

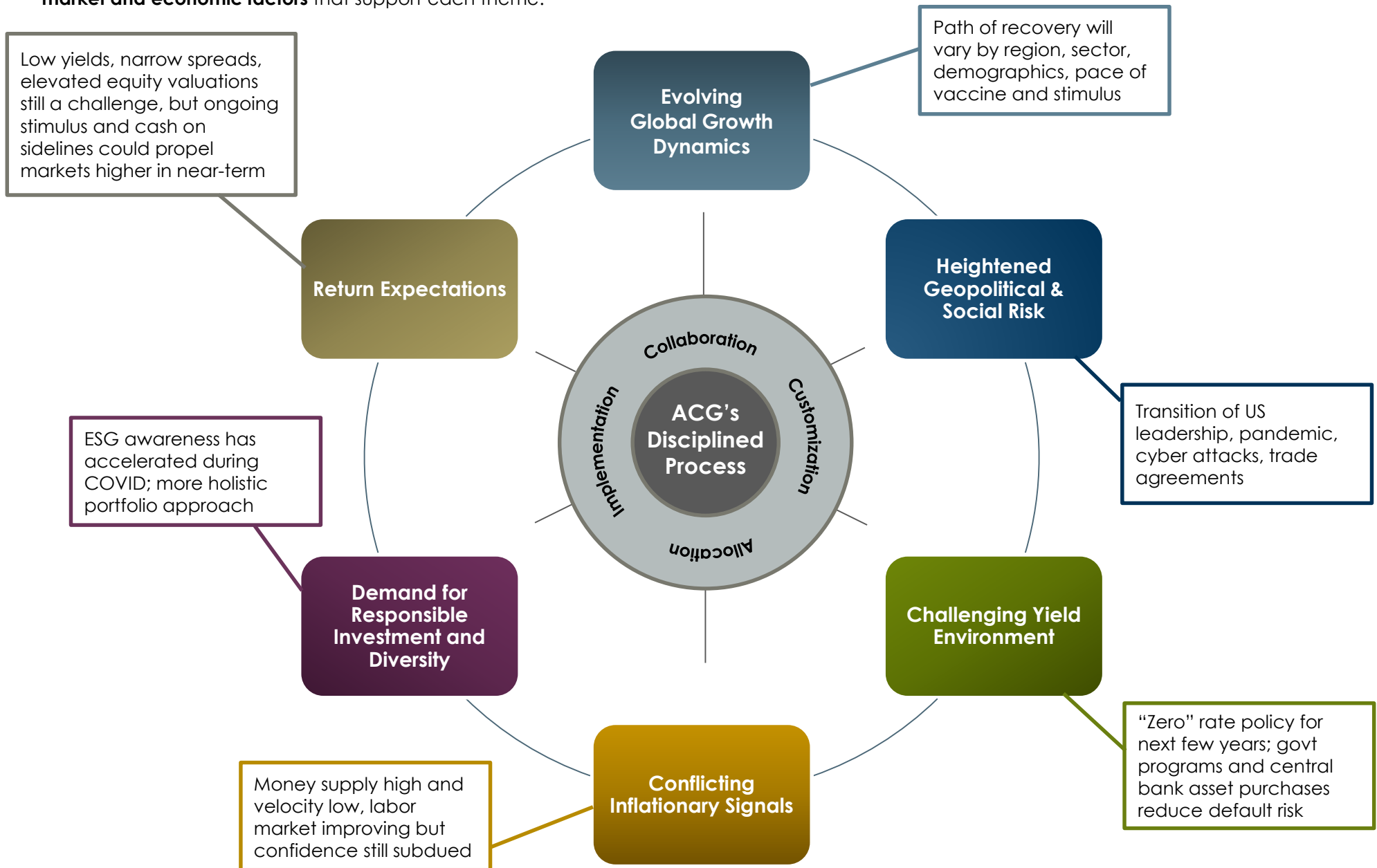
---

## Global Economic Update

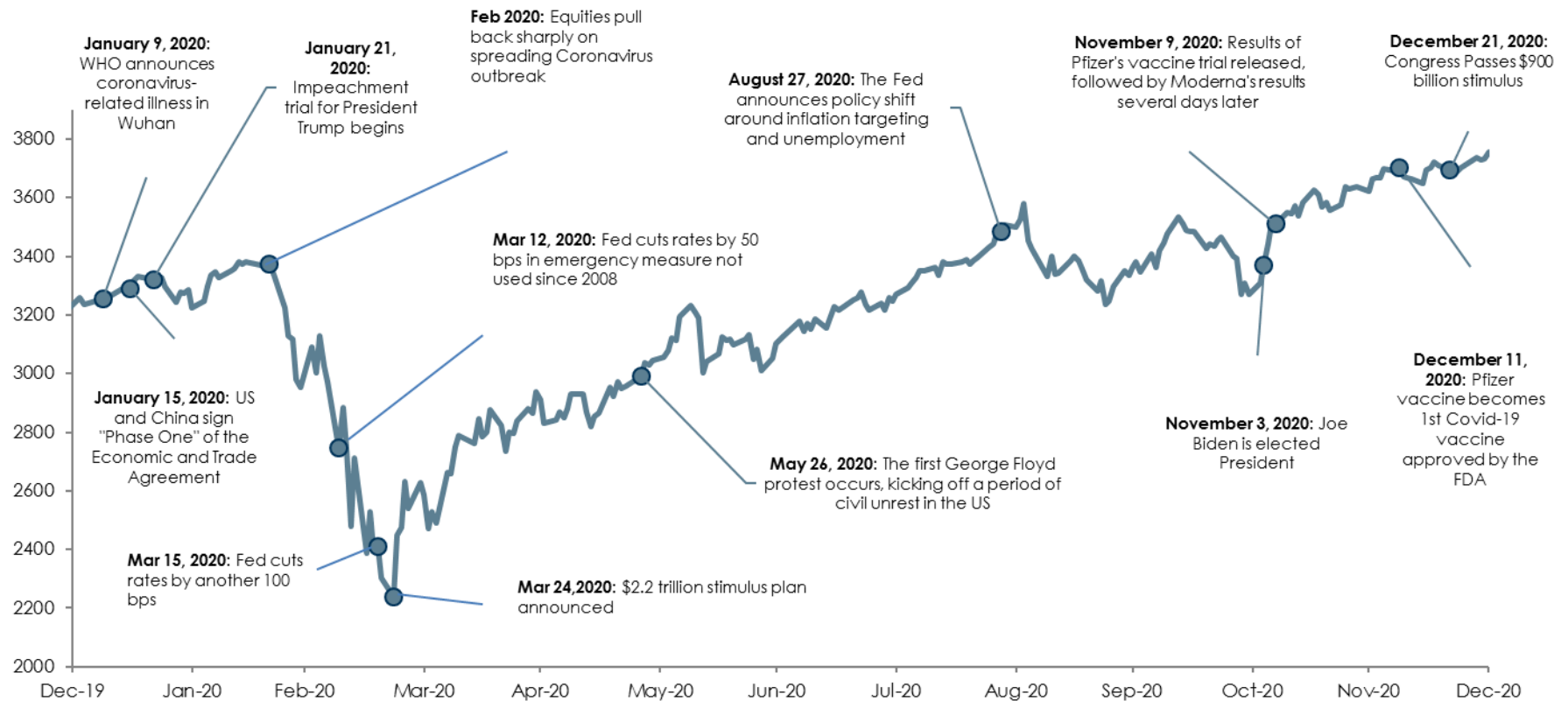
1<sup>st</sup> Quarter 2021

## Key Areas of Focus

ACG's Investment Committee outlines key themes that will drive investment returns **over the intermediate term**. In this quarterly update, we highlight **market and economic factors** that support each theme.



## Fourth Quarter of 2020 – Market Rally Reignites with Vaccines, Resurgence of Virus Threatens Reopening



Source: ACG Research, Bloomberg (as of December 31, 2020)

Breathtaking Speed: Relative to Historic Bear Markets the 2020 Experience Stands Apart

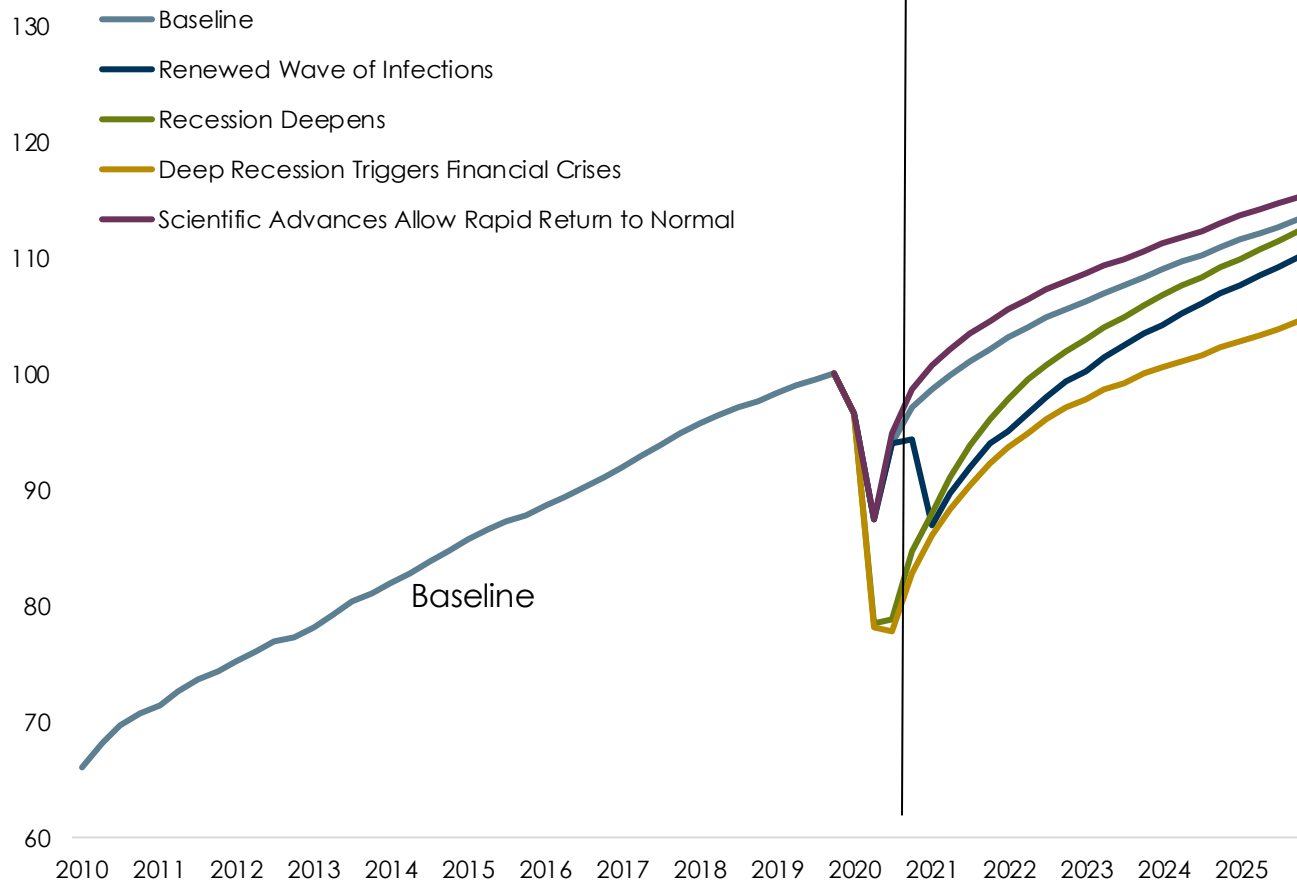


Source: ACG Research, Standard & Poor's (as of December 31, 2020)

