FINANCIAL MARKET SNAPSHOT

Looking Forward into 2021, with 20/20 Hindsight

January 21, 2021

Financial markets experienced large price swings in a compressed time period and resulted in significant performance differentials across investment styles, sectors and industries..

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair." In many ways, the opening line from Charles Dickens, A Tale of Two Cities seems to resonate with our experiences in 2020. Financial markets experienced large price swings in a compressed time period and resulted in significant performance differentials across investment styles, sectors and industries.

Despite a tumultuous year filled with disruptive news and events, the major market indices finished up significantly for the year, with the Nasdaq rising 43.6%, the S&P 500 increasing 18.4% and the Dow Jones Industrials up 7.9%.

During the past 12-months we experienced a global pandemic, an economic shutdown that caused unemployment rate to spike to 14.8% in April, civil unrest spurred on by a call to address racial inequality, two (2) emergency rate cuts by the Fed, the largest fiscal stimulus package in US history and perhaps one of the most contentious political election cycles in our nations recent past. Despite all of this, the major market indices finished up significantly for the year, with the Nasdaq rising 43.6%, the S&P 500 increasing 18.4% and the Dow Jones Industrials up 7.9%.

To add some perspective, as we entered 2020, the consensus estimate from 14 market strategists called for the S&P 500 index to close out the year at about 3377, an increase of about 4.5%. Historically, the average annual return on the S&P 500 index has been about 10%, making 2020's equity market performance all the more impressive. Over the most recent 40 year period (1981-2020), the S&P 500 has generated annual returns of 10% or more in 25 of those 40 years, or 62.5% of the time. As we move into 2021,

Table 1: Notable Returns and Yields : 2017 - 2020
Source: Bloomberg
Note: BBG Barc = Bloomberg Barclays; 10Yr Treasury Yield figures as of the end of the month

Index	2017	2018	2019	2020
Nasdaq	28.2%	-3.9%	35.2%	43.6%
S&P 500	21.8	-4.4%	31.5%	18.4%
Dow Jones Industrial Average	25.1%	-5.6%	22.3%	7.9%
Russell 3000 Growth	29.6%	-2.1%	35.8%	38.3%
Russell 3000 Value	13.2%	-8.6%	26.2%	2.9%
BB Barclays US Aggregate Bond	3.5%	0.0%	8.7%	7.5%
BB Barclays US Treasury Bond	2.3%	0.9%	6.9%	8.0%

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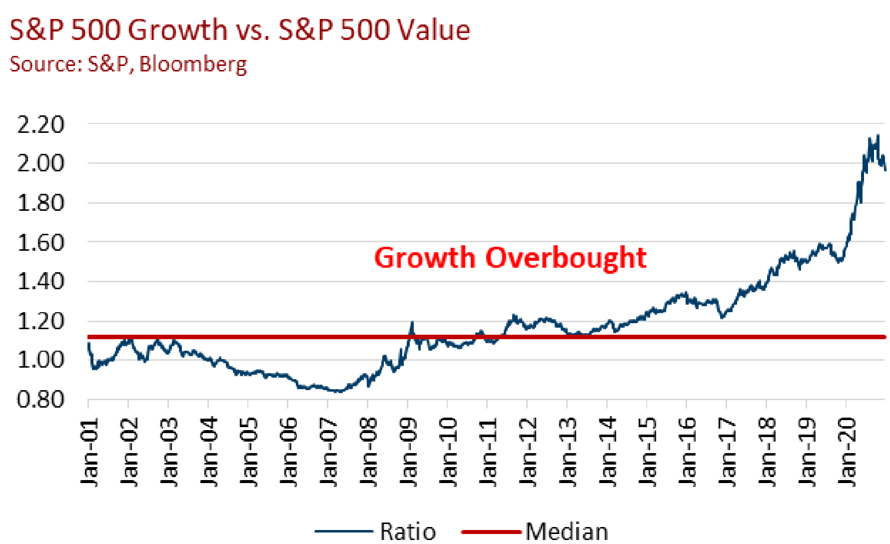
the consensus estimate among market strategists' calls for the S&P 500 to close out the year at about 4056, implying about 8% upside potential.

Furthermore, fourth quarter earnings results are just now starting to trickle in. Analysts polled by FactSet are currently expecting the S&P 500's fourth quarter overall earnings to decline 6.8% on a year-over-year basis. For 2020 as a whole, analysts are anticipating that earnings fall roughly 13%.

