

**Global Economy**

An eventful January saw the US Senate tilt in the Democrats' favor, a riot at the US capital building, a Presidential inauguration, and a new Covid-19 vaccine seeking FDA approval. The net result was positive market sentiment for most of the month, with the outlook for more stimulus seeming to outweigh the prospect of increased taxes or regulations from the empowered Democrats. However, US markets ended the month on a down note, with volatility rising as day-traders joined forces to wreak havoc on hedge fund short positions, shaking investors' faith in the sustainability of the rally. On the virus front, Johnson & Johnson's vaccine proved less effective than the current options but still helpful given existing supply constraints. Vaccine delivery remains a challenge, and new strains raise questions about vaccine effectiveness.

The Federal Open Market Committee met in January but did not change policy rates, a widely expected outcome. The meeting statement was little changed from December but did make note of the negative impact of the recent virus surge on the economic recovery and the importance of making progress on vaccinations. Chairman Powell's post meeting Q&A provided additional insight, as he called the idea of tapering "premature" and reiterated the Fed's patience in reacting to any inflation which occurs. After expanding rapidly early in the pandemic, growth of the Fed balance sheet has slowed in recent months as strained financial conditions have eased, rising to \$7.4 trillion.

The first estimate of 4Q-20 real GDP indicated the US GDP expanded at a rate of +4.0% annualized, modestly lower than economists' expectations. The growth was broad-based, with increases in most GDP components partly offset by decreased government spending. For the calendar year 2020, there was a decrease in real GDP of -3.5%. Analysts are expecting moderate growth for 1Q-21, with most estimates ranging from +1% to +4% annualized.

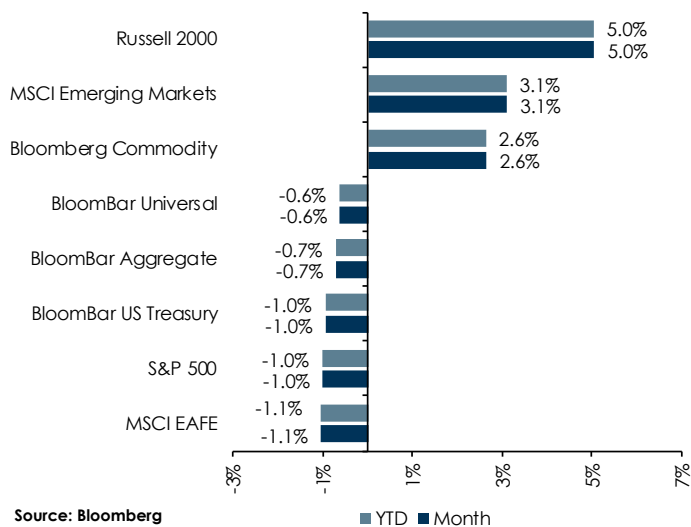
Weekly initial unemployment claims increased in early January before falling for three straight weeks, although initial claims remain at a higher weekly level than before the winter surge in virus cases. Employers added 49,000 jobs in January and unemployment fell to 6.3%. However, signs of a weakening jobs recovery remain when looking beyond the headline numbers as labor force participation also decreased for the month. The economy is still down 9.9 million jobs since February 2020. Core CPI held at +1.6% year-over-year for the third straight month, while the FOMC's preferred measure, Core PCE, rose slightly to +1.5% year-over-year through December.

	Current	Dec-20
US GDP (%)	4.00	4.00
US Unemployment (%)	6.30	6.70
CPI (Core) (%)	1.60	1.60
Fed Funds (%)	0.00 – 0.25	0.00 – 0.25
10 Year UST Yld (%)	1.07	0.92
S&P 500 Div Yld (%)	1.59	1.57
S&P 500 P/E (Trailing)	30.37	29.92
Gold/oz.	\$1,847.30	\$1,895.10
Oil (Crude)	\$52.20	\$48.52
Gasoline (Natl Avg)	\$2.48	\$2.33
USD/Euro	\$1.21	\$1.22
USD/GBP	\$1.37	\$1.37
Yen/USD	¥104.68	¥103.25

Source: Bloomberg

**Global Markets**

**Key Market Indices**



Source: Bloomberg

Returns for major equity indices were mixed in January as markets processed a number of issues, most notably a change of political control in Washington and coronavirus mutations. The month ended with a down week as day-traders instigated a short squeeze campaign, introducing a new source of volatility and uncertainty into equity markets. The S&P 500, which represents large US-based entities, returned -1.0% for the month. Energy (+3.6%) and Health Care (+1.3%) were the top performing sectors in the month with most sectors falling in the -1.0% to -5.0% range. The Russell 2000, representing small cap stocks, was the top performing broad equity index at +5.0%. Consumer Discretionary (+14.6%) and Energy (+13.6%) were the top sectors with Materials (-2.7%), Utilities (-1.1%), and Financials (-0.6%) the only negative sectors. Growth outperformed value in large caps while the reverse held in small caps.