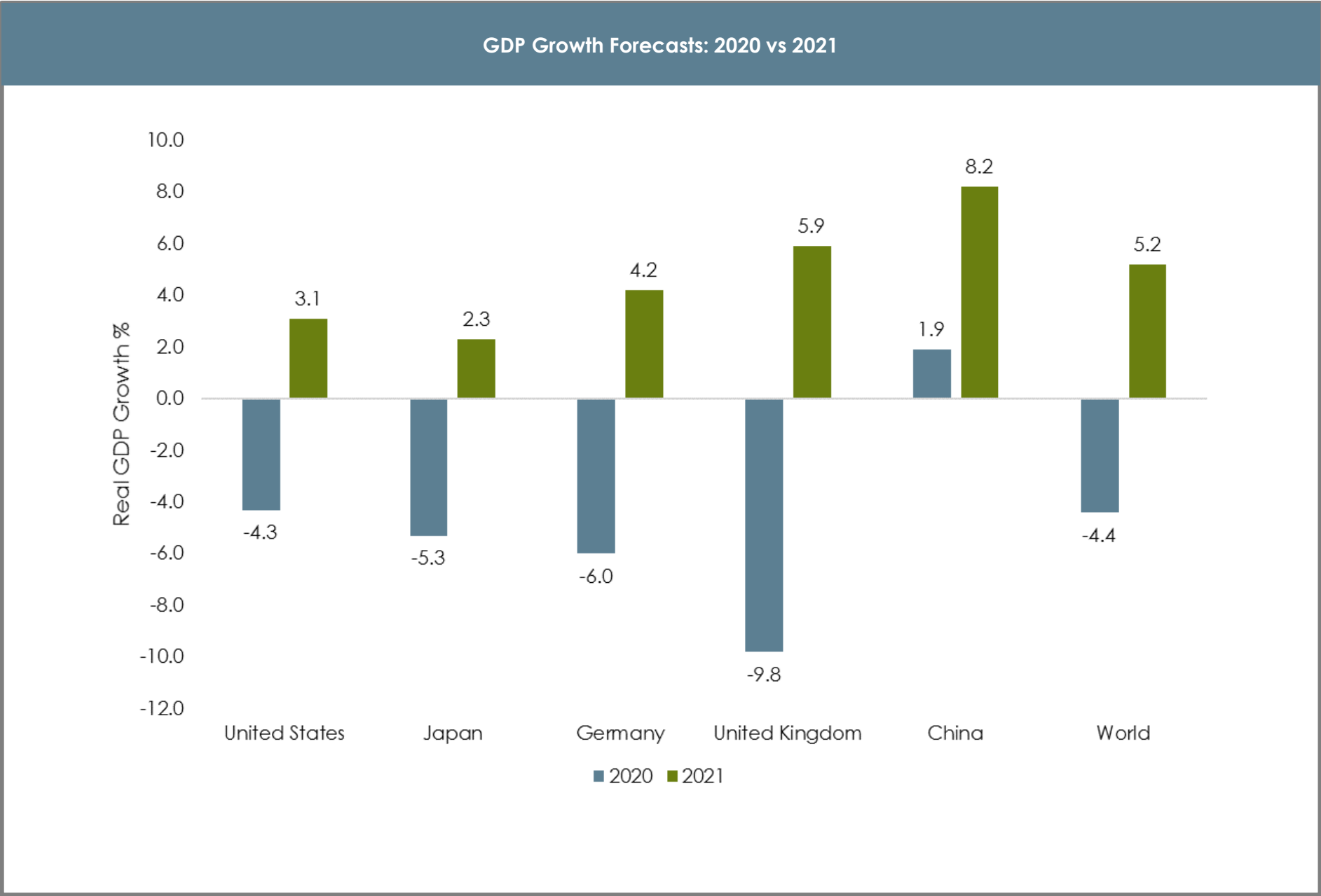
Path to Recovery will be Sector and Region Specific

World GDP

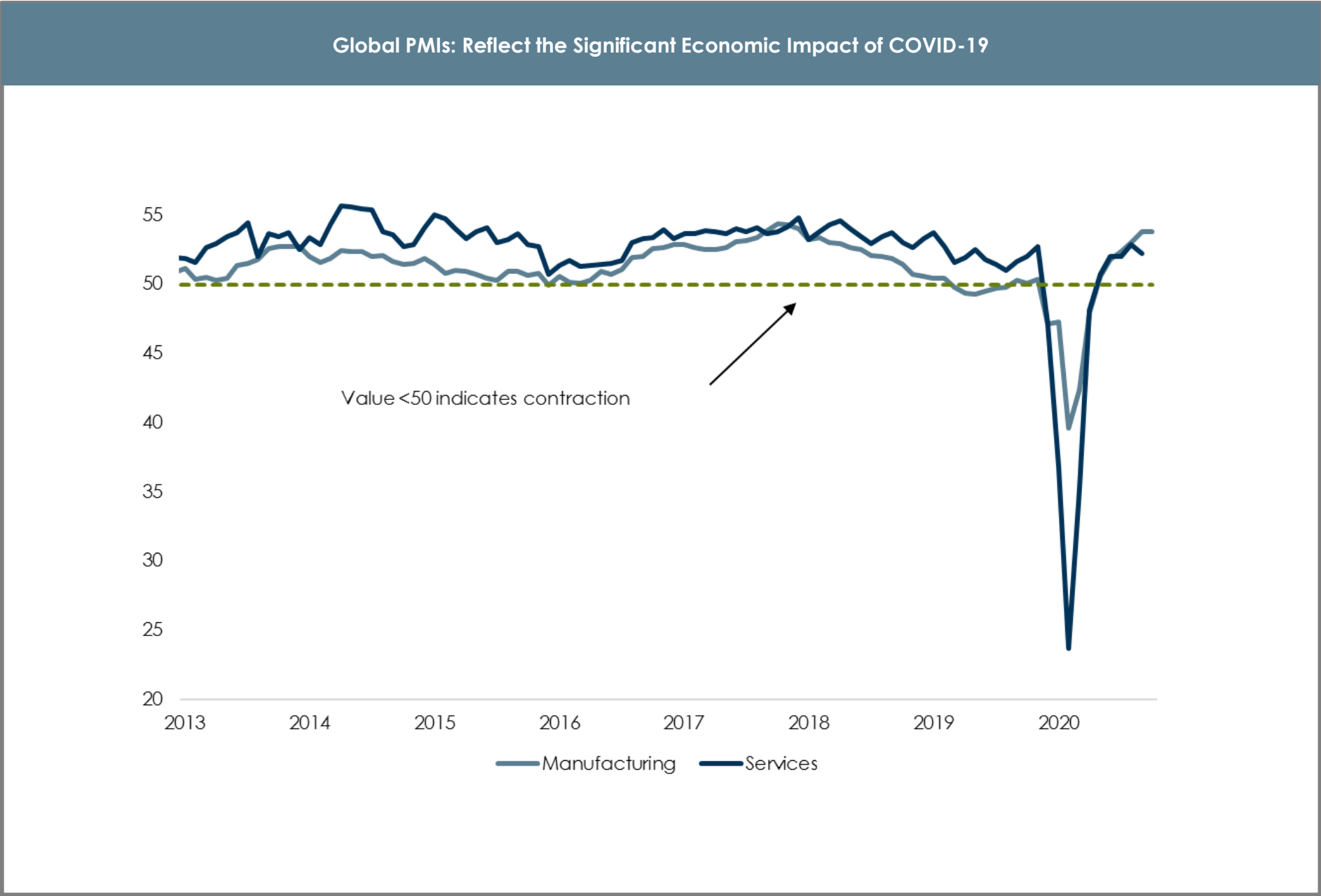
Q4 2019 = 100



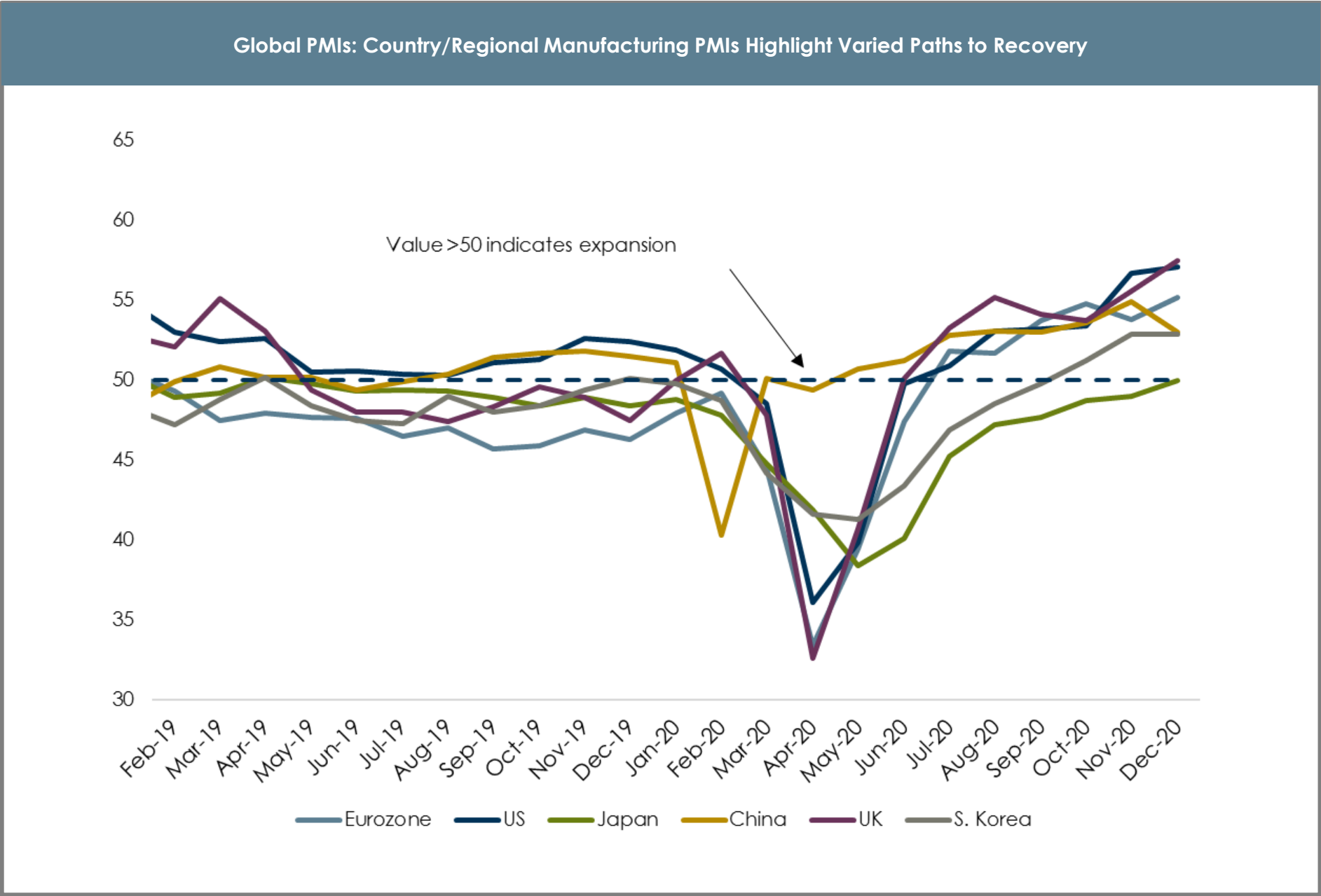
Source: ACG Research, Oxford Economics, Haver Analytics



Source: ACG Research, IMF (as of September 30, 2020)



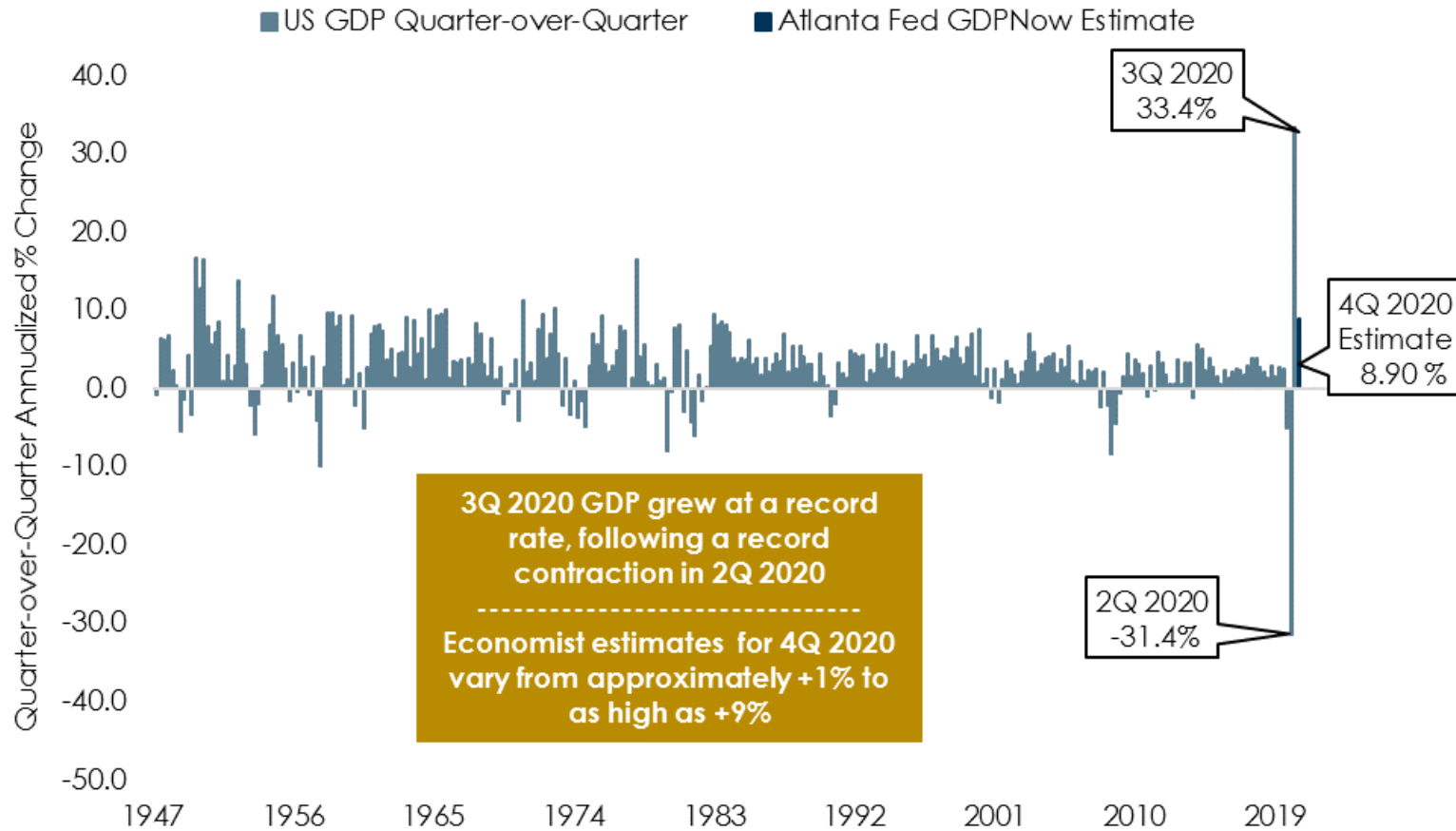
Source: ACG Research, JP Morgan Markets (data as of December 31, 2020)



