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QUARTERLY MARKET INSIGHTS
4TH QUARTER 2020

THE RISE OF ELECTRIC VEHICLES

The electric vehicle (EV) frenzy in 2020 made it one of the hottest industries of the year across investment markets. Tesla's (TSLA) share price gain of 743% in 2020 catapulted it to become the sixth largest company in the S&P 500 index. Chinese EV maker Nio (NIO) also skyrocketed last year with a gain of 1,112%. Meanwhile, a few startup EV companies with no sales rushed ahead with plans to go public in order to capitalize on investors' enthusiasm for EVs. Prior to 2020, only five U.S. companies had gone public with no sales and a valuation of at least \$3 billion, according to University of Florida finance professor Jay Ritter. Last year, three U.S. EV companies with no sales and valuations around \$3 billion or more went public. The companies were Nikola (NKLA), Fisker (FSR), and Hyliion (HYLN). Two additional U.S. EV startups with no sales, Lordstown Motors (RIDE) and Canoo (GOEV), went public last year with valuations of \$1.4 billion and \$2.4 billion, respectively. The lofty valuations of pre-revenue EV companies underscore some investors' glowing optimism for the industry.

EVs are expected to see rapid adoption in this decade and achieve a tipping point by 2025 as they reach price and performance parity with internal combustion engine (ICE) vehicles powered by burning fossil fuels. Morningstar equity research analyst, Seth Goldstein, projects EVs will grow from 2% of global auto sales in 2019 to 20% by 2030. Additionally, Goldstein expects another 30% of sales will come from hybrids by 2030, meaning half of all vehicle sales will be electric in some form by the end of the decade.

EV customer appeal has been somewhat hampered thus far due to EV's higher cost and inferior performance relative to ICEs in terms of drive range, recharge time, and recharge infrastructure availability. Morningstar expects EVs' price and performance to become comparable to ICEs by 2025. ICEs are currently \$8,600 cheaper on average than EVs, excluding tax credits because of the latter's large battery cost and higher manufacturing expense. The price of EVs will likely become more competitive in coming years as battery costs rapidly decline with technology improvements and economies of scale reduce the manufacturing cost. TSLA announced at its Battery Day event in September 2020 that the company expects to reduce battery costs by half before 2025.

Battery advancements will likely also improve the drive range and charge time to be more competitive with ICEs within a few years. Just a few years ago, there were no EVs with a 300-mile range which is the low end of what an ICE can travel on a single tank of gas. However, today a growing number of EVs have a 300-mile range with a maximum range of 370 miles. Most EV charge times are currently around 30 minutes for an 80% charge, but are expected to fall to 5-10 minutes. TSLA's Superchargers released in 2019 have 15-minute charge times. Concerns voiced by consumers about insufficient charging infrastructure appears to be another diminishing barrier, as the number of charging stations in the U.S. grew fivefold between 2015 and 2019.

Environmental regulations are another catalyst for EVs. Many countries plan to phase out ICEs to reduce CO₂ emissions. China and Japan plan to end sales of new ICE vehicles by 2035. France, Germany, and the United Kingdom plan to do the same by 2040. The U.S. is one of the few major economies that does not have a nationwide policy to phase out ICEs, but a few states including California plan to ban them by 2035.

Despite the rosy outlook for EVs in the coming years, the industry still faces some potential roadblocks. First, execution risk is a big factor as EV companies have a long road ahead to ramp up production. Producing millions of vehicles per year is capital intensive and will require creating more manufacturing facilities which cost billions per year in capital spending and research and development. Additionally, sufficient access to capital is paramount to expand production and is subject to the whims of investors and financial institutions. Next, failure to achieve timely improvements in battery cost, drive range, charge time and station availability could impair EVs' mass market adoption. Lastly, government support through tax credits will play an important role in the next couple of years until EV purchase prices become more competitive with ICEs. Changes in government support can drastically alter EVs' purchase price. Given these risks and rich valuations for EV stocks, some investors have chosen to gain exposure to the EV trend indirectly through component suppliers such as semiconductor companies NXP Semiconductors (NXPI), NVIDIA Corp. (NVDA), and Texas Instruments (TXN).

