A YEAR IN REVIEW – 2020

What a year it has been. Just think, at this time last year, investors were mostly focused on wrapping up a Trade Deal with China (January 15th) and signing the USMCA trade accord with Mexico and Canada (January 24th). For better or worse, many Americans thought that President Trump would win re-election.

Then, everything changed on February 19th when investors began to price in the effects of a pandemic that was seemingly a non-event by many investors, myself included. Shockingly bad news on the economy and corporate profits was yet to come, then, and luckily, overwhelming monetary and fiscal policy started to heal the capital markets a mere four weeks later, long before the virus was ever thought to be under control and before the depths of historically bad economic data would be realized. By early June, the S&P 500, was improbably up for the year after drawing down 33% in a truly short period of time.

How does one even approach to try to summarize a year in which it appeared as if the only rules for policymakers and investors were that there were no rules at all? Just look at the below headlines from this past year:

- Oil prices went (briefly) negative.
- U.S. small-cap stocks fell 42%, then rallied 99%.
- An electric car company that has never sold a single car was valued higher than Ford.
- Pfizer, who developed a COVID-19 vaccine, barely had a positive return for the year.
- A company who declared bankruptcy get substantially bid up.
- The Federal Reserve’s balance sheet increased by 70%
- Global stocks had their 2nd, 3rd, and 5th worst daily losses of all-time.
- Global stocks had their 2nd and 3rd best daily gains of all-time.

The S&P 500 had a total return of 18% and the NASDAQ was up more than 45% for the year. I'll take it any way that it comes, but this is definitely the definition of holing out on a Par 5 after hitting a drive into a pot bunker.

This year's market was propelled forward by the largest of the large, by the most unprofitable companies, and by companies that have exorbitant amounts of debt on their balance sheet…all in a year that saw a recession and the economy shutdown for over a quarter. It may be easier for me to be able to finally figure out and comprehend the complex and smart nature of a woman's brain before I understand this unorthodox market dynamic. And for the record, I'm 31, single, and live alone with a dog.

We will find out soon enough how long these risky types of assets can benefit from 25% money growth and deficit spending approaching 18% of GDP. The persistent decline in the value of the dollar suggests that the market may impose its own limits on this privilege. The writing is on the wall, but we believe the kryptonite for this superpower will be, as always, higher-than-expected inflation and increasing long-term interest rates.

Outside of *Atlas Shrugged*, I've only read one other book more than a few times - *The Great Gatsby*. So, ending on a positive note, let's compare today to the 1920's. We believe that we could see a 2021 that is comprised of a meaningful consumer-driven growth boom, similar to what drove the roaring '20's following WWI and the Spanish Flu of 1918. While there are numerous differences, the overall comparison makes a lot of sense to me. Consumers are sitting on a "wall of cash", and there is a tremendous amount of pent-up demand for services. With the Fed keeping its balance sheet elevated, the Fed Funds rate anchored, and the consumer unleashing even a portion of its savings, we believe it could serve as a further tailwind for some of the most cyclical parts of the market. The roaring ‘20s lasted almost a decade - though we hope it won't end the same way that it did nearly 100 years ago.

So, given my current personal life situation, I say, bring on the flappers.

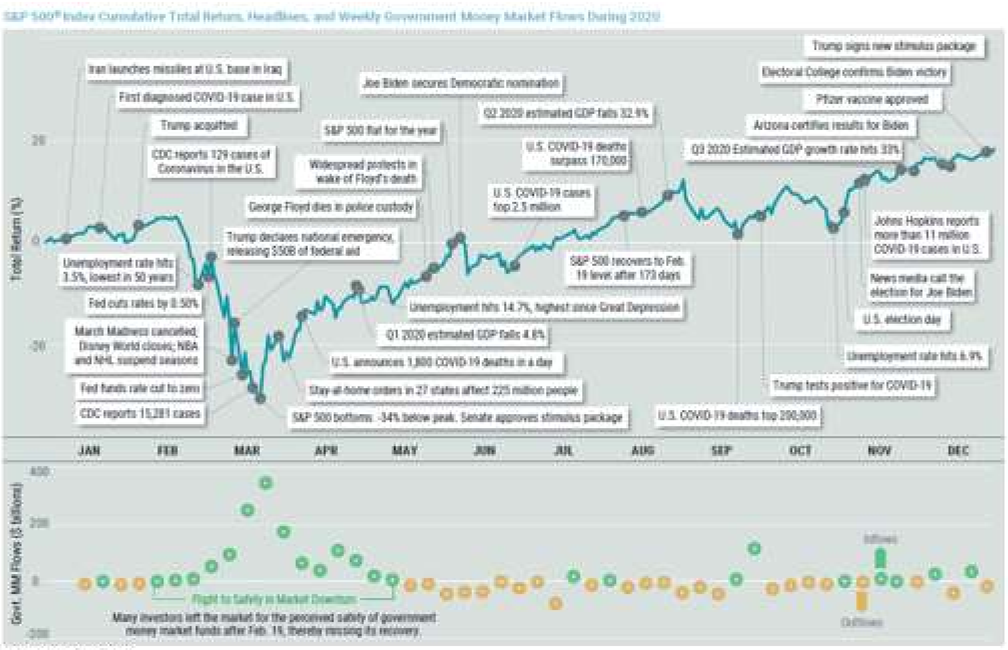
MARKET RECAP – Q4 2020

- The US economy is estimated to have contracted 3.5% and S&P 500 earnings are estimated to have fallen by 15% but the S&P 500 finished 2020 at an all-time high (+18.4%), setting 33 record highs during the year. Stocks are now up an amazing 56% in two years. This year was the first time since 2013 that the S&P 500 closed at all-time highs – a feat to only happen 6 times since 1954.

	Dec. 2020	Q4 2020	1-YR	3-YR	5-YR	10-YR
S&P 500	3.84%	12.15%	18.40%	14.18%	15.22%	13.88%
NASDAQ	5.65%	15.41%	43.64%	23.13%	20.81%	17.12%
Dow Jones Industrial Average	3.41%	10.73%	9.72%	9.87%	14.62%	12.95%
Russell 2000	8.65%	31.37%	19.96%	10.25%	13.26%	11.20%
MSCI EAFE	4.65%	16.05%	7.82%	4.28%	7.45%	5.51%
MSCI Emerging Markets	7.35%	19.70%	18.31%	6.17%	12.81%	3.63%
Barclays Agg. Bond Index	0.14%	0.67%	7.51%	5.34%	4.44%	3.84%
Investment Grade Bonds	0.15%	3.40%	10.97%	7.79%	7.33%	6.11%
High-Yield Bonds	1.74%	5.96%	4.86%	4.72%	6.74%	5.54%

Source: Morningstar, Data as of 12/31/2020, Returns over 1YR is annualized.

- A profits recession amid a pandemic, with aggressive Fed/Fiscal/Corporate stimulus responses doesn't yield a typical bear market. 2020 marked an abrupt end to the longest bull market ever, but still ended with the best returns since 2017. But a factor post-mortem indicates a year of three parts: the downturn (start of year through market trough), the recovery (trough through early Nov.), and the vaccine-induced rally (early Nov. through year-end). Deep cyclicals only began to outperform on vaccine news and barely re-rated, indicating that 2020 "Part III" trends could persist well into 2021.

