are challenging to the short-term performance of the Johnson SMID Cap Core Equity approach, but these environments are typically not sustainable.

## SMID CAP CORE EQUITY *(continued)*

The path ahead is uncertain as always, but we are worried that complacency is high. This year has had more than its share of significant changes – the seismic impact of the COVID-19 virus on business and labor, the unprecedented flood of monetary and fiscal stimulus, and now a policy-shaping U.S. election forthcoming. Market participants might be too sanguine in their expectations for the economic recovery continuing at a rapid clip, yet despite the risks, we know that low interest rates can support high equity market valuation. We are using today's environment to improve the quality of the portfolio and look for relative valuation opportunities. Many quality growth stocks have been left behind in the market's rally since March, and to fund those purchases we have reduced position sizes in some of our best performing Health Care stocks and used the "reopening" bounce to exit some Consumer companies that are too exposed to the risk of the economy stalling out again.