The Best of Times, The Worst of Times and the Best of Times Again?

The year began and ended with two different bull markets, with a short-lived bear market occurring in between. This same scenario happened most recently in 1987 which was precipitated by the miscues of computer program-trading algorithms coupled with wide spread investor panic. However, unlike 1987, financial markets recovered at a very quick rate, catching many investors by surprise. The S&P 500 experienced its' fastest-ever bear market, clocking in at just 33 days, before bottoming on March 23rd. Then, we witnessed its third-fastest recovery to a breakeven level which took about five months. The S&P 500 then proceeded to fall 9.6% in a three-week span in September, nearly qualifying as a market correction, before once again rallying into the end of the year.

Figure 1: S&P 500 Growth vs. S&P 500 Value
Source: Bloomberg



One notable performance disparity during 2020 was the return differential between growth and value equities. Large-growth stock funds, which generally invest in companies with strong earnings growth profiles, returned an average of 38.3% in 2020. In stark contrast, large-value stocks finished the year up about 2.9%.

As the chart above shows, one notable performance disparity during 2020 was the return differential between growth and value equities. Large-growth stock funds, which generally invest in companies with strong earnings growth profiles, returned an average of 38.3% in 2020. In stark contrast, large-value stocks finished the year up about 2.9%. The 35 percentage point performance differential exceeded the gap registered in 1999, when growth beat value by 31 percentage points.

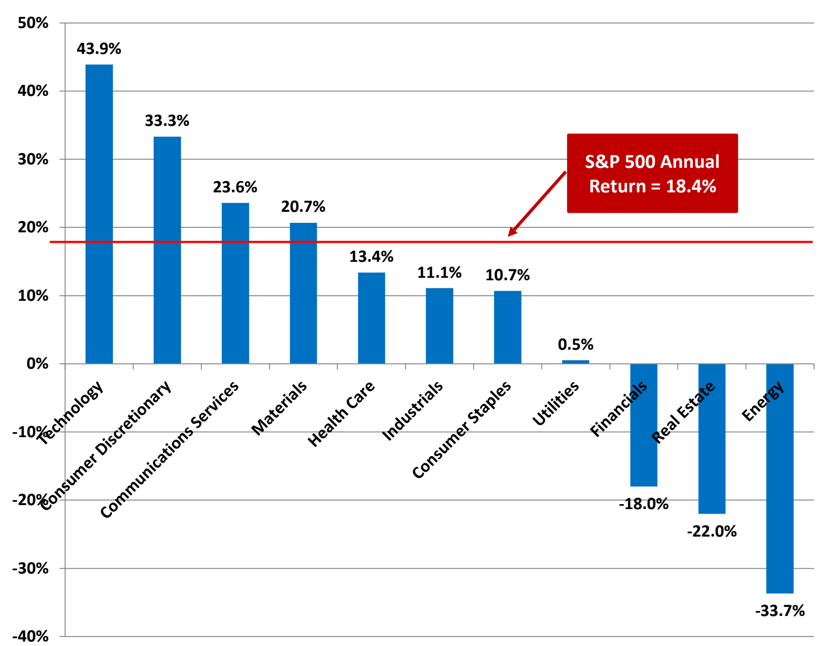
The divergence was most extreme in March, with the average large-growth fund losing 11.3% compared with the average large-value fund losing 16.8%.

Sector Performance Varied Widely in 2020

The Information Technology sector held on to its leadership position for the second straight year, finishing 2020 up 43.9%. Many of the companies within the Technology sector experienced accelerating growth metrics as they benefited from the abrupt shift to a "stay-at-home/work-from-home" economy.

Sector performance during 2020 also experienced a wide dispersion of returns. The Information Technology sector held on to its leadership position for the second straight year, finishing 2020 up 43.9%. Many of the companies within the Technology sector experienced accelerating growth metrics as they benefited from the abrupt shift to a "stay-at-home/work-from-home" economy. The top performing FAANG members included Amazon (76%), Apple (81%), and Netflix (66%), while other large-cap Tech stocks such as Nvidia (121%), Paypal (115%), and AMD (100%) also generated solid returns and reached new all-time highs.

Figure 2: S&P 500 Sector Performance
Source: Bloomberg



Similar to the technology sector, many of consumer discretionary companies benefited from the "stay-at-home" economy, as consumers choose to spend money on things such as home furnishings and workout equipment.

