

First Quarter 2021

Market Outlook and Portfolio Insights

January 14, 2021

Market Outlook and Portfolio Insights

After falling sharply due to concern about the economic shutdown, equities rebounded and went on to generate strong returns for the year. While fixed income unfortunately did not provide much of a counterbalance during the sell-off, it too went on to post solid returns.

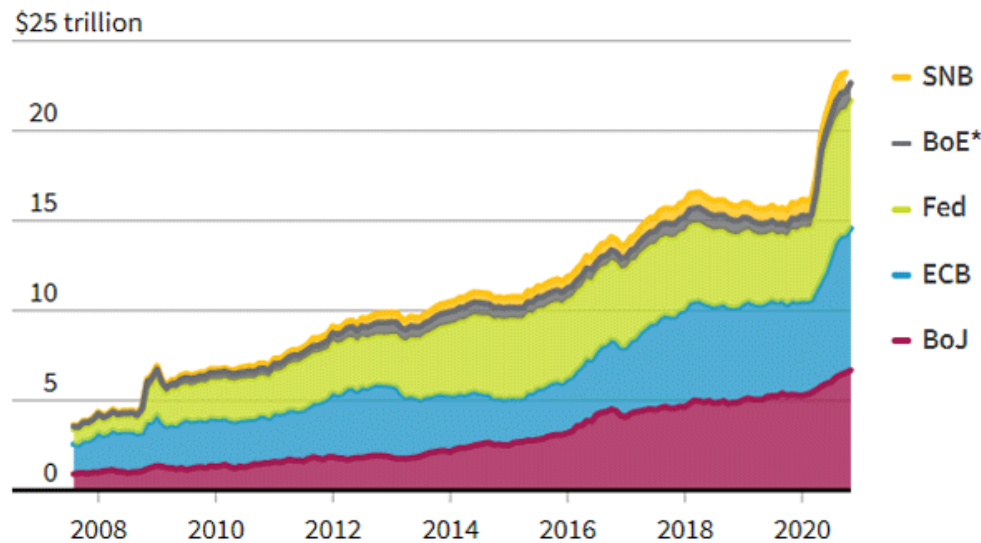


Source: Morningstar

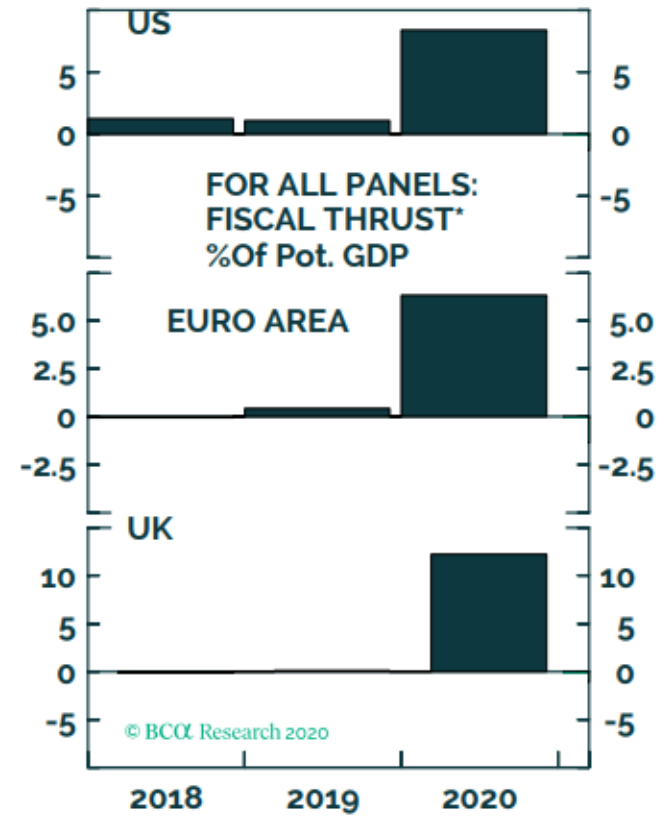
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Asset prices were fueled by the unprecedented monetary and fiscal policy support enacted in response to the shutdown.

Assets for the European Central Bank, Bank of Japan, Federal Reserve, Swiss National Bank, and Bank of England