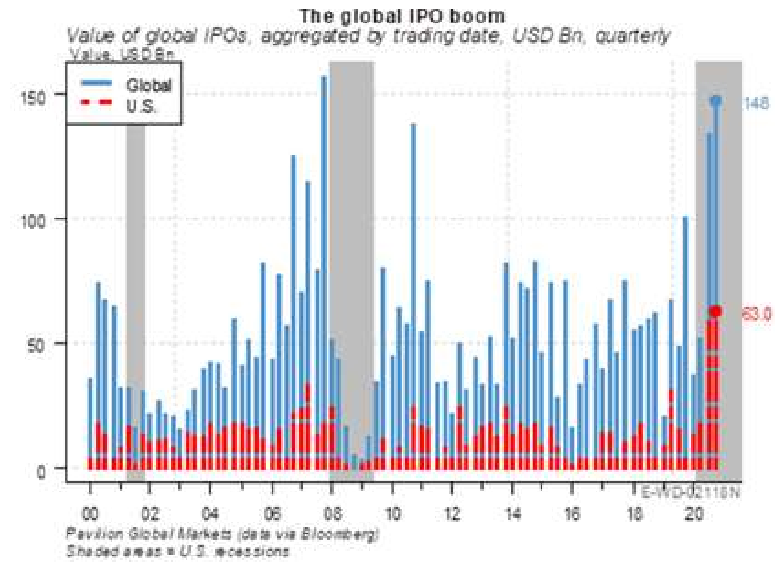


Source: Avantis

- While the market is not the economy, the market often leads the economy, and we believe the stock market's rally has been nothing short of extraordinary. The S&P 500 Index fully recovered from a bear market correction in just 126 trading days, far and away the fastest recovery in history. The crash in February-March wasn't just your garden-variety bear market either; at 34%, it was the fifth largest drawdown since World War II. Bear market recessions have taken, on average, nearly three years to reach new all-time highs. An amazing fourth quarter, specifically November, continued to propel the market to new all-time highs at year-end.

Source: WSJ

- The 2020 equity market environment could be described as a retail mania. Bankers took their cue and pushed out IPOs at a breakneck pace. From our perspective, deal flow was tremendous over the past two quarters. Special Purpose Acquisition Companies (SPACs) came to lead new issuance in the U.S., while Chinese IPOs activity continued aggressively, with big gains. We believe investors likely will find it harder to contend with sky-high IPO valuations this year.

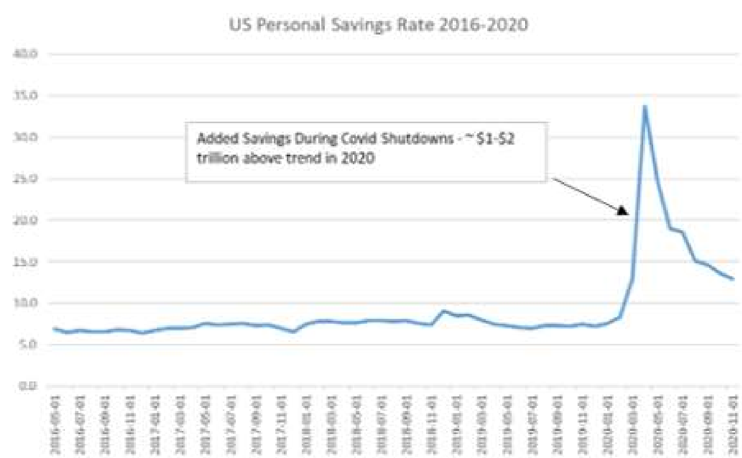


Source: Data as of 12/31/2020

- *The Active v. Passive Debate* **-** The stock market has been propped up by a handful of mega-cap companies leading into the coronavirus pandemic. The ten largest stocks now account for almost 28% of the S&P 500 market cap, exceeding the 27% concentration level reached during the dot-com bubble – though slightly down lately as cyclicals have outperformed. Stock-market breadth is an indicator of how many stocks are advancing relative to those that are declining. When a market has narrow breadth, it means a relatively small group of stocks is driving the upside in the market, while the majority of stocks are declining, much like what we have seen for most of this year.

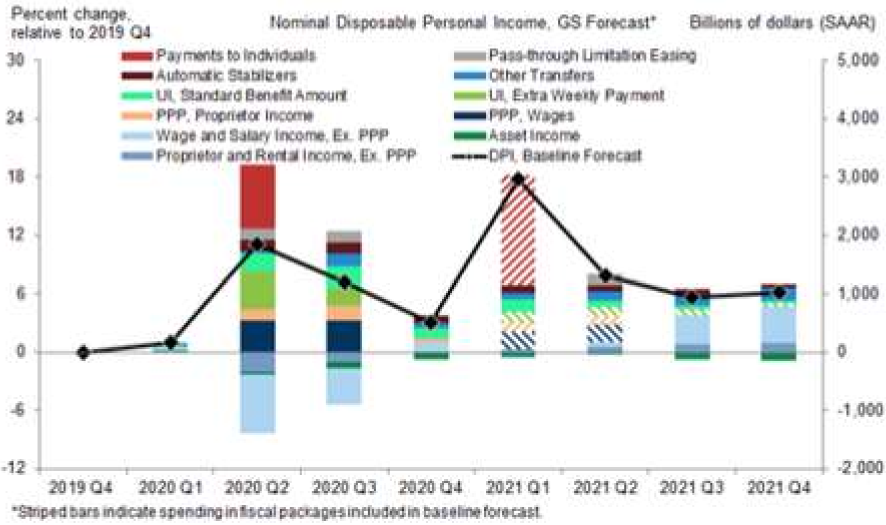
Source: JPMorgan Asset Management, Data as of 12/31/2020

- To understand why the equity rally and rotation into cyclicals has been so strong, even at what we consider reasonably high valuations, it is important to understand the "wall of cash" consumers have saved throughout the shutdowns, which could be unleashed once economies fully re-open. The personal savings rate has skyrocketed this year and will roughly stand ~$1-$2 trillion above trend by the time vaccines are fully deployed. Average money market/savings deposits at commercial banks have increased ~$1.5 trillion, and household financial obligations (including rent) as a % of disposable income is at an all-time low over the last 40 years. This is unlike anything that has occurred in the U.S. economy in the last 50 years, and the total savings could move meaningfully higher depending how the recent stimulus capital will be utilized.



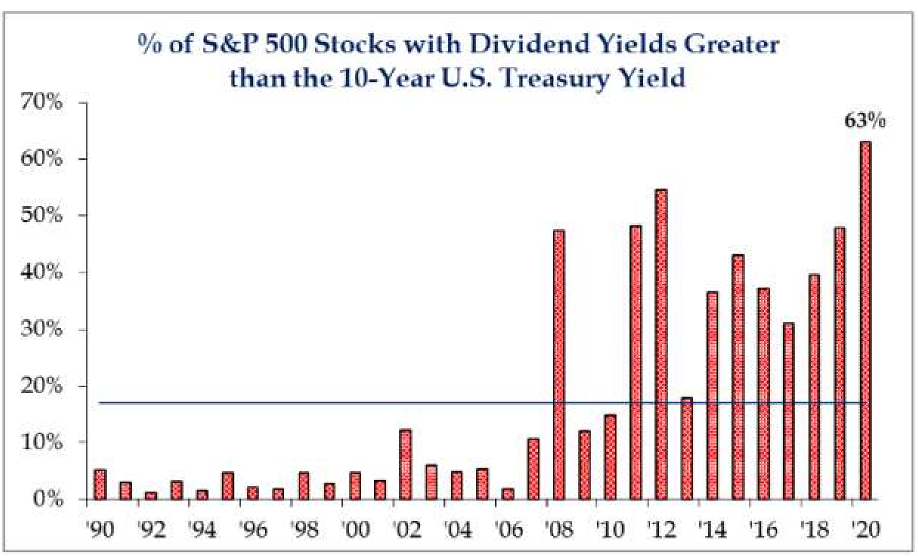
Source: St. Louis Fed, Raymond James Research, Data as of 12/31/2020

- Another round of fiscal stimulus would further boost disposable personal income (referenced above). The large spike in Q1 2021 reflects the recently passed $900bn package, which included $600 checks, additional unemployment benefits, and small business support, as well as the further $750bn package that we expect.