The consumer discretionary (+33.3%) and the communication services (+23.6%) sectors also performed well, with the consumer discretionary sector experiencing the biggest bounce off of its low versus the other sectors. Similar to the technology sector, many of consumer discretionary companies benefited from the "stay-at-home" economy, as consumers choose to spend money on things such as home furnishings and workout equipment. Some of the more notable consumer discretionary winners for the year included: Tesla (TSLA: +743%), Peloton (PTON: +434%) and Wayfair (W: +150%).

Retailers in general closed a difficult 2020 with a glimmer of hope as the holiday shopping season turned out better than expected. Sales in November and December jumped 8.3% versus the same period a year earlier, according to the National Retail Federation. That was far above the group's prior forecast for a gain of 3.6% to 5.2%. Additionally, according to Bloomberg Economics, the existing proposal of a new round of $600 stimulus checks could lead to a boost of about $20 billion in retail spending early this year, driving retailers' January sales and 4Q results.

Sectors that lagged the index, such as Financials, Real Estate and Energy, tended to be more closely tied to more traditional, physical economic activity and be more dependent on the general level of employment. For example, Energy was the worst performing sector, finishing down 33.7% for the year. Brent crude oil prices traded within a wide range during 2020. After averaging $64/b in January 2020, Brent prices fell to an average of $18/barrel in April, the lowest monthly average price in real terms since February 1999. The low prices were the result of significant declines in oil consumption that caused a sharp rise in global oil inventories. However, Brent prices increased through much of the rest of 2020 because rising oil demand and reduced production caused global oil inventories to fall. Brent prices rose to a monthly average of $50/barrel in December in part because of expectations of future economic recovery based on continued news about the viability of multiple Covid-19 vaccines. In early January 2021, Brent prices reached their highest levels in 10 months after Saudi Arabia announced a one-month unilateral cut to its crude oil production for February.

The U.S. Energy Information Administration (EIA) is currently forecasting Brent crude oil prices will average $53/barrel in both 2021 and 2022. Saudi Arabia's unilateral cut means global oil market balances will be tighter in early 2021 than EIA had previously expected. EIA expects global oil inventories will fall by 2.3 million barrels/day in the first quarter of 2021, which is expected to help support Brent prices averaging $56/barrel.

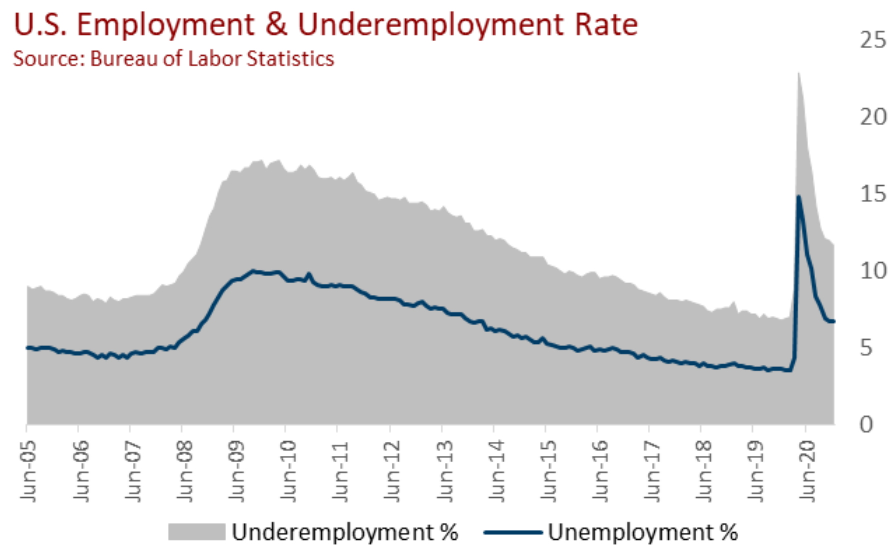
2021 Macro Outlook

Economists expect the U.S. economy will contract 3.5% in 2020, and then expand 4.1% in 2021 and 3.5% in 2022. Additionally, 34 of those respondents put the chance of a recession happening over the next 12 months at 20%.