ECONOMY

U.S. ECONOMIC RECOVERY REMAINS FRAGILE

Few, if any, market participants predicted a worldwide pandemic would end the record-setting 128-month U.S. economic expansion following the global financial crisis of 2007-09. The public health response to the COVID-19 pandemic sent the U.S. economy into the deepest recession of the post-World War II era. The immediate stop to economic activity across large parts of the U.S. in March and April caused gross domestic product (GDP) to contract at a 31.4% annualized pace in the second quarter. Aggressive monetary and fiscal policy responses headlined by the \$2.2 trillion CARES Act drove growth in the third quarter to rebound impressively at a 33.4% annualized rate. Just before Christmas, Congress approved another relief package of approximately \$900 billion which included \$600 payments to many Americans as well as additional unemployment insurance payments to the millions of Americans still out of work. As nationwide COVID-19 hospitalizations continue to rise, the speed and efficiency of the vaccine distribution will likely be a critical variable in determining the pace and magnitude of the nascent economic recovery in 2021.

On the monetary policy front, throughout the fourth quarter the U.S. Federal Reserve indicated that it will remain very accommodative, with no intention to lift its policy rate above the zero bound until late 2022 at the earliest. Following the central bank's December policy-setting meeting, Fed Chairman Jerome Powell stated interest rates will remain low, even if annualized inflation exceeds its 2.0% long-term target, until the labor market gets back to full employment. The FOMC further indicated that its asset purchase program will continue until further notice at the pace of at least \$120 billion in bonds per month at the short-end of the curve.

Consumer confidence remained subdued in December, weighed down by a resurgence in new coronavirus

ECONOMIC INDICATORS	LATEST	3MO PRIOR	CHANGE*
REAL GDP (QoQ ANNUALIZED)	33.4%	-31.4%	▲
TRADE BALANCE	-68.1	-64.9	▼
UNEMPLOYMENT RATE	6.7%	7.8%	▲
NON-FARM PAYROLLS	-140K	711K	▼
ISM MANUFACTURING	60.7	55.4	▲
ISM NON-MANUFACTURING	57.2	57.8	▼
RETAIL SALES (LESS AUTOS)	-0.8%	1.5%	▼
INDUSTRIAL PRODUCTION	0.4%	0.8%	▼
HOUSING STARTS	1547M	1373M	▲
CONSUMER PRICE INDEX (YoY)	1.4%	1.4%	-
CONSUMER CONFIDENCE	88.6	101.3	▼
EXISTING HOME SALES	6.69M	5.98M	▲
CONSUMER CREDIT	15.27B	-8.54B	▼
CRUDE OIL PRICE	48.52	40.22	▼

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.

infections and a delay by Congress to approve another relief package. The Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Report both came in below expectations for the month. The drop in the present consumer sentiment situation was partially offset by a modest pickup in expectations as a result of vaccine rollouts spurring hopes for a faster economic recovery. U.S. retail sales declined a seasonally adjusted 1.1% in November, marking the largest drop in seven months. Americans appeared to hold back on early holiday shopping, suggesting an increase in coronavirus cases and tighter restrictions may be impacting retailers.

