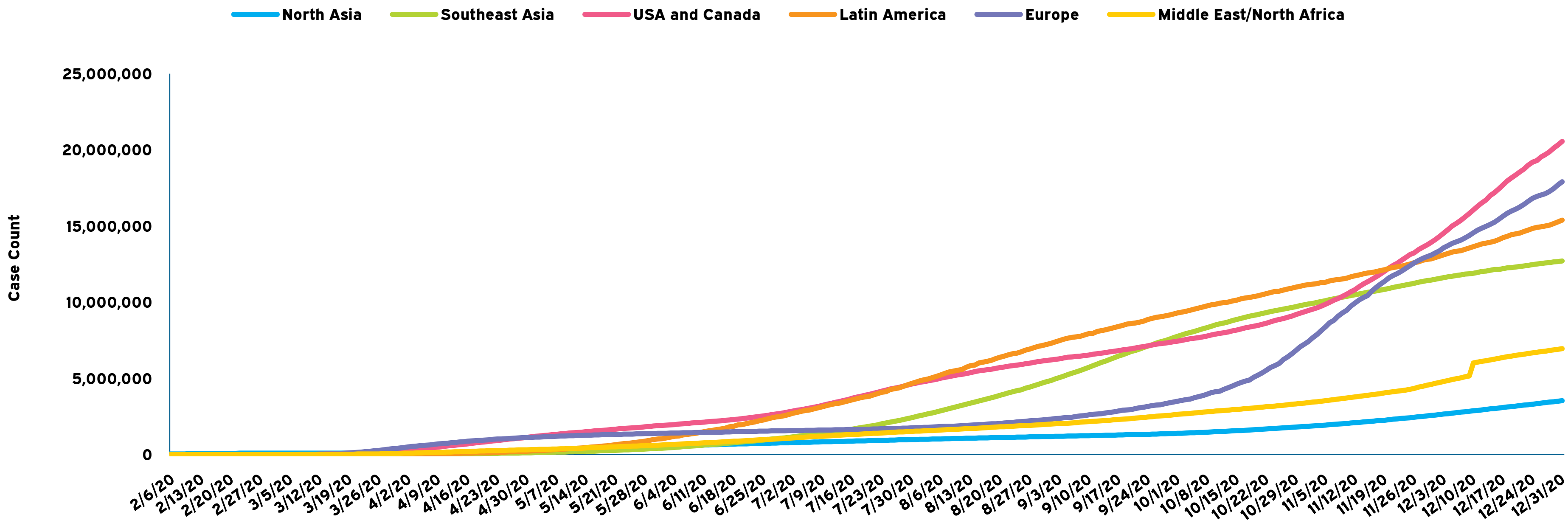
Economic and Market Update

Data as of December 31, 2020

Case Count by Select Region[1,2]



- Cases of COVID-19 continue to grow globally, with over 95 million reported cases across 191 countries.
- The US still has the highest number of infections, with Europe collectively following given the recent spike in cases there. India and Brazil also continue to struggle with the virus.

[1] Source: Bloomberg. Data is as of December 31, 2020.

[2] North Asia: China, Hong Kong, Japan, Russia, South Korea, and Taiwan. Southeast Asia: Singapore, India, Indonesia, Malaysia, Pakistan, Philippines, Thailand, Bangladesh, Sri Lanka, and Vietnam. Europe: Austria, Belarus, Bulgaria, Croatia, Czech Republic, Denmark, France, Germany, Hungary, Italy, Netherlands, Norway, Poland, Romania, Spain, Sweden, United Kingdom, Switzerland, and Ukraine. Latin America: Chile, Brazil, Mexico, Argentina, Colombia, Peru, Venezuela, Ecuador, Panama, Paraguay, Costa Rica, Bolivia, Uruguay, El Salvador, Honduras, Cuba, Dominican Republic, Haiti, and Nicaragua. Middle East/North Africa: Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Turkey, Tunisia, United Arab Emirates, and Yemen.

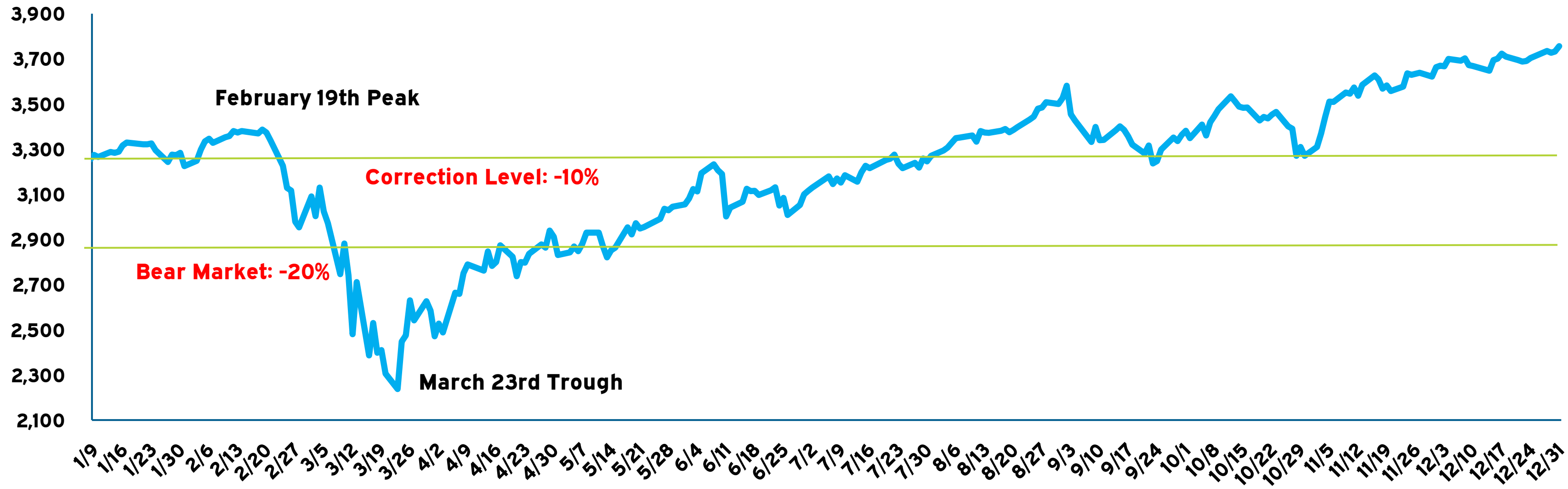
Market Returns[1]

Indices	December	1 Year	3 Year	5 Year	10 Year
S&P 500	3.8%	18.4%	14.1%	15.2%	13.9%
MSCI EAFE	4.7%	7.8%	4.3%	7.4%	5.5%
MSCI Emerging Markets	7.4%	18.3%	6.2%	12.8%	3.6%
MSCI China	2.8%	29.5%	9.1%	15.1%	7.6%
Bloomberg Barclays Aggregate	0.1%	7.5%	5.3%	4.4%	3.8%
Bloomberg Barclays TIPS	1.2%	11.0%	5.9%	5.1%	3.8%
Bloomberg Barclays High Yield	1.9%	7.1%	6.2%	8.6%	6.8%
10-year US Treasury	-0.6%	10.6%	6.6%	4.1%	4.4%
30-year US Treasury	-1.5%	18.7%	10.9%	7.8%	8.3%

- In December, equities, particularly emerging markets, continued to do well given progress on a US fiscal package, the passing of the US presidential election, and positive developments regarding a COVID-19 vaccine. The yield curve steepened, weighing on Treasury prices.
- For the year, global risk assets recovered meaningfully from their declines to finish in strong positive territory, largely driven by record fiscal and monetary policy stimulus and much more certainty related to the containment of the virus.
- US equities and longer-dated Treasuries performed particularly well in 2020 given policy support. Equities in China likewise performed well as China contained the virus and consequently started the reopening of their economy earlier than others. European and Japanese equity markets lagged behind the US and emerging markets.

