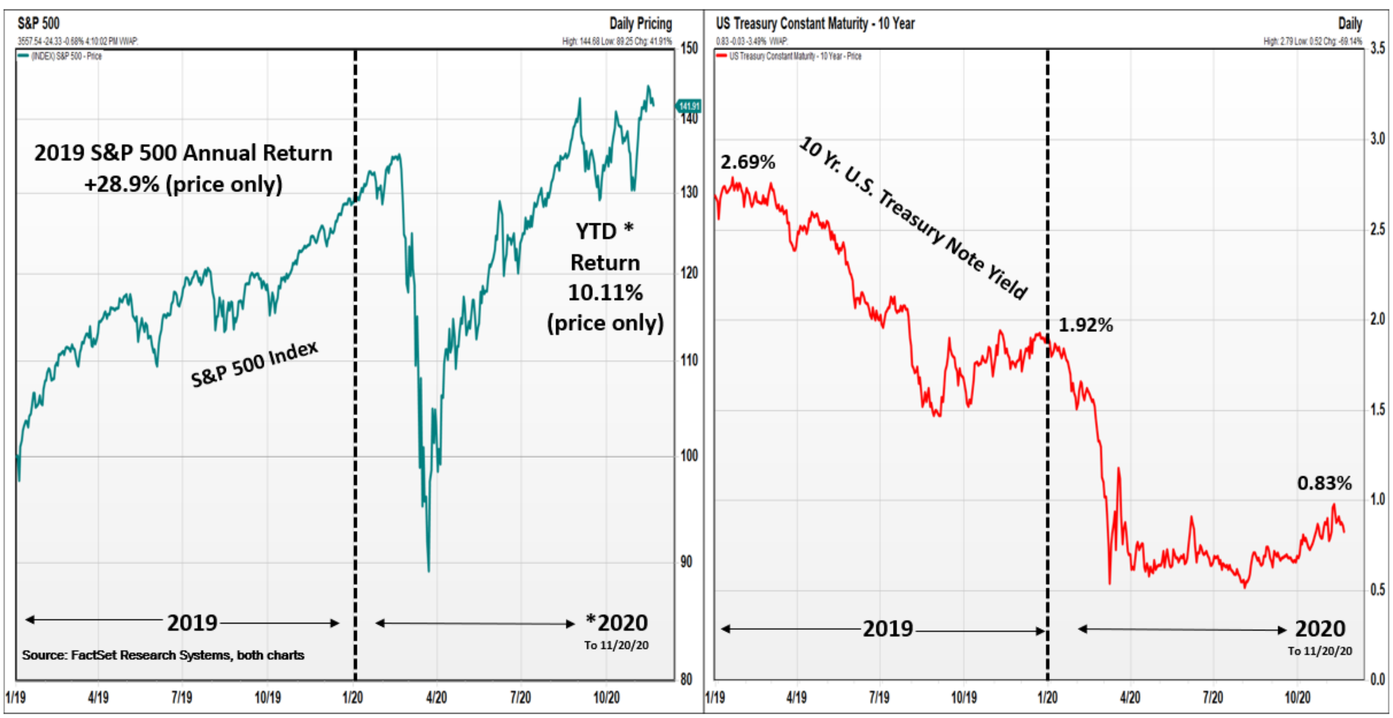
FINANCIAL MARKET UPDATE – November 2020

Still Not Fighting the Fed, The Election Is Over & Fundamentals Remain Positive

2020

It has been a challenging, eventful, and unsettling year to say the least. After a strong start, a deadly virus, that struck without warning, resulted in a lockdown that closed the world's largest economy and changed lives and daily routines. This action resulted in one of the deepest, but shortest recessions in U.S. history. However, a rapid and significant monetary stimulus response resulted in an economic and equity market recovery that has been "rocket like." Most recently, election results brought surprises and divided government, and finally, positive news that a vaccine(s) to mitigate the deadly virus is "just around the corner" brought some relief. Quite a year!

