CIO View

Monthly Strategy Snapshot

November 2020

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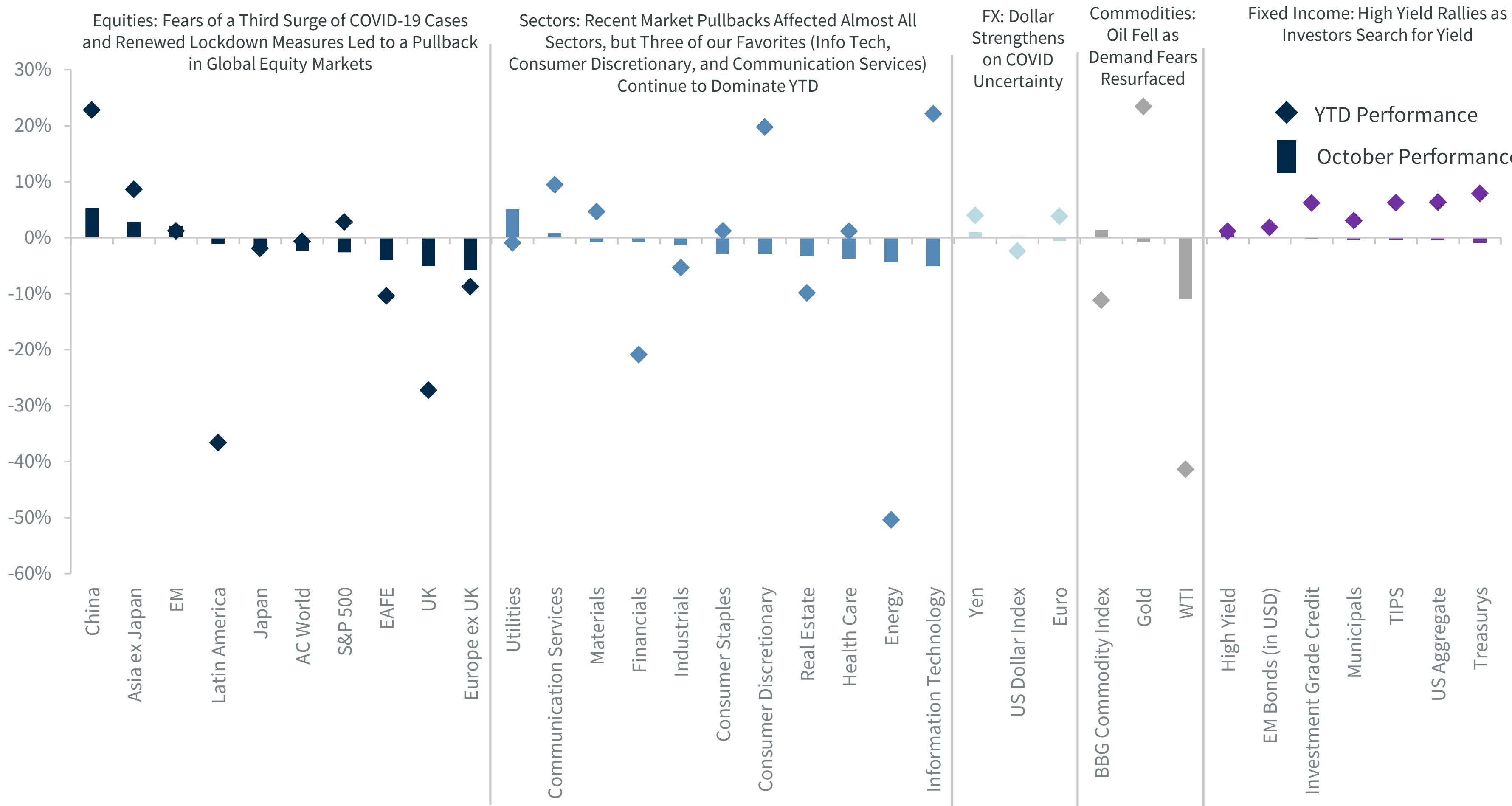
Chief Investment Officer

Returns By Asset Class | October and Year-to-Date

Returns by Asset Class



Data as of October 31, 2020. All international equity indices are MSCI indices and in USD. Diamonds represent year-to-date total returns and bars represent monthly total returns.

