Q4 MARKET INSIGHTS

Winter 2020

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2020 – SURPRISINGLY STRONG RESULTS DESPITE TUMULT

If asked to describe 2020 in a single word, one could argue that "tumultuous" fits the bill. In addition to sending daily life into a tailspin, COVID-19 had a similar impact on the financial markets, taking investors on a wild ride. The economic and earnings per share recessions, while short lived, were deep. Earlier in the year, equities exhibited an adverse reaction to the pandemic, collapsing 34% from the February 19th highs. Extremely aggressive monetary and fiscal policy responses helped fill the void until the development of a vaccine powered the S&P 500® Index to all-time highs at year-end. For 2020, the S&P 500 rose 18.4% (and was up 12.1% for the fourth quarter). Looking internationally, foreign developed markets saw positive returns in the fourth quarter thanks to the combination of the European Central Bank increasing its pandemic-related quantitative easing ("QE") program, Brexit clarity, and general optimism that vaccine distribution would result in a future rebound in global economic growth. Emerging markets outperformed both foreign developed markets and the S&P 500 in the fourth quarter thanks to a substantially weaker U.S. dollar along with an improving outlook for the global economy. For the full year 2020, foreign developed markets, represented by the MSCI EAFE Index, registered a solid 8.3% return (up 16.1% in 4Q20), while emerging markets, as represented by the MSCI Emerging Markets Index, were up 18.7% (up 19.8% in 4Q20). Switching to fixed income markets, total returns for most bond classes were positive in the fourth quarter and the leading benchmark for bonds, the Bloomberg Barclays U.S. Aggregate Bond Index, finished the year up 7.51% (up 0.67% in 4Q20). Looking deeper into the fixed income markets, longer-duration bonds underperformed those with shorter durations in the fourth quarter, which was a reversal from most of 2020. That was reflective of a market responding to the Federal Reserve's (the "Fed") promise of low rates, potentially for years to come.

As we begin a new year, we are pleased to say that, from a macroeconomic standpoint, the outlook for 2021 is materially more positive than it was for the majority of 2020. Despite the increasing number of new COVID-19 cases and the growing intensity of lockdown measures in certain parts of the U.S. in an effort to slow the spread of the virus, the rollout of both Pfizer and Moderna's vaccines should help us return to some form of normalcy later this year. Economists from Goldman Sachs and Citigroup expect U.S. gross domestic product ("GDP") to grow approximately 5% in 2021 with most of the growth coming in the first half of the year. In the second half of 2021 and beyond, growth is expected to slow to previous levels of roughly 2%. In addition, the Fed is continuing its historic QE program and has indicated that it will keep rates low for years to come. That should continue to help to support asset markets broadly. Meanwhile, Congress has finally agreed on another historically significant fiscal stimulus bill which will help the economy weather the still ongoing COVID-19 pandemic and related economic lockdowns. Looking ahead, we believe we will likely see additional fiscal stimulus from Congress. Unemployment remains historically high (still well above levels we saw at the depths of the Great Recession) and while many of those unemployed workers should return to work once the pandemic begins to recede, it is unclear how many small businesses will have survived to hire them back. As such, we will likely see additional help given to those people. Finally, corporate America has once again demonstrated itself to be both resourceful and resilient, and while some industries (airlines, cruise lines, hotels) face a long road to total recovery, some American companies have exited 2020 in stronger competitive positions as a result of the pandemic (online advertising & search, social media & communications, videoconferencing & streaming, cloud computing, e-commerce and digital payments). Therefore, we believe the fundamentals generally remain supportive for stocks as we start 2021.

