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QUARTERLY MARKET INSIGHTS  
3RD QUARTER 2020



## THE RETAIL INVESTOR SURGE, MOMENTUM AND VOLATILITY

Retail investors grew into a formidable stock market force this year, due in large part to the unique and unexpected pairing of the pandemic with easy stock market access. During the first half of the year, individual investors accounted for 19.5% of stocks traded in the U.S., up from 14.9% last year and nearly double the level in 2010, according to Bloomberg's Head of Market Structure Research, Larry Tabb. Retail investors have become the second largest investor segment in 2020, eclipsing hedge funds, traditional long-only participants such as mutual funds, and bank-affiliated traders. The largest investor segment remains the group titled "market makers and independent high-frequency traders."

Trading activity among retail investors began rising late last year after a brokerage fee war led to multiple brokerages cutting stock trading commissions to zero. Around last October, brokerage rivals, including Charles Schwab, TD Ameritrade, E-Trade, and Interactive Brokers, slashed their stock trading commissions to zero from a few dollars per share. In addition to commission-free trading, brokerages recently removed another big barrier for investors with the introduction of fractional shares. For example, Charles Schwab's Stock Slices allow investors to purchase fractions of shares for as little as \$5. Fractional shares enable small investors to purchase stocks that they may otherwise be unable to afford if the stock price is hundreds or even thousands of dollars per share.

A surge in retail investor accounts starting this spring led some market strategists to theorize that the pandemic lured individuals to equity trading due to social distancing policies keeping millions of people at home and providing an alternative betting avenue while most professional and college sports were postponed. Retail equity trades jumped 53% and 93% in the first and second quarters, respectively, compared to the previous quarter. This implies that retail investors placed around four times as many equity trades in the second quarter compared to the fourth quarter last year. Higher retail equity volume was led by the brokerage Robinhood which said it added 3 million new customer accounts in the first four months of the year and saw its daily average trades more than double in the second quarter to 4.3 million compared to the first quarter.

An unexpected factor that appears to have supported the growth in retail investor equity volume was the one-time CARES Act stimulus checks from the federal government which totaled \$293 billion. In early March, California-based Envestnet Yodlee, which provides account aggregation and data analytics software for consumers, started tracking aggregated spending habits of millions of Americans. Around mid-April, when the stimulus checks were sent out, the company noticed a divergence in behavior between people who had received stimulus checks and those who had not. The data showed that individuals with annual income between \$35,000 and \$75,000, the upper individual income limit to receive the full \$1,200 check, saw a 90% increase in bank account transfers to trading accounts compared to the week prior to receiving the stimulus check. For many individuals, it appears that trading was the second or third most common use of funds behind savings and cash withdrawals.

The market impact from retail investors being more active was enhanced by their use of call options. Options can be used to hedge risk or speculate on price movements of an underlying security. Call options give investors the right, but not the obligation, to purchase a stock at a particular price if the price rises above that level. The Chicago Board Options Exchange (CBOE) said call option volume rose 68% this year while put options only rose 32%, creating the widest call-to-put gap since 2010 which suggested the majority of investors were speculating on higher stock prices. Reflecting the growth in retail investors, single option contract positions common among smaller investors accounted for 12% of all call option volume this year, up from 6.5% at the start of the year. In addition, equity options from the 10 largest retail brokerages accounted for more than 50% of all domestic option contracts in the second quarter, up from 45% in the first quarter. Significant call option use among retail investors totaling an estimated national exposure around \$500 billion in August likely added to the stock market's momentum and volatility this summer. Sellers of the options, typically market makers, hedge their short exposure by purchasing the options' underlying stock and adjust their hedge by buying more stock as prices rise and selling stock as prices decline. This hedging activity combined with retail investors' option use very likely created a feedback loop that accelerated the U.S. equity market's upward move in the summer and subsequent weakness in early September.

## ECONOMY

### U.S. ECONOMY REBOUNDS; AWAITS ADDITIONAL STIMULUS

U.S. economic growth in the second quarter was revised to an annualized rate of negative 31.4%, slightly better than the first estimate of negative 32.9%. This marked the largest quarterly contraction ever recorded for the U.S. economy. Looking forward to the third and fourth quarters, economists' consensus estimate shows a healthy rebound in U.S. GDP growth of 29.3% and 4.0%, respectively. For the calendar year 2020, the economy is projected to contract 4.0% before growing at a clip of 3.7% in 2021. Despite the broad-based economic bounce in the third quarter, COVID-19 concerns and social distancing continued to impact many businesses, especially those in the travel, entertainment and restaurant industries. In addition to boosting consumer spending, another congressional stimulus package would almost certainly provide a better opportunity for many of the hardest hit industries to complete a successful recovery.