In the broad international developed markets, the MSCI EAFE index was down -1.1% for the month. There was little dispersion in sector performance with Energy (+2.2%) and IT (+1.7%) the top performers and all others ranging from 0.0% to -3.0%. Among developed countries, Netherlands (+2.5%), Austria (+2.3), and Sweden (+2.2%) were the top performers, with Spain (-4.5%) and Italy (-3.9%) the laggards and most others generally in the -3.0% to +2.0% range.

Emerging market stocks, as represented by the MSCI Emerging Markets index, outperformed their large cap developed market counterparts at +3.1%. United Arab Emirates (+12.4%), China (+7.4%), and Egypt (+7.6%) were the best performers in the month. EM country performance saw a lot of dispersion with Colombia (-14.0%) and Argentina (-12.0%) the laggards and roughly half the countries in the index negative for the month.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, performed in-line with large cap equities with a -0.8% return. The energy-related Alerian MLP was positive and outperformed other equities at +5.8%. The near-month NYMEX oil also rallied (+7.6%) and has recovered to early 2020 levels. Gold was down -2.5% but remains up +16.7% for the trailing 1-year. The diversified Bloomberg Commodity index climbed +2.6% and has a +7.3% trailing one-year return.

**Global Markets (continued)**

The US Treasury curve steepened as the prospect of further stimulus pushed longer-dated maturities higher. Additionally, Treasury Secretary Yellen expressed a willingness to consider introducing 50-year Treasuries in comments which also drove up long-term rates. The overall UST complex had a negative return for the month at -1.0%, with trailing one-year returns at +4.4%. Sovereign yields outside of the US were also mostly higher, and the global stock of negative yielding debt fell by \$1 trillion in January to \$16.8 trillion.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on an absolute and duration-matched basis. Demand was supportive of spreads in securitized sectors while corporate credit spreads closed slightly wider. The benchmark lost -0.7% in January, with 12-month performance of +4.7%. IG corporate issuance was greater than expected, and while investor demand was strong the heavy supply pushed spreads 1 bps wider. With higher US Treasury yields and wider corporate spreads, the benchmark's yield-to-worst rose 5 bps to just 1.17%.

The BloomBar 1-15-Year Municipal index outperformed US Treasuries, returning +0.5% in January. Investor demand remained strong, pushing Muni/Treasury ratios down to some of their lowest levels in history, with the 10-yr muni/Treasury ratio at its lowest point in at least 20 years. While stimulus aimed at helping local governments appears off the table for now, the anticipated economic recovery should boost tax returns and help cash-strapped municipalities rebound.

The BloomBar US Corporate High Yield index returned +0.3% for the month and is up +7.5% for the past year. Benchmark spreads widened 2 bps with strong demand countered by issuance which was a record for the month of January. All-in yields stopped their recent decline and rose 13 bps to 4.31%. Default rates for 2021 are expected to trend lower, with current forecasts at 3.2% for the year vs. 5.2% in 2020. Bank loans outperformed other bond categories in the month with investors seeking out enhanced income. Emerging market bonds tracked with less-risky fixed income benchmarks to post negative returns for the month as rates generally rose.

**Selected Bond Yields**

10 Year Sovereign Bond Yields (%)		
	Current	Dec-20
Japan	0.05	0.02
Germany	-0.52	-0.57
France	-0.28	-0.34
United Kingdom	0.33	0.19
Spain	0.10	0.04
United States	1.07	0.92
Italy	0.64	0.54
Mexico	5.59	5.53
Brazil	7.57	6.91