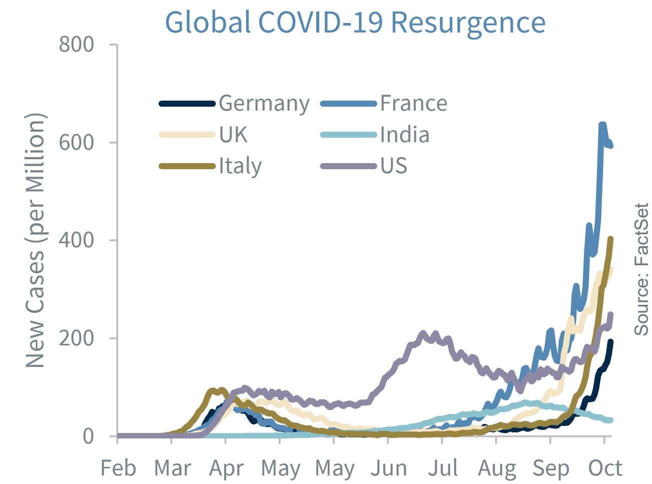
Global Economy | Resurgence of COVID-19 Puts Pressure on Recovery

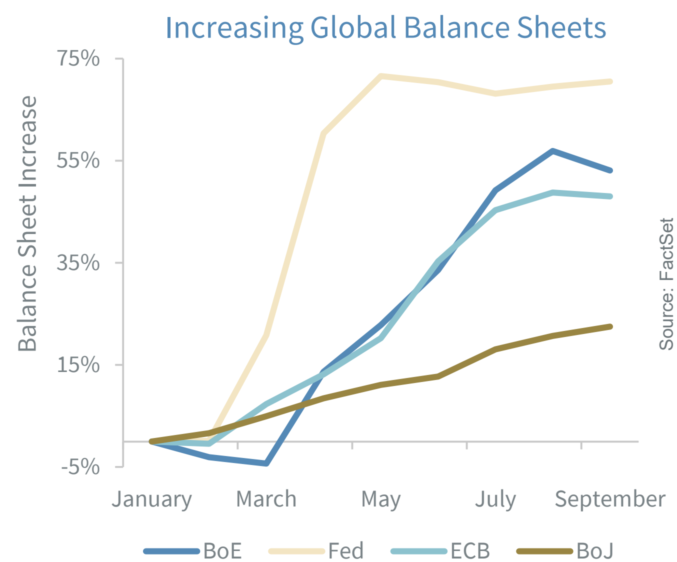
Global Economy | Recent Trends

- On the back of the continued lifting of COVID-19 restrictions and the reopening of the economy, the **US economy posted the strongest quarter of economic growth (+33.1% QoQ annualized) on record in 3Q20.** Growth in the third quarter was driven by the largest increase in personal consumption (+40.7%) in history. Despite the strong recovery in the third quarter, **the US economy remains ~3.5% below pre-COVID levels**. To put this level of decline into perspective, the US economy declined 4% throughout the Great Financial Crisis in its entirety.
- **The US labor market continues to improve from the COVID-driven lows,** as the US economy added 638k jobs and the unemployment rate declined to 6.9% (down from the COVID peak of 14.7%) in October. While the US economy has regained ~12 million jobs over the last six months, the level of total US employment remains 10 million jobs below the pre-COVID highs.
- Although the Georgia Senate races are going to a run-off, **a split government remains the most likely outcome**. This 'divided government' limits the potential for wide-sweeping legislative changes, such as a "Blue Wave" tax increases.
- **Coronavirus remains the biggest threat to the global economic recovery,** as new daily global COVID cases continue to surge around the globe. An uptick in cases were particularly strong in both the US and Europe, as both regions hit new daily record highs in October. While it is unlikely that we will return to the complete shutdowns we saw in the spring, some countries, including France and Germany, have begun to implement targeted lockdowns.

