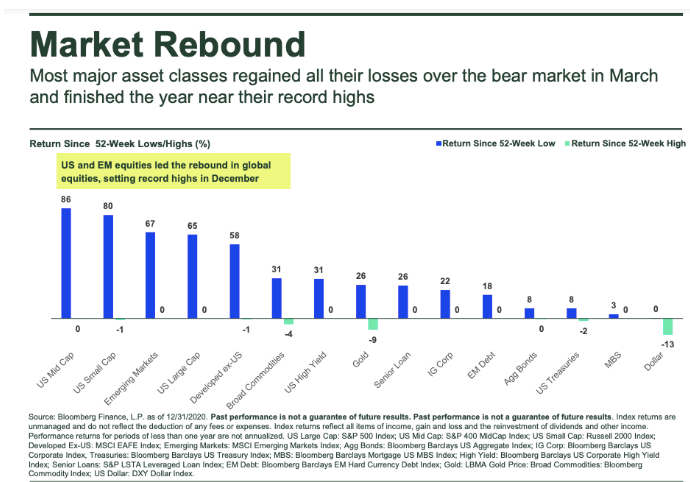
OUTLOOK 2021

2020 RECAP

The novel COVID-19 pandemic dominated the headlines for nearly all of 2020, with financial markets and economies across the globe suffering a tremendous shock beginning in March of last year. The S&P 500 retreated 34% in just 22 days, coinciding with 92% of advanced and developing economies falling into recession last year, representing the greatest synchronized downturn since 1870. The pandemic's first wave of infections led to roughly 25 million U.S. layoffs, as the unemployment rated jumped to 14.7%.[1] Widespread and frequent lockdowns during the year took a toll, with 95% of global economies placed under forced lockdown, but Federal Reserve and Congressional intervention helped buoy equity markets domestically much quicker than what was initially thought possible at the outset of the virus. Despite improved conditions, the U.S. economy still remains at 67% of pre-pandemic levels[2].



We witnessed (and planned for) a V-shaped recovery in the financial markets, reaching new highs to close the year, despite many economic indicators still lagging behind the recovery. Helping accelerate this recovery was FDA-approved vaccines, which had a start-to-end development life cycle of only 9 months, a record feat compared to the usual decade-long investment in vaccine

[1]Source: Goldman Sachs Global Investment Research and GSAM as of January 2021

[2]Source: Goldman Sachs Global Investment Research and GSAM as of January 2021

research and production[3]. Despite a less than auspicious start to the year, the Dow Jones returned 9.7% to close 2020 and the S&P 500 ended the year up 18.4%.

2020 was a great year for certain U.S. sectors, in particular 'Stay-At-Home' Technology playing a vital role in pushing equity prices higher, as demand skyrocketed for digital/virtual solutions. E-commerce as a share of total US retail sales climbed to 16%, increasing as much in the last year as it did over the past ten years.[4] In many aspects, the pandemic allowed some companies to benefit from the new economic reality that we witnessed last year. We expect that such companies will continue to perform positively into 2021, as a large segment of the workforce will still work from home (at least part-time) until economic conditions are fully stable. In addition, equity markets rallied after the November presidential elections, once it became clearer which economic policies would be center stage in the national conversation for the next four years. On the other hand, WTI oil futures closed negative for the first time in history in April of 2020, given storage capacity constraints and a reduction in demand. We maintain that the fallout will create proverbial winners and losers in the market, so proper asset selection and active management will play a pivotal role in investor returns for the years ahead.

GOING FORWARD

The coronavirus pandemic is still likely to dominate the global economic outlook heading into 2021, with the second wave of the virus prompting renewed national lockdowns in Europe and tighter restrictions in the U.S. This will compress economic activity in the immediate months ahead, albeit by much less once widespread vaccinations become available. Vaccine rollout has raised the prospect of a significant easing in the global health crisis by the middle of 2021 and a more sure-footed economic recovery thereafter. In order to promote greater economic expansion and recovery, we expect the Federal Reserve to keep interest rates at zero for 2021 and likely beyond. Despite inflation expectations remaining tampered, they have started to rise slightly as the yield curve has steepened.

We are anticipating strong S&P 500 returns for 2021 if the three pillars of the recovery remain intact: successful vaccine distribution and efficacy, strong corporate earnings, and continued economic stimulus from Washington. GDP growth will also likely be strong for 2021 as the labor market improves. The International Monetary Fund forecasted that the global economy could shrink 4.4% in 2020 once final economic numbers are tallied, before bouncing back to 5.2% in