Source: Bloomberg

**Indices Report (Periods Ending January 31, 2020)**

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
<b>Equity</b>							
S&P 500	-1.01	-1.01	17.25	11.70	16.16	13.50	9.62
Russell 1000	-0.82	-0.82	19.84	12.48	16.69	13.64	9.80
Russell 1000 Growth	-0.74	-0.74	34.46	19.92	22.22	16.83	12.35
Russell 1000 Value	-0.92	-0.92	4.09	4.41	10.71	10.15	7.00
Russell 2500	2.45	2.45	25.48	11.11	16.11	12.09	9.22
Russell 2000	5.03	5.03	30.17	11.11	16.50	11.78	8.65
Russell 2000 Growth	4.82	4.82	42.69	16.54	20.19	14.08	10.35
Russell 2000 Value	5.26	5.26	16.42	5.08	12.34	9.21	6.72
Wilshire 5000 Cap Wtd	-0.33	-0.33	20.41	12.40	16.74	13.51	9.76
MSCI ACWI	-0.43	-0.43	17.59	8.47	14.17	9.49	7.39
MSCI ACWI ex US	0.23	0.23	14.45	3.57	11.05	5.32	4.91
MSCI EAFE	-1.06	-1.06	9.41	2.73	9.37	5.64	4.48
MSCI EAFE Local Currency	-0.37	-0.37	2.14	2.94	7.52	7.11	4.30
MSCI EAFE Growth	-1.36	-1.36	17.74	7.94	12.09	7.73	6.01
MSCI EAFE Value	-0.77	-0.77	0.78	-2.63	6.45	3.42	2.83
MSCI Emerging Markets	3.09	3.09	28.33	4.81	15.45	4.60	6.41
<b>Fixed Income</b>							
ICE BofA ML 1-3 Yr Treasury	0.01	0.01	2.56	2.84	1.78	1.28	2.24
BloomBar US Aggregate	-0.72	-0.72	4.72	5.49	4.00	3.75	4.44
BloomBar Gov't Bond	-0.92	-0.92	4.42	5.32	3.14	3.17	3.94
BloomBar US Credit	-1.19	-1.19	5.58	6.70	6.07	5.26	5.53
BloomBar 10 Yr Municipal	0.57	0.57	4.21	5.62	3.86	4.91	4.83
BloomBar US Corp High Yield	0.33	0.33	7.44	6.14	9.01	6.60	7.41
FTSE World Govt Bond	-1.28	-1.28	6.97	3.94	4.22	2.19	3.71
BloomBar Global Aggregate	-0.88	-0.88	6.87	4.13	4.43	2.72	3.94
BloomBar Multiverse	-0.86	-0.86	6.81	4.10	4.66	2.87	4.07
<b>Real Assets</b>							
NCREIF Property	0.00	0.00	1.61	4.89	5.91	9.00	7.14
NFI ODCE Net	0.00	0.00	0.35	3.99	5.27	8.87	5.46
FTSE NAREIT US Real Estate	0.10	0.10	-9.00	4.92	5.51	7.97	6.03
Bloomberg Commodity	2.63	2.63	7.31	-2.33	1.90	-6.35	-3.96
<b>Cash and Equivalents</b>							
US T-Bills 90 Day	0.01	0.01	0.54	1.57	1.20	0.64	1.22

## Definitions

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### **Bloomberg Barclays Capital Aggregate**

The Bloomberg Barclays Capital Aggregate index covers the U.S. investment grade fixed rate bond market, including government and corporate securities, agency mortgage pass-through securities, and asset-backed securities.

### **Bloomberg Barclays Capital Global Aggregate Index**

The Bloomberg Barclays Capital Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and U.S.D investment grade 144A securities.

### **Bloomberg Barclays Capital Muni 5 Yr**

The Bloomberg Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, and Fitch. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

### **Bloomberg Barclays Capital U.S. Credit Index**

This index is the U.S. Credit component of the U.S. Government/Credit Index. It consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

### **The Bloomberg Barclays U.S. Treasury Index**

The Bloomberg Barclays U.S. Treasury Index is a component of the Bloomberg Barclays U.S. Aggregate Index. This U.S. Treasury Index includes only public obligations of the U.S. Treasury with a remaining maturity of one year or more. U.S. Treasury bills are excluded due to the maturity constraint.

### **The Bloomberg Barclays Capital U.S. Universal Index**

The Bloomberg Barclays Capital U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, and the non-ERISA portion of the CMBS Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the Universal Index. The only constituent of the index that includes floating-rate debt is the Emerging Markets Index.

### **BofA ML High-Yield Index Master II**

The BofA ML High-Yield Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

### **Bloomberg Commodity Index**

The Dow Jones UBS Commodity Total Return Index aims to provide broadly diversified representation of commodity markets as an asset class. The index is comprised of futures contracts on physical commodities. Currently the index includes 20 commodity nearby futures contracts, which are weighted to account for economic significance and market liquidity

### **CITI World Government Bond Index**

The WGBI is a market-capitalization-weighted benchmark that tracks the performance of the 19 government bond markets of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

### **FTSE EPRA/NAREIT Developed Index**

The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. The index constituents are free-float adjusted as well as screened for liquidity, size and revenue. The index incorporates Real Estate Investment Trusts (REITs) and Real Estate Holding & Development companies. Constituents are classified into distinct property sectors based on gross invested book assets as disclosed in the latest published financial statement.

### **HFRI Fund of Funds (FOF) Conservative Index**

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as "Conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index.

### **HFRI Fund of Funds (FOF) Strategic Index**

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index.

### **MSCI ACWI Index (exU.S.)**

The MSCI ACWI Index (ex U.S.) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets outside the United States. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

### **MSCI EAFE® Index**

The MSCI EAFE Index (Europe, Australasia, Far East) is an unmanaged free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

### **MSCI EAFE Growth Index**

The MSCI-EAFE Growth Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

### **MSCI EAFE Value Index**

The MSCI-EAFE Value Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

### **MSCI Emerging Markets Index**

The MSCI Emerging Markets Index is an unmanaged float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

### **Ncreif® Property Index**

Ncreif Property Index is a quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

### **Russell 1000® Growth Index**

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.

### **Russell 1000® Value Index**

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.

### **Russell 2000® Index**

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

### **Russell 2000® Growth Index**

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth rates.

### **Russell 2000® Value Index**

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

### **Russell Midcap® Index**

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership.

### **S&P 500**

Standard and Poor's 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to measure performance of the broad domestic stock market through changes in the aggregate market value of 500 stocks representing all major industries.

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