ECONOMY CONTINUED

EMPLOYMENT AND MANUFACTURING

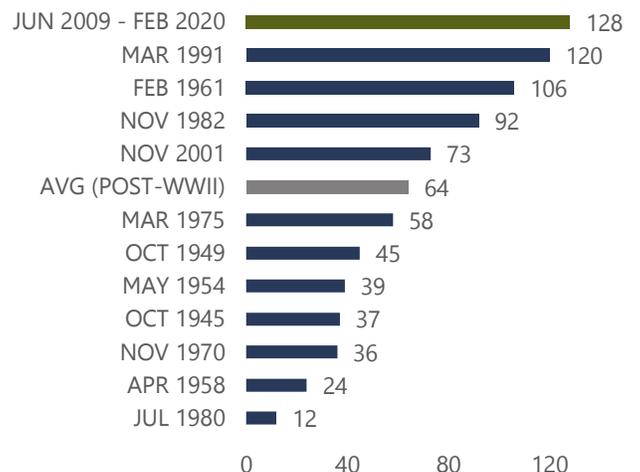
After 22.2 million Americans lost their jobs in March and April, U.S. employers added back a total of 12.5 million jobs from May through November, headlined by gains of 2.7 million and 4.8 million in May and June, respectively. As coronavirus cases have surged, the job recovery pace has slowed in recent months with just 336,000 jobs added in November and 140,000 lost in December. The unemployment rate has recovered from 14.7% in April to 6.7% in December, the lowest level since the pandemic began. Average weekly initial jobless claims for the five weeks spanning November 27 through December 25 were 812,000 compared to a weekly average of 752,000 for the previous five weeks. Continuing jobless claims have fallen to 5,219,000 for the week ending December 18 from 10,594,000 for the week ending September 25 after reaching an all-time high of 24,912,000 in early May. Economic activity in the manufacturing sector grew in December, according to the latest report from the Institute for Supply Management. The ISM Manufacturing Index registered a 60.7 reading, an increase of 3.2 from 57.5 in November, marking its highest level in nearly two and a half years and the seventh consecutive month of expansion. New orders, production, and employment all rose in December. ISM readings above 50 indicate expansion in domestic manufacturing activity. Sixteen of eighteen industries surveyed reported growth for the month, with the strongest expansion coming in apparel, leather & allied products; furniture & related products; wood products; and fabricated metal products.

HOUSING

The S&P Case-Shiller National Home Price Index rose 8.4% year over year in October, the highest growth rate since March 2014. Increases in home prices have accelerated in recent months amid strong housing demand and low inventory. Robust housing demand has been driven by record low mortgage interest rates and

the pandemic incentivizing potential buyers to move from urban apartments to suburban homes with increased living space. In November, the National Association of Realtors' measure of pending sales for previously owned homes was near the peak of the housing bubble in late 2005. However, due to both the shortage of home inventory and higher prices, pending home sales have declined in recent months from the record level in August.

CHART 1
U.S. BUSINESS CYCLE EXPANSIONS:
DURATION OF EXPANSIONS SINCE 1945 IN MONTHS



Source: National Bureau of Economic Research. Past performance does not guarantee future results.

RECOVERY TRADE SHIFTS MARKET LEADERSHIP

Stocks stumbled early in the quarter ahead of the U.S. elections, but regained their footing after risk assets responded favorably to election results and encouraging announcements for COVID-19 vaccine clinical trials offset concerns about the rising number of virus cases in the U.S. and Europe. November was especially strong for stocks with the S&P 500 rising 10.95% partly due to hopes that the vaccines would lead to a return to normality next year. Renewed optimism for another round of virus relief helped stocks to continue their ascent in December. Congress' \$900 billion stimulus package which passed in mid-December is expected to give the economy a much needed boost. The S&P 500 ended the volatile year with an annual gain of 18.40% after rallying a remarkable 70.18% from its March 23 low.

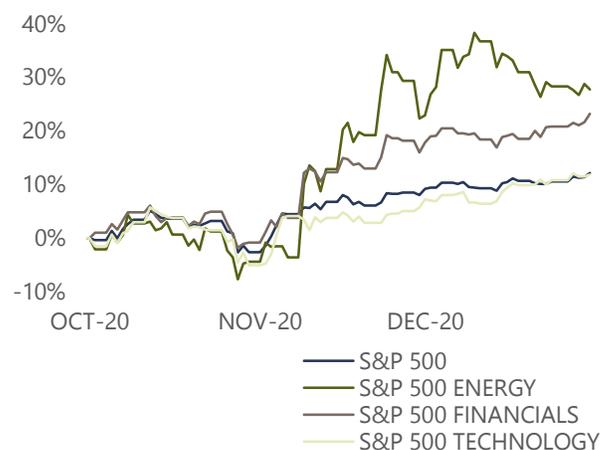
Hopes for a return to a more normal economic environment in 2021 spurred a change in market leadership during the fourth quarter, as the so-called "recovery trade" took hold. After leading during most of the rally earlier in the year, the technology sector passed the baton to more cyclically oriented stocks and value stocks which were among the hardest hit industries from the pandemic. The energy and financials sectors led in the quarter with gains of 27.77% and 23.22%, respectively. Other cyclical sectors also performed well including industrials and materials, rising 15.68% and 14.47%, respectively.