> **"Corporate America has once again demonstrated itself to be both resourceful and resilient."**

DIGGING THE HOLE DEEPER

While accommodative Fed policies and fiscal stimulus will continue to be supportive for equity markets, we believe investors need to be aware of the possible negative consequences of these actions. Over the past 12 months, the U.S. budget deficit has increased meaningfully due to the costs associated with fighting the pandemic. High debt levels, in the U.S. (and abroad), were already a challenge before the onset of COVID-19. But before we dig into the details as to why we need to be cognizant of ballooning federal debt and budget deficits, and their implications for investors, let's take a look at how the U.S. government manages its finances. Every fiscal year the members of Congress put together the federal budget, which is a plan for revenues and expenditures. When a family or business develops a budget, the goal is usually for revenues to exceed expenditures (a surplus). In the case of the U.S. government, the result is often a deficit. Lawmakers have very little wiggle room to reduce expenditures. Although cutting federal spending to help balance the budget is frequently a matter of intense debate, the fact is only about one-quarter of government expenditures are discretionary - meaning they can be easily reduced. These discretionary items comprise spending that lawmakers control through annual appropriation acts and can be broken down somewhat evenly between defense and non-defense expenditures. The bulk of government spending is actually considered mandatory, which includes Social Security, Medicare, Medicaid, Welfare, and interest expenses. The term "mandatory" is somewhat of a misnomer, as these "entitlement" expenditures can, in fact, be reduced, but doing so would be extraordinarily difficult and extremely unpopular. If we take a look at spending from a historical perspective, the government spent 4.5% of GDP on mandatory expenses in 1966; this year, that figure skyrocketed to 22.4% due to pandemic spending (up from 12.7% in 2019). In 2021, the Congressional Budget Office (the "CBO") projects that mandatory spending will represent 15.2% of GDP. The significant increase in mandatory expense outlays over time presents the possibility that the government may lack fiscal flexibility when it comes to dealing with future economic challenges. Legislators seem more willing to increase deficit spending in both good and bad economic environments. Lawmakers chose to decrease tax revenue in 2017 during a relatively healthy economy. More recently, spending was substantially increased in response to a steep decline in economic output due to the pandemic. Some level of deficit spending is likely sustainable, but as the population ages, a greater burden will likely be placed on the government budget and resources - resources which may have otherwise supported economic growth to support increased costs for social programs.

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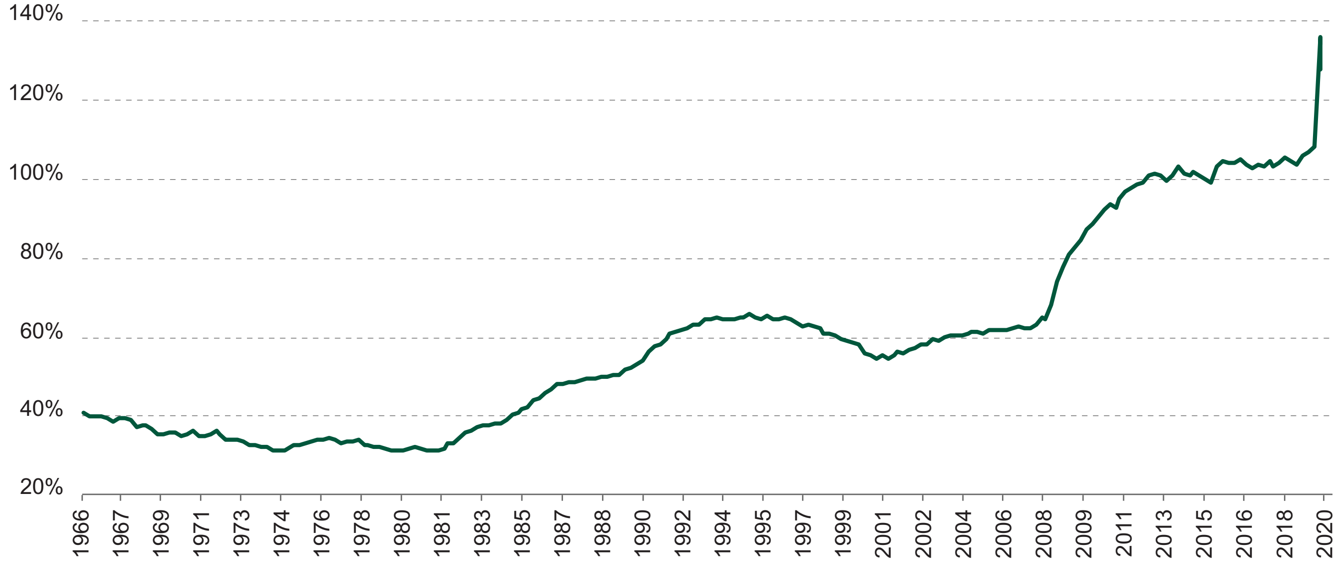
INFLATION CONCERNS

