PrivateWealth Partners, LLC

Dear Friend, October 13, 2020

The S&P 500 index finished the third quarter up a solid +8.5%, even with a choppy September. Together with Q2, the S&P 500 has risen by almost +30% in six months, delivering its best two-quarter performance since 2009. Meanwhile, tech shares continue to be the darlings of the recovery—the Technology sector was up +12.0% in Q3 and is leading all sectors for the year with a +28.7% return. With technology making up over 20% of the S&P 500, and with a handful of tech stocks leading the charge higher, it is increasingly important for active managers to identify and overweight market leaders.

In the spring, very few people predicted the stock market would be in positive territory by October 1, particularly given dire predictions about the pandemic and the tumultuous election cycle. The market is defying expectations.

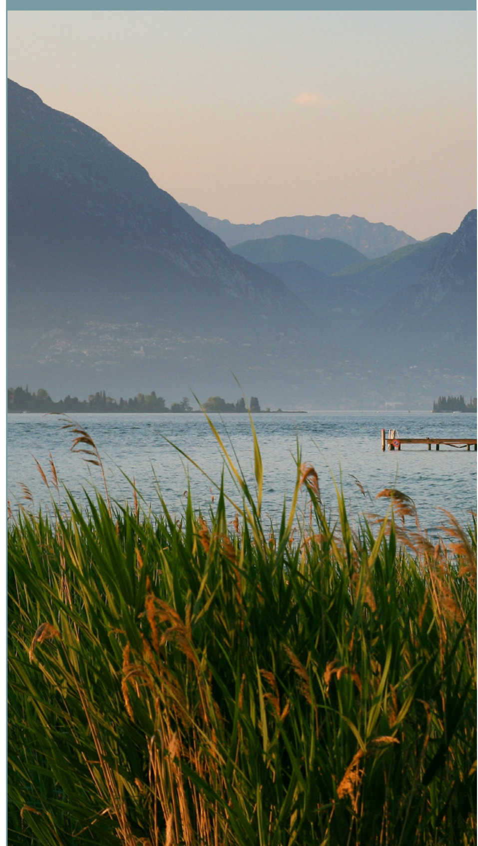
THE STOCK MARKET'S "V-SHAPED" BOUNCE REMINDS US TO STAY PATIENT IN TURBULENT TIMES

Source: Strategas Research

Private Wealth Partners' portfolios have benefited from Tech's relative outperformance, given our portfolio overweight to the "digital economy." We wrote last quarter that the commercial economy can operate pretty well online, and corporations have been rushing to upgrade their digital infrastructure in the wake of the pandemic. Twilio, the leading cloud communications platform, recently published research finding that "97% of enterprises have accelerated their digital transformation efforts in response to Covid-19, and their digital communications

"It's better to buy wonderful companies at fair prices than fair companies at wonderful prices."

-WARREN BUFFETT & CHARLIE MUNGER



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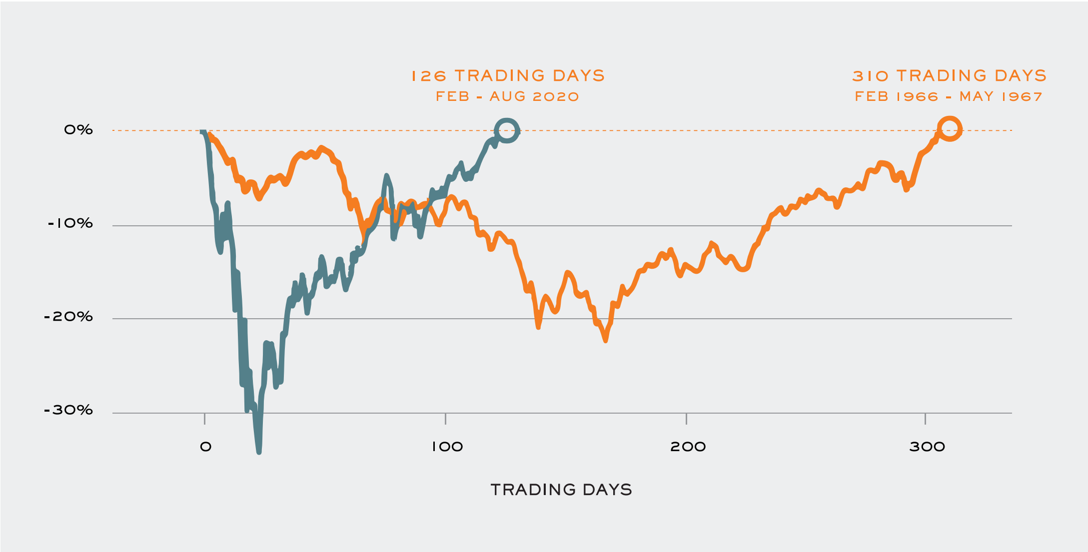
strategies have sped up by an average of six years. 92% of companies are also looking to expand their digital communication channel."