Source: ACG Research, Bloomberg (data as of December 31, 2020)

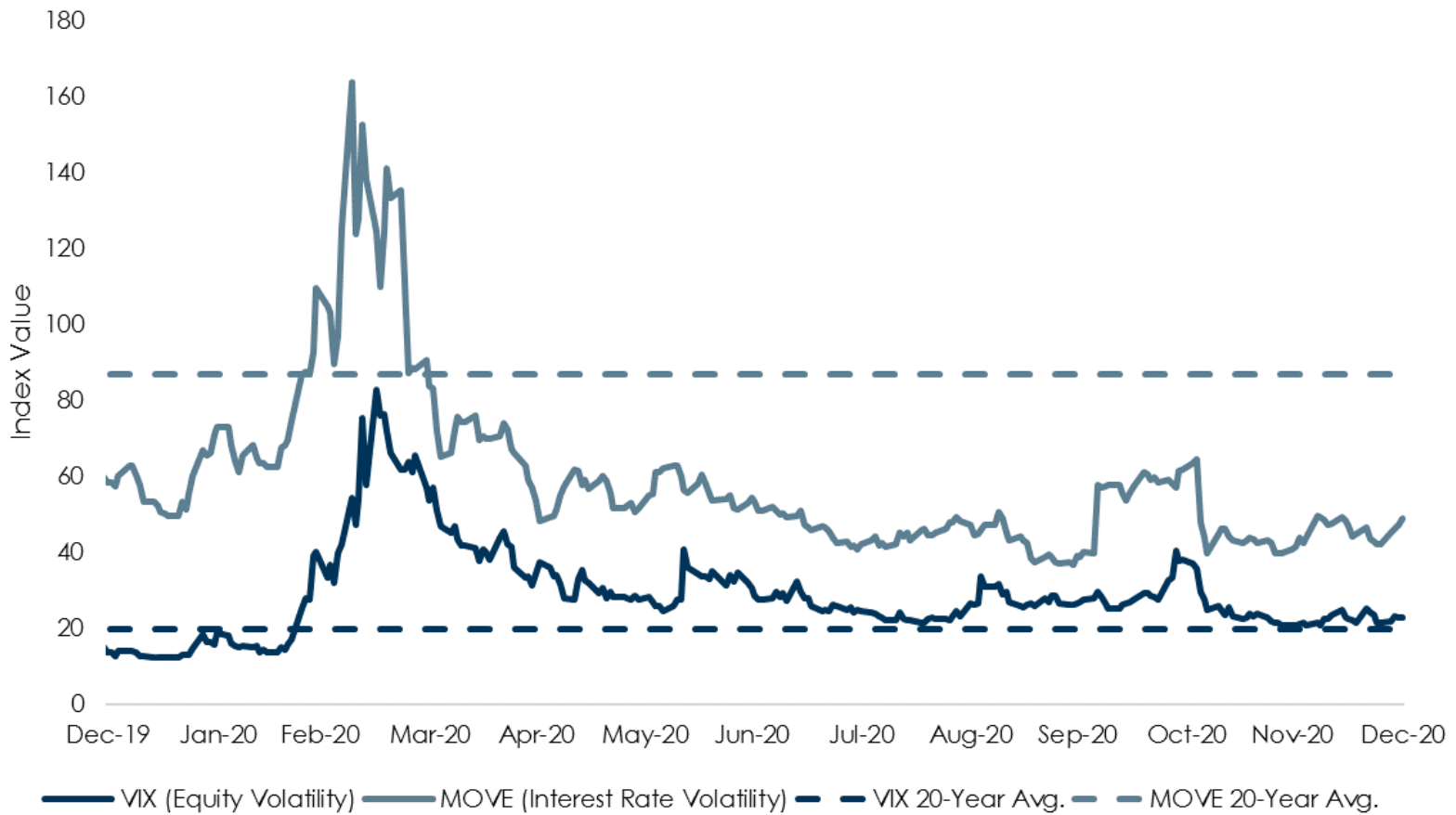


US GDP: Unprecedented Sudden Stop Leads to Recession, Depth & Shape of Recovery Less Certain

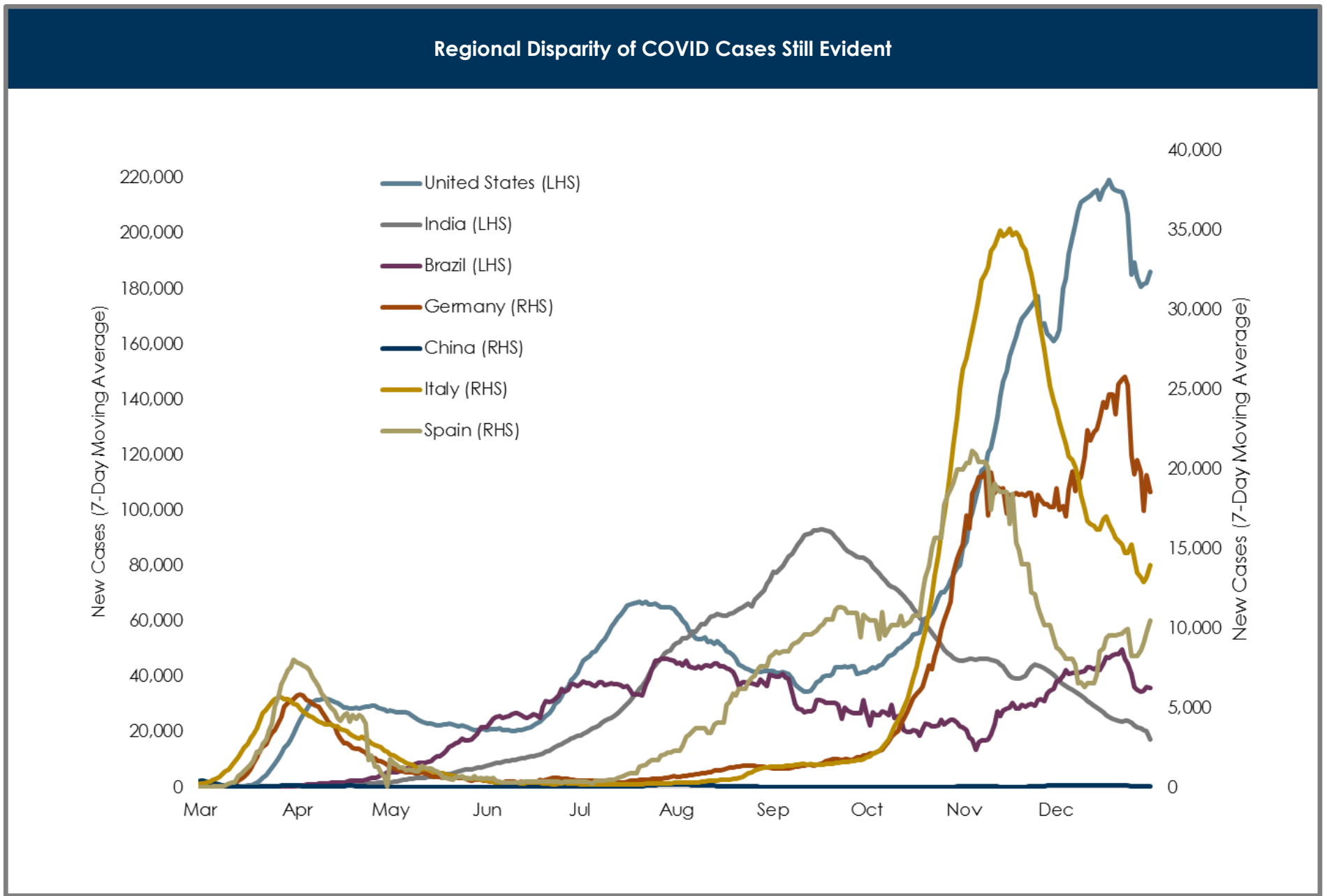


Source: ACG Research, Bloomberg, Bureau of Economic Analysis, Atlanta Federal Reserve Bank (as of December 31, 2020)

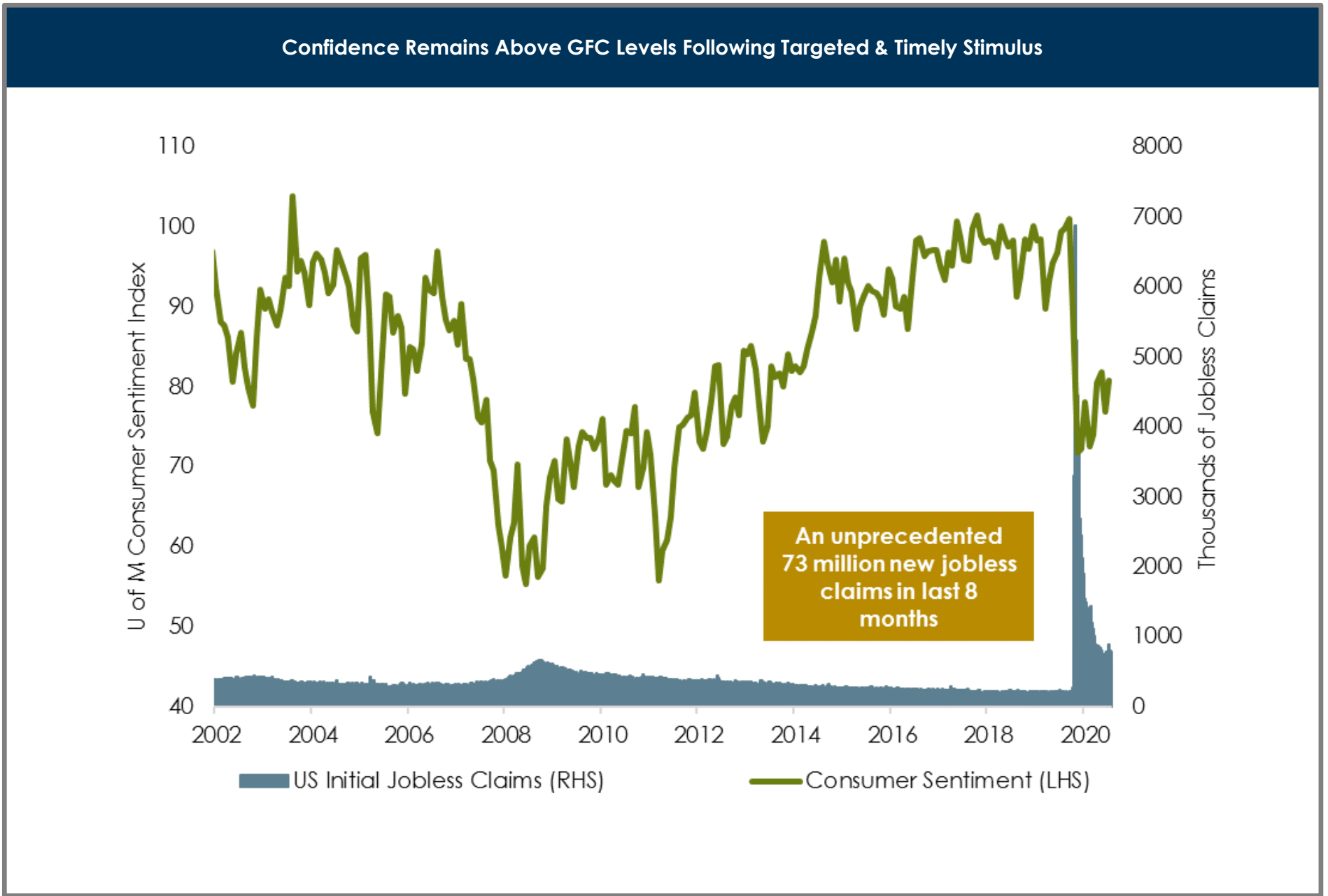
### Not Withstanding COVID Uncertainty, Volatility has Declined



Source: ACG Research, Bloomberg (data as of December 31, 2020)