The combination of these events created an immense number of challenges within a relatively short period of time. While the challenges remain, our outlook is constructive based upon improving economic trends and positive medical and scientific achievements. As is often the case, equity markets reflect future expectations and today the equity market is suggesting recovery is underway and that a return to a greater degree of "normal" is within sight.



The initial economic stimulus provided by the CARES Act and the Federal Reserve's commitment to maintaining substantial liquidity in the financial system and low interest rates has strengthened the economic recovery. These factors along with surprisingly good 2nd and 3rd quarter corporate profit reports, the end of a challenging election season, and promising vaccine news from Pfizer and Moderna are the prime forces behind continued positive returns from stock investments. Six months ago, it would have been nearly impossible to find investors who would have suggested November, year-to-date returns from the S&P 500 would be 10.11%.

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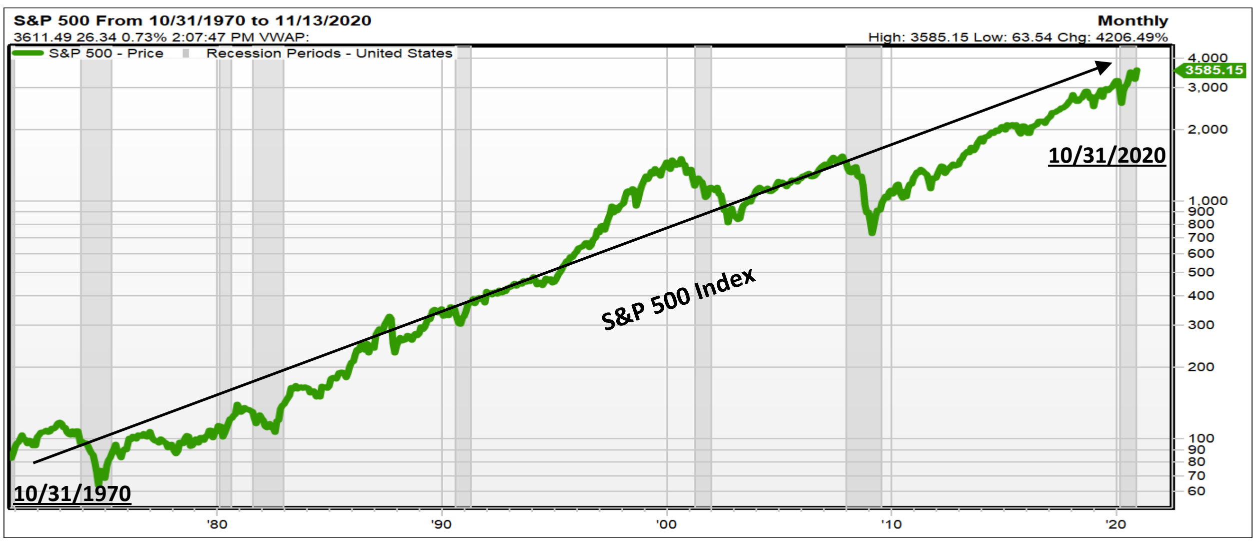
As we have previously noted, while one should never ignore what occurs during tumultuous times it is critical not to over-react to short-term volatility and "headlines." Instead, one should relentlessly evaluate the factors causing the concerns, maintain a commitment to their disciplines, a reasonably long-term horizon and attempt to take advantage of market opportunities.

One should never discount the potential seriousness of any event/circumstance, however, we are fortunate in this country to have the human, financial and technological resources that, when assembled, have been able to overcome substantial challenges.

The fifty-year chart (below) of the changes in the value of the S&P 500 suggest that despite the seriousness of events which occurred during this period e.g., war (Vietnam, Afghanistan, Iraq, Kuwait, etc.), seven recessions (grey bars), changes in political administrations (Democrat, Republican), financial dislocations (1987, 2007/8) to name just a few, those "challenges" were overcome in relatively "short" periods. As a result, the S&P provided a compound annual rate of return of 10.79% during that period.



