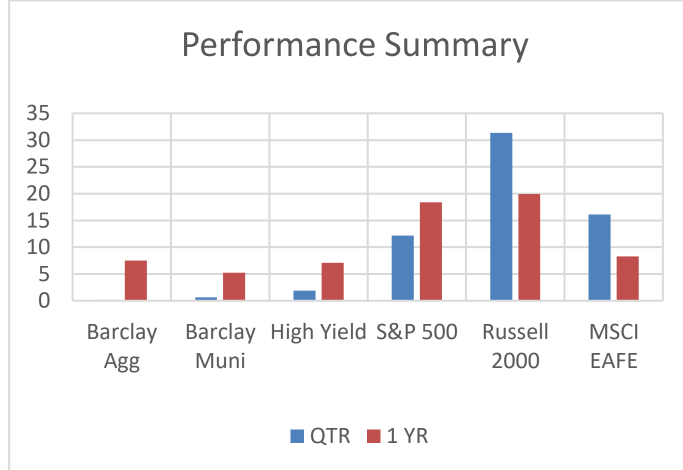

Global stocks ended 2020 on a strong note, rallying in December to cap a robust fourth quarter. Emerging market stocks generally outperformed developed market stocks for the quarter. While U.S. bonds delivered more modest gains for the month and quarter.

- Global stocks delivered widespread gains against a backdrop of improving economic data and the FDA's emergency-use authorization for two COVID-19 vaccines.
- The S&P 500 index ended December with its 33rd record close of the year. Despite significant volatility throughout the year, major U.S. stock indices (S&P 500, DJIA, Nasdaq) recorded more than 100 record closes in 2020.
- The U.S. economy continued to improve, with gains in manufacturing, employment, home prices and consumer confidence. However, retail sales tumbled in November amid a surge in COVID-19 cases.
- Rising coronavirus infections led to new lockdowns in the U.K. and parts of Europe. Nevertheless, most economic data generally improved, and European and U.K. stocks rallied.
- Despite rising U.S. Treasury yields, the broad U.S. bond market advanced in December and for the fourth quarter, largely due to strong performance from corporate bonds. Global bonds outperformed U.S. bonds.

Below we touch on several topics relevant to investors: the economy, how to position portfolios in 2021, potential risks and some random thoughts.

Economy in Perspective:

One of the most significant impacts of the COVID-19 crisis was the biggest "bust-to-boom" economic swing in the post-war era. **The global pandemic was a black swan event that caused the biggest quarterly drop in global GDP and increase in unemployment since the Great Depression.** This led to one of the fastest bear markets ever in stocks, a steep sell-off in credit markets, negative oil prices (remember that?) and volatility spikes greater than we saw during the global financial crisis of 2008. Despite this backdrop, consensus estimates are projecting a four-quarter U.S. real GDP surge of more than +10% by the second quarter of 2021. **Basically, the U.S. economy will have experienced a depression-like collapse followed by a war-time boom within 12 months! How could that happen?** According to the Leuthold Group, policy officials (monetary and fiscal) have delivered the most aggressive economic stimulus in U.S. history, evidenced by: The annual U.S. money supply is growing at 26%, quantitative easing ramped the Federal Reserve's balance sheet to $7.5 trillion, and the Fed funds rate is zero and likely to stay there for a while. Net federal spending of more than 16% of GDP has created the largest peace-time deficit ratio ever, and federal spending is likely to stay elevated in 2021. As we write, it looks like democrats will gain control of the senate, giving them control of all three branches of government and increasing the likelihood of even more fiscal spending. In addition, mortgage rates have been at record lows and the 10-year Treasury yield has been below 1%. **According to Leuthold, the combination of monetary and fiscal policy is more aggressive today than during WWI, the Great Depression, WWII and the 2008 Great Recession.** Historically, we need to remember that economic stimulus has a long lag time before it impacts the economy, suggesting that much of the benefit has yet to be felt. In fact, the research team at **PIMCO believes we are in an early cycle recovery for the global economy that should last a while and provide a strong tailwind for risk assets.**

Investor Positioning:

As we look ahead in 2021, our outlook is very similar to what we wrote at the end of the third quarter.

