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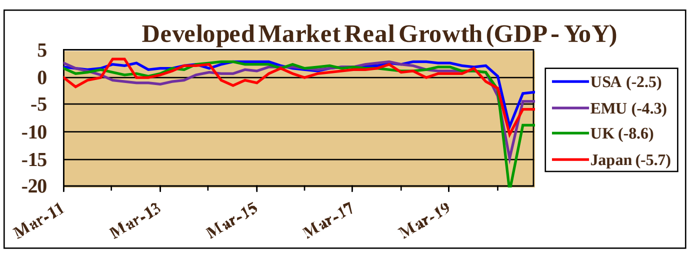
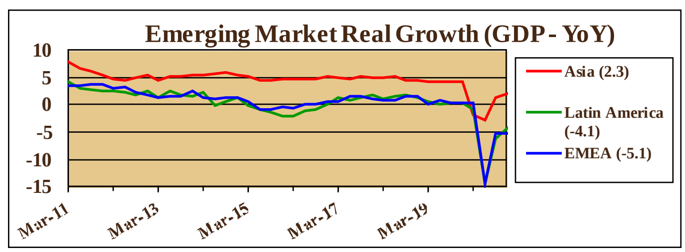
Fourth Quarter 2020

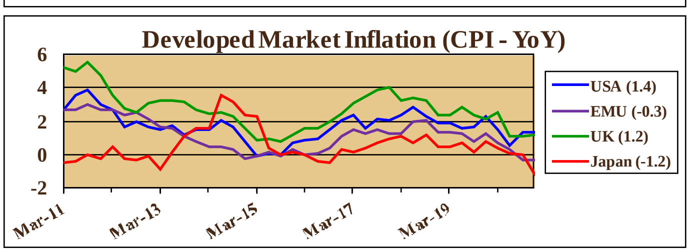
Global Market and Economic Perspective

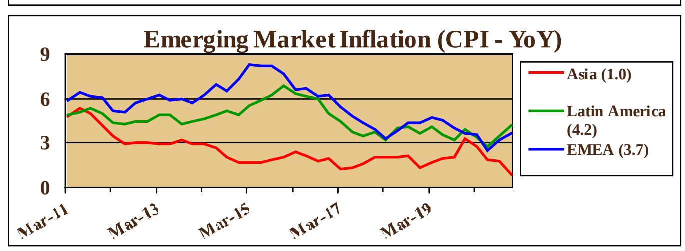
Global Economic Commentary

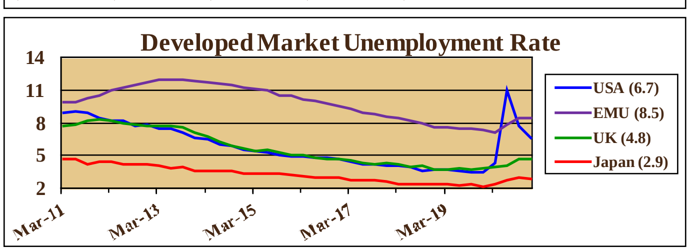
- **Resurgent Covid-19 infections led to another round of lockdowns in a number of locations, including parts of Europe and the UK. This weighed on economic activity and raised the specter of a second recession. China bucked this trend by reporting relatively strong fourth quarter GDP growth.**
- **In the US, the fourth quarter saw a continuation of many trends that were underway earlier in 2020. Home sales and housing starts remained very strong, as many people looked for additional space for distancing and working from home. Manufacturing activity was also strong, but the bricks and mortar retail and service sectors were weak.**
- **Despite massive increases in the money supply, inflationary pressures remained subdued in most places. This can be attributed, in part, to lockdowns and travel restrictions limiting people's ability to purchase many services and products. Additionally, in the US, many citizens chose to save a large portion of their first federal stimulus payment. An estimated 70% of recipients from the first stimulus package saved the money (or equivalently used it to pay down debt). Therefore, it is likely that the latest package will also fall short of the government's goal of boosting consumption.**

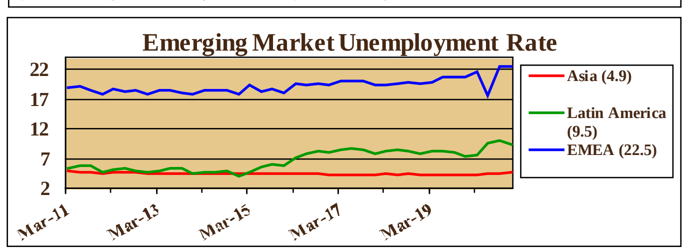












Notes: Emerging market economic statistics are estimated by region using eight countries, which represent roughly 80% of the MSCI Emerging Market Equity Index. Recent observations may be estimated where reporting lags make official data unavailable at the time of this report.