The rotation to cyclical stocks resulted in the S&P 500 Value index posting its best quarterly performance since 2009 with its 14.49% gain, outperforming the S&P 500 Growth index by 3.83%. That was S&P 500 Value's second largest quarterly outperformance over S&P 500 Growth since 2009 when the market was in its initial stages of recovering from the global financial crisis. Small capitalization stocks were another beneficiary of the quarter's recovery trade. The Russell 2000's 18.43% gain

in November and 19.96% increase in the quarter helped the index erase its underperformance versus the large capitalization S&P 500 index for the year.

Despite value stocks' fourth quarter rally, the S&P 500 Value index barely finished the year in positive territory with a 1.36% gain, while the S&P 500 Growth index rose 33.47%. Two traditional value sectors, energy and financials, ended the year with losses as their strong fourth quarters were not enough to overcome poor performance earlier in the year. The energy sector recorded a third consecutive year as the worst performing sector.

CHART 2
CHANGE IN MARKET LEADERSHIP
SELECTED S&P 500 SECTORS: 4Q20 RETURNS



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

EQUITY CONTINUED

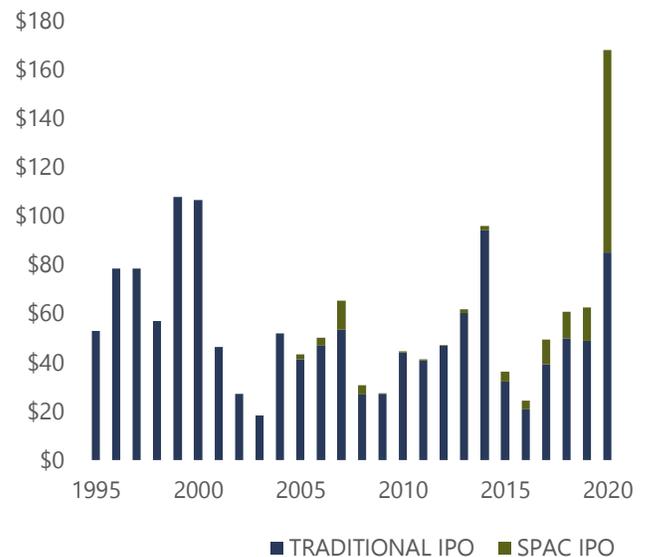
The U.S. initial public offering (IPO) market defied expectations in 2020 as 456 companies went public, the most since the internet stock market bubble of the late 1990s. The companies that went public in 2020 raised almost \$170 billion which surpassed the previous record of \$108 billion in 1999. The IPO market received a jolt from the emerging trend in special purpose acquisition company (SPAC) IPOs which grew more than sixfold from 2019 and accounted for nearly half of all IPO fundraising during the year. SPACs have become an increasingly popular way for companies to access public capital in various nascent sectors including electric vehicle maker Fisker (FSR), online gambling operator DraftKings (DKNG), space travel company Virgin Galactic (SPCE), and cannabis technology provider Akerna (KERN). Excluding SPACs, 2020 was still a strong year for IPOs, but only the fourth best year behind 1999, 2000, and 2014.

SPACs, also referred to as “blank check” shell corporations, go public with the sole purpose to use their IPO proceeds to merge with a private company typically within 12 to 24 months. After the companies merge, the private company gets funding from the SPAC and becomes a public company by taking over the SPAC’s position on a stock exchange. The SPAC structure offers some benefits to private companies as an alternative way to go public versus a traditional IPO. The process is typically a quicker way to go public, and merger negotiations are private so market volatility may be less impactful on the timing of deals. SPACs also bypass some Securities and Exchange Commission (SEC) rules which allow private companies to garner investor interest by touting their strong growth projections, a practice that is constrained in the traditional IPO process. For example, electric vehicle maker Fisker (FSR) projects its revenue will grow to \$13.2 billion by 2025 from no revenue today.

