

ECONOMIC & FINANCIAL MARKET UPDATE

(12/31/2020)

Looking Back, An Extraordinary Year – Looking Ahead, With Confidence

First Things First

Thank you very much for your continued confidence in our investment management capabilities and for the important relationship we work diligently to preserve. While we have expressed our thanks many times, after 2020, we can't emphasize our gratitude enough!

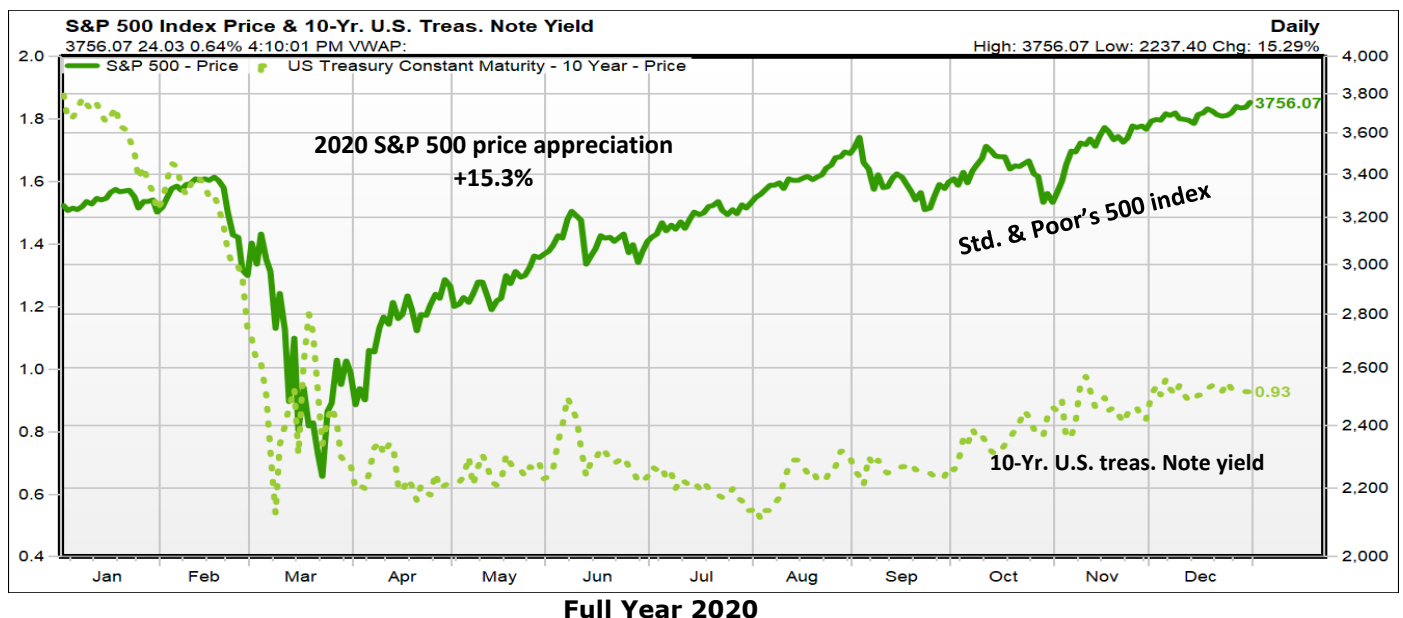
A Brief Reflection:

Twenty-twenty defies description, and few words can capture the entirety of what occurred. With the stock market (S&P 500) at historic highs it is easy to forget just how much concern and uncertainty existed across the globe just nine months ago. The coronavirus was spreading rapidly, stock markets were falling precipitously, domestic and global economies were being "locked-down," plexiglass was going up, paper products and hand-sanitizers became valuable commodities and face masks de regur. To a great degree people were forced to swap the physical e.g., stores, airplanes, and offices for the digital e.g., the internet and Zoom.

With the health of citizens and the economy foremost in mind, two important national programs were initiated. Operation Warp Speed was begun to accelerate the development, manufacture, and distribution of a COVID-19 vaccine(s), and The Cares Act, a \$ 2.2 trillion economic stimulus bill, to respond to the economic crisis caused by the pandemic. A great deal was accomplished in a very short period.

There is still much to be accomplished, but the impact of these programs has gone a long way toward improving the outlook for the economy and the health of people in the U.S. and across the globe. The continued strength in the equity markets reflects investors' belief that a successful vaccine(s) is what will fuel global economic recovery in 2021.

A PICTURE OF RECOVERY & EXPECTATIONS



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In hindsight, it is always easy to be on the right-side of a decision. However, as we have discussed previously, and as the stock market clearly demonstrated in 2020, it is difficult to make meaningful decisions based upon unanticipated shocks to the system. Many investors were frightened out of the stock market during the spring. Keeping one's "hand on the tiller", focusing on the longer-term, and having confidence in the resources and resourcefulness of American institutions like The Federal Reserve, and medical community, proved the correct strategy.