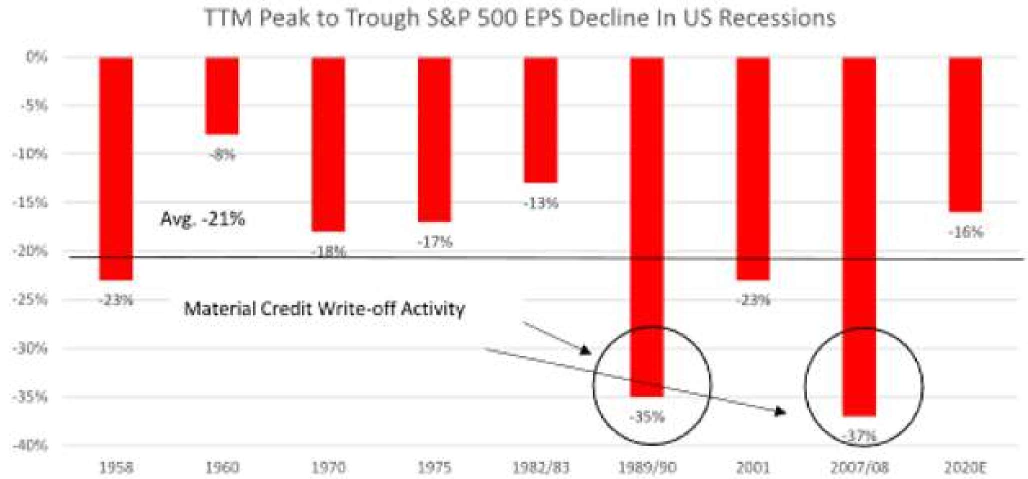
Source: Goldman Sachs, Data as of 12/31/2020

- Following a collapse in interest rates, the TINA (there is no alternative) argument attracted many income-oriented investors into stocks, i.e., out of bonds, and we believe this argument still prevails, where the S&P 500 dividend yield is close to 2x the 10-year yield – a bullish signal for equities over bonds. Right now, 70% of S&P 500 companies trade at a higher yield than the 10-year, a level never seen before, also a historically important indicators for stocks over bonds.



Source: Strategas, Data as of 12/31/2020

- 2020 EPS on the S&P 500 has declined from ~$175 pre-COVID to a bottom of ~$125 after 1Q20 earnings, and then rose to $131 after 2Q20 earnings season, and now $136 (and still rising) after 3Q earnings season. If we were to just end the year where we are now (Q4 2020 earnings season has not yet begun), that would be a ~16% EPS decline, which would be one of the mildest peak-to-trough EPS decline in the S&P 500 since WWII. Earnings consensus for next year is $165, which is 32% above 2020 trough levels.



Source: Raymond James Research, Bloomberg, Factset, Data as of 12/31/2020

- The probability of a negative return plummets as your time horizon grows.

Source: S&P, Bloomberg, BofA US Equity and Quant Strategy, Data as of 12/31/2020

Asset Classes

- As shown below in the grey boxes, diversification generally puts you somewhere in the middle of the return spectrum. That's a feature not a bug, one we see as the first layer of portfolio protection. The idea that anyone is going to consistently overweight to next year's leading styles could be considered crazy; we see building a structure that minimizes the drag of large losers as far more realistic. From our perspective, in some years that protection isn't necessary, like 2019, but over a 20 - 30-year period all portfolios face periods of drawdown – much like we saw in 2020. We believe a proactive plan to manage those periods can be the difference between meeting future spending needs or adjusting them.

Source: JPMorgan Asset Management, Data as of 12/31/2020

- In December, small caps outperformed large caps with the Russell 2000 rallying 8.3% vs. 3.7% for the S&P 500. Since the March 23, 2020, equity bottom, the equal weighted S&P 500 has outperformed the market cap weighted by 6% compared to 48% in early 2000s and 28% in post-GFC early cycle. The Russell 2000 has outperformed the S&P 500 by 17% since March 23, compared to 45% in the early 2000s and 27% in post-GFC early cycle. Broadly, we believe we are in about the 4th inning of this cyclical trend.

Source: FactSet and Raymond James research

Equity Sectors

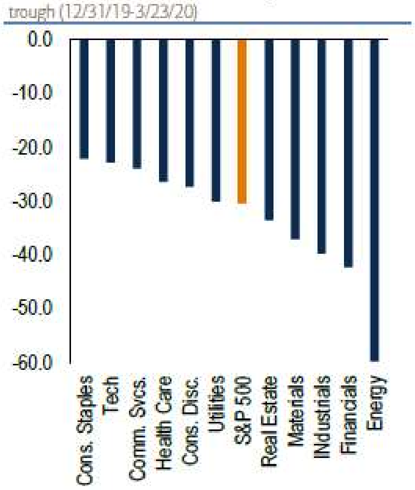
- At odds with a typical recession year of defensive high dividend yield leadership, COVID-19 beneficiaries Tech and Consumer Discretionary (and in particular, Internet Retail) were the best-performing sectors in 2020 (+42% and +32%, respectively), whereas Value sectors Energy and Financials were among the worst-performing sectors (-37% and -4%, respectively). Bond-proxies lagged despite the precipitous drop in yields and the ratcheting up of economic uncertainty, with weak results from Real Estate (-5%), Utilities (-3%) and Staples (+8%).

S&P 500 Sectors (Total Return)	3Q'19	4Q'19	2019	1Q'20	2Q'20	3Q'20	4Q'20 (sorted)	YTD
Technology	3.3%	14.4%	50.3%	-11.9%	30.5%	12.0%	11.8%	43.9%
Discretionary	0.5%	4.5%	27.9%	-19.3%	32.9%	15.1%	8.0%	33.3%
Communication Services	2.2%	9.0%	32.7%	-17.0%	20.0%	8.9%	13.8%	23.6%
Materials	-0.1%	6.4%	24.6%	-26.1%	26.0%	13.3%	14.5%	20.7%
S&P 500 Total Return	**1.7%**	**9.1%**	**31.5%**	**-19.6%**	**20.5%**	**8.9%**	**12.1%**	**18.4%**
Health Care	-2.2%	14.4%	20.8%	-12.7%	13.6%	5.9%	8.0%	13.4%
Industrials	1.0%	5.5%	29.4%	-27.0%	17.0%	12.5%	15.7%	11.1%
Staples	6.1%	3.5%	27.6%	-12.7%	8.1%	10.4%	6.4%	10.7%
Utilities	9.3%	0.8%	26.3%	-13.5%	2.7%	6.1%	6.5%	0.5%
Financials	2.0%	10.5%	32.1%	-31.9%	12.2%	4.4%	23.2%	-1.7%
Real Estate	7.7%	-0.5%	29.0%	-19.2%	13.2%	1.9%	4.9%	-2.2%
Energy	-6.3%	5.5%	11.8%	-50.5%	30.5%	-19.7%	27.8%	-33.7%