The SPAC boom has been met with critics’ warnings of the risks. SPACs have a reputation of being more prone to fraud since they circumvent the stringent due

diligence and audit processes designed to protect investors in traditional IPOs. Additionally, SPACs have a poor track record for investors. SPAC deals since 2015 have an average return of negative 1.4% compared to a 49% average return for companies with regular IPOs, according to Renaissance Capital.

CHART 3
SPAC VOLUMES SURGE IN 2020
IPO \$BILLIONS RAISED



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

YEAR OF THE FED CREATES SIGNS OF CHANGE

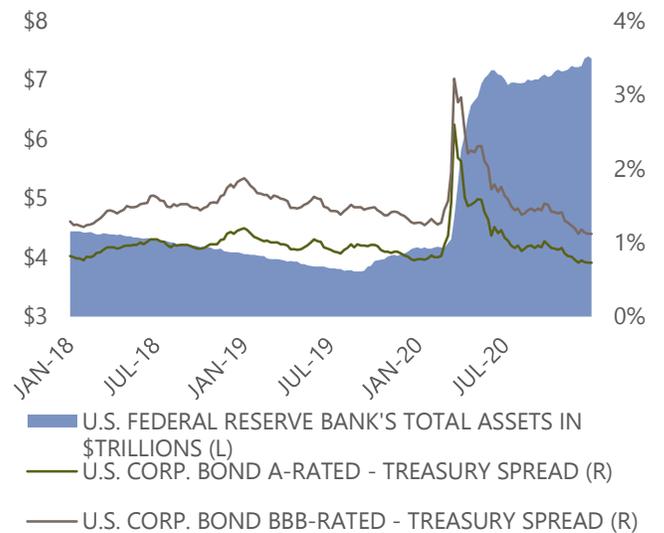
Following a subdued third quarter, U.S. fixed income markets began to show signs in the fourth quarter of pivoting to a more growth-oriented economic environment. Yields on the U.S. 10-year Treasury note rose from 0.68% on September 30 to close the year at 0.91%. A slight acceleration in the upward trajectory of yields occurred following the early November announcements of the Pfizer and Moderna vaccines. Key segments of the U.S. Treasury yield curve steepened during the quarter amid growing expectations for a stronger-than-expected economic recovery in 2021 following the vaccine announcements. In late December, market-based readings of inflation expectations reached levels last seen in the fourth quarter of 2018. Meanwhile, U.S. investment grade and high yield credit spreads narrowed even further from relatively tight levels at the end of the third quarter. Notably, the option-adjusted spread on the Bloomberg Barclays High Yield Energy Index plummeted from 8.21% on November 2, to 5.35% on December 30, marking its lowest level since April 2019.

Looking back on the entire year, the foremost narrative in fixed income markets was undoubtedly the U.S. Federal Reserve's swift and massive intervention in vast swathes of the investment grade bond universe in March and April to combat the economic fallout from the COVID-19 pandemic. Policymakers implemented a series of crisis-era programs to stabilize market liquidity and credit access to fend off the worst potential outcomes for markets and the economy. The Federal Open Market Committee (FOMC) cut its policy rate from a range of 1.50% - 1.75% to 0.0% - 0.25% over the course of 14 days in early March. Policymakers launched a quantitative easing program designed to purchase \$500 billion of U.S. Treasury bonds and \$200 billion of agency mortgage-backed securities. Additionally, throughout late March and early April the central bank launched several large

corporate and municipal credit facilities designed to help ensure access to credit for many issuers in those markets. All told, the Federal Reserve's purchase programs resulted in the expansion of its balance sheet from approximately \$4.3 trillion in mid-March to \$7.1 trillion on June 30.

The stabilization of liquidity conditions that resulted from the Federal Reserve's actions created a sense of relief for many market participants. In the days and weeks leading up to the central bank's set of emergency interventions, nearly all corners of U.S. fixed income markets experienced a severe deterioration of liquidity. This was seen in rapidly widening bid-ask spreads (the difference in

CHART 4
FED BALANCE SHEET EXPANSION AND CREDIT SPREADS



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

FIXED INCOME CONTINUED

price between where the market is willing to buy (bid) and willing to sell (ask) of a given security) in even the highest quality bonds including U.S. Treasury securities and AAA-rated corporate bonds.