Looking Forward:

Many economists are now anticipating a stronger recovery than earlier forecasted. The consensus estimate is that 2020 U.S. GDP will decline (vs 2019) by roughly -2.9%[i] versus the consensus of -3.6%[ii] just a month ago. Why? It appears that the job market along with the economy in general continue to improve. While this week's Initial Jobless Claims report spiked somewhat the trend is clearly down[iii], and the total number of people collecting unemployment benefits fell to 6.8 million vs. 7.2 million[iv]. While the decline in unemployment is substantial, the need to reduce the rate further is paramount.

The decline in unemployment claims adds to other signs the economy is growing again after the virus triggered collapse in the spring. Preliminary 3rd quarter U.S. GDP estimates show the economy grew at a record +7.3% (33.1% annualized rate)[v] in the quarter and the recently released ISM (Institute of

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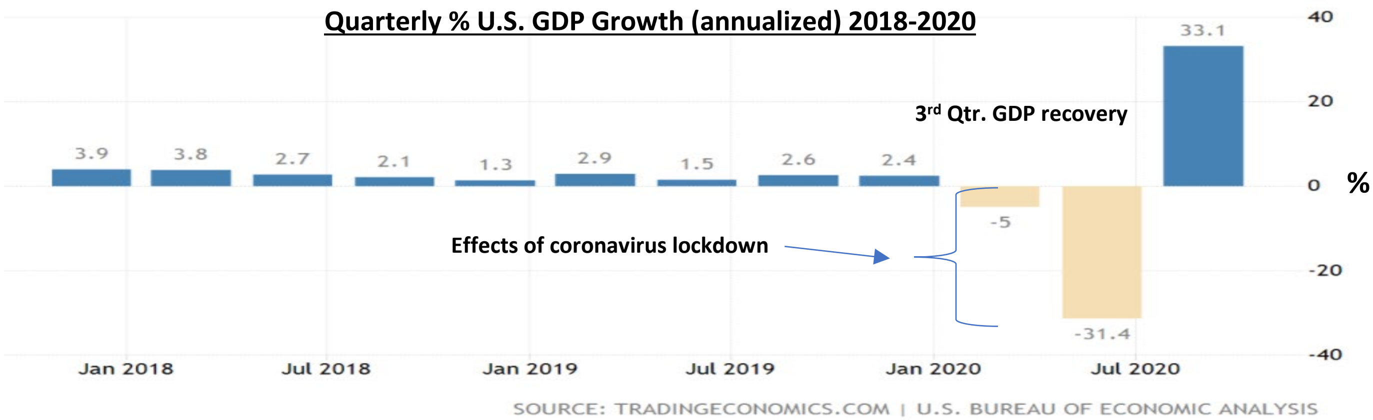
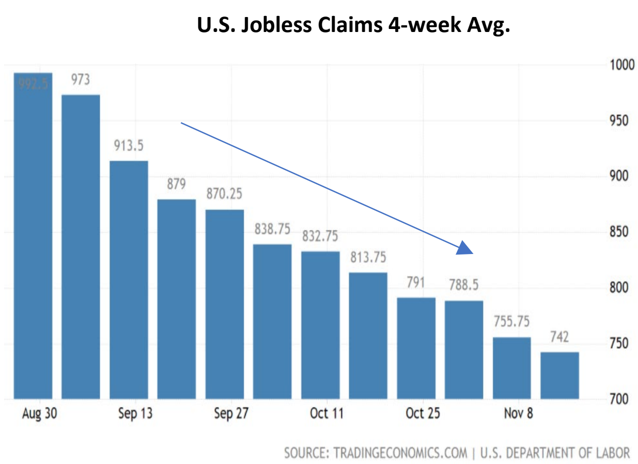
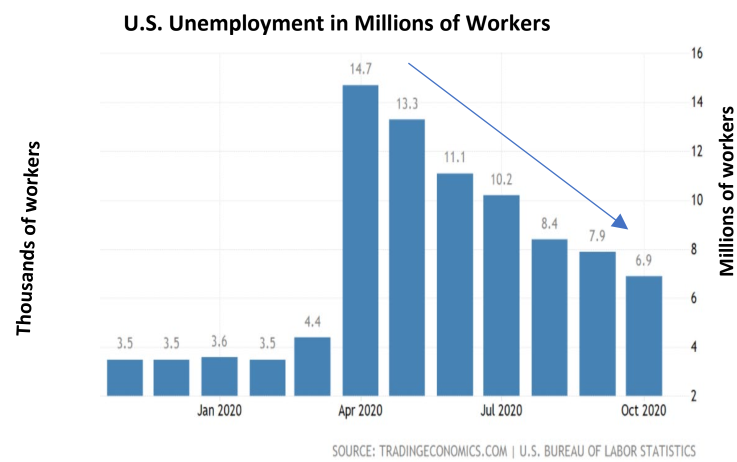
Supply Management) indexes of Manufacturing and Service activity also increased. Inflation (all items) remains in check as well at an annual rate of 1.2%[vi].

