

Global Economy

Global equity markets had another positive month as the Pfizer and Moderna vaccines began to be administered around the globe. Markets received additional encouragement when the US Congress passed a second stimulus totaling \$900 billion at the end of December. However, the latest virus surge continues to threaten economic momentum, leading to new lockdowns and weaker job growth. Optimism was further tempered as the vaccine rollout is so far proving slower than hoped in most countries, highlighting the logistical challenges that exist. The discovery of a new, more easily transmissible virus variant also threatens to complicate the road to recovery. Despite these difficulties, expectations remain high that the virus will be brought under control in the coming year.

The Federal Open Market Committee met in December but did not change policy rates, a widely expected outcome. The December meeting focused on asset purchases, with changes to the statement noting the Fed would continue to buy at least \$120 billion of bonds each month "until substantial further progress has been made toward the Committee's maximum employment and price stability goals." 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 \$7.3 trillion by the end of December.

The third estimate of 3Q-20 real GDP indicated the US GDP expanded at a record rate of +33.4% annualized, a moderate improvement from the initial and second estimates. The upward revision in the third estimate primarily reflected increases to personal consumption expenditures and nonresidential fixed investment. Analysts are expecting more moderate growth for 4Q-20, with estimates ranging from +1% to +9% annualized.

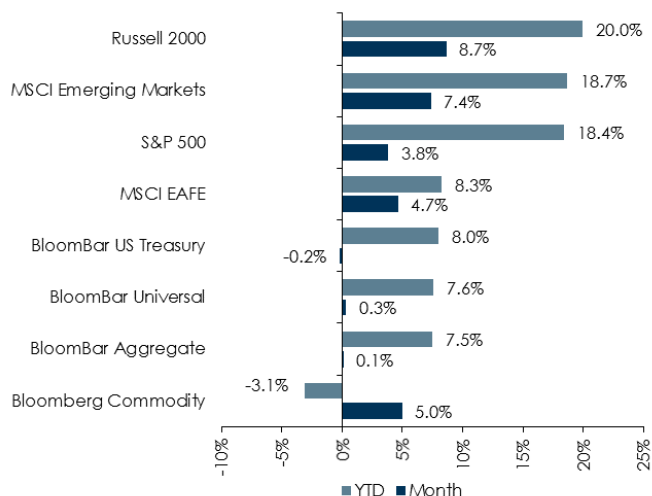
There have been more than 73 million initial unemployment claims filed since mid-March. Weekly initial claims ticked upward in December and there were 140,000 jobs lost in the month as unemployment remained at 6.7%, the first decline in jobs since April. Employment in Leisure & Hospitality was by far the biggest decline as new virus restrictions limited these businesses. Core CPI held steady at +1.6% year-over-year, while the FOMC's preferred measure, Core PCE, remained steady at +1.4% year-over-year through November.

	Current	Dec-19
US GDP (%)	+33.40	2.10
US Unemployment (%)	6.70	3.50
CPI (Core) (%)	1.60	2.30
Fed Funds (%)	0.00 – 0.25	1.50 – 1.75
10 Year UST Yld (%)	0.92	1.92
S&P 500 Div Yld (%)	1.57	1.82
S&P 500 P/E (Trailing)	29.92	21.60
Gold/oz.	\$1,895.10	\$1,523.10
Oil (Crude)	\$48.52	\$61.06
Gasoline (Natl Avg)	\$2.33	\$2.66
USD/Euro	\$1.22	\$1.12
USD/GBP	\$1.37	\$1.33
Yen/USD	¥103.25	¥108.61

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns for all major equity indices were positive in December as markets continued to respond positively to vaccine news as well as additional stimulus from Congress. The S&P 500, which represents large US-based entities, returned +3.8% for the month. Financials (+6.1%) and IT (+5.7%) were the top performers in a month where all sectors had positive returns. Utilities (+0.4%) and Real Estate (+0.9%) were the laggards with the only <+1% returns. Small cap stocks, as represented by the Russell 2000, were the top performing broad equity index at +8.7%. As in large caps, sector performance was positive across the board, with Energy (+14.4%), Materials (+12.1%), and IT (+11.8%) leading and the rest in the +4.0% to +8.0% range. Growth outperformed Value across the market cap spectrum.

In the broad international developed markets, the MSCI EAFE index gained +4.7% for the month. Performance was broad-based with all sectors and nearly all countries positive for the month. Materials (+8.8%) and IT (+7.4%) were the best performers, while Health Care (+1.9%) was the laggard and the only sector to return <+3%. Among developed countries, Austria (+12.5%), Portugal (+10.6), and Israel (+8.8%) were the top performers, with New Zealand (-0.2%) the laggard and most others generally in the +2.0% to +7.0% range.

Emerging market stocks, as represented by the MSCI Emerging Markets index, outperformed their large cap developed market counterparts at +7.4%. Colombia (+24.8%) and Turkey (+20.4%) were the best performers in the month. Despite strong YTD returns for the index, most EM countries were negative for the year. Positive returns from South Korea, Taiwan, India and China (~75% of the index combined) contributed most of this YTD performance.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, performed in-line with most equities with a +3.6% return. The energy-related Alerian MLP was positive but continued to trail other equities at +2.5%. The near-month NYMEX oil also rallied (+7.0%) but remains off by -20.5% for the trailing 1-year. Gold also had a strong month at +6.7%, climbing to +24.4% on the year. The diversified Bloomberg Commodity index climbed +5.0 but was down -3.1% on the year.

