

FINANCIAL MARKET SNAPSHOT

Inflation Concerns Driving Market Volatility

March 10, 2021

What a difference a couple of months makes! Since the beginning of the year, we have witnessed a relatively peaceful transition of power, declining Covid case numbers, a seemingly successful vaccine rollout and the initial signs of an improving labor market. Although very early in the nation's economic recovery, things appear to be improving. Recent market volatility has been driven by the concern that the magnitude of the fiscal stimulus package will result in creeping inflation and rising interest rates, which some believe will result in slowing economic growth, and possibly recession. At the present time, we do not share this view. We acknowledge that there will likely be an increase in the inflation rate as the economy improves. However, some if the near-term increase in the inflation rate will be more optical in nature, as depressed comparable periods (March through May of 2020) impact annual year-over-year growth rates. However, after these months roll off of the trailing 12-month period, we believe that the inflation rate at the end of 2021 will likely be about 2%.

So What is the Current Macroeconomic Outlook?

Economists put the chance of a recession happening over the next 12-months at 15%. In February, economists estimated the likelihood of a recession over the next year at 20%. Perhaps more importantly, economists forecast that the Consumer Price Index (CPI) – arguably the best proxy for inflation – will increase 2.3% in 2021 and 2.1% in 2022.

A survey of 67 economists conducted by Bloomberg News from Feb. 26 to March 4 showed that they expect the U.S. economy will expand 5.5% in 2021, 4.0% in 2022 and 2.4% in 2023. Additionally, they put the chance of a recession happening over the next 12-months at 15%. In February, economists estimated the likelihood of a recession over the next year at 20%. Perhaps more importantly, economists forecast that the Consumer Price Index (CPI) – arguably the best proxy for inflation – will increase 2.3% in 2021 and 2.1% in 2022.

Table 1: Notable Returns / Yields / Spreads: Nov. '20 - Feb. '21

Source: Bloomberg

Note: BBG Barc = Bloomberg Barclays; 10Yr Treasury Yield figures as of the end of the month

	<u>Ticker</u>	<u>Nov '20</u>	<u>Dec '20</u>	<u>Jan '20</u>	<u>Feb '20</u>
S&P 500 Index	SPY	10.9%	3.3%	-1.0%	2.8%
Russell 1000 Growth Index	RLG	10.1%	4.5%	-0.8%	-0.1%
Russell 1000 Value Index	RLV	13.2%	3.6%	-1.1%	5.8%
MSCI EAFE Index	MXEA	15.4%	4.6%	-1.1%	2.1%
MSCI Emerging Markets Index	MXEF	9.2%	7.2%	3.0%	0.7%
BBG Barc. US Agg Bond Index	LBUSTRUU	1.0%	0.1%	-0.7%	-1.4%
10-Year Treasury Yield	USGG10YR	0.838%	0.913%	1.065%	1.404%

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Bloomberg Consensus Economist Forecasted Data

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Avg. 2021	2022	2023
GDP Annualized	4.8%	6.8%	7.0%	4.5%	3.3%	2.9%	2.5%	5.5%	4.0%	2.4%
Consumer Spending	5.1%	6.9%	6.9%	4.8%	3.5%	3.0%	2.5%	6.0%	4.2%	2.5%
Private Investment	6.9%	7.7%	7.5%	6.1%	4.5%	4.1%	3.8%	11.1%	5.0%	3.5%
Gov. Expenditures	2.2%	3.0%	2.5%	1.4%	1.0%	1.1%	0.6%	1.3%	1.5%	0.3%
PCE Price Index YOY%	1.7%	2.4%	2.0%	2.0%	1.9%	2.0%	2.0%	2.1%	1.9%	2.0%
Core PCE Prices YOY%	1.5%	2.1%	1.8%	1.9%	1.9%	1.9%	1.9%	1.8%	1.9%	2.0%
CPI YOY%	1.8%	2.9%	2.4%	2.4%	2.2%	2.2%	2.2%	2.3%	2.1%	2.2%
Previous survey	1.8%	2.9%	2.3%	2.2%	2.2%	2.2%	2.2%	2.2%	2.1%	2.1%
Unemployment rate	6.3%	5.9%	5.5%	5.1%	4.8%	4.6%	4.4%	5.7%	4.5%	4.1%
Gov. Debt as a % GDP	104.4%	106.9%	106.9%	107.3%	107.3%	107.1%	107.0%	107.0%	106.5%	106.2%