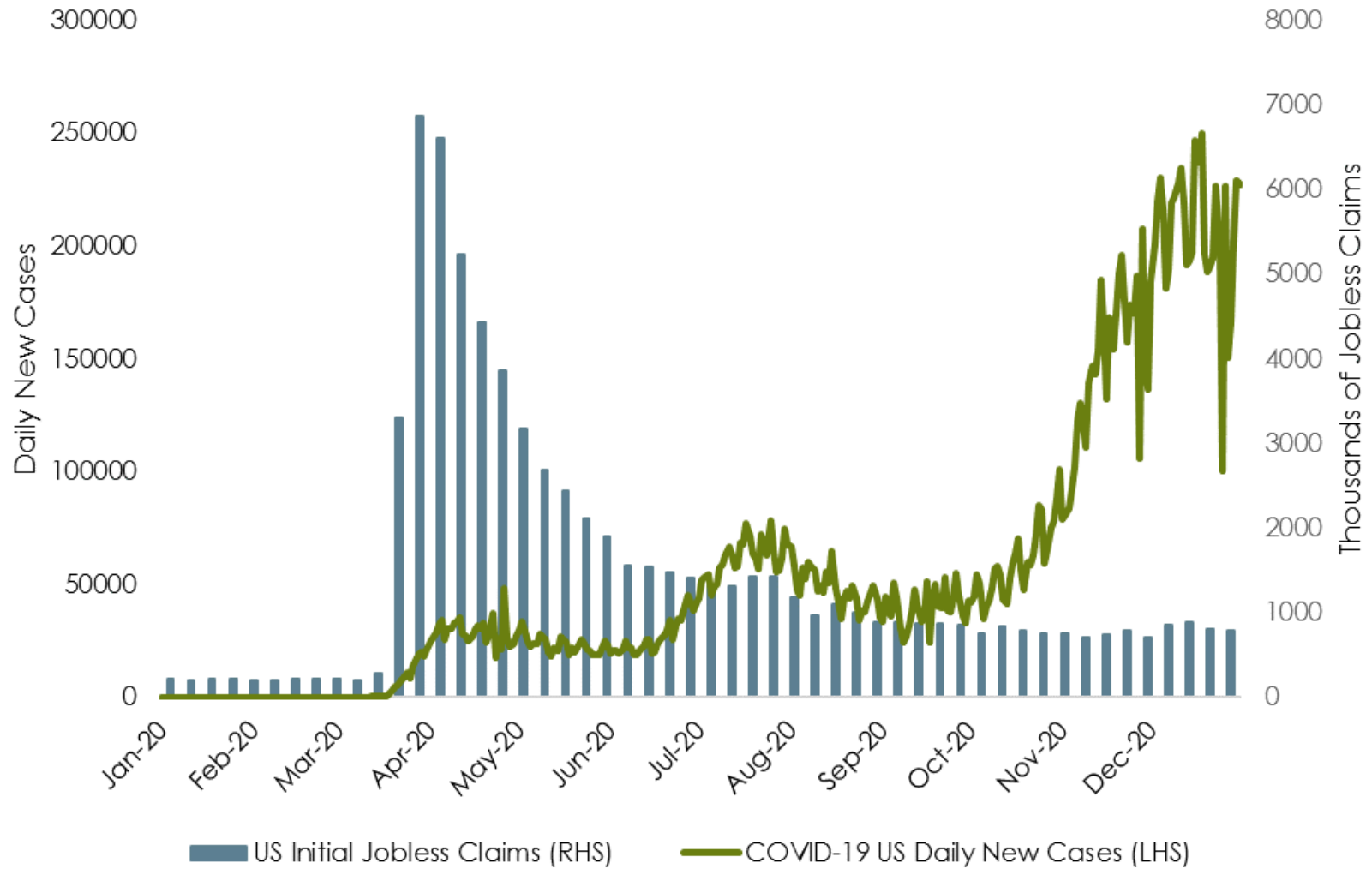


Source: ACG Research, Johns Hopkins University, Our World in Data (as of December 31, 2020)



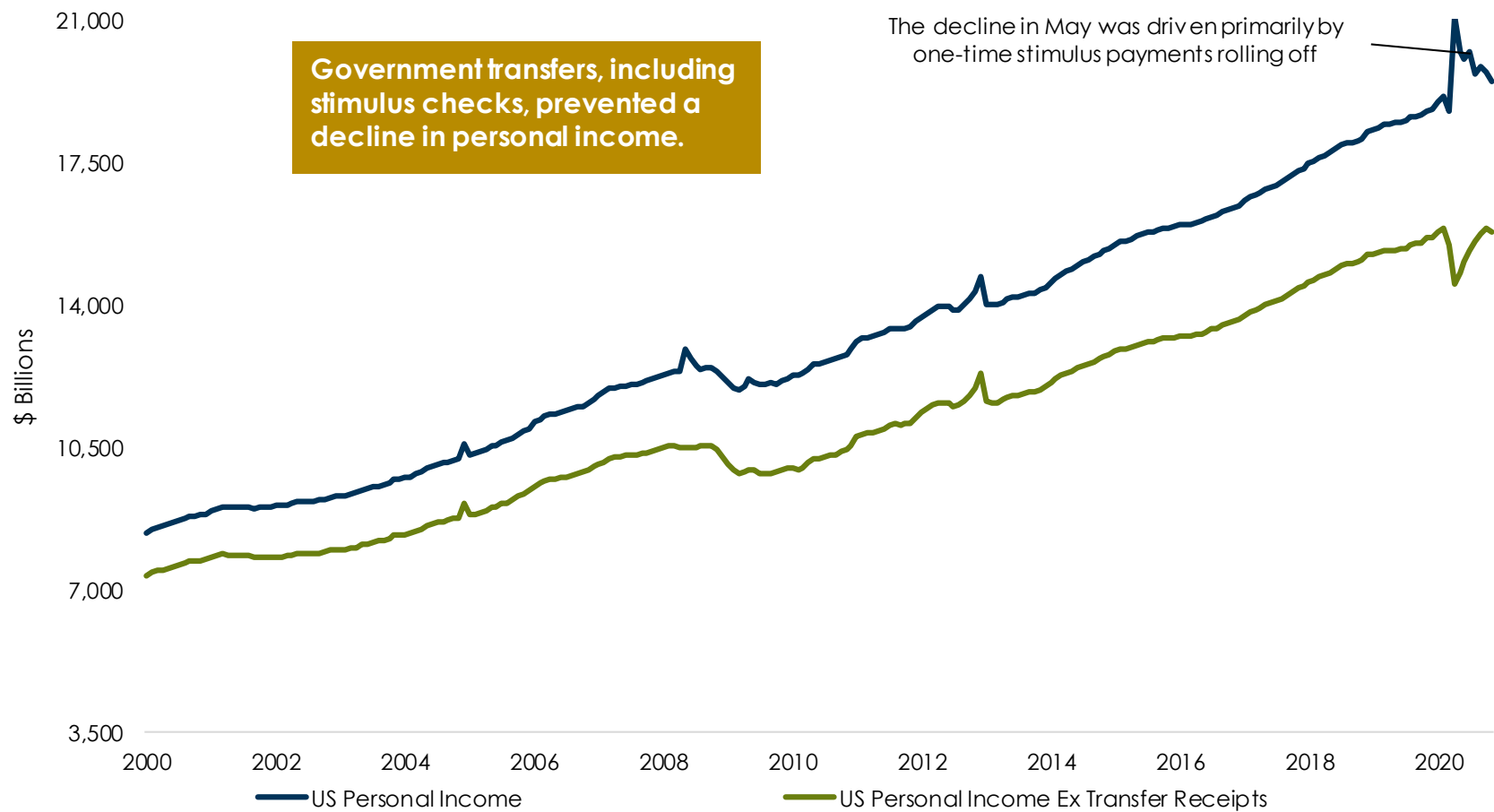
Source: ACG Research, Bloomberg, University of Michigan (as of December 31, 2020)

### Confidence is Key: No Second Surge in Jobless Claims Despite Surge in Daily Cases



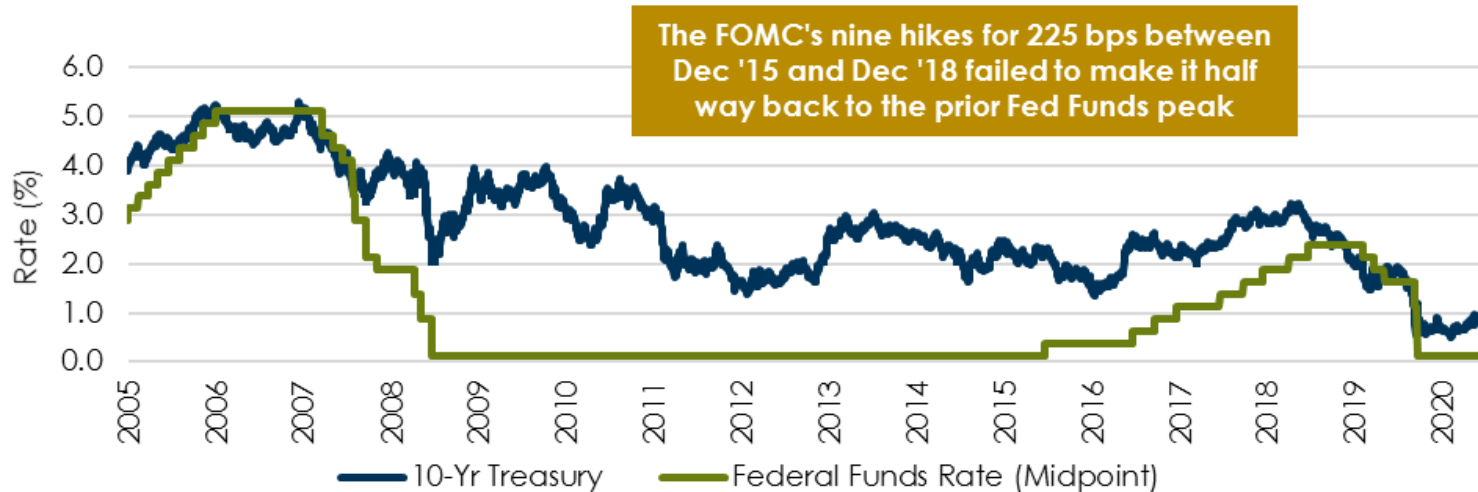
Source: ACG Research, Bloomberg (as of December 31, 2020)

### Confidence is Key: Targeted & Timely Stimulus Intended to Support Consumers



Source: ACG Research, BEA, Bloomberg, (as of November 30, 2020)

US Federal Reserve: Policy Pivot Transitions Quickly to “All Hands on Deck”



The Fed's Expanded Toolkit

Zero Bound Rates	<b>New</b> - Reduced Bank Reserve Requirements
Asset Purchases (unlimited QE)	<b>New</b> - Primary Market Corporate Credit Facility (PMCCF)**
Primary Credit Rate/Discount Window	<b>New</b> - Secondary Market Corporate Credit Facility (SMCCF)**
Central Bank Liquidity Swaps	<b>New</b> - Foreign & International Monetary Authorities (FIMA) Repo Facility
Primary Dealer Credit Facility (PDCF)*	<b>New</b> - Municipal Liquidity Facility (MLF)**
Money Market MF Liquidity Facility*	<b>New</b> - Main Street Lending Program**
Commercial Paper Funding Facility (CPFF)*	<b>New</b> - Paycheck Protection Program Liquidity Facility (PPPLF) *
Term Asset-Backed Securities Loan Facility (TALF)**	

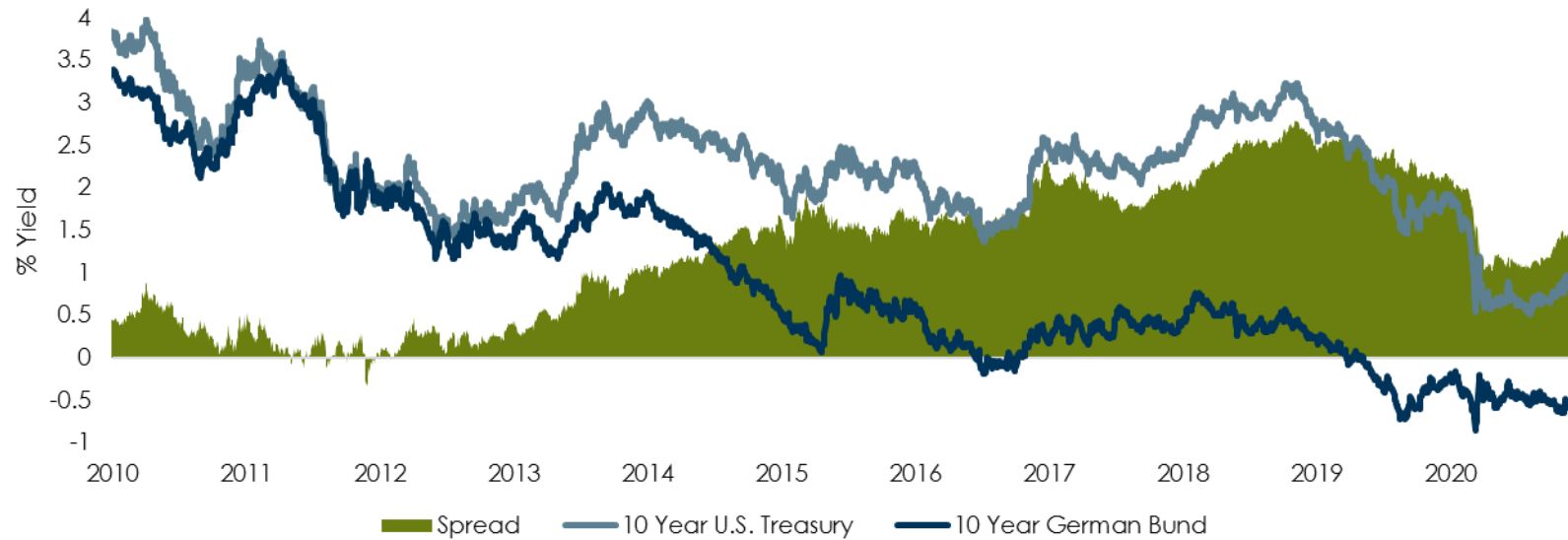
-Certain programs enacted in conjunction with the Treasury Department have expired or are scheduled to expire soon:

\*Extended through March 31st, 2021

\*\*Expired on or around December 31, 2020

Source: ACG Research, Bloomberg, Federal Reserve (as of December 31, 2020)

Global Central Banks: Asset Purchase Programs a Staple with Rates Already Near Zero



Major Global Policy Responses

**Bank of England**

- Asset purchases: \$920 billion planned
- Term Funding Scheme (TFSME)
- Covid Corporate Financing Authority (CCFF)
- Contingent Term Repo Facility (CTRF)

**European Central Bank**

- Asset Purchases: \$1,500 billion planned
- Targeted Longer-Term Refinancing Operations (TLTRO III)

**Bank of Japan**

- Asset Purchases: \$865 billion planned
- Special Funds-Supplying Operations to Facilitate Corporate Financing
- Securities Lending Facility (SLF)

**European Commission**

- Proposed \$840 billion in joint debt to be issued by the EU as aid to the bloc's hardest hit countries

Source: ACG Research, Bloomberg, FRED (as of December 31, 2020).