The Carlyle Group, a well-respected global asset management firm, succinctly distilled trends in the digital economy into an investment thesis: "technology may no longer be viewed as an industry in its own right, but instead understood as the key differentiator between companies—irrespective of industry."

In short: the pandemic is accelerating growth trends in the digital economy *for almost all companies*, and our portfolio positioning has helped us capture these changes. For all of 2020's hardships and strange twists, it has been a good year for our active—but also patient—approach.

In this bull-bear market cycle, the S&P 500 took *just 126 trading sessions to post a full recovery*, which is about six months faster than the previous recovery record set in 1966-67. Looking back at all bear markets since 1928, U.S. equities have taken an average of six years to recapture all-time highs. Investor patience during this turbulent period has been rewarded in record time.

S&P FASTEST RECOVERIES FOLLOWING A BEAR MARKET, FROM RECORD HIGH TO NEW RECORD



Source: Dow Jones Market Data

Historically, markets reach a bottom about four months before a recession officially ends, which almost always means the economy is beset by job losses, heightened uncertainty, and relentlessly negative media coverage. Understanding this dynamic—of equity markets moving ahead of the economy—helps explain how stocks could recover so quickly. As explained by the famous investor John Templeton, "bull markets are born on pessimism."

Since the recession was caused by a self-induced shutdown and not structural or cyclical imbalances, the economy was able to restart fairly quickly. In our Q2 client letter, we also cited the role of massive global stimulus, which is many times bigger than the stimulus deployed during the late stages of the 2008-2009 Financial Crisis. In late August, Federal Reserve Chairman Jerome Powell took the Fed's role a step further, marking a significant—but perhaps predictable—shift in monetary policy strategy (and goals).

Chairman Powell indicated the Fed would be implementing a "flexible form of average inflation targeting," which is a complex way of saying the Fed will allow inflation to drift above 2%. In other words, the Fed appears increasingly willing to let inflation overshoot its targets in an effort to push unemployment back to its maximum level. 17 Fed officials said they believed rates would stay near zero until at least the end of 2021, with 13 officials pushing the date further out to 2023. For investors, the Federal Reserve has essentially codified 'lower for longer' interest rates.

We also think stocks benefited from a "worse than the Great Depression" narrative that never materialized. On more than one occasion in Q3, Wall Street economists/strategists revised GDP and S&P 500 earnings-per-share growth estimates higher. The U.S. corporate profit decline in 2020 was less severe than most developed countries, which arguably gives domestic companies a lower hurdle to return to previous levels of activity, output, and profitability.

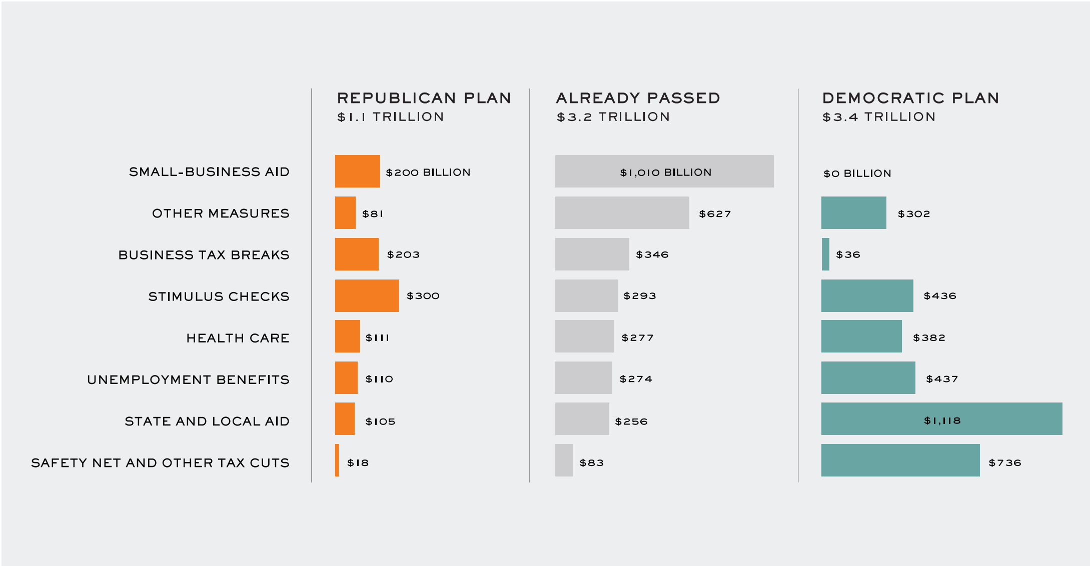
There have also been underappreciated, pandemic-related positives supporting markets. In particular, the lower incidence of deaths may help explain the relatively muted market response to rising infections, and a better understanding of the virus likely allowed risk assets to anticipate the quicker-than-expected restart. One of the key points we made in our Q2 letter was that the U.S. health system improved markedly over the quarter (Q2) in its ability to handle and treat cases, which also applies to Q3.