Source: Strategas, Data as of 12/31/2020

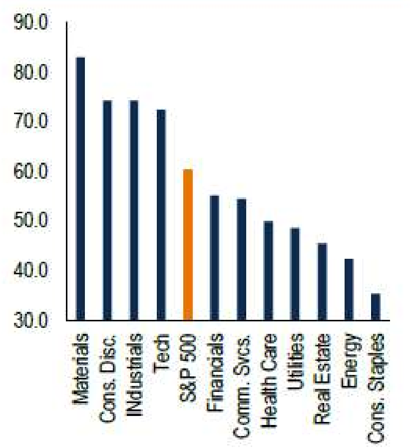
- Flaunting typical recessionary trends, Tech was the best-performing sector of 2020 and outperformed consistently, underscoring the wholesale shift to virtual everything. Discretionary and Communication Services were the next top performers, also unusual but led by online retail/TMT. Whereas the former outperformed off the trough, both have lagged since vaccine news, unseated by deep Value sectors of Financials and Energy (our favorite sectors today) which led since Nov's vaccine news but still clock in as the two worst performing sectors for the full year of 2020.

Chart 11: Energy lagged most through trough
S&P 500 sector total returns: Start of year to market trough (12/31/19-3/23/20)



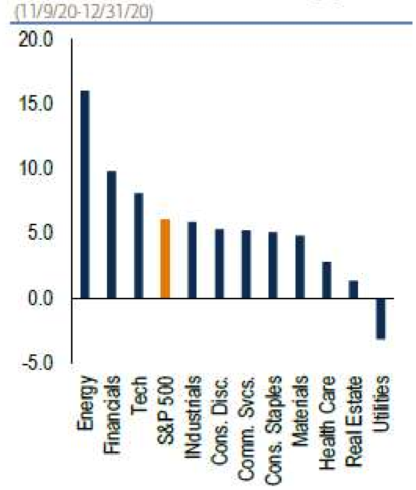
Source: Bloomberg, BofA US Equity & US Quant Strategy

Chart 12: Post-trough bounce led by cyclicals
S&P 500 sector total returns: market trough through vaccine (3/23/20-11/9/20)



Source: Bloomberg, BofA US Equity & US Quant Strategy

Chart 13: Value sectors led post-vaccine
S&P 500 sector total returns: vaccine through year-end (11/9/20-12/31/20)



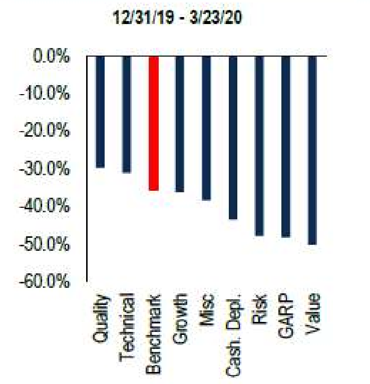
Source: Bloomberg, BofA US Equity & US Quant Strategy

- There was very little difference in performance between cyclicals/defensives or value/growth in December. Since the 3/23/2020 equity bottom, we have seen cyclical sectors outperform defensive sectors by ~20% compared to 41% in the early 2000s recovery and 22% in the post-GFC early cycle. Since valuation differentials are much more similar to 2000 than 2009, we suspect this cyclical rotation will ultimately reach 30%+ over the next 2-3 years before this becomes a "late cycle" market once more. Ultimately, we believe investors will have to rotate out of tech to keep the cyclical rotation going, as rotation out of traditionally defensive sectors, utilities, staples, and healthcare is already becoming substantial.

Source: Raymond James, Data as of 12/31/2020

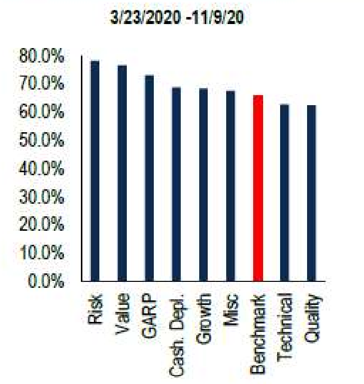
- *Factor Performance* - Quality factors, including high ROE and ROIC, were the top performers of 2020 largely driven by early year bear market outperformance. Since March, Quality has lagged consistently, and from November onward, Risk and Value have led. From our perspective, dividend yield is the factor that explains returns the most in 2020: high dividend yields were negatively correlated with performance, signaling distress and risk of dividend cuts. And the macro factor that we believe explained returns better than anything else in 2020 was credit spread betas.

Chart 15: Quality led during the downturn
S&P 500 factor group avg. performance start of year through S&P 500 trough (3/23/20)



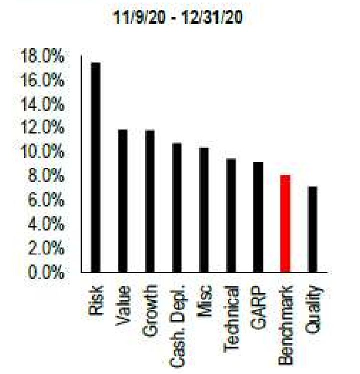
Source: FactSet, BofA US Equity & US Quant Strategy
Note: for full details on our quant factors, see Appendix and our latest Quantitative Profiles

Chart 16: Risk and Value led in the recovery...
S&P 500 factor group avg. performance from market trough (3/23/20) to vaccine news (11/9/20)



Source: FactSet, BofA US Equity & US Quant Strategy
Note: for full details on our quant factors, see Appendix and our latest Quantitative Profiles

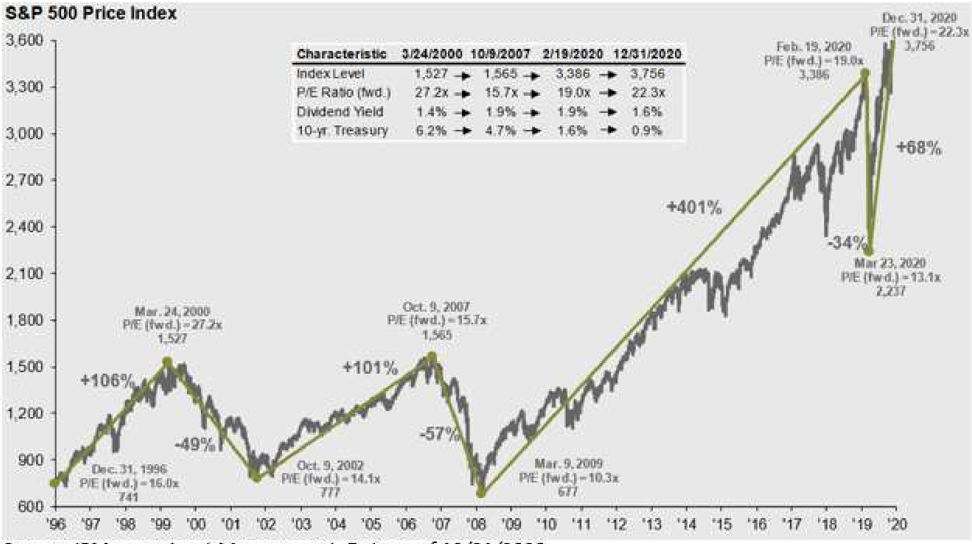
Chart 17: ...as well as post vaccine news
S&P 500 factor group avg. performance from market from vaccine news (11/9/20) to year-end



