STATE OF THE MARKETS

CAPITAL
ASSET MANAGEMENT GROUP

THE FORMALITIES

SECURITIES LICENSED ASSOCIATES OF CAPITAL ASSET MANAGEMENT GROUP INC. AND THE INSTITUTE FOR FINANCIAL INDEPENDENCE ARE REGISTERED REPRESENTATIVES OFFERING SECURITIES THROUGH CAMBRIDGE INVESTMENT RESEARCH, INC. A BROKER/DEALER. MEMBER FINRA/SIPC. LICENSED ADMINISTRATIVE ASSOCIATES DO NOT OFFER SECURITIES. INVESTMENT ADVISORY LICENSED ASSOCIATES OF CAPITAL ASSET MANAGEMENT GROUP INC. AND THE INSTITUTE FOR FINANCIAL INDEPENDENCE ARE INVESTMENT ADVISOR REPRESENTATIVES OFFERING ADVISORY SERVICES THROUGH CAPITAL INVESTMENT ADVISORS, INC. A REGISTERED INVESTMENT ADVISOR. CAPITAL ASSET MANAGEMENT GROUP/CAPITAL INVESTMENT ADVISORS AND THE INSTITUTE FOR FINANCIAL INDEPENDENCE ARE SEPARATE AND UNRELATED COMPANIES FROM CAMBRIDGE.

The indexes mentioned in this seminar are unmanaged and not available for direct investment.

Past performance is no guarantee of future results.

Opinions, estimates, forecasts, and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. We believe the information contained in this commentary has been obtained from sources that are reliable. This presentation is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

Dr. David Kelly

Dr. David Kelly is the Chief Global Strategist and Head of the Global Market Insights Strategy Team for J.P. Morgan Asset Management.

With over 20 years of experience, David provides valuable insight and perspective on the economy and markets to the institutional investor and financial advisor global communities.

Throughout his career, David has developed a unique ability to explain complex economic and market issues in a language that financial professionals can use to communicate to their clients. He is a keynote speaker at many national investment conferences and a frequent guest on CNBC, Bloomberg, and other financial media outlets.

Prior to joining J.P. Morgan Asset Management, David served as Economic Advisor to Putnam Investments. He has also served as a senior strategist/economist at SPP Investment Management, Primark Decision Economics, Lehman Brothers and DRI/McGraw-Hill.

David is a CFA® charterholder. He also has a Ph.D and M.A. in Economics from Michigan State University and a B.A. in Economics from University College Dublin in the Republic of Ireland.

STATE OF THE MARKETS

QUESTIONS WELCOME

Please email questions to M.Trogdon@CapitalAMG.com

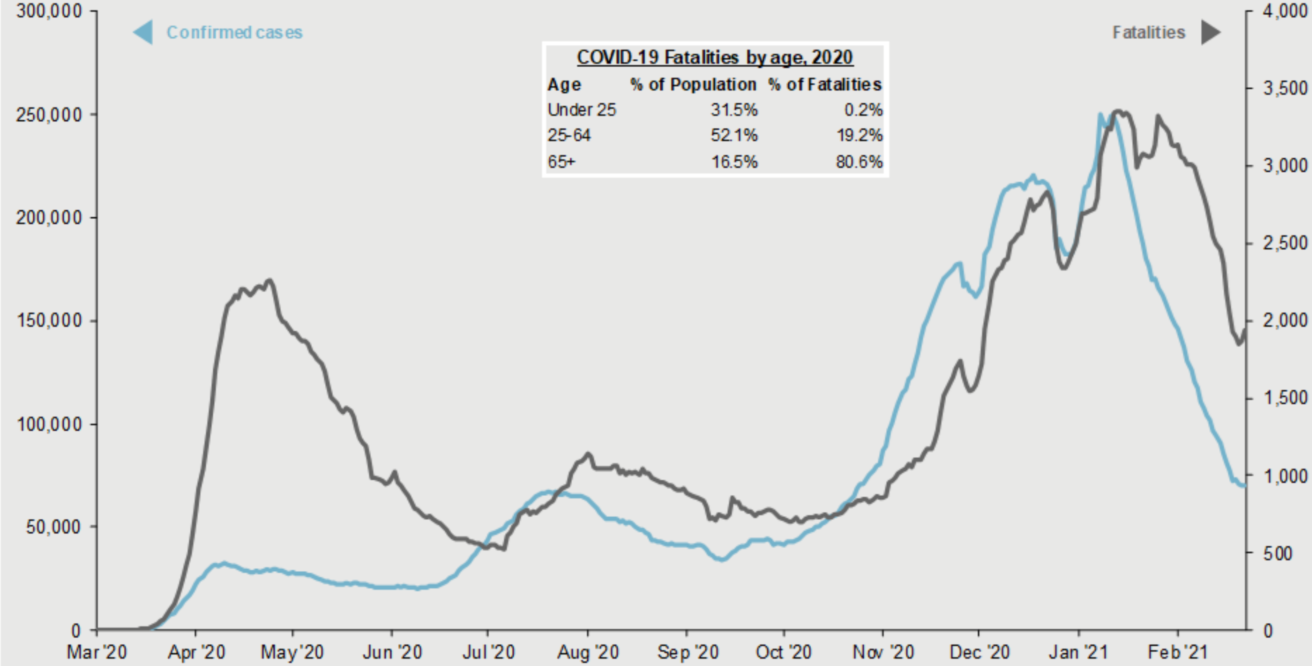
After the Storm: Investing in 2021 and Beyond

- **After a terrible toll, vaccines will end the pandemic in 2021.**
- GDP growth will surge in late 2021 and early 2022 before slowing as the economy approaches full employment.
- Fiscal and monetary policy will remain very easy in 2021 although higher interest rates and taxes are likely by the middle of the decade.
- Lofty valuations and the threat of inflation are the most obvious risks…but the greatest risks are usually unanticipated.
- Diversification should continue to manage risks and capture opportunities.

Vaccines should end the pandemic in 2021.

Change in confirmed cases and fatalities in the U.S.

7-day moving average, as of February 22, 2021



COVID-19 Fatalities by age, 2020

Age	% of Population	% of Fatalities
Under 25	31.5%	0.2%
25-64	52.1%	19.2%
65+	16.5%	80.6%

Source: Centers for Disease Control and Prevention, Johns Hopkins CSSE, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of February 22, 2021.

After the Storm: Investing in 2021 and Beyond

- After a terrible toll, vaccines will end the pandemic in 2021.
- **GDP growth will surge in late 2021 and early 2022 before slowing as the economy approaches full employment.**
- Fiscal and monetary policy will remain very easy in 2021 although higher interest rates and taxes are likely by the middle of the decade.
- Lofty valuations and the threat of inflation are the most obvious risks…but the greatest risks are usually unanticipated.
- Diversification should continue to manage risks and capture opportunities.