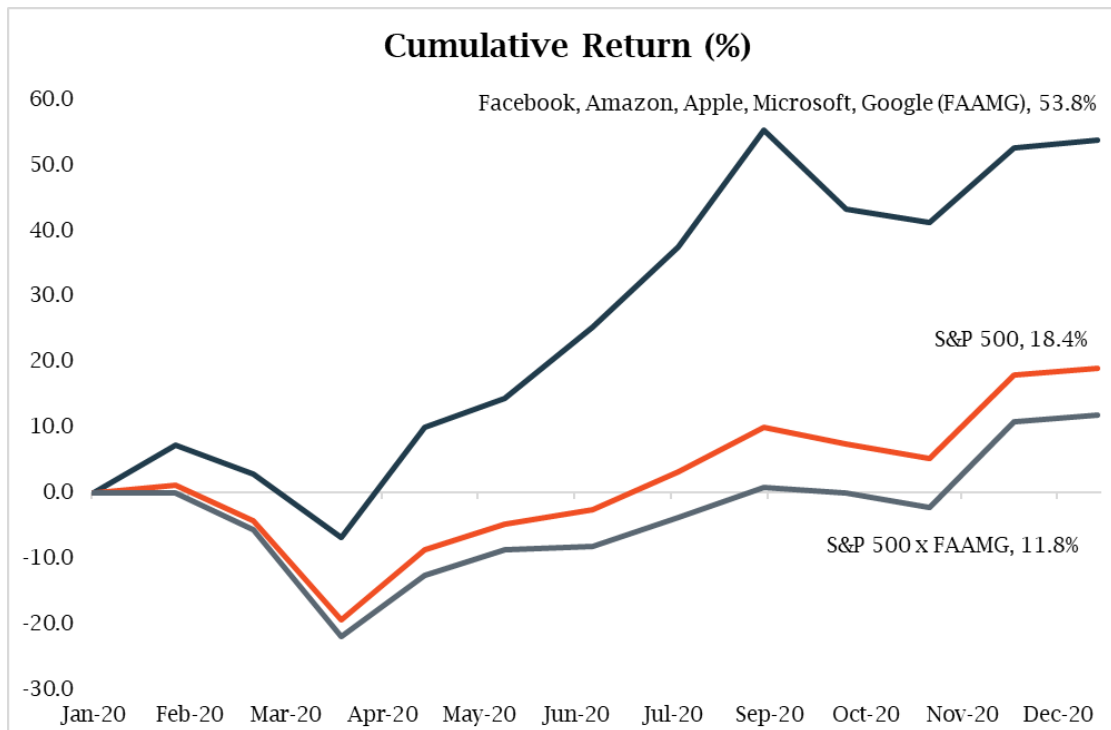


Source: Thomson Reuters



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S&P 500 performance was driven by just five mega-cap technology companies that were well positioned for numerous trends related to the pandemic.