The University of Michigan's survey of U.S. Consumer Sentiment rose to 80.4 in September, up from 74.1 in August and 72.5 in July. September's reading marked the highest level since March. Improving sentiment was primarily due to increased optimism about the economic outlook and potential for faster growth in coming quarters. Despite improvements in consumer confidence, consumer spending remains subdued compared to a year ago. A longer delay in a stimulus package may dampen consumer confidence in coming months. Consumer spending rose for the fourth month in a row in August, but at a slower pace than the previous months' gains. Slower spending was largely due to the end of a massive infusion of federal aid for the unemployed. Wages and salaries rose, and while the savings rate fell to 14.1%, it is still almost twice as high as it was before the pandemic. This provides consumers with a cushion to continue to spend in the coming months.

ECONOMIC INDICATORS	LATEST	3MO PRIOR	CHANGE*
REAL GDP (QoQ ANNUALIZED)	-31.4%	-5.0%	▼
TRADE BALANCE	-67.1	-57.9	▼
UNEMPLOYMENT RATE	7.9%	11.1%	▲
NON-FARM PAYROLLS	661K	4781K	▼
ISM MANUFACTURING	55.4	52.6	▲
ISM NON-MANUFACTURING	57.8	57.1	▲
RETAIL SALES (LESS AUTOS)	0.7%	12.3%	▼
INDUSTRIAL PRODUCTION	0.4%	1.0%	▼
HOUSING STARTS	1416M	1038M	▲
CONSUMER PRICE INDEX (YoY)	1.4%	0.6%	▼
CONSUMER CONFIDENCE	101.8	98.3	▲
EXISTING HOME SALES	6M	3.91M	▲
CONSUMER CREDIT	-7.22B	-12.03B	▲
CRUDE OIL PRICE	40.22	39.27	▼

Source: Bloomberg. Past performance does not guarantee future results. \*The change arrow is indicative of a positive or negative change in the economic nature of the data series. For example, a downward-pointing change arrow assigned to the crude oil price field will correspond with an increase in the actual price of crude oil over the last three months. This is because a short-term increase in the price of crude oil has historically been detrimental to U.S. economic growth.

### EMPLOYMENT AND MANUFACTURING

The U.S. labor market added a total of 3,911,000 jobs in July, August and September versus the median aggregated economists' expectations for those three months of 3,689,000 according to Bloomberg surveys. The unemployment rate fell to 7.9% in September from 8.4% in August and 10.2% in July, reaching its lowest level since the pandemic began. Average weekly initial jobless claims for the five weeks spanning August 29 through October 2 were 864,000 compared to a weekly average of 1,032,000 for the previous week five weeks. The pace of declines in weekly claims decelerated in September after falling below the 1 million mark in late August.

## ECONOMY CONTINUED

Continuing jobless claims fell sharply to 10,976,000 for the week ending September 25 from 17,760,000 for the week ending June 26 after reaching an all-time high of 24,912,000 in early May. Although the trends in the headline labor market data were encouraging during the third quarter, the labor force participation rate inched downward from 61.7% in August to 61.4% in September. Based on a labor force of approximately 160 million, this implies that slightly fewer than 500,000 American workers dropped out of the labor force in September. The recovery in the labor markets could very well be weaker over the next few months in the absence of a new congressional stimulus package or the release of a widely available COVID-19 vaccine.

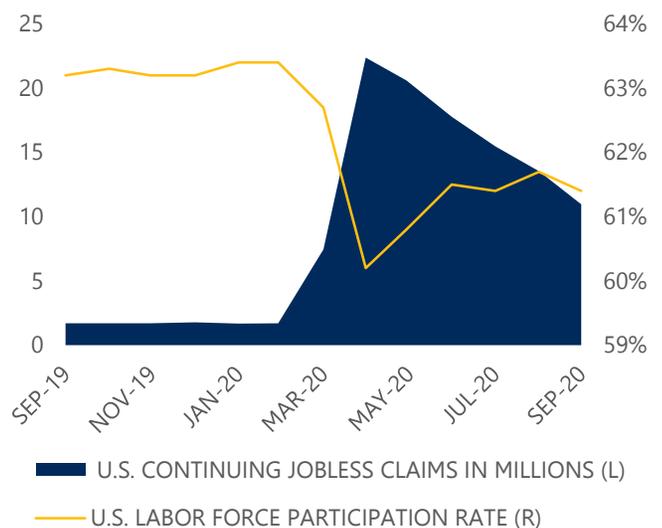
Economic activity in the manufacturing sector expanded in September, according to the latest report from the Institute for Supply Management (ISM). The ISM Manufacturing Index produced a 55.4 reading, which is a 0.6 drop from August. The ISM reading is still above the 50 breakeven level, marking the fifth consecutive month of an expansion in domestic manufacturing activity. Fourteen of eighteen industries surveyed reported growth for the month, with the strongest expansion coming in paper products, wood products and food, beverage and tobacco products. New orders and production continued growing, but at a slower pace than in August.

