Economic Update

A Closer Look at Q4 2020 Data

Released January 2021

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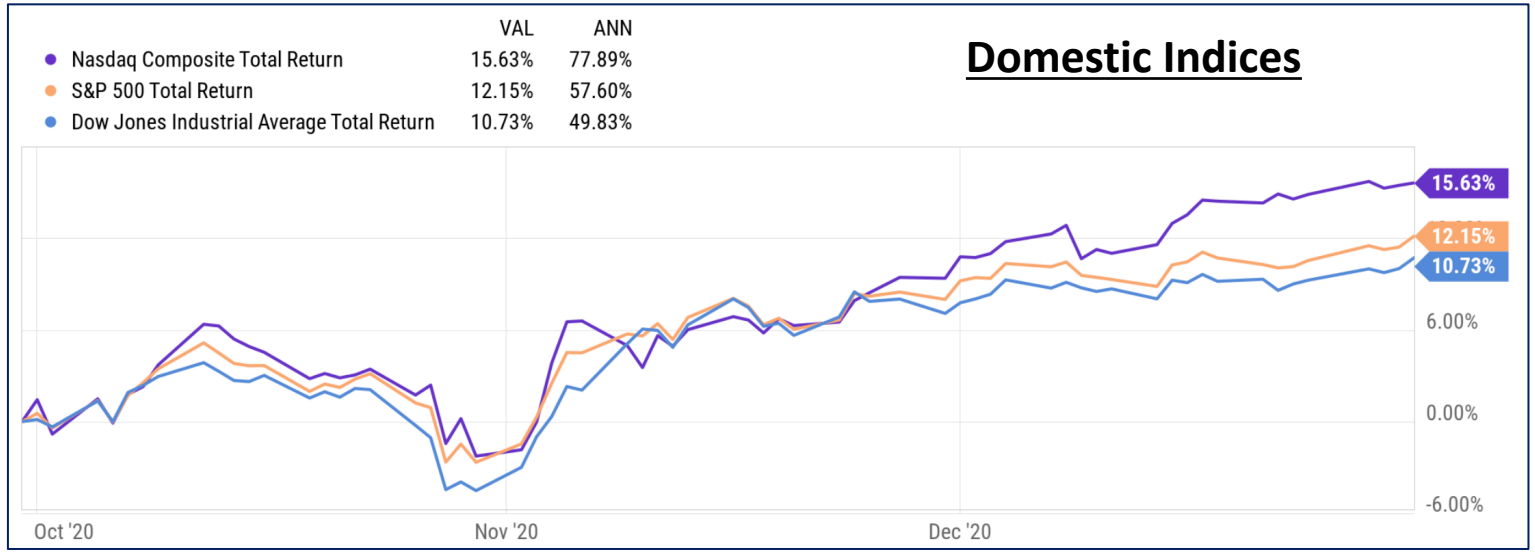
Stock Markets Performance



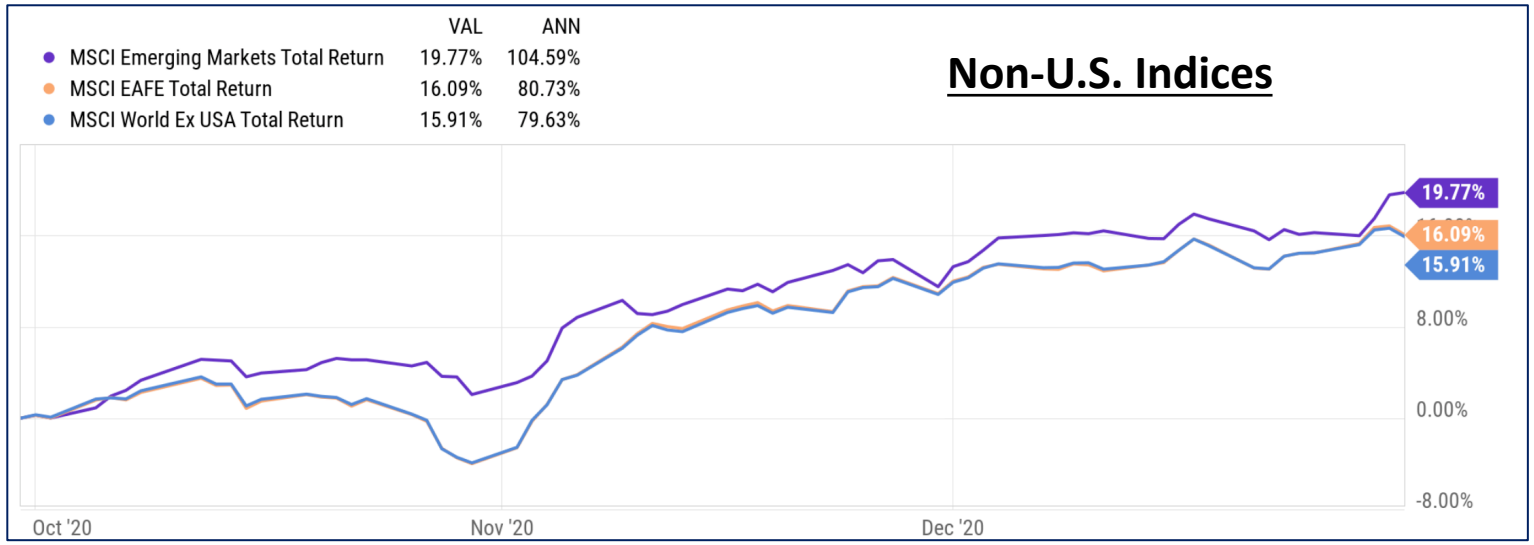
2020 ended with strong quarterly performance for the equity markets.

Entering the Fourth Quarter, stock indices had mostly recovered from their sharp, COVID-related declines earlier in the year and seemed to be awaiting clarity from the looming elections.

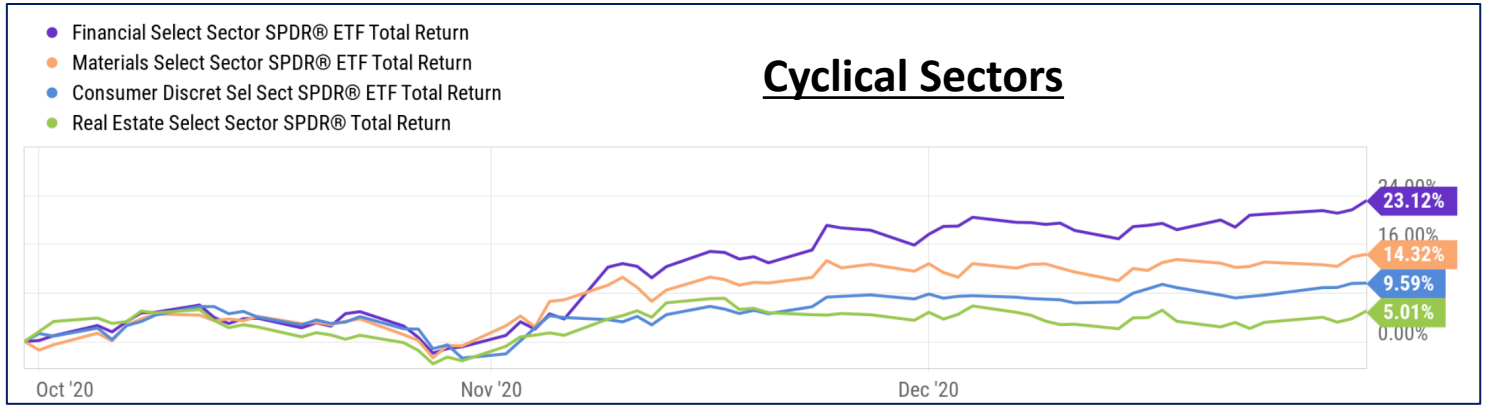
After giving back some gains in October, equities began to rebound and following the election results continued to move higher through year-end.