Please note that we are not saying that a debt crisis is imminent here in the U.S., however, in our opinion the current trend in debt growth is unsustainable. At some point, we run the risk that America's lenders (those that buy U.S. Treasuries) will require higher interest rates due to the higher levels of debt. This, in turn, would increase borrowing costs and therefore widen the budget deficit even further. An increasing debt level would also restrict policymakers' ability to respond to unexpected events, as lawmakers may have less flexibility to respond to the economic impact of future shocks. Based upon the most recent available data, total U.S. federal government debt outstanding relative to GDP stands at 127% (see following chart for perspective). In an effort to put the federal budget on a sustainable long-term path and reduce the debt outstanding, lawmakers have a few options. They can cut spending, but given the federal budget's makeup, a significant portion of any cuts would likely need to come from popular social programs, which would be politically challenging (especially given a politician's incentive to be popular and electable). They can raise taxes, which is also unpopular, but in our opinion is somewhat likely. That being said, the amount by which they raise taxes is unlikely to be able to fill the gap needed to bring the debt more in line. Arguably the best way to reduce debt-to-GDP is to grow GDP, but based on estimates (2% long-term growth as mentioned previously), it does not seem like we will be able to sustain a growth rate in excess of mandatory spending increases due to our aging population. That leaves only two other options. Default or inflation. We believe it is highly unlikely that the U.S. government would

U.S. Federal Debt-to-GDP

1966-2020 (Quarterly Seasonally Adjusted)



Source: Bloomberg

default on its debts, as this would have serious consequences. Inflation, on the other hand, is much more tolerable as the debt outstanding gets paid off with cheaper dollars. Where does the inflation come from? Currently, the excess debt issued by the U.S. Treasury to make up the budget deficit is being purchased by the Fed. In order to do this, the Fed creates U.S. Dollars (often referred to as "money printing") to purchase the debt issued by the U.S. Treasury. This increases the money supply in the U.S., which could ultimately lead to inflation (as more U.S. dollars are available to purchase the same amount of goods and services). While inflation is good for debtors, it is not good for savers as it erodes the value of their savings. Currently, we do not believe we will see runaway inflation here in the U.S., however, we believe the market is underpricing longer-term inflationary risks, especially if we see additional rounds of fiscal stimulus from Congress. Therefore, we think investors can help protect their purchasing power by having an allocation to real assets, precious metals, bitcoin and other alternatives (when appropriate) in their portfolios.