### HOUSING

In August, U.S. home sales surged to their highest level in nearly 14 years as the housing market continued to outperform the overall economy. According to the report from the National Association of Realtors, existing-home sales increased 2.4% to a seasonally adjusted annual rate of 6 million units last month, the highest level since December 2006. August's increase in homes sales, which marked three straight months of gains, was in line with

economists' expectations. Sales of new U.S. single-family homes also increased to their highest level since 2006, rising by 4.8% to a seasonally adjusted annual rate of 1.011 million units last month. Rising home values and stricter lending standards have also meant that homeowners are sitting on historically high amounts of home equity.

AN UPDATE ON THE U.S. LABOR MARKET RECOVERY



Source: Bloomberg. Past performance does not guarantee future results.

## IMPRESSIVE RALLY RECOUPED ALL LOSSES RELATED TO COVID-19

The third quarter began with equities continuing their rapid rebound from March lows. Following the S&P 500's 20.54% gain in the second quarter, the index returned over 5% in both July and August. This was the first time the benchmark generated consecutive months with returns of 5% or more since the beginning of the market recovery in early 2009 in the immediate aftermath of the Global Financial Crisis. The expanded rally in the first two months of the quarter was primarily driven by optimism about the economic recovery, better-than-feared second quarter earnings results, encouraging progress with COVID-19 vaccine trials, and hopes for additional fiscal stimulus.

The S&P 500's impressive 36.49% return over the five-month period spanning April through August was its largest five-month gain since 1938. Yet, the rally faltered in September after reaching a new record high. Some stock indexes, including the technology-heavy Nasdaq, fell into correction territory with a decline of 10% or more from the market high on September 2. Stocks recovered later in the month, but ended September with a monthly loss for the first time since March. The breakdown in stocks' momentum was primarily attributed to the stalemate in Congress over another round of fiscal stimulus, resurgence in COVID-19 cases in Europe, and profit taking in some mega-cap stocks that led most of the rebound, particularly in the technology sector.

The consumer discretionary sector led all 11 S&P 500 sectors for a second consecutive quarter with a 15.06% gain. Strong performance was broad based within the sector as a majority of industries benefitted from signs of an improving economy. The notable recovery in the housing market led to housing stocks including Lennar (LEN) and D.R. Horton (DHI) gaining over 30% in the third quarter on top of their returns over 60% in the second

quarter. Restaurants, retailers, and apparel companies also performed well in the quarter with stocks including Starbucks (SBUX), Target (TGT), Best Buy (BBY), and Nike (NKE) posting quarterly returns close to 20% or more.

The improving economy also fueled the materials and industrials sectors which were the second and third best performing S&P 500 sectors with quarterly returns of 13.31% and 12.48%, respectively. Revival of the manufacturing sector boosted industrial production and demand for commodities. The J.P. Morgan Global Manufacturing PMI index showed manufacturing activity

### STOCKS' IMPRESSIVE REBOUND

#### SELECTED S&P 500 RETURNS SINCE 1938

BEST FIVE MONTH PERIODS		
	MONTH END	RETURN
1	AUG 1938	45.34%
2	OCT 1938	43.83%
3	AUG 2020	36.49%
4	JUL 2009	35.62%
5	MAY 1975	35.38%
6	JAN 1999	34.46%
7	DEC 1982	34.26%
8	FEB 1975	31.15%
9	NOV 1982	29.38%
10	AUG 2009	29.20%

Source: Morningstar. Past performance does not guarantee future results.