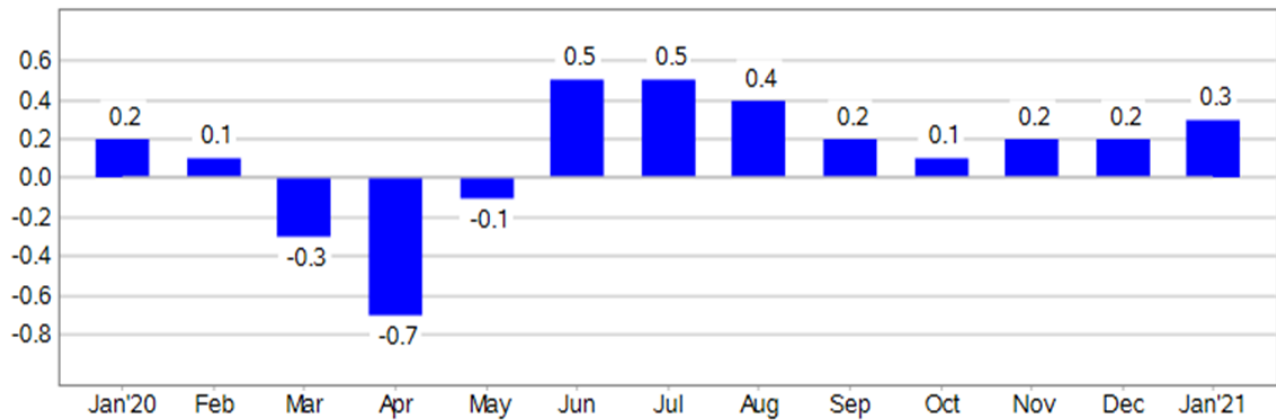
Source: Bloomberg

Easy 2020 Inflation Comps Will Impact 2021 Inflation Optics!

There's expected to be a visible increase in the quarterly inflation rate as very low readings from last March, April and May roll off of the annual CPI calculation. After the impact of 2020's easier CPI comps have run their course, the expectation is for the inflation rate to normalize, ending the year closer to 2.0%.

Perception is reality, and optics can often drive perception. It is important to note that analysts tend to look at average inflation over the past year. Consequently, there is expected to be a visible increase in the quarterly inflation rate as very low readings from last March, April and May roll off of the annual CPI calculation. As you can see in the table above, estimates are for the CPI to temporarily accelerate to 2.9% in Q2 before starting to decelerate. After the impact of 2020's easier CPI comps have run their course, the expectation is for the inflation rate to normalize, ending the year closer to 2.0%. The chart below depicts the time frame and severity of the easier monthly CPI comparable period growth rates.

One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Jan. 2020 - Jan. 2021
Percent change



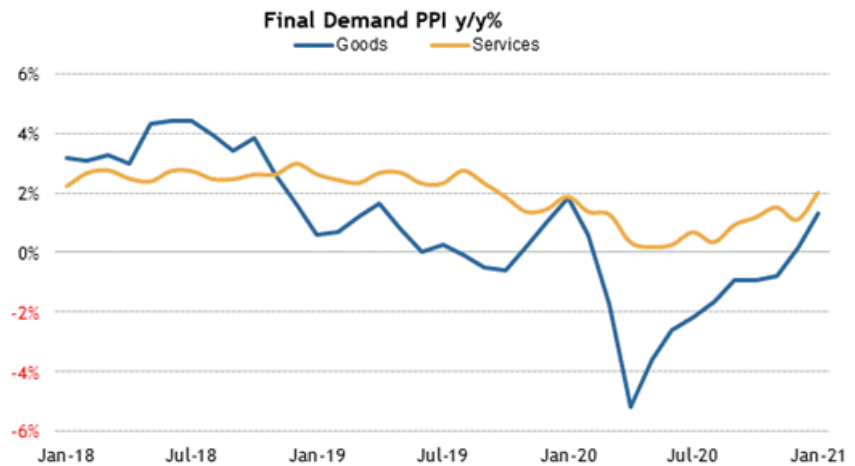
Source: <https://www.bls.gov/news.release/pdf/cpi.pdf>



The two most “looked to” price indexes for measuring inflation are the consumer price index (CPI) from the Bureau of Labor Statistics and the personal consumption expenditures price index (PCE) from the Bureau of Economic Analysis. Each of these is constructed for different groups of goods and services, most notably a headline measure and a core measure (which excludes food and energy prices).

Inflation Concerns Helping to Driving Market Volatility

After a long period of low inflation, concerns have increased that higher consumer prices may return as a result of an accommodative Federal Reserve monetary policy and fiscal spending in response to the pandemic. Concerns began increasing in February with the release of January’s Producer Price Index (PPI) report, which saw a jump of 1.7%, the biggest monthly increase since 2009.



Source: Bureau of Labor Statistics; updated 02/17/21

Briefing.com

Source: Briefing.com

The key takeaway from this report is that producers clearly incurred higher prices in January; however, prior week's Consumer Price Index showed that there wasn't any meaningful pass through to consumers.