Hanging in the balance is the vaccine, which we believe is more important at this stage than the election. In our view, a delayed vaccine and/or a disorganized roll-out may pose the biggest near-term risk to equity markets. The stock market does not like uncertainties, and while a smooth election is by no means assured, the market can look past political noise and whatever changes may come to taxes, trade, and fiscal policy. With the vaccine, however, the timeline is less clear, and it is easy to overestimate the efficacy and accessibility of the drug. Efficiency and accessibility are crucial to sustaining momentum in the economic recovery.

President Trump and the First Lady testing positive for the virus shook the markets on October 2, but the president has access to the best medical care in the world and appears to be stable and recovering. While the president's condition may contribute to additional election uncertainty—and perhaps short-term volatility—we do not believe it will fundamentally alter the course of the economic recovery.

Re-establishing the pandemic as the center of the national conversation may ultimately provide a tailwind for additional fiscal stimulus, which has to-date been elusive for Congress and the White House. Senate Republicans, House Democrats, and the White House all seem to be on different pages as it relates to additional spending, which arguably contributed to selling pressure in September.

CONGRESS REMAINS FAR APART REGARDING FISCAL STIMULUS PLANS



Source: New York Times, CRFB

The Federal Reserve has even waded into the political sphere, with Chairman Powell delicately but resolutely reminding politicians of the limits of forward guidance and monetary policy, while making the case for more fiscal stimulus. In our view, the clock is ticking on the need for more fiscal stimulus—job gains are moderating, the personal income boost from the $600/week unemployment benefit has faded, and the viability of sustained consumer spending is falling. We expect market volatility until a deal is done.

PRIVATE WEALTH PARTNERS STRATEGY BRIEFING

As mentioned last quarter, Private Wealth Partners has been pursuing investment opportunities in the 5G space. Specifically, we have been positioning portfolios toward companies we view as major beneficiaries of the 5G network buildout. While the rollout will likely consist of waves rather than one long-steady buildout, we see attractive long-term opportunities. 5G is much more than a cellphone upgrade cycle—it represents a fundamental shift for industrial, retail and health care companies to streamline their businesses and create new revenue opportunities.

Looking at the market as a whole, equity valuations are relatively high but remain more attractive than other asset classes. On a forward basis, the S&P trades at about 21x earnings versus a long-term average of 15.3x. With the 10-year U.S. Treasury bond yielding 68 basis points, and the total value of negative-yielding sovereign debt resting at more than $15 trillion, growth and yield-oriented investors have few other viable options outside of stocks. If the economic recovery proves to have legs—which we believe it will—corporate earnings growth in the coming quarters should justify current valuations.

PATCHES OF WEAKNESS AND STRENGTH IN THE ECONOMIC RECOVERY

Housing has been the economic story of the third quarter. The sector declined in-line with the broader U.S. economy in the spring, but has since climbed back to pre-pandemic levels in terms of housing starts and construction. In the month of July, housing starts soared 23% from June, hitting an annual pace of close to 1.5 million. Sales of new single-family homes jumped 14% month-over-month in July, hitting an annual pace of 901,000. According to the National Association of Realtors, there were 1.3 million single-family homes for sale in the U.S. – the lowest level for any July going back to 1982.