## EQUITY CONTINUED

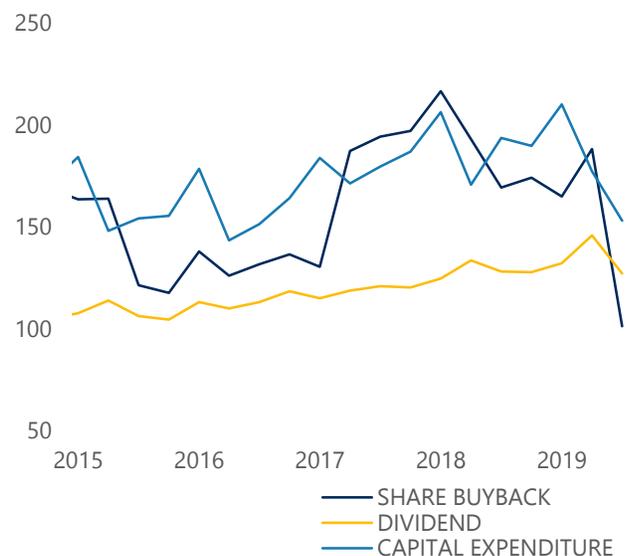
returned to growth in July and output and new orders in August rose at the fastest pace in over two years.

The energy sector continued its struggles this year, recording the only quarterly loss among the 11 S&P 500 sectors and extending year-to-date losses to 44.09%. Companies in the sector face ongoing challenges of lower oil prices relative to a year ago and a grim oil fundamental outlook driven by persistent oversupply and weaker demand amid the pandemic.

Earlier this year, the abrupt decline in economic activity due to the pandemic led to companies prioritizing liquidity and conserving cash to better position themselves for the challenging economic environment. Liquidity appears to be top of mind for company executives as illustrated by companies mentioning liquidity over 600 times in earnings statements since April 1, according to Bloomberg's Chief Equity Strategist, Gina Martin Adams. Adams noted S&P 500 companies have discontinued dividends and reduced buybacks and capital expenditures at the fastest pace since 2006. Over 40 companies have suspended their dividends this year, the most since 2004. Meanwhile, around 20% of S&P 500 companies suspended share buybacks this year, representing \$383 billion in previously announced buybacks. Share buybacks were down 40.15% year over year in the second quarter. Capital expenditures, capital spent on assets such as equipment and buildings, dropped 21% in the second quarter and may decline 27% this year based on Goldman Sachs' forecast. Reduced capital expenditures may be particularly troublesome for the economic recovery since they have accounted for nearly a fifth of U.S. economic activity in recent years according to the Federal Reserve Bank of St. Louis. Bloomberg's Adams noted a rebound in capital expenditures next year would contribute to the expected earnings recovery which analysts project will exceed 20% growth in 2021.

The cuts in dividends, buybacks, and capital expenditures resulted in S&P 500 companies' free cash flow, cash flow from operations minus capital expenditures and cash balance, rising by 20.23% and 47.60% in the second and third quarters, respectively. Higher cash balances and stronger free cash flow should put companies in a better position to weather the challenging economic environment.

S&P 500 COMPANIES' USE OF CASH (\$BILLIONS)



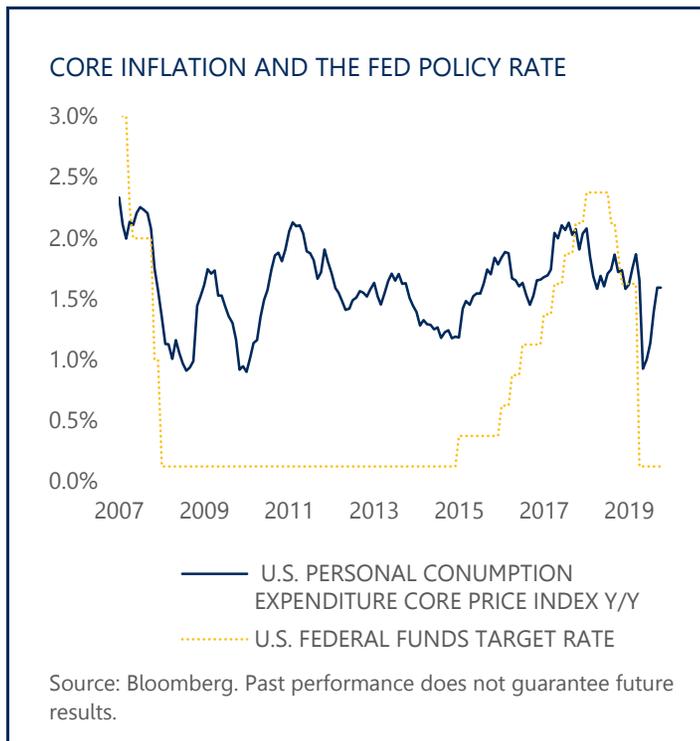
Source: Bloomberg. Past performance does not guarantee future results.