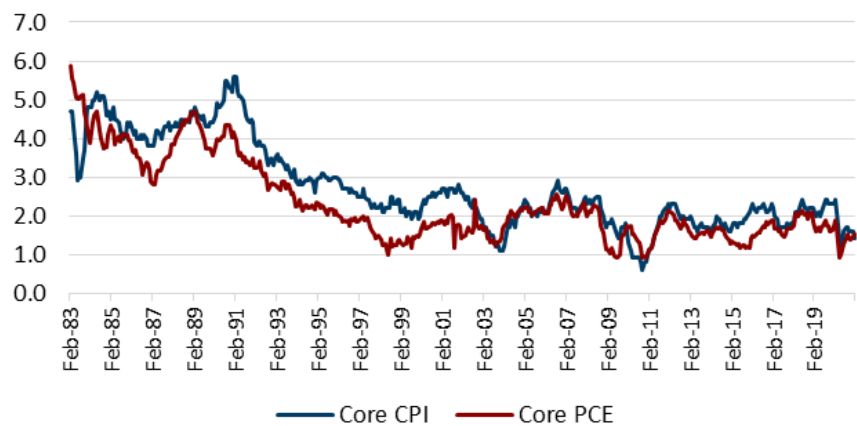
The key takeaway from this report is that producers clearly incurred higher prices in January; however, prior week's Consumer Price Index showed that there wasn't any meaningful pass through to consumers. Nonetheless, this report raised investor concern about the potential for rising consumer prices to materialize in coming months given that the index for processed goods for intermediate demand was up 1.7% in January. While the Fed believes that any price increases will be fleeting, the market appears to be more skeptical with regards to the inflationary outlook.

Core CPI Isn't Seeing Signs of Inflation!

Total CPI for January increased 0.3% month/month (consensus 0.4%) following a downwardly revised 0.2% increase (from 0.4%) in December. Core CPI, which excludes food and energy, was unchanged (consensus 0.2%) after also being revised to unchanged (from 0.1%) in December. On a year-over-year basis, total CPI held steady at 1.4%, yet core CPI decelerated to 1.4% from 1.6% in December.

Core CPI & Core PCE YoY % Chg - Long-term

Source: Bureau of Labor Statistics, Bureau of Economic Analysis



Other than fuel/energy and a recent increase in apparel, the CPI components haven't experienced any meaningful increase in recent months.

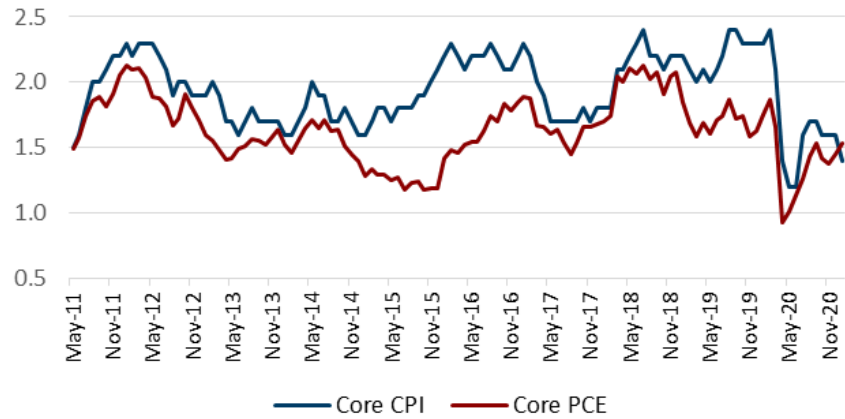
Other than fuel/energy and a recent increase in apparel, the CPI components haven't experienced any meaningful increase in recent months. Some of the notable changes in the CPI components include:

- The food index increased 0.1% after a 0.3% increase in December. The food index is up 3.8% yr/yr.
- The gasoline index increased 7.4% following a 5.2% increase in December, but is still down 8.6% yr/yr.
- The shelter index increased 0.1% for the sixth consecutive month and is up 1.6% yr/yr.
- The index for new vehicles fell 0.5% and is up 1.4% yr/yr. The index for used cars and trucks fell 0.9%, but was up 10.0% yr/yr.

The key takeaway from the report is that it shows all is still mostly quiet on the inflation front as far as the Fed is concerned, which implies to the market that it can continue to count on the Fed not to run interference with its rally effort by raising rates or tapering its bond purchases prematurely.

Core CPI & Core PCE YoY % Chg - Short-term

Source: Bureau of Labor Statistics, Bureau of Economic Analysis



Concerns over rising long-term bond yields and inflationary pressures were somewhat eased last week after two days of testimony by Fed Chair Powell. Powell reiterated the Fed’s intention to stick with its near-zero short-term interest rate policy and monthly bond purchase program until the labor market fully recovers and its inflation goals are met.

Powell dismissed market fears of accelerating inflation, noting that he did not see inflation reaching any troubling levels, declaring that any increase would be modest and transitory. Mr. Powell said that the Fed doesn’t foresee lifting its benchmark fed-funds rate from near zero until three conditions have been met: 1) a broad range of statistics indicating that the labor market is at maximum strength, 2) inflation has hit its 2% target, and 3) forecasters expect inflation to remain at that level or higher. Mr. Powell said it’s “highly unlikely” that the Fed’s goal of maximum employment will be reached this year. But he was less clear about whether the economy could show enough improvement this year for the Fed to start reducing its monthly asset purchases.

Warren Buffett appeared to agree with Powell’s sentiment in his recent annual letter to Berkshire Hathaway shareholders. In it, Mr. Buffett noted that “bonds are not the place to be these days . . . [and] fixed-income investors worldwide — whether pension funds, insurance companies or retirees — face a bleak future.” Buffett cited Treasury yields as one example backing his argument, noting that the 10-year yield traded with a 0.93% yield at the end of 2020, down 94% from the 15.8% yield seen in 1981. Last week’s Treasury sell-off lifted the 10-year yield as high as 1.614%, but the bond is still more expensive than where it traded before the pandemic. Buffett also cautioned that the solution to investing in a low-yield world isn’t stretching for income with lower-quality fare, noting that the debacle in the savings and loan industry some 30 years ago is proof of that! And yes, the housing bubble of ’08-’09 supports that notion too.