Looking Forward:

With respect to the U.S. economy, the rebound remains uneven due to the recent increase in COVID-19 cases and hospitalizations and, there is likely to be a bit more "pain". However, the rebound which began in the third quarter of the year, with GDP increasing +7.4%ⁱ (+33.4% annualized), is likely to continue into 2021 with increasing strength in the second half of the year. Growth will be helped meaningfully by wide-spread inoculation against the coronavirus, a second round of economic stimulus, and by an accommodative Federal Reserve and other global central banks.

As the economy strengthens so will employment, business/consumer confidence, manufacturing, retail sales, corporate profits, etc. These factors and the expectations that their trends will continue have sown the seeds for the stock market rebound and kept valuations raised.

As a reference point, Barron's magazine recently published a summary of economic/financial market outlooksⁱⁱ for ten of Wall Street's prominent strategists. All the strategists anticipate that U.S. GDP growth (economic expansion) will be positive, that corporate (S&P 500) earnings will rebound significantly, that interest rates will remain low and that the S&P 500 will again provide investors with positive returns. While averages can sometimes be misleading, the averages for those four categories, for the year-ending 2021, are displayed below:

2021 Barron's Financial Market Strategists Poll (simple) Average			
Yr. End 2021 U.S.GDP Growth	Yr. End 2021 S&P 500 EPS	Yr. End 2021 10-Yr, U.S. Tres. Note Yld.	Yr. End 2021 S&P 500 Price Only Return
4.60%	\$172/Share	1.33%	+9.1%

It should be a good deal easier for economists to get their arms around important data and trends this year versus 2020, since last year's major event was likely a once-in-a-century one.

We share the positive expectations for a rebound in the economy and the resultant increases in employment, income, corporate earnings, etc. that should come with expansion. We will closely monitor the factors that provide evidence of that growth. However, as a matter of policy, we do not project specific year-end market price targets. When one considers that in nine of the past ten years the S&P 500 has achieved positive total returns (price change + dividends)ⁱⁱⁱ and a compound **annual** rate of return of +13.7%^{iv}, a mid-to-high single digit return in 2021 will be well received.

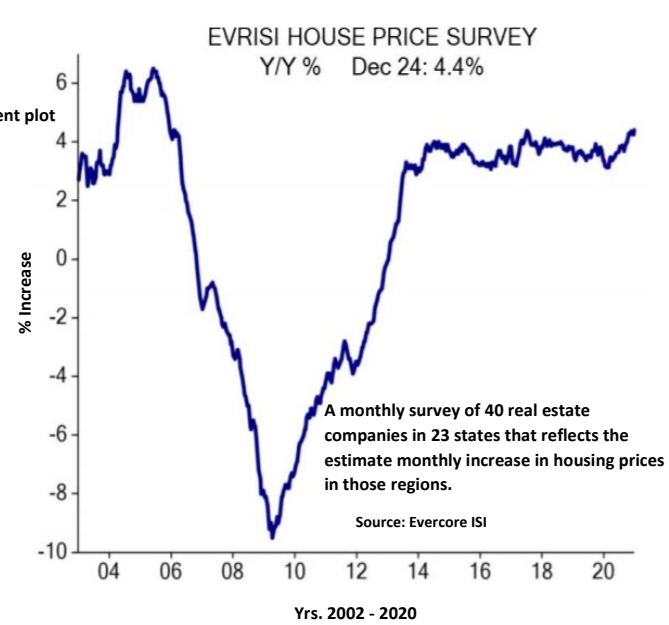
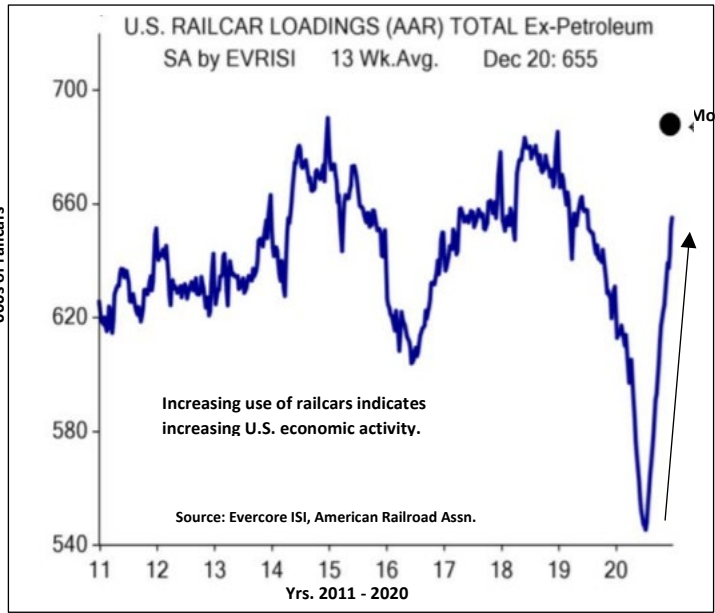
From a valuation standpoint, the stock market (S&P 500) is clearly elevated after the strong upward movement since late October with two months (Nov. & Dec.) totaling a 14%^v return. As a result,