[1] Source: InvestorForce and Bloomberg. Data is as of December 31, 2020.

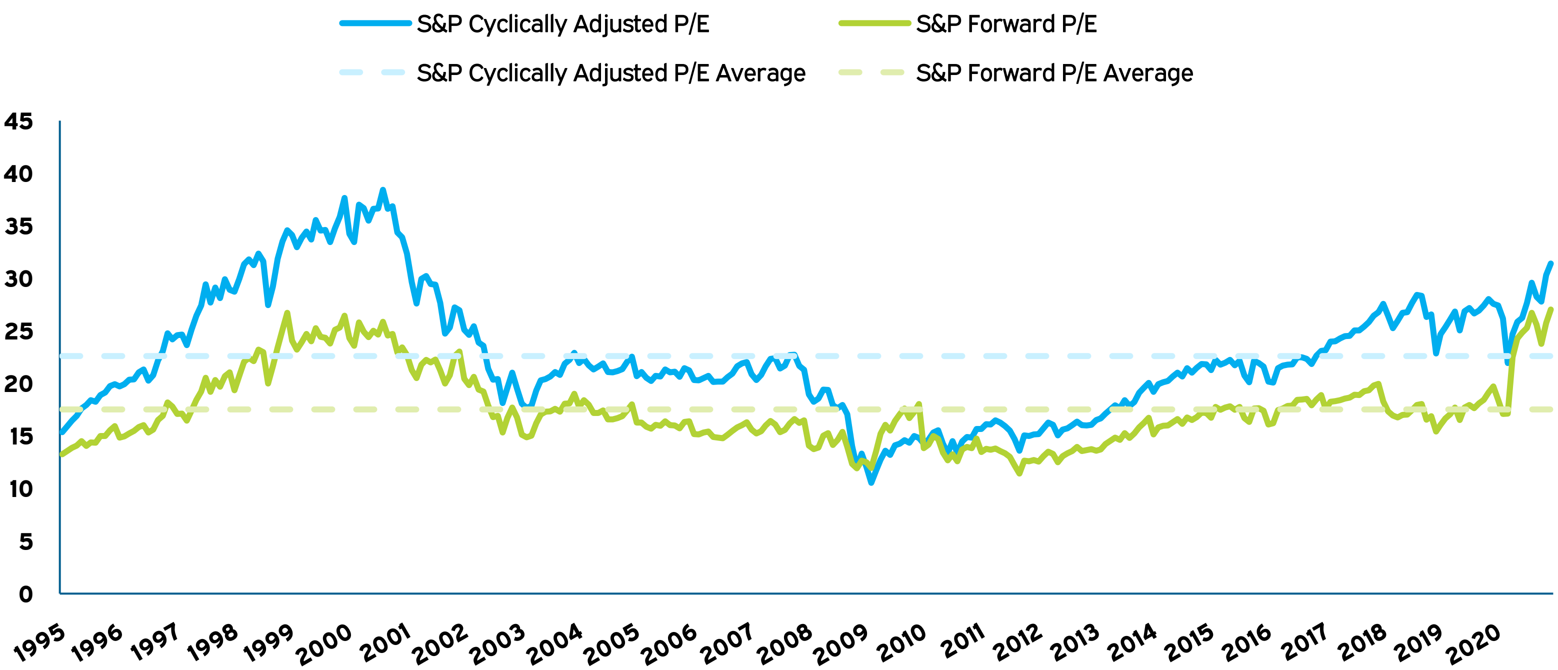
S&P 500 Surpasses Prior Peak[1]



- Given the anticipated economic disruption surrounding the pandemic, US stocks declined from a February peak into bear market (-20%) territory at the fastest pace in history.
- From the February 19 peak, the S&P 500 plunged 34% in just 24 trading days.
- After quickly rebounding from its lows and finishing above pre-COVID levels by August, the market appreciated 3.8% in December, bringing its year-to-date gain to 18.4%.
- A key risk going forward remains that a spike in COVID-19 cases could slow, or reverse, reopening plans. The distribution process of the vaccine and people's willingness to take it will be important as well.

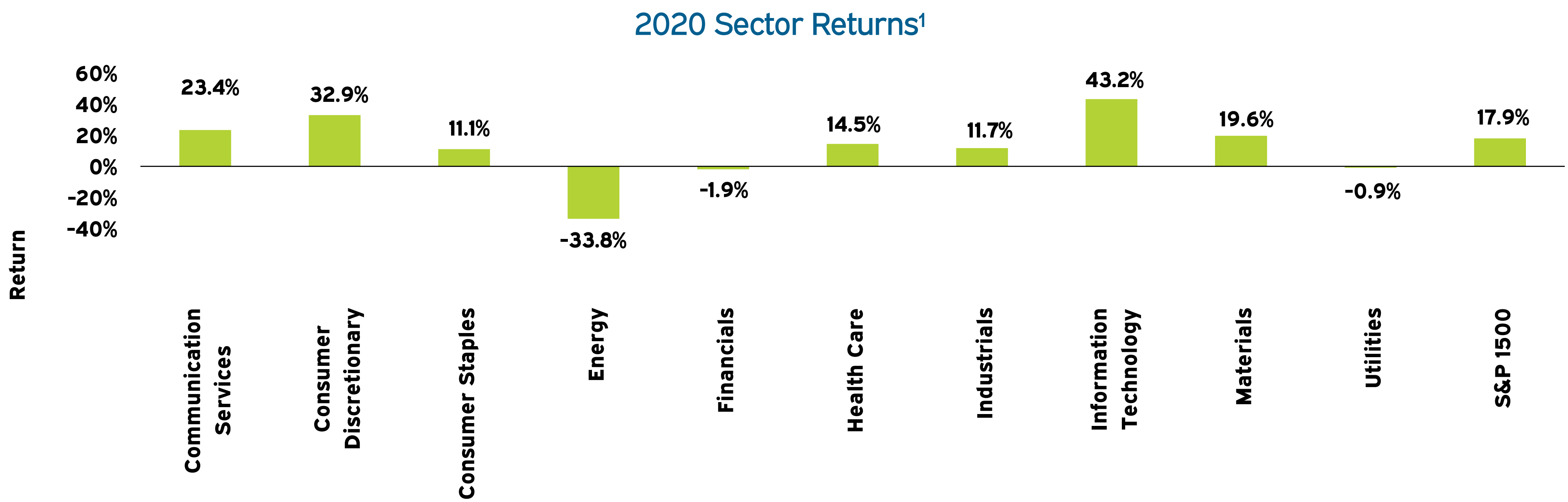
[1] Source: Bloomberg. Data is as of December 31, 2020.

S&P Equity Valuations[1]



- With positive developments regarding COVID vaccines, valuations based on both forward- and backward-looking earnings rose to levels not seen since 2001.
- Many are looking to expected improvements in earnings growth, as the US economy continues to reopen, to justify market levels, with historically low interest rates also providing support.

[1] Source: Bloomberg. Data is as of December 31, 2020.