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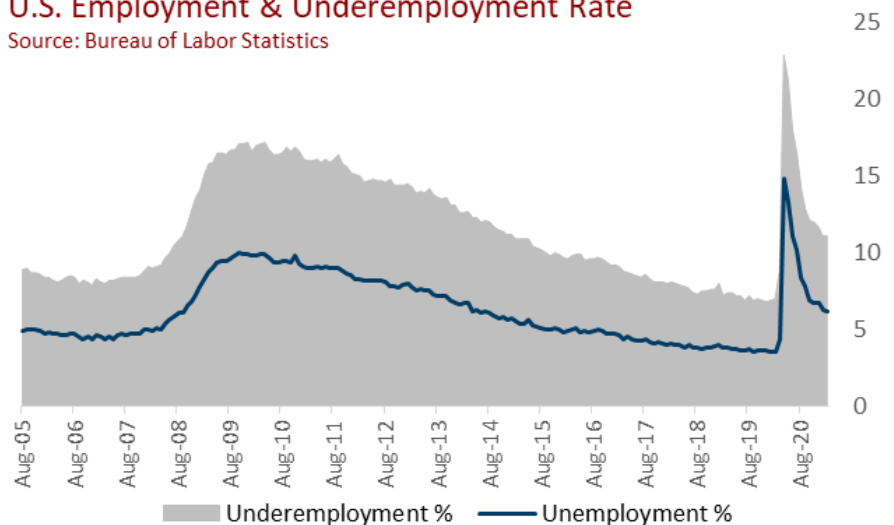
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Labor Market Slowly Improving

The labor market is slowly improving, but still has a very long way to go to reach pre-pandemic levels. The February unemployment rate fell from 6.3% to 6.2%, according to the U.S. Labor Department. That is down dramatically from 14.8% last April, shortly after the emergence of the Covid virus in the United States. But it's well above the pre-pandemic rate of 3.5%. Persons unemployed for 27 weeks or more accounted for 41.5% of the unemployed versus 39.5% in January. The four-week moving average for continuing jobless claims (for the week ending February 20th) decreased by 99,000 to 4,448,000. In the same week a year ago, the average stood at 1,705,00. The U6 unemployment rate, which accounts for unemployed and underemployed workers, was 11.1%, unchanged from January.

U.S. Employment & Underemployment Rate

Source: Bureau of Labor Statistics

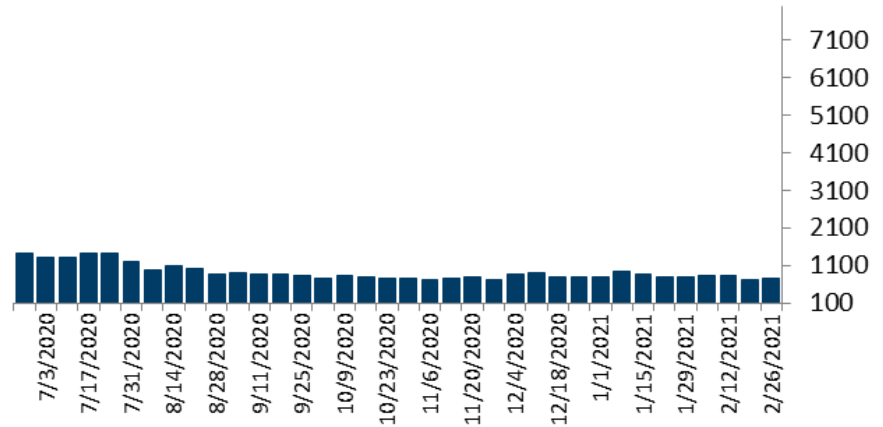


Nonfarm payrolls increased by 379,000 and nonfarm private payrolls increased by 465,000, roughly double the consensus estimates. Nearly all the gains came in the leisure and hospitality industry and most notably from restaurants. That suggests Americans are starting to venture out and spend more as progress is made against the coronavirus and states relax business restrictions.

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Initial Jobless Claims - In thousands

Source: Dept. of Labor

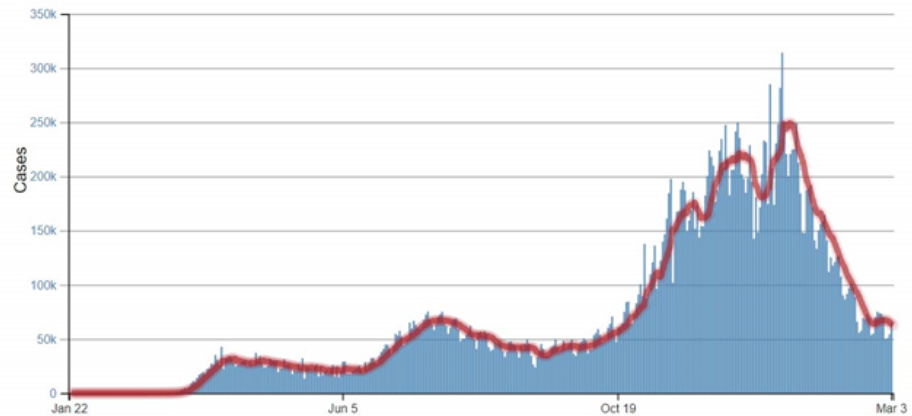


Goldman Sachs is predicting the unemployment rate will fall to 4.1% by the end of the year. In contrast, the consensus estimate calls for the unemployment rate to be about 5.5% as we exit 2021.