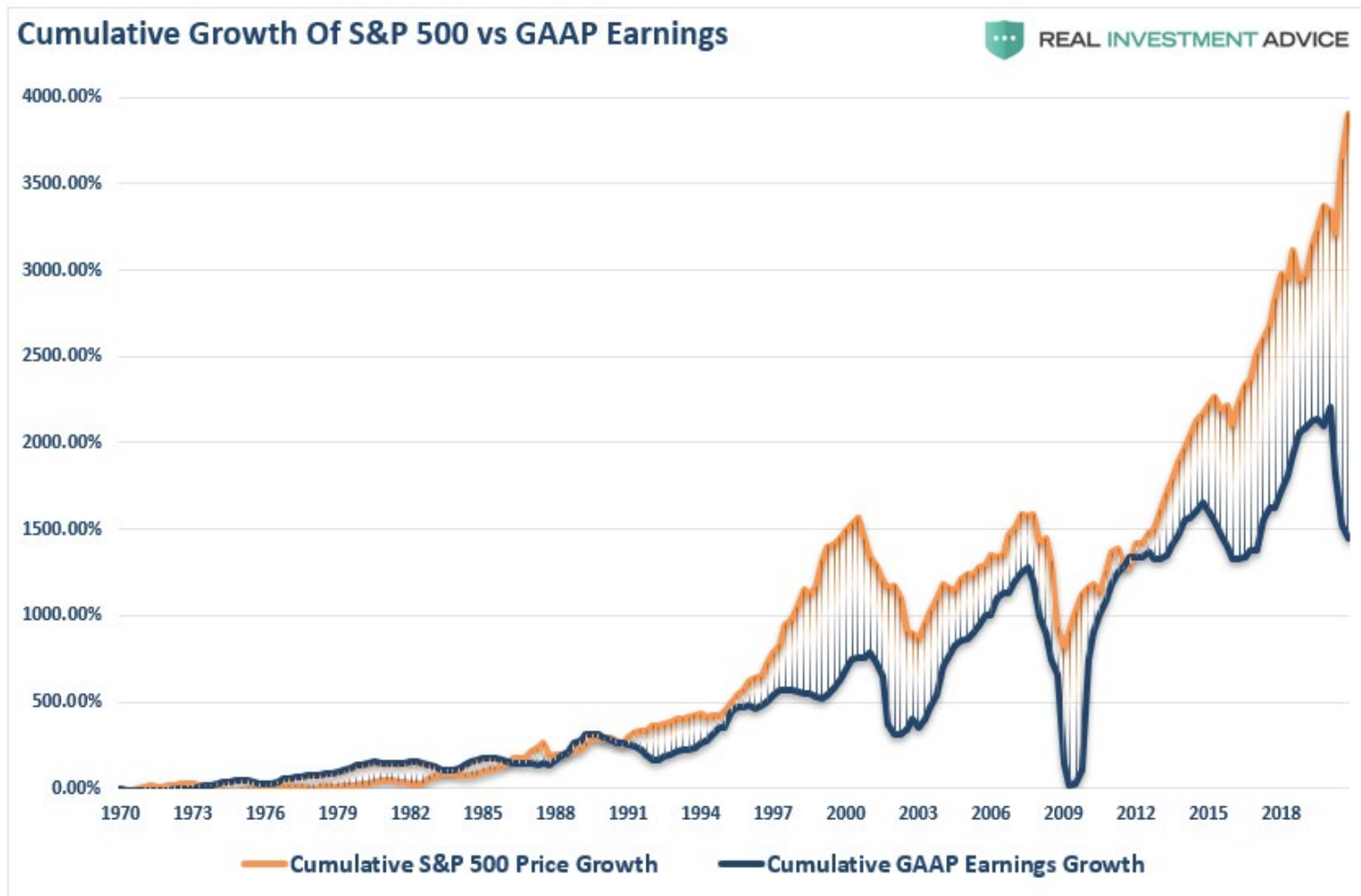


- FAAMG stocks increased from 17% to 22% of S&P 500.

Source: Morningstar

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Never has the S&P 500 been more disconnected from earnings.



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The index is trading at valuation multiples well above historical averages.

S&P 500 Valuations		
Model Factors	Most Recent Value	Historical Percentile
Median EV to Sales (Ex-Financials)	4.0	100%
US Total Market Cap to GDP	170%	100%
EV to Free Cash Flow Margin-Adjusted (Ex-Financials)	48.8	100%
Median Price to Sales	2.8	100%
Median Price to Book	3.9	100%
Median EV to EBITDA (Ex-Financials)	15.0	100%
Aggregate EV To Sales	3.0	100%
Aggregate EV to Trailing 12M EBITDA	17.5	100%
Aggregate EV to 2021 EBITDA Estimate	15.9	100%
Aggregate Price to 2021 Book Value Estimate	3.8	100%
Aggregate Price to Tangible Book Value	12.8	100%
Aggregate Price to Earnings	27.9	98%
Cyclically Adjusted P/E (CAPE)	32.9	97%
Aggregate Price to 2021 Earnings Estimate	25.6	97%
Aggregate Price to Book	3.9	91%

Source: Bloomberg, Yale/Robert Shiller, John Hussman *Numbers as of November of 2020 ©2020 Crescat Capital LLC

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Our base case is reflation, driven by easy financial conditions and progress toward widespread distribution of a vaccine.



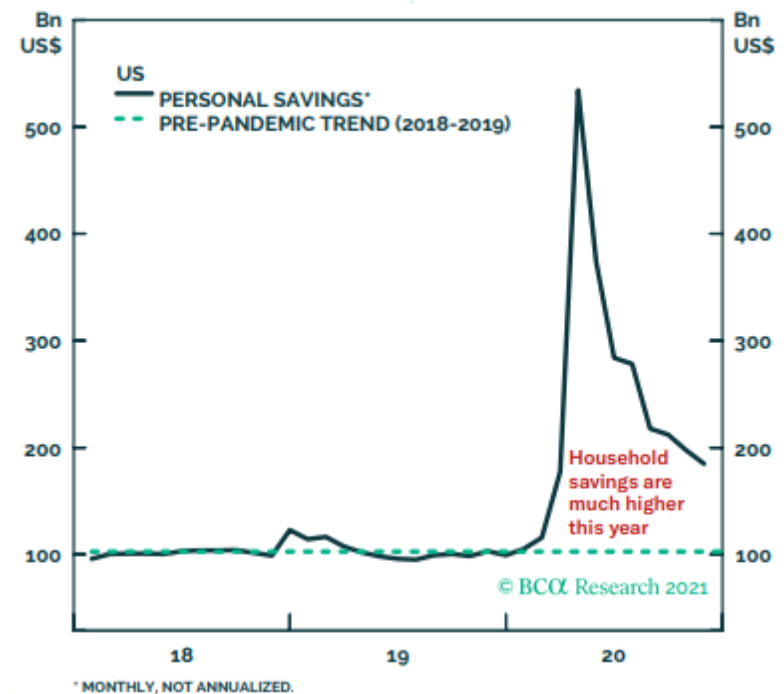
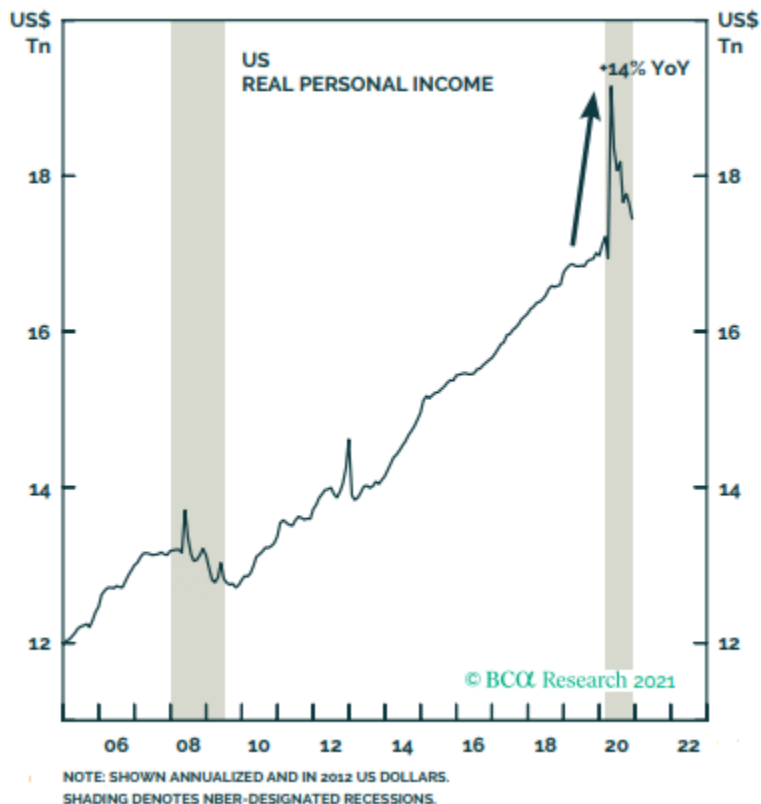
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Financial conditions are now the easiest on record.