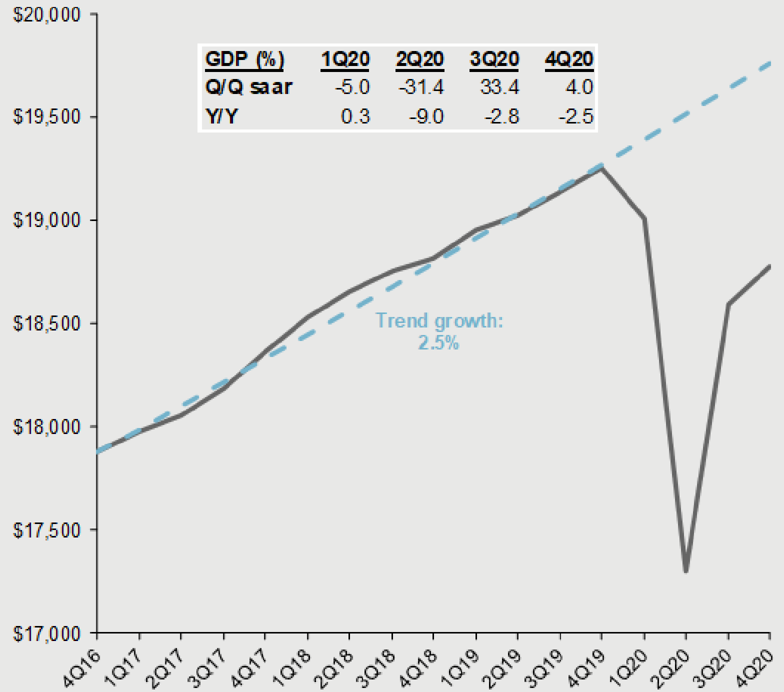
STATE OF THE MARKETS

The recovery will slow, accelerate and slow again by 2022.

Real GDP

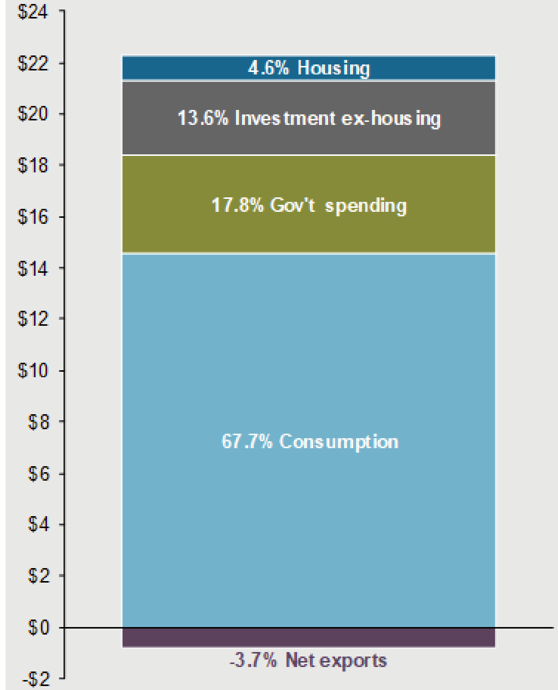
Billions of chained (2012) dollars, seasonally adjusted at annual rates

GDP (%)	1Q20	2Q20	3Q20	4Q20
Q/Q saar	-5.0	-31.4	33.4	4.0
Y/Y	0.3	-9.0	-2.8	-2.5



Components of GDP

4Q20 nominal GDP, USD trillions

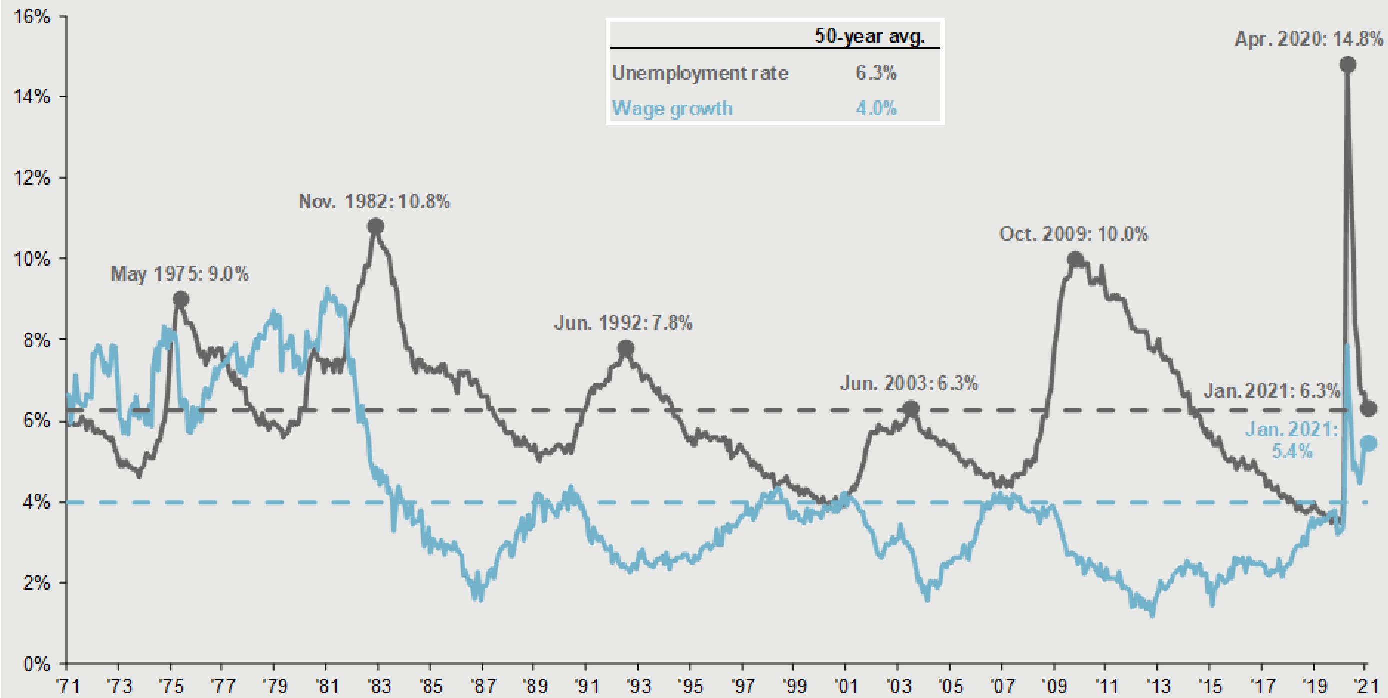


Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding.
Guide to the Markets – U.S. Data are as of February 22, 2021.

The U.S. should recover its pandemic job losses by late 2022 and the unemployment rate could hit 4% by late 2022.

Civilian unemployment rate and year-over-year wage growth for private production and non-supervisory workers

Seasonally adjusted, percent



Source: BLS, FactSet, J.P. Morgan Asset Management.