Global Economy | 2020 Outlook

- **Global economic momentum is likely to continue into 2021** as most G20 countries are likely to experience between 3% and 9% GDP growth in 2021 as social distancing measures wane and economies return to more normal activity. **The threat of COVID-19** (evident by the uptrend in new daily cases internationally) **remains a key risk** for the trajectory of economic growth until an effective vaccine is developed. While nation-wide lockdowns are unlikely to be repeated due to a better understanding of the virus, increased testing and better treatments, a continued uptick in cases will likely weigh on consumer sentiment and hamper spending going forward.
- Over the medium to longer term, continued **aggressive actions from policymakers (both from a fiscal and monetary perspective) will be needed to support economic growth**. However, the timing of further stimulus (our estimate is ~$1 Trillion) will likely be an early 2021 event. While the size of stimulus is likely smaller (versus a "Blue Wave" outcome), tax hikes will likely be limited.
- **Globally, central bank balance sheets are increasing while governments continue to pursue additional fiscal stimulus.** In the US, **the Federal Reserve continues to call for more fiscal stimulus**, however, the likely divided government makes an immediate stimulus deal unlikely.



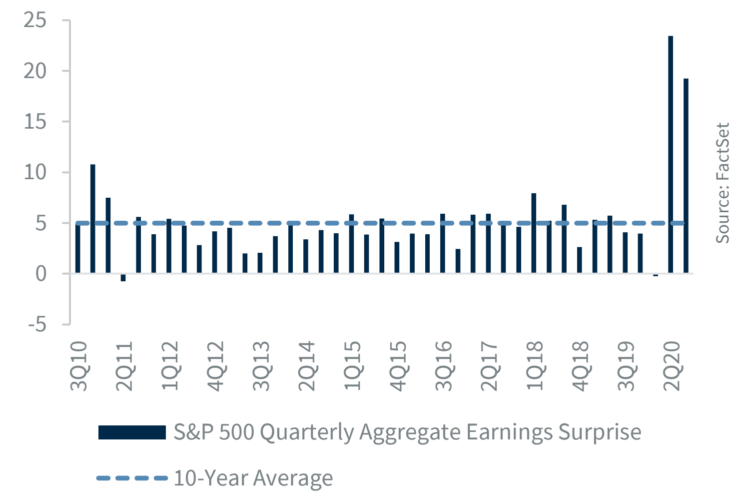


Equities | Markets React to Split Government

Global Equities | Recent Trends

- **October was a volatile month for equities** as uncertainty from record levels of new daily COVID-19 cases, the US presidential election and the timing and size of another round of fiscal stimulus created some apprehension for investors.
- Even though the outcome of the election was not immediately known, **the S&P 500 posted its strongest election week (+7.3%) since 1932** as investors responded favorably to the likely outcome of a split government in Washington. Split government reduces the probability of major policy shifts and allows investors to focus on fundamentals.
- Third quarter earnings came in much better than expected, **with 85% of companies beating their estimates**, above the previous 20-quarter average of 73%. S&P 500 companies are beating consensus estimates by ~19% on average, well above the previous 20 quarter average of 5%. Third quarter earnings are now only expected to decline 8.0% YoY, well above the previous estimate of –21% YoY coming into the quarter.
- **While nearly all eleven sectors were negative in October,** our favored sectors, Technology, Communication Services, Health Care, and Consumer Discretionary are leading in YTD performance. Regardless of the election outcome, we expect that this trend will continue as **these sectors are well positioned to continue to benefit from our forecasted 'K' shaped economic recovery**.

