WealthShield

Q3 2020 OUTLOOK

MARGIN OF SAFETY

MARGIN OF SAFETY

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According to Forbes, Seth Klarman is an investment legend, billionaire, value investor, and hedge fund manager. He runs the investment firm Baupost. One interesting fact about Mr. Klarman is that he authored a cult classic book in 1991. This book, Margin of Safety: Risk-Averse Value Investing Strategies for the Thoughtful Investor, is now out of print but goes for as high as $3,000 on Amazon. The book offers some timely lessons that apply today and is a must read for anyone serious about long-term investing. However, we are not here to offer up a book review, rather, we are here to discuss value investing and how we believe it remains a useful discipline despite the claims of its death.

Margin of Safety is an investment principle in which an investor buys securities or companies when they are priced below their "fair value". The difference between the fair value and the price is the "margin of safety". The idea is that the more depressed the security is relative to fair value, the better the investment (as long as it can survive and is not a value trap). The perceived risk is lower and the expected returns are higher for a security that is priced well below intrinsic value. The reason is that the security is expected to rise to intrinsic value over time. This is the whole idea behind value investing: an investor wants to make sure to buy securities that have a large margin of safety. It really is as simple as buying low and selling high.

This sounds great in theory, but value investing is difficult in practice. Value investing is contrarian by nature and can be very emotionally challenging. Behavioral finance studies have shown our tendency to be biased to following the crowd, otherwise known as "herding". This is the reason we often hear things like "this time is different" or "new paradigm" when markets and a broad measure of stocks reach high valuation levels. Investors are so quick to change strategies, shift styles, and follow the crowd due to fear of missing out (FOMO). Going against the crowd takes a little bit of intelligence, a lot of discipline, and a high tolerance for pain. In the book, The Little Book of Behavioral Investing by James Montier, he referenced a study by psychologists that showed social exclusion to be a similar experience to physical pain from a neurological perspective.

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Another behavioral reason value investing is so hard is because of short-term-ism. This should come as no surprise, but investors tend to focus on the short-term. Seth Klarman has stated that the single greatest edge an investor can have is to focus on the long-term. Sounds easy enough, but this is difficult to apply with discipline. It takes a long time for a security or market to move back to intrinsic value (or mean revert). It could take anywhere from 5-20 years. That may not seem long at first glance but try living through a period where everyone seems to be making money in the market and you are waiting on better values. That can make days feel like months and months feel like decades. As John Maynard Keynes once said, "markets can stay irrational longer than you can remain solvent". My take on this principle is that markets can stay irrational longer than you can withstand FOMO. Value investing requires an immense amount of fortitude.

The US stock market is currently at one of the highest valuations ever. Indicators that have done a great job historically at correlating with subsequent returns (inversely of course) are suggesting that US equities will generate little to no return after inflation over the next 10 years. Despite the plethora of intrinsic value measures that all suggest the same potential outcome, the chorus of "this time is different" seems to be dominant at the moment. Instead of the rise of the internet, it is the Fed and endless stimulus.

There is no margin of safety left in US stocks or US bonds. The 60/40 portfolio is dead. Investors will have to get creative to generate any return going forward. We better hope the Fed can really save the day and render value investing dead. If not, investors will have to look elsewhere for better returns. The Fed cannot print fundamental improvement. However, they can temporarily support and improve liquidity and market sentiment. They have acted to save a fragile market in the first quarter and we have to commend their swift action. Unfortunately, a consequence of those actions was to create an overbought and overvalued stock market.

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WHERE ARE THE OPPORTUNITIES?

Where are the opportunities? From a valuation perspective, emerging markets, gold and commodities are attractive. From a trend perspective, gold, bonds, bitcoin, and US stocks are all in positive trends. The economic backdrop of recovering but still below-trend growth favors distressed credit, small cap value, emerging market value, and venture capital. The dollar is also weakening considerably and is now in a negative trend, pointing towards a potential acceleration in inflation. This could generate support behind the rotation to value, commodities, and emerging market outperformance.

Generally speaking, we believe large cap US growth and US large cap stocks in general will not be the best performing asset classes over the next 10 years. The trend still supports these areas, but the margin of safety has evaporated. Over the short-term there may still be room to run, because herding and FOMO are powerful forces. However, our recommendation is to develop a plan to start moving into the areas that offer a bigger margin of safety, and potentially, better future returns.

MARKET SUMMARY

- Bitcoin, Gold, and Treasury bonds are all positive year to date, beating all other asset classes.
- The top factor YTD has been momentum and the top style has been growth.
- Technology has dominated from a sector perspective in the US on both a YTD and 12-month time frames.

MARKET SUMMARY

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CURRENT ENVIRONMENT – MARKET SUMMARY

Market Summary					
INDEX	1 MO	3 MO	6 MO	12 MO	YTD
S&P 500	1.99%	20.54%	-3.08%	6.69%	-3.08%
Russell 1000	2.21%	21.82%	-2.81%	6.66%	-2.81%
Russell Mid Cap	1.80%	24.61%	-9.13%	-2.86%	-9.13%
MSCI ACWI	3.24%	19.39%	-5.99%	1.96%	-5.99%
MSCI ACWI Ex US	4.52%	16.12%	-11.00%	-5.31%	-11.00%
MSCI EAFE	3.41%	14.88%	-11.34%	-5.59%	-11.34%
MSCI EM	7.35%	18.08%	-9.78%	-4.24%	-9.78%
REITs	2.31%	13.25%	-13.30%	-6.22%	-13.30%
BITCOIN	-2.86%	41.13%	27.78%	-12.73%	27.78%
GOLD	2.93%	12.92%	17.38%	28.66%	17.38%
COPPER	11.87%	21.79%	-2.99%	1.27%	-2.99%
Brent	16.47%	80.96%	-37.65%	-36.75%	-37.65%
7-10 Year Treasuries	0.05%	0.89%	11.13%	13.04%	11.13%

Source: Bloomberg, As of June 30, 2020

MARKET SUMMARY

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CURRENT ENVIRONMENT – SECTOR SUMMARY

Sector Summary					
SECTOR	1 MO	3 MO	6 MO	12 MO	YTD
Materials	2.14%	25.87%	-7.21%	-2.15%	-7.21%
Communication	0.25%	22.59%	1.27%	10.17%	1.27%
Energy	-1.09%	32.14%	-34.91%	-35.58%	-34.91%
Financials	-0.32%	12.20%	-23.62%	-14.89%	-23.62%
Industrials	2.00%	17.01%	-14.64%	-9.24%	-14.64%
Technology	7.14%	30.53%	14.95%	33.96%	14.95%
Staples	-0.22%	8.55%	-5.54%	3.42%	-5.54%
Real Estate	1.48%	13.22%	-8.54%	-1.74%	-8.54%
Utilities	-4.67%	2.73%	-11.11%	-1.78%	-11.11%
Health Care	-2.38%	13.59%	-0.81%	10.27%	-0.81%
Discretionary	3.01%	30.67%	2.62%	7.83%	2.62%