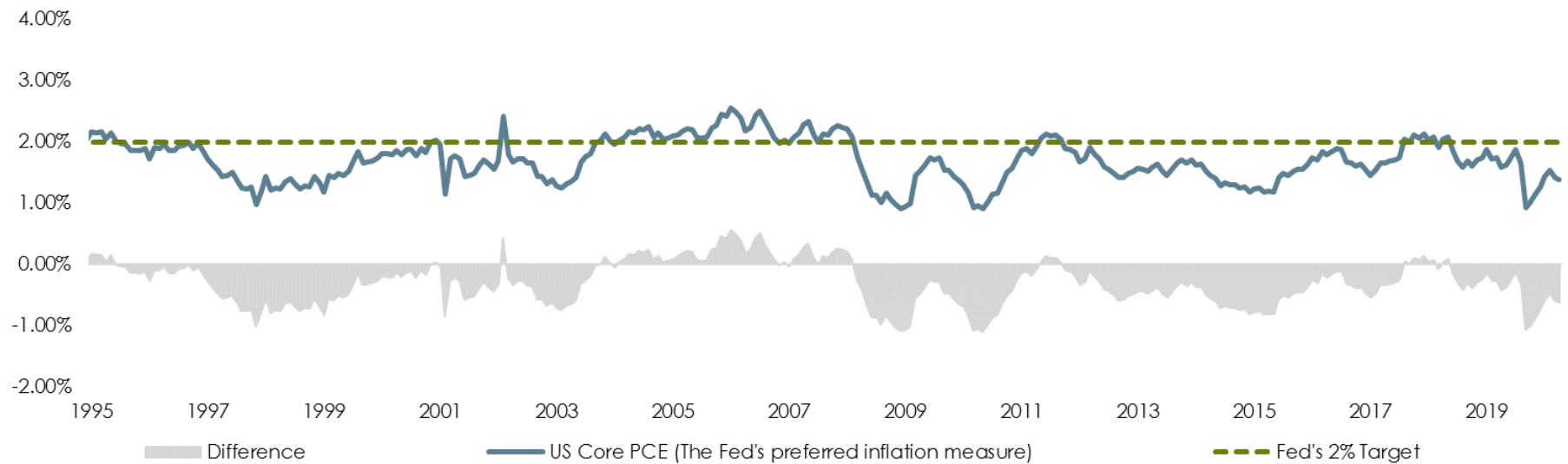


Corporate Credit: Markets Respond Favorably to Fed Support



Source: ACG Research, Bloomberg Barclays Indices (as of December 31, 2020)

## Inflation Expectations: Years of Low Inflation Lead the Fed to Relax its 2% Target



### Deflationary Signals

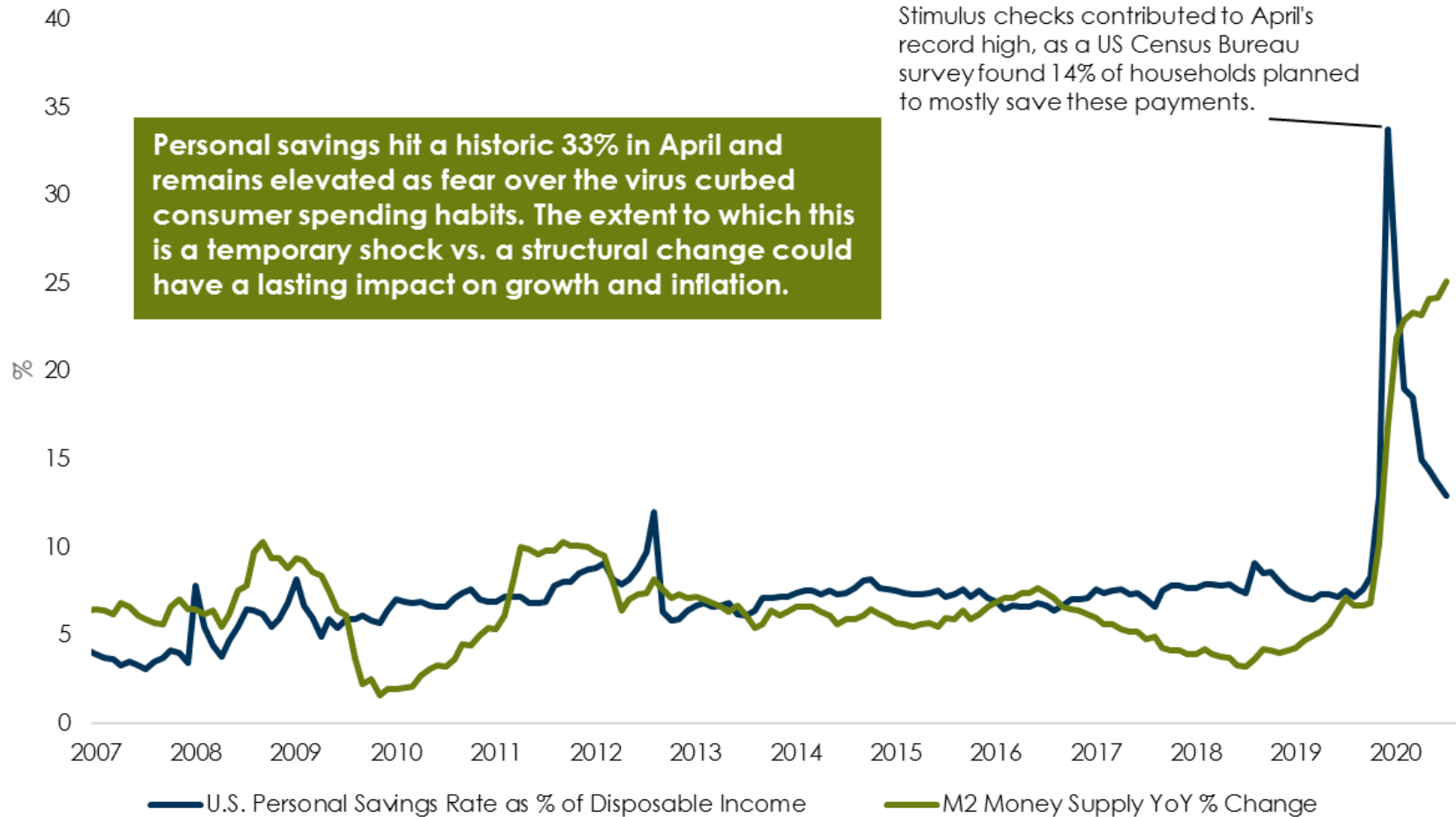
- Demographic trends (lower birth rate, aging population)
- Technological innovations
- Stagnant wage growth
- Unemployment
- High savings rate
- Reduced velocity of money
- Inequality

### Inflationary Signals

- Fed accommodation
- Consumer demand induced by economic recovery
- Fiscal policy support
- Weaker USD
- Supply chain disruption
- Deglobalization
- Reduced Competition

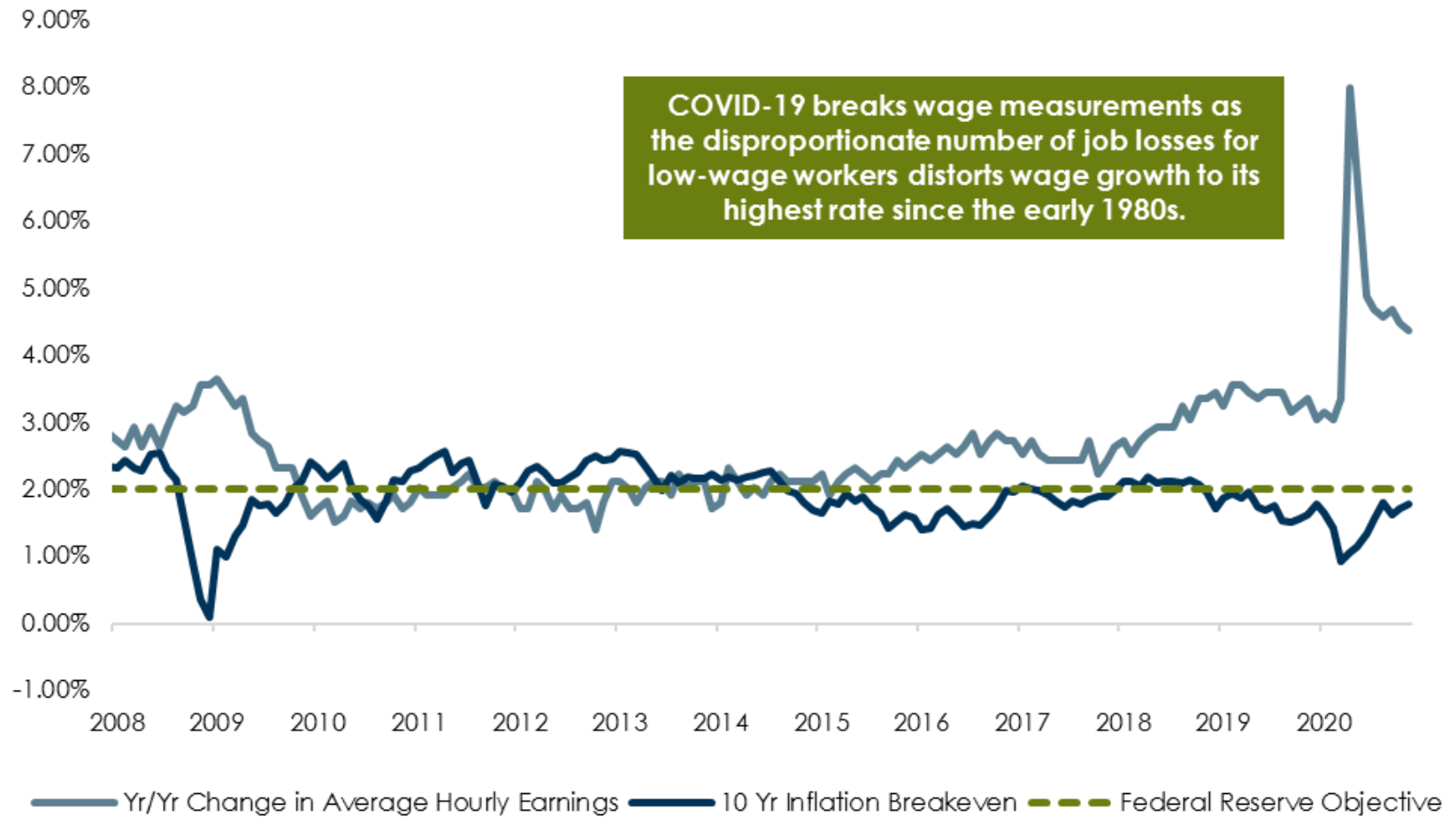
Source: ACG Research, Bloomberg (as of December 31, 2020)

### Inflation Expectations: Money Supply Increases while Consumers Hoard Cash

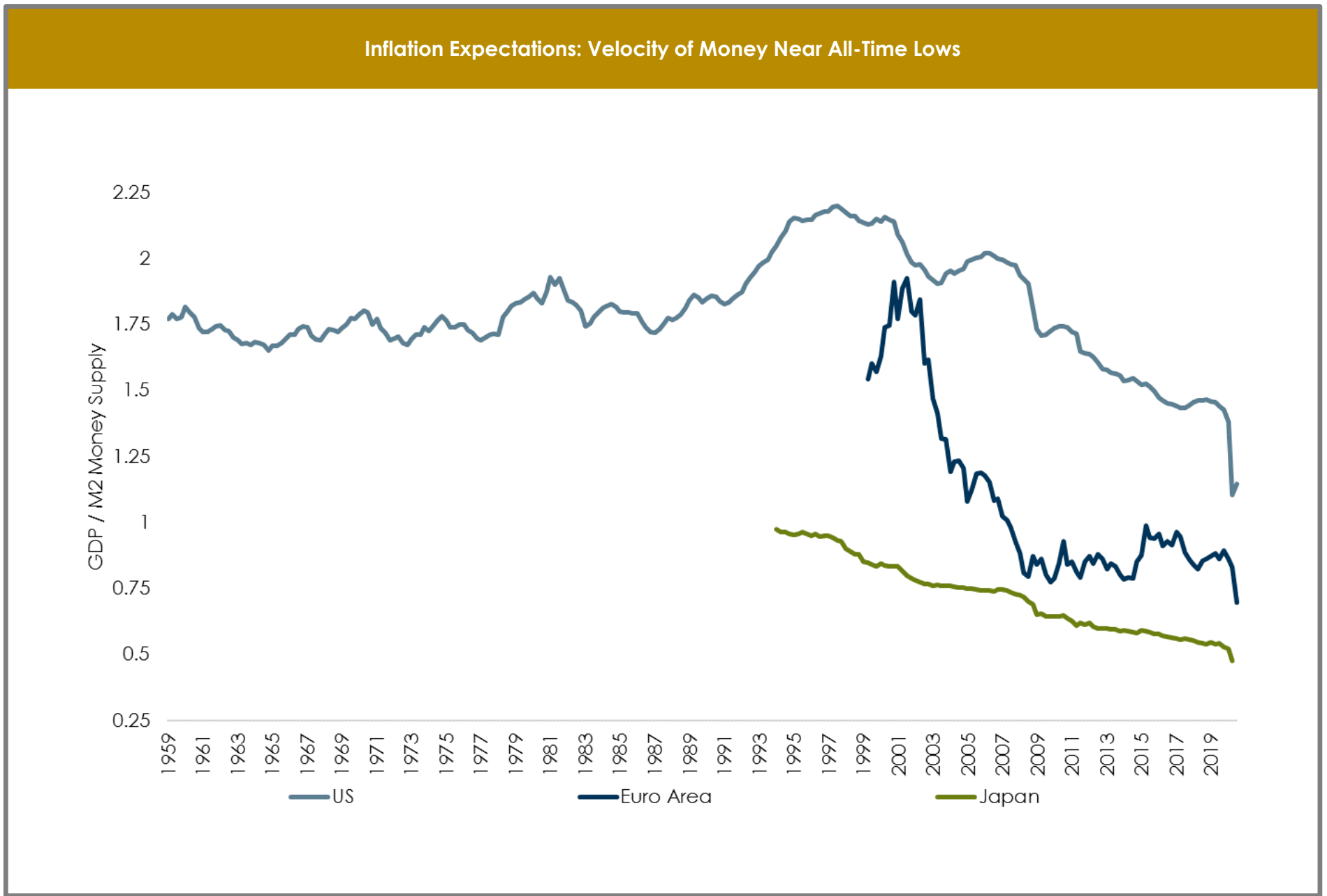


Source: ACG Research, Bloomberg (As of December 31, 2020)