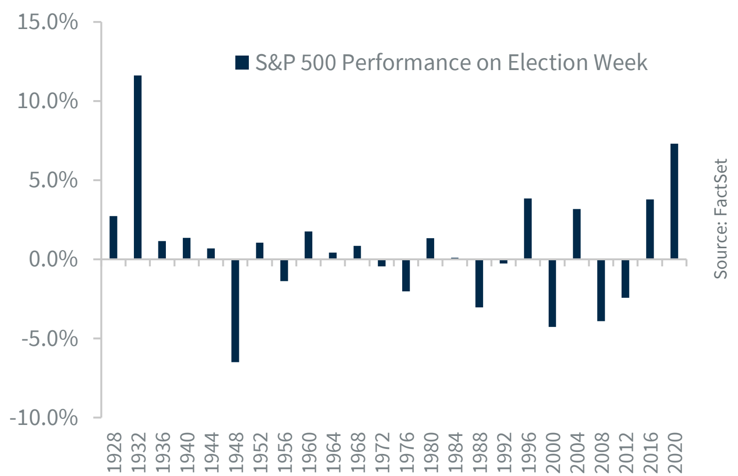
3Q Earnings Beating Expectations



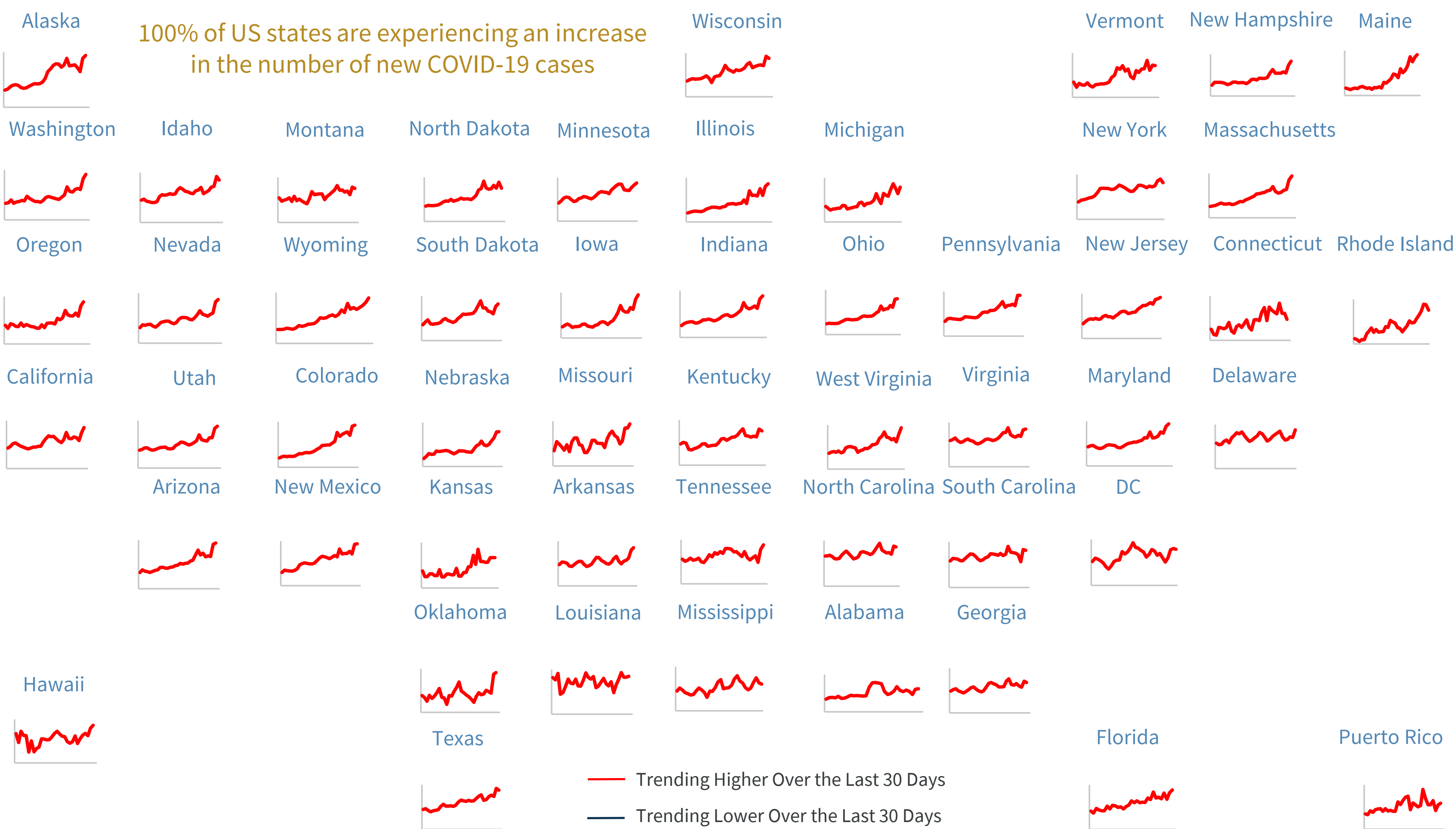
Global Equities | 12-Month Outlook

- While the near-term trajectory for the market remains cloudy due to COVID, **we believe that equities will be higher over the next 12 months on the back of rebounding economic and earnings growth.** We have a year-end 2021 **S&P 500 price target of 3,600;** however, **upside to that target toward 3,921** may be appropriate due to promising results on vaccines (e.g. ,90% efficacy) and the potential for a sooner return to normal.
- We remain biased to select cyclical sectors that should benefit from improving economic growth and stronger earnings growth. We favor **Technology, Communication Services, Health Care and Consumer Discretionary—**sectors that can benefit from additional fiscal stimulus, online shopping, the work-from-home trend and rising consumer confidence.
- **From a market-cap perspective, we favor large-cap US equities relative to small-cap US equities** as large cap has more resilient earnings relative to small cap, is less leveraged in aggregate, has stronger dividends and has greater exposure to the Tech sector.
- **We remain constructive longer term on global equities,** especially EM, due to the expected second half rebound in global economic growth, but prefer the US over other developed markets due to favorable sector exposure and more resilient economic growth.

Best Election Week Since 1932