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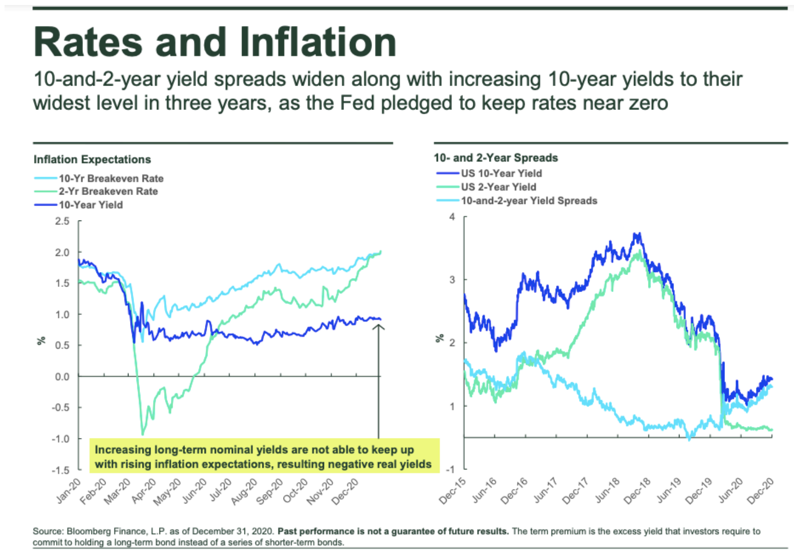
[3]Source: Goldman Sachs Global Investment Research and GSAM as of January 2021

[4]Source: Goldman Sachs Global Investment Research and GSAM as of January 2021

2021[5]. A major contributor to the increase in GDP is expected in the latter part of 2021, once the effects of the coronavirus are in the rear-view mirror. We are optimistic that another round of government stimulus will play a major role in the economic stabilization of U.S. markets which suffered as a result of the pandemic. In addition, the unemployment rate is expected to decline in 2021, till it reaches a ‘full-employment’ level around 3-4%[6].



PORTFOLIO ALLOCATION

Post-election, equity markets saw a shift from growth to value. We believe this sector represents an opportunity in 2021 as a majority of the financial and energy sector value stocks have started to regain favor due to their low P/E multiples, as they were largely ignored in 2020 in favor of momentum and large cap growth. We are optimistic that value stocks will be a key performer in 2021, specifically banks with a rising yield curve and increasing margins. As a result, we will be adding more exposure to the portfolio across small, mid, and large cap equities. We maintain that traditional energy has headwinds, but clean energy represents an opportunity given the new administration’s stance towards renewables and alternate energy sources. We are adding a new position in our portfolios for this asset class as well starting Q1. Also, we believe emerging markets will outperform in 2021, as China's GDP is expected to rebound at a robust pace. Nevertheless, our portfolios are still largely concentrated in large cap growth, as we believe this sector represents the greatest opportunity to generate alpha.

We’ve also made a deliberate portfolio decision to take on more equity exposure, given that we believe we are in the early innings of another upward cycle and are positioning accounts toward the upper end of traditional allocations to capture additional return.

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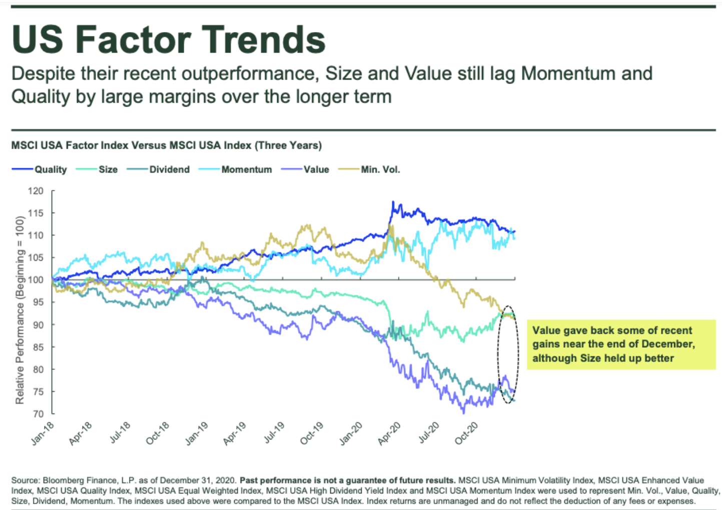
[5]International Monetary Fund, October 13, 2020

[6]Source:Bloomberg

We expect U.S Treasuries will have moderate performance in 2021, as interest rates remain stuck near zero and yields are incredibly low. We believe that inflation indexed treasury bonds offer a better alternative, as yields begin to steepen and return to pre-pandemic levels. We also prefer convertibles in fixed income, as it will provide better upside returns, as convertibles have low correlation with traditional fixed income and trade similar to equities at times.



SUMMARY

We are very bullish about the prospects for a continued upward tilt of equities prices as the economy gradually recovers. The early stages of the next bull market expansion are likely to see equity returns pulled forward given further policy support, improved vaccine prospects, and economic re-opening. We believe secular trends will continue to reinforce growth themes and are actively managing our portfolios accordingly. Despite this, there maybe periods of market volatility, but we believe that moments of uncertainty are best addressed through our strategic portfolio design and investor discipline, a stance we always try to reinforce.