Source: FactSet, BofA US Equity & US Quant Strategy
Note: for full details on our quant factors, see Appendix and our latest Quantitative Profiles

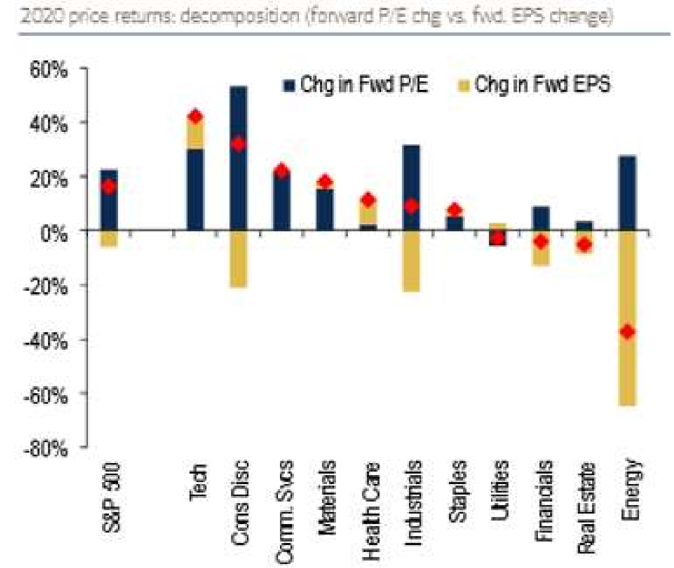
Equity Valuations

- With interest rates in the US near the "effective lower bound of zero", investors have been focused on finding the "upper bound" of equity valuation multiples. The 10-year US Treasury yield stands at 0.95% today, just 45 basis points above its record low. At the same time, the S&P 500 FY2 P/E multiple has expanded to 22.3x, the highest level since 2002. However, in the context of low rates, the equity risk premium and the yield gap remain above historical averages.



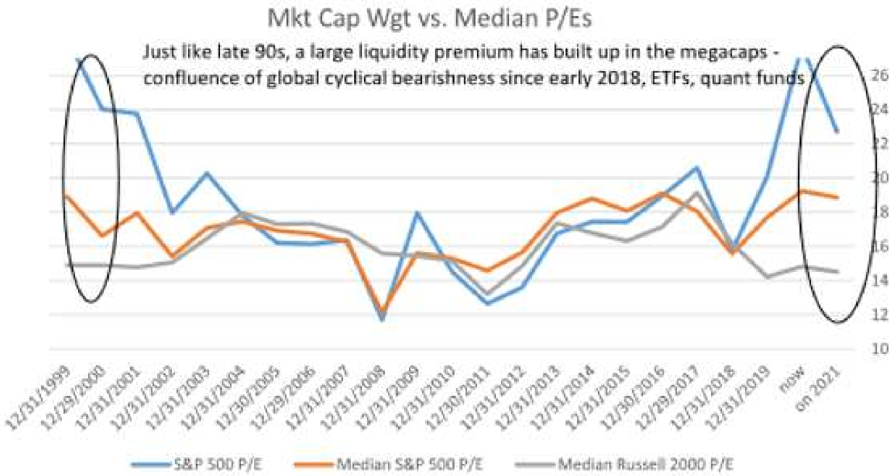
Source: JPMorgan Asset Management, Data as of 12/31/2020

- The S&P 500's 16% price return was entirely due to P/E expansion (forward P/E +10%), as forward EPS expectations were taken down 6%. Most sectors with positive returns were driven by P/E expansion, with Health Care a notable exception. Energy saw the biggest EPS expectation cut in 2020, driving its underperformance.



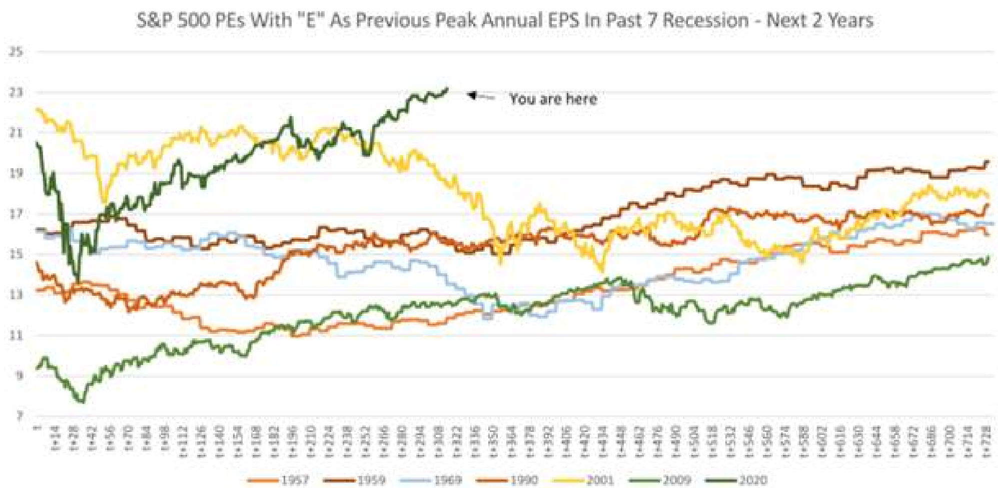
Source: Factset, BofA US Equity & Quant Strategy, Data as of 12/31/2020

- This spread between P/Es based on market cap is about as extreme as in 2000 and we believe continues to argue for far better risk/reward in smaller caps. In general, S&P 500 index is about as expensive as it ever has been (96th percentile), but median stock in the S&P 500 is at the high end of a 20-year trading range of P/Es, while the median stock in the Russell 2000 (adjusting for those losing money) is at the low end of a trading range.



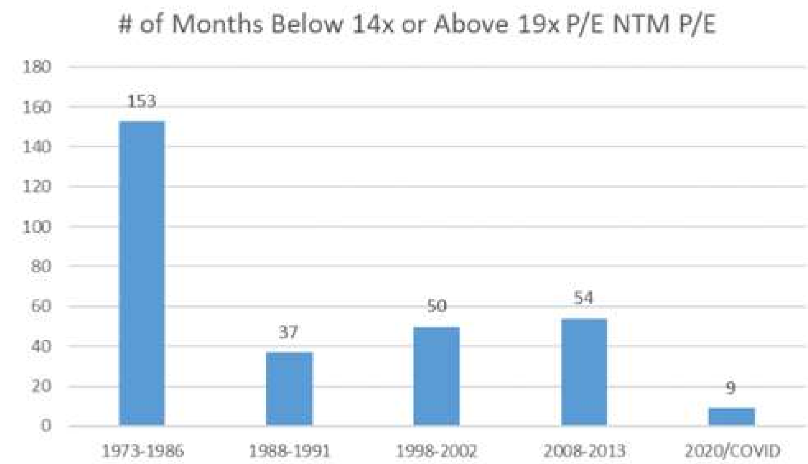
Source: Factset, Raymond James Research, Data as of 12/31/2020

- In the chart below, we look at P/Es in the last seven recessions in the U.S., using the previous peak level of annual earnings as the "E", and graphing for two years from the recession's start. What it shows is that although recessions start from very different valuation levels, over the course of two years they tend to normalize to 15x-20x P/E previous peak level of EPS. We note typically it takes 3-4 years to regain that previous peak level of EPS – this recession appears to be the outlier. Ultimately, similar to 2001, we are pricing in a "V" recovery in 2021 (just two years from previous peak), and although this has not occurred in non-inflationary times in the U.S., we believe another round of fiscal stimulus combined with a successful vaccine certainly make it appear a very likely scenario with vaccine deployment.