Source: Bloomberg, As of June 30, 2020

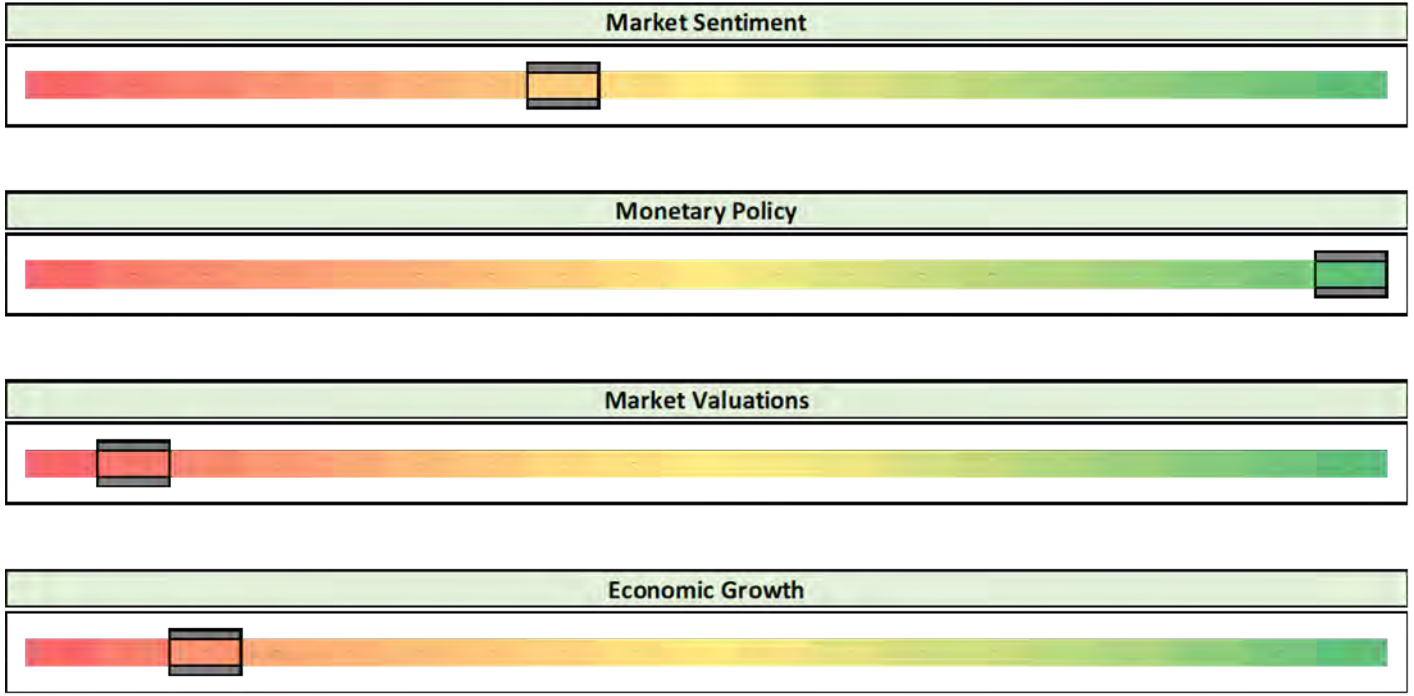
MARKET SUMMARY

CURRENT ENVIRONMENT – FACTOR SUMMARY

Factor Summary					
FACTOR	1 MO	3 MO	6 MO	12 MO	YTD
QUALITY	0.26%	18.95%	-4.10%	6.03%	-4.10%
LOW VOLATILITY	-0.38%	6.71%	-13.53%	-7.55%	-13.53%
DIVIDEND GROWTH	0.50%	16.22%	-9.24%	0.56%	-9.24%
GROWTH	4.10%	26.23%	7.93%	16.82%	7.93%
LARGE	2.21%	21.82%	-2.81%	6.66%	-2.81%
MOMENTUM	4.36%	23.58%	5.19%	11.25%	5.19%
VALUE	-0.95%	13.15%	-15.52%	-5.20%	-15.52%
SMALL	3.74%	21.94%	-17.85%	-11.43%	-17.85%

Source: Bloomberg, As of June 30, 2020

FOUR COMPONENTS TO THE FRAMEWORK



Source: Bloomberg; As of June 30, 2020

VALUATIONS

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"Price is what you pay, value is what you get."

-WARREN BUFFETT

VALUATIONS

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Valuations inform us about the overall long-term sentiment of market participants. We use historically accurate measures of market valuation, meaning that these measures have high inverse correlations to forward returns over a 7-15 year period of time.

- When markets are highly valued relative to intrinsic value, expectations are for robust growth.
- Low valued markets are more indicative of pessimistic sentiment.

Valuations drive expected asset class returns

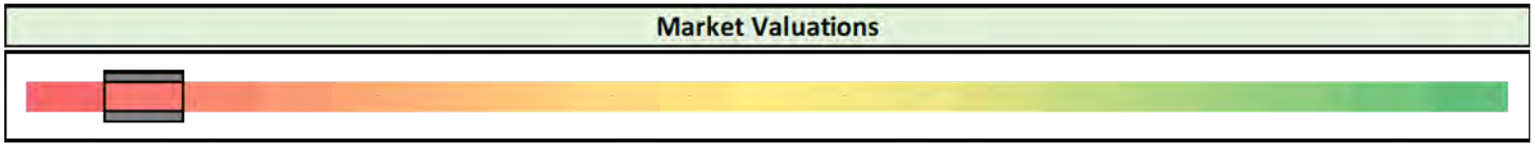
- When the global market valuations are red, we suggest allocating more of the portfolio to alternative investments and non-traditional diversification strategies.
- If valuations are green, we recommend less in alternative investments and more in traditional asset classes.

As the global stock market becomes more overvalued, the valuation scale will move from green to red. As global stocks become less expensive, they move from red to green.

- If the scale is **green**, forward returns are expected to be above average.
- A **yellow** reading on the valuation scale would imply average returns.
- If the scale is **red**, forward returns are expected to be below average.

VALUATIONS

- US stocks are extremely highly valued, implying low forward returns.
- Global stocks, ex-US, are a lot better valued and the opportunity set, from a valuation perspective, is almost entirely located outside of the US.
- Emerging market stocks are setting up to potentially dominate US equities over the next 10-20 years.



Source: WealthShield; As of June 30, 2020

VALUATIONS

CURRENT ENVIRONMENT

US Valuation Dashboard			
Valuation Method	**6/30/2020**	**Current Decile**	**Valuation Level**
Market Cap to GDP Ratio	1.47	Top Decile	**Significantly High**
Price to Sales Ratio	2.24	Top Decile	**Significantly High**
Shiller CAPE	29.96	Top Quartile	**Significantly High**
S&P Total Return vs Exponential Regression	110.10%	70 - 75th Percentile	**Moderately High**

Source: Bloomberg; As of June 30, 2020

VALUATIONS

CURRENT ENVIRONMENT

Global Valuation Dashboard			
Valuation Method	**6/30/2020**	**Current Decile**	**Valuation Level**
Market Cap to GDP Ratio (12/31/2018)	0.65%	Top Decile	Significantly High
Price to Sales Ratio	1.61	Top Decile	Significantly High
Price to Book Ratio	2.32	60 - 70th Percentile	Moderately High
Price to Earnings Ratio	21.90	Top Decile	Significantly High
EV/EBITDA	12.34	Top Decile	Significantly High
ACWI Total Return vs Exponential Regression	106.02%	60 - 70th Percentile	Moderately High

Source: Bloomberg; As of June 30, 2020

VALUATIONS

CURRENT ENVIRONMENT

Global ex US Valuation Dashboard			
Valuation Method	**6/30/2020**	**Current Decile**	**Valuation Level**
Price to Sales Ratio	1.14	70 - 75th Percentile	**Moderately High**
Price to Book Ratio	1.55	Bottom Quartile	**Significantly Low**
Price to Earnings Ratio	18.66	Top Decile	**Significantly High**
EV/EBITDA	9.84	Top Quartile	**Significantly High**
ACWX Total Return vs Exponential Regression	85.79%	Bottom Quartile	**Significantly Low**

Source: Bloomberg; As of June 30, 2020

VALUATIONS

CURRENT ENVIRONMENT

Emerging Market Valuation Dashboard			
Valuation Method	**6/30/2020**	**Current Decile**	**Valuation Level**
Price to Sales Ratio	1.27	60 - 70th Percentile	**Moderately High**
Price to Book Ratio	1.63	60 - 70th Percentile	**Moderately High**
Price to Earnings Ratio	16.27	Top Decile	**Significantly High**
EV/EBITDA	9.80	Top Decile	**Significantly High**
EEM Total Return vs Exponential Regression	72.57%	Bottom Quartile	**Significantly Low**