## INFLATION TARGETING AND EXPECTATIONS

The third quarter proved to be a relatively subdued period for most areas of U.S. fixed income markets. This was in large part due to the Federal Reserve’s success thus far in quelling the liquidity and credit stresses that overwhelmed the bond world in March through immense intervention measures. Encouraging signs of gradual improvements in the economic backdrop also helped nurture a generally calm environment. Yields on the U.S. 10-year Treasury note traded in a range of 0.50% to 0.75% during the quarter and exhibited significantly less volatility than many parts of the first six months of 2020. Key portions of the U.S. Treasury yield curve steepened slightly, as shorter term market interest rates declined incrementally. Both investment grade and high yield credit spreads generally continued to narrow in the quarter, although at a more gradual pace than in the second quarter. Market participants’ long-term inflation expectations climbed higher through the end of August before consolidating in September. This recovery of inflation expectations to pre-pandemic levels extended a trend which has been a nearly six-month process following the lowest levels in twelve years reached in March.

At their mid-September policy meeting, Federal Reserve officials provided updated forward guidance regarding their expectations for the future path of interest rate policy. Various market commentators observed that the Federal Open Market Committee (FOMC) September policy statement was the beginning of a pivot from efforts to stabilize financial markets toward stimulating the economy. Fed policymakers indicated their collective intention to keep interest rates near zero until “labor market conditions have reached levels consistent with the Committee’s assessments of maximum employment and inflation has risen to 2% and is on track to exceed 2% for some time.” The explicit targeting of an average level of inflation over an economic cycle marks a shift in

policy guidance and implies that Fed officials will tolerate periods when inflation overshoots 2% in the pursuit of full employment. “Effectively what we are saying is that rates will remain highly accommodative until the economy is far along in its recovery,” Fed Chair Jerome Powell said in a news conference following the release of the central bank’s latest policy statement and economic projections. Since the global financial crisis, the Fed’s interest rate policy has generally failed to create an environment in which year-over-year core consumer inflation in the U.S. achieved the central bank’s stated 2% target. From 1990 through the official beginning of the 2008-2009 recession, the average year-over-year U.S. Personal Consumption



## FIXED INCOME CONTINUED

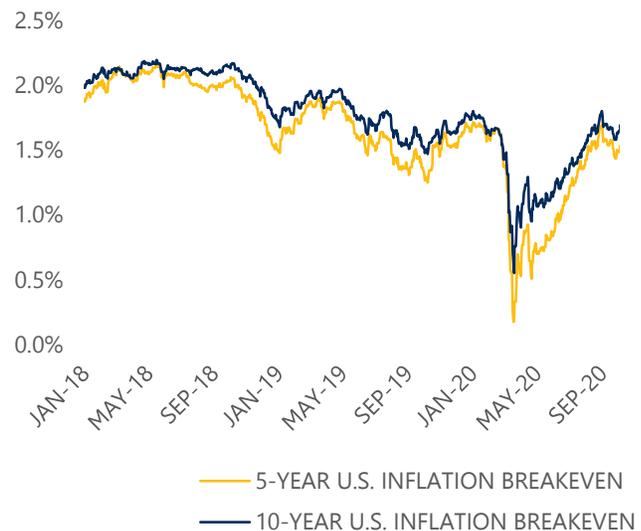
Expenditure (PCE) Core Price Index was 2.19%. (The U.S. PCE Core Price Index is the Fed's stated preferred inflation measure.) As seen in the chart on page 7, over the ensuing twelve years, inflation has been muted despite long stretches of the federal funds rate at the zero bound. From October 2008 through August 2020, the average year-over-year U.S. PCE Core Price Index was 1.57%.

Despite the explicit emphasis of Fed policymakers on creating above-trend inflation, it seems unlikely that a durable, growth-driven inflation overshoot will materialize amid elevated economic uncertainty related to the pandemic. Leading up to the September FOMC statement, market participants' expectations for future inflation bounced sharply higher from recent lows as seen in the chart to the right. At the onset of the pandemic the 5-year breakeven inflation rate plummeted from 1.66% on February 19 to 0.18% on March 18. (The breakeven inflation rate represents a measure of expected inflation derived from 5-Year Treasury Constant Maturity Securities and 5-Year Treasury Inflation-Indexed Constant Maturity Securities.) As the economy has recovered with the help of unprecedented stimulus, 5-year annualized inflation expectations increased to near their pre-pandemic levels by the end of the third quarter. With no shortage of economic and policy uncertainty in the cards for the next 3-6 months, it seems reasonable to expect that the recent trend of higher levels of realized and expected inflation could run out of steam. This creates a scenario where Treasury Inflation Protected Securities (TIPS) may struggle to outperform low yielding nominal Treasuries over the next several quarters in the absence of an unexpected spike in expected inflation. The most likely catalysts for a drop in inflation expectations could be a prospective failure of Congress to deliver a new stimulus package or a sustained increase in COVID-19 cases heading into the winter. In these scenarios, we

would anticipate lower inflation expectations, lower U.S. Treasury and wider corporate credit spreads.