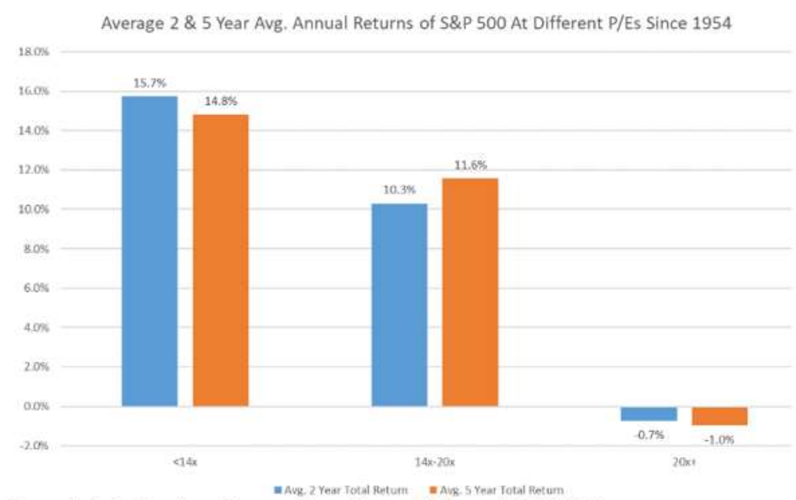
Source: Factset, Raymond James Research, Data as of 12/31/2020

- P/Es can stay elevated longer-than-expected - S&P 500 P/Es were below 14x essentially for almost 13 years in the inflationary period from '73-'86, and again for 37 months and 54 months around the 1990 recession and GFC. The S&P 500 stayed above 20x NTM P/E for 50 months from 1998 - early 2002. We have only been above 20x P/E for 9 months so far. So, it may take a few years for P/Es to fully normalize as the Fed is unlikely to pull support materially until full employment or material inflation.



Source: Bloomberg, Factset, Raymond James Research, Data as of 12/31/2020

- As P/Es revert below 20x, historically it is hard for EPS growth to keep up, leading to sluggish returns. Of note, this just covers one period of 1997-2002, so the sample size is limited. If one were optimistic, we think they would point out the 2/5 year returns from 1997-1998 were actually pretty good at the beginning of a high P/E time period. In our opinion, we could easily be in high P/E environment through full employment in 2023/2024 if Fed stays fully supportive until then.



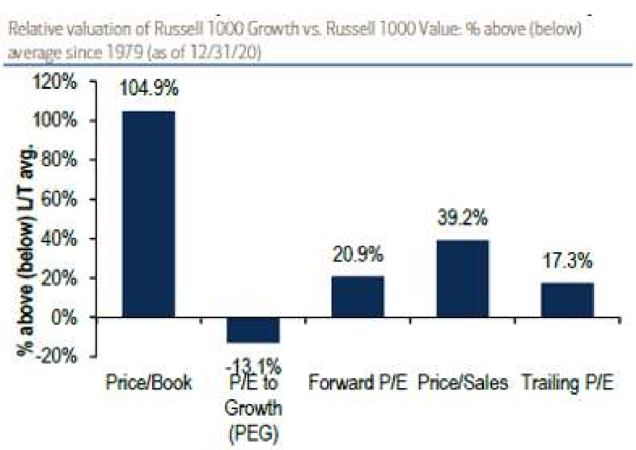
Source: Factset, Bloomberg, Raymond James Research, Data as of 12/31/2020

Equity Styles

- 2020 was one of the best years in history for Growth and mega cap stocks. The Russell 1000 Growth index outperformed the Value index by the largest annual spread in history since 1979 (+36%), and mega-cap stocks (Nifty 50) led the other 450 in the S&P 500 by 14%, the biggest spread since 1998. But we believe that reversals since September are likely to continue given the expected economic and profit recovery in 2021.

Source: BofA US Equity and Quantitative Strategy, Bloomberg

- Growth remains expensive vs. Value relative to history on the majority of metrics. Yet, the relative forward P/E of Value vs. Growth has re-rated slightly, but remains nearly two standard deviations below average, suggesting more room to re-rate.



Source: FactSet, BofA Us Equity & US Quant STrategy

Source: FactSet, BofA US Equity & Quant Strategy

Fixed Income

- The story of the quarter, much like Q3 2020, was the steepening yield curve – which investors and analysts alike have been looking for the long end of the yield curve to reaffirm the economy is starting to poke its head out of the COVID-induced recession. The yield curve has historically always steepened coming out of recessions. The past three months nearly all parts of the yield curve are at their steepest level in quite a while.

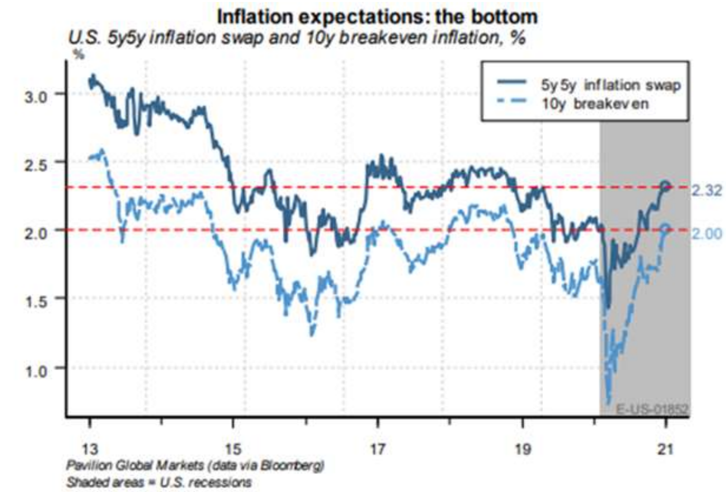
	Dec. 2020	Q4 2020	1-YR	3-YR	5-YR	10-YR
Barclays Agg. Bond Index	0.14%	0.67%	7.51%	5.34%	4.44%	3.84%
Investment Grade Bonds	0.15%	3.40%	10.97%	7.79%	7.33%	6.11%
High-Yield Bonds	1.74%	5.96%	4.86%	4.72%	6.74%	5.54%
Barclays Gov't 1-5YR	0.08%	0.02%	4.34%	3.36%	2.35%	1.79%
Barclays Intermediate Treasu	0.03%	-0.23%	5.77%	4.12%	2.90%	2.50%
Barclays Long-Term US Treas	-1.18%	-3.00%	17.70%	9.88%	7.85%	7.80%
Treasury TIPS	0.21%	0.48%	6.43%	4.67%	3.64%	3.11%
U.S. MBS	0.22%	0.24%	3.87%	3.71%	3.05%	3.01%

Source: Morningstar, Data as of 12/31/2020, Returns over 1YR is annualized.