According to a survey of 70 economists conducted by Bloomberg News from Jan. 8 to Jan. 14, they expect the U.S. economy will contract 3.5% in 2020, and then expand 4.1% in 2021 and 3.5% in 2022. Additionally, 34 of those respondents put the chance of a recession happening over the next 12 months at 20%. On a global basis, economists are forecasting similar rebound in worldwide economic activity, with 2020 GDP declining 3.7% before expanding 5.1% in 2021 and 3.8% in 2022.

Unemployment Rate Remains Elevated – But Improving

According to the U.S,. Bureau of Labor Statistics, the current U.S. unemployment rate was 6.7% in December 2020. The rate is close to double February's rate of 3.5%, before the impact of the Covid-19 pandemic. A few months ago, the Fed had estimated the unemployment rate would decline to 5.5% in 2021. In December, the Fed revised down its ending 2021 unemployment rate forecast to 5.0%.



We believe that improving employment trends driven by a successful Covid vaccine rollout will likely result in improving labor markets in the back half of 2021, providing added support for economic growth.

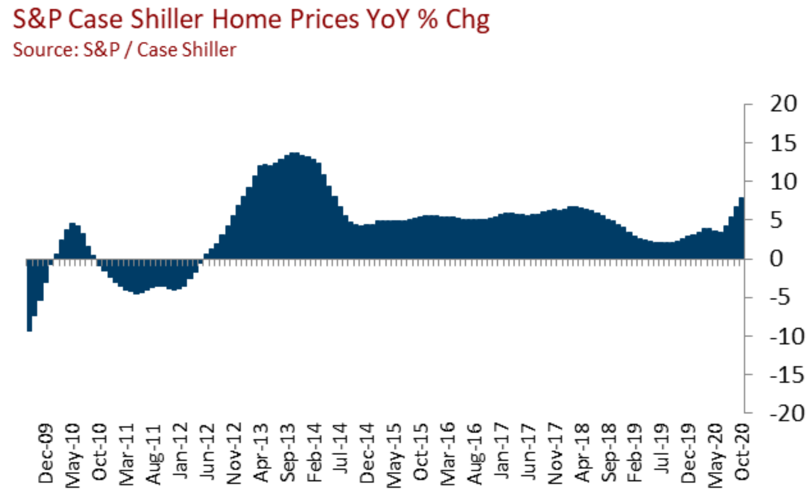
Those industry sectors experiencing the biggest rebound in employment included professional and business services, retail trade and construction. Overall, the number of unemployed is 10.7 million, which is 4.9 million higher than in February 1st. The ongoing job losses show the tremendous impact of the COVID-19 pandemic on the employment situation. We believe that improving employment trends driven by a successful Covid vaccine rollout will likely result in improving labor markets in the back half of 2021, providing added support for economic growth.

Home Prices Providing Something of a Bright Spot

The median price for all existing home types in November increased 14.6% yr/yr to $310,800, representing the 105th consecutive month of yr/yr gains. Seventy-three percent of homes sold in November were on the market for less than a month, with properties typically remaining on the market for 21 days (an all-time low) versus 38 days in the same month a year ago.

The S&P CoreLogic Case-Shiller U.S. National Home Price Index, covering all nine U.S. census divisions, reported an 8.4% annual gain in October, up from 7.0% in the previous month. The 10-City Composite annual increase came in at 7.5%, up from 6.2% in the previous month. The 20-City Composite posted a 7.9% year-over-year gain, up from 6.6% in the previous month.

Furthermore, according to the National Association of Realtors, the median price for all existing home types in November increased 14.6% yr/yr to $310,800, representing the 105th consecutive month of yr/yr gains. Seventy-three percent of homes sold in November were on the market for less than a month, with properties typically remaining on the market for 21 days (an all-time low) versus 38 days in the same month a year ago.



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We believe that home prices and portfolio values may help provide some added consumer confidence as we move into 2021.

Increasing home prices and higher investment portfolio values could have a positive impact on consumer sentiment and willingness to spend in the future. The wealth effect is a behavioral economic theory suggesting that people spend more as the value of their assets rise. The idea is that consumers feel more financially secure and confident about their wealth when their homes or investment portfolios increase in value. Consequently, we believe that home prices and portfolio values may help provide some added consumer confidence as we move into 2021.