The combination of the Fed's asset purchases, liquidity facilities and the various relief programs embedded in the CARES Act created a much-improved environment for corporate credit. Investors' worst fears surrounding widespread corrosion of corporate balance sheets and defaults seemed to be assuaged in relatively short order. In turn, the credit spread (or additional yield required by investors to purchase corporate bonds compared to similar maturity U.S. Treasury securities) began to narrow significantly across the credit ratings spectrum. This laid the groundwork for a second major storyline of fixed income markets in 2020: a surge in issuance of corporate debt by American companies undertaken to shore up their balance sheets and forestall looming maturity walls. U.S. corporations issued \$875 billion of debt in the second quarter according to SIFMA data. This compares to \$345 billion of corporate debt issued in the second quarter of 2019. In 2020, there was \$2.28 trillion of corporate debt issuance, a 60% increase from the \$1.42 trillion issued in 2019. Not to be outdone, the U.S. Treasury had \$4.28 trillion of total net issuance (gross issues less gross retirement) in 2020 compared to \$1.04 trillion of total net issuance in 2019, according to SIFMA data. Over 60% of the Treasury's net issuance in 2020 occurred in April, May and June to help finance the CARES Act.

Looking forward to the first half of 2021, we believe it is sensible to position fixed income allocations moderately below benchmark duration given building signs that the economic recovery currently underway could be stronger than consensus expectations. Additionally, a period of moderate inflationary pressure driven by deficit spending,

additional pandemic relief packages and a surge in consumer demand could put upward pressure on government bond yields. From a credit perspective, we believe it remains sensible to focus on upgrading the quality of overall portfolio exposure given still-elevated levels of uncertainty facing many cyclically oriented industries. In non-core segments of fixed income allocations, we view preferred stocks as a good replacement for bank loans given the former's improved credit profile of underlying issuers and the latter's partial reliance on expectations of interest rate hikes for healthy total return generation.

CHART 5
MARKET-BASED ANNUAL INFLATION EXPECTATIONS



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

OUTLOOK

VACCINES, REFLATION AND PENT-UP DEMAND

The elevated fiscal policy uncertainty we identified in last quarter's Outlook section as a major market risk was more than offset in the fourth quarter by increased optimism about the trajectory of economic growth in 2021 following the announcements in early November of a pair of highly effective coronavirus vaccines. After a period of weakness in September and October, global equity markets surged in November and December on the heels of the positive vaccine news despite a spike in virus cases and related hospitalizations. A partial reduction in policy uncertainty resulting from increased clarity about the results of the U.S. November elections also helped support a positive backdrop for risk assets in the final two months of the year. Finally, the \$900 billion coronavirus relief package passed by Congress in the final days of December also helped solidify an optimistic market tone. The S&P 500 Index posted a 3.8% gain in December to build off its 11.0% advance in November. The index's two-month return of 15.2% was its best performance over the November-December period since 1954. Signs of a regime change across asset classes emerged whereby market segments more closely tied to an acceleration of cyclical growth outperformed broad indexes. Most notably, U.S. small cap stocks and international stocks handily outpaced their U.S. large cap counterparts over the last two months of the year. Within the domestic equity market, cyclically oriented financials, industrials, energy and materials sectors were the top performing S&P 500 groups during the fourth quarter. Increased expectations for a robust economic recovery in 2021 pushed U.S. Treasury yields and crude oil prices higher, while the U.S. dollar weakened and corporate credit spreads narrowed.