Source: Bloomberg; As of June 30, 2020

VALUATIONS

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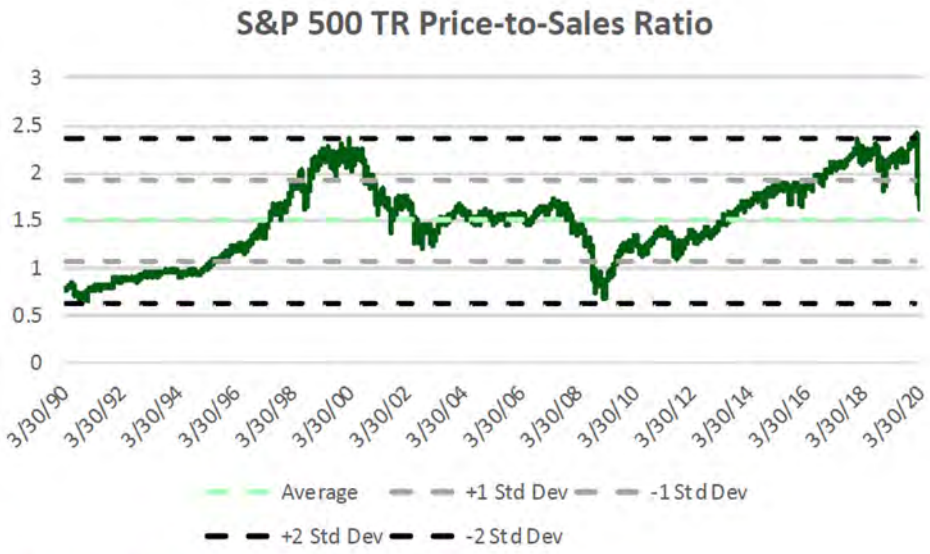

Figure 3: S&P 500 TR Price-to-Sales Ratio
Source: Bloomberg, WealthShield; As of March 31, 2020

Valuation Level	Average Forward 12-Month Returns
Bottom Quartile	15.22%
25th-50th Percentile	12.47%
50th-75th Percentile	2.70%
Top Quartile	5.64%

Source: Bloomberg, WealthShield, 3/31/2020

Figure 4: S&P 500 Average Forward 12-Month Returns

- We analyzed historical P/S data to observe the relationship between valuations and forward returns.

- **White Paper Proof**: "According to S&P 500 total return data dating back to 1990, average 1-year forward returns have been well above 10% when valuations resided below the bottom 50th percentile. On the flip side, when valuations have been in the 50 -100th percentile, forward returns diminish significantly."

VALUATIONS

WEALTHSHIELD WHITE PAPER EVIDENCE

Figure 5: Market Capitalization to GDP
Source: Bloomberg, WealthShield; As of March 31, 2020;

Valuation Level	Average Forward 12-Month Returns
Bottom Quartile	16.52%
25th-50th Percentile	9.09%
50th-75th Percentile	4.50%
Top Quartile	4.73%

Source: Bloomberg, WealthShield, 3/31/2020

Figure 6: Price-to-Sales Metric Average Forward 12-Month Returns

- We also analyzed historical Market Cap to GDP data as this metric provides a snapshot of trading levels versus economic production.
- **White Paper Proof**: "Like the Price-to-Sales metric, average 12-month forward returns have outperformed during lower valuation time periods. As expected, the higher valuation periods produced lower forward returns, producing, on average, 4.5% and 4.7% at the two higher quartiles."

VALUATIONS

WEALTHSHIELD WHITE PAPER EVIDENCE

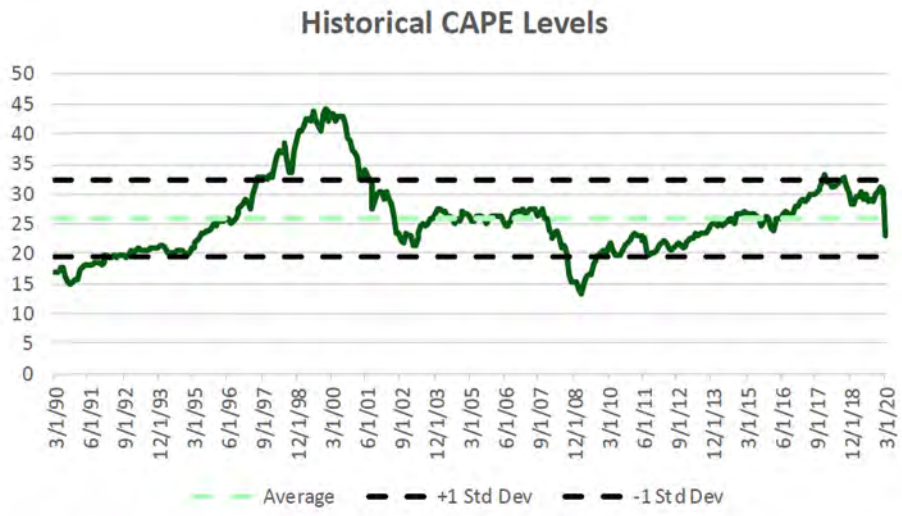

Figure 7: Cyclically Adjusted Price-to-Earnings (CAPE) – Historic Levels
Source: Bloomberg, WealthShield, Yale-Shiller; As of March 31, 2020

Valuation Level	Average Forward 12-Month Returns
Bottom Quartile	14.03%
25th-50th Percentile	11.52%
50th-75th Percentile	7.18%
Top Quartile	2.96%

Source: Bloomberg, WealthShield, Yale-Shiller; As of 3/31/2020

Figure 8: CAPE Average Forward 12-Month Returns

- We also analyzed historical CAPE data given its indication of market strength versus its actual 10-year earnings production.
- **White Paper Proof**: "Average 12-month forward returns have historically been significantly lower when CAPE valuations have been in the top quartile, returning only 2.96%. Cheaper valuations offer a significant premium on average when examining historical returns and CAPE levels."

VALUATIONS

WEALTHSHIELD WHITE PAPER EVIDENCE

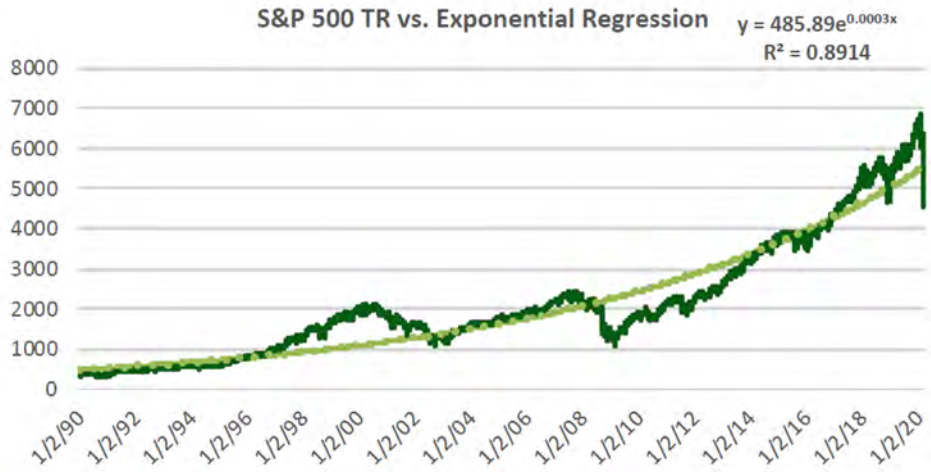

Figure 9: S&P 500 TR vs. Exponential Regression
Source: Bloomberg, WealthShield; As of March 31, 2020

Valuation Level	Average Forward 12-Month Returns
Bottom Quartile	15.34%
25th-50th Percentile	11.42%
50th-75th Percentile	7.82%
Top Quartile	0.86%

Source: Bloomberg, WealthShield; As of 3/31/2020

Figure 11: S&P Exponential Regression Average Forward 12-Month Returns

- Lastly, we analyzed the S&P 500 TR versus its 30-year exponential regression. This valuation methodology fits within our framework as it adds a trend component to our process.

- **White Paper Proof**: "This valuation methodology paints the most polarizing picture. At the top quartile, historical 12-month returns have averaged just 0.86% over the last 30 years. On the other end of the spectrum, the bottom quartile has historically seen returns of 15.34% on a forward basis."

MARKET SENTIMENT

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"By far the best economic predictor I've ever met is inside the stock market."

-STANLEY DRUNKENMILLER

MARKET SENTIMENT

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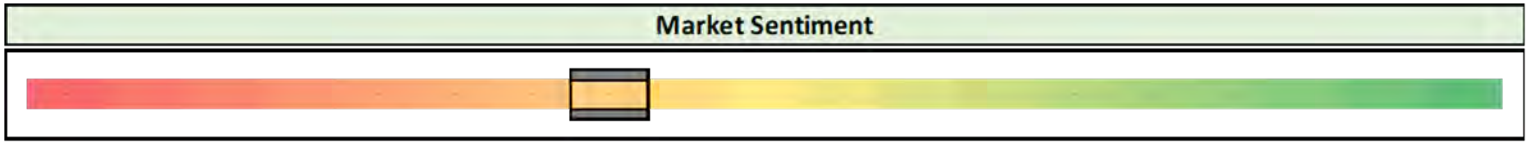
Market sentiment is a key component of our framework. Our view is that portfolios should be aligned with markets to capitalize on strength and avoid weakness. We analyze markets and study their momentum over short (3 month), intermediate (6 month), and long-term (12 month) time horizons to determine whether or not they are in positive or negative trends.