We believe it remains prudent to focus fixed income portfolio exposure on those areas of the bond market within the scope of the various Federal Reserve facilities implemented in 2020. From a credit perspective, we believe it is sensible to remain focused on upgrading the quality of portfolio exposure with balance sheet durability and business model resiliency top of mind. In our view, a near-benchmark duration profile can help balance the downside risk of future surges in demand for safe haven assets related to elevated economic uncertainty with the upside risk of potential inflationary pressures driven by deficit spending and pandemic-related supply chain constraints.

5-YEAR AND 10-YEAR MARKET EXPECTATIONS



Source: Bloomberg. Past performance does not guarantee future results.

## OUTLOOK

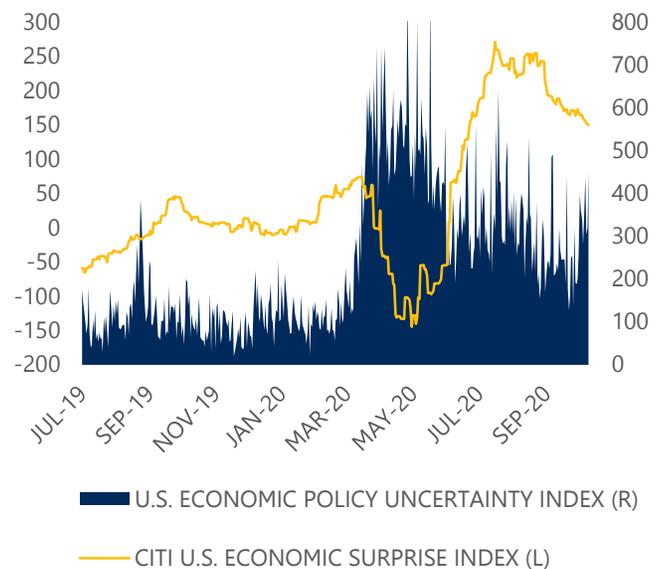
In last quarter's Outlook section, we identified improving domestic economic data and rising COVID-19 case counts in many southern and western U.S. states as an emerging set of crosscurrents facing investors. Declines in national virus case counts and positivity rates throughout August and September diluted the market risk directly related to the ongoing public health response. In its place, increased fiscal policy uncertainty moved to the forefront of market risks toward the end of the third quarter, as negotiations on another stimulus package to help the fledgling economic recovery seemed to stall in Washington. Outside of these critical negotiations, other potentially short-term market risks include a drawn-out contested presidential election, prospective policy changes related to a Democratic sweep or a resurgence in COVID-19 cases heading into the winter. Equity markets did not seem to incorporate much risk until perhaps September, when the Nasdaq fell 10.0% over a six-day period from September 2 to September 8 on its way to a 5.1% monthly decline. Much of this weakness seems to have been driven by the dissipation of a significant amount of excess enthusiasm surrounding the highest flying mega cap U.S. technology-oriented stocks. For the entire quarter, however, the S&P 500 Index, Dow Jones Industrial Average and Nasdaq posted total returns of 8.9%, 8.2% and 11.2%, respectively.

Despite a backdrop of elevated policy uncertainty, we expect the trend in the second and third quarters of better-than-expected U.S. economic data to largely remain in place. One of the most recent notable examples of this trend was September's ISM services sector index reading of 57.8, which eclipsed its pre-pandemic level of 57.3 in February. Additionally, August retail sales growth of 1.0% and a seasonally adjusted annualized rate of new home sales in August of 1,011,000 units both exceeded consensus estimates. Zooming out to a full-year view, however, most major global economies will likely experience sharp growth contractions in 2020 following widespread economic shutdowns and gradual reopenings throughout the year. According to the median Bloomberg consensus forecast, the economies of the U.S., Japan, Germany and the U.K.

are expected to contract in 2020 by 4.0%, 5.7%, 6.0% and 10%, respectively. A majority of investors appear to be looking past 2020 into 2021, however, when GDP is expected to resume growth at a clip of 3.7% in the U.S. and 4.4% in the G-20. The magnitude and shape of the widely expected economic recovery in coming quarters will likely be the largest determinant for the direction of both stock prices and credit spreads in 2021.