Inflation Expectations: Still Below Target, Wage Growth Distorted by Employee Profiles



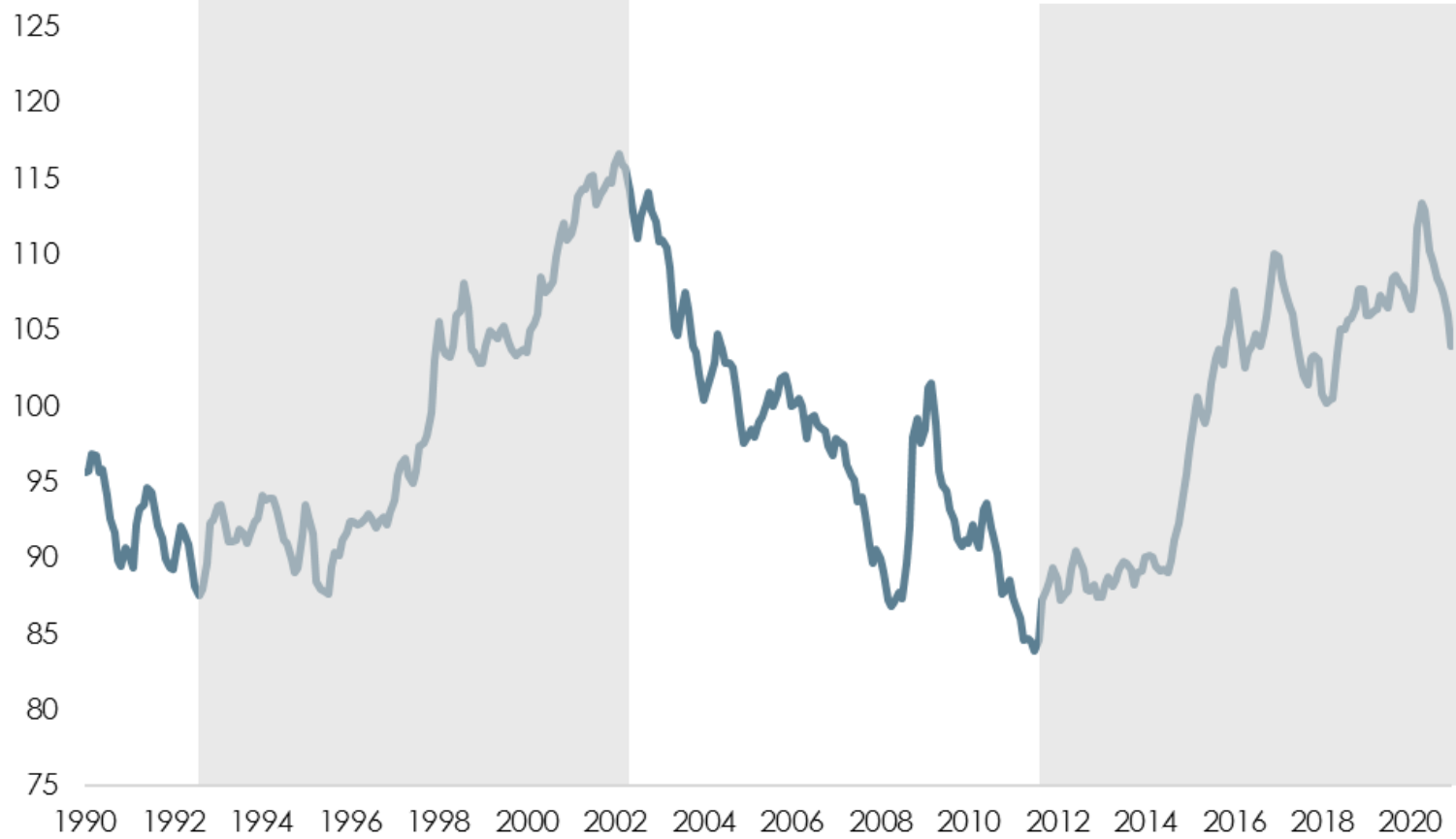
Source: ACG Research, Bloomberg (As of November 30, 2020)



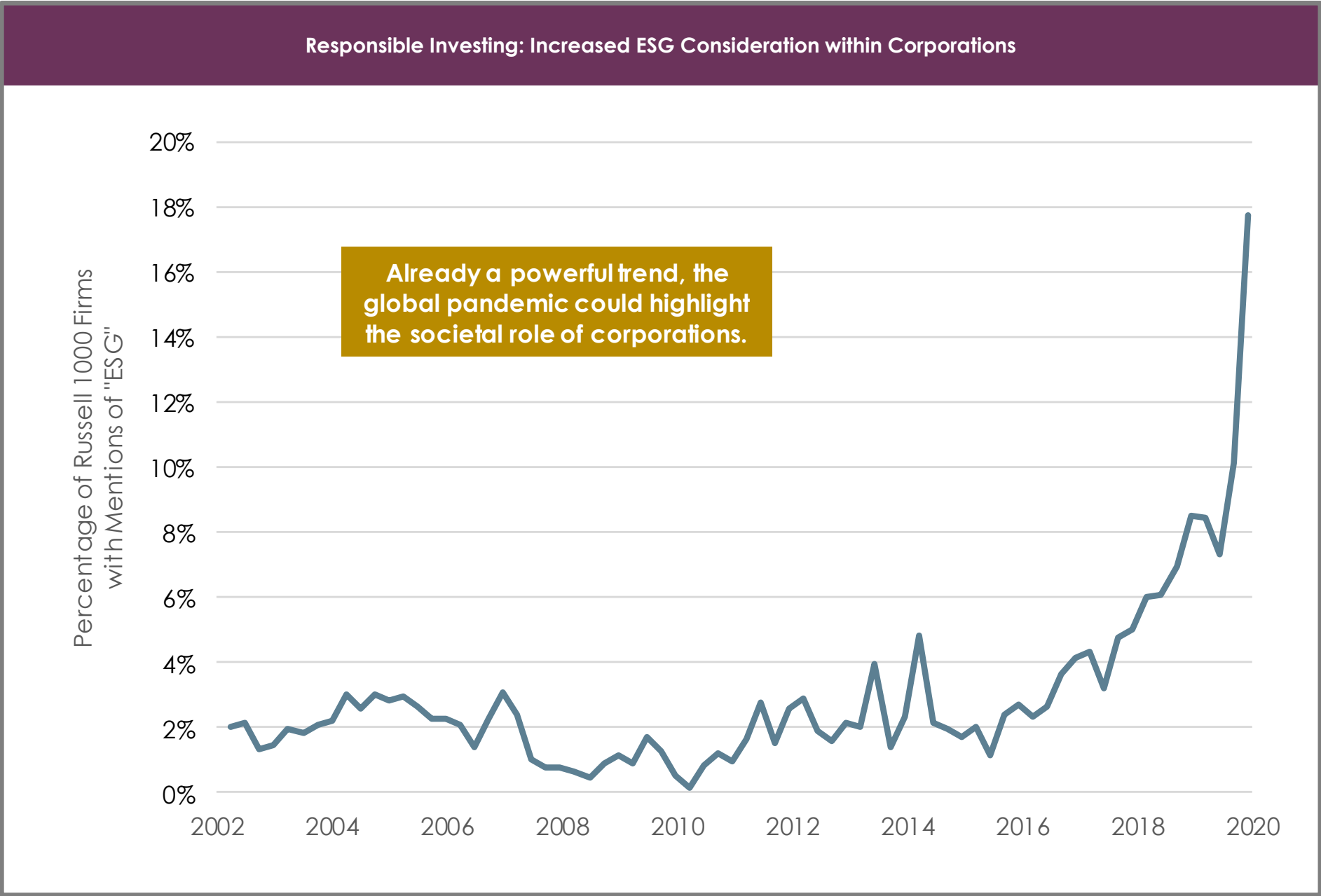
Source: ACG Research, Bloomberg, Japan Cabinet Office retrieved from FRED, European Central Bank (as of September 30, 2020)

US Dollar – Due for a Period of Weakness?

Trade Weighted US Dollar Index: Broad Goods and Services  
(1990 - Current)

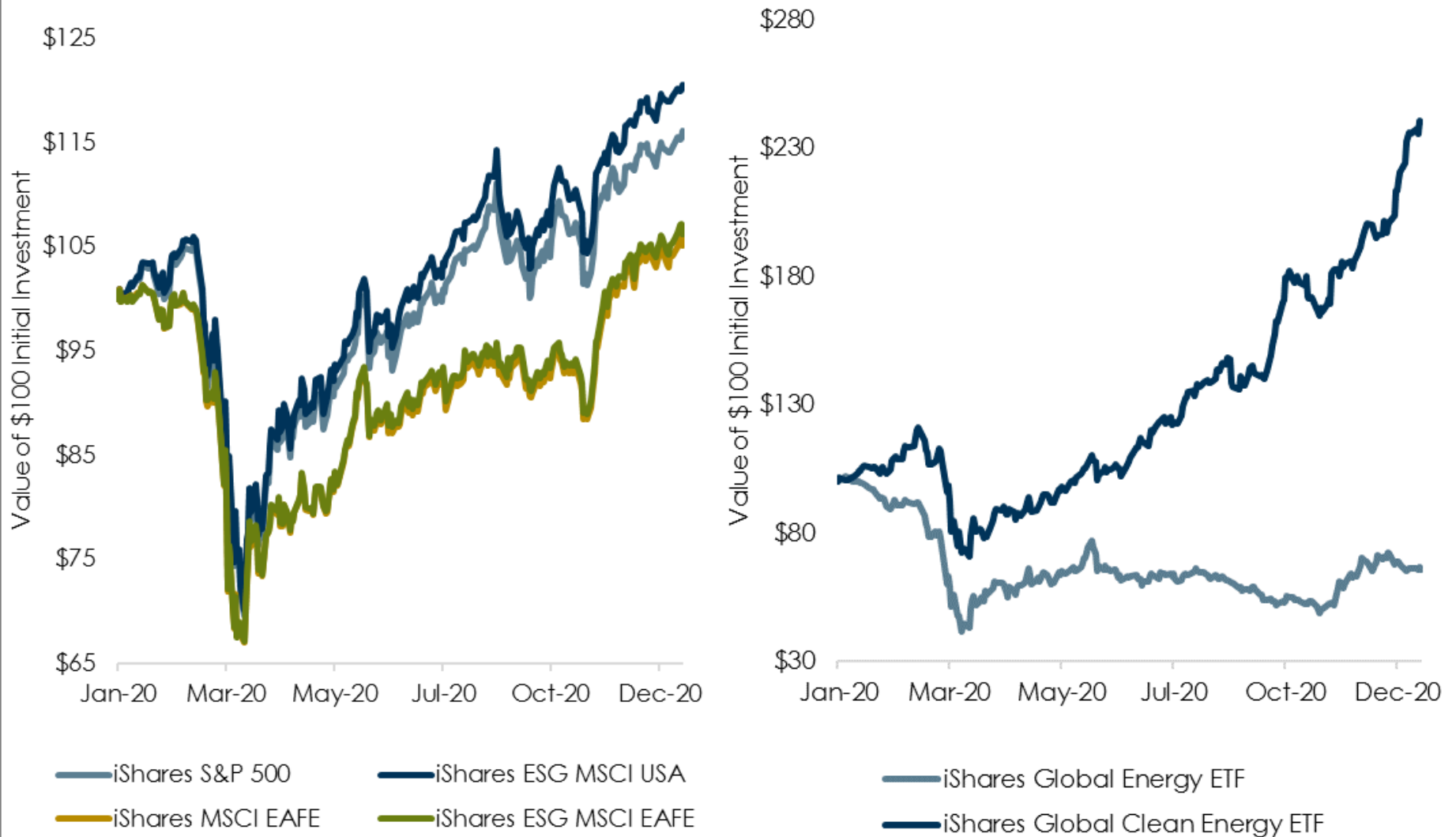


Source: ACG Research, Bloomberg (as of December 31, 2020)