- Investors saw the 10-YR finally breaking through the top end of the last 8 month's range of 0.5% and 0.8%. This recent trend up in yields, causing it to break through the 1% level, follows the Presidential election, the COVID-19 vaccine release in early November, and most recently, the Georgia runoff. Furthermore, investors saw the 2/10 spread widened to levels not seen since 2017 and is approaching 100bps. The yield curve continues to steepen, as the Fed funds rate looks to be securely anchored to 0% for the distant future.

Source: Strategas, Data as of 12/31/2020

- Breakevens are at their highest level since 2017. The increase in inflation expectations has largely been driven by more government stimulus, reflation expectations and continued (significant) Fed asset purchases.

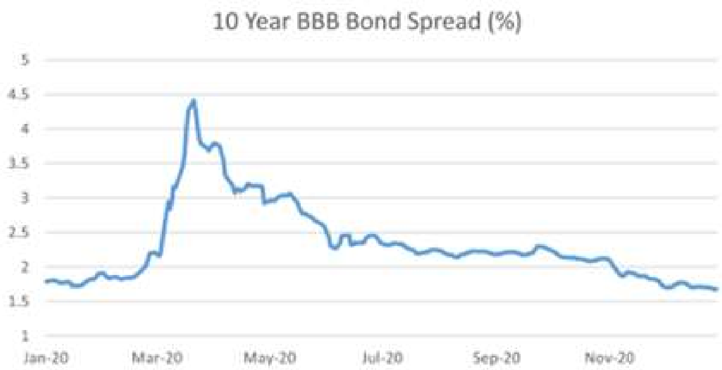


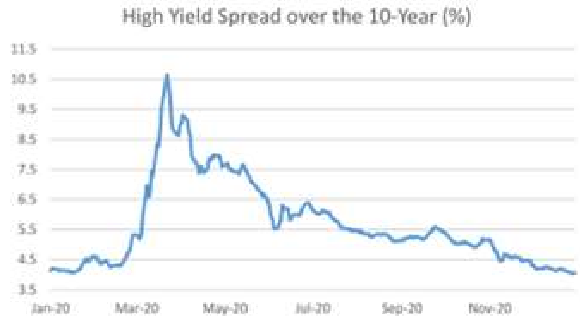
Source: Data as of 12/31/2020

- Although inflations concerns are rising, many economists (and the Fed) still expect muted inflation in the near term. It has been over 30 years since we've seen no real inflation (yes to asset inflation) so, from our perspective, the story seems reasonable.

Source: Bureau of Economic Analysis, Forecasts compiled by Bloomberg

- Investors have seen credit spreads continue their tightening spree after the wild spread blow outs during the pandemic. As the search for yield continues, investors continue to strongly bid risk product.





Source: Factset, Raymond James Research, Data as of 12/31/2020

- Similar to our Y+G Framework, for bonds you can take the growth part of the equation out and focus on income +/- multiple expansion (broken down below):
    - Return Drivers for Bonds: Coupon (interest income) +/- Yield Curve (Change in Int Rates/ Roll down potential i.e. a steep yield curve) +/- Credit spreads
    - Pimco Total Return Bond Fund since inception (5/11/87). Roughly 1% of the return has come from price change. Remember, the main return driver for fixed income is supposed to be income!

Range 05/11/1987 - 12/07/2020 Period Daily No. of Period 12264 Day(s) Table

Security	Currency	Price Change	Total Return	Difference	Annual Eq
PTTRX US Equity	USD	9.50%	921.64%		7.16%

Source: Bloomberg, Data as of 12/7/2020

- Since the Fed's last rate hike in 2018, 58% of the total return of the fund has come from price return. As the income part of the equation gets smaller and smaller we believe it will be impossible for this trend to persit forever.

Range 12/14/2018 - 12/07/2020 Period Daily No. of Period 724 Day(s) Table

Security	Currency	Price Change	Total Return	Difference	Annual Eq
PTTRX US Equity	USD	10.61%	18.31%		8.84%

Source: Bloomberg, Data as of 12/07/2020

Economic Review

- It appears that the recession is already over for numerous wealthier individuals. Though, there are still risks near-term, with health lockdowns & slowing U.S. mobility as we start 2021. Yet with U.S. saving substantial (>$1 trillion) on top of the front-loaded D.C. stimulus, we believe overall growth should not be scarce in 2021. Below is the economic forecast of Strategas for 2021 and 2022:

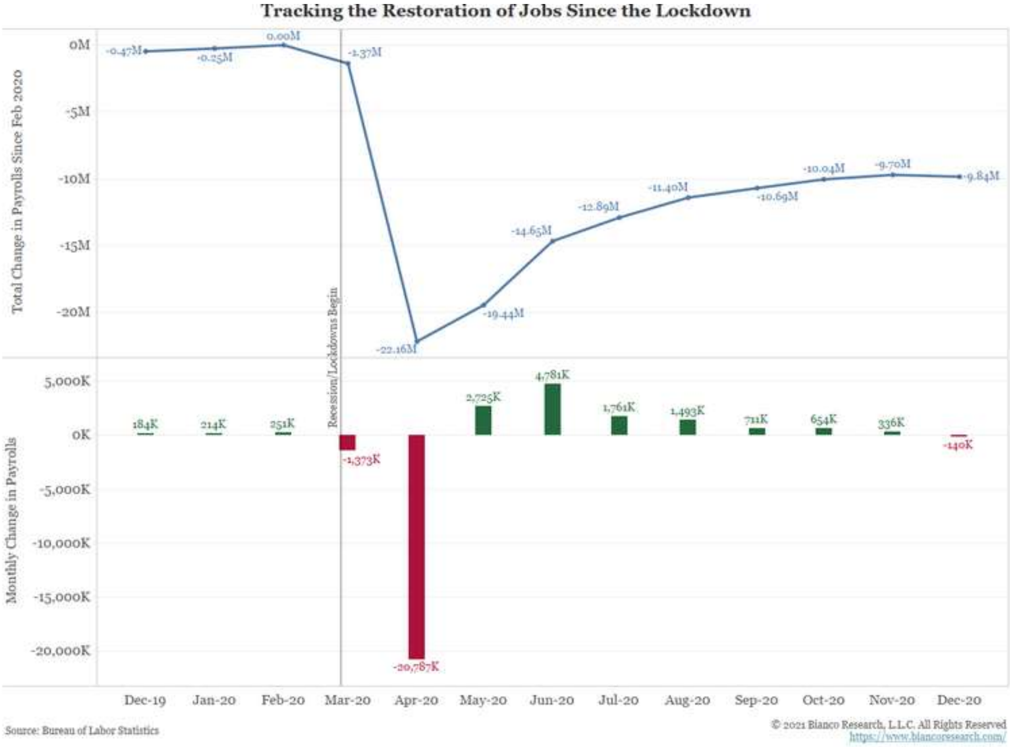
	2020					2021				2022			
	4Q	1Q	2Q	3Q	4QF	1QF	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP Q/Q % AR	2.4%	-5.0%	-31.4%	33.4%	8.5%	3.0%	8.0%	5.5%	4.0%	2.5%	3.5%	3.0%	2.5%
Core CPI Q/Q % AR	2.0%	2.0%	-1.6%	4.4%	1.8%	1.5%	3.0%	1.5%	2.2%	2.1%	2.4%	2.3%	2.3%
Fed Funds EOP	1.8%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%