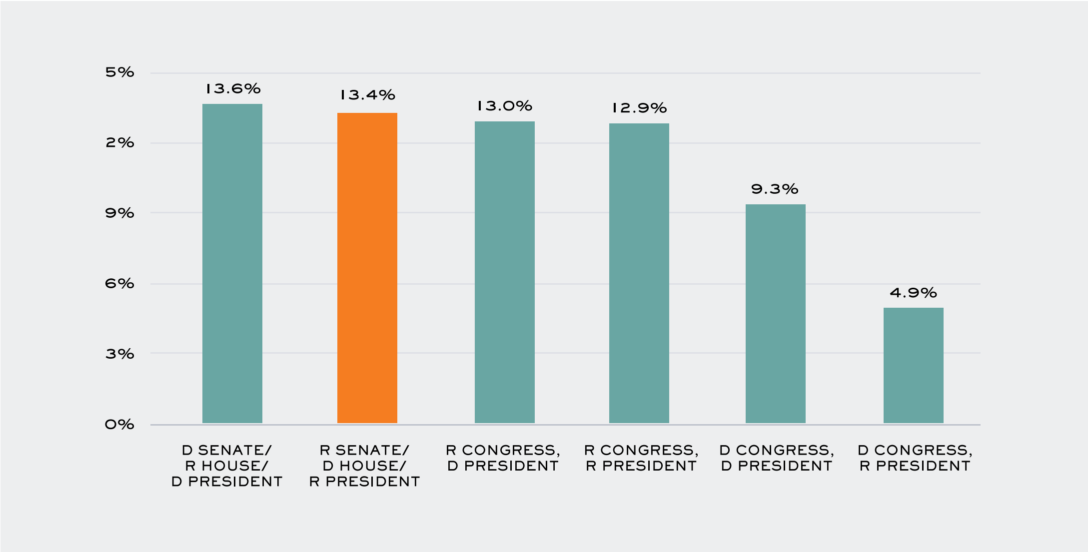
Downstream effects of the housing boom have been evident in consumer spending on furniture, appliances, and home improvement, which has outperformed spending across most other sectors. Construction employment has recovered briskly.

While housing enjoys a strong year, the jobs market is struggling to claw its way back to pre-pandemic levels. In September, U.S. employers added 661,000 jobs, which was far below the 859,000 expected and marks a sharp slowdown from gains made over the summer. The U.S. has replaced 11.4 million of the 22 million jobs lost to the pandemic, but momentum is likely to slow until the virus comes under better control and/or a vaccine is widely distributed. Neither outcome seems likely for 2020, which underscores the need for more fiscal stimulus before the end of the year. In the meantime, the economy is not going into reverse, but the tailwinds are fading.

ANTICIPATING ELECTION VOLATILITY

Many investors like to assume their political party is better for the stock market, or that a specific balance of power between the president and Congress is ideal for business and the economy. The stock market tells a different story. Over the long-term, the S&P 500 has delivered positive returns no matter what the political balance of power.

THE MARKET TRENDS HIGHER, EVEN AS POWER CHANGES HANDS OFTEN[1]



[1] 2001 and 2002 are excluded because control of the Senate changed hands three times in that period. *Source: Strategas Research*

From a tax perspective, Biden's campaign has proposed raising individual tax rates for those earning over $400,000 to 39.6% from 37%, and moving corporate tax rates up to 28% from 21%. Higher corporate tax rates impact earnings, but the proposed rate increases are hardly unprecedented—tax rates were at 35% just four years ago, when the economy was growing in a steady manner.

Biden has also proposed raising Social Security payroll taxes, which are not collected on income greater than $137,700. Biden's plan would keep the cap at $137,000 but re-impose the tax on incomes exceeding $400,000, creating a barbell-like structure. For those earning more than $1 million, it is possible that long-term capital gains and qualified dividend tax rates could bump up to ordinary income tax rates. A Biden administration may also pursue ending the step-up provision upon death for estate plans, which could significantly increase tax burdens for heirs. Taken together, these changes would almost certainly warrant adjustments to tax and estate planning strategies on an individual level, but they seem far less likely to impact or change long-term economic growth trends.