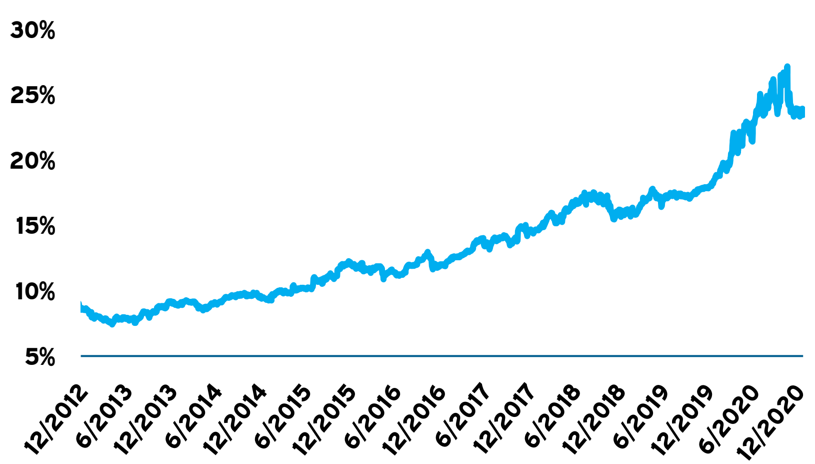


- With the recent development of mutiple vaccines, there have been signs of a rotation into more cyclical stocks, but stay-at-home focused areas performed best in 2020.
- Information technology was the best performing sector, with a narrow group of companies including Amazon and Netflix driving market gains. The outperformance was due to consumers moving to online purchases and streaming services.
- The consumer discretionary sector also experienced gains as the economy reopened, people returned to work, and stimulus checks were spent.
- Energy was the sector with the greatest 2020 decline, triggered by the plunge in oil prices. Financials also struggled in this slow growth environment with demand for loans down and low interest rates weighing on loan revenue.

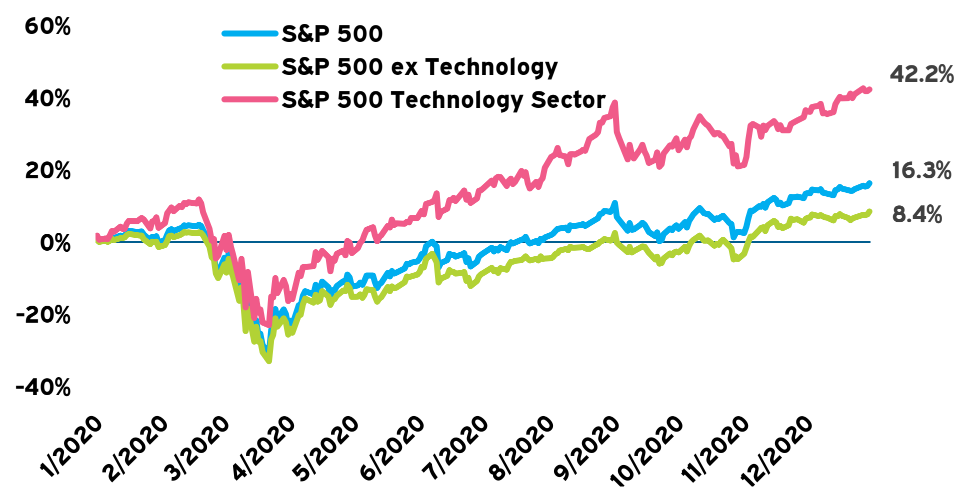
[1] Source: Bloomberg. Data is as of December 31, 2020.

Technology has led the way in the Rebound

FAANG+M Share of S&P 500[1]



Returns Year to Date through December 31[2]



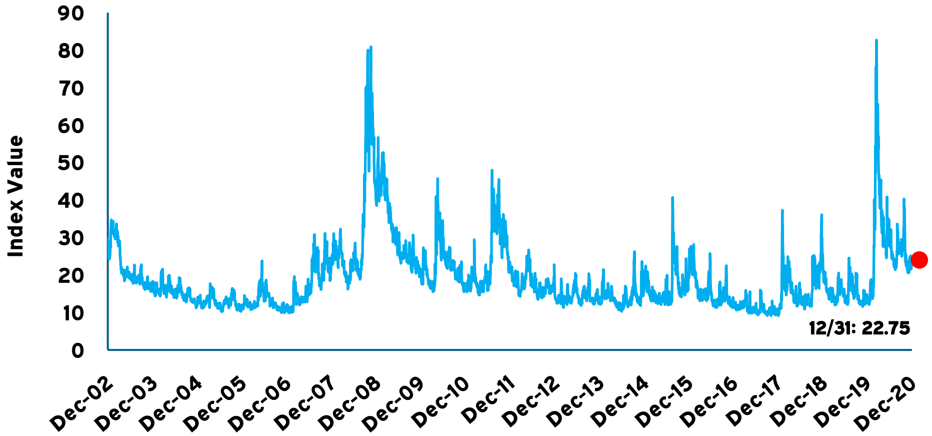
- The market recovery was largely been driven by a few technology companies that benefited from the stay-at-home environment related to the virus.
- In 2020, the S&P 500 technology sector returned +42.2%, compared to +8.4% for the S&P 500 ex-technology index, with Amazon (+76%), Netflix (+67%), and Apple (+81%) posting especially strong results.
- The outsized relative returns of these companies caused them to comprise an increasingly large portion (23%) of the S&P 500, though this trend reversed in the finals months of 2020.

[1] FAANG+M = Facebook, Amazon, Apple, Netflix, Google (Alphabet), and Microsoft. The percentage represents the aggregate market capitalization of the 6 companies compared to the total market capitalization of the S&P 500 as of December 31, 2020.

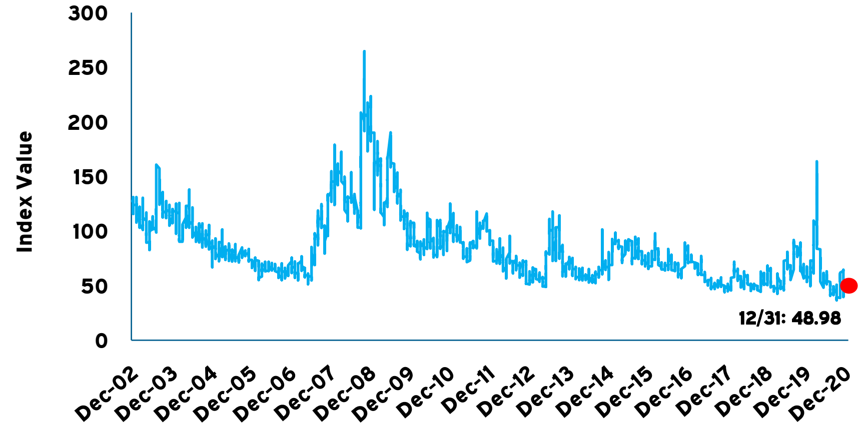
[2] Each data point represents the price change relative to the 12/31/2019 starting value.

Volatility has Declined

VIX Index[1]



MOVE Index[2]



- Expectations of short-term equity volatility, as measured by the VIX index, finished the year much lower than the record levels experienced in March.
- At the March peak, the VIX reached 82.7, surpassing the pinnacle of volatility during the GFC, thus showing the magnitude of the crisis and of investor fear.
- Expectations of volatility within fixed income, as represented by the MOVE index, also spiked earlier in 2020, then dropped to historic lows, helped by the broad level of monetary support and forward guidance by the Fed. Volatility expectations in fixed income increased slightly in December, with the uncertainty around the Georgia Senate race looming in early January.

[1] Source: Chicago Board of Exchange. Data is as of December 31, 2020.

[2] Source: Bloomberg. Data is as of December 31, 2020.