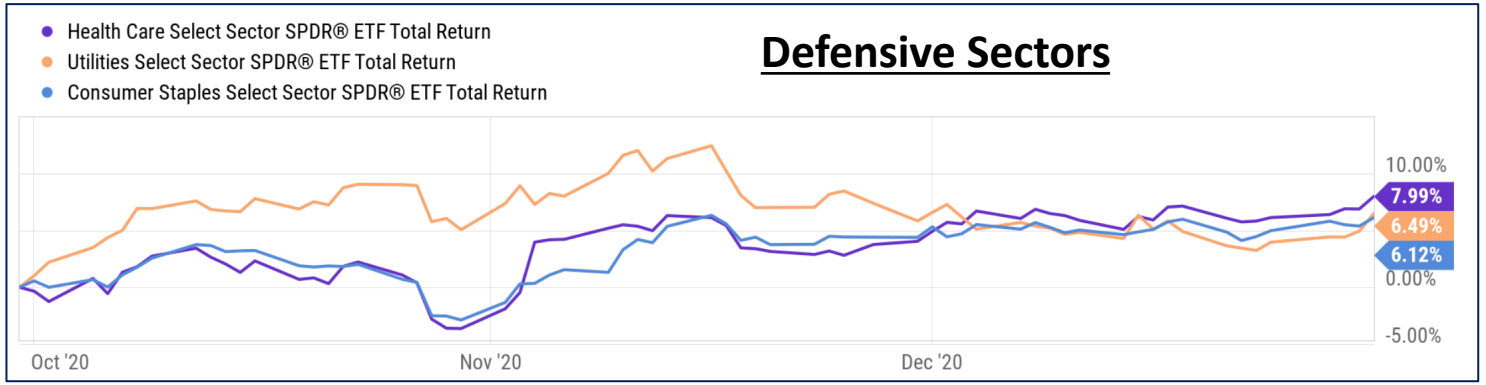
Global stocks posted an even more impressive quarter. The three major non-U.S. indices, saw their largest quarterly returns in almost 10 years.

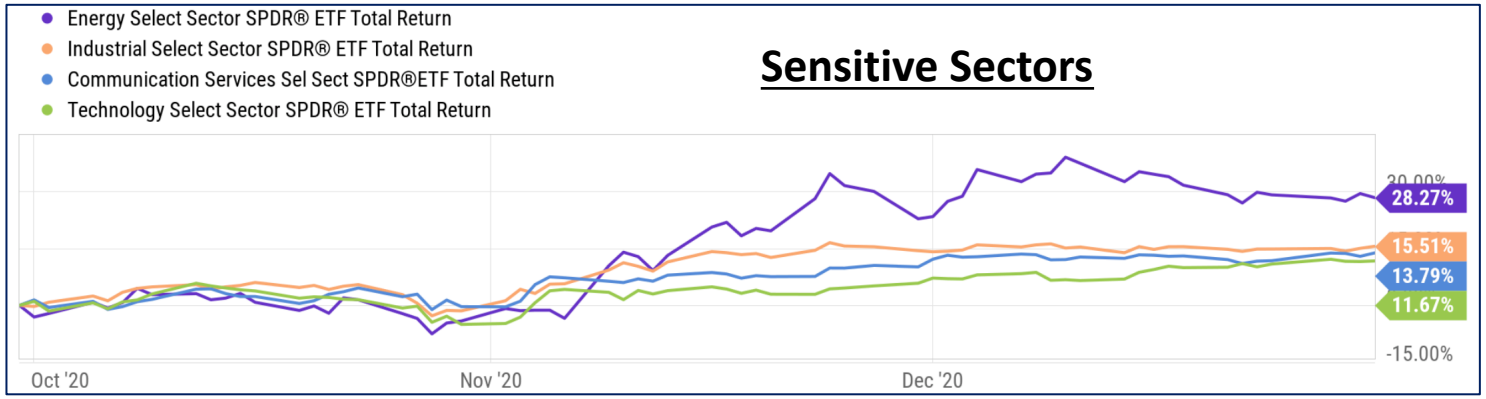
A weaker U.S. Dollar, local economic stimulus and more attractive valuations were all contributors to the rise in prices. While the outperformance of foreign stocks was nice to see, they still have a way to go towards closing the valuation gap with the U.S. markets.



US Sector Performance







All S&P 500 sectors finished the quarter higher. After a strong 2020, the Technology sector posted more muted returns while some of the sectors that had been lagging, specifically Energy and Financials, led the pack.

Despite their strong recent performance, both sectors still finished the year in the red. The Real Estate sector also finished the year lower, while all other sectors finished the year higher than where they began 2020.

Perhaps the biggest surprise this past year was the performance of the Consumer Discretionary sector. Typically, recessionary periods will affect cyclical sectors the most, however in 2020, Consumer Discretionary was the second-best performing sector – up nearly 30% on the year. Government stimulus and sustained low interest rates kept consumers active even as increased unemployment and a pandemic spread throughout the country.