Additionally, Goldman Sachs’ Chief Economist Jan Hatzius recently released a note saying that “the U.S. is on course for an employment boom this year once pandemic restrictions ease and the economy reopens.” Goldman Sachs is predicting the unemployment rate will fall to 4.1% by the end of the year. In contrast, the consensus estimate calls for the unemployment rate to be about 5.5% as we exit 2021. Goldman Sachs also expects participation in the jobs market to pick up, because “most workers who left the labor force still cite the pandemic as their reason, and will likely re-enter once life normalizes.” However, one mitigating factor that some economists’ note which could be a slight headwind to an improving labor market is the potential for a mismatch in workers’ skills versus those skills that employers are seeking compared to the pre-pandemic economy. Some economists point out that this disjoint, in part, is due to automation investments that many firms have made over the past year. Economists also note that Federal jobless benefits could temporarily slow the employment recovery as some job seekers may choose to delay reentering the workforce.

Covid Case Numbers and Vaccine Update

Beginning on January 11, the 7-day average of newly reported cases declined for 43 consecutive days. There was a brief increase between February 27 and March 1, 2021; and as of March 2, the 7-day average of new cases began to decline again. There has been an overall decline of 74.9% of the 7-day moving average since the highest 7-day average of 249,360 on January 11, 2021. On March 3, there was a 5.7% decrease in the 7-day average number of daily cases reported compared with the prior week, which provides an encouraging sign of continued progress. Even with these declines, the 65,424 cases reported on March 3 remains much higher than what was seen during the first peak in the pandemic on April 6, 2020 of 42,597 cases.



Source: <https://www.cdc.gov/coronavirus/2019-ncov/covid-data/covidview/index.html>

The current 7-day average of new cases is impacted by a historical correction of 8,585 cases; 2,990, 1,840, and 1,641 historical cases were reported by Texas on February 27, March 1 and March 3, 2021, respectively; and Alabama reported a historical correction of 2,114 cases on March 3, 2021. The 7-day average number of new cases (excluding historical cases reported in the past two weeks) decreased by 7.5% to 61,329 new cases per day compared to the previous 7-day average of 66,306.

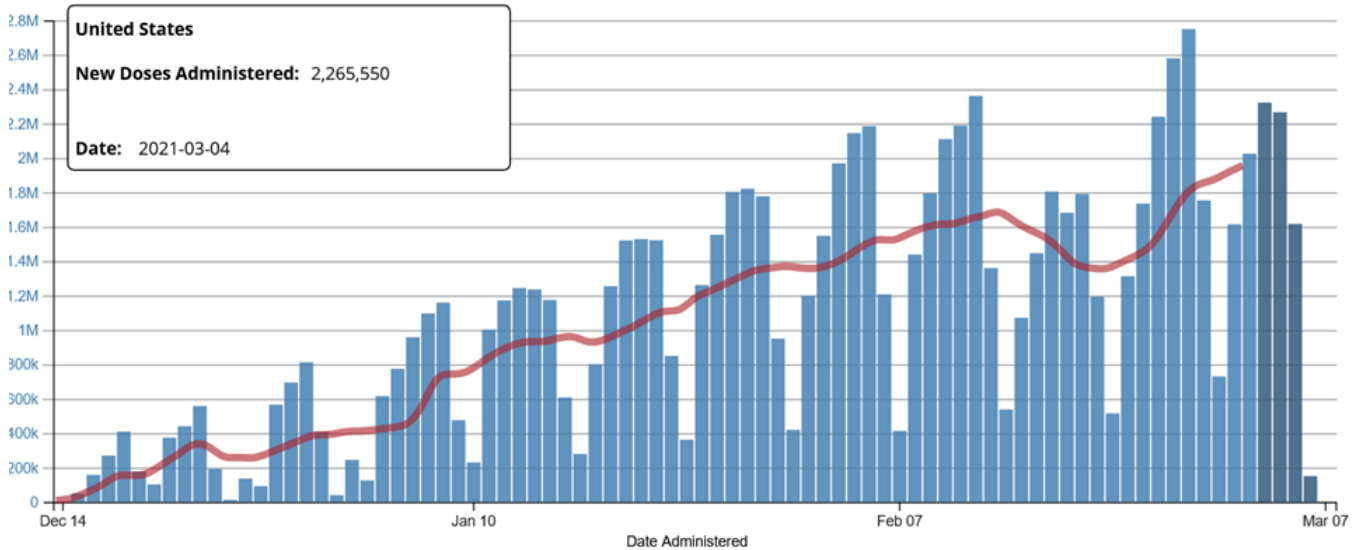
Vaccination Rates Continue to Increase

As of March 9, 2021, 85 million vaccine doses have been administered. Overall, about 61.1 million people, or 23.9% of the U.S. population, have received at least one dose of vaccine. .