In the first half of 2021, we expect to see investor preferences swing back-and-forth between areas of the equity and credit markets most likely to benefit from a resumption of normal economic activity and those best positioned for a longer-than-expected extension of the pandemic-era economic landscape. The push and pull of this dynamic will very likely be driven by the distribution effectiveness of the approved coronavirus vaccines. It seems reasonable to us that disappointing economic data

and elevated market volatility could emerge as the predominant storylines in the first half of 2021 against a backdrop of the proverbial "light at the end of the tunnel" associated with widespread inoculation. The narrative could then evolve to a focus on building evidence of above-trend growth in the third and fourth quarters boosted by pent-up consumer demand amidst a broad-based economic reopening. According to the median Bloomberg consensus forecast, the economies of the U.S., China, Japan Germany and the U.K. are expected to grow in 2021 by 4.0%, 8.2%, 2.7%, 4.0% and 5.1%, respectively. Insofar as U.S. consumer expenditures will remain one of the most important drivers of global growth for the foreseeable future, we would observe that aggregate consumer balance sheets are significantly healthier coming out of the current recession than in 2009. A large part of this is related to the Paycheck Protection Program and enhanced unemployment insurance features of the CARES Act passed in March.

CHART 6
U.S. CONSUMER CONFIDENCE AND FINANCIAL HEALTH



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

OUTLOOK CONTINUED

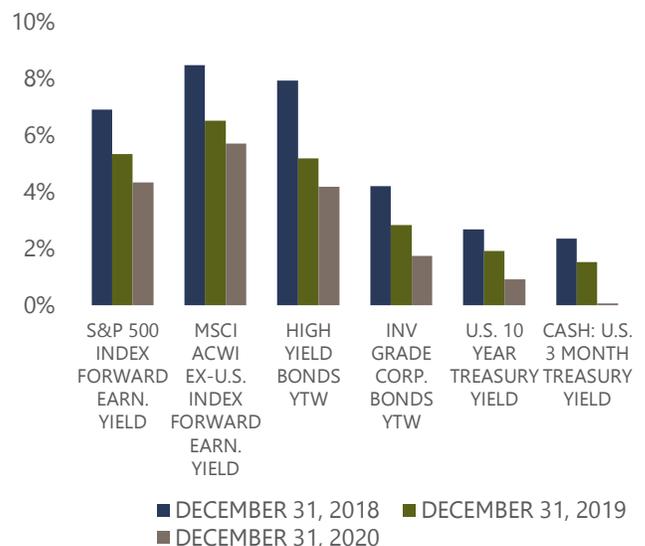
As seen in Chart 6, U.S. consumers' personal savings as a percentage of disposable income eclipsed 30% earlier this year and still remains about twice the average of the past ten years.

The S&P 500 Index's 68% rally from its March 23 low through December 31 occurred against a backdrop of a roughly 20% decline in future 12-month earnings expectations. The benchmark's current valuation of roughly 20-times expected profits in 2021 is well above its pre-pandemic valuation peak. While stocks are clearly expensive compared to their own history, when compared to ultra-low government bond yields, their valuations look much more reasonable. Regarding the trajectory of interest rates in coming quarters, we believe there is a relatively low, but increasing probability of a durable rise in U.S. government bond yields to near pre-pandemic levels of between 1.50% and 2.00% over the course of 2021. In our view, this will in large part depend upon bond market participants' reactions to the timing and magnitude of additional congressional relief packages and the subsequent follow-through to inflation expectations. The most significant potential short-term market risks related to policy items will probably be discussion surrounding prospective changes in corporate tax rates and the regulatory environment for the financial, energy and technology sectors under a unified Democratic government with a razor thin majority.

In an environment characterized by large-scale policy support, increased chances for a dramatically improved economic landscape in 2021 and very low yields across most of the investment grade bond world, we believe investors should remain overweight global equities relative to high quality bonds over the next 6-12 months. Within fixed income allocations, we think a moderate duration underweight relative to benchmark is sensible given signs of a cyclical growth acceleration and potential above-trend inflation in 2021. In non-core segments of fixed income allocations, we view preferred stocks as a favorable replacement for bank loans given the former's improved credit profile of underlying issuers

and the latter's partial reliance on expectations of interest rate hikes for healthy total return generation. Across equity allocations, we believe a moderate overweight to U.S. large capitalization stocks remains appropriate given our view that their size, scale, diversification and balance sheet strength should allow them to navigate what is likely to be a volatile economic landscape for most of 2021. An overweight to U.S. mid cap stocks should provide client portfolios with exposure to forthcoming cyclical growth without as much balance sheet risk as exists in U.S. small cap indexes. Within alternatives allocations, we view a moderate position in gold as an effective portfolio diversification tool and a potential beneficiary of increased demand for safe haven assets or further declines in real (inflation-adjusted) interest rates.