Source: ACG Research, BlackRock (BTAP – BlackRock Text Analytics Platform)

Responsible Investing: ETFs with an ESG Tilt Have Outperformed Amid the Year-to-Date Declines

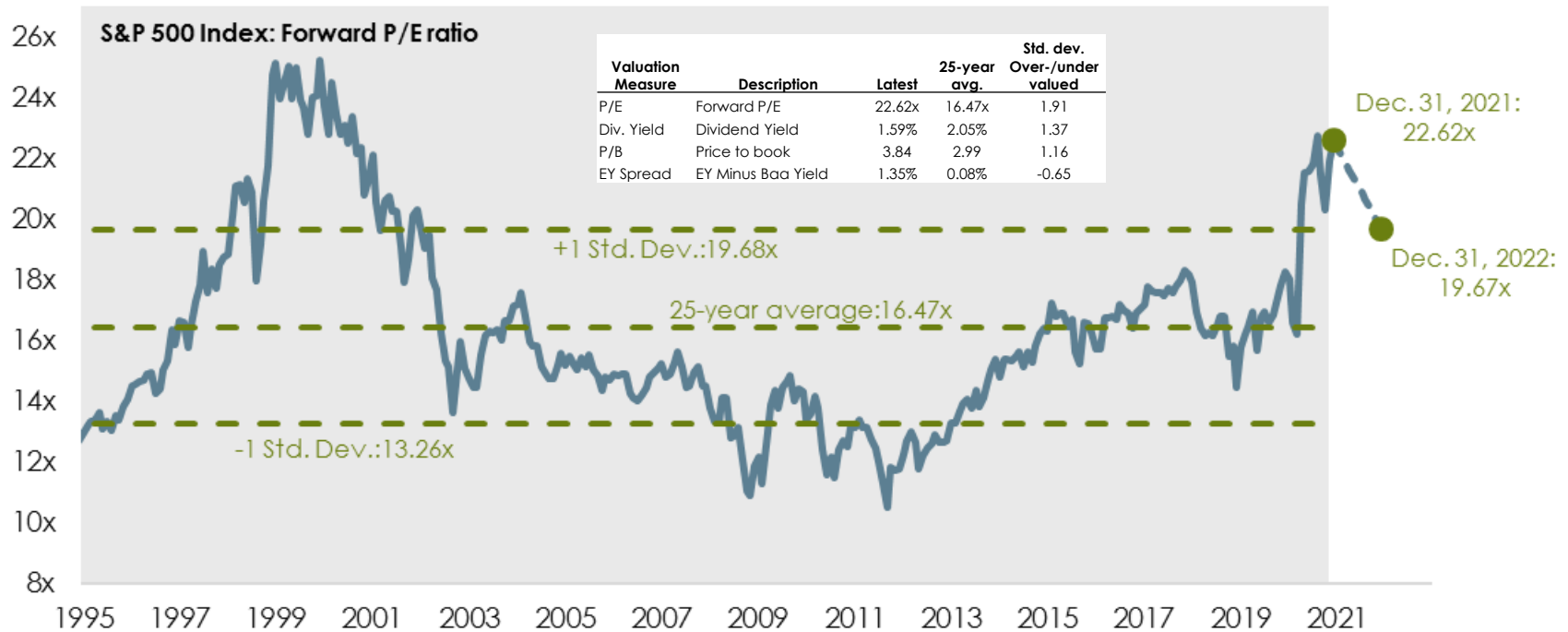


Source: ACG Research, Bloomberg, iShares (as December 31, 2020)



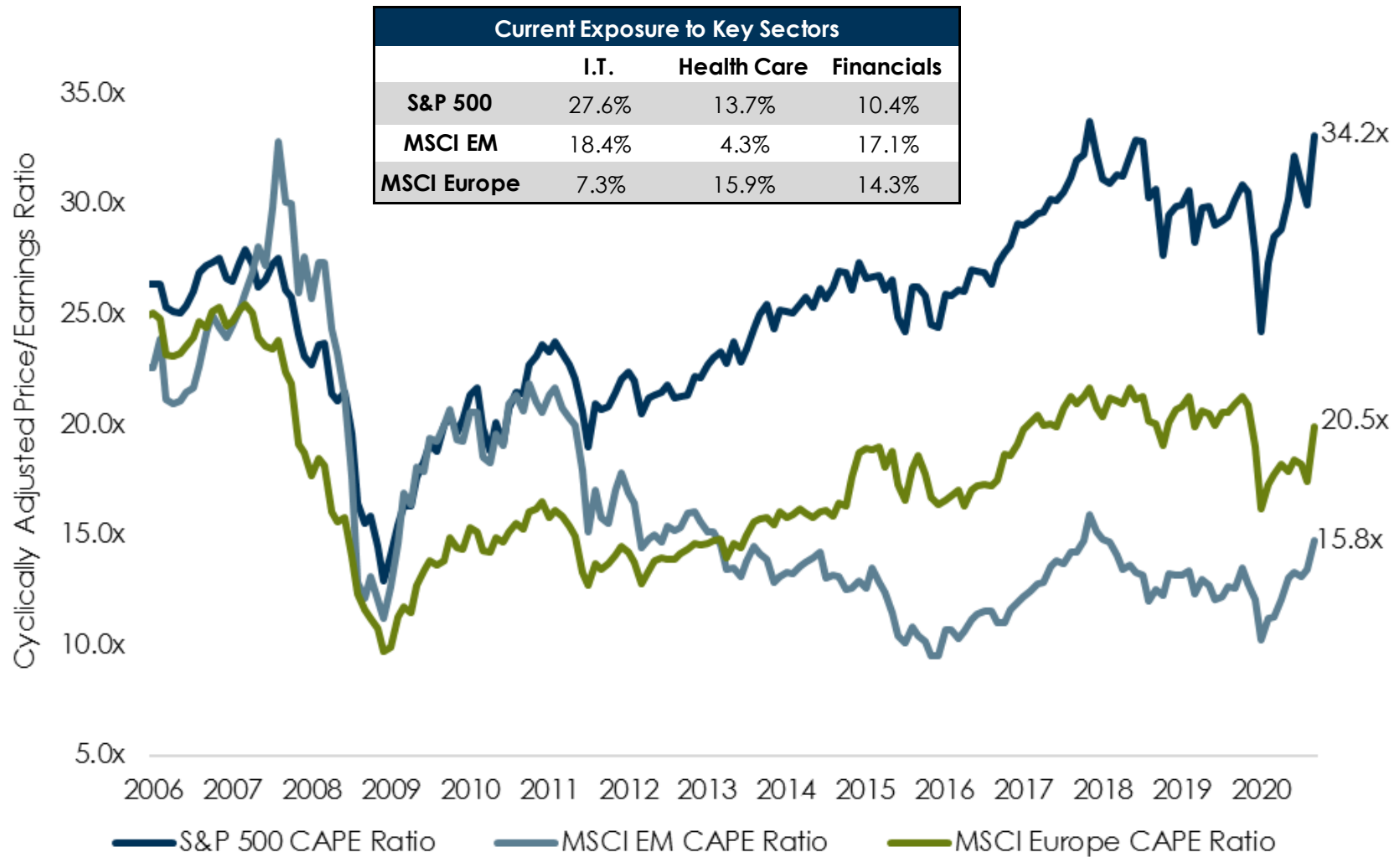
### Is the Market Too Optimistic on the Earnings Recovery?

- **Based on several metrics, the S&P 500 Index appears expensive (12/31/20 closing price of 3756)**
- Consensus earnings estimates for 2021 (\$166) suggest a forward p/e of 22.6x (vs. 25-year average of 16.5x)
- Consensus estimates are higher for 2022 (\$191), yet the forward p/e for '22 is still 19.7x (vs. 25-year average of 16.5x)

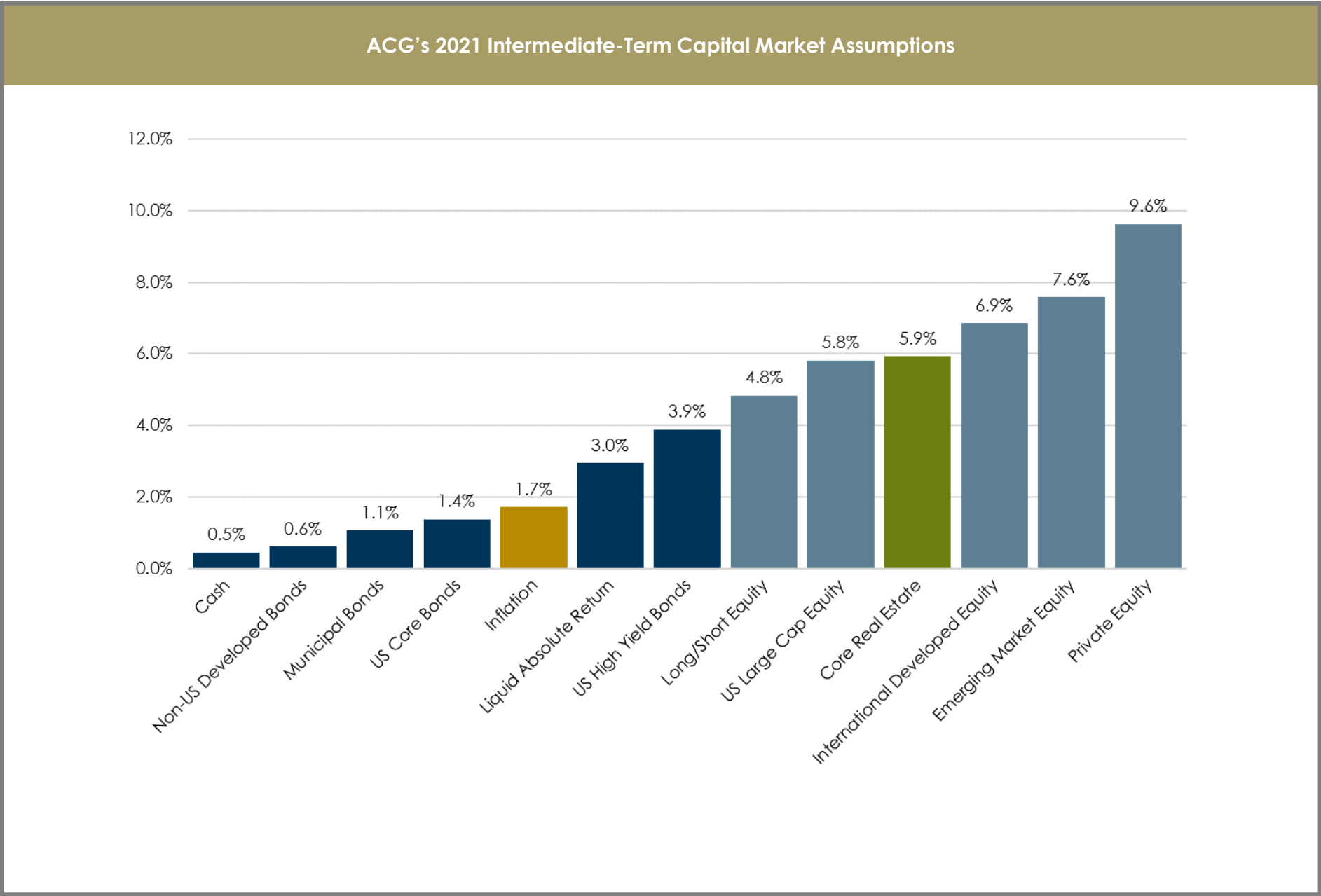


Source: Yardeni Research, FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.

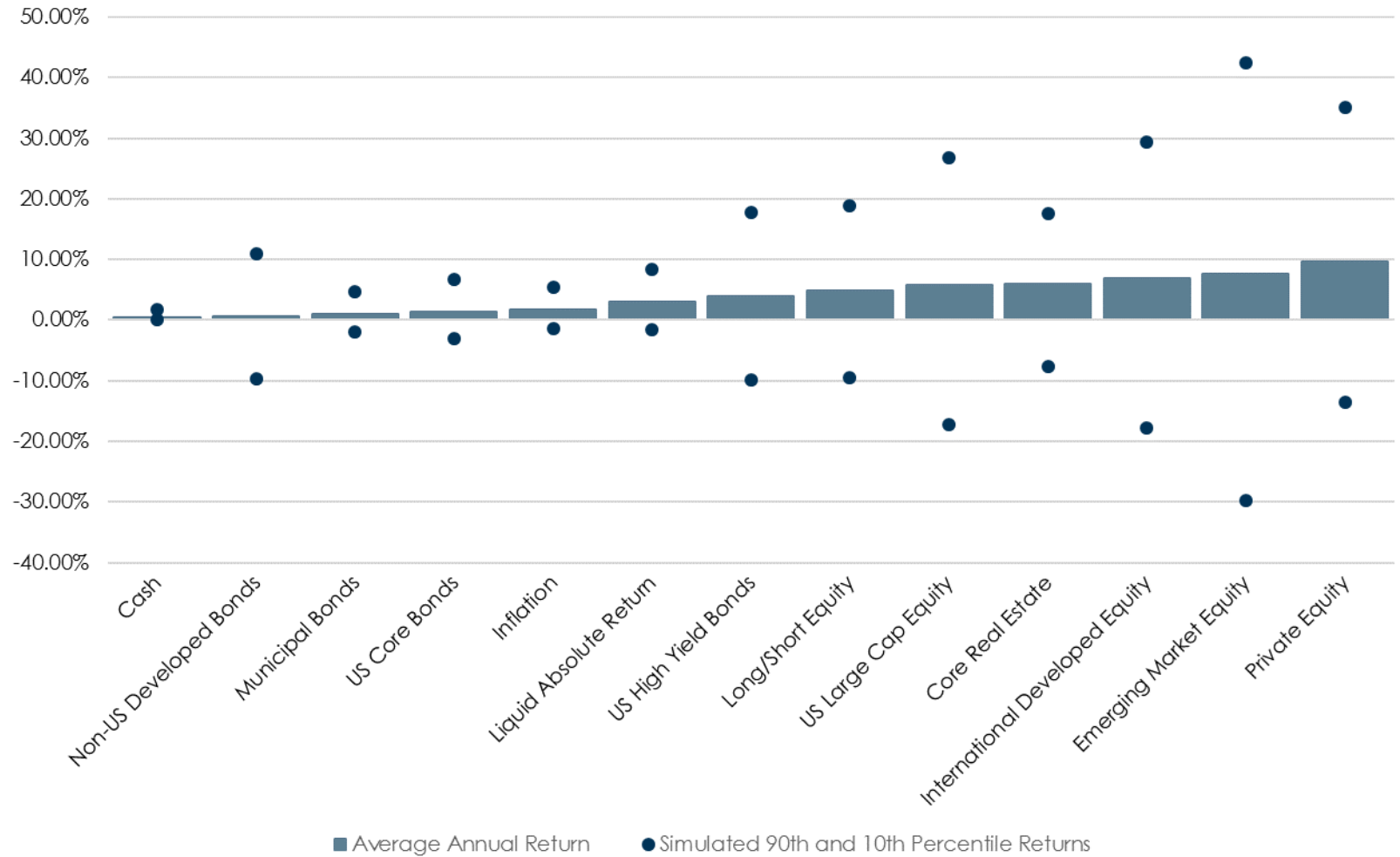
Equity Valuations: Approaching Recent Highs After End-of-Year Rally, Sector Exposures Making a Difference