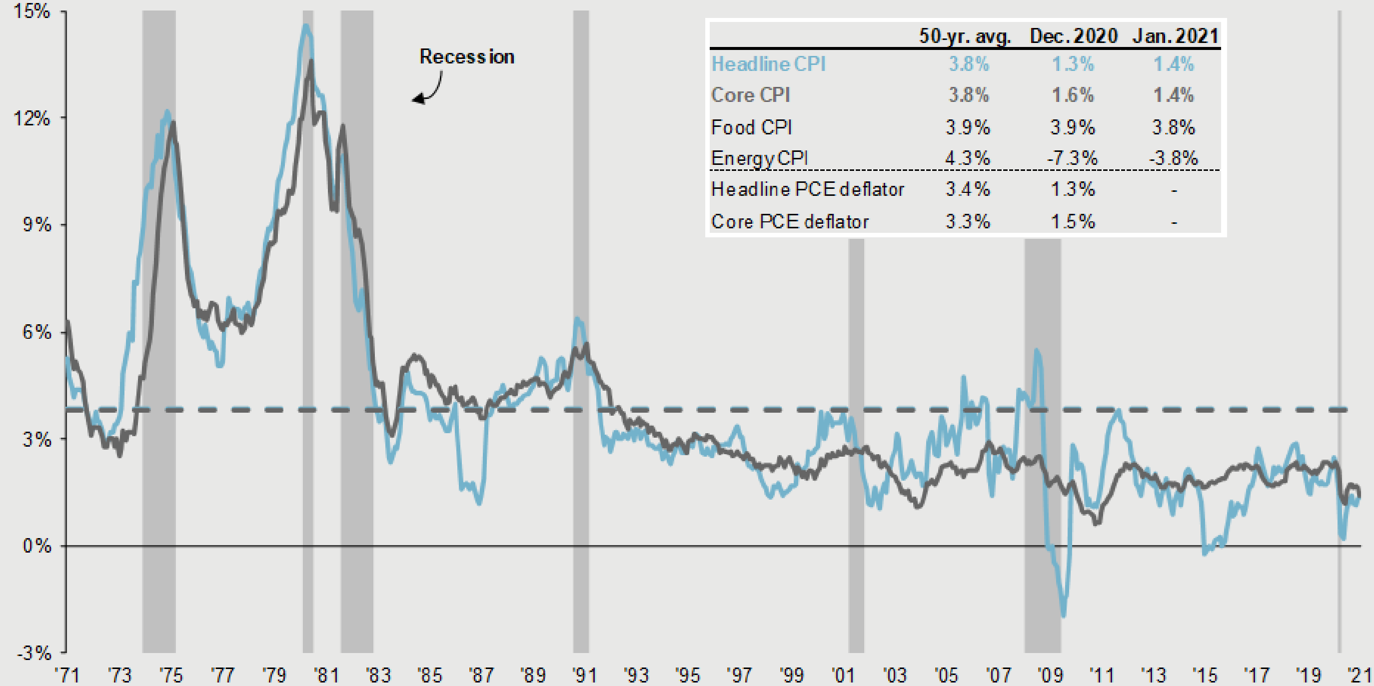
Guide to the Markets – U.S. Data are as of February 22, 2021.

STATE OF THE MARKETS

Inflation could reach 2% in April 2021 but then stabilize.

CPI and core CPI

% change vs. prior year, seasonally adjusted



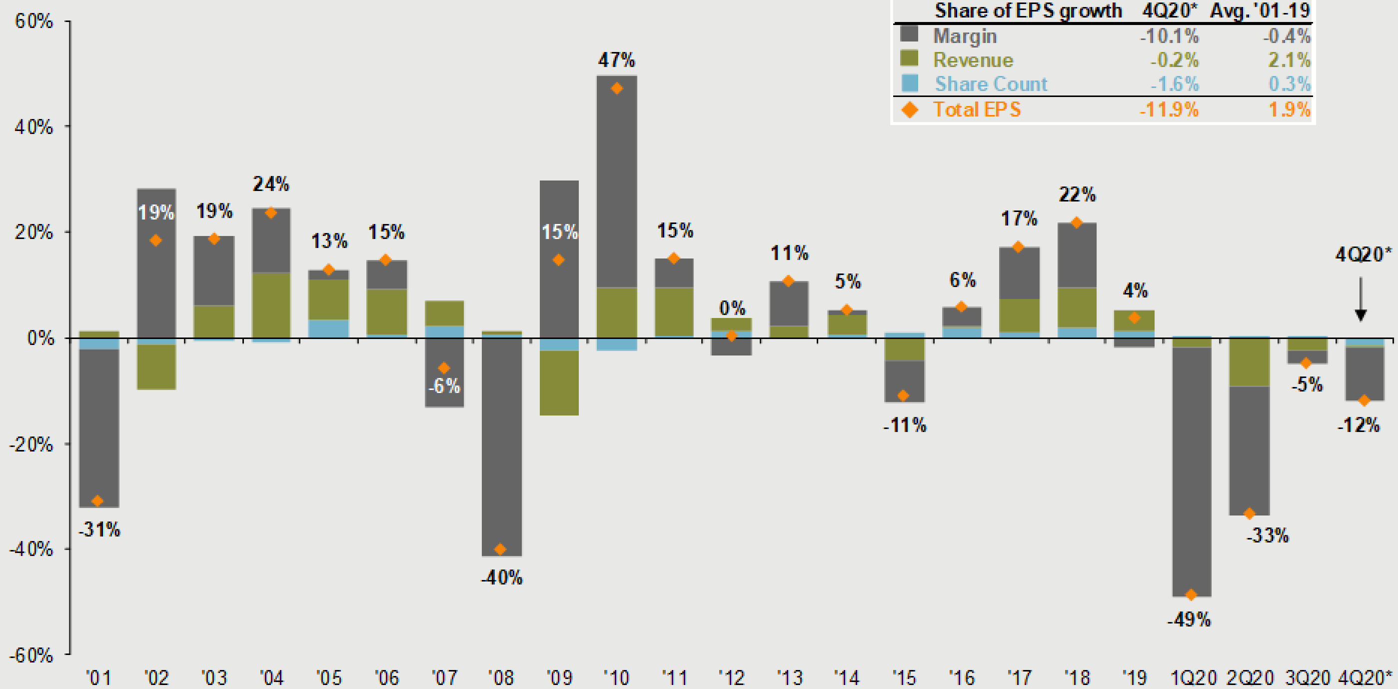
	50-yr. avg.	Dec. 2020	Jan. 2021
Headline CPI	3.8%	1.3%	1.4%
Core CPI	3.8%	1.6%	1.4%
Food CPI	3.9%	3.9%	3.8%
Energy CPI	4.3%	-7.3%	-3.8%
Headline PCE deflator	3.4%	1.3%	-
Core PCE deflator	3.3%	1.5%	-

Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.

Earnings held up well in 2020 and could hit a new high in 2021.

S&P 500 year-over-year operating EPS growth

Annual growth broken into revenue, changes in profit margin & changes in share count



Share of EPS growth	4Q20*	Avg. '01-19
Margin	-10.1%	-0.4%
Revenue	-0.2%	2.1%
Share Count	-1.6%	0.3%
Total EPS	-11.9%	1.9%