Asset Class Performance – Trailing Periods

YTD Total Return	1 month Total Return	3 month Total Return	6 month Total Return	1 year Total Return	3 year Total Return	5 year Total Return	10 year Total Return
US Growth 38.5%	US Small 8.7%	US Small 31.4%	US Small 37.9%	US Growth 38.5%	US Growth 23.0%	US Growth 21.0%	US Growth 17.2%
US Small 20.0%	Emerging Markets 7.4%	Emerging Markets 19.8%	Emerging Markets 31.4%	US Small 20.0%	S&P 500 14.2%	S&P 500 15.2%	S&P 500 13.9%
Emerging Markets 18.7%	Commodities 6.0%	US Value 16.3%	US Growth 26.1%	Emerging Markets 18.7%	US Small 10.2%	US Small 13.3%	US Small 11.2%
S&P 500 18.4%	US Growth 4.6%	World exUSA 15.9%	US Value 22.8%	S&P 500 18.4%	Emerging Markets 6.6%	Emerging Markets 13.2%	US Value 10.5%
World exUSA 8.1%	World exUSA 4.6%	Commodities 14.5%	S&P 500 22.2%	World exUSA 8.1%	US Value 6.1%	US Value 9.7%	US Real Estate 8.2%
US Treasuries 8.0%	S&P 500 3.8%	S&P 500 12.1%	World exUSA 21.7%	US Treasuries 8.0%	Aggregate Bonds 5.3%	World exUSA 8.2%	World exUSA 5.7%
Aggregate Bonds 7.5%	US Value 3.8%	US Growth 11.4%	Commodities 19.8%	Aggregate Bonds 7.5%	US Treasuries 5.2%	US Real Estate 6.3%	Muni Bonds 4.6%
Muni Bonds 5.2%	US Real Estate 2.5%	US Real Estate 8.1%	US Real Estate 10.2%	Muni Bonds 5.2%	US Real Estate 5.1%	Aggregate Bonds 4.4%	Emerging Markets 4.0%
US Value 2.8%	Muni Bonds 0.6%	Muni Bonds 1.8%	Muni Bonds 3.1%	US Value 2.8%	World exUSA 4.8%	Muni Bonds 3.9%	Aggregate Bonds 3.8%
US Real Estate -5.3%	Aggregate Bonds 0.1%	Aggregate Bonds 0.7%	Aggregate Bonds 1.3%	US Real Estate -5.3%	Muni Bonds 4.6%	US Treasuries 3.8%	US Treasuries 3.3%
Commodities -23.7%	US Treasuries -0.2%	US Treasuries -0.8%	US Treasuries -0.7%	Commodities -23.7%	Commodities -8.2%	Commodities -1.9%	Commodities -9.6%

The colorful grid to the left, illustrates the performance of different asset classes over various trailing time periods. The long-term bull market in equities becomes readily apparent when looking at this visual. Across the top, the recent best performers are U.S. Growth stocks, U.S. Small Cap stocks and Emerging Markets. Including the broad S&P 500 index, these "risk assets" have outperformed over the 3yr, 5yr & 10yr periods.

Asset	Index
US Real Estate	Dow Jones US Real Estate Index Total Return
US Growth Stocks	Russell 1000 Growth Total Return
Commodities	S&P GSCI Total Return
US Small Cap	Russell 2000 Total Return
S&P 500	S&P 500 Total Return
US Value Stocks	Russell 1000 Value Total Return
World ex USA	MSCI World Ex USA Total Return
Emerging Markets	MSCI Emerging Markets Total Return
Aggregate Bonds	Barclays US Aggregate Total Return
Muni Bonds	Barclays Municipal Bond Total Return
US Treasuries	Barclays US Treasury Total Return

While over any longer timeframe, one would expect to see riskier assets outpace the returns of more conservative assets, the spread between assets during these periods is quite significant.

Also of note is the persistent underperformance of commodities since 2010. One large contributor to this is Oil's steady decline from the high's of 2008 when oil reached over $140/barrel.

While commodities have been a laggard the past ten years, this trend may be close to reversing should the global economy strengthen and the U.S. Dollar remain weak.

Asset Class Performance – Quarter by Quarter

12/31/20 Qtr Return	9/30/20 Qtr Return	6/30/20 Qtr Return	3/31/20 Qtr Return	12/31/19 Qtr Return	9/30/19 Qtr Return	6/30/19 Qtr Return	3/31/19 Qtr Return	12/31/18 Qtr Return	9/30/18 Qtr Return	6/30/18 Qtr Return	3/31/18 Qtr Return	12/31/17 Qtr Return	9/30/17 Qtr Return	6/30/17 Qtr Return
US Small 31.4%	US Growth 13.2%	US Growth 27.8%	US Treasuries 8.2%	Emerging Markets 11.9%	US Real Estate 7.9%	US Growth 4.6%	US Real Estate 17.0%	US Treasuries 2.6%	US Growth 9.2%	Commodities 8.0%	Commodities 2.2%	Commodities 9.9%	Emerging Markets 8.0%	Emerging Markets 6.4%
Emerging Markets 19.8%	Emerging Markets 9.7%	US Small 25.4%	Aggregate Bonds 3.1%	US Growth 10.6%	US Treasuries 2.4%	S&P 500 4.3%	US Growth 16.1%	Muni Bonds 1.7%	S&P 500 7.7%	US Real Estate 7.8%	Emerging Markets 1.5%	US Growth 7.9%	Commodities 7.2%	World exUSA 5.9%
US Value 16.3%	S&P 500 8.9%	S&P 500 20.5%	Muni Bonds -0.6%	US Small 9.9%	Aggregate Bonds 2.3%	World exUSA 4.1%	Commodities 15.0%	Aggregate Bonds 1.6%	US Value 5.7%	US Small 7.8%	US Growth 1.4%	Emerging Markets 7.5%	US Growth 5.9%	US Growth 4.7%
World exUSA 15.9%	US Value 5.6%	Emerging Markets 18.2%	US Growth -14.1%	S&P 500 9.1%	S&P 500 1.7%	US Value 3.8%	US Small 14.6%	US Real Estate -5.8%	US Small 3.6%	US Growth 5.8%	US Small -0.1%	S&P 500 6.6%	World exUSA 5.7%	S&P 500 3.1%
Commodities 14.5%	World exUSA 5.0%	World exUSA 15.5%	S&P 500 -19.6%	Commodities 8.3%	Muni Bonds 1.6%	Aggregate Bonds 3.1%	S&P 500 13.6%	Emerging Markets -7.4%	World exUSA 1.4%	S&P 500 3.4%	S&P 500 -0.8%	US Value 5.3%	US Small 5.7%	US Real Estate 2.5%
S&P 500 12.1%	US Small 4.9%	US Value 14.3%	World exUSA -23.1%	World exUSA 7.9%	US Growth 1.5%	US Treasuries 3.0%	US Value 11.9%	US Value -11.7%	Commodities 1.3%	US Value 1.2%	Muni Bonds -1.1%	World exUSA 4.3%	S&P 500 4.5%	US Small 2.5%
US Growth 11.4%	Commodities 4.6%	US Real Estate 14.0%	Emerging Markets -23.6%	US Value 7.4%	US Value 1.4%	Muni Bonds 2.1%	World exUSA 10.6%	World exUSA -12.7%	US Real Estate 0.3%	Muni Bonds 0.9%	US Treasuries -1.2%	US Small 3.3%	US Value 3.1%	Muni Bonds 2.0%
US Real Estate 8.1%	US Real Estate 1.9%	Commodities 10.5%	US Real Estate -24.6%	Muni Bonds 0.7%	World exUSA -0.8%	US Small 2.1%	Emerging Markets 10.0%	S&P 500 -13.5%	Aggregate Bonds 0.0%	US Treasuries 0.1%	Aggregate Bonds - 1.5%	US Real Estate 2.5%	Muni Bonds 1.1%	Aggregate Bonds 1.4%
Muni Bonds 1.8%	Muni Bonds 1.2%	Aggregate Bonds 2.9%	US Value -26.7%	US Real Estate 0.5%	US Small -2.4%	US Real Estate 1.1%	Aggregate Bonds 2.9%	US Growth -15.9%	Muni Bonds -0.2%	Aggregate Bonds -0.2%	World exUSA -1.9%	Muni Bonds 0.7%	US Real Estate 1.0%	US Value 1.3%
Aggregate Bonds 0.7%	Aggregate Bonds 0.6%	Muni Bonds 2.7%	US Small -30.6%	Aggregate Bonds 0.2%	Emerging Markets -4.1%	Emerging Markets 0.7%	Muni Bonds 2.9%	US Small -20.2%	US Treasuries -0.6%	World exUSA -0.5%	US Value -2.8%	Aggregate Bonds 0.4%	Aggregate Bonds 0.8%	US Treasuries 1.2%
US Treasuries -0.8%	US Treasuries 0.2%	US Treasuries 0.5%	Commodities -42.3%	US Treasuries -0.8%	Commodities -4.2%	Commodities -1.4%	US Treasuries 2.1%	Commodities -22.9%	Emerging Markets -0.9%	Emerging Markets -7.9%	US Real Estate -6.1%	US Treasuries 0.1%	US Treasuries 0.4%	Commodities -5.5%