CHART 7
MAJOR ASSET CLASS VALUATIONS



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 2021 U.S. GDP growth improved to 4.0% in December with a range from 1.8% to 7.4%.
Federal Funds Rate	Throughout the fourth quarter, Fed officials communicated expectations for the policy rate to remain at the zero bound most likely through 2022.
Inflation	Market expectations for average annual U.S. inflation over the next five years eclipsed 2.0% in early January, marking the highest level since October 2018.
Employment	A recovery in NFIB small business hiring plans to pre-pandemic levels could bode well for labor markets in 2021 assuming successful vaccine distribution.
Consumer Confidence	Consumer expectations for business conditions over the next six months remain well below 2019 levels amid elevated short-term economic uncertainty.
Oil	Saudi Arabia's January production cut and an improved supply-demand balance could allow oil prices to continue grinding higher 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 in 2021.
International Economies	The IMF October World Economic Outlook projected global GDP growth of 5.2% in 2021 led by emerging market and developing economies.

	MINIMUM	NEUTRAL	MAXIMUM
FIXED INCOME		●	

CURRENT OUTLOOK

Core Bonds		●	
TIPS			●
Non-Investment Grade			●
International	●		

We believe the total return prospects of high-quality fixed income securities relative to their global equity counterparts will remain challenged over the next 6-12 months despite the powerful equity market rally from the March 2020 lows. As such, we retain our recommendation from late March to target modestly smaller fixed income allocations than during 2019. Within core segments of fixed income allocations, we think a moderate duration underweight relative to benchmark is sensible given building expectations for a cyclical growth acceleration and the potential for above-trend inflation in 2021. In non-core segments, we view preferred stocks as a favorable replacement for bank loans given the former's improved credit profile of underlying issuers and the latter's partial reliance on expectations of interest rate hikes for healthy total return generation.

	MINIMUM	NEUTRAL	MAXIMUM
EQUITIES			●

CURRENT OUTLOOK

Large Cap			●
Mid Cap			●
Small Cap		●	
Developed International	●		
Emerging Markets	●		

In an environment characterized by large-scale policy support, increased chances for a dramatically improved economic landscape in 2021 and very low yields across the investment grade bond world, we believe investors should remain overweight equities relative to high quality bonds over the next 6-12 months. Despite uncertainty about coronavirus vaccine distribution and the trajectory of fiscal policy, the gap between expected future returns in equity markets and bond markets remains wide enough for us to justify an overweight allocation to equities for long-term investors. We believe a moderate overweight to U.S. large capitalization stocks remains appropriate given our expectation that their size, scale, diversification and balance sheet strength should allow them to navigate what is likely to be a volatile economic landscape for most of 2021. An overweight to U.S. mid cap stocks should provide client portfolios with exposure to forthcoming cyclical growth without as much balance sheet risk as exists in U.S. small cap indexes.

	MINIMUM	NEUTRAL	MAXIMUM
ALTERNATIVES*			●

CURRENT OUTLOOK

	CAP PRES	IWSG	BAL	GWSI	GROWTH
Global Real Estate					
Global Infrastructure					
Gold		●	●	●	
Hedged Equity	●	●	●	●	●
Arbitrage	●	●	●		

We believe an allocation to alternative asset classes and strategies remains appropriate despite expectations for above-trend economic growth in 2021. This is driven by our view that alternatives can be an effective diversification tool, especially in periods of elevated policy uncertainty. Within an alternatives allocation, we believe an allocation to gold should help most client portfolios better navigate the next 12-24 months. This is largely based on our observation of gold's tendency to behave as a safe-haven asset in periods of market stress and the potential for it to benefit from a trend of dollar weakness and negative real (inflation-adjusted) interest rates. 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).

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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