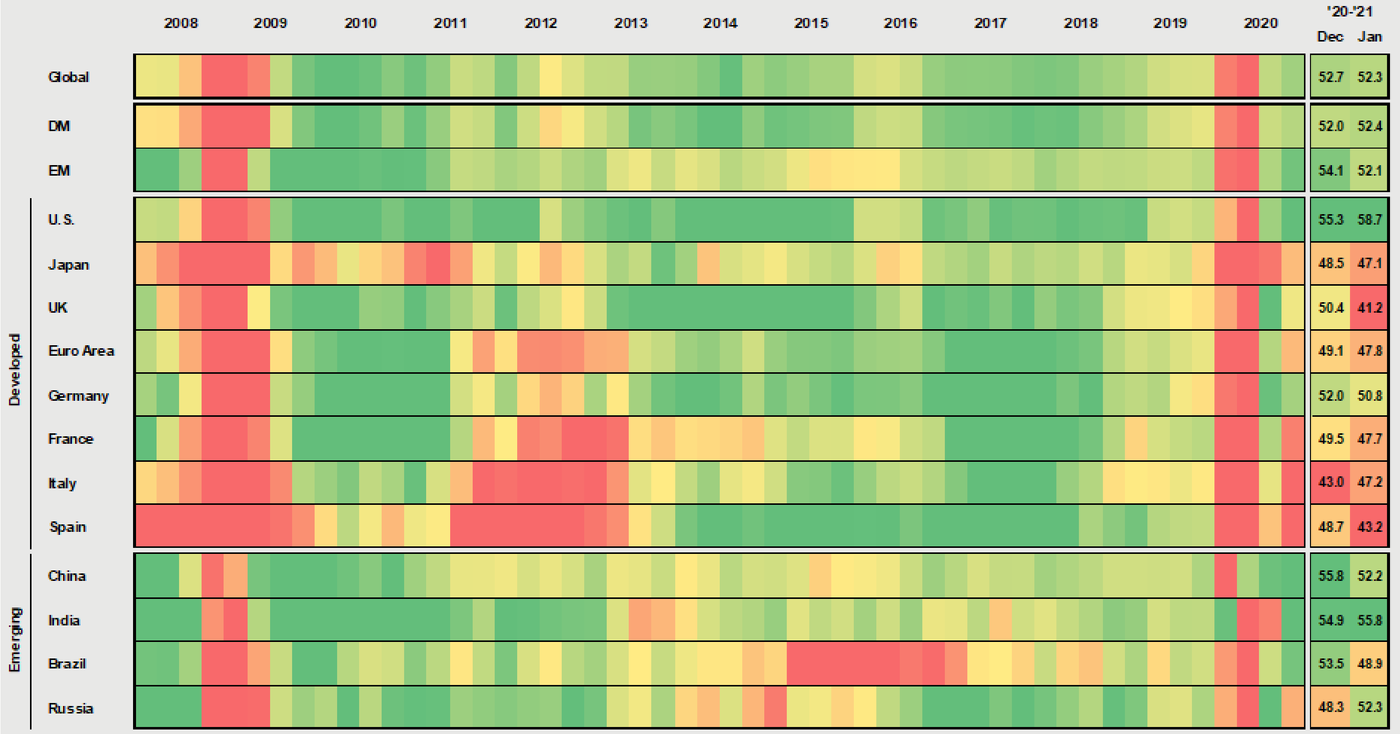
Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
EPS levels are based on annual operating earnings per share. Percentages may not sum due to rounding. Past performance is not indicative of future returns. *4Q20 earnings are calculated using actual earnings for 43.4% of S&P 500 market cap and earnings estimates for the remaining

Source: I/B/E/S Data from Refinitiv

STATE OF THE MARKETS

The world should see a synchronous recovery in 2021…

Global Composite Purchasing Managers' Index, quarterly



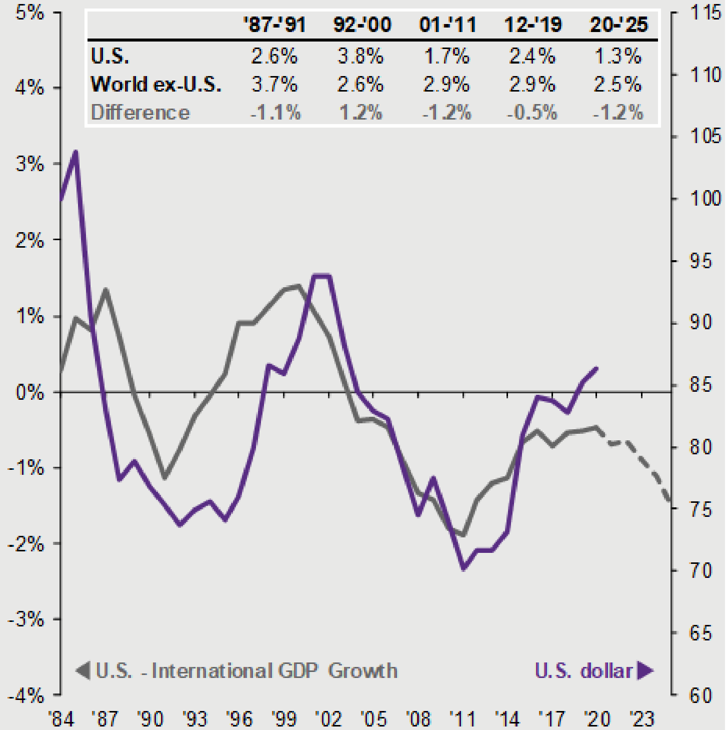
Source: Markit, J.P. Morgan Asset Management.
The Composite PMI includes both manufacturing and services subindices. Heatmap colors are based on PMI relative to the 50 level, which indicates acceleration or deceleration of the sector, for the time period shown. Heat map is based on quarterly averages, with the exception of the two most recent figures, which are single month readings. Data for the U.S. are back-tested and filled in from December 2007 to September 2009 due to lack

…and stronger overseas growth could push the dollar lower.

U.S. dollar and international GDP growth

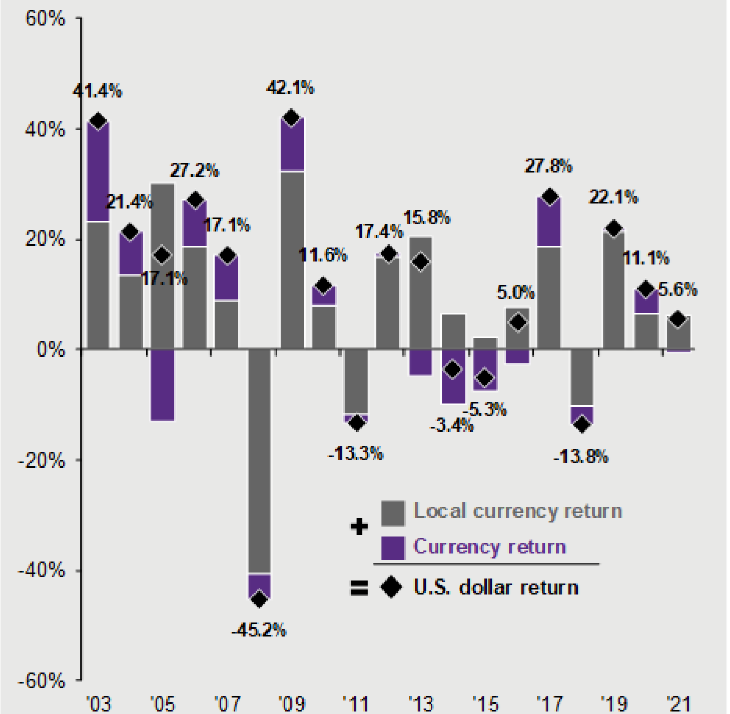
Real GDP growth: U.S.-intl. (5-year moving avg.); U.S. dollar: 100 = 1984

	'87-'91	92-'00	01-'11	12-'19	20-'25
U.S.	2.6%	3.8%	1.7%	2.4%	1.3%
World ex-U.S.	3.7%	2.6%	2.9%	2.9%	2.5%
Difference	-1.1%	1.2%	-1.2%	-0.5%	-1.2%



Currency impact on international returns

MSCI All Country World ex-U.S. Index, total return



Source: J.P. Morgan Asset Management; (Left) IMF, J.P. Morgan Global Economic Research; (Right) MSCI.