- If the market sentiment scale is **green**, a majority of asset classes are in positive trends over a majority of time frames. This implies a strong-risk on posture among market participants.
- If the scale is **yellow**, market sentiment is neutral with a majority of asset classes positive on a majority of time frames, but not necessarily in positive trends.
- When the scale is **red**, a majority of assets are in negative trends over a majority of time frames. When the scale is red, the market environment is negative for risk-taking.

MARKET SENTIMENT

- Since the Fed embarked on permanent QE and started buying assets at record levels (now the 3rd largest owner of LQD ETF) risk markets have rallied impressively.
- US stocks are now positive over the 3 month and 12 month time frames. They are outperforming the risk-free asset over the 3 month time frame.
- International equities are positive over the last 3 months but are negative over the last 6 and 12 month time periods. They are underperforming the risk-free asset over 6 month and 12 month time periods.
- High Yield bonds are positive over the last 3 months and outperforming the risk-free asset over the same time period. They are negative in both 6 month and 12 month time periods.
- Intermarket relationships are mixed. They are mostly positive over the 1 month and 3 month time periods, but are negative over the 6 month and 12 month periods.



Source: WealthShield; As of June 30, 2020

MARKET SENTIMENT

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Market Sentiment Meter

Asset Class	3 Month Total Return	Risk Free 3 Month Total Return	Market Sentiment
High Yield Bonds	10.10%	0.69%	Positive
International Equities	15.76%	0.69%	Positive
Domestic Equities	20.15%	0.69%	Positive

Asset Class	6 Month Total Return	Risk Free 6 Month Total Return	Market Sentiment
High Yield Bonds	-3.86%	10.73%	Negative
International Equities	-11.27%	10.73%	Negative
Domestic Equities	-4.96%	10.73%	Negative

Asset Class	12 Month Total Return	Risk Free 12 Month Total Return	Market Sentiment
High Yield Bonds	-0.03%	12.17%	Negative
International Equities	-5.09%	12.17%	Negative
Domestic Equities	4.89%	12.17%	Neutral

Source: Bloomberg; As of June 30, 2020

MARKET SENTIMENT

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CURRENT ENVIRONMENT – INTERMARKET RELATIONSHIPS

Intermarket Relationships	1 Month			3 Month			6 Month			12 Month		
Higher Risk vs. Lower Risk	Higher Risk	Lower Risk	Risk Signal	Higher Risk	Lower Risk	Risk Signal	Higher Risk	Lower Risk	Risk Signal	Higher Risk	Lower Risk	Risk Signal
Lumber / Gold	3.54%	2.74%	Risk On	16.26%	13.05%	Risk On	-16.50%	17.12%	Risk Off	-6.53%	25.65%	Risk Off
Copper / Gold	10.06%	2.74%	Risk On	23.16%	13.05%	Risk On	-2.68%	17.12%	Risk Off	0.65%	25.65%	Risk Off
ACWI / 7-10 Yr Treasuries	3.19%	0.18%	Risk On	19.22%	1.02%	Risk On	-6.25%	11.27%	Risk Off	2.11%	12.89%	Risk Off
ACWI / Gold	3.19%	2.74%	Risk On	19.22%	13.05%	Risk On	-6.25%	17.12%	Risk Off	2.11%	25.65%	Risk Off
High Beta / Low Vol	4.08%	-1.61%	Risk On	35.31%	5.39%	Risk On	-13.65%	-14.60%	Risk On	-4.99%	-8.36%	Risk On
S&P / Utilities	0.43%	-5.05%	Risk On	18.70%	2.32%	Risk On	-4.56%	-11.47%	Risk On	5.87%	-2.48%	Risk On
S&P / Staples	0.43%	-1.05%	Risk On	18.70%	7.65%	Risk On	-4.56%	-6.33%	Risk On	5.87%	3.06%	Risk On
Growth / Value	4.35%	-0.66%	Risk On	27.84%	14.29%	Risk On	9.81%	-16.26%	Risk On	23.28%	-8.84%	Risk On
Small Cap / Large Cap	2.08%	0.63%	Risk On	23.66%	19.94%	Risk On	-14.20%	-4.32%	Risk Off	-7.94%	5.81%	Risk Off
ACWX / US	4.52%	0.43%	Risk On	16.12%	18.70%	Risk Off	-11.00%	-4.56%	Risk Off	-4.80%	5.87%	Risk Off
High Yield / 7 - 10 Yr Treasuries	0.91%	0.18%	Risk On	10.10%	1.02%	Risk On	-3.86%	11.27%	Risk Off	-0.03%	12.89%	Risk Off

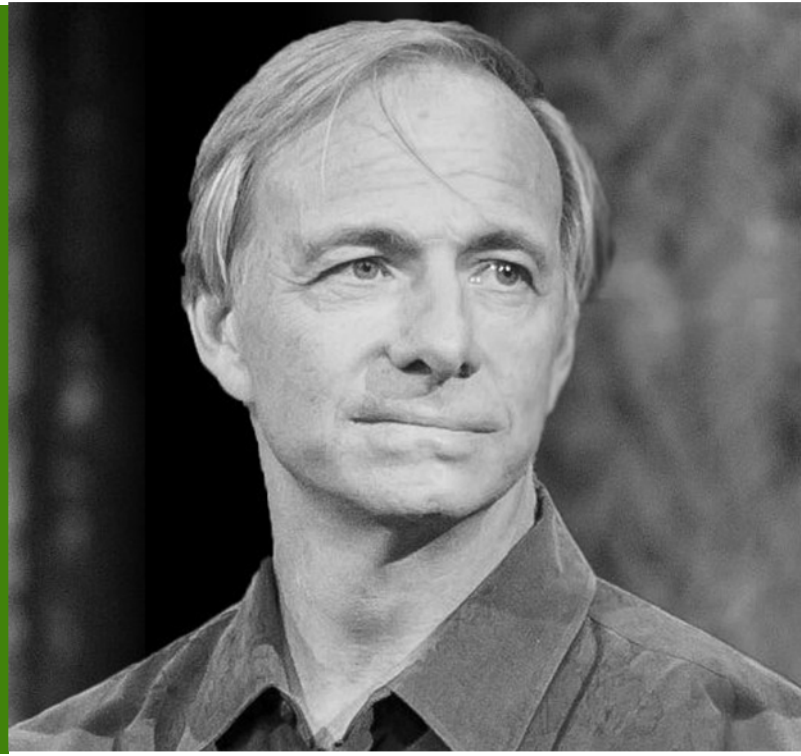
Source: Bloomberg, As of June 30, 2020

ECONOMIC GROWTH

WealthShield

"There are two main drivers of asset class returns — inflation and growth."

-RAY DALIO



ECONOMIC GROWTH

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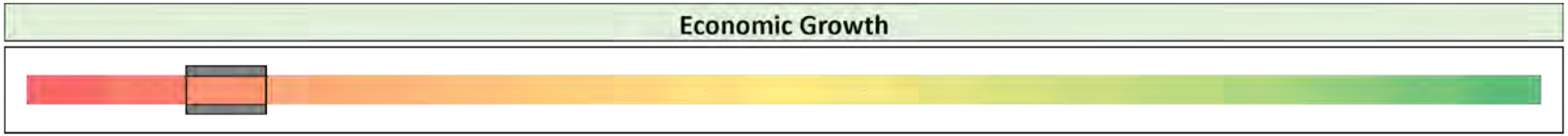
Whether growth and inflation are growing or slowing is of critical importance to our framework. We look at leading economic indicators, GDP, and inflation inputs to determine our outlook for growth and inflation. Based on economic growth and inflation trends, we can ascertain what factors and exposures have the highest probability of performing well on a relative basis.



- The economic scale reflects whether the indicators we observe are growing or slowing.
- As more indicators are growing, the scale shifts from **red** to **green**.
- As indicators are slowing and contracting, the scale moves from **green** to **red**.