Key Elements of the Next Round of US Fiscal Stimulus

	Joint Proposal
Status	Final (voted on by house, senate and signed by President)
Direct Payments	Up to $600 for individuals or $1,200 for married couples and up to $600 for each qualifying child.
Enhanced Unemployment	$300 per week until mid-March
Vaccines, testing and tracing	$69 billion
School aid	$82 billion
Transportation	$45 billion
Food / Agriculture aid	$26 billion
Rental Assistance	$25 billion Extends the eviction moratorium now in effect until Jan. 31.
State and Local Aid/Liability Protections	Excluded
Small Business Relief	$325 billion ($284 billion in paycheck protection)
Total	$900 billion

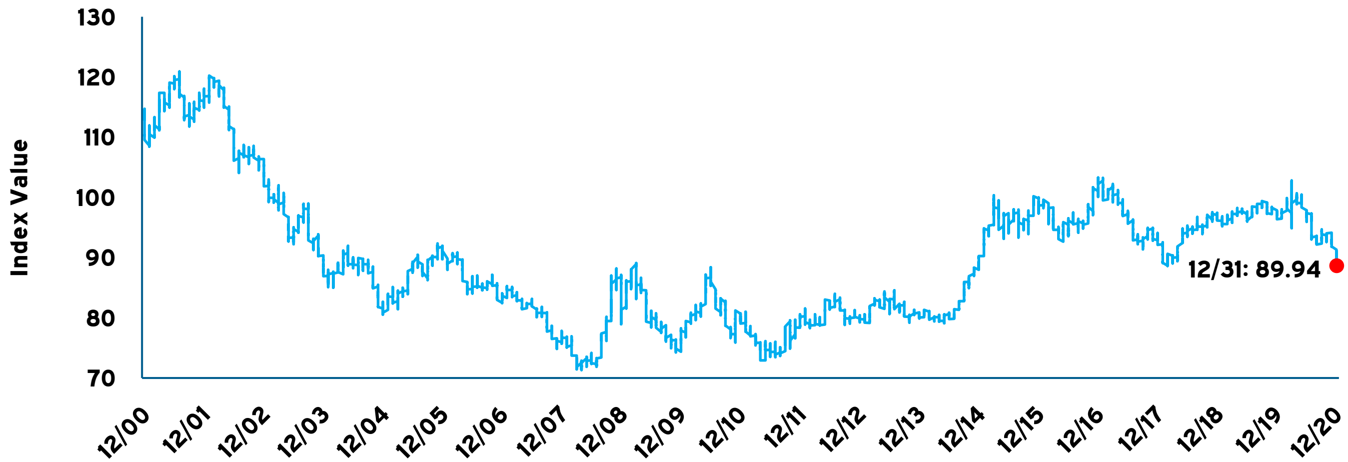
- Another round of fiscal stimulus totaling ~$900 billion, representing the second largest package in history, was finalized in late December.
- It includes direct payments to individuals, enhanced unemployment benefits, small business support, and a variety of other allocations.
- The relief was much needed for the many who lost their jobs and for businesses, particularly services like restaurants, trying to survive.
- A further $1.9 trillion in stimulus has been outlined by the incoming Biden Administration. The package includes additional direct payments, enhanced unemployment benefits, a $15 dollar minimum wage, extending further the eviction moratorium, and state and local aid.

Election Results Lead to a Narrowly Democratic Majority

	Result	Change from Previous	Potential Implications
Presidency	• Democratic victory.	• Donald Trump, Republican, left office January 20th.	• Day one executive actions announced to set new 12 person COVID-19 task force, rejoin the WHO, repeal Muslim travel ban, reinstate DACA program, and rejoin Paris climate accord. • Biden listed other priorities on the campaign trail that include addressing systemic racism, climate change, and expanding protections for union employees. • Additional plans include bills for infrastructure, trade, foreign policy, and tax increases, that all seem more likely given the results of the recent senate elections in Georgia.
Senate	• 50 seats for the Democrats. • 50 seats for the Republicans.	• Democrats picked up 4 seats. • Democrats won an unlikely, double run off in Georgia and obtained an effective majority with Vice President Harris casting the tiebreaking vote.	• Biden's agenda is particularly impacted by a united Senate and Congress in a few key areas, namely the next round of fiscal stimulus (greater amount), cabinet appointments (more liberal), tax reform (more rollbacks of Trump cuts), and infrastructure spending (more green, higher in amount).
House	• Democratic majority maintained. • As of January 13th 222 seats for Democrats, 211 seats for Republicans, and 2 undecided.	• Heading into the November 3, 2020, election, Democrats held a 232-197 advantage in the US House. Libertarians held one seat, and five seats were vacant.	• While the Democrats maintained their majority and therefore control of the agenda, Republicans gained ground, setting up a battle for the midterms in 2022. • Nancy Pelosi remains Speaker of the House.

- After much turmoil, including a storming of the US Capitol, Joe Biden was confirmed by Congress as the winner of the presidential election.
- Two run-off elections in Georgia took place in January, with Democrats winning both seats and taking a narrow Senate majority (Vice President Kamala Harris will cast the deciding vote).
- The Democratic majority sets the stage for a decidedly more liberal agenda with a higher likelihood of a large fiscal stimulus package in the coming months.

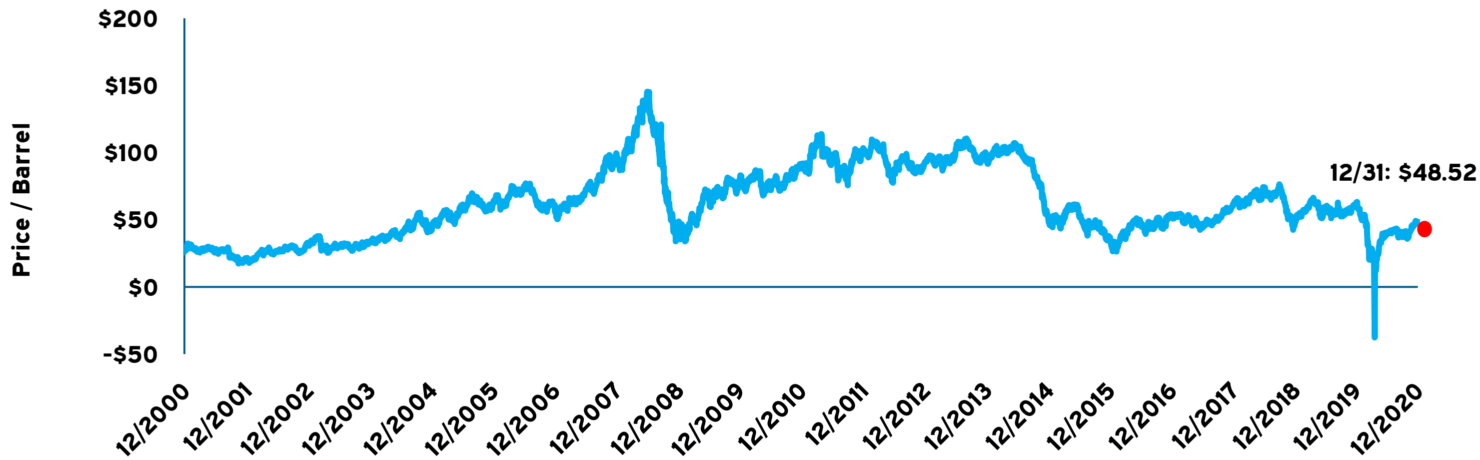
US Dollar versus Broad Currencies[1]



- As the crisis grew into a pandemic, investors' preferences shifted to holding US dollars and highly liquid, short-term securities like US Treasury bills.
- Recently we have seen some weakness in the dollar as the US struggles with containing the virus and investors seek higher growth non-US assets, particularly in emerging markets. This has created pressures on already stressed export-focused countries.
- Going forward, the dollar's safe haven quality and the relatively higher rates in the US could provide support.

[1] Source: Bloomberg. Represents the DXY Index. Data is as of December 31, 2020.