After the Storm: Investing in 2021 and Beyond

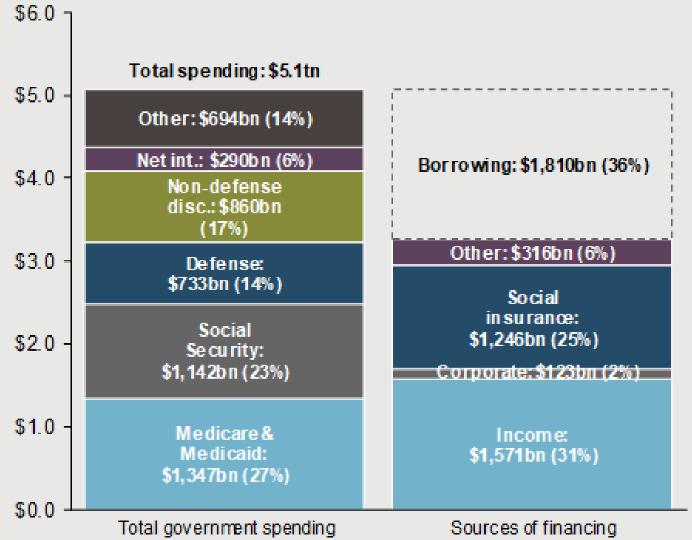
- After a terrible toll, vaccines will end the pandemic in 2021.
- GDP growth will surge in late 2021 and early 2022 before slowing as the economy approaches full employment.
- **Fiscal and monetary policy will remain very easy in 2021 although higher interest rates and taxes are likely by the middle of the decade.**
- Lofty valuations and the threat of inflation are the most obvious risks…but the greatest risks are usually unanticipated.
- Diversification should continue to manage risks and capture opportunities.

STATE OF THE MARKETS

Further pandemic relief will lead to bigger deficits.

The 2021 federal budget

CBO Baseline forecast, USD trillions

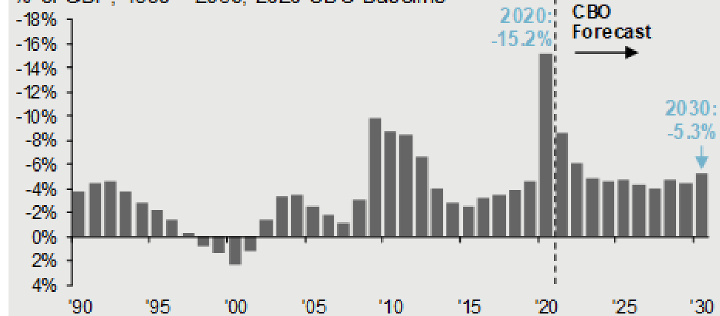


CBO's Baseline economic assumptions

	2021	'22-'23	'24-'25	'26-'31
Real GDP growth	3.1%	2.7%	2.3%	1.7%
10-year Treasury	1.0%	1.4%	1.9%	3.0%
Headline inflation (CPI)	1.7%	2.1%	2.3%	2.4%
Unemployment	6.1%	4.9%	4.3%	4.1%

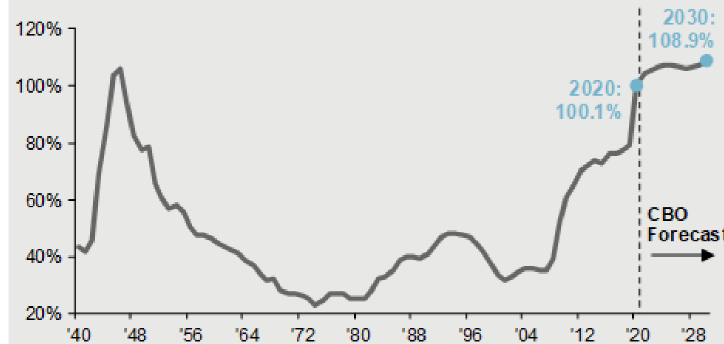
Federal budget surplus/deficit

% of GDP, 1990 – 2030, 2020 CBO Baseline



Federal net debt (accumulated deficits)

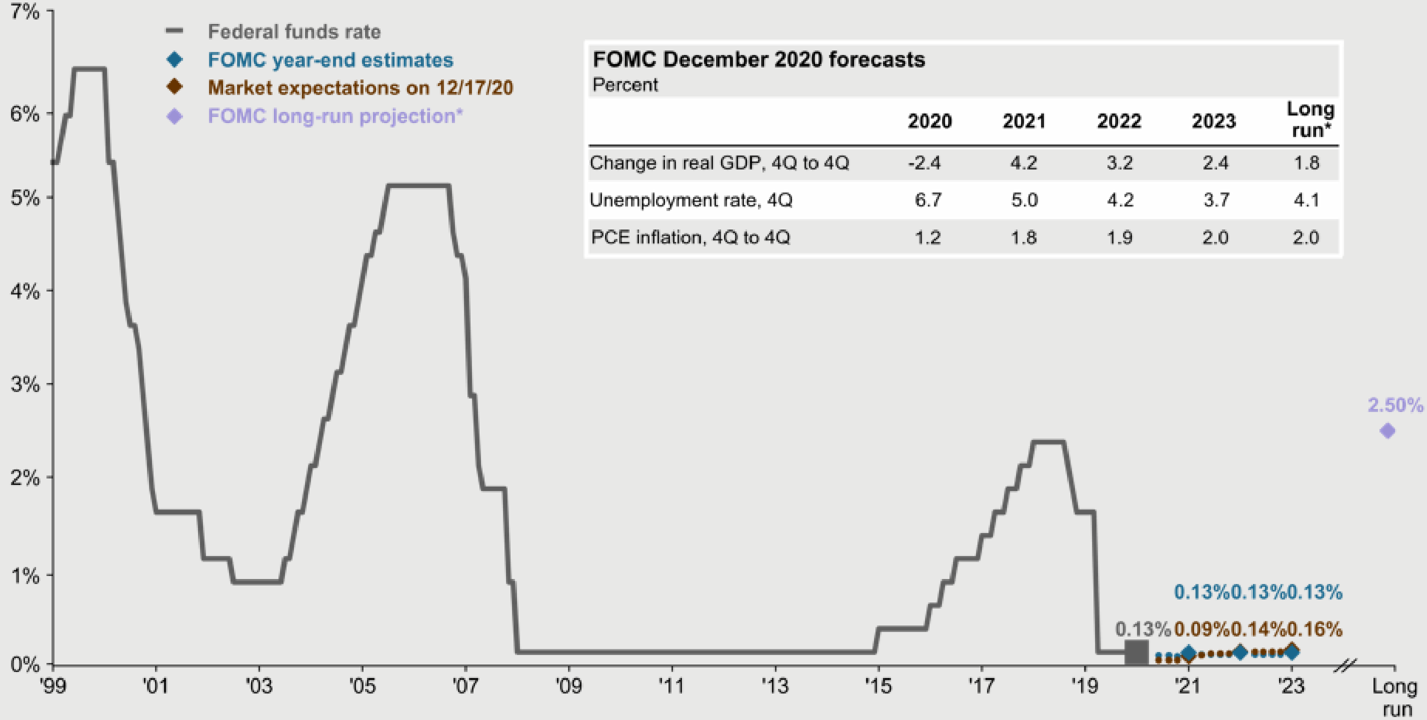
% of GDP, 1940 – 2030, 2020 CBO Baseline, end of fiscal year



The Fed could keep short rates low until 2023 although tapering bond purchases should lead to a steeper yield curve.