The U.S. Covid-19 Vaccination Program began December 14. As of March 9, 2021, 85 million vaccine doses have been administered. Overall, about 61.1 million people, or 23.9% of the U.S. population, have received at least one dose of vaccine. As you can see in the chart below, the U.S. did experience a temporary slowdown in Covid vaccination rate during February, which was primarily the result of inclement weather conditions throughout the U.S. As weather conditions have improved, so have vaccination rates.

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Daily Count of Total Doses Administered and Reported to the CDC by Date Administered, United States



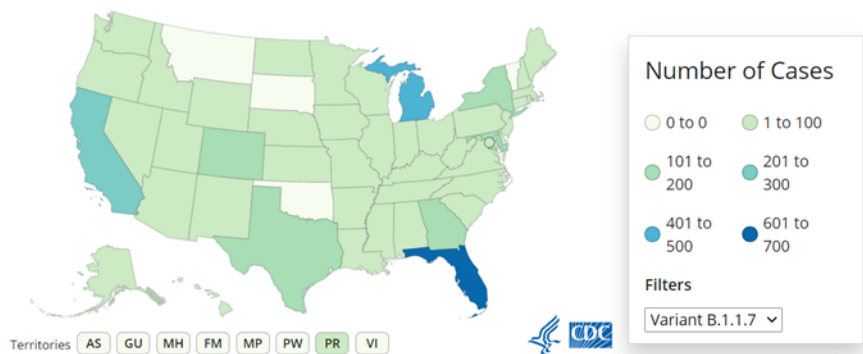
Source: <https://covid.cdc.gov/covid-data-tracker/#vaccination-trends>

At present, about 32.1 million people, or 9.7% of the U.S. population, have received two doses of vaccine.

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Keeping an Eye on Potential New Covid Strains

CDC is also closely tracking variants of SARS-CoV-2, the virus that causes Covid-19. Three variants of concern have been detected in the United States: B.1.1.7, B.1.351, and P.1. A total of 2,672 B.1.1.7 variant cases have been reported in 48 jurisdictions. Sixty-eight cases attributed to B.1.351 in 17 jurisdictions and 13 cases attributed to P.1 in seven states have also been detected in the United States.



The CDC and its partners are increasing the numbers of specimens sequenced in laboratories around the country. The number of variants reported will likely increase as more specimens are sequenced and if the frequency of variants increases. Studies are underway to determine whether variants cause more severe illness or are likely to evade immunity brought on by prior illness or vaccination. While we currently do not anticipate that

Covid Impact on Birthrates

The pandemic is accelerating a decade's long decline in birthrates in developed countries, potentially resulting in long-term drops in fertility rates and subsequent economic output. Japan, France, Belgium and Hungary all reported declining birthrates in January 2021 compared with a year ago. Births in France, for example, fell 13.5% in January, about eight times the rate in the first 10 months of 2020,

The pandemic is also expected to lower U.S. birthrates by 8% in 2021, resulting in 300,000 fewer births than expected without the pandemic, according to Brookings Institution research. Preliminary data shows that January 2021 births in California and Florida fell by 10.5% and 7.2% respectively. .

The pandemic is also expected to lower U.S. birthrates by 8% in 2021, resulting in 300,000 fewer births than expected without the pandemic, according to Brookings Institution research. Preliminary data shows that January 2021 births in California and Florida fell by 10.5% and 7.2% respectively. Weak labor markets and decreasing personal income are likely causing some people to rethink the economic wisdom of having another mouth to feed. Limits on social gatherings have also reduced the chances for people to find partners. Additionally, people reported having sex less often and postponing plans to get pregnant in surveys over the past year. The longer the pandemic lasts, the more likely the decline in birthrates will have a lasting effect. U.S. birthrates fell sharply in 2008 during the 2008-09 financial crisis and have continued declining since then. Fewer babies also results in a smaller workforce over time, which in turn lowers overall productivity. In the U.S., it also means fewer taxpaying adults to fund older Americans collecting Social Security benefits – already projected to face a 25% shortfall by 2035.

Heard Immunity Timeframe Estimate

Herd immunity thresholds for Covid-19 are only estimates at this point. But experts generally agree that somewhere between 70% and 85% of the population must be protected to suppress the spread, a range that Dr. Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases has recently cited. A number of factors will determine how quickly this threshold is met, especially the pace at which newly vaccinated people join those who are immune after past infections. But the presence of more transmissible virus variants could complicate that progress.

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If vaccination continues at its current rate and the two-dose vaccines from Pfizer/BioNTech and Moderna were the only options available, 70% of the US population could be fully vaccinated by mid-September. But the US Food and Drug Administration recently authorized the Johnson & Johnson's one-dose vaccine for emergency use, and the company has promised to deliver 100 million doses to the US in the first half of the year.

At the current pace of about 2 million doses per day, including 100 million doses of the single-shot Johnson & Johnson vaccine, 70% of the US population could be fully vaccinated around the end of July and 85% by mid-September. It will likely be even sooner, if factoring in individuals who may have some natural immunity due to prior infection.