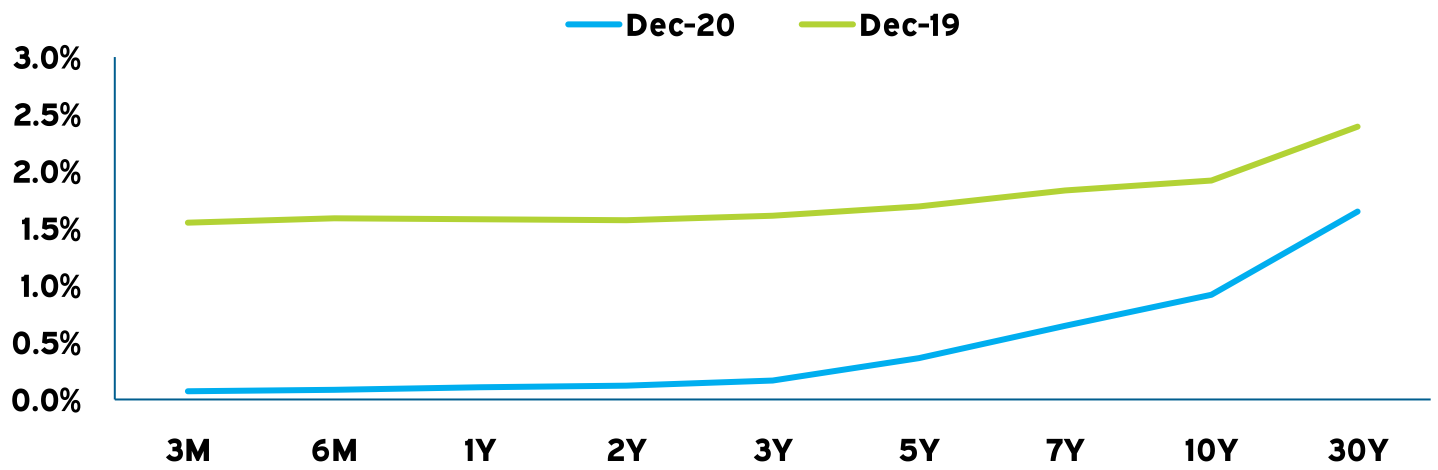
Oil Prices (WTI)[1]



- While global oil prices rallied from April lows, they remain below their pre-pandemic level.
- In a surprise early January announcement, Saudi Arabia agreed to cut oil production by 1 million barrels/day in February and March. Other OPEC+ countries will continue production at current levels, with the exception of Russia and Kazakhstan, which will slightly increase output.
- Looking forward, global economies slowly reopening in 2021, a weaker US dollar, and production cuts should be supportive for prices. However, oil could experience renewed downward pressure in the short-term, with the increasing virus spread potentially weighing on demand.

[1] Source: Bloomberg. Represents WTI first available futures contract. Data is as of December 31, 2020.

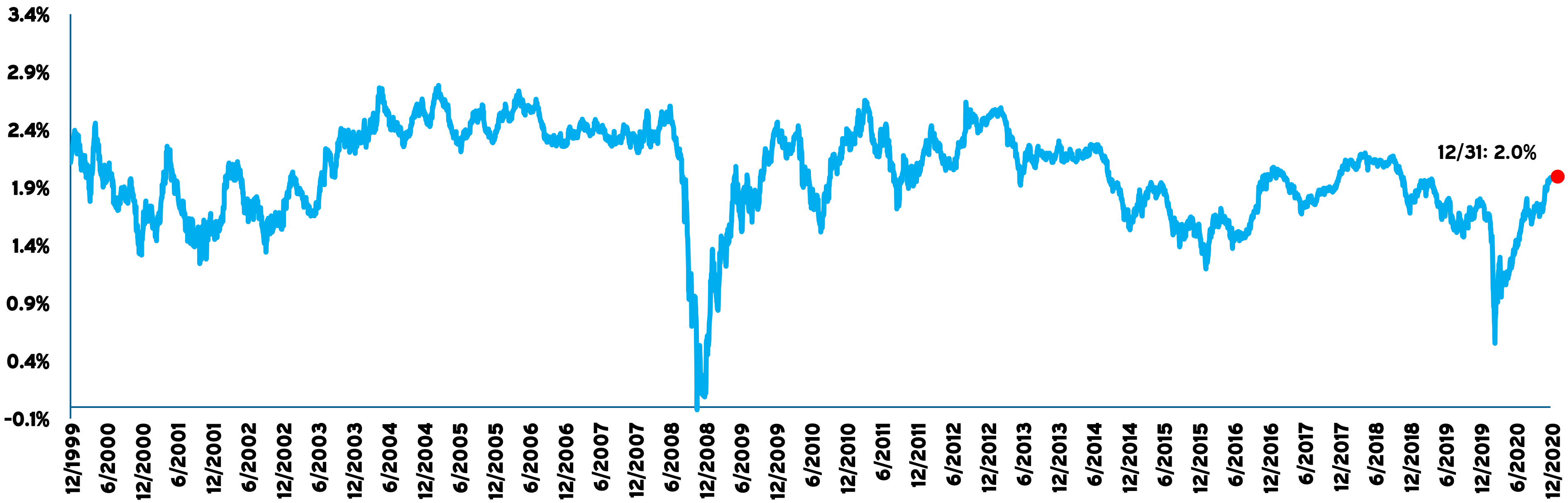
US Yield Curve Declines[1]



- The US Treasury yield curve declined materially during 2020, driven by safe-haven demand, Federal Reserve polices (policy rate cuts and the quantitative easing program), and weak US economic fundamentals.
- Over the last few months, the curve steepened on gradual signs of economic improvement, vaccine developments, and expectations for longer-dated Treasury issuance to support additional fiscal stimulus in the coming months.
- Higher yields relative to other countries and the Fed potentially extending the duration of their purchases could counterbalance steepening trends.

[1] Source: Bloomberg. Data is as of December 31, 2020.

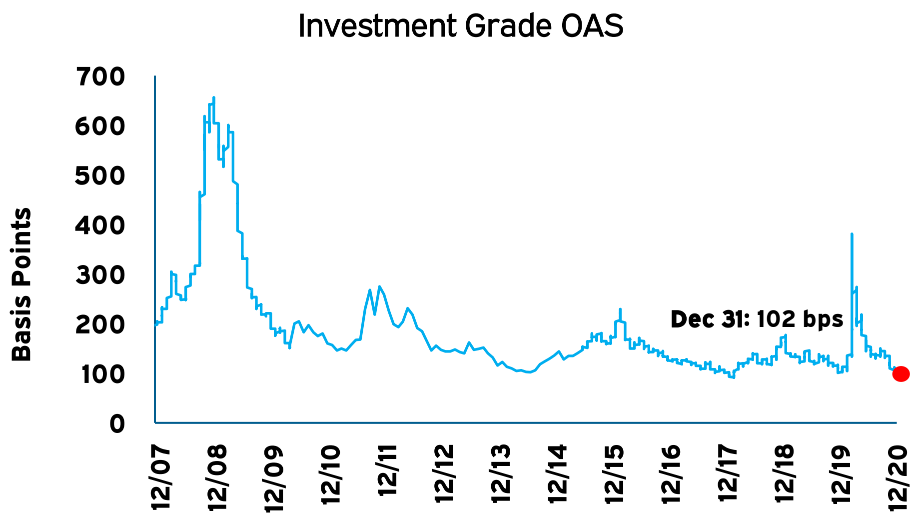
10-Year Breakeven Inflation[1]