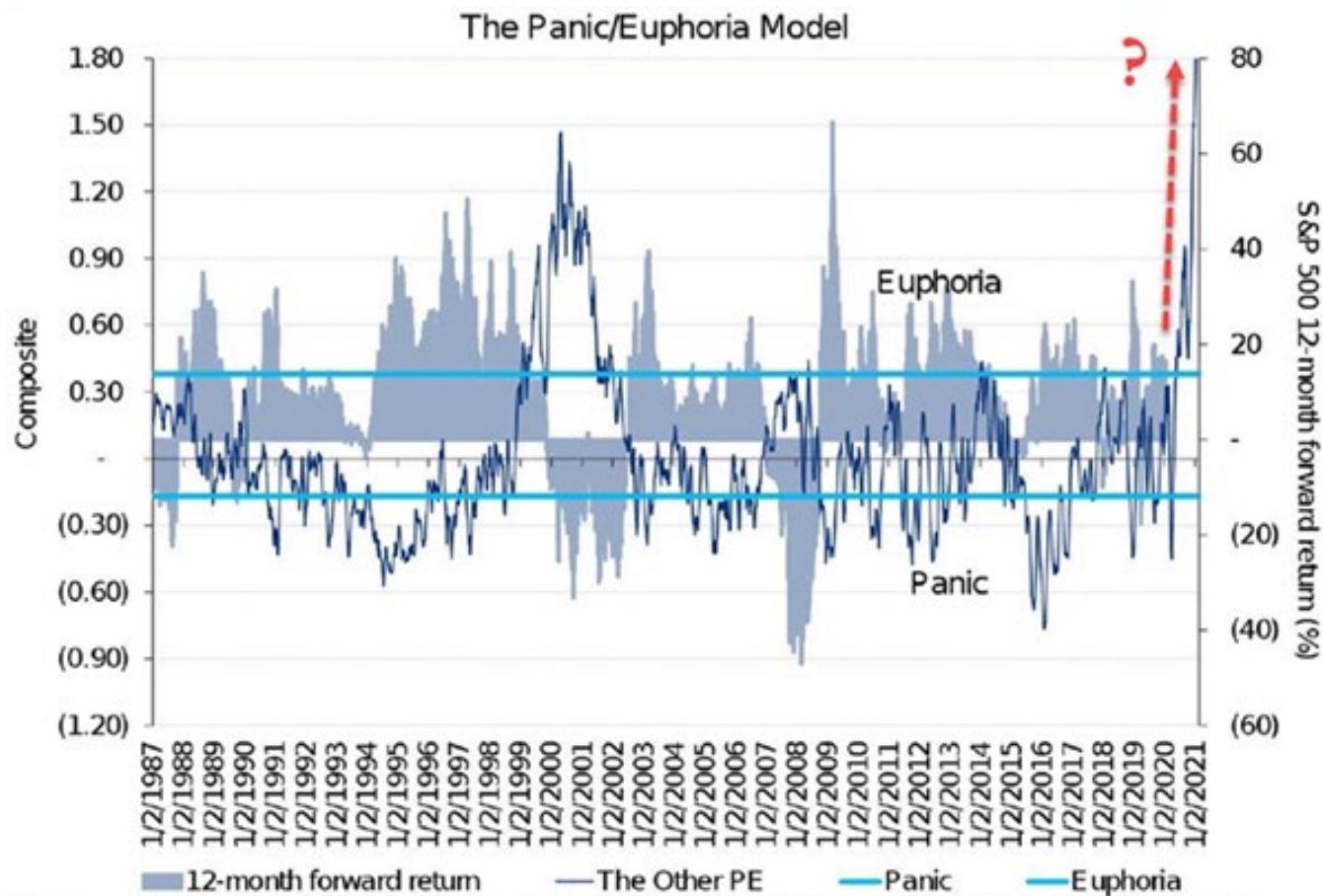
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*Personal income should reaccelerate with passage of the latest relief bill.
Savings are elevated which suggests pentup demand.*