Value and cyclical stocks: the relative outperformance of value and cyclical started in the fourth quarter and should continue in 2021. A few reasons why: the relative valuation between growth and value stocks reached an unprecedented extreme and there is room for this gap to narrow; we expect a synchronized global economic and profit growth recovery to continue in 2021. According to Goldman Sachs, global economic growth should be up 6.5% and global profit around 35% in 2021. Combined with the historical stimulus and liquidity discussed above, this has created the ideal environment for value and cyclical stock outperformance. Usually, cycle rotations between growth and value can last for years, we will be watching closely.

Currencies: The U.S. dollar is likely to continue declining relative to other currencies. The main reasons for this are stronger global growth (the U.S. dollar is a counter-cyclical currency), rising deficits and increasing global competition from Asia.

Global asset allocation: longer term we expect stocks and alternative assets to handily outperform bonds. **We expect strong economic growth, monetary and fiscal stimulus, a weaker U.S. dollar and increasing vaccine distribution will cause investors to continue shifting from the "Pandemic trade" to the "reopening trade."** Value stocks should outperform growth, cyclicals to outperform defensives and foreign stocks to outperform U.S. stocks. We are overweight both international developed and emerging market stocks.

Bonds: interest rates should begin to modestly increase, favoring lower duration assets (less interest rate risk). We expect credit (investment grade, high-yield and emerging market bonds) to outperform high-quality U.S. Treasury bonds. As a hedge against inflation, TIPS make sense.

Commodities and alternatives: we expect commodities and alternative assets to continue outperforming bonds (and potentially stocks). Given the extremely low interest rates available on cash and bonds, exposure to this category makes a lot of sense.

Potential Risks:

As described above, our outlook for the global economy and financial markets are generally positive, but that does not mean we should ignore risk. **The risks listed below are not our base case assumptions and some of them are low probability events, however all are worthy of keeping an eye on: global growth disappoints- possibly from virus containment efforts or vaccine delays; an inflation surprise to the upside; interest rates "normalize" at much higher levels; US politics- partisan gridlock and fiscal paralysis; European politics and a reversion to austerity; US and China conflicts on trade and technology escalate; Middle East conflicts escalate; Equity bubbles burst (tech, alternative energy, SPACs); Cyber warfare escalates, etc.**

As always, the list of potential risks is long and if investors overly focus on them, they may never leave the house! To be clear, we are generally optimistic on financial markets, but believe investors will need to be properly positioned to participate.

Random Thoughts:

Long-term themes we like but did not mention above are: **BRAIN-** biotech, robotics, artificial intelligence and nanotech; digital transformations in healthcare and other industries; the rise of Asia; alternative energy (on selloffs!). The Fed is implementing financial repression (again) by growing its balance sheet, keep a close on the bond market. We are seeing 'bubble-like' activity in segments of the market, such as: select technology stocks; alternative energy stocks; Tesla; SPACs, Bitcoin, we would be cautious on these investments. We were deeply saddened by recent events in Washington; however, we are optimistic that the political climate will improve in the year ahead and we will see more bipartisan cooperation. Have a great 2021!

Asset Class		* ↔ Neutral weight ↓ Underweight ↑ Overweight
Equities	***View****	***Comments***
U.S. Large Cap	↓	We expect GDP to be strong in 2021, up close to 6%. This should help depressed earnings bounce back sharply and supporting the overall market. We suggest tilting portfolios towards value and cyclical stocks. We expect interest rates and inflation to drift higher which should benefit financials, materials, industrials and energy. We also expect a bounce back from companies that lagged in 2020. We would be cautious on areas showing some signs of bubble activity: internet, alternative energy and select technology.
U.S. Small/Mid Cap	↔↑	We are neutral to overweight on small/mid-cap stocks. We expect a strong economy to benefit small-cap stocks more than large-cap. Given the strong 4th quarter for small-caps we would look for a 'pause' before over-weighting.
International Developed	↑	Valuations are attractive relative to U.S. stocks. We like broad exposure to the foreign markets and would overweight dividend paying stocks in this low interest rate environment. Strong global growth and a weak dollar should be a tailwind.
Emerging Markets	↑	Valuations are very attractive for the long-term. Emerging markets tend to be volatile and are always susceptible to further selloffs, but in a global economic recovery with low rates, a declining US dollar, and ample liquidity they should outperform.