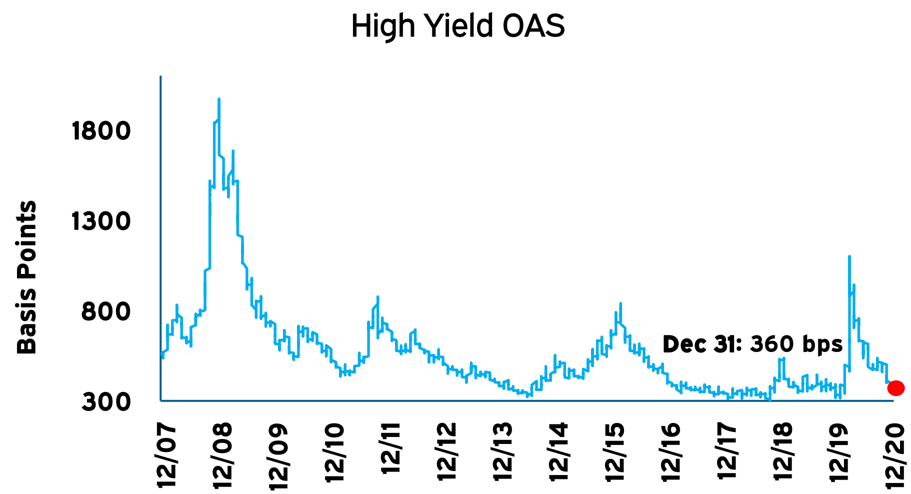


- Inflation breakeven rates initially declined sharply, due to a combination of lower growth and inflation expectations, as well as liquidity dynamics in TIPS during the height of market volatility.
- Liquidity eventually improved and breakeven rates increased as deflationary concerns moderated. Recently, inflation expectations continued to increase given the vaccine announcements.
- Looking forward, the track of economic growth and the inflationary effects of the unprecedented US fiscal response will be key issues.

[1] Source: Bloomberg. Data is as of December 31, 2020.

Credit Spreads (High Yield & Investment Grade)[1]

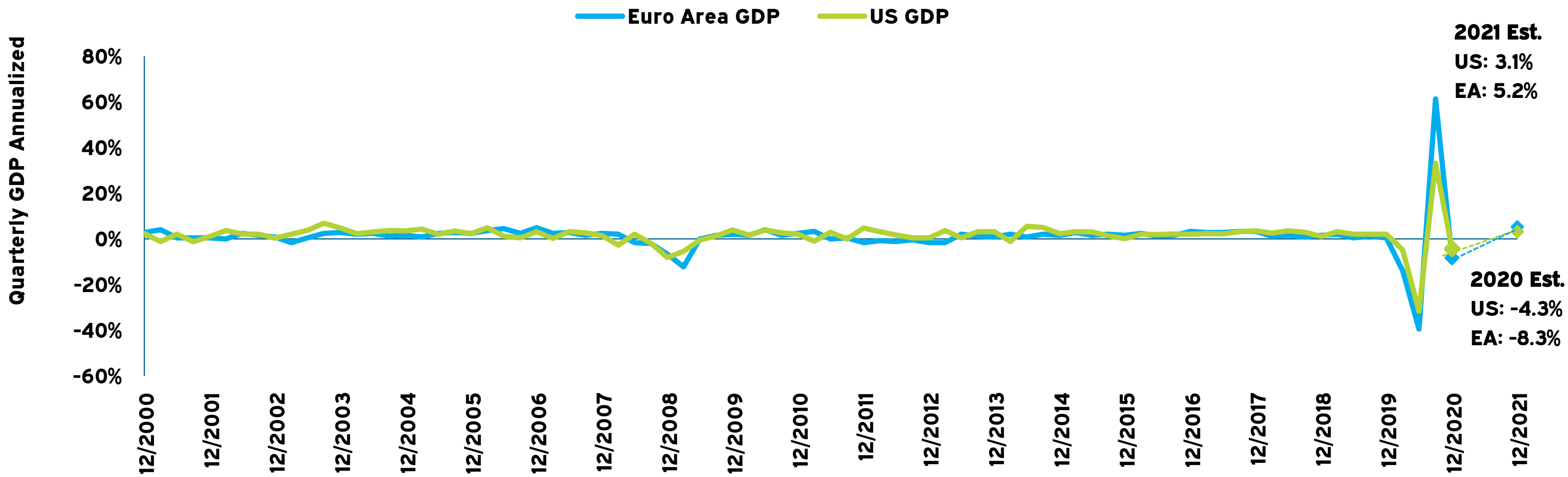




- Credit spreads (the spread above a comparable Treasury) for investment grade and high yield corporate debt widened sharply at the start of the pandemic as investors sought safety.
- Investment grade bonds held up better than high yield bonds. The Federal Reserve's corporate debt purchase program for investment grade and certain high yield securities recently downgraded from investment grade, was well received by investors. The policy support and the search for yield in the low rate environment led to a decline in spreads to below long-term averages.
- Overall, corporate debt issuance has more than doubled since 2008, which magnifies the impact of deterioration in the corporate debt market. This is particularly true in the energy sector, which represents over 10% of the high yield bond market.

[1] Source: Federal Reserve Bank of St. Louis Economic Research. Data is as of December 31, 2020.

GDP Data Shows Impact of the Pandemic[1]

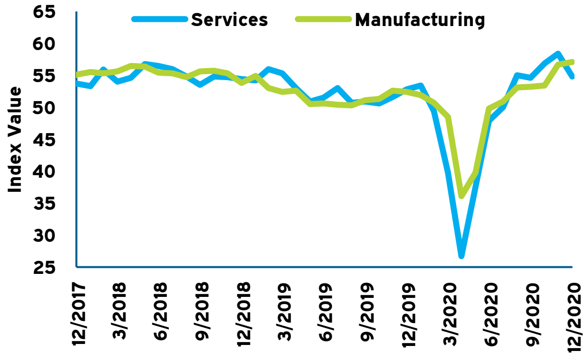


- The global economy faced major recessionary pressures this year, but optimism remains for improvements in 2021, as economies are expected to gradually reopen despite the recent spike in virus cases.
- Historic declines in growth in the US and Europe during the second quarter were followed by record increases in the third quarter, due to pent up demand from the lockdown measures earlier in the year.
- Recently, GDPNow from the Atlanta Fed estimated that fourth quarter US GDP growth could be 7.4% (QoQ annualized), down from original estimates. Full year US GDP growth is forecasted to decline by 4.3% by the IMF.

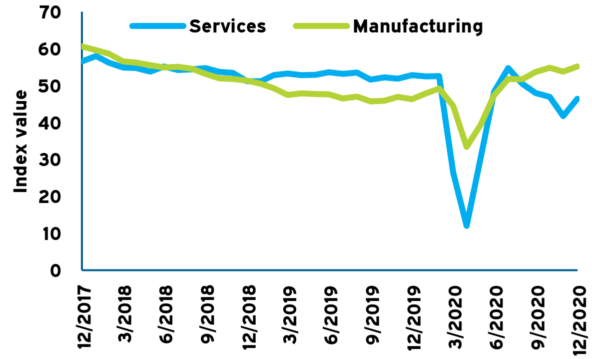
[1] Source: Bloomberg, Atlanta FED and IMF. Q3 2020 data represents the second estimate of GDP for the Euro Area and United States. Euro Area figures annualized by Meketa. Projections via October 2020 IMF World Economic Outlook and represent annual numbers.