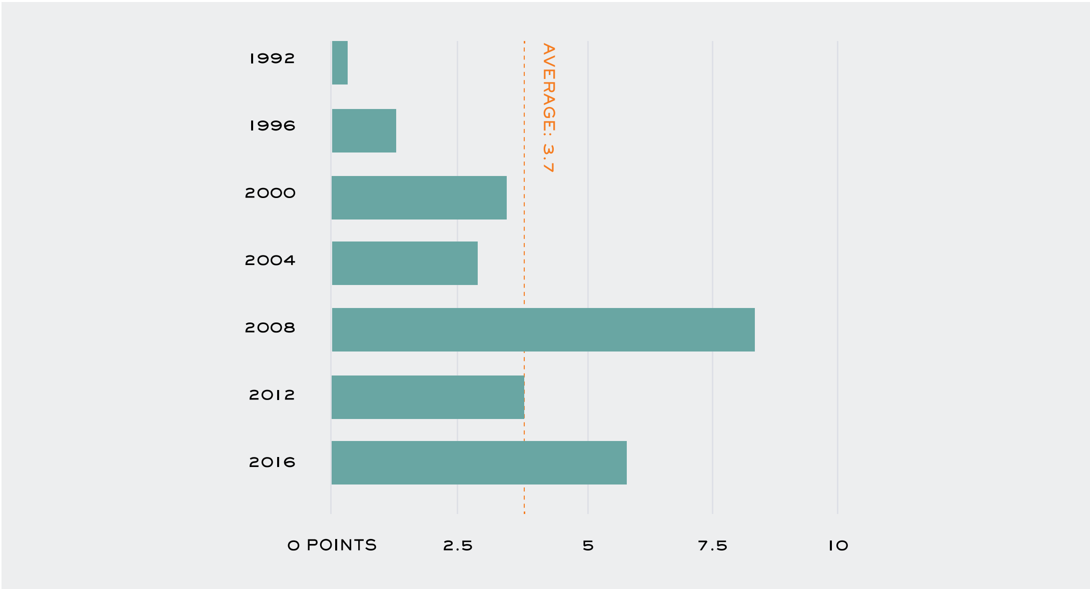
While higher taxes on the wealthy and big spending programs frame the vision for a Biden White House, it is important to remember that campaign proposals are designed to generate voter enthusiasm—very few are enacted as advertised. We saw this outcome in 2010 with the Affordable Care Act and in 2017 with the Tax Cuts and Jobs Act. The pieces of legislation signed by Presidents Obama and Trump, respectively, were far more moderate than the original proposals.

If President Trump emerges victorious in November, he will almost certainly encounter a divided Congress. Republicans in the House face a significant uphill battle to gain a majority. With a divided Congress, the probability of meaningful, business-impacting legislation remains low, and governing by executive order has many limitations. For his part, President Trump faces an uphill battle to re-election: only one president (Calvin Coolidge) in U.S. history won re-election when there was a recession at least two years before an election. Bush I, Carter, Hoover, Ford and Taft all lost re-election bids under similar circumstances.

As the election approaches, we expect to experience even more volatility, particularly given the role of the pandemic and ongoing uncertainties about the voting process. If the election result is contested, it could be several weeks before we know who the voters chose as president.

Even without some of the voting uncertainties, volatility has been associated with recent elections. Looking back at the last seven U.S. presidential elections, the Cboe Volatility Index (VIX) has risen an average of approximately four points in the month leading up to election day. Investors should reasonably expect some bumpiness this time around, too.

CHANGE IN THE VIX ONE MONTH LEADING UP TO ELECTION DAY



Source: Dow Jones Market Data

PRIVATE WEALTH PARTNERS FORM ADV + PERSONNEL UPDATE

Private Wealth Partners has updated our Form ADV Part II (Brochure) and Form CRS to include Financial Planning Services. Please contact us if you would like a copy of the amended Brochure and Form CRS, or you can download a copy from our website.

We are also pleased to welcome a new employee to the Private Wealth Partners team, Matt Kalabokes. Matt joined us as a member of our Client Services/Operations team. Prior to joining Private Wealth Partners and while still in college, Matt started an investment company with his grandfather. Matt's passion for personal finance started at a young age, with guidance from his grandfather who taught him fundamentals of investing and personal finance. Matt holds a B.A. from Dominican University and is pursuing his Certified Financial Planner (CFP) designation.

CONCLUSION

One point we made in our last letter is worth making again: recessions end when *the economy begins to grow*—even if that growth does not seem very strong at first.

The U.S. CARES Act enacted in March 2020 amounted to fiscal stimulus worth approximately 13% of GDP—a massive figure nearly matched by many other developed countries. There is still a significant amount of stimulus yet to work its way through the global economy, and more is likely on the way. Though the timeline for more stimulus is very uncertain, we expect more spending in the next 3 to 6 months.

Investors should reasonably expect the markets to be bumpier in Q4 than what we experienced over the last six months. Equity valuation multiples are stretched, and we will need to see better-than-expected earnings growth in the coming quarters to sustain these levels. The upshot is that underlying economic fundamentals remain favorable: low inflation, strong expected GDP growth in 2021, and lower-for-longer interest rates are buoying stocks' status as the most attractive asset class. We remain balanced between high-quality secular growth stocks and high-quality stable growth stocks, which we think positions us well for what's ahead.

If you have any questions about this review or our strategy, please do not hesitate to reach out to us. Stay safe and patient this fall in the face of rising uncertainty. The stock market almost always looks out three to six months, and we suggest investors do the same.

As always, we thank you for your continued confidence in Private Wealth Partners.

Sincerely,

Ken
Kenneth F. Siebel

Peter
Peter K. Maier

Bill
William F. Dagley

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David P. Wong

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