F = Forecast; EOP = End of Period, a = actual

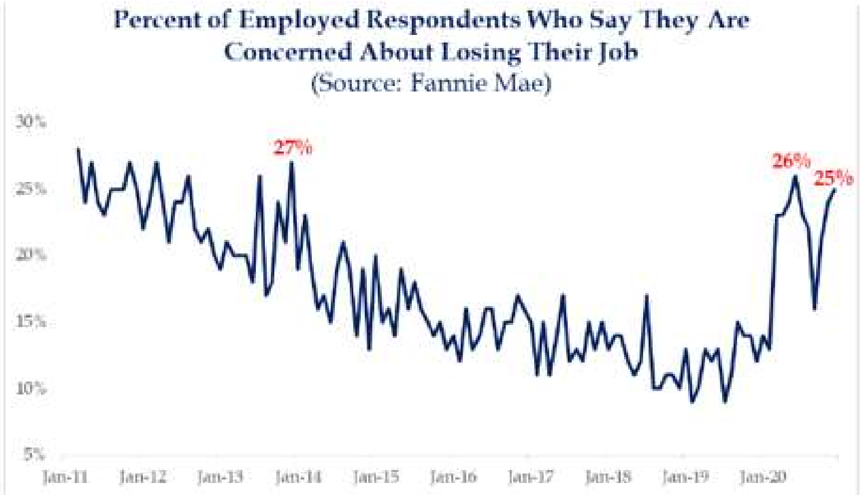
Note: Fed forecast lists top of expected range 2015:4Q forward.

Source: Strategas, Data as of 01/08/2021

- For some perspective on the cumulative job losses and recovery since, the chart below shows there are still 9.8 million fewer jobs in the U.S. than there were prior to the pandemic. The monthly gains have been dwindling and have once again turned negative. The big story should note the difference in job restoration between low wage and higher-wage workers. Between April and November, over 93% of the 6 million higher wage earners who were initially laid off had returned to work. By contrast, only half of the 12 million low wage workers had returned to work over the same period.

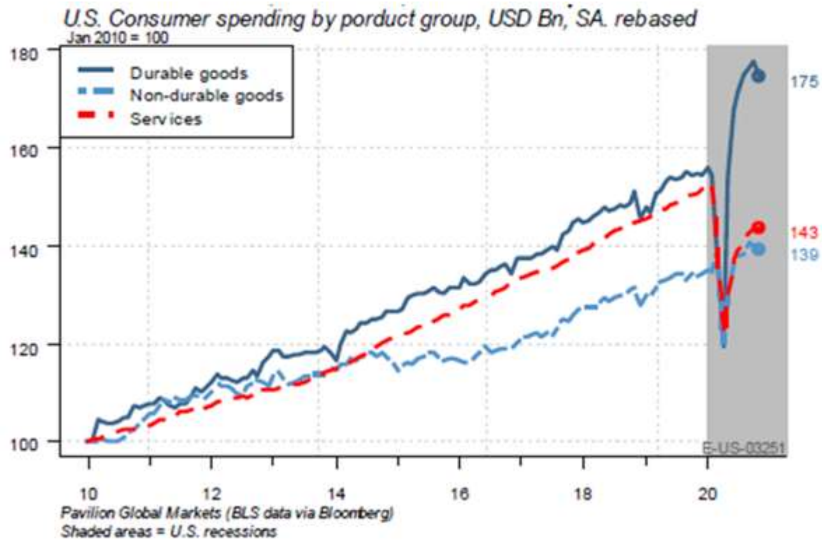


- The labor market is not alone. Consumer confidence has been weak since the pandemic started in early 2020, yet goods spending rose to a new high due to monetary & fiscal stimulus. Now 2021 has continued support, as COVID-19 vaccine(s) roll-out and D.C. provides a fiscal bridge for several months. Yet, we believe we still need confidence in the consumer and the business owner (for hiring purposes) to propel us out of this self-induced pandemic recession.



Source: Strategas, Data as of 12/31/2020

- It appears that global manufacturing has survived the COVID-19 generated collapse in demand during the February to May period. The sector continues above average growth stimulated by new orders and production which have both remained above the 60-mark monthly for the July to December period. But, worrisome, services have not yet recovered.



Source: Data as of 12/31/2020

The Backdrop for the Beginning of 2021

The Good

- ***Better Economic Data*** - Economic data, which lags the stock market, hit rock-bottom as we expected during April and May, but early signs of a recovery have begun to appear. Now that we have a fifth round of stimulus from Congress, especially with in the unemployment area, we believe that we will continue to see increased consumer spending and job stabilization – both keys to getting out of this pandemic-induced recession.
- ***Better than Anticipated Earnings*** – Given the record amount of stimulus, and that S&P 500 earnings are only 15% below its peak, we believe earnings growth will continue to be a determining factor of success for corporate America. Moving forward, we believe that if earnings growth in 2021 can surpass the multiple contraction that we could potentially see, since we are at 99th percentile multiple, positive future performance could occur.
- ***MOAR Stimulus*** – Another round of potential stimulus could create meaningful potential energy for economic growth as economies fully re-open. This will likely add to corporate EPS growth recovery.

The Bad:

- ***Faster-than-Expected Inflation –*** The magnitude of the policy actions used to counteract deflation may, in the end, be hugely inflationary. Higher-than-expected inflation tends to be a major headwind to equity valuations.
- ***Rise in Corporate Taxes*** – Now that the Democrats control the Presidency and Congress, investors, individuals, and corporations should expect some type of increase in taxes in the future. Though, it is expected, and potentially priced into the market, that the Biden administration will focus on another round of stimulus before they turn their attention to taxes. We believe that a tax increase won't be on the table until 2022, but if this happens faster-than-expected, we could potentially see a 9% headwind for corporate earnings.

The Ugly

- ***Slow Return of Service Jobs*** – If there is a slowdown on the job recovery front, it will take longer-than-expected to return to normalcy. Given the consumer capital on the sidelines right now, we believe it is imperative that Americans have a high propensity to spend. If business owners believe that it will take longer-than-expected for the economy to open, jobs will not come back, as expected. Business owners need to have faith in the future before they bring employees back on board.
- ***Breakout of Mutated COVID-19 Strand*** – A complete government shutdown is unlikely, but a targeted shutdown remains an option for state and local governments, as we continue to learn more about the COVID-19 mutated strand. Just look at what Boris Johnson did in the U.K. This could potentially shatter an already fragile economy in some areas of the United States.

Disclosures

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The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 11.2 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 4.6 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

The Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market. To be eligible for inclusion in the Index, the security's U.S. listing must be exclusively on The Nasdaq Stock Market (unless the security was dually listed on another U.S. market prior to January 1, 2004 and has continuously maintained such listing). The security types eligible for the Index include common stocks, ordinary shares, ADRs, shares of beneficial interest or limited partnership interests and tracking stocks. Security types not included in the Index are closed-end funds, convertible debentures, exchange traded funds, preferred stocks, rights, warrants, units and other derivative securities.

The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

*The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries*around the world, excluding the US and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.*

The MSCI Emerging Markets Index captures large and mid-cap representation across 26 Emerging Markets (EM) countries. With 1,387 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.*

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and collateralized mortgage-backed securities.

The Russell Midcap® Index measures the performance of the mid-cap segment of the US equity universe. The Russell Midcap® Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap® Index represents approximately 31% of the total market capitalization of the Russell 1000® companies. The Russell Midcap® Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap opportunity set.

The iShares iBoxx $ Investment Grade Corporate Bond ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, investment grade corporate bonds. The iShares iBoxx $ High Yield Corporate Bond ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, high yield corporate bonds.

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