COVID-19 | All US States Are Experiencing an Uptrend



Source: FactSet, as of 11/10//2020

Fixed Income | Treasurys Rise Likely Contained

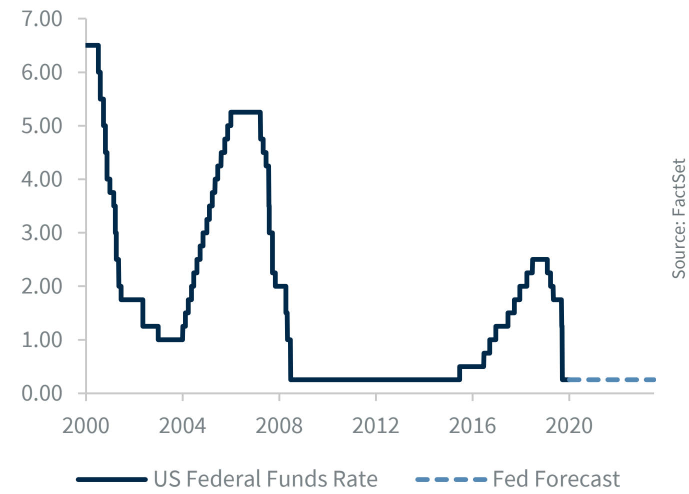
Global Bonds | Recent Trends

- Despite record COVID cases (and its impact on economic growth) and elevated risk asset volatility, **longer duration Treasury yields rose steadily in October** with the 10-yr Treasury yield rising to its highest level (0.88%) since March as the market initially priced in a higher probability of a Blue Sweep in the 2020 election and therefore a larger stimulus package.
- However, as the probability of a much larger scale fiscal stimulus package declined as split government is likely to remain in Washington, **Treasury yields fell after the election** and posted their largest percentage election week decline (~-10%) since at least 1956.
- The Fed reiterated at the November FOMC meeting that it expects to remain accommodative for the foreseeable future. **Spreads between short and long-term Treasurys widened in October to the highest level since March** as the market priced in the Fed remaining lower for longer while economic activity continues to recover.
- Despite elevated equity volatility and uncertainty surrounding the eventual outcome of the US election, both **investment grade and high-yield bond spreads narrowed** for the sixth time in the last seven months to the lowest level since March on the back of the continued recovery in economic activity.