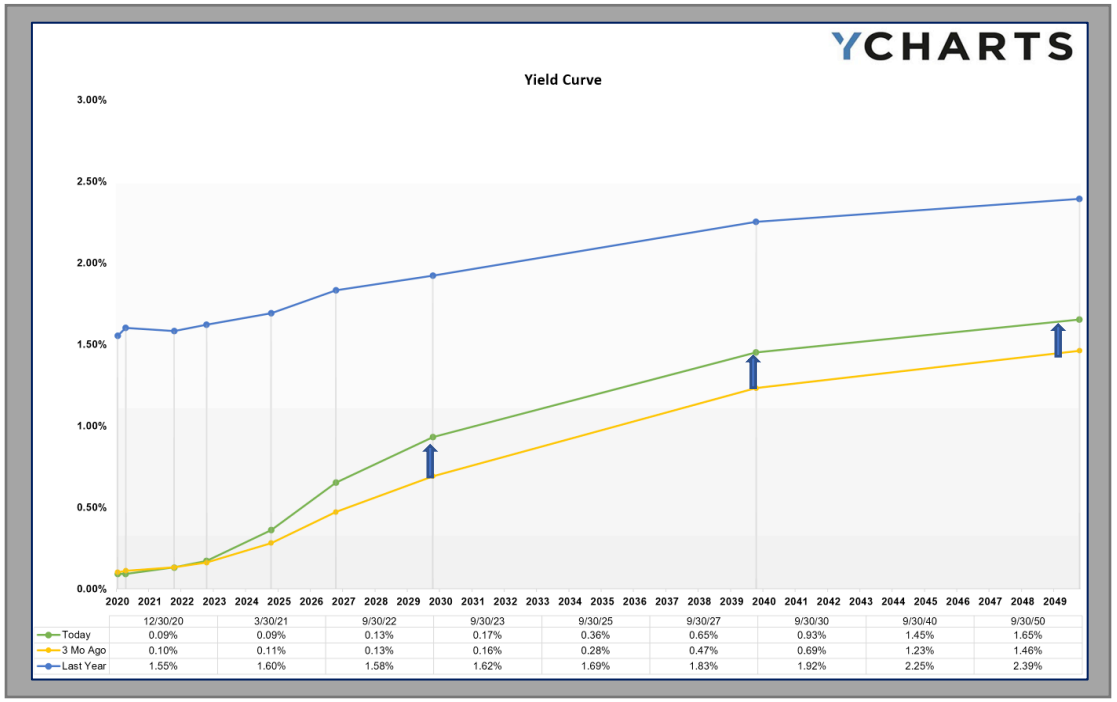
This graphic shows quarterly performance for the major asset classes since mid-2017.

It is worth nothing that the differences in quarterly performance are significantly more variable then the 3yr, 5yr, & 10yr averages on the prior slide might suggest.

This makes a strong case for remaining diversified and focused on the longer-term. Properly identifying these short-term shifts and market trends is difficult at best and often unprofitable after taking taxes and other factors into account.

Interest Rates

Name	12/31/20	9/30/20	6/30/20	3/31/20
US High Yield CCC Effective Yield	8.36% ▼	11.80% ▼	14.46% ▼	18.21%
US High Yield B Effective Yield	4.56% ▼	6.01% ▼	7.01% ▼	9.99%
US High Yield BB Effective Yield	3.32% ▼	4.40% ▼	5.11% ▼	6.89%
US Corporate BBB Effective Yield	2.06% ▼	2.44% ▼	2.68% ▼	4.59%
30 Year Treasury Rate	1.65% ▲	1.46% ▲	1.41% ▲	1.35%
US Corporate AAA Effective Yield	1.55% ▼	1.62% ▼	1.63% ▼	2.08%
US Corporate AAA Effective Yield	1.55% ▼	1.62% ▼	1.63% ▼	2.08%
US Corporate A Effective Yield	1.52% ▼	1.69% ▼	1.81% ▼	2.96%
10 Year Treasury Rate	0.93% ▲	0.69% ▲	0.66% ▼	0.70%
5 Year Treasury Rate	0.36% ▲	0.28% ▼	0.29% ▼	0.37%
2 Year Treasury Rate	0.13% ▬	0.13% ▼	0.16% ▼	0.23%
1 Year Treasury Rate	0.10% ▼	0.12% ▼	0.16% ▼	0.17%
6 Month Treasury Rate	0.09% ▼	0.11% ▼	0.18% ▲	0.15%
3 Month Treasury Rate	0.09% ▼	0.10% ▼	0.16% ▲	0.11%
Effective Federal Funds Rate	0.09% ▬	0.09% ▲	0.08% ▬	0.08%