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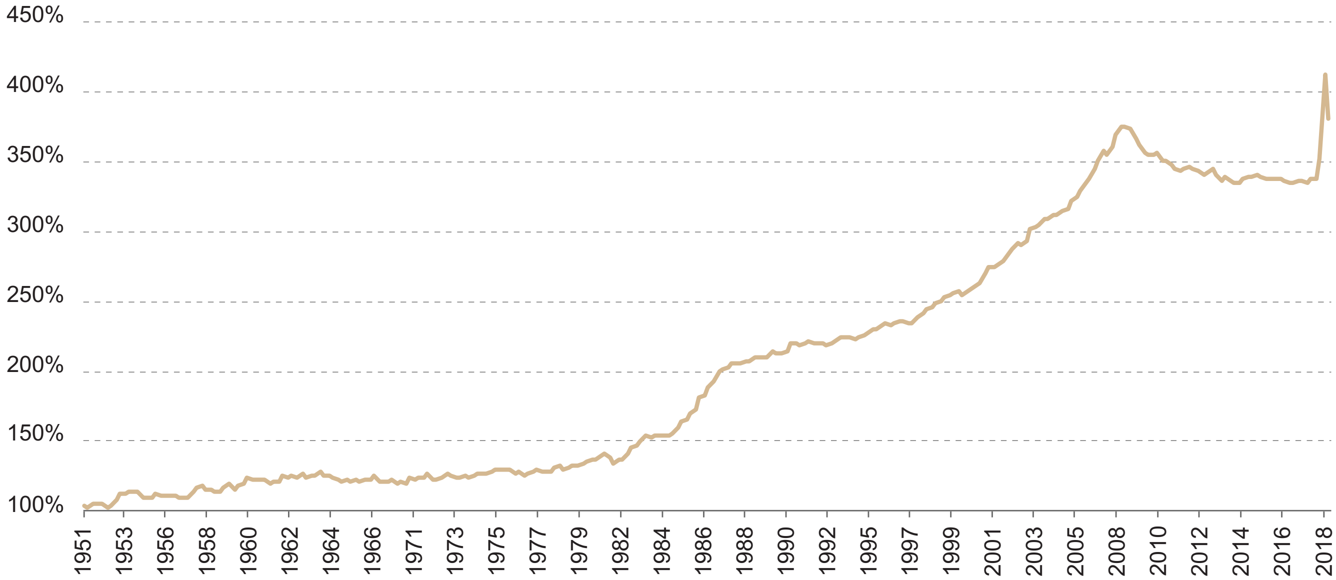
The prospect of inflation should put upward pressure on interest rates, creating a challenging environment for fixed income. However, we believe the Fed will not allow interest rates to increase substantially. Apart from the U.S. federal government debt, which again is at 127% of GDP, total U.S. credit market debt outstanding (which includes household debt, corporate debt, local and state government debt, as well as federal government debt) stands at 386% of GDP (see chart on the next page). Given the historically high level of debt outstanding, the Fed cannot allow rates to increase meaningfully or there may be issues in the debt markets (i.e. higher risk of defaults due to higher borrowing costs). This is why the Fed is committed to keeping rates low, and has explicitly stated that they would allow inflation to rise above its 2% target. While we do not anticipate rates rising considerably, which would cause bond prices to fall, we see very little room for price appreciation in fixed income given that current rates are so low. With low rates, and the increasing risk of inflation possibly reducing inflation adjusted returns, we expect to see below-average returns for fixed income in the coming year. In our opinion, allocations to fixed income still offer diversification in the event of a downside shock to markets (i.e. increased lockdowns as a result of worsening outbreaks) and should remain part of a client's portfolio when warranted.

Meanwhile, the accommodative policy stance is likely to reduce support for the U.S. dollar. This should continue to prove beneficial for emerging market equities. Emerging market equities outperformed U.S. equities as the value of

U.S. Total Credit Market Debt-to-GDP

1951-3Q 2020 (Quarterly)



Source: Federal Reserve Bank of St. Louis

the U.S. dollar weakened during the fourth quarter. But that was not the only reason for the outperformance. Emerging market equities offer better relative valuations (lower price/earnings ratios) and earnings growth rates when compared to all other regions of the globe. Specifically, we believe many Asian equity markets, especially those countries that have had success keeping the virus contained will continue to do well in 2021.

> "Those countries that have had success keeping the virus contained will continue to do well in 2021."

BITCOIN BOOM

Back in 2017, we highlighted bitcoin in one of our quarterly updates. At that time we were unenthusiastic about the prospects of investing in bitcoin, mainly due to concerns surrounding security (as several stories had been circulating about bitcoin being stolen from online marketplaces). Since that time, there have been advances in security as well as increasing levels of adoption that have us more comfortable with owning bitcoin in some client portfolios. For those of you who are not familiar with bitcoin, or need a refresher, bitcoin is a decentralized digital asset that can be used as a medium of exchange on the internet. One simple way to think of it is as the "internet's currency," much like the U.S. has the Dollar, Europe has the Euro, and Russia has the Ruble. While it can be used as a currency in transactions, bitcoin is also a store of value, like gold, because it has a scarcity value due to the fact that there are a finite number of "coins" that can ever be in existence (21 million in total). Given the prospects for inflation, we believe an allocation to bitcoin makes sense where appropriate. In addition, since bitcoin is uncorrelated to both equities and bonds, it acts as a diversifier in portfolios. In a 2019 study performed by Galaxy Fund Management, a leader in digital asset investing, Galaxy examined the hypothetical impact of adding bitcoin to a "traditional" portfolio of 60% equities and 40% fixed income. What the study found was that, if a small allocation to bitcoin had been added to a portfolio, it both increased the overall expected return and improved the portfolio's risk-adjusted returns over time despite its high volatility. These results and their impact to a portfolio may not be the same for all investors due to timing and market conditions considered.