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FOMC December 2020 forecasts

Percent

	2020	2021	2022	2023	Long run*
Change in real GDP, 4Q to 4Q	-2.4	4.2	3.2	2.4	1.8
Unemployment rate, 4Q	6.7	5.0	4.2	3.7	4.1
PCE inflation, 4Q to 4Q	1.2	1.8	1.9	2.0	2.0

After the Storm: Investing in 2021 and Beyond

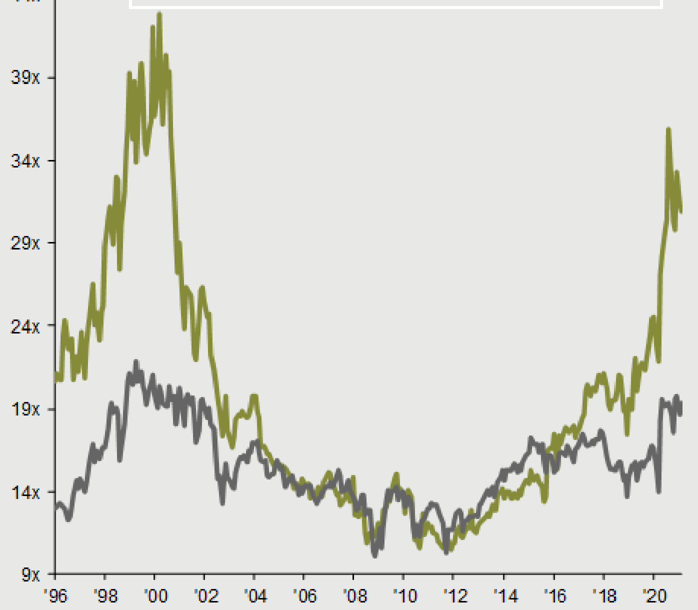
- After a terrible toll, vaccines will end the pandemic in 2021.
- GDP growth will surge in late 2021 and early 2022 before slowing as the economy approaches full employment.
- Fiscal and monetary policy will remain very easy in 2021 although higher interest rates and taxes are likely by the middle of the decade.
- **Lofty valuations and the threat of inflation are the most obvious risks…but the greatest risks are usually unanticipated.**
- Diversification should continue to manage risks and capture opportunities.

Mega-cap U.S. stocks look expensive....

P/E ratio of the top 10 and remaining stocks in the S&P 500

Next 12 months

	Current	Average	% of avg.
Top 10	30.9x	19.5x	159%
Remaining stocks	19.4x	15.6x	125%
S&P 500	**21.8x**	**16.2x**	**135%**

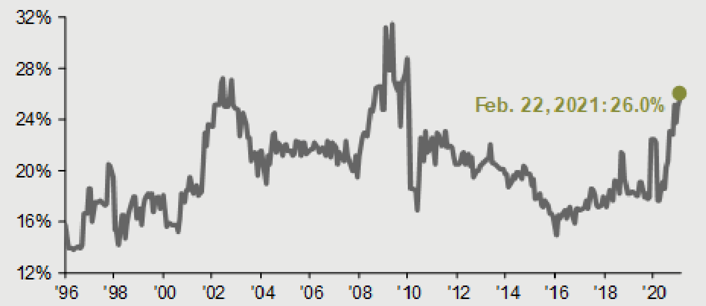


Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500

Earnings contribution of the top 10 in the S&P 500

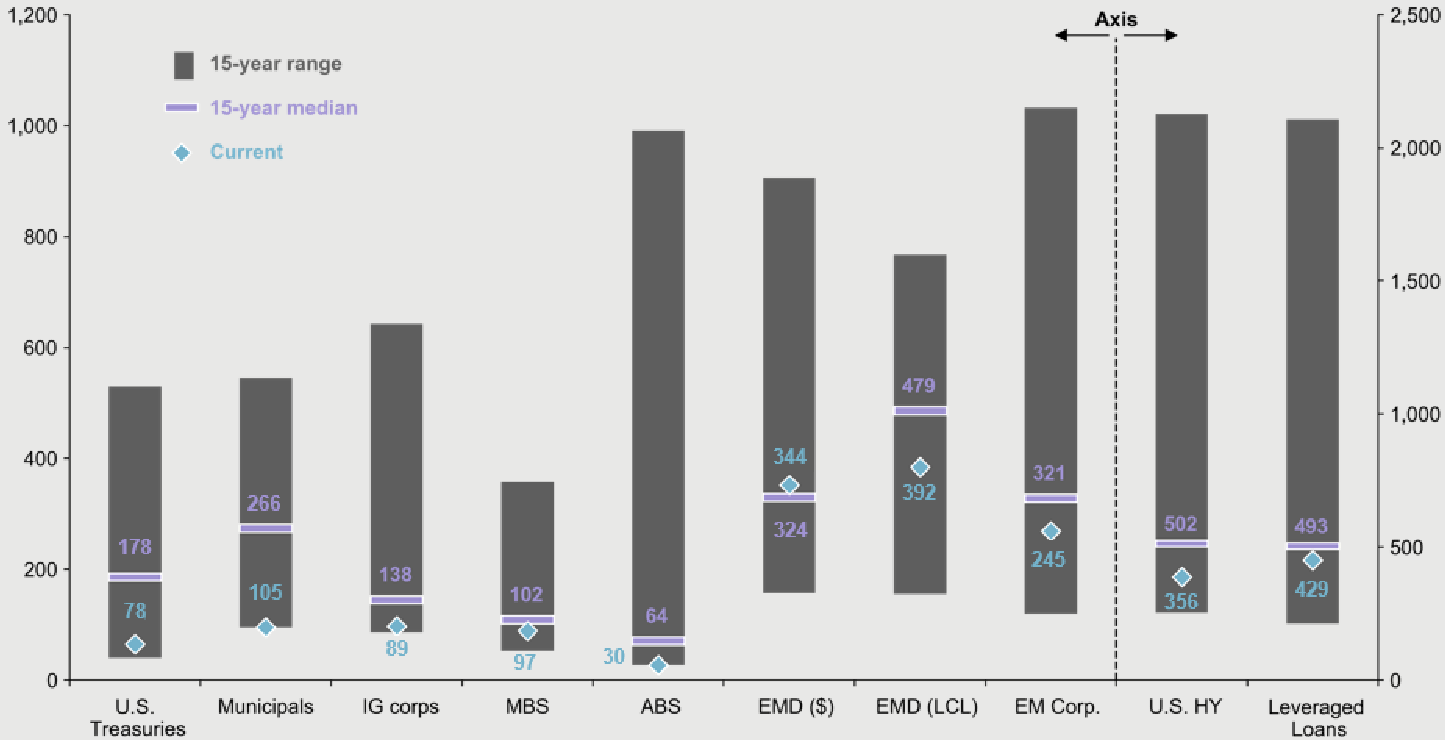
Based on last 12 months' earnings



…as do many fixed income sectors.