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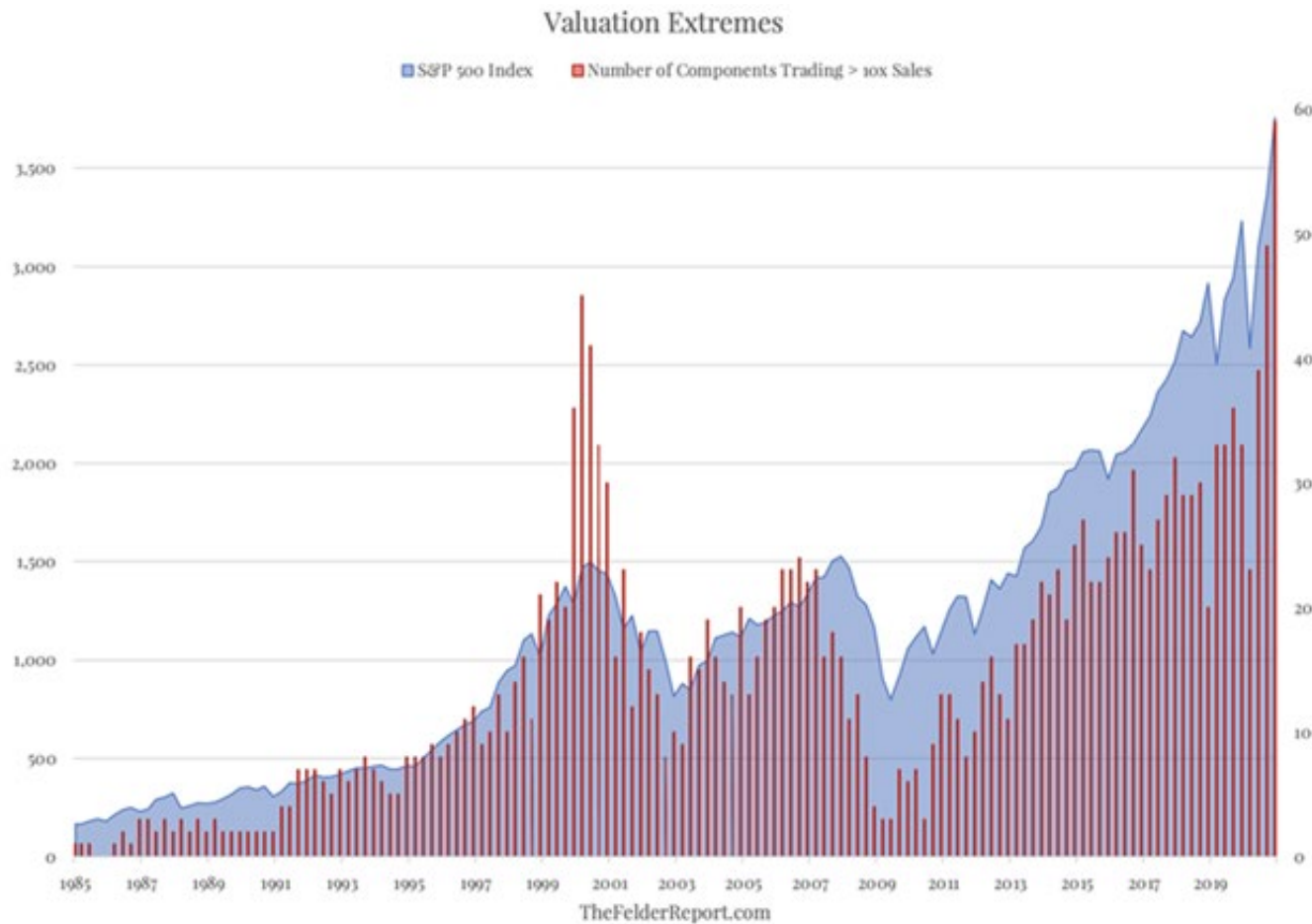
Measures of investor sentiment suggest extreme levels of confidence.