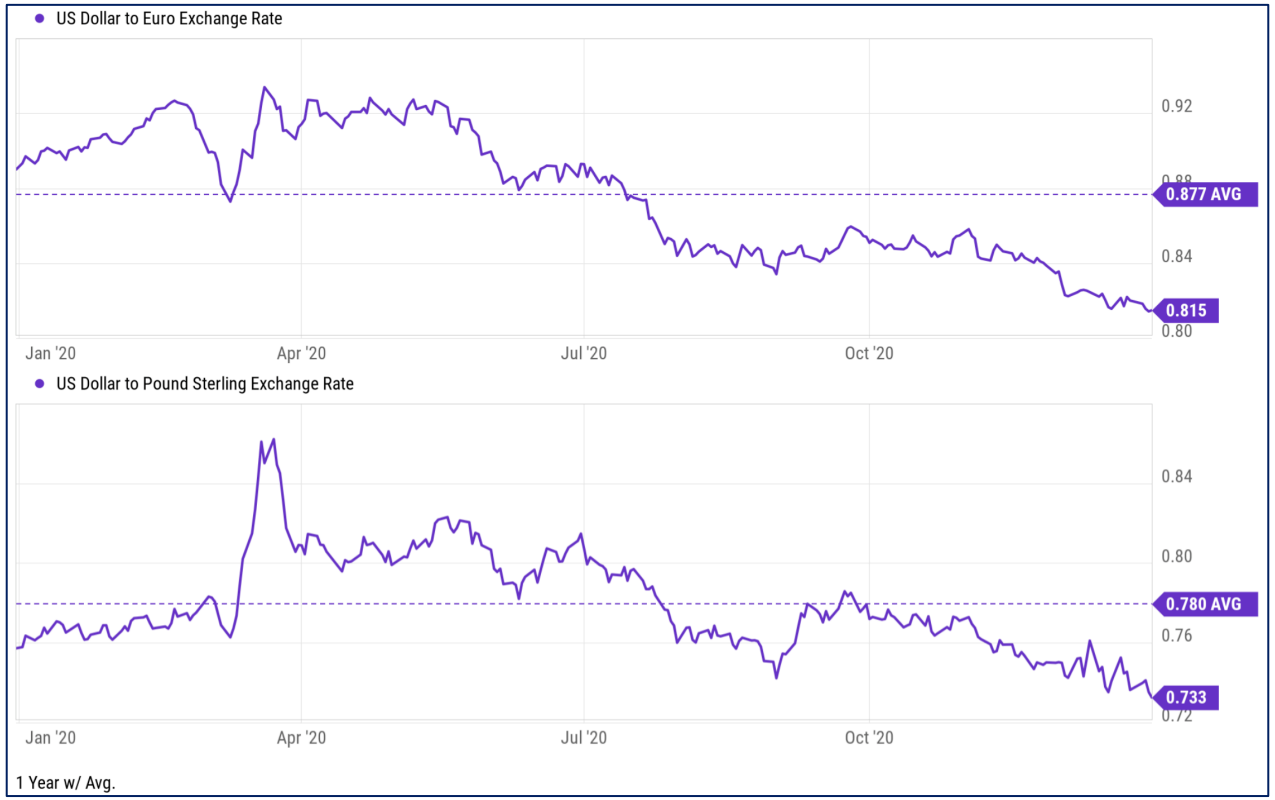
For the most part, the downward trend in interest rates continued in the fourth quarter. However, more recently longer-term Treasuries began to see yields rise slightly. These moves have left the yield curve steeper than it was at end of the third quarter and one year ago. The steepening could indicate higher anticipated economic growth, higher inflation expectations and/or a less cautious global outlook by investors. The true cause is likely a mix of those and other factors working in tandem to move rates higher at the long end of the curve.

The Fed has committed to keeping rates low but as market rates adjust and new political leadership takes control in Washington, it will be important to monitor interest rates in the coming months.

USA Trade & Dollar Strength

During the fourth quarter the U.S. Dollar continued to weaken compared to other global currencies. The M2 money supply (cash and liquid deposits) grew 25% in 2020 – by far the largest increase as far back as our data showed (approximately 40 years). However, the U.S. Dollar is still above it's 10-year average in terms of purchasing power versus other major currencies and was just at an all-time high as of early last year.

Global trade continues to show the impact of the COVID-19 pandemic as more data is collected and published. The latest data points to renewed activity between the U.S. and our closest trade partners, Canada and Mexico. One of the few trade relationships that did not see an uptick in the latest results was that between the US and OPEC, further highlighting the decline in energy demand.



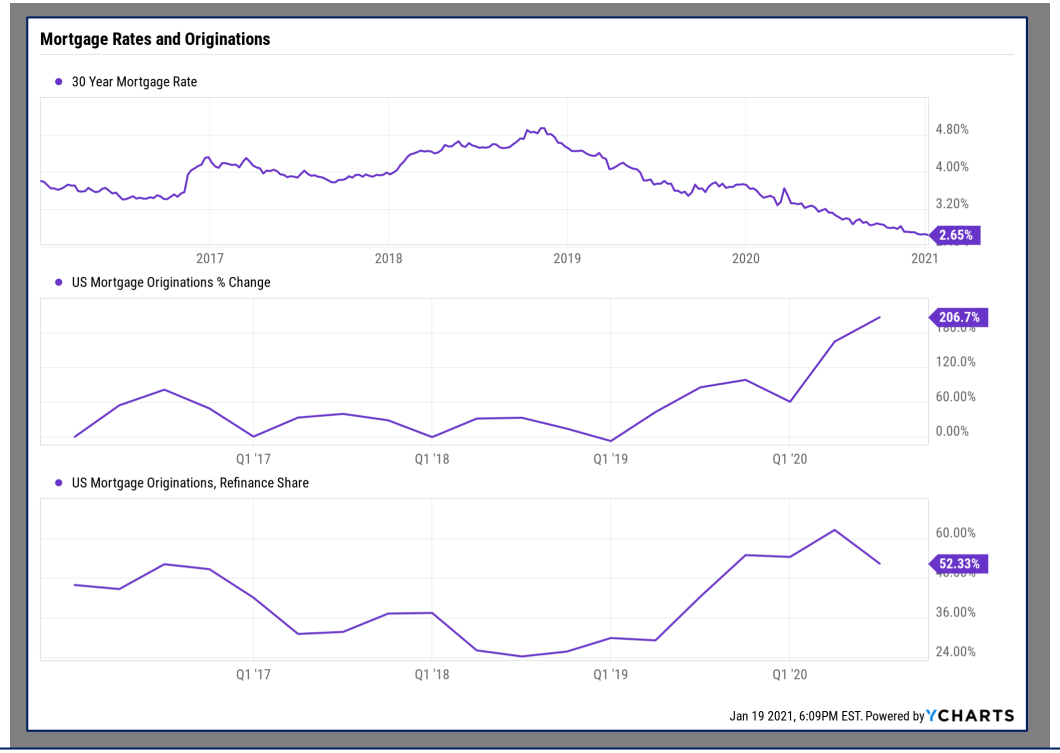
Leading Indicator Summary & Trends

Indicator	Q4 2020	Q3 2020	Q2 2020	Q1 2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
10-2 Year Treasury Yield Spread	0.80%	0.56%	0.50%	0.47%	0.34%	0.21%	0.51%	1.25%	1.21%	1.50%	2.66%	1.53%	1.64%	2.69%	2.71%	1.49%	0.99%	-0.11%
NY Fed Business Leaders Survey Current Business Activity	-15.8	-5.4	-40	-13.1	3	5.6	16.7	-0.6	2	7.8	7.89	-6.41	-2.5	12.24	11.9	-44	-11.9	27.5
Philly Fed Manufacturing Activity Index	9.1	13.6	24.7	-6	0.9	9.8	29.3	21.6	-9.5	20.5	6.2	4	3.3	15.6	16.4	-37.7	-5.5	-1.7
S&P 500 Return	12.15%	8.93%	20.54%	-19.60%	31.49%	-4.38%	21.8%	12.0%	1.38%	13.7%	32.4%	16.0%	2.11%	15.1%	26.5%	-37.0%	5.49%	15.8%
US Index of Consumer Sentiment	80.7	80.4	78.1	89.1	99.3	98.3	95.9	98.2	92.6	93.6	82.5	72.9	69.9	74.5	72.5	60.1	75.5	91.7
US Change in Business Inventories (YoY)	-3.28%	-4.55%	-5.75%	-0.48%	1.87%	4.70%	3.31%	2.00%	1.42%	3.68%	3.93%	5.67%	7.84%	8.90%	-9.21%	-1.46%	5.58%	7.17%
US Housing Starts (Latest TTM)	15,062	16,285	15,851	16,384	15,543	15,004	14,506	14,128	13,281	11,992	11,138	9,405	7,343	7,026	6,648	10,800	16,102	21,743
US Building Permits (Latest TTM)	15,557	16,844	16,614	17,015	16,633	15,962	15,442	14,495	14,140	12,639	11,847	9,945	7,488	7,244	6,984	10,750	16,698	22,124
US Change in Retail Sales (YoY)	6.29%	9.00%	5.68%	-2.60%	5.69%	0.52%	4.93%	3.65%	2.82%	2.92%	3.30%	4.31%	6.07%	6.87%	4.94%	-12.75%	2.98%	4.40%