The CDC estimates that more than a quarter of the population may have been infected by Covid-19, bumping the share of the population already protected up to nearly a third. Assuming there's no overlap between people with natural immunity and those protected through vaccination, herd immunity could be reached as early as June.

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Fourth Quarter 2020 Earnings Update

More U.S. companies are topping earnings estimates this quarterly reporting season with the Technology and Financials sectors among the biggest winners. Of the 485 companies in S&P 500 that have announced Q4-20 results, 80% beat analyst EPS estimates, compared with 72% during the entire earnings season a year ago, according to data compiled by Bloomberg. About 17% have posted worse-than-expected earnings as compared with 19% a year ago. Companies topped revenue estimates 65% of the time, while 18% missed. That compared with 40% and 21% respectively, a year ago.

Sector	# of Cos Reporting	EPS Beat	EPS Missed	EPS Met	Revenue Beat	Revenue Missed	Revenue Met
Communications	24 of 24	79%	13%	0%	58%	4%	38%
Consumer Discretionary	55 of 58	73%	22%	0%	60%	29%	11%
Consumer Staples	33 of 35	73%	18%	9%	67%	12%	21%
Energy	24 of 24	63%	25%	0%	50%	42%	8%
Financials	61 of 61	87%	10%	3%	66%	10%	23%
Health Care	61 of 61	80%	20%	0%	74%	11%	15%
Industrials	69 of 69	78%	20%	1%	72%	4%	23%
Materials	28 of 28	75%	18%	4%	68%	14%	18%
Real Estate	23 of 23	61%	30%	9%	65%	17%	17%
Technology	79 of 80	92%	6%	1%	73%	10%	16%
Utilities	28 of 28	64%	18%	14%	18%	79%	0%



Source: Bloomberg

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As the table above shows, Technology and Financials companies are topping estimates the most on an earnings per share basis, while Health Care, Technology and Industrials companies are topping estimates the most on a revenue basis. Among recent earnings releases, Kroger had the largest EPS positive surprise of 18%. As more companies beat estimates, the S&P is trading at a price-to-earnings ratio of 31.09 vs 19.94 a year ago; and a price-to-sales ratio is 2.86 vs 2.08.

Value Sector Expected to See an Accelerating Growth Rate in 2021

The table below details the expected quarterly and annual year-over-year share-weighted earnings growth for several investment styles and industry groups in the S&P 500 Index. Percentages are calculated using Bloomberg earnings estimates or reported earnings when available for the current period compared with actual figures from a year ago. Companies are then grouped together by industry and summed for each period to calculate the percentage growth.

Year-over-Year S&P 500 Earnings Growth Rates for Various Sectors and Investment Styles

	Q4/20	Q1/21	Q2/21	Q3/21	Q4/21	Q1/22	FY20	FY21	FY22
S&P 500 Forecast EPS(\$)	43.14	39.47	41.49	45.45	48.02	46.03	138.0	172.2	198.4
S&P 500 Index Y/Y Growth	5.83%	21.47%	48.98%	16.92%	11.16%	16.70%	-12.39%	23.59%	15.33%
S&P 500 Value (SPXPV)	3.05%	31.79%	93.02%	12.86%	2.48%	15.55%	-26.94%	28.25%	14.22%
S&P 500 Growth (SPXPG)	35.21%	47.19%	27.38%	10.46%	1.60%	11.58%	20.50%	25.56%	13.42%
S&P 500 Ex-Financials	2.88%	15.57%	43.19%	19.26%	16.47%	19.03%	-10.18%	23.27%	16.05%
S&P 500 Ex-Energy	9.41%	23.20%	39.77%	13.41%	8.48%	15.37%	-8.74%	20.37%	14.56%
S&P 500 Ex-Technology	3.63%	20.43%	60.23%	17.32%	12.47%	18.23%	-16.00%	24.33%	16.43%

Source: Bloomberg

Value stocks, which tended to be more closely tied to traditional/physical economic activity and be more dependent on the general level of employment struggled during the pandemic, and experience an earnings decline of nearly 27%. However, the earnings growth rate of value segment is expected to significantly accelerate in 2021 as the economy reopens, potentially growing roughly 28% y/y.

One notable differential in the table above are the earnings growth rates that value and growth stocks experienced during the Covid crisis and are expected to experience as the economy emerges from the pandemic. Value stocks, which tended to be more closely tied to traditional/physical economic activity and be more dependent on the general level of employment struggled during the pandemic, and experience an earnings decline of nearly 27%. However, the earnings growth rate of value segment is expected to significantly accelerate in 2021 as the economy reopens, potentially growing roughly 28% y/y. Growth stocks on the other hand powered through the pandemic, with many experiencing accelerating growth metrics as they benefited from the abrupt shift to a “stay-at-home/work-from-home” economy.