Global Market and Economic Perspective – Q4 2020

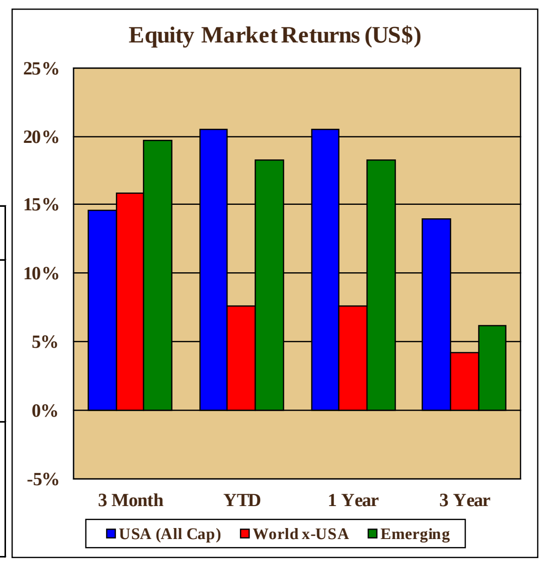
Global Equity and Currency Commentary

- **Positive news on the vaccine-development front caused equity markets around the globe to climb sharply during the fourth quarter. In addition to the Chinese and Russian vaccines that were already being administered in those countries, Pfizer and Moderna in December began distributing Covid vaccines in the US and several other countries. Markets appeared to take these developments as signaling the light at the end of the tunnel – that economic activity would soon begin returning back to a more normal state. Although revenues and profitability remained depressed in industries such as restaurants, hotels, and airlines, widespread vaccination would benefit from pent-up demand for face-to-face interaction.**
- **Most stock markets produced double-digit returns for the quarter. In the US, small cap equities substantially outperformed large stocks, which was a reversal of a trend that had been in place for several years.**
- **For US-based investors, non-US equities produced even better returns than did US equities. Good returns in these equity markets were boosted further by US dollar weakness. Currency strength in developed markets added almost 5% to underlying equity returns. In emerging markets, currency appreciation added nearly 4% to local market returns.**

Global Equity Market Returns (MSCI)

	Returns (US$)				Returns (Local)			
12/31/2020	3 Month	YTD	1 Year	3 Year	3 Month	YTD	1 Year	3 Year
United States								
USA (All Cap)	**14.6%**	**20.5%**	**20.5%**	**14.0%**				
USA Growth	12.5%	42.7%	42.7%	24.2%				
USA Value	13.8%	0.0%	0.0%	4.7%				
USA SC Growth	26.2%	33.6%	33.6%	17.9%				
USA SC Value	31.6%	3.0%	3.0%	2.6%				
Foreign Developed								
World x-USA	**15.8%**	**7.6%**	**7.6%**	**4.2%**	**11.1%**	**1.1%**	**1.1%**	**3.1%**
Europe	15.6%	5.4%	5.4%	3.6%	10.3%	-2.2%	-2.2%	2.7%
Far East	15.4%	12.5%	12.5%	5.3%	13.1%	7.6%	7.6%	2.8%
Australia	22.9%	8.7%	8.7%	5.6%	14.1%	-1.0%	-1.0%	6.0%
Canada	13.9%	5.3%	5.3%	3.6%	8.7%	3.5%	3.5%	4.2%
Emerging Markets								
Emerging	**19.7%**	**18.3%**	**18.3%**	**6.2%**	**16.0%**	**19.1%**	**19.1%**	**8.1%**
Asia	18.9%	28.4%	28.4%	9.0%	16.2%	25.5%	25.5%	9.1%
Latin America	34.8%	-13.8%	-13.8%	-1.8%	23.9%	2.3%	2.3%	8.3%
EMEA	16.3%	-6.9%	-6.9%	-3.4%	10.3%	-1.3%	-1.3%	2.2%

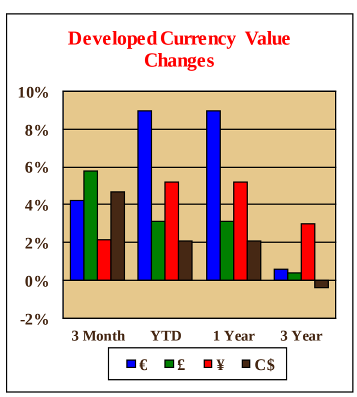
Annualized if greater than one year

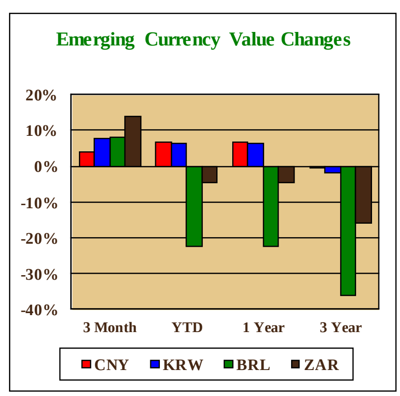


Foreign Exchange Rate History (Bloomberg)