Spread-to-worst across fixed income sectors

Basis points, past 15 years

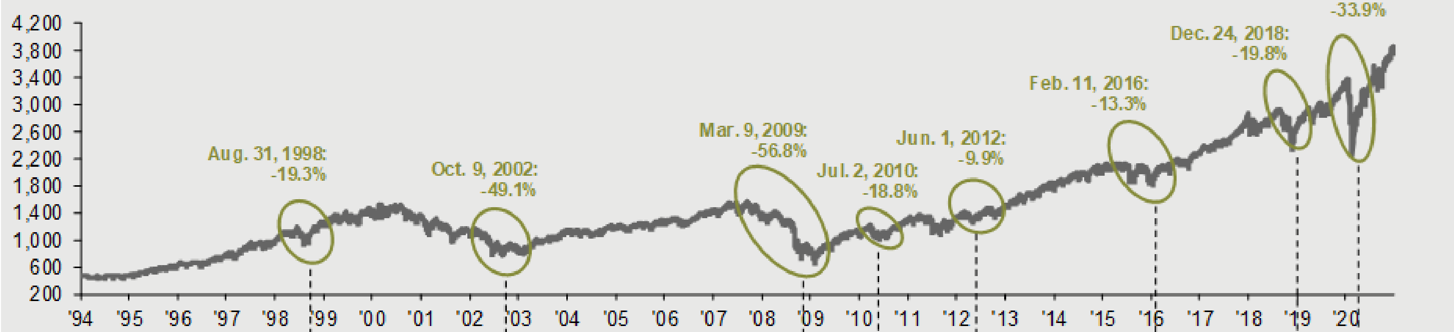


STATE OF THE MARKETS

The greatest risks are generally unanticipated

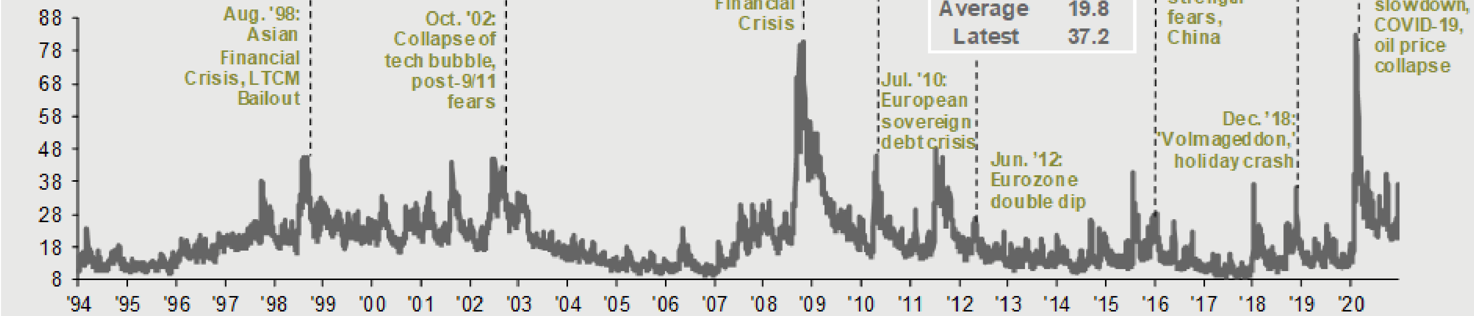
Major market pullbacks

S&P 500 Price index



Volatility

VIX Index



VIX	Level
'08 Peak	80.9
Average	19.8
Latest	37.2

After the Storm: Investing in 2021 and Beyond

- After a terrible toll, vaccines will end the pandemic in 2021.
- GDP growth will surge in late 2021 and early 2022 before slowing as the economy approaches full employment.
- Fiscal and monetary policy will remain very easy in 2021 although higher interest rates and taxes are likely by the middle of the decade.
- Lofty valuations and the threat of inflation are the most obvious risks…but the greatest risks are generally unanticipated.
- **Diversification should continue to manage risks and capture opportunities.**

Strong returns in 2020 should limit gains going forward...

																2006 - 2020	
2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**YTD**	**Ann.**	**Vol.**
REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	Small Cap 5.0%	Large Cap 9.9%	EM Equity 23.3%
EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	EM Equity 3.1%	Small Cap 8.9%	REITs 23.1%
DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 2.6%	High Yield 7.5%	Small Cap 22.6%
Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Asset Alloc. 0.2%	REITs 7.1%	DM Equity 19.1%
Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Cash 0.0%	EM Equity 6.9%	Comdty. 18.8%
Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	REITs -0.1%	Asset Alloc. 6.7%	Large Cap 16.7%
High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield -0.2%	DM Equity 5.0%	High Yield 12.2%
Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Fixed Income -0.7%	Fixed Income 4.5%	Asset Alloc. 11.8%
Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Large Cap -1.0%	Cash 1.2%	Fixed Income 3.2%
Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	DM Equity -1.1%	Comdty. -4.0%	Cash 0.8%

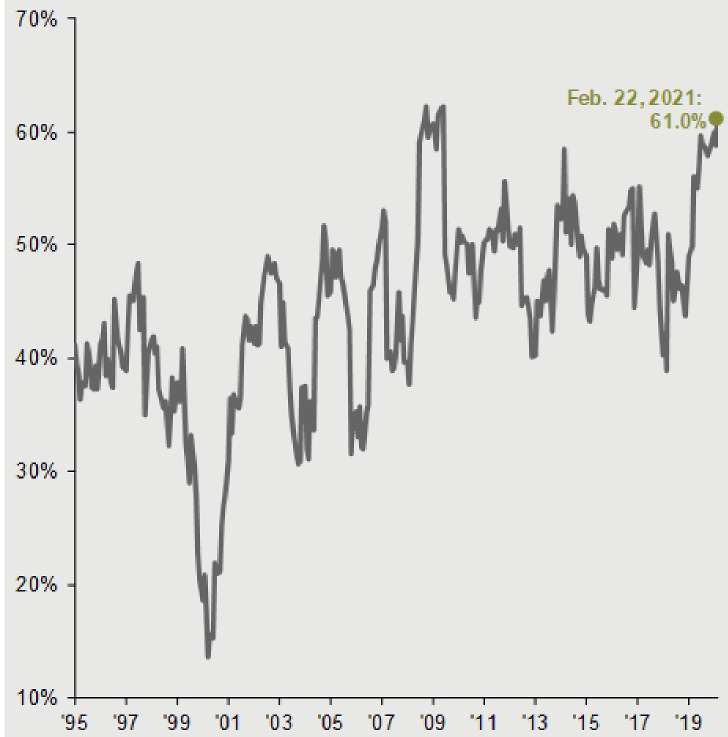
…although value looks cheap relative to growth….