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Trend

Recovery

Growth is below trend and accelerating

Expansion

Growth is above trend and accelerating

Slowdown

Growth is above trend and decelerating

Contraction

Growth is below trend and decelerating

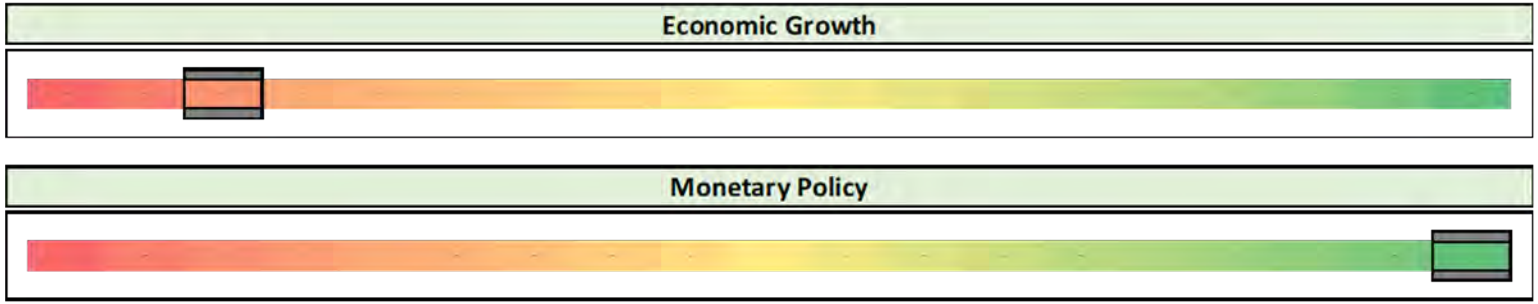
Emphasis on each factor is determined by the current environment

Recovery	Expansion	Slowdown	Contraction
Size	**Size**	Size	Size
Value	**Value**	Value	Value
Momentum	**Momentum**	Momentum	**Momentum**
Volatility	Volatility	**Volatility**	**Volatility**
Quality	Quality	**Quality**	**Quality**

ECONOMIC GROWTH & MONETARY POLICY

WealthShield

- We are in the midst of a recovery globally where growth is below trend but accelerating from the lows.
- Inflation is beginning to accelerate as the dollar has broken to a negative trend.
- The US and global economy appears to be rotating into a stagflationary environment.
- Stagflation means that the Fed and global monetary authorities will be boxed in.
- Essentially, monetary authorities will rely on communication more so than balance sheet expansion and interest rate reductions.
- Liquidity drives markets and policy has had the effect of creating euphoria among market participants and pushing up market prices and market valuations.



Source: WealthShield; As of June 30, 2020

ECONOMIC GROWTH

CURRENT ENVIRONMENT – US

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US Economic Dashboard

* Latest Available Data as of 6/30/2020	Current Level	YoY % Change	Previous Year YoY % Change	Growth Environment
Corporate Profits (3/31/2019)	1,868.18	-6.91%	-2.21%	Contracting
Industrial Production	92.55	-15.27%	1.73%	Contracting
Nominal GDP (3/31/2020)	21,539.69	2.09%	4.64%	Growth Slowing
Personal Consumption Expenditures	13,162.63	-9.32%	4.03%	Contracting
Personal Income	19,839.30	6.97%	4.66%	Growth Accelerating
Non-Farm Payrolls	132,912.00	-11.73%	1.28%	Contracting
Unemployment Rate	13.30	269.44%	-5.26%	Increasing at Faster Pace
Durable Goods	187,589.00	-21.40%	-3.64%	Contracting
Conference Board US Leading Index	99.80	-10.57%	2.39%	Contracting
ECRI	131.50	-12.60%	-1.80%	Contracting
FTSE All World Total Return Index	553.84	1.61%	6.11%	Growth Slowing
OAS High Yield Spreads	6.30	67.11%	3.86%	Spreads Widening at Faster Pace

Source: Bloomberg, As of June 30, 2020

ECONOMIC GROWTH

CURRENT ENVIRONMENT – GLOBAL

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Global Economic Dashboard			
*Indicator Date Marked	Current Level YoY % Change	Previous Year YoY % Change	Growth Environment
Major 7 OECD Leading Indicators (3/31/2019)	-0.07%	0.67%	Contracting
World Trade Volumes (4/30/2020)	-16.91%	0.16%	Contracting
Global PMI (6/30/2020)	-6.84%	-5.54%	Contracting
FTSE All World Total Return Index (6/30/2020)	2.64%	6.11%	Growth Slowing
OAS Global High Yield Spreads (6/30/2020)	56.50%	1.36%	Spreads Widening at Faster Pace

Source: Bloomberg, As of June 30, 2020

GLOBAL MONETARY POLICY

GLOBAL MONETARY POLICY

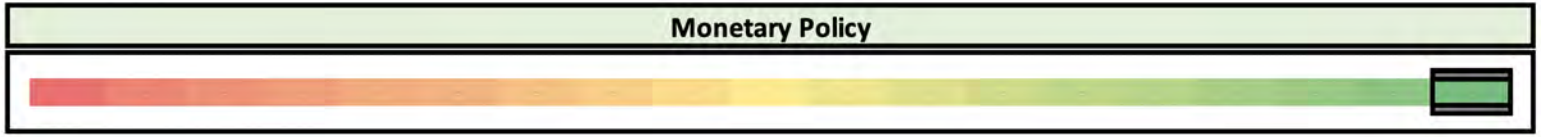
WEALTHSHIELD

When global central banks are easing, they are typically buying bonds in the open market and reducing interest rates. Some global central banks even buy equities.

- The effect is typically a steepening yield curve, easy credit conditions, and increases in liquidity.
- This can be positive for risky assets and support asset owners.
- The purpose is to ignite growth and asset price inflation.

When monetary authorities are tightening policy, it is typically through the reduction of central bank balance sheets and increased interest rates.

- This has the effect of flattening the yield curve and eventually slowing economic growth and inflation.



- As global central banks are more accommodative, the scale moves from **red** to **green**.
- If global central banks are tightening, the scale moves from **green** to **red**.

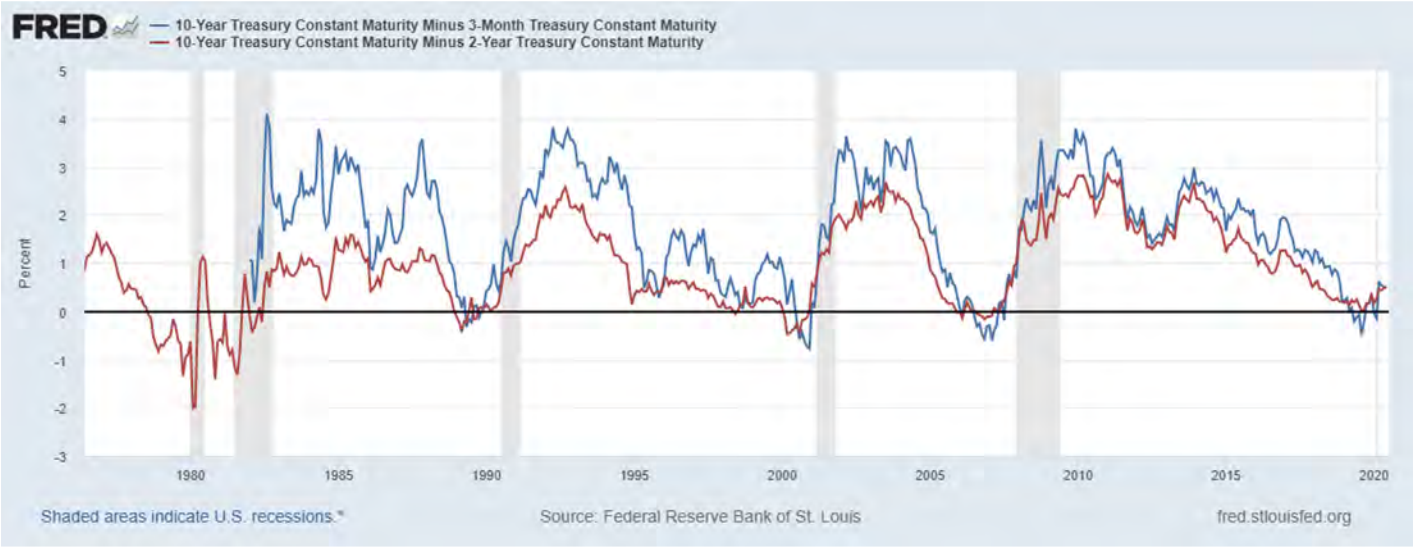
GLOBAL MONETARY POLICY

LIQUIDITY DRIVES MARKETS

- The purpose of this observation is to determine how much liquidity is available in the financial system.
- We believe that an abundance of liquidity in the financial system eases financial conditions which in turn may increase demand for risk assets, allowing financial markets to benefit as a result.