Fixed Income		
Investment Grade	↓	With the 10- year treasury yield near 1% and trending higher and inflation increasing, we are under-weight core bonds. We recommend keeping some exposure for disciplined risk management and diversification purposes.
High-Yield Bonds	↔↓	High yield bonds may continue to outperform core bonds as the economy recovers. However, investors should recognize valuations are high and risk may be more like stocks if the economy disappoints.
Municipal Bonds	↔	We are neutral to positive on municipal bonds relative to Treasury bonds and they remain attractive for high tax-bracket investors. Taxable municipal bonds are worth a look in tax-deferred accounts.
TIPS	↔	Inflation break-evens are low, and TIPs are a hedge for higher inflation. We are comfortable holding a position in tax-deferred accounts as a long-term hedge against inflation and would favor them over traditional treasury bonds.
Floating-Rate Loans	↔	Similar to HY bonds, FRLs are likely to outperform core bonds in a strong economy. However, in a weak economic environment there is substantial downside risk.
Emerging Markets	↔	This asset class can be volatile but also provides opportunity. Interest rates in many EM markets are higher than in the U.S.; we get some exposure thru our core bond managers and don't anticipate buying any direct positions.

Alternatives		
Absolute-Return/Alternatives	↑	We like this asset class and have raised our rating back to overweight given the strong rally in stocks and bonds. We like alternative funds as a way to hedge volatility and improve the risk vs reward in portfolios. Bonds are a source of funds.
REITs	↓	We remain underweight and think many REITs may be structurally impaired in the future as a result of shifts in work habits and technology growth caused by the virus.
Commodities/Gold	↑	We view commodities as an effective way for long-term investors to diversify their portfolios and hedge against higher inflation. Commodities have bounced nicely off the bottom and should continue to perform well as the economic recovery continues. Gold and silver have performed well as a hedge and small positions are reasonable in portfolios.

U.S. Stocks

Market Performance, Fourth Quarter 2020

Index	Q4 2020	1 YR
S&P 500	12.15%	18.40%
Russell 1000	13.69%	20.96%
Russell 1000 Value	16.25%	2.80%
Russell 1000 Growth	11.39%	38.49%
Russell Midcap	19.91%	17.10%
Russell 2000	31.37%	19.96%

Source: Morningstar

- The fourth quarter was 'Risk-on" across the board.
- Investors anticipated a stronger economy, helped by positive vaccine news and rotated into value and cyclical stocks. If the economy (and virus news) continues to improve in 2021 we expect the rotation into value and cyclical stocks to continue.
- Small-cap stocks led the way with extremely strong returns, up over 31%. The theme again was a strong economic recovery.

International Stocks

Market Performance, Fourth Quarter 2020

Index	Q4 2020	1 YR
MSCI EAFE	16.09%	8.28%
MCSI EME	19.77%	18.69%
MSCI BRIC	15.30%	17.89%

Source: Morningstar

- Foreign developed markets had very strong returns for the quarter and outperformed US large-cap stocks.
- Emerging market stocks outperformed as investors anticipated the strong economic recovery. A declining US Dollar contributed to foreign stocks outperforming across the board, led by emerging markets. We expect emerging markets, particularly value stocks, offer the best absolute return potential over the next 5 years.

Fixed Income

Market Performance, Fourth Quarter 2020

Index	Q4 2020	1 YR
Vanguard Total Bond Index	0.15%	7.61%
Barclays Muni Bond	0.61%	5.21%
Barclays US Corp High-Yield	1.88%	7.11%
JPM GBI- EM Global Diversified	3.48%	2.69%
iShares TIPS Bond	1.07%	10.91%
BofA Merrill Lynch 3-month Treasury Note	0.01%	0.69%

Source: Morningstar

- Core bonds were basically flat for the quarter. With interest rates and inflation likely to increase in 2021 we expect lower future returns and are underweight core bonds.
- High-yield bonds have rallied sharply, and we are neutral to underweight. In more aggressive accounts we think they have the potential to outperform as long as we avoid an economic downturn. If the economy slows down, there could be substantial downside to high-yield and floating rate bonds.