Value vs. Growth relative valuations

Relative fwd. P/E ratio of Value vs. Growth, z-score, Dec. 1997 - present

Share of Value index with beta greater than 1

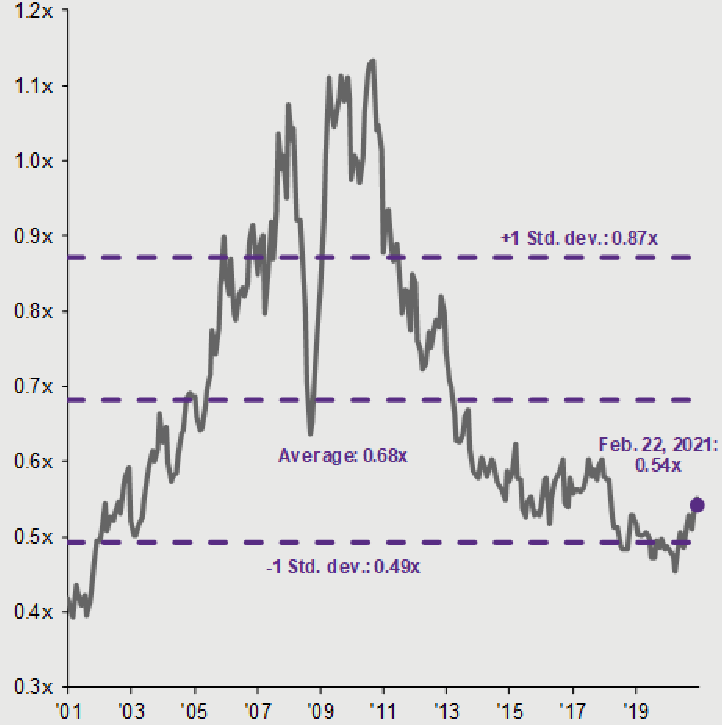
Beta is based on weekly returns over a 52-week rolling period



…international equities look cheap relative to domestic….

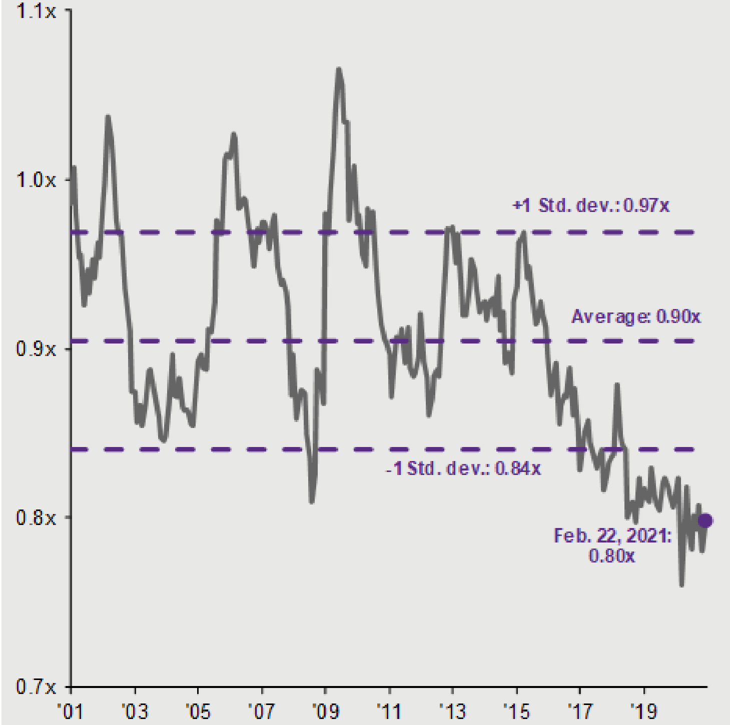
Emerging markets: Relative price-to-book ratio

MSCI Emerging Markets vs. S&P 500, last 12 months



Developed markets: Relative price-to-earnings ratio

MSCI EAFE vs. S&P 500, next 12 months

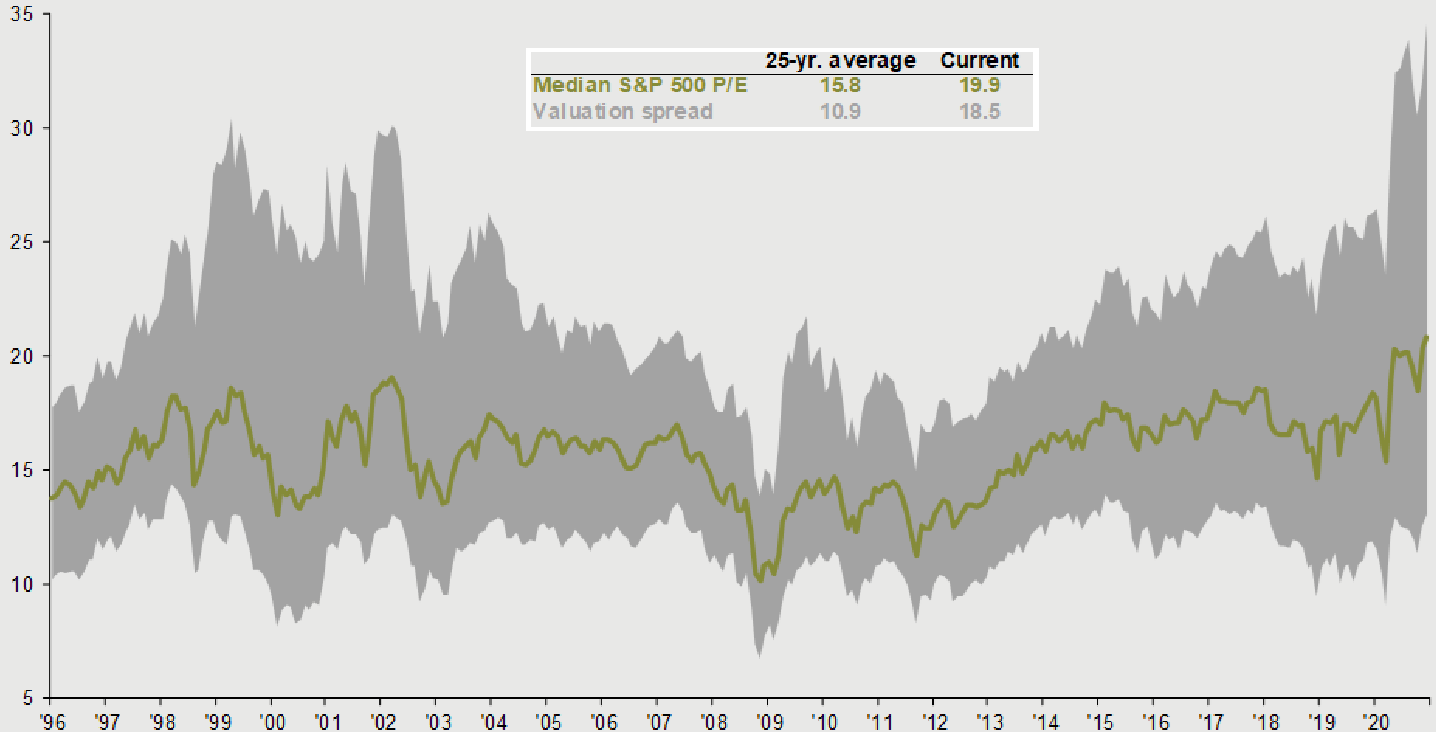


…and wide dispersion in valuations points to an opportunity for active management.

S&P 500 valuation dispersion

Valuation dispersion between the 20th and 80th percentile of S&P 500 stocks

	25-yr. average	Current
Median S&P 500 P/E	15.8	19.9
Valuation spread	10.9	18.5



How to take advantage of Market Insights

Read On the Minds of Investors

Subscribe to the Insights Now podcast

Follow David Kelly on LinkedIn

QUESTIONS

?

Please email questions to M.Trogdon@CapitalAMG.com

IF YOU HAVE QUESTIONS…

CONTACT US TODAY!

John E. Girouard, CFP®, ChFC®, CLU®, CFS® - j.e.girouard@capitalamg.com
Samuel Boyd, CFP® - s.boyd@capitalamg.com

www.CapitalAMG.com
240.482.4000

CAPITAL
ASSET MANAGEMENT GROUP