GLOBAL MONETARY POLICY

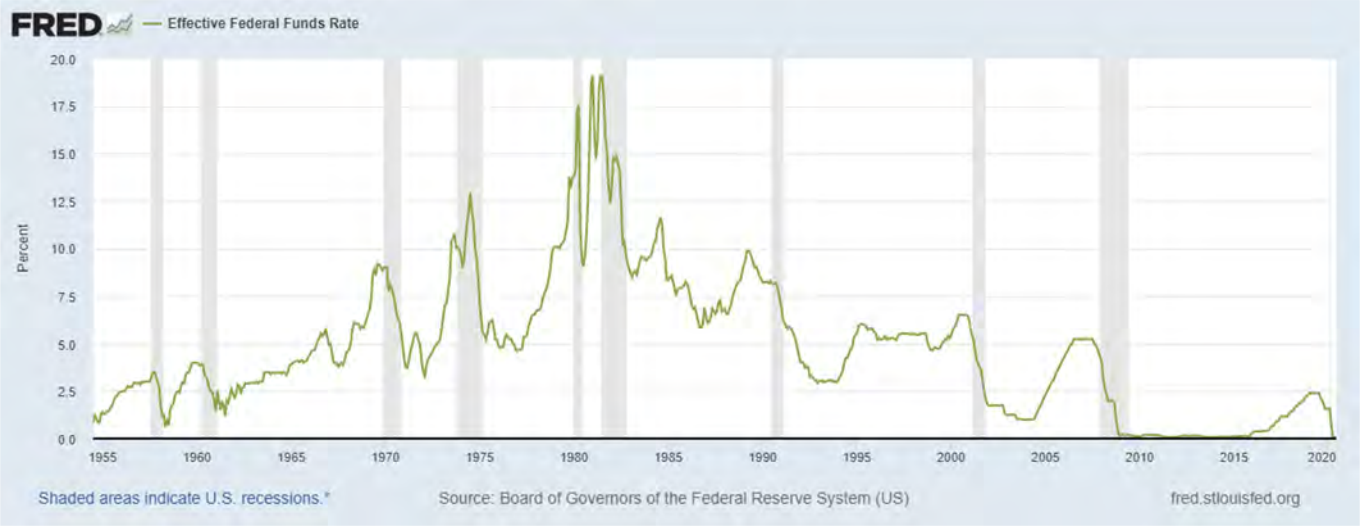
YIELD CURVE INVERSIONS



- The purpose of this observation is to help gauge both the current market environment and expectations of investors.
- Yield curve inversions between the 10 year treasury - 2 year treasury and between the 10 year treasury – 3 month treasury have historically preceded recessions.

GLOBAL MONETARY POLICY

INTEREST RATES



- The purpose of this observation is to help gauge if the US Federal Reserve is easing or tightening monetary policy.
- Interest rates are a key way that the US Federal Reserve can influence financial conditions in the markets. When the Federal Reserve increases interest rates, they are tightening monetary policy in an effort to tame inflation and keep the economy from overheating. When the Federal Reserve decreases interest rates they are easing monetary policy, usually in an effort to jumpstart the economy.

OPPORTUNITIES

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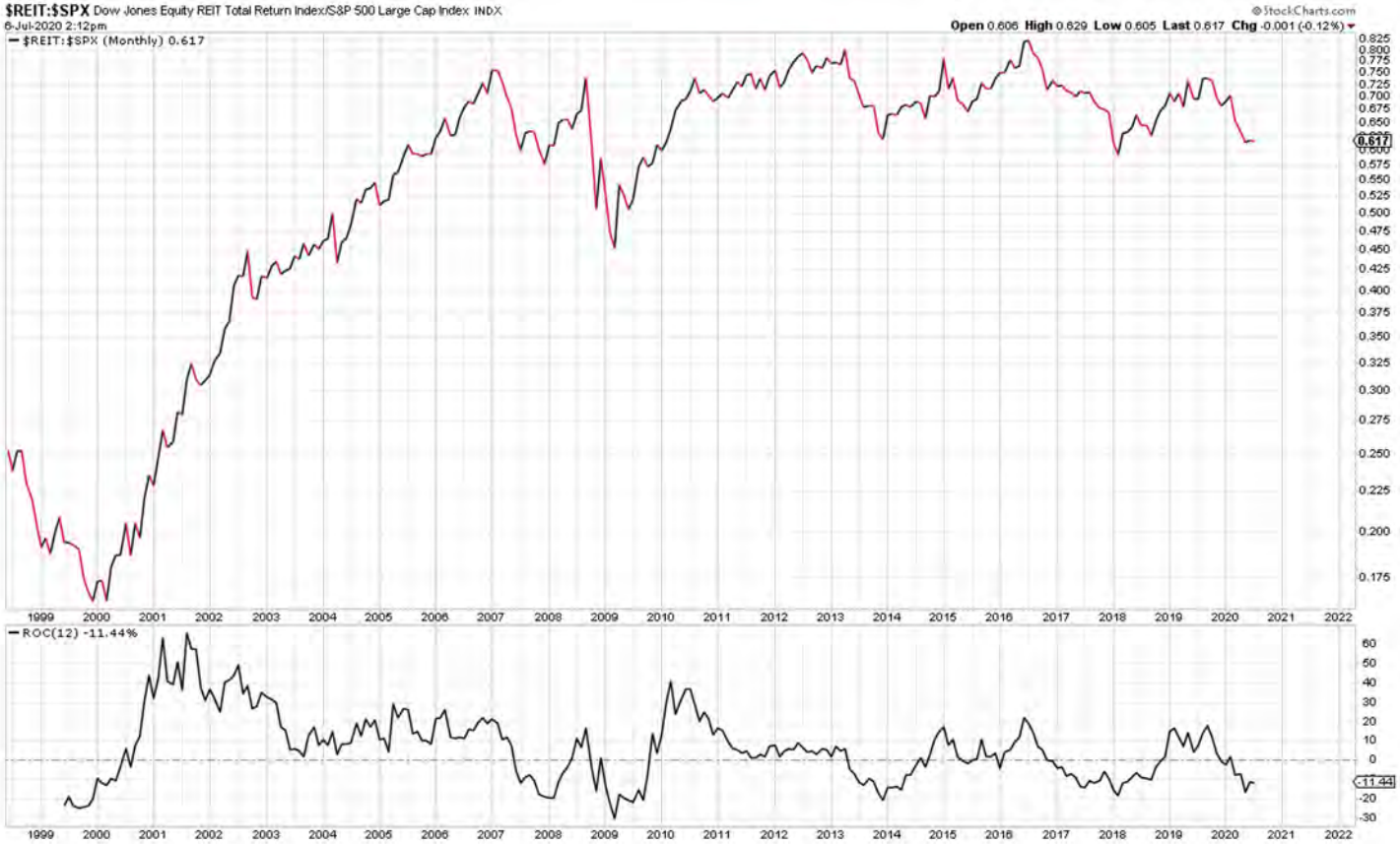
- Gold is just getting started relative to US stocks.
- In a stagflationary environment, the pivot to commodities could result in significant rewards.
- The breakdown in the dollar is potentially bullish for emerging market equities. Valuations also support emerging markets over US equities.
- Alternative investments and private real estate could offer significant outperformance over US equities.
- From a factor perspective, small capitalization and value should start to outperform as the recovery continues to develop.