> "Advances in security as well as increasing levels of adoption have us more comfortable with owning bitcoin."

IN CLOSING

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Imagine being told at the beginning of 2020 that the world was about to be hit by a global pandemic that would lead to massive government-imposed shutdowns of business activity everywhere. Also imagine being told that we were going into a sudden (and sharp) recession which would see the largest single-quarter decline in economic activity since the Great Depression. As an investor with that knowledge, what would you have done? Many investors sold stocks and ran for cover as stocks fell sharply; and yet, the S&P 500 was up 18.4% for the year. As we look back, it's important to note that pandemics like this are not a normal part of the business cycle and are therefore almost impossible to plan for and even harder to try and time. The COVID-19 pandemic is a stark reminder that an unexpected event can happen at any time, and that having an appropriate asset allocation based on your financial situation is critical so that your portfolio can withstand the volatility caused by such unforeseen events. Therefore it is critical to create an investment plan that you are comfortable with to fit your needs and risk tolerance that can withstand market surprises and related bouts of volatility, including the worst pandemic in over 100 years.

We thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you successfully navigate this challenging market environment.

Here's to a safe, healthy and better year in 2021!

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Past performance is no indication of future results. All performance data is as of 12/31/2020 unless otherwise stated. Diversifica¬tion does not ensure a profit or guarantee against loss. An investment cannot be made directly in an index. As with all investments, there are associated inherent risks, including loss of principal.

Sector investments concentrate in a particular industry and the investments' performance could depend heavily on the performance of that industry and be more volatile than the performance of less concentrated investment options and the market as a whole. Foreign markets, particularly emerging markets, can be more volatile than U.S. markets due to increased political, regulatory, social or economic uncertainties. Fixed Income investments include risks such as exposure to interest rate fluctuation, credit changes and inflation. Positions held in cash are subject to inflation risk.

Bitcoin is not appropriate for all investors. Not all cryptocurrency investments invest solely in bitcoin and unless you invest directly in bitcoin there will likely be a premium charged or other fees. Be sure to fully understand bitcoin, to ensure it is an appropriate investment for you, as well as any additional fees that would be incurred.

Definitions:

S&P 500® Index is a registered trademark of Standard & Poor's Financial Ser¬vices LLC, a division of S&P Global ("S&P"). S&P 500 Index is an unmanaged index used as a measurement of change in U.S. equity markets. Performance numbers for the index are total return with dividends reinvested in the index.

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The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East), excluding the US & Canada. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. With 913 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Indices are not managed and do not incur fees or expenses. Performance numbers for the index are total return with dividends reinvested in the index.

The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets (EM) countries*. With 838 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Performance numbers for the index are total return with dividends reinvested in the index.

The Bloomberg Barclays US Aggregate Bond Index provides a measure of the total return performance of the U.S. dollar denominated investment grade bond market, which includes investment grade government bonds, investment grade corpo¬rate bonds, mortgage pass through securities, commercial mortgage-backed securities and asset backed securities that are publicly for sale in the United States.

The price-earnings ratio (P/E) is the ratio of a company's share price to the company's earnings per share. The ratio is used for valuing companies and measures the price you are paying per unit of earnings.

Gross domestic product (GDP) is calculated by the Bureau of Economic Analysis that serves as a measure of total market value of the goods and services produced (output) in the U.S. GDP is the sum of consumer spending, investments made by industry, the excess of Exports over Imports and Government Spending.

Quantitative easing (QE) is defined as large scale purchases of securities, typically fixed income, by a monetary authority such as the Federal Reserve. In theory, the result is an increase in demand for those securities, putting upward pressure on their prices and pushing yields down. Quantitative easing allows a monetary authority the ability to influence longer duration securities, while traditional monetary tools can only directly influence shorter duration securities.

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