	Current	Change (Foreign Currency versus $)			
12/31/2020	Level	3 Month	YTD	1 Year	3 Year
Developed					
Euro (€)	**1.22**	4.2%	8.9%	8.9%	0.6%
British Pound (£)	**1.37**	5.8%	3.1%	3.1%	0.4%
Japanese Yen (¥)	**103**	2.2%	5.2%	5.2%	3.0%
Canadian Dollar (C$)	**1.27**	4.7%	2.1%	2.1%	-0.4%
Emerging					
Chinese Renminbi (CNY)	**6.53**	4.0%	6.7%	6.7%	-0.3%
Korean Won (KRW)	**1087**	7.7%	6.4%	6.4%	-1.8%
Brazilian Real (BRL)	**5.19**	8.0%	-22.5%	-22.5%	-36.2%
South African Rand (ZAR)	**14.69**	14.0%	-4.7%	-4.7%	-15.7%

Annualized if greater than one year





US Fixed Income and Fed Commentary

- **Yields on nominal Treasury bonds rose during the fourth quarter, leading to losses on intermediate and long-term securities. After seeming to ignore the massive increases in federal government borrowing earlier during the Covid crisis, investors appeared in the fourth quarter to become concerned about the sustainability of the fiscal situation and its potential inflationary impact. Inflation-linked Treasury bonds (TIPS) produced strong performance, as yields declined further into negative territory.**
- **In sharp contrast to nominal Treasuries, bonds with credit risk exposure performed well in the fourth quarter. As the equity market rose strongly, credit spreads narrowed substantially which resulted in good returns in the investment-grade corporate bond market and very high returns in high yield bonds.**
- **Federal Reserve policy remained very accommodative. Federal Reserve officials reiterated their commitment to not raise rates until inflation exceeds 2% for at least one full year. The Fed also continued to expand their already massive balance sheet in the fourth quarter. Purchases of Treasury bonds and other securities increased the Fed's holdings of securities from $6.3 trillion at the end of the third quarter to $6.7 trillion at year end.**

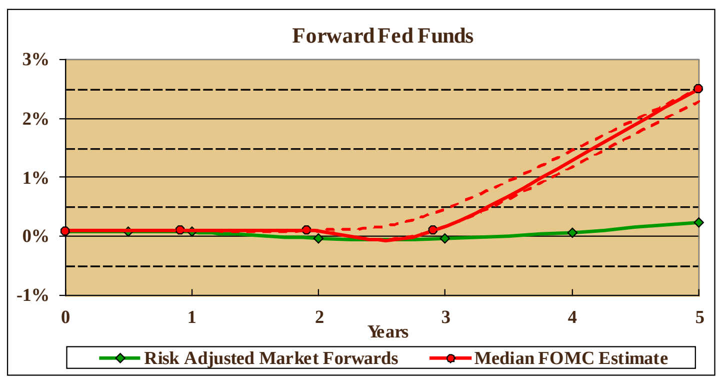
FOMC Fed Funds Rate Projections as of December 2020 Meeting

	Current	Dec-20	Dec-21	Dec-22	Dec-23	Long Run
Lower	0.09%	0.10%	0.10%	0.10%	0.10%	2.30%
Median	**0.09%**	**0.10%**	**0.10%**	**0.10%**	**0.10%**	**2.50%**
Upper	0.09%	0.10%	0.10%	0.10%	0.40%	2.50%

Market Implied Fed Funds Rate as of Jan 04, 2021

Current	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
0.09%	**0.08%**	**0.07%**	**-0.03%**	**-0.04%**	**0.07%**	**0.24%**

Notes
Upper and lower bands show central tendency for FOMC projections.
Market implied Fed Funds rates are risk adjusted.



US Bond Yield and Spread History (Bloomberg)

	Current Level	Change Through December 2020: 3 Month	YTD	1 Year	3 Year
US Treasury					
Short	**0.19%**	0.02%	-1.43%	-1.43%	-1.80%
Intermediate	**0.62%**	0.17%	-1.19%	-1.19%	-1.70%
Long	**1.51%**	0.19%	-0.83%	-0.83%	-1.18%
US High Yield					
Yield	**4.18%**	-1.58%	-1.01%	-1.01%	-1.53%
Spread	***3.59%***	*-1.62%*	*0.23%*	*0.23%*	*0.16%*
Tax-Exempt Muni.					
Short	**0.27%**	-0.01%	-0.83%	-0.83%	-1.42%
Intermediate	**0.69%**	-0.16%	-0.78%	-0.78%	-1.36%
Long	**1.29%**	-0.27%	-0.70%	-0.70%	-1.25%