10-Yr Forward CAGR (Real Return)	
Asset	**Exponential Regression Implied Return**
Equities (As of 6/30/2020)	
Large Cap Growth	**0.93%**
Large Cap Core	**4.86%**
Large Cap Value	**8.35%**
Small Cap Growth	**2.60%**
Small Cap Core	**8.10%**
Small Cap Value	**10.87%**
International	**5.09%**
Emerging	**9.80%**
Fixed Income (As of 6/30/2020)	
High Yield	**6.75%**
Corporate Bonds	**4.94%**
7 - 10 Year Treasuries	**3.70%**
Real Estate (As of 3/31/2020)	
Office Property	**7.06%**
Retail Property	**9.28%**
Industrial Property	**6.16%**
REITs (6/30/2020)	**10.14%**

Source: Bloomberg; As of June 30, 2020

Source: StockCharts.com, As of July 6, 2020



Source: StockCharts.com, As of July 6, 2020

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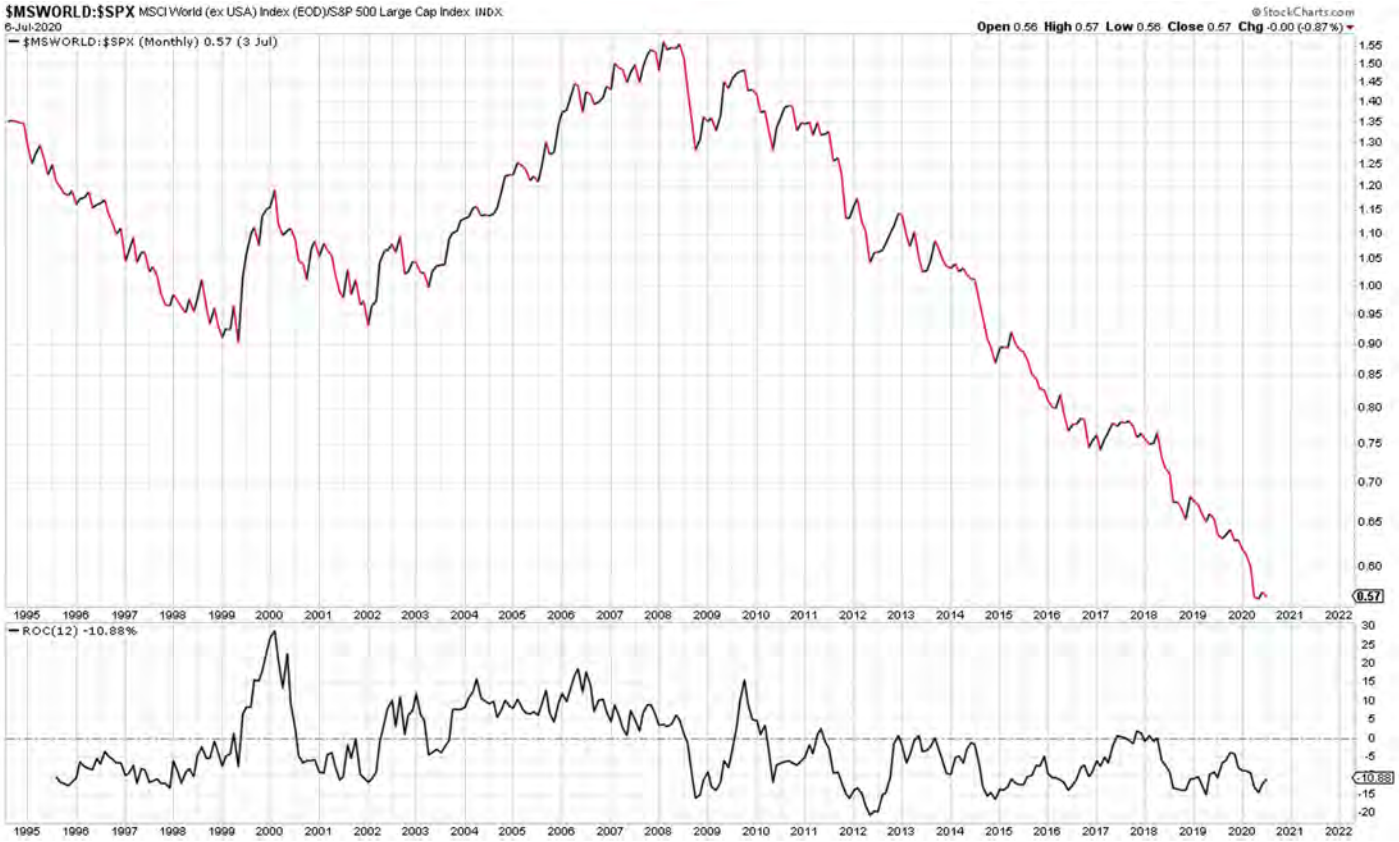

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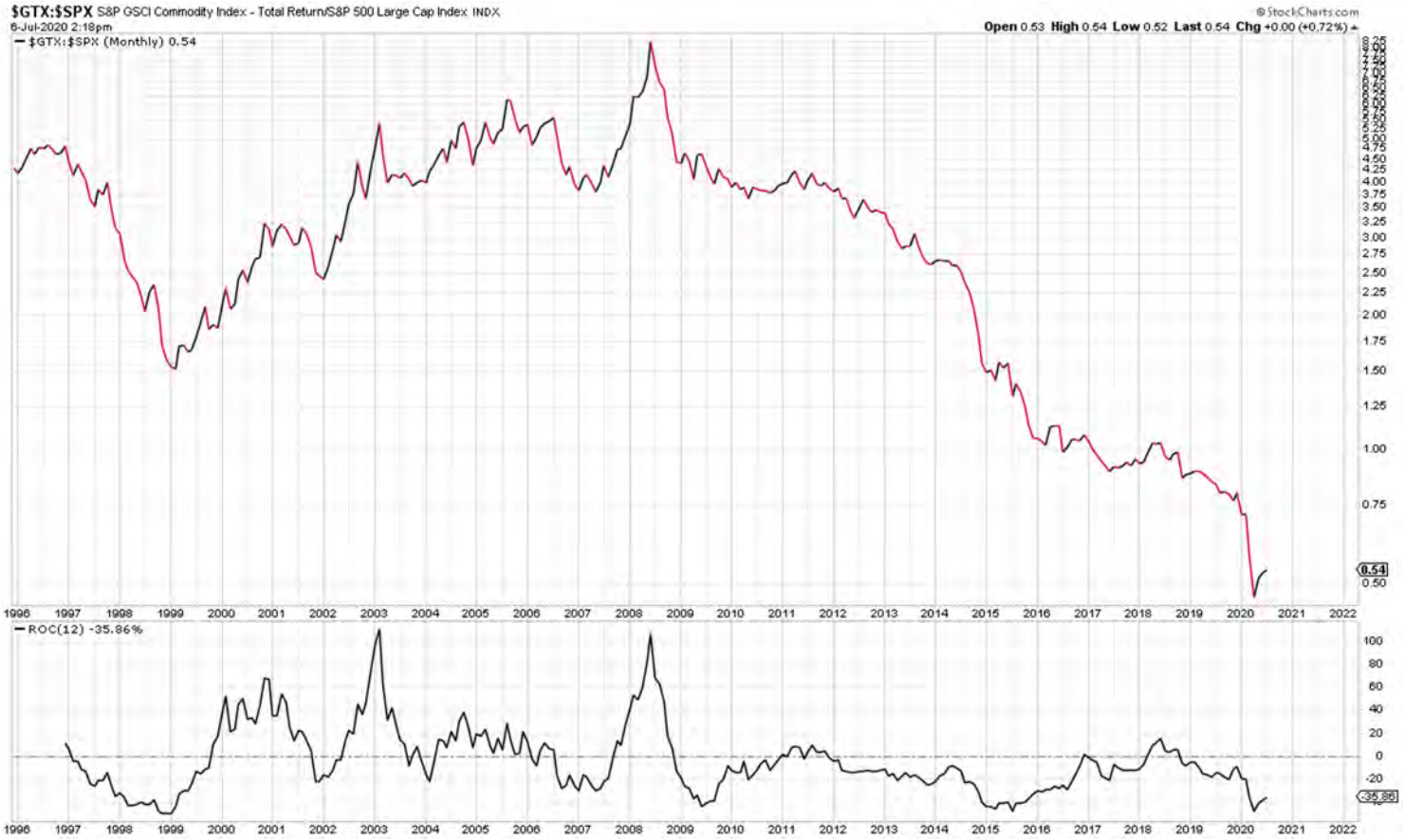