Our table of leading indicators shows the values of several economic data series that are often viewed as predictors of economic cycles. This data can be useful in assessing the strength of the current economy and quarter-to-quarter trends may provide insight as to what is to come. The latest data shows mixed results by industry and geography, no doubt reflecting the ongoing impact of the COVID virus and related policy actions. After a reasonably strong initial bounce following the mandated shutdown earlier this year, the positive trends seem to be moderating.

The yield curve is back to a more normal, upward sloping shape, stock market returns have been strong, consumers are fairly-confident, and housing data remains strong. Yet manufacturing and business activity are showing signs of weakening. As the recovery continues, investors hope to see improved data around business activity, increasing consumer sentiment, and growth in business inventories to sustain the market moves higher.

Housing Indicators



A closer look at the housing market reveals the demand for mortgages, both new and refinances, is still very strong.

Record low interest rates have undoubtedly played a huge role in that trend. New buyers are rushing to find a home (many fleeing to suburbs or moving to areas of country less impacted by COVID) while these rates offer such affordability.

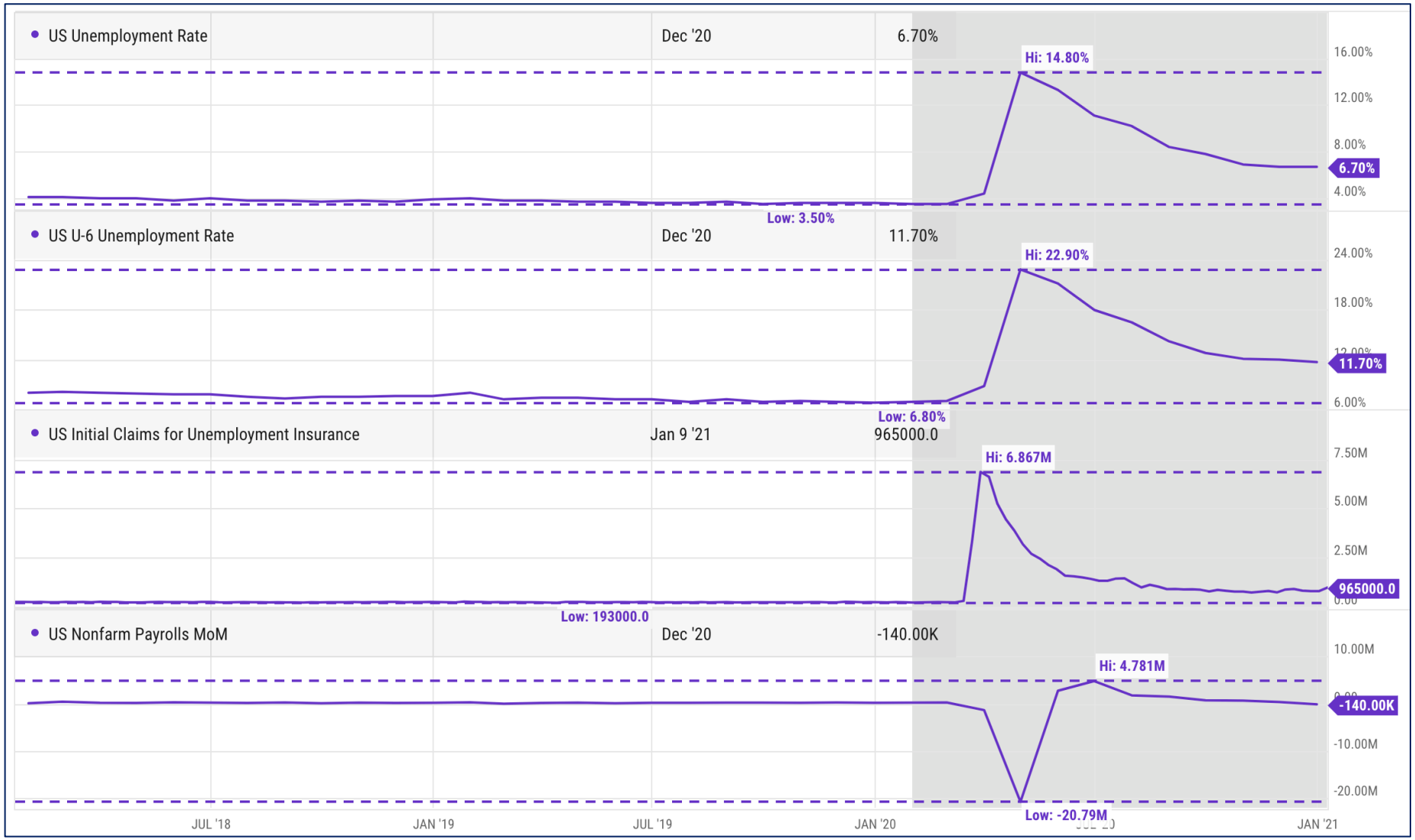
While existing homeowners, even those with mortgages from just a few years ago, now benefit from refinancing at rates that are a point or more below what were already historically low levels.

Sentiment data is also strong, as indicated by the National Association of Home Builders poll data which shows that sales conditions are expected to stay strong for at least 6 months.