Global Bonds | 12-Month Outlook

- As split government is likely to remain in Washington, the **outcome of the election does not have a significant impact on our fixed income outlook**. As the market is pricing in continued economic recovery through 2021, **we forecast the 10-year Treasury yield to rise modestly from current levels to 1.4% by year-end 2021**. However, **we anticipate the rise in yields to be limited** due to low inflation expectations, continued buying from global central banks, increased demand from foreign investors and aging demographics.
- Given our expectation for a modest rise in longer-duration interest rates while the Fed is set to leave policy rates unchanged for the foreseeable future (keeping shorter-term rates low), **we recommend a shorter than benchmark duration for bond portfolios.**
- From a credit perspective, we believe investors should consider **'buying what the Fed is buying.'** As a result of the expansion of eligible purchases by the Fed to include investment grade and municipal bonds, increased demand as a result of Fed buying should lead to a narrowing of spreads and support prices within these two sectors.
- **We are cautious on high yield** as rising defaults due to the COVID-19-induced recession (we forecast default rates could rise as high as 10%), increased supply due to rising fallen angels and elevated exposure to Energy will likely weigh on the sector. Selectivity is important.

Fed to Leave Rates on Hold Through 2023



Negative Yielding Debt Near Record Highs

Commodities & Currencies | Dollar Weakens on Election

Commodities & Currencies | Recent Trends

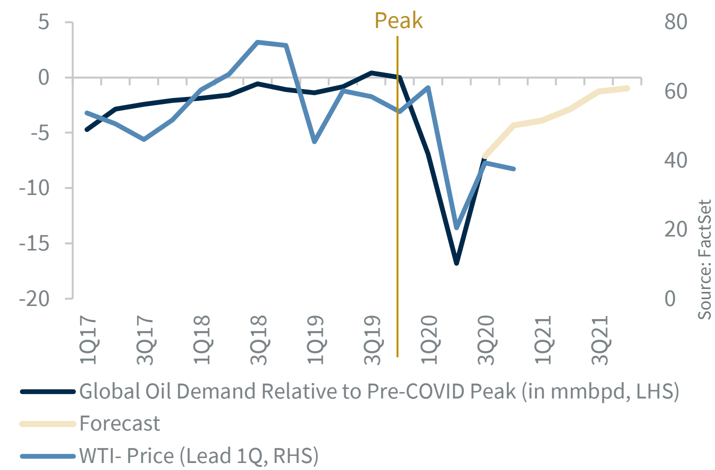
- Consistent with other risk assets, **crude oil prices declined for the second straight month in October to its lowest level ($35/bbl) in four months.** Despite the continued improvement in global economic activity, **crude oil was hampered by record levels of global COVID cases** as further cases could lead to additional lockdown measures (already seen in select European countries) and thereby further reduce demand.
- While having recovered sharply off of the COVID driven lows, crude oil demand in aggregate remains ~11% below the pre-COVID peak. Looking at both gasoline and jet fuel demand, both remain ~14% and 50% off of their pre-COVID peaks respectively.
- Despite continued easing from global central banks and increased risk asset volatility (as gold typically provides a hedge in periods of elevated market volatility), **gold declined modestly in October for the third straight month** on the back of rising real interest rates.
- As a result of the increased risk asset volatility and COVID concerns, **the US dollar rallied modestly for the second consecutive month.** However, as Joe Biden is the presumptive president-elect, the **US dollar weakened to nearly a two-year low** as he will likely take a less aggressive approach to global trade.

Commodities & Currencies | 12-Month Outlook

- Longer term, until global demand and economic activity rebound to pre-COVID levels when a vaccine is available, **crude oil will likely remain near current levels (year-end 2020** WTI target: **$40/barrel**). Near term, as the price of oil remains near breakeven levels for US shale producers (~40/bbl), a rise in US production (recovering losses from the COVID-driven decline) will likely keep the rise in oil prices contained.
- As volatility is elevated and the threat of COVID-19 remains a risk due to the current lack of a vaccine and as real rates remain low from a historical perspective, **demand for gold remains a hedge against a second-wave virus-induced economic decline.** However, once the global economy stabilizes and a therapeutic or vaccine for the virus is widely accessible (likely by early 2021), gold is likely to come under pressure.
- Similar to gold, the downside in the dollar will likely be limited in the near term if risk-off sentiment materializes. However, as the investing environment improves as COVID-19 fears fade (largely as a result of the development of a vaccine or therapeutic), **fundamental factors that increase the supply of dollars globally such as increased deficit financing (due to the fiscal stimulus measures) and quantitative easing should lead to a weaker dollar.**