Continued Fiscal Stimulus and Monetary Support

Earlier this month, Biden announced his plans for $1.9 trillion stimulus package. However, it appeared to contain few market-moving surprises. Some of Biden's proposals included: 1) direct payments of $1,400 to most Americans, bringing the total relief to $2,000, including December's $600 payments, 2) increasing the federal, per-week unemployment benefit to $400 and extending it through the end of September, and 3) increasing the federal minimum wage to $15 per hour. With Democrats set to effectively control the White House and Congress, economists are betting that another significant jolt of fiscal support will boost economic growth this year.

In response, analysts at Goldman Sachs raised their U.S. growth forecast for the second time this month on expectations that President-elect Joe Biden's fiscal stimulus plan will hasten the economy's recovery from the COVID-19 pandemic. Goldman Sachs analysts now expect economic growth of 6.6% in 2021, compared with a previous forecast of 6.4%, according to a report published on Saturday. It also raised forecasts for how much stimulus the new administration will be able to push through Congress in the near-term, to $1.1 trillion from $750 billion.

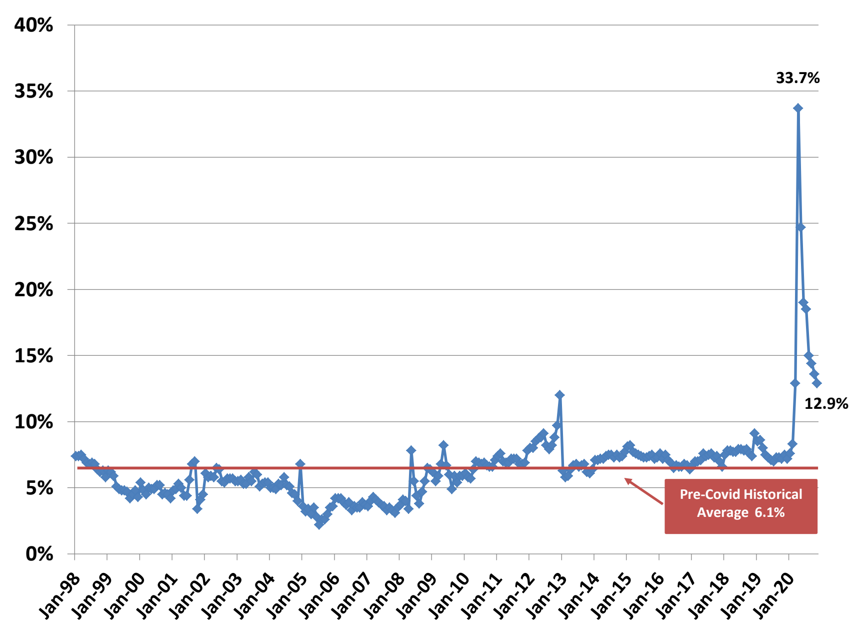
U.S. Savings Rate is at a Historically High Level

Recall that consumer spending accounts for between 60%-70% of GDP. Consequently, we believe that as we emerge from a "stay-at-home" economy, consumers will have sufficient financial resources for consumption, potentially adding support for an economic recovery in the back half of 2021.

The U.S. personal savings rate, the percentage of people's income remaining each month after taxes and spending, has declined form its record high of 33.7% in April, to it's current level of 12.9% in November, according to the U.S. Bureau of Economic Analysis. At the same time, consumer spending significantly declined as the economy slowed down and unemployment rose. Recall that consumer spending accounts for between 60%-70% of GDP. Consequently, we believe that as we emerge from a "stay-at-home" economy, consumers will have sufficient financial resources for consumption, potentially adding support for an economic recovery in the back half of 2021.

Figure 3: U.S Savings Rate

Source: U.S. Bureau of Economic Analysis, Personal Saving Rate [PSAVERT], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PSAVERT, January 8, 2021



Lessons (Re)Learned in 2020

It's important to have a disciplined and repeatable investment process and diversified portfolio.

This year was a challenging year for most of us on many levels. With "20/20" hindsight, there are several key lessons with regard to financial markets that we should keep in mind and, hopefully' will make us all better investors in the future. Some of those include:

1. It is vital to say calm when the markets seem to be panicking;
2. It's important to have a disciplined and repeatable investment process and diversified portfolio;
3. Sometimes, selectively doing nothing may be a prudent strategy;
4. Markets are forward-looking;
5. You're probably more risk averse than you realized;
6. You can't time the market;
7. Don't fight the Fed.

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Precious metal investing involves greater fluctuation and potential for losses.

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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.

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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.

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