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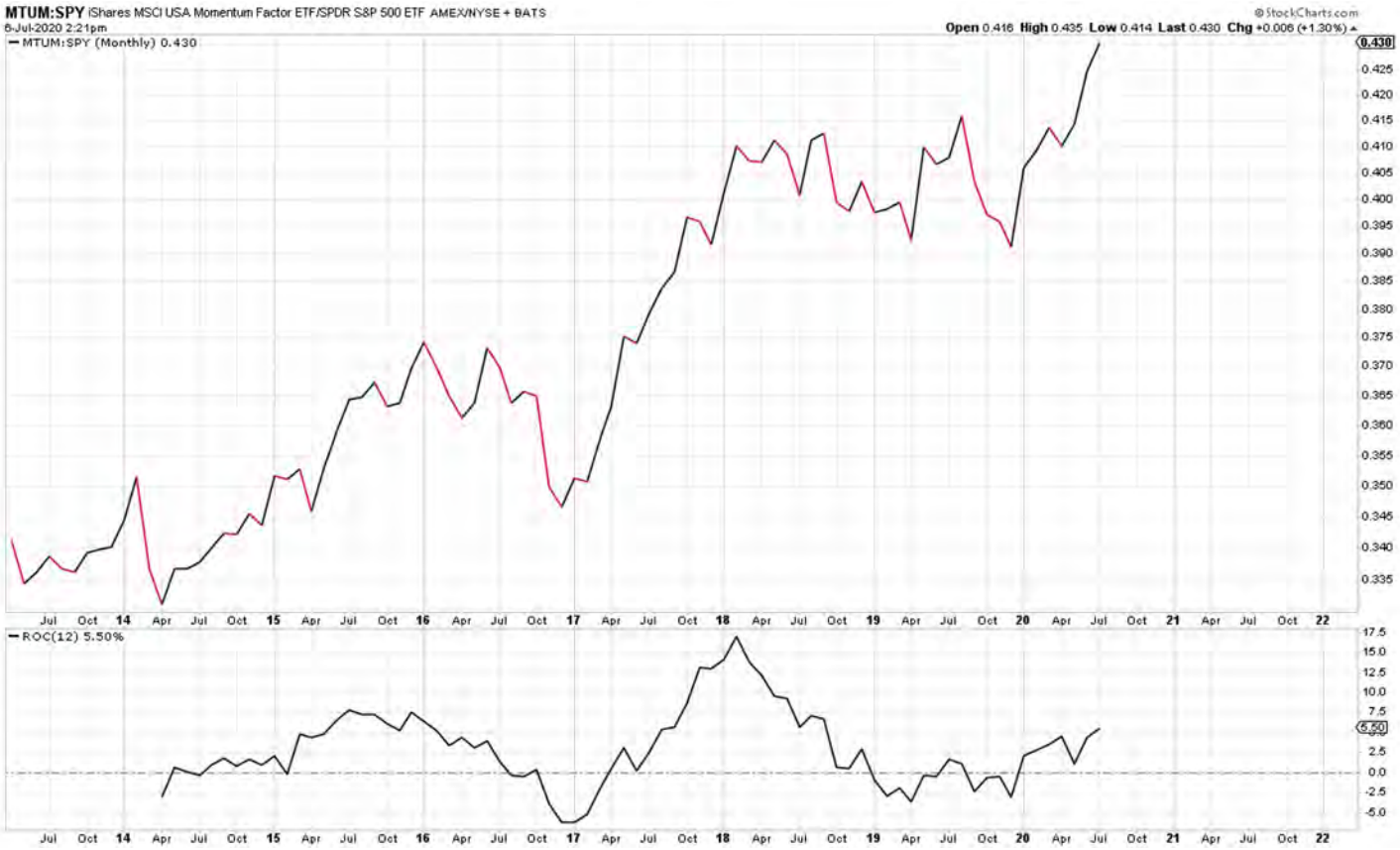

Source: StockCharts.com, As of July 6, 2020

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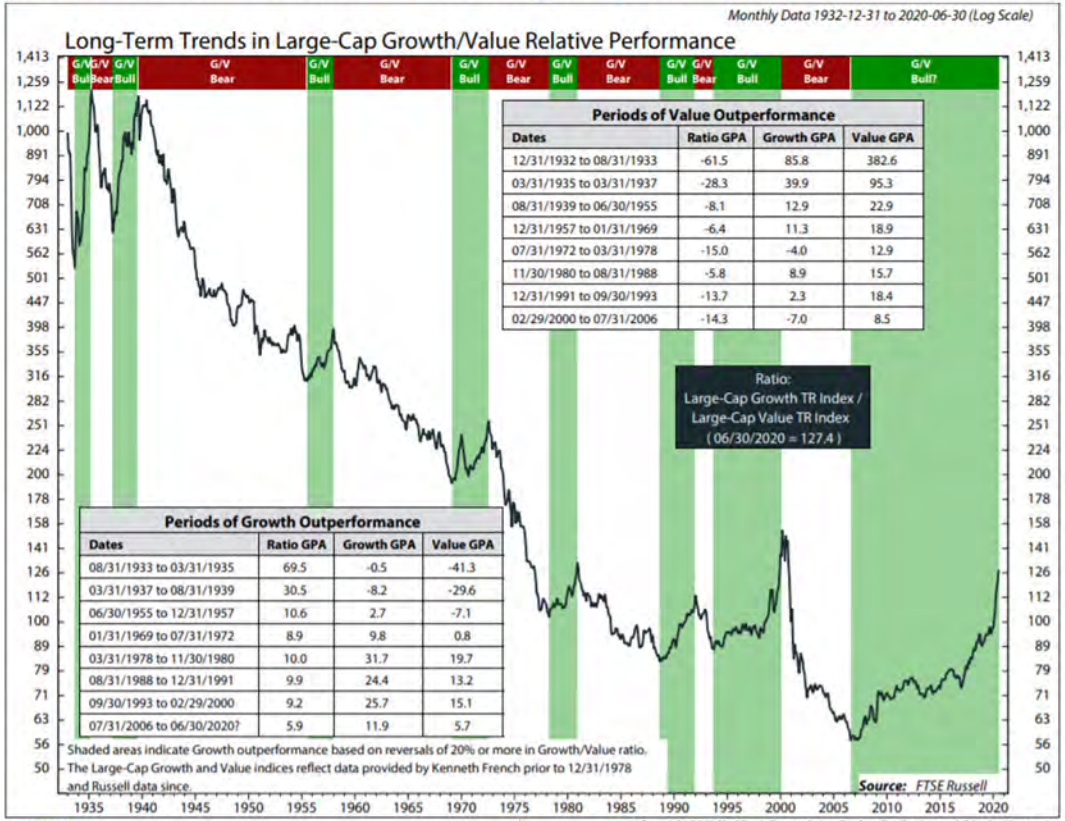
Growth's secular bull >2x as long as previous record



Periods of Value Outperformance

Dates	Ratio GPA	Growth GPA	Value GPA
12/31/1932 to 08/31/1933	-61.5	85.8	382.6
03/31/1935 to 03/31/1937	-28.3	39.9	95.3
08/31/1939 to 06/30/1955	-8.1	12.9	22.9
12/31/1957 to 01/31/1969	-6.4	11.3	18.9
07/31/1972 to 03/31/1978	-15.0	-4.0	12.9
11/30/1980 to 08/31/1988	-5.8	8.9	15.7
12/31/1991 to 09/30/1993	-13.7	2.3	18.4
02/29/2000 to 07/31/2006	-14.3	-7.0	8.5

Periods of Growth Outperformance

Dates	Ratio GPA	Growth GPA	Value GPA
08/31/1933 to 03/31/1935	69.5	-0.5	-41.3
03/31/1937 to 08/31/1939	30.5	-8.2	-29.6
06/30/1955 to 12/31/1957	10.6	2.7	-7.1
01/31/1969 to 07/31/1972	8.9	9.8	0.8
03/31/1978 to 11/30/1980	10.0	31.7	19.7
08/31/1988 to 12/31/1991	9.9	24.4	13.2
09/30/1993 to 02/29/2000	9.2	25.7	15.1
07/31/2006 to 06/30/2020?	5.9	11.9	5.7

Source: NDR, As of June 30, 2020

DISCLOSURE

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