Economic Market Performance and Outlook

Year 2020

2019 Full Year Recap 2019 was an incredibly strong year for the markets that saw a sharp Q1 rebound after a dramatic selloff in Q4 of 2018. Despite this headline number, the market dealt with many uncertainties that ultimately weren't enough to dissuade bullish investors. "Not fighting the tape" and remaining invested during periods of uncertainty was the prudent strategy to follow. The main sources of uncertainty that we witnessed during 2019 included:

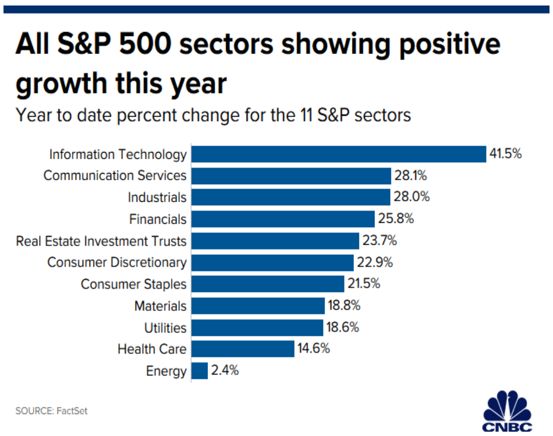
● The U.S./China trade war (which in our opinion was the most prominent overhang of uncertainty in 2019)

● Brexit

● The 2020 U.S. Presidential Election

● Civil unrest in Hong Kong

● Tensions in the Middle East

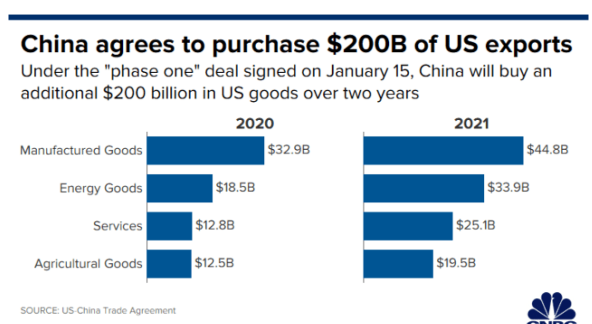


In 2019, the vast majority of S&P 500 stocks increased in value, with only 64 companies down for the year. In total, all 11 S&P 500 sectors ended the year with positive returns. Under the current administration, the DOW Jones has witnessed the fastest 1,000, 2,000, 3,000, 4,000, 5,000, 6,000, 7,000, 8,000, and 9,000 point increases in its 120-year history. Technology, which is and has been our highest conviction for the past several years, was the biggest sector winner in 2019 with a 41.5% gain. Included in this was Apple, another equity position of ours, which saw more than an 85% gain last year. We believe the proliferation of 5G technology in the new year could push this holding even higher. Communication Services, Industrials, Financials, Real Estate, and Consumer Discretionary all skyrocketed by more than 20% last year.

2020 Forecast

The direction of the markets in 2020 will be determined by how the aforementioned uncertainties play out. In January 2020, The U.S. and China signed a preliminary trade deal, despite some of the thorniest issues remaining unresolved. Under the so-called "Phase One" deal signed in January, China pledged to boost U.S. imports by $200 billion above 2017 levels and strengthen intellectual property rules. In addition, the U.S. agreed to halve some of the new tariffs it had imposed on China. The White House said it will tackle additional issues in a second, "Phase Two" deal, but we don't expect anything concrete anytime soon. We view this as an upside opportunity in 2020, perhaps after the Presidential Election in November.

However, the longer the uncertainty of the trade war persists, the more likely it is to weigh on business sentiment and erode business investment. It continues to affect global trading volumes, countries that are trade-dependent, and multinationals with extensive global supply chains. We see improving trade policy boosting business confidence, corporate spending and investment, and industrial and manufacturing activity.

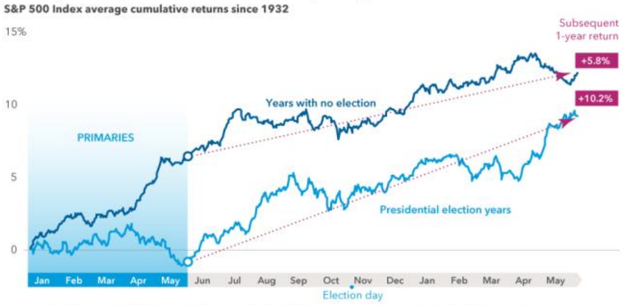


Trade tensions aren't limited to the fight between Washington and Beijing. Despite the likely resolution of Brexit taking place on January 31st with a "No-Deal", there will be trade issues occurring in Europe. Included in this will be ongoing spats over U.S. tariffs on European steel, U.S. tariffs on European goods due to the Airbus-Boeing dispute, and U.S. tariffs on French goods in response to a controversial French digital tax—a tax that is under serious consideration in several other countries and that could spread the trade fight even further.

We expect that market volatility will be elevated due to November's Presidential Election, especially if the base-case of a Trump reelection aren't realized. Investors that hold on for at least a year, historically have been rewarded for their patience, though they had to withstand heightened volatility during the primaries. Although we are bracing for perhaps some volatility in the short term, the year after an election shows returns to be 10.2% versus non-election year returns of 5.8% since 1932. Despite this, markets have historically performed well for both Republican and Democratic presidents. Investors will need to remain well diversified until public policy for the next 4 years becomes codified.

Volatility during primaries is often followed by strong returns

S&P 500 Index average cumulative returns since 1932



Sources: Capital Group, RIMES, Standard & Poor's. Includes all daily price returns from 1/1/32-11/30/19. Years without an election exclude all years with either a presidential or midterm election. Subsequent one-year return calculation begins on May 31 each year, a proxy for the end of primaries. Standard & Poor's 500 Composite Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks. Returns are in USD.

Our stance remains that U.S. equities are attractive, due to low interest rates, low inflation and supportive monetary policy. This is in spite of valuations being elevated. Also, we have seen the U.S. Dollar weaken recently because of a miniature "quantitative easing" policy, specifically support of the repurchase market, that is expected to be ongoing by the Federal Reserve. This should be positive for U.S. equities and act as a backstop to any major correction.

Due to the effects of tariffs and rising labor costs, profit margins could come under further pressure in 2020. Weaker profitability outlook likely will continue to put pressure on small-cap stocks. We continue to recommend an Overweight to Large Caps and Underweight to Small Caps within U.S. equities due to their financial flexibility.

Fixed income returns will be modest, regardless of whether this year brings small changes to long-term interest rates. We believe that higher-yielding bonds do not provide sufficient market returns for the amount of implied risk and we are shifting to more of a "barbell approach" to risk. Non-U.S. debt remains unattractive in part due to negative interest rates. As a result, we are Overweight U.S. fixed income and prefer higher duration, as well as higher credit quality.

We are once again allocating investments to specific sectors. Financials are trading at reasonable valuations and should be helped by Fed action and productivity enhancements. We also favor medical devices in the Healthcare sector and view this as having long-term upside potential. With our optimistic view on consumer spending, Consumer Discretionary stocks are also expected to do well. As the global manufacturing cycle stabilizes and improves, we see this as constructive to global GDP and are expecting 3+% growth in 2020. As a result, we are Overweight Emerging Markets, with a specific focus on China and Asia.

In summary, despite trade war issues still remaining, we are expecting solid market gains in 2020 as the "up-cycle" in the market continues. We expect that investors should feel more positive going forward in 2020, after a remarkable 2019, and will need to take into account risk versus reward, valuation and volatility factors into their investment decision making.

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