Housing Indicator Review

Overall	Indicator Name	Last Release Date	Frequency	Value	1 Mo. Ago			3 Mo. Ago			1 Yr. Ago		
					1 Mo. Ago		% Change	3 Mo. Ago		% Change	1 Yr. Ago		% Change
▲	Case-Shiller Home Price Index: National	1/4/21	monthly	229.4	226	▲	1.69%	220	▲	4.48%	212	▲	8.40%
▲	US Housing Starts	12/17/20	monthly	1,547	1,528	▲	1.24%	1,373	▲	12.67%	1,371	▲	12.84%
▲	US Building Permits	12/17/20	monthly	1,639	1,544	▲	6.15%	1,476	▲	11.04%	1,510	▲	8.54%
▼	US New Single Family Houses Sold	12/24/20	monthly	841	945	▼	-11.01%	977	▼	-13.92%	696	▲	20.83%
▼	US Pending Home Sales Index	12/30/20	monthly	126	129	▼	-2.63%	133	▼	-5.42%	108	▲	16.39%
▼	30 Year Mortgage Rate	1/14/21	weekly	2.67%	2.72%	▼	-1.84%	2.90%	▼	-7.93%	3.74%	▼	-28.61%
▼	US Households	10/27/20	monthly	125,497	127,333	▼	-1.44%	127,245	▼	-1.37%	123,133	▲	1.92%

Employment Situation



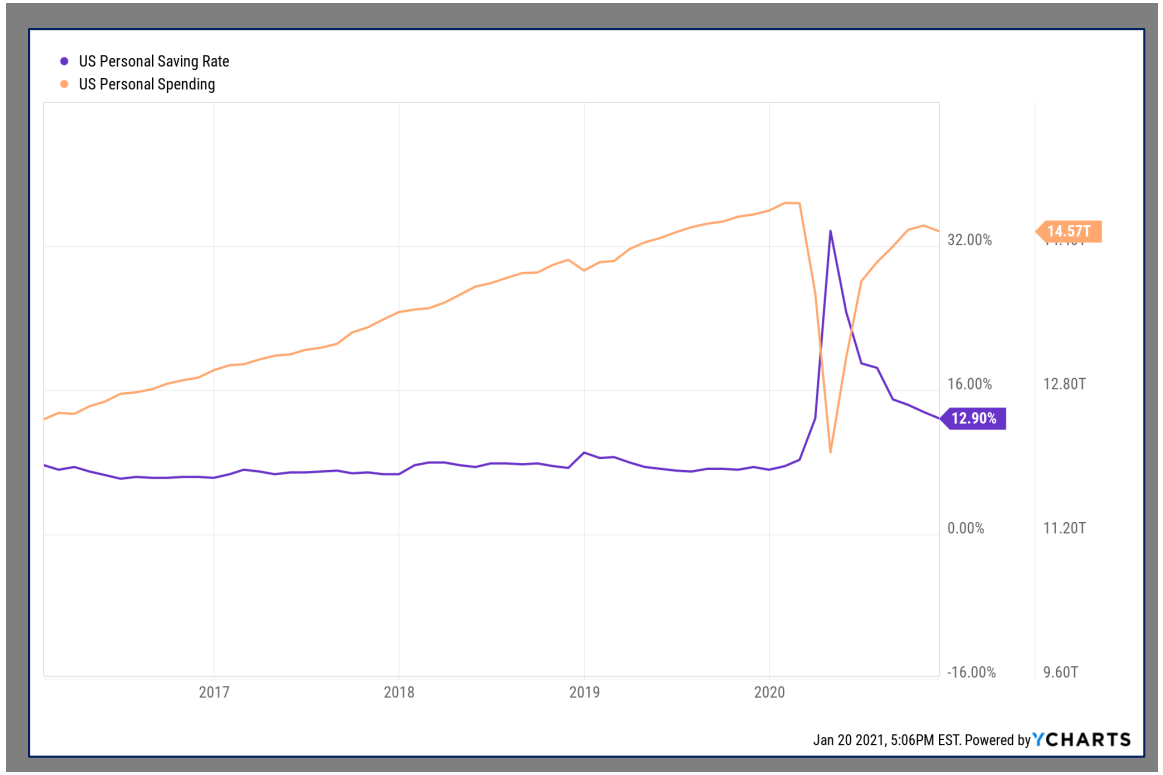
Given the impact of COVID, it warrants taking a closer look at the employment data.

The U-6 indicator (second from top) includes those that are "under-employed" or working less than full-time despite looking for full-time work.

While the new claims for unemployment are nowhere near the highs from earlier in the year, they are still magnitudes above recent historically low levels.

The rollout of the COVID-19 vaccines should result in many cities/states re-opening and additional individuals returning to work. However, the long-term impact on the economy from the virus and the resulting policies remains to be seen.