A selection of charts below suggests how strongly the U.S. economy is recovering. Though not displayed here, the major developed countries around the globe are also are on the mend because of the coordinated efforts of global central banks.







Source both lower charts: Evercore ISI

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Recent economic trends have been positive and reinforce our optimism, however, we remain quite sensitive to the increased spread of the coronavirus and the impact it may have on the recovery. Below is a summary of the important factors that reinforce our optimism, but which also keep us alert to what may compromise that optimism:

The Positives:

1. Vaccine therapies and science ultimately win (Pfizer, Moderna, others),
2. Corporate revenue and profits reports exceed expectations & tend to moderate valuations.
3. U.S. household net-worth (home values + savings + equity valuations) remains at all-time highs.
4. U.S. housing trends remain strong as a result or low interest rates and demand.
5. Interest rates and inflation at/near historic lows. Federal Reserve policy to remain stimulative.
6. U.S. job growth recovery stronger than anticipated.
7. Equity market recovery emphasizes confidence in continuing economic recovery.

Anxieties:

1. Resurgence in COVID-19 cases resulting in an increase in the number of states/municipalities that mandate more strict closure rules that negatively affect businesses and employment.
2. Any delay in a widely available COVID-19 vaccine.
3. Rate of continuing employee layoffs and no further fiscal stimulus.
4. Unforeseen impact from a delay in small business recovery.
5. Increase in corporate bankruptcies and their potential impact on employment & confidence.
6. Heightened social issues.

As a result of the recent election, there are likely to be some changes in political policy and focus, but we do not anticipate dramatic change. In general, the election results were a positive with respect to the financial markets because there was not a sweeping change in the makeup of the body politic in Washington. A more balanced House/Senate environment leads to “gridlock” which reduces the possibility of major legislative changes. A positive for the equity markets.

Because of our continuing analysis and input from our research partners, we remain confident in the direction of the economy and the financial markets. However, with equity markets near all-time highs, an uptick in positive virus cases and, the possibility of increased business shutdowns, market volatility will persist and could increase.

As always, we greatly appreciate your confidence in our management capabilities, and we highly value our relationship with you. Meeting your expectations is the only reason for our business. Please do not hesitate to share with us any comments, suggestions or critique’. We look forward to a “more normal” 2021 and the opportunity to meet with you again soon and under much more customary conditions.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

Diversification and asset allocation do not protect against market risk. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

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[i] The Wall Street Journal 11/13/2020

[ii] The Wall Street Journal 11/13/2020

[iii] U.S. Department of Labor, New Release 11/13/2020

[iv] U.S. Bureau of Labor Statistics, 11/13/2020

[v] U.S. Bureau of Economic Analysis, 10/31/2020

[vi] U.S. Bureau of Labor Statistics, 11/11/2020