Source: Haver Analytics, Pinnacle Data, and Citi Research – U.S. Equity Strategy

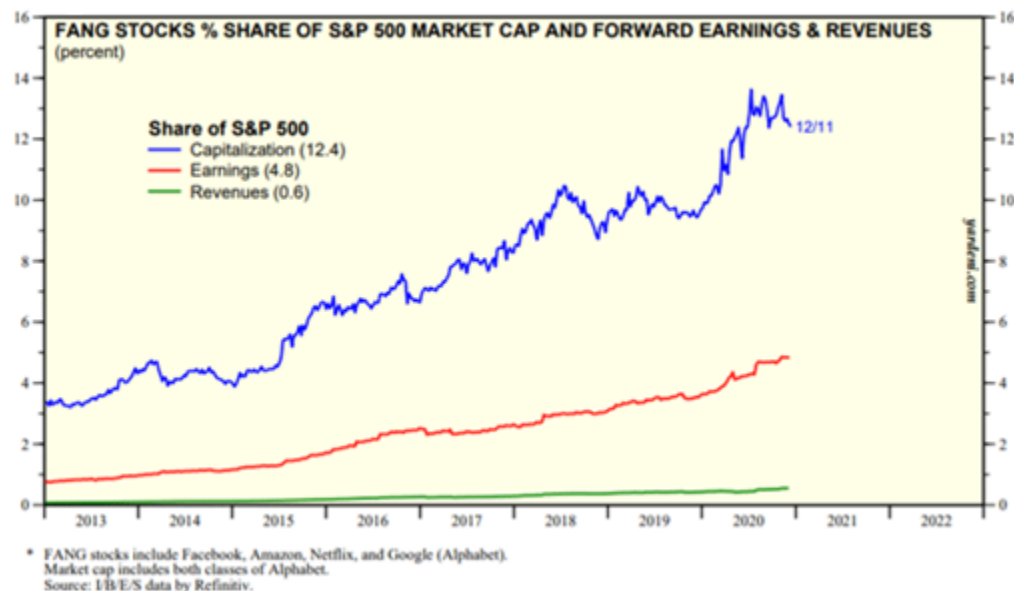
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Excesses appear to be building in pockets of the market.



Market Outlook and Portfolio Insights

Sector Spotlight: Information Technology



- Outlook: Cautious
- Potential Headwinds:
 - Moderating growth following demand pull-through from the pandemic
 - Elevated valuations and high earnings growth expectations
 - Increasing regulatory scrutiny
 - Increasing effective tax rates

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Sector Spotlight: Financials



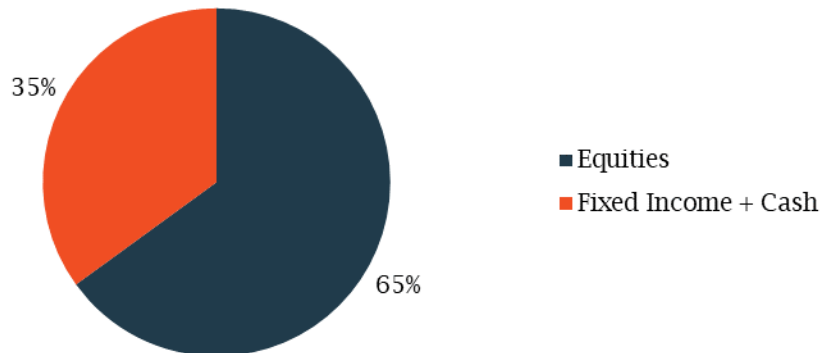
Source: Morgan Stanley

- Outlook: Positive
- Potential Tailwinds:
 - Improving net interest margin and loan growth
 - Favorable adjustments to loan loss provisions
 - Strong balance sheets
 - Attractive valuations and reasonable earnings growth expectations
 - Above-average yield

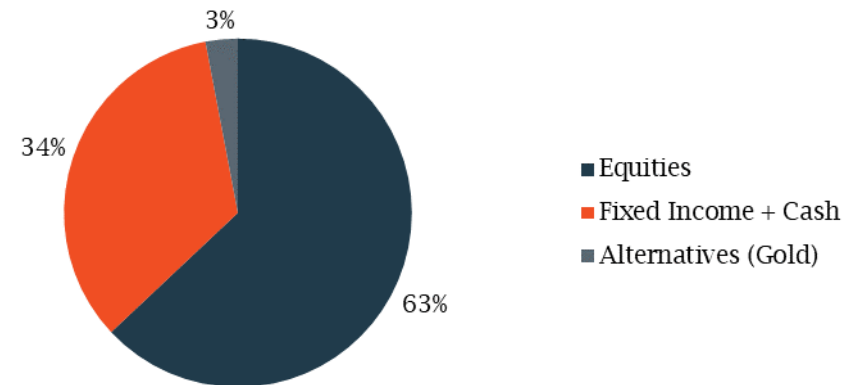
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We are managing equity allocations modestly below long-term targets given excesses that appear to be building in pockets of the market. We are holding an allocation to gold in place of some fixed income and cash.

**Traditional Portfolio:
Strategic Asset Allocation**



**Traditional Portfolio:
Current Asset Allocation**



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We own a collection of high-quality U.S. large cap businesses as the core of our equity exposure.