Turning to equity market fundamentals, S&P 500 earnings revisions have begun to creep higher in recent months following a steep drop and three-month period of stabilization earlier this year. The Bloomberg median consensus for 2020 S&P 500 earnings per share declined 27% from roughly \$175 on January 29 to \$125 on June 30, but has since inched higher to \$135 as of September 30. This has likely been a contributing factor to the most recent phases of the powerful market rally, which has seen the

### ECONOMIC DATA SURPRISES AND UNCERTAINTY



Source: Bloomberg. Past performance does not guarantee future results.

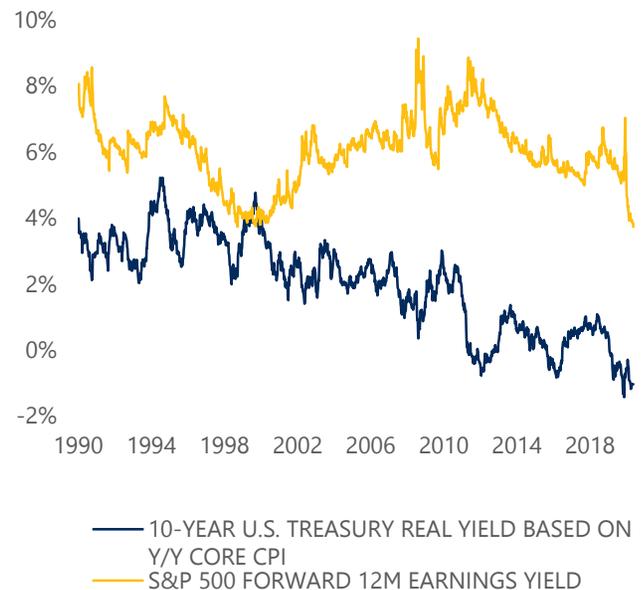
## OUTLOOK CONTINUED

three major U.S. equity averages all surge at least 50% from March 23 through September 30. While stocks are clearly expensive when compared to their own history, in terms of relative valuation, the recent increase in S&P 500's valuation has been more than offset by the sharp decline in U.S. government bond yields thus far in 2020. Yields on the benchmark 10-year U.S. Treasury note spent nearly all of the third quarter in an ultra-low range between 0.50% and 0.75% compared to a range of 1.45% to 2.15% in the third quarter of 2019. The difference between the S&P 500 forward earnings yield (expected 12-month earnings per share/Index Price) and the U.S. 10-year Treasury yield, often referred to as the "earnings risk premium," is significantly wider than during previous equity market tops in 2000 and 2007. We do not expect any durable rise in U.S. government bond yields to pre-pandemic levels at least over the next 2-4 months. We believe it remains prudent for investors to focus on improving the quality of their credit exposure and to position portfolios near benchmark duration. Looking past the next 2-4 months, we believe risk remains tilted toward moderately higher government bond yields due to a combination of ultra-low policy rates, a Fed unlikely to engage in negative interest rate policy and the potential for upward pressure on U.S. Treasury bond yields related to further deficit spending.

In the current environment of elevated policy uncertainty, improving but still weak economic fundamentals and historically low yields across most of the government bond world, we believe an allocation to gold should help most client portfolios better navigate the next 12-24 months. Historically, gold has provided significant diversification benefits to multi-asset class portfolios and can serve as a safe-haven asset in periods of market stress helping to limit exposure to equity market drawdowns. Additionally, the monetary policy backdrop seems increasingly favorable for gold relative to other asset classes given its tendency to generate strong relative returns in periods where inflation-adjusted (real)

government bond yields are declining or negative. Given widely held market expectations that the U.S. Federal Reserve will not increase its policy rate from the zero bound until 2022 or 2023 while explicitly targeting consumer inflation above 2.0% for a period of time, it seems likely that inflation-adjusted U.S. Treasury yields will remain very low or negative for the foreseeable future.

### S&P 500 EARNINGS YIELD AND REAL BOND YIELDS



Source: Bloomberg. Past performance does not guarantee future results.