Alternative Assets

Market Performance, Fourth Quarter 2020

Strategies	Q4 2020	1 YR
PIMCO All Asset	12.15%	8.41%
AQR Diversified Arbitrage	13.28%	25.21%
JPMorgan Hedged Equity	5.04%	14.10%
Vanguard REIT	9.25%	(4.72%)
BNY Mellon Global Real Return	6.67%	9.74%

Source: Morningstar

- Alternatives performed well in the quarter and significantly outperformed bonds. We are selectively bullish on alternatives and believe they can add substantial value to portfolios in the current environment. We view bonds as a source of funds.
- We like alternative assets as a strategic way to reduce risk and increase absolute returns in portfolios. We plan to maintain a position in alternative assets unless we see a significant pullback in traditional assets. We expect alternatives to significantly outperform bonds over the full market cycle.

Appendix:

Benchmark Definitions

U.S. Equity		Description
S&P 500	Index	The index includes 500 leading US companies and captures approximately 80% coverage of available market capitalization.
Russell 1000	Index	The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe and includes approximately 1000 of the largest securities. The Russell 1000 represents approximately 92% of the U.S. market.
Russell 1000 Value	Index	The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.
Russell 1000 Growth	Index	The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
Russell Midcap	Index	The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.
Russell 2000	Index	The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.
International Equity		**Description**
MSCI EAFE	Index	The EAFE (Europe, Australasia, Far East) index consists of 21 developed market country indexes, excluding the US & Canada. It is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets.
MCSI EME	Index	The index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets and includes 23 emerging market countries in the index.
MSCI BRIC	Index	The index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the following four emerging market country indexes: Brazil, Russia, India and China.

Fixed Income		Description
Vanguard Total Bond Index	Index Fund	This index measures a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.
Barclays Aggregate Bond	Index	The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-through bonds), ABS, and CMBS sectors.
Barclays Muni Bond	Index	The U.S. Municipal Indices cover the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.
Barclays US Corp High-Yield	Index	The index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market and excludes Emerging Markets debt.
JPM GBI- EM Global Divers	Index	The index tracks returns for actively traded external debt instruments in emerging markets. Included in the index are US-dollar denominated Brady bonds, Eurobonds, and traded loans issued by sovereign entities.
iShares TIPS Bond	ETF	The iShares TIPS Bond ETF seeks to track the investment results of an index composed of inflation-protected U.S. Treasury bonds.
BofA Merrill Lynch 3-month Treasury Note	Index	The 3-month US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into a newly selected issue.
Alternative Assets		**Description**
PIMCO All Asset All Authority	Mutual Fund	The investment seeks maximum real return, consistent with preservation of real capital and prudent investment management. The primary benchmark for the fund is the S&P 500, with a secondary objective of Consumer Price Index +650 basis points.
AQR Diversified Arbitrage	Mutual Fund	The investment seeks long-term absolute (positive) returns. It invests in a diversified portfolio of instruments, including equities, convertible securities, debt securities, loans, warrants, options, other types of derivative instruments.
JPMorgan Hedged Equity	Mutual Fund	The investment seeks to capture the majority of the returns associated with equity market investments, while exposing investors to less risk than other equity investments. The fund invests in a broadly diversified portfolio of common stocks, while also selling index call options and purchasing index put options.

Alternative Assets		Description
Vanguard REIT	ETF	The investment seeks to provide a high level of income and moderate long-term capital appreciation by tracking the performance of a benchmark index that measures the performance of publicly traded equity REITs.
BNY Mellon Global Real Return	Mutual Fund	The fund allocates its investments among global equities, bonds and cash, and, generally to a lesser extent, other asset classes, including real estate, commodities, currencies and alternative or non-traditional asset classes and strategies, primarily those accessed through derivative instruments.