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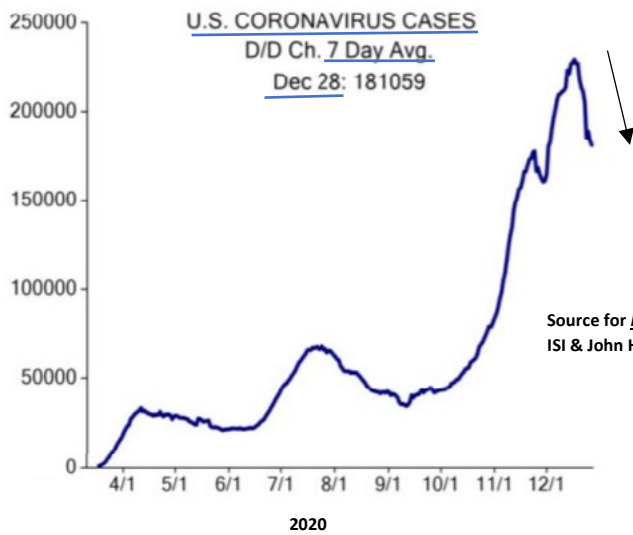
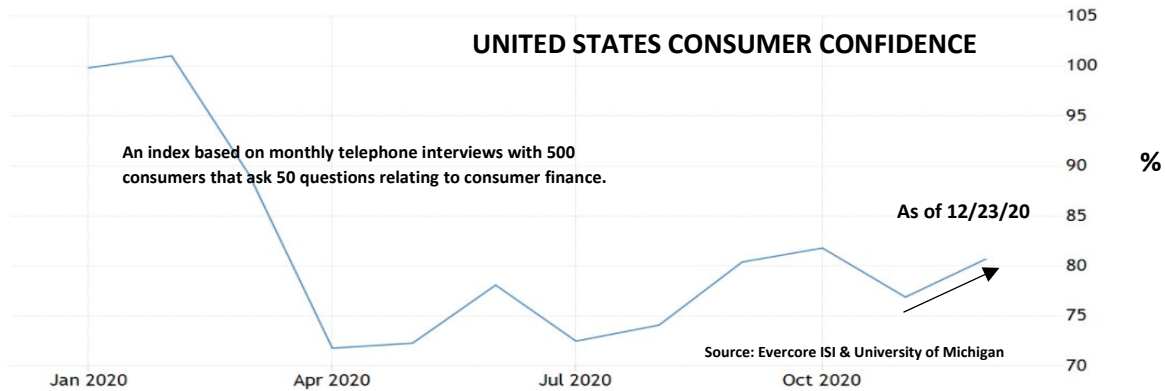
the market may likely be subject to some profit taking particularly if the U.S. continues to experience high levels of COVID-19 cases and hospitalizations. On multiple occasions during the fall's strong upward movement, we took investment action to modestly reduce common stock exposure, to increase fixed-income, and "cash" reserves, and to moderate volatility. Our outlook for positive equity market returns remains in place, but the recent strong momentum provided openings for opportunistic action.

Evidence of improvement in recent economic trends and, in-part, the rationale for our positive outlook is displayed below in several charts.



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We, like everyone else, are happy to move forward to 2021. 2020 was very challenging for many people from both a health and economic standpoint, but a surprisingly rewarding one for investors. COVID-19 certainly changed the way people live, work, and socialize. Some of those changes may eventually return to “normal”, but others may not.

As previously mentioned, the stock markets and investor sentiment are clearly anticipating an improving economic and health environment; and we agree. Our own analysis and input from our research partners (see charts above), reinforce our confidence in the direction of the economy and the financial markets. However, current stock valuations, the impact of the large number of COVID-19 cases on the recovery and, the as-yet to be decided Senatorial elections^{vi} in Georgia, dictate a cautious approach. While a certain amount of market volatility, and inter-year market corrections are always anticipated, when valuations and uncertainty are elevated, the likelihood of short-term volatility (and perhaps opportunity) is even greater.

We appreciate your confidence and value highly our relationship. As we have said several times this past year, we look forward to meeting with you personally again as soon as possible and under much more customary conditions. In the meantime, please do not hesitate to share with us any comments, suggestions, of critique. We hope that 2021 is the best year ever for you and your families.

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

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ⁱ U.S. Bureau of Economic Analysis, news release 12/22/2020

ⁱⁱ Barron's Magazine, 12/21/2020

ⁱⁱⁱ New York University Sloan School of Business, *Stocks, Bonds, and Bills*

^{iv} Orion ????? 1/4/2021

^v FactSet Research Systems, 1/2/2021

^{vi} Georgia Secretary of State, 1/5/2021