Global Markets (continued)

US Treasury yields were higher across longer-dated maturities and the curve steepened. Vaccine-related optimism pushed yields higher, as did prospects of additional fiscal spending and higher inflation. Intra-month, the 10-year US Treasury reached its highest level since March, nearly topping the 100 bps threshold. Given this backdrop, the overall UST complex was negative for the month at -0.2%, with calendar year 2020 returns still at an impressive +8.0%. Sovereign yields outside of the US were mostly lower, and the global stock of negative yielding debt increased to \$17.8 trillion.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on both an absolute and duration-matched basis as credit spreads closed the month tighter. The benchmark gained only +0.1% in December, but the 12-month performance of +7.5% remains impressive given prevailing yield levels. IG corporate issuance was down from November but remained high. Full-year issuance of \$1.7 trillion is a new record by \$0.4 trillion. Investor demand was strong and spreads narrowed by 8 bps, approaching the year's low which occurred at the beginning of 2020. With moderately tighter spreads across most categories, the benchmark's yield-to-worst fell 3 bps to just 1.12%.

The BloomBar 1-15-Year Municipal index outperformed US Treasuries, returning +0.5% in December. Issuance remained strong in the month and yields ground slightly lower, pushing Muni/Treasury ratios down along most parts of the curve to their lowest levels of 2020. While stimulus aimed at helping local governments appears off the table for now, the anticipated economic recovery made possible by vaccinations should boost tax returns and help cash-strapped municipalities rebound.

The BloomBar US Corporate High Yield index returned +1.9% for the month, directionally consistent with higher-risk equities. Benchmark spreads tightened 52 bps with supply slowing ahead of the holidays. All-in yields continued their recent decline and are now at 4.18%. Default rates are forecast to end the year just above 5%, a level not seen since 2009. Bank loans and emerging market bonds tracked other risk-assets with strong performance in the month.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-19
Japan	0.02	-0.02
Germany	-0.57	-0.19
France	-0.34	0.12
United Kingdom	0.19	0.82
Spain	0.04	0.46
United States	0.92	1.92
Italy	0.54	1.41
Mexico	5.53	6.89
Brazil	6.91	6.79

Source: Bloomberg

Indices Report (Periods Ending December 31, 2020)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	3.84	18.40	18.40	14.18	15.22	13.88	9.88
Russell 1000	4.23	20.96	20.96	14.82	15.60	14.01	10.07
Russell 1000 Growth	4.60	38.49	38.49	22.99	21.00	17.21	12.54
Russell 1000 Value	3.83	2.80	2.80	6.07	9.74	10.50	7.34
Russell 2500	7.61	19.99	19.99	11.33	13.64	11.97	9.55
Russell 2000	8.65	19.96	19.96	10.25	13.26	11.20	8.91
Russell 2000 Growth	9.35	34.63	34.63	16.20	16.36	13.48	10.69
Russell 2000 Value	7.92	4.63	4.63	3.72	9.65	8.66	6.92
Wilshire 5000 Cap Wtd	4.48	20.82	20.82	14.46	15.52	13.79	10.04
MSCI ACWI	4.68	16.82	16.82	10.64	12.86	9.71	7.77
MSCI ACWI ex US	5.43	11.13	11.13	5.38	9.44	5.40	5.36
MSCI EAFE	4.67	8.28	8.28	4.79	7.97	6.00	4.97
MSCI EAFE Local Currency	2.48	1.28	1.28	3.48	6.32	7.32	4.57
MSCI EAFE Growth	4.89	18.68	18.68	10.08	10.93	7.91	6.53
MSCI EAFE Value	4.45	-2.10	-2.10	-0.65	4.82	3.96	3.29
MSCI Emerging Markets	7.40	18.69	18.69	6.56	13.22	4.00	6.95
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.05	3.10	3.10	2.75	1.90	1.30	2.25
BloomBar US Aggregate	0.14	7.51	7.51	5.34	4.44	3.84	4.49
BloomBar Gov't Bond	-0.22	7.94	7.94	5.17	3.76	3.26	3.99
BloomBar US Credit	0.46	9.35	9.35	6.80	6.44	5.40	5.60
BloomBar 10 Yr Municipal	0.61	5.62	5.62	4.88	4.05	4.80	4.81
BloomBar US Corp High Yield	1.88	7.11	7.11	6.24	8.59	6.80	7.50
FTSE World Gov't Bond	1.36	10.11	10.11	4.96	4.78	2.32	3.88
BloomBar Global Aggregate	1.34	9.20	9.20	4.85	4.79	2.83	4.09
BloomBar Multiverse	1.42	9.02	9.02	4.83	4.99	2.98	4.22
Real Assets							
NCREIF Property	0.00	0.45	0.45	4.49	5.67	8.88	7.06
NFI ODCE Net	0.00	-0.75	-0.75	3.61	5.04	8.75	5.38
FTSE NAREIT US Real Estate	3.29	-8.00	-8.00	3.40	4.77	8.31	6.52
Bloomberg Commodity	4.97	-3.12	-3.12	-2.53	1.03	-6.50	-4.01
Cash and Equivalents							
US T-Bills 90 Day	0.01	0.67	0.67	1.61	1.20	0.64	1.24

Definitions

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

This index is the U.S. Treasury 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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