# ECONOMIC OUTLOOK AND INVESTMENT POLICY

ECONOMIC FACTORS	CURRENT OUTLOOK
U.S. GDP Growth	The Bloomberg median economists' expectations for full-year 2020 U.S. GDP growth improved to -4.0% in early October from -5.6% in late June.
Federal Funds Rate	In the September FOMC statement, Fed officials communicated expectations for the policy rate to remain at the zero bound most likely through 2022.
Inflation	Bond market expectations for average annual U.S. inflation over the next five years increased to 1.49% on September 30 from 0.18% on March 18.
Employment	A recent pick-up in NFIB small business hiring plans could bode well for labor markets assuming congressional stimulus negotiations do not derail.
Consumer Confidence	Recent improvements in consumer sentiment could face headwinds if lowered expectations for additional stimulus affect the economic outlook.
Oil	Despite Saudi Arabia and Russia's production cut agreement, elevated economic uncertainty will likely keep a ceiling on oil prices in coming quarters.
Housing	Ultra-low rates and the Fed's commitment to purchase agency mortgage-backed securities should continue to support housing market demand.
International Economies	The IMF October World Economic Outlook projected a global GDP contraction of 4.4% in 2020 compared to a 4.9% projected contraction in June.

	MINIMUM	NEUTRAL	MAXIMUM	CURRENT OUTLOOK
<b>FIXED INCOME</b>				
Core Bonds		●		<p>In an environment of ultra-low bond yields, we believe the total return prospects of high-grade fixed income securities relative to their equity counterparts will be challenged despite the powerful equity market recovery which began in late March. We view our recommendation from late March to target modestly smaller fixed income allocations than during 2019 as still appropriate. We believe a near-benchmark duration profile can help balance the upside price risk of future surges in demand for safe haven assets related to elevated economic uncertainty with the downside price risk of potential inflationary pressures driven by either deficit spending or a durable cyclical economic acceleration. Although credit risk in certain areas of below investment-grade credit markets remains elevated, we believe a moderate level of exposure remains reasonable given our view that a significant amount of default risk is likely priced into current credit spreads.</p>
TIPS			●	
Non-Investment Grade			●	
International	●			

	MINIMUM	NEUTRAL	MAXIMUM	CURRENT OUTLOOK
<b>EQUITIES</b>			●	<p>We believe the persistence of historically low government bond yields, large-scale stimulus and signs of an improving economic backdrop support a moderately larger allocation to equities than we recommended in 2019. Overall economic and market uncertainty remains elevated amid stalled congressional stimulus negotiations and efforts to forestall a resurgence of COVID-19 cases. Yet, the gap between expected future returns in equity markets and bond markets remains wide enough, in our view, to justify an overweight allocation to equities for long-term investors. We view an overweight to U.S. large capitalization stocks as appropriate given their size, scale, diversification and balance sheet strength relative to other areas of the global equity market. While U.S. mid cap stocks do not fit all of these criteria, we believe an overweight to this area of the market makes sense given compelling relative valuations.</p>
Large Cap			●	
Mid Cap			●	
Small Cap		●		
Developed International	●			
Emerging Markets	●			

	MINIMUM	NEUTRAL	MAXIMUM	CURRENT OUTLOOK		
<b>ALTERNATIVES*</b>			●	<p>In the current environment of elevated policy uncertainty, improving but still weak, economic data and historically low yields across the U.S. government bond world, we believe an allocation to gold should help most client portfolios better navigate the next 12-24 months. Historically, gold has provided significant diversification benefits to multi-asset class portfolios and can serve as a safe-haven asset in periods of market stress helping to limit equity market drawdowns. We recommend that portfolios transition away from global real estate and global infrastructure allocations. We believe both asset classes face unique challenges in the current environment which will likely prevent them from achieving comparable risk-adjusted returns to our traditional global equity allocation over the next 12 to 24 months. Our diversified alternatives portfolios, as seen in the table to the left, are designed to decrease the overall risk profile of our five investment objective-based portfolios (CAP PRES, IWSG, BAL, GWSI, and GROWTH).</p>		
	CAP PRES	IWSG	BAL		GWSI	GROWTH
Global Real Estate						
Global Infrastructure						
Gold		●	●		●	
Hedged Equity	●	●	●		●	●
Arbitrage	●	●	●			

The above minimum/neutral/maximum recommendations represent MainStreet Advisors' current positions relative to our Strategic Asset Allocation ranges. Views expressed have a 6-12 month horizon and are those of the MSA Investment Committee.

\*Cap Pres: Capital Preservation, IWSG: Income with some growth, Bal: Balanced, GWSI: Growth with some income

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