Concentrated Leaders



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We initiated a position in natural resource equities as they appear to offer attractive growth, income, and diversification potential.

VALUATION OF MSCI ACWI COMMODITY PRODUCERS INDEX RELATIVE TO MSCI ACWI

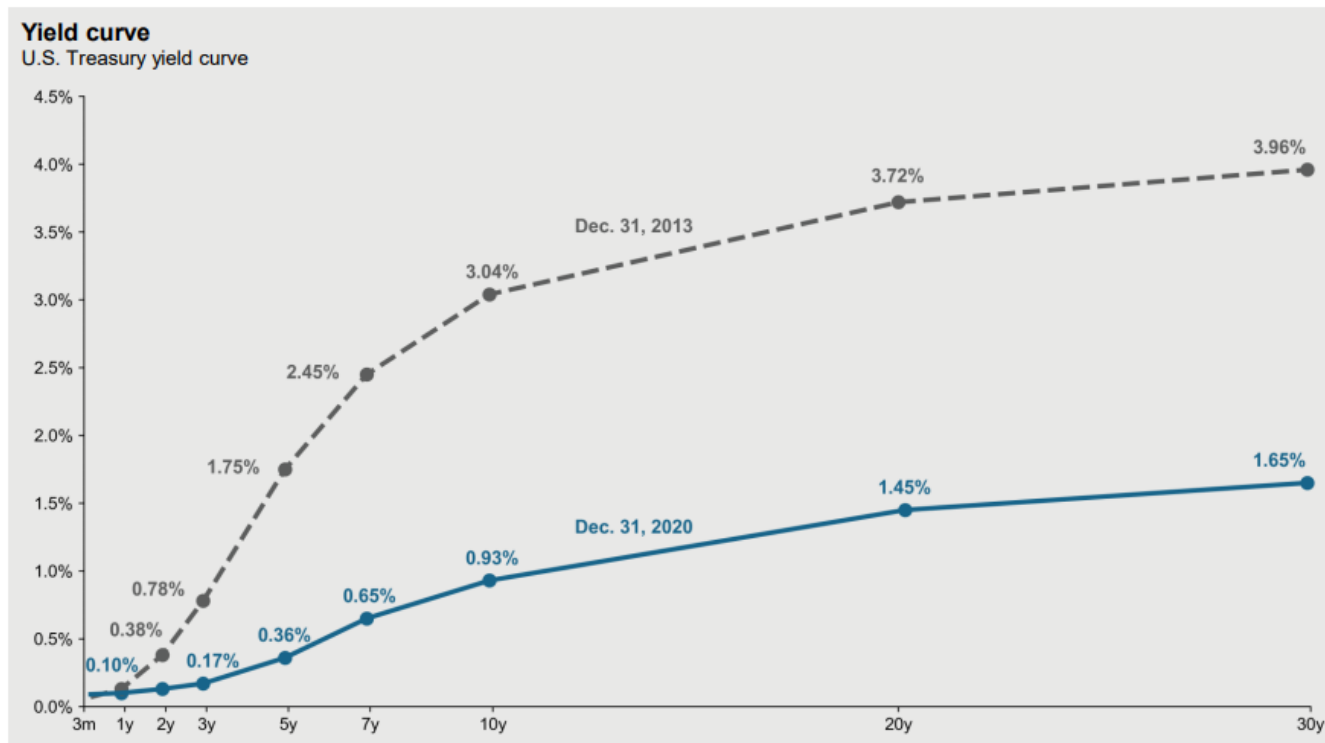


As of 9/30/20 | Source: MSCI, Moodys, GMO

Valuation metric is a combination of P/E (Normalized Historical Earnings), Price to Book Value, and Dividend Yield.

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Within fixed income, we are focusing on quality with a bias toward short and intermediate-term maturities. We are holding an allocation to preferreds to drive incremental income.

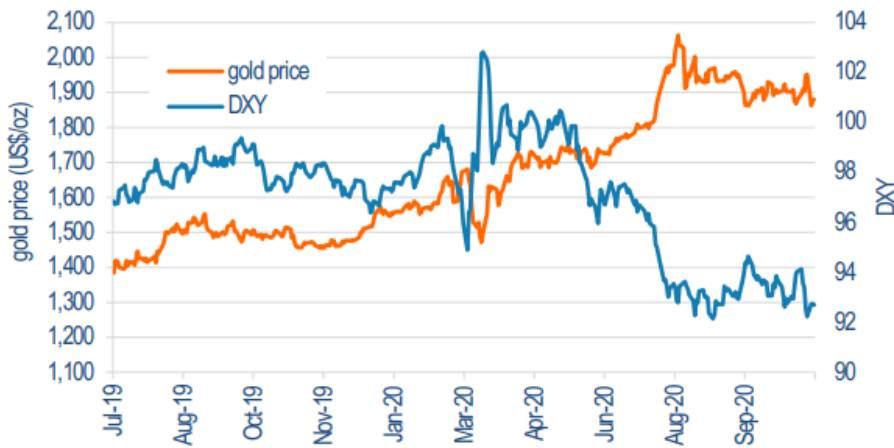


Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of December 31, 2020.