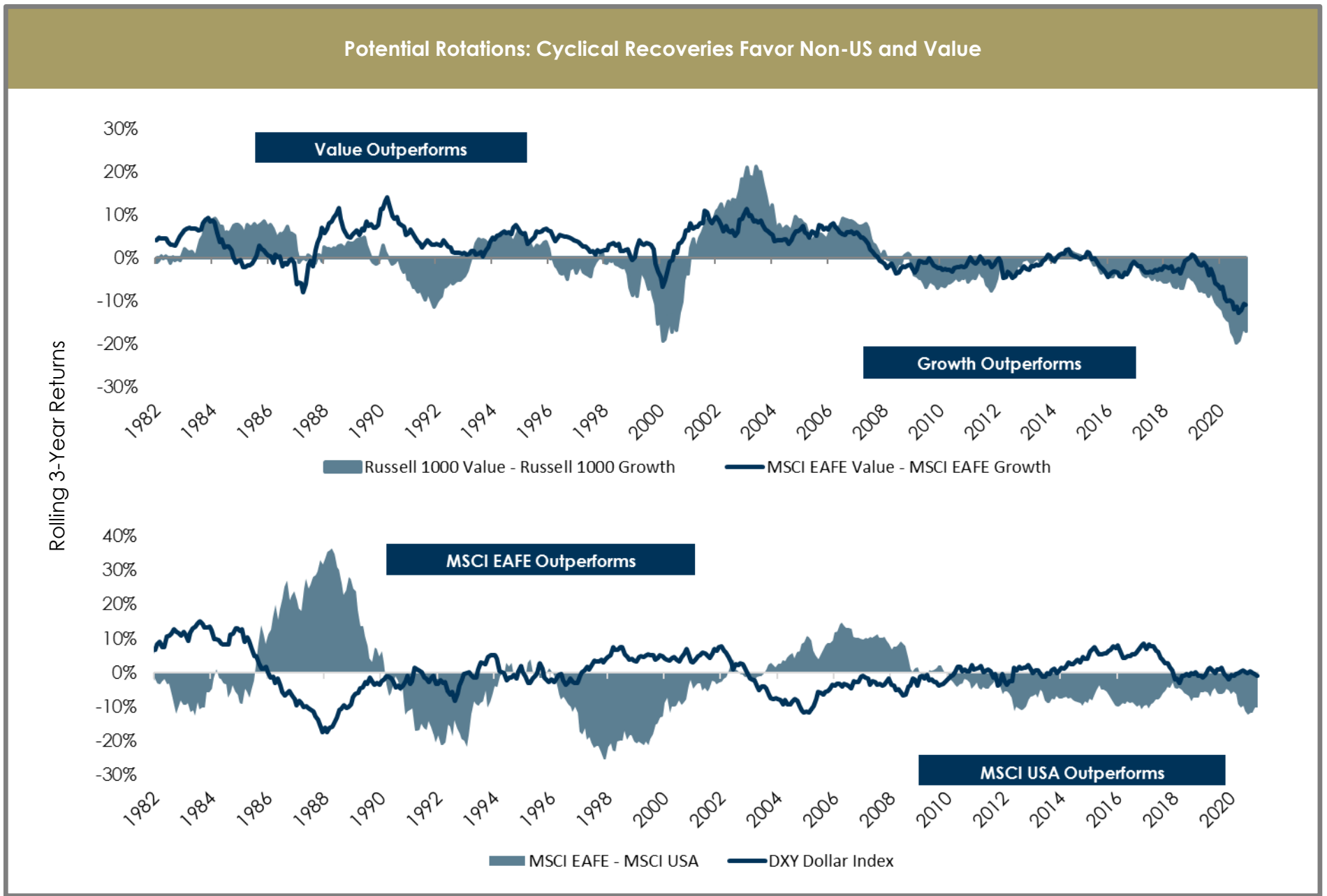


Source: ACG Research, Bloomberg, Robert Shiller (as of December 31, 2020)

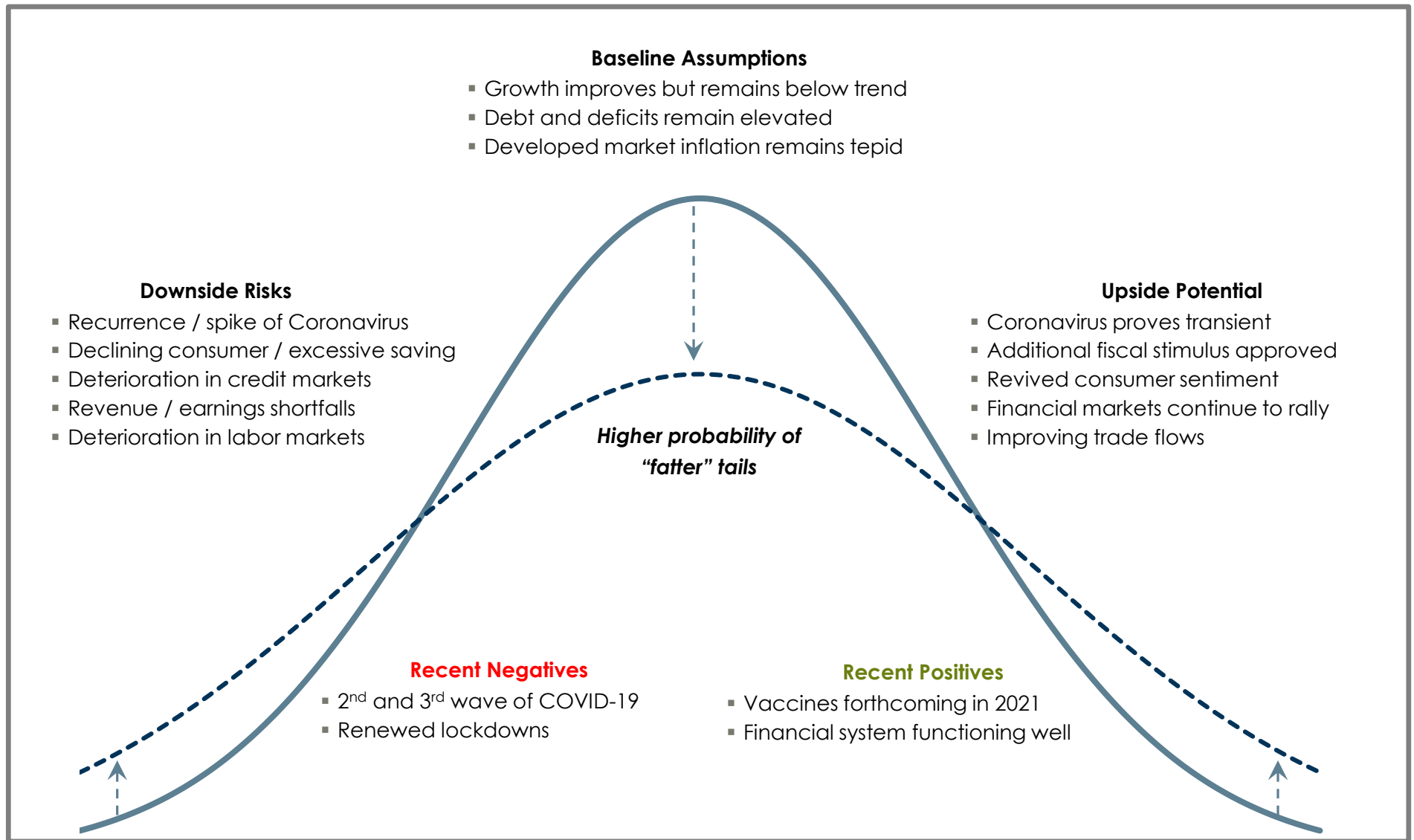


ACG's 2021 Intermediate-Term Capital Market Assumptions





Source: ACG Research, Bloomberg, MSCI, Morningstar (as of December 31, 2020)



## Implementation Strategies

---

### Evolving Global Growth Dynamics

- Maintain long-term strategic allocations
- Pursue active/focused/opportunistic strategies in less efficient markets

### Heightened Geopolitical & Social Risks

- Embrace global diversification, with a modest reserve of dry powder
- Private strategies can limit near-term price impacts

### Challenging Yield Environment

- Maintain high-quality core fixed income exposures for portfolio ballast
- Incorporate "non-traditional" strategies for flexibility and yield enhancement

### Conflicting Inflationary Signals

- Shorter-dated fixed income and floating rate securities protect against inflationary surprise
- Diversified real assets can provide enhanced income amid rising prices

### Demand for Responsible Investment

- Consider a high-quality portfolio orientation
- Opportunities in both stocks and bonds for impact oriented investment

### Muted Return Expectations

- Revisit overall risk tolerance and investment objectives
- Focus on strategic plan versus frequent tactical shifts

## Disclosures and Legal Notice

---

The views expressed herein are those of Asset Consulting Group (ACG). They are subject to change at any time. These views do not necessarily reflect the opinions of any other firm.

This report was prepared by ACG for you at your request. Although the information presented herein has been obtained from and is based upon sources ACG believes to be reliable, no representation or warranty, express or implied, is made as to the accuracy or completeness of that information. Accordingly, ACG does not itself endorse or guarantee, and does not itself assume liability whatsoever for, the accuracy or reliability of any third party data or the financial information contained herein.

Certain information herein constitutes forward-looking statements, which can be identified by the use of terms such as "may", "will", "expect", "anticipate", "project", "estimate", or any variations thereof. As a result of various uncertainties and actual events, including those discussed herein, actual results or performance of a particular investment strategy may differ materially from those reflected or contemplated in such forward-looking statements. As a result, you should not rely on such forward-looking statements in making investment decisions. ACG has no duty to update or amend such forward-looking statements.

The information presented herein is for informational purposes only and is not intended as an offer to sell or the solicitation of an offer to purchase a security.

Please be aware that there are inherent limitations to all financial models, including Monte Carlo Simulations. Monte Carlo Simulations are a tool used to analyze a range of possible outcomes and assist in making educated asset allocation decisions. Monte Carlo Simulations cannot predict the future or eliminate investment risk. The output of the Monte Carlo Simulation is based on ACG's capital market assumptions that are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. Capital market assumptions based on other models or different estimates may yield different results. ACG expressly disclaims any responsibility for (i) the accuracy of the simulated probability distributions or the assumptions used in deriving the probability distributions, (ii) any errors or omissions in computing or disseminating the probability distributions and (iii) any reliance on or uses to which the probability distributions are put.

The projections or other information generated by ACG regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Judgments and approximations are a necessary and integral part of constructing projected returns. Any estimate of what could have been an investment strategy's performance is likely to differ from what the strategy would actually have yielded had it been in existence during the relevant period. The source and use of data and the arithmetic operations used for calculating projected returns may be incorrect, inappropriate, flawed or otherwise deficient.

Past performance is not indicative of future results. Given the inherent volatility of the securities markets, you should not assume that your investments will experience returns comparable to those shown in the analysis contained in this report. For example, market and economic conditions may change in the future producing materially different results than those shown included in the analysis contained in this report. Any comparison to an index is for comparative purposes only. An investment cannot be made directly into an index. Indices are unmanaged and do not reflect the deduction of advisory fees.

This report is distributed with the understanding that it is not rendering accounting, legal or tax advice. Please consult your legal or tax advisor concerning such matters. No assurance can be given that the investment objectives described herein will be achieved and investment results may vary substantially on a quarterly, annual or other periodic basis. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.

© 2021 Asset Consulting Group. All Rights Reserved. Asset Consulting Group is the sole owner of all rights, title, and interest to the materials, methodologies, techniques, and processes set forth herein, including any and all intellectual property rights. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of Asset Consulting Group.