Global PMIs

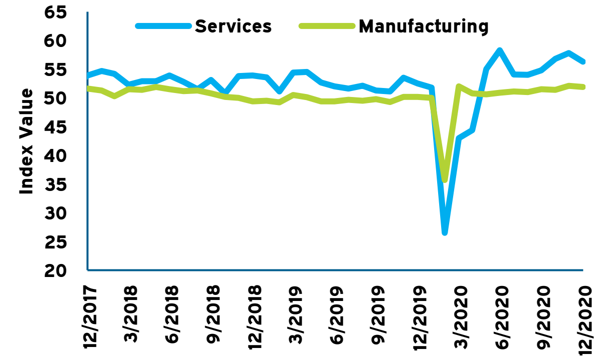
US PMI[1]



Eurozone PMI[2]



China PMI[3]



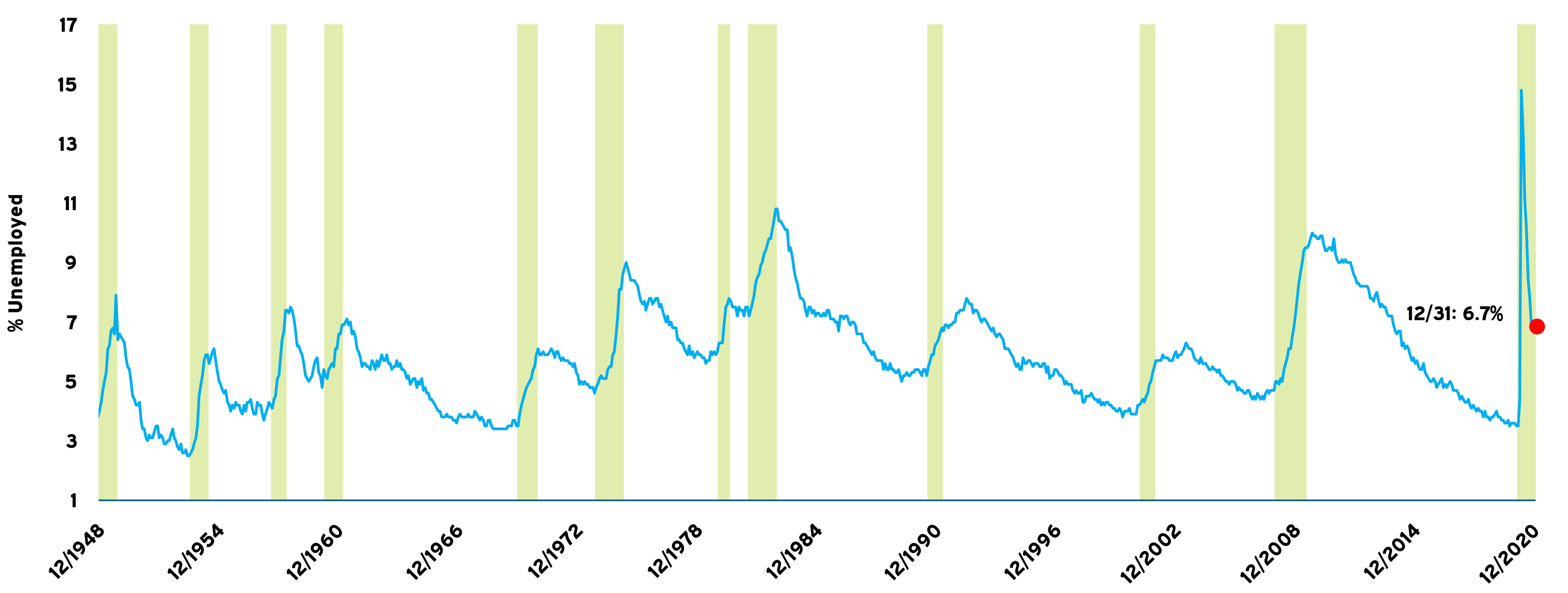
- Purchasing Managers Indices (PMI), based on surveys of private sector companies, initially collapsed across the world to record lows, as closed economies depressed output, new orders, production, and employment.
- Readings below 50 represent contractions across underlying components are a leading indicator of economic activity, including the future paths of GDP, employment, and industrial production.
- The services sector was particularly hard hit by stay-at-home restrictions in many places.
- As the Chinese economy reopened, their PMIs, particularly in the service sector, recovered materially. In the US, the indices have also improved from their lows to above contraction levels. In Europe, manufacturing has largely recovered, but services continue to show weakness due to increased lockdowns.

[1] Source: Bloomberg. US Markit Services and Manufacturing PMI. Data is as of December 2020.

[2] Source: Bloomberg. Eurozone Markit Services and Manufacturing PMI. Data is as of December 2020.

[3] Source: Bloomberg. Caixin Services and Manufacturing PMI. Data is as of December 2020.

US Unemployment Rate[1]

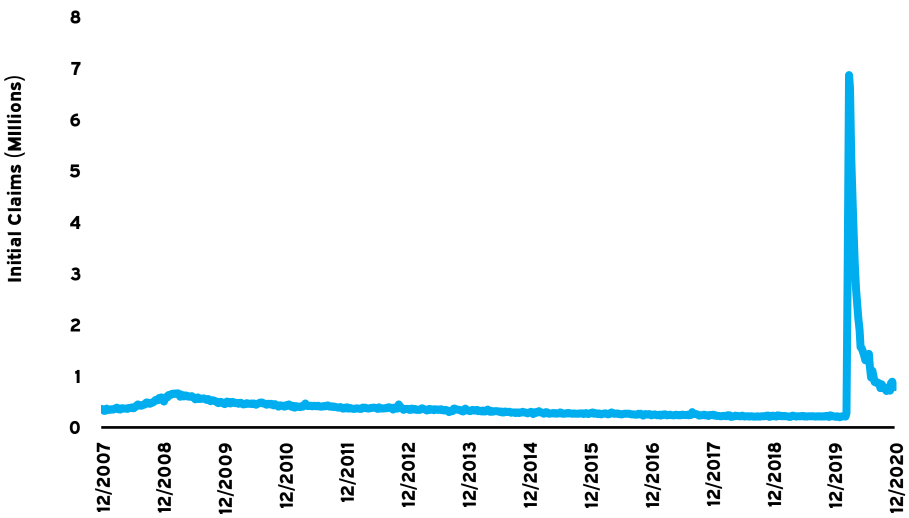


- In December, the unemployment rate continued its decline from the recent April 14.7% peak, falling to 6.7%.
- Despite the improvement, unemployment levels remain well above pre-virus readings and are likely higher than reported, as some workers appear misclassified. According to the Bureau of Labor Statistics, absent the misclassification issue, the December unemployment rate would be higher by 0.6%.

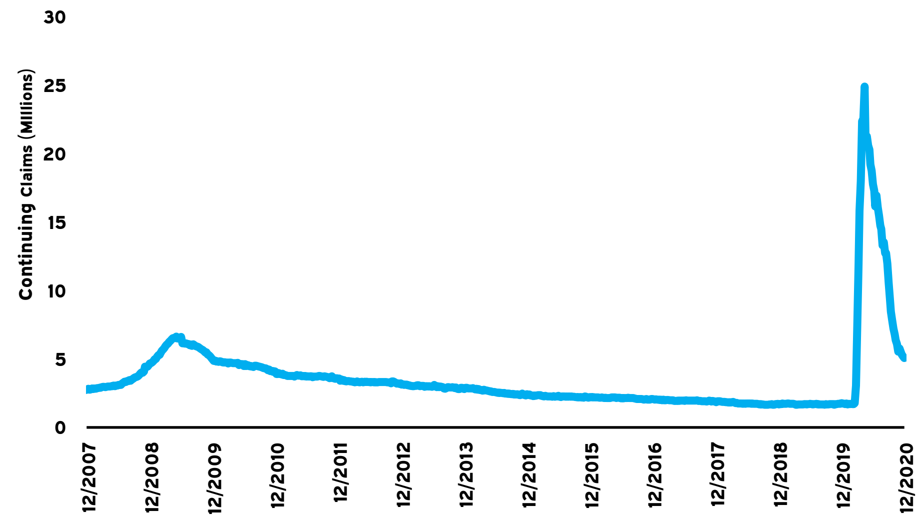
[1] Source: Bloomberg. Data is as of December 31, 2020. Bars represent recessions.