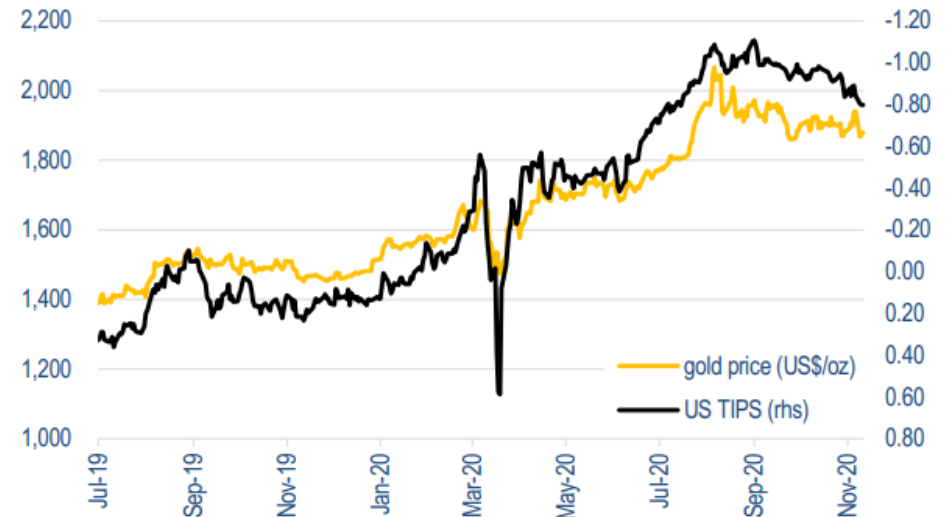
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We purchased gold based on expectations for weaker currency values and continued low/negative real rates.

US\$ gold price vs DXY



Gold price vs real rates (US TIPS 10-yr yield)



Source: Bloomberg, Morgan Stanley Research

Planning Insights

2020

Historic events lead to short and long-term planning considerations

- **December, 2019: SECURE Act**
- **March, 2020 - \$2 Trillion, CARES Act**
- **2020 Elections**
- **December, 2020 - \$900 billion, Coronavirus Response and Relief Supplemental Appropriations Act of 2021**

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SECURE Act

- **Passed in December, 2019 and went into effect January 1, 2020**
- **Changed age for required minimum distributions to 72 from 70 (RMD)**
- **Changes to distribution rules for beneficiaries of inherited retirement assets**

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CARES Act

- **Benefits for state and local governments to help with the impact of Coronavirus**
- **Increase in unemployment benefits and the extension in benefits timeline**
- **Small business loans for those impacted by Coronavirus (PPP)**
- **PPP loans eligible for full forgiveness from the SBA**
- **Changes to Net Operating Loss (NOL) limitations**
- **Elimination of the RMD for calendar year 2020**
- **Initial round of explicit stimulus checks to qualifying families**

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November 2020 Election

Potential for "Blue Wave"...what did it mean for individuals?

- **Broadly the potential for higher income tax rates at the top end**
- **Higher capital gains rates in 2021? (High thresholds)**
- **Changes to lifetime exemptions for estates**
- **Potential changes to "basis step-up" for appreciated assets of a deceased taxpayer**

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December 2020 Stimulus

- **Allowed for the full deductibility of qualifying expenses related to funds utilized from (PPP) loans for small businesses**
- **Extension of the PPP loan program. Businesses impacted with 25% decline in revenue Q/Q in 2020 from 2019**
- **Additional stimulus payments to qualifying households:**
 - Adjusted Gross income up to \$75,000 for individuals (\$150,000 joint)
 - \$600 for each qualifying child

Planning Insights

2021 Playbook and Considerations

- **Tax legislation changes: If we do have legislation - what changes and when?**
 - Individual and corporate tax rates?
 - RMD age attainment dates?
 - Investment income?
- **2019 SECURE Act...this is still very important!**
- **2020 gave us some opportunities with the skip of RMDs. Back to business as usual.**
- **Giftng: Families that considered gifting for estate planning purposes in previous years may consider accelerating those strategies.**
- **Interest rates rising...but still historically low.**

Planning Insights

2021 Playbook and Considerations **Overall Financial Planning**

Income & Assets:

- Prospective returns: With "markets" at all-time highs and valuations at well above average levels.
- Savings strategies.
- Social security review. When to start?

Expenses:

- Pent up expenses? Have our expense patterns changed?
- More family assistance?
- Inflation-- are we getting our first bout of inflation in over 13 years?

Deferred Liabilities:

- How to think about the \$28 trillion national debt and deficits. Asset prices are higher but so is our share of the debt we have incurred.
- Income taxes