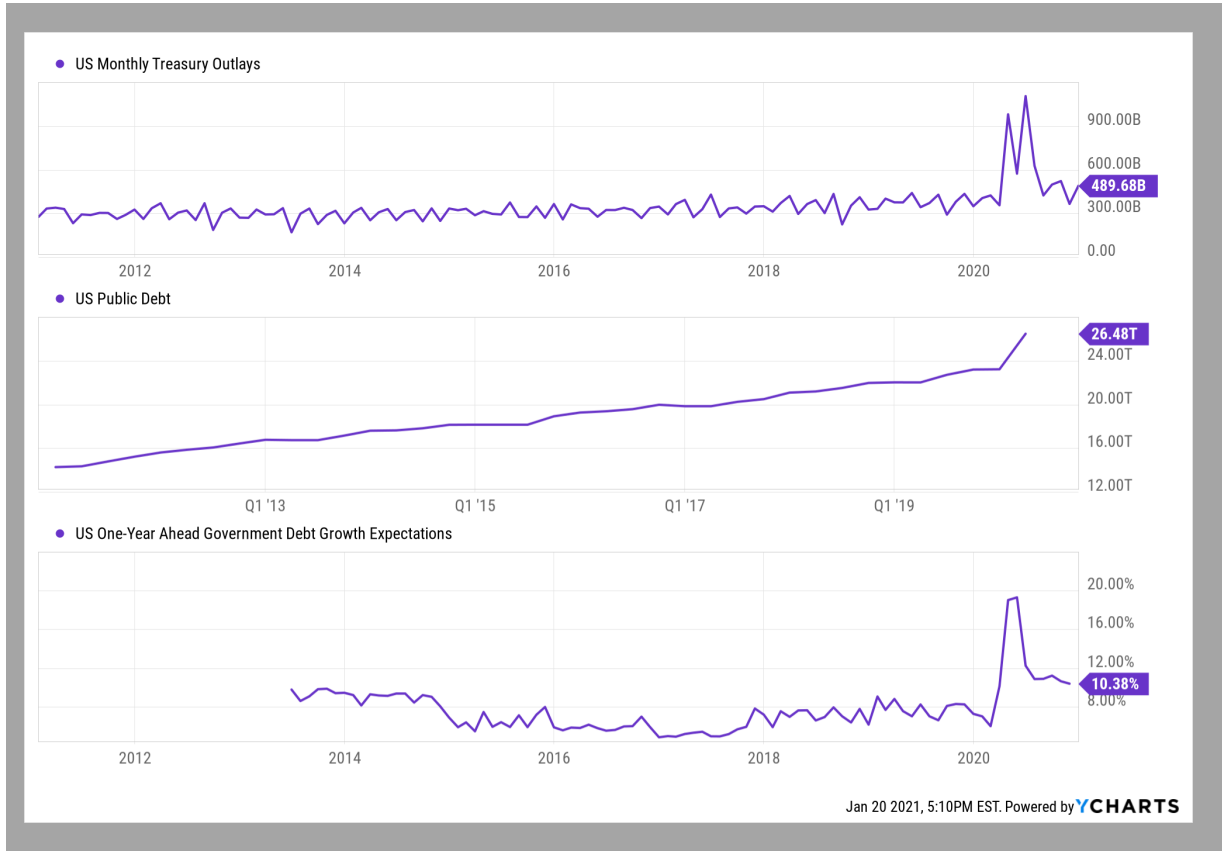
Consumerism

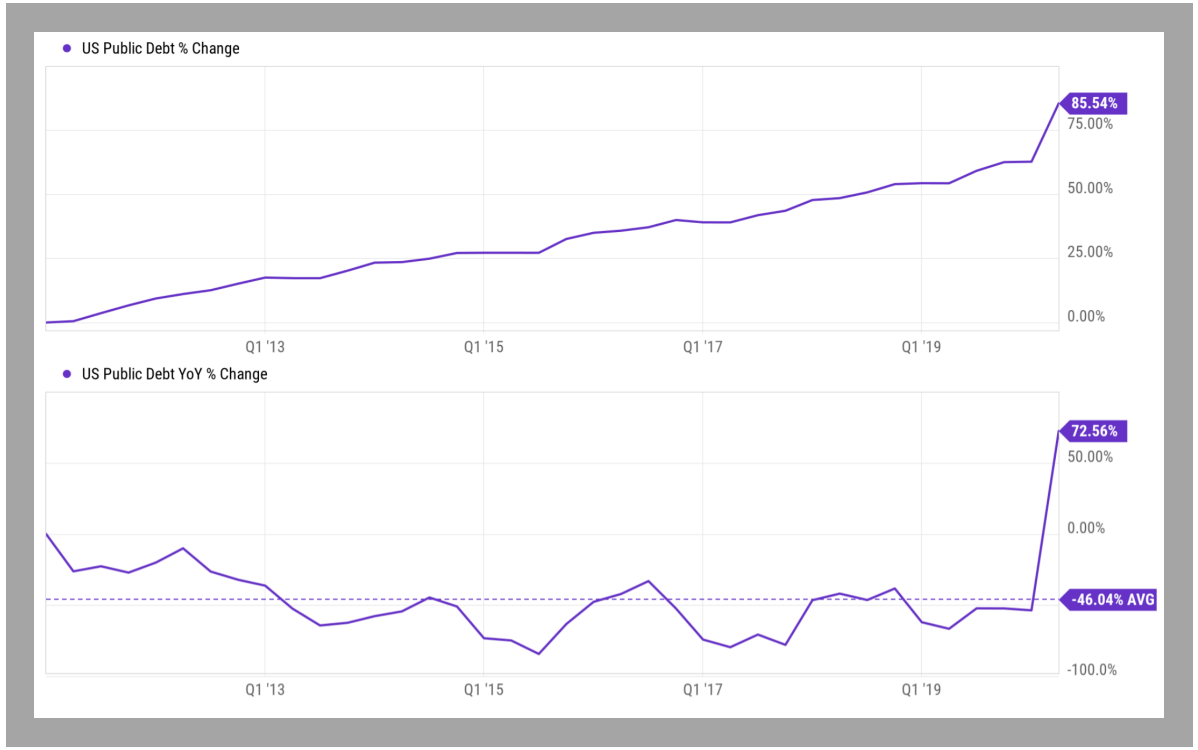


Consumer data indicates that the U.S. consumer is returning towards more “normal” behavior. The initial shock of the pandemic and nation-wide shutdown led to a massive decrease in spending and a resulting increase in saving. However, that trend reversed just as quickly as the country began to reopen.

One question that remains to be seen is exactly how much pent-up demand exists for travel, entertainment and other activities that have remained relatively shut down through the past year. The speed at which the country gets back to “normal” will likely be the determining factor in the future path of the economy and investment markets both in the U.S. and globally.

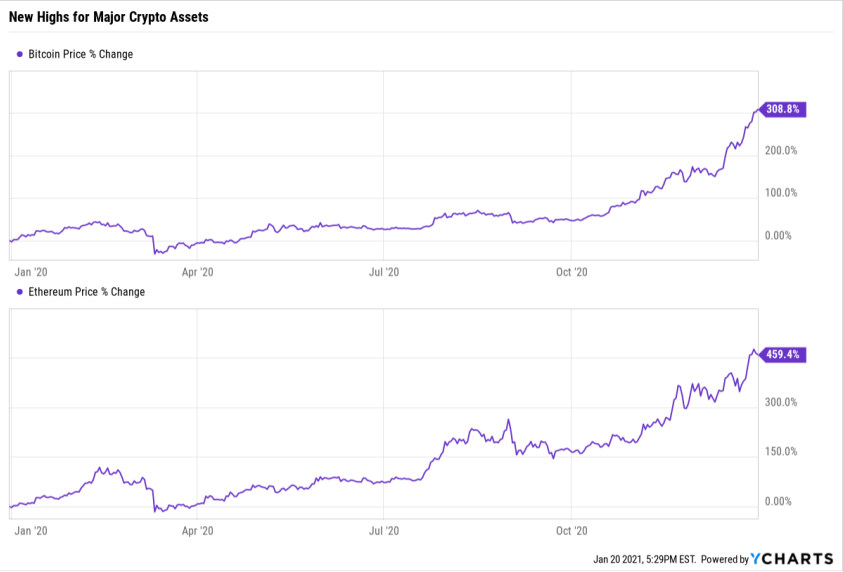
Government Spending & Debt





Data has begun to illustrate the unprecedented stimulus spending which the US government enacted during 2020. Especially notable is the year-over-year change in the public debt (bottom right). With more stimulus measures likely to come, expectations are that government debt will continue to grow faster than in the past. This becomes troubling when you view the total U.S. public debt at around $26.5 Trillion is approximately equal to 100% of the U.S. GDP. More troubling is that the U.S. is rapidly approaching the highest Debt/GDP ratio ever, now eclipsing the levels only seen at height of World War II. (*If this hasn't scared you enough, according to the CBO, by the end of 2030 debt is projected to be more than two and a half times its average over the past 50 years*.)

Another Bubble?



Following several years of positive investment market gains it would be easy to begin making comparisons to the late 1990's, 2008 and other so-called investment "bubbles."

The problem with identifying bubbles is that you can't know when they are going to end. Alan Greenspan's famous "Irrational Exuberance" speech was in 1996 and he himself was asking the question of when do you know you are in a bubble! The markets went higher for three more years before the tech and telecom bubble burst in 2000.

I would argue that the only "bubble" I know of is the business of calling for bubbles! Market skeptics have been trying to call the next major collapse since the market last hit bottom in 2009. Yet, the S&P 500 is over 5 times higher than where it was 12 years ago.

My advice… Stick to your strategy and stay invested for the long-term…

- All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals may materially alter the performance and results of your portfolio.
- Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client's investment portfolio.
- Economic factors, market conditions, & investment strategies will affect the performance of any portfolio there are no assurances that it will match or outperform any particular benchmark.
- The information contained herein has been obtained from sources believed to be reliable but the accuracy of the information cannot be guaranteed.
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