US Jobless Claims

US Initial Jobless Claims[1]



Continuing Claims[2]

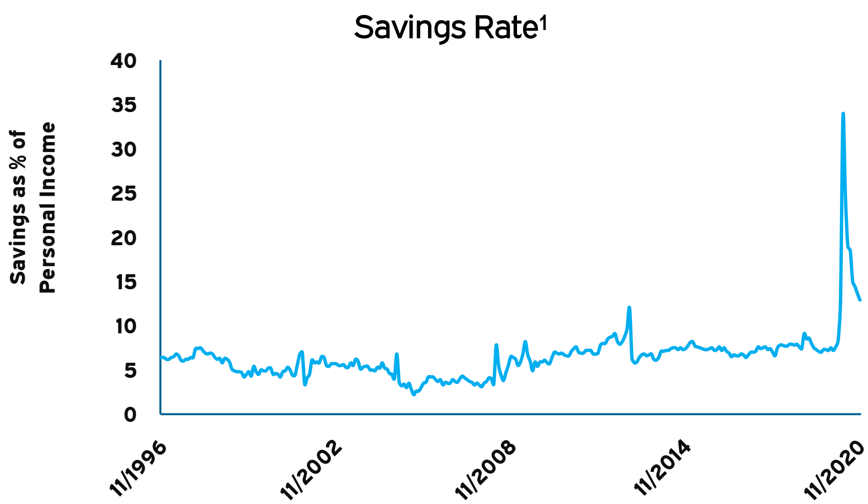


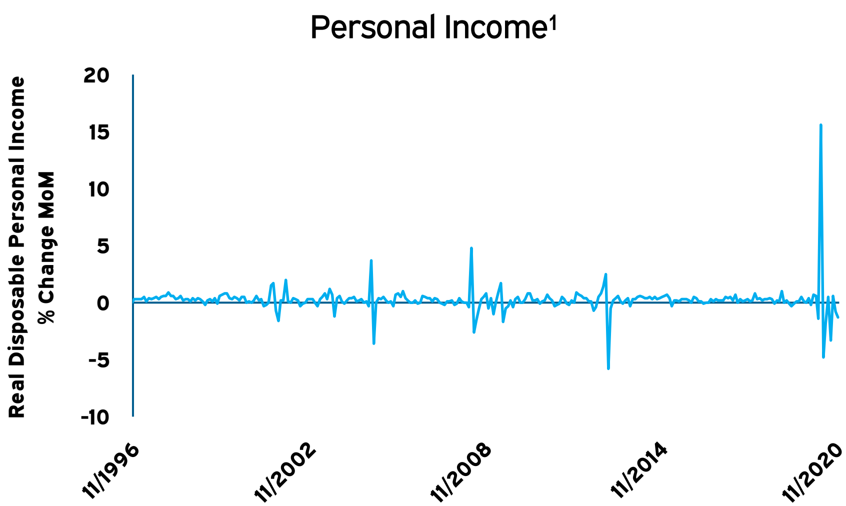
- Over the last 41 weeks, roughly 73 million people filed for initial unemployment. This level is well over three times the 22 million jobs added since the GFC, highlighting the unprecedented impact of the virus.
- Despite the continued decline in initial jobless claims to below one million per week, levels remain many multiples above the worst reading during the Global Financial Crisis.
- Continuing jobless claims (i.e., those currently receiving benefits) have also declined from record levels, but remain elevated at 5.1 million.

[1] Source: Bloomberg. First reading of seasonally adjusted initial jobless claims. Data is as of December 25, 2020.

[2] Source: Bloomberg. US Continuing Jobless Claims SA. Data is as of December 25, 2020.

Savings and Spending



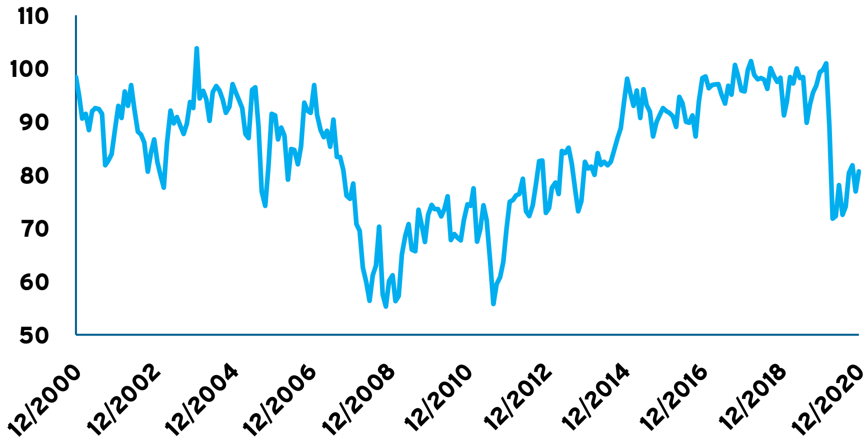


- Fiscal programs including stimulus checks, enhanced unemployment benefits, and loans to small businesses through the Paycheck Protection Program (PPP) have largely supported income levels through the shutdown. The growth in income declined dramatically as fiscal support waned.
- Despite the income support, the savings rate increased due to the decline in consumer spending, driven by the initial lock-down of the economy, and by uncertainties related to the future of the job market and stimulus programs.
- More recently, the savings rate declined from its peak as spending increased with the economy slowly reopening. Going forward, questions remain about how consumers will make use of the recently announced stimulus programs.

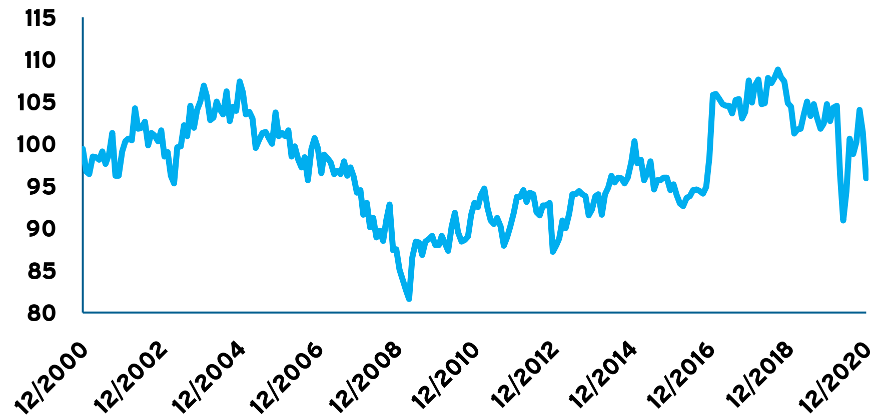
[1] Source: Bloomberg. Latest data is as of November 2020.

Sentiment Indicators

University of Michigan Consumer Sentiment[1]



Small Business Confidence[2]



- The attitudes of businesses and consumers are useful indicators of future economic activity.
- Consumer spending comprises close to 70% of US GDP, making the attitudes of consumers an important driver of economic growth. Additionally, small businesses generate around half of US GDP, making sentiment in that segment important.
- Sentiment indicators have shown improvements as the economy re-opens, but increasing cases and greater restrictions could weigh on short-term sentiment.

[1] Source: Bloomberg. University of Michigan Consumer Sentiment Index. Data is as of December 31, 2020.

[2] Source: Bloomberg. NFIB Small Business Optimism Index. Latest data is as of December 31, 2020.

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