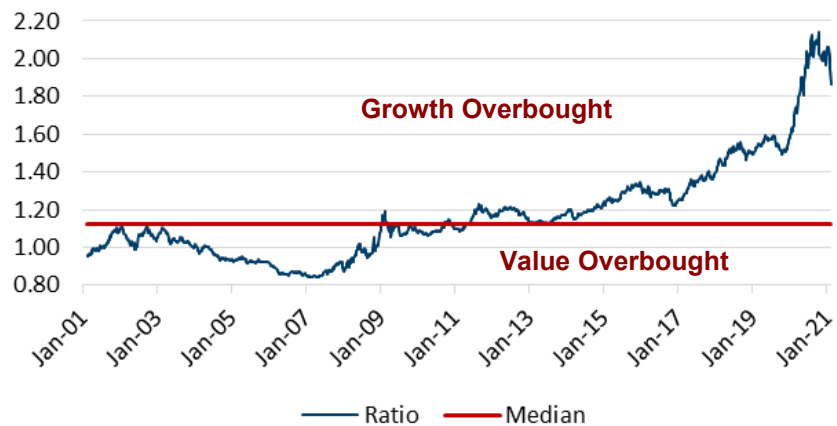


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This earnings differential resulted in a large performance disparity between growth and value equities during 2020. In fact, large-growth stock funds, which generally invest in companies with strong earnings growth profiles, returned an average of 38.3% for the year. In stark contrast, large-value stocks finished the year up about 2.9%. The 35 percentage point performance differential the largest historical performance differential and exceeded the gap registered in 1999, when growth beat value by 31 percentage points.

S&P 500 Growth vs. S&P 500 Value

Source: S&P, Bloomberg



So far this year, this scenario has been playing out with value securities up about 8.3% YTD (3/9), while growth securities have declined roughly 1.6%. We continue to believe that the value “catch-up” trade will likely play out over the course of the year as the economic reopening accelerates in the second half of 2021 and the rally broadens to economically sensitive investments that have lagged, particularly cyclical sectors.

The chart above depicts this performance disparity between the two groups. As we entered 2021, we anticipated that there would likely be a “catch-up” trade that would benefit value equities driven by a reopening of the economy as well as a general market rotation away from growth and into value. So far this year, this scenario has been playing out with value securities up about 8.3% YTD (3/9), while growth securities have declined roughly 1.6%. We continue to believe that the value “catch-up” trade will likely play out over the course of the year as the economic reopening accelerates in the second half of 2021 and the rally broadens to economically sensitive investments that have lagged, particularly cyclical sectors.

Potential Implications for Our Portfolios

Much of our 2021 outlook is predicated on a successful Covid vaccine rollout and improving labor markets. Although still very early in the process, both metrics appear to be improving. We currently anticipate that economic recovery will gain traction as we move further into the year, which should support an earnings rebound, sending equity prices higher. Consequently, we favor equities over bonds.

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Additionally, we believe that a “catch-up” trade is currently underway, and that value equity could outperform growth this year. Recall that a handful of U.S. large-cap tech names accounted for a disproportionate share of the market gains in 2020. We believe that as the economic reopening accelerates in the second half of 2021, the rally could broaden to economically sensitive investments that have lagged, including cyclical sectors, small-cap stocks and international equities.

The market volatility we experienced in 2020 clearly demonstrates the value of having a well-defined and repeatable investment process. Our process seeks to align client portfolios in a manner consistent with our goal of potentially growing client wealth while also seeking to mitigate potential market damage during periods of extreme market volatility.

The market volatility we experienced in 2020 clearly demonstrates the value of having a well-defined and repeatable investment process. Our process seeks to align client portfolios in a manner consistent with our goal of potentially growing client wealth while also seeking to mitigate potential market damage during periods of extreme market volatility. We believe that having a coherent process in place allows us to be more proactive and less reactive, potentially allowing us to add alpha and protect assets during tumultuous market periods, like we experienced in 2020.

Risks

Investors should be aware of the risks associated with all portfolio strategies, and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other geopolitical events can have a substantial effect on portfolio performance, our macroeconomic theories, and the effectiveness of strategic and tactical portfolio approaches.

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Important Disclosures: *This material is not intended as ERISA, tax or investment advice and is not an offer to sell a security or a recommendation, to buy a security. If you are seeking investment advice specific to your needs, such advice services must be obtained on your own, separate from this educational and informational report. This summary is based exclusively on an analysis of general market conditions and does not speak to the suitability of any specific proposed securities transaction. To determine which investments may be appropriate for you, consult your financial advisor prior to investing.*

All opinions and views mentioned in this report constitute our judgments as of the date of writing and are subject to change at any time. We will not advise you as to any change in figures or views found in this report.

Our judgement or recommendations may differ materially from what may be presented in a long-term investment plan. Investors should consult with an investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Stock investing involves risk including loss of principle.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Precious metal investing involves greater fluctuation and potential for losses.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

High yield/junk bonds (grade BB or below) are not investment grade securities and are subject to higher interest rate, credit, and illiquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

The MSCI EAFE Index is a free float –adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia.

The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing the major sectors of the U.S. economy.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment grade fixed-rate bond market, including both government and corporate bonds.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.

Economic and other investment forecasts set forth may not develop as predicted and there can be no guarantee that strategies mentioned will be successful.

All indices are unmanaged and may not be invested into directly.

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