Gold Declines With Rising Real Rates

Crude Oil Demand Well Off Pre-COVID Peak



Summary | Views and Key 2021 Year-End Targets

1 ECONOMY

2021 US GDP: ~3.0%

The US economy experienced its deepest and shortest recession ever due to the COVID-19 pandemic, but is already beginning to rebound. The rebound is likely to continue during 4Q20 and 2021 especially if policy makers continue to exhibit a "by any means necessary" approach to defeat this virus.

2 BOND MARKET

2021 10-Year Treasury: 1.40%

We forecast that the 10-year Treasury yield will be 1.00% by year end and 1.40% in 12 months, supported by an economic recovery in 4Q20 and 2021. Given the substantial Energy sector and brick and mortar retailer exposure of high-yield bonds, we maintain our preference for investment-grade and municipal bonds given the Fed's purchases of these sectors.

3 EQUITIES

2021 S&P 500: 3,910

Our expectation for a rebound in 4Q20 and 2021 economic activity and stimulus from both the Fed and Congress should support equities. However, with political and COVID uncertainty, the risk of a pullback remains elevated. Use pullbacks as buying opportunities within our favorite sectors (Info Tech, Health Care, Comm Servs, and Consumer Discretionary).

4 DOLLAR DIRECTION

2021 EUR/USD: 1.20

Our expectation is that aggressive fiscal and monetary policy and a burgeoning budget deficit (~$3 trillion) may cause the dollar to modestly weaken throughout the year. Separately, the easing of trade restrictions from the potential of a Biden presidential administration may weaken the dollar relative to other currencies. However, near-term volatility in riskier assets is likely to support the dollar.

5 OIL

2021 WTI: $55/bbl

Over the next 12 months, crude oil will be supported by the reduction in social distancing measures, increasing economic activity in 2H20 and 1Q21 and increasing optimism surrounding a potential vaccine. Near term, oil prices are likely to remain range bound, awaiting the direction of demand as the global economy continues to rebound from the COVID-19.

6 ELEVATED VOLATILITY

Volatility: ↑

Given the unpredictable trajectory of the COVID-19 pandemic, we anticipate that volatility will remain heightened throughout the remainder of 2020 as the global economy finds its footing and returns to some semblance of normality. Near-term catalysts for volatility include COVID-19, election politics (e.g., Georgia) fiscal stimulus negotiations and tensions with China.

DISCLOSURES

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

US TREASURIES | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

US DOLLAR | The US Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies,[1] often referred to as a basket of U.S. trade partners' currencies.[2] The Index goes up when the US dollar gains "strength" (value) when compared to other currencies.

DEFINITIONS

AGGREGATE BOND | **Bloomberg Barclays US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | **Bloomberg Barclays US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | **Bloomberg Barclays US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

MUNICIPAL | **Bloomberg Barclays Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody’s Investors Service and BBB by Standard and Poor’s). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

BBG COMMODITY INDEX | Bloomberg Commodity Index is calculated on an excess return basis and reflects commodity futures price movements.

S&P 500 | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

ASIA EX JAPAN INDEX | **The MSCI AC Asia ex Japan** Index captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries* (excluding Japan) and 9 Emerging Markets (EM) countries in Asia. With 983 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

AC WORLD INDEX | **The MSCI AC World** Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 23 developed countries and 24 emerging markets.

EMERGING MARKETS LATIN AMERICA | **MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

JAPAN | **MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

EUROPE EX UK | **MSCI Europe Ex UK Net Return Index:** The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

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DATA SOURCES

FactSet as of 10/31/2020.

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