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2021 Outlook and Plausible Scenarios for the Pandemic Recovery

American Association of Individual Investors
CHARLOTTE CHAPTER

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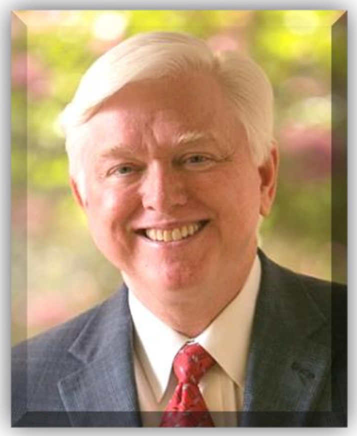

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- Dennis Stearns is a **financial planning practitioner and President of Stearns Financial Group** (SFG), a fee-only financial planning and investment management firm with offices in Chapel Hill and Greensboro and clients around the U.S.
- **Dennis has been called "one of the leading scenario experts and futurists in the financial planning industry" by the Financial Planning Association.** Dennis was among those chosen as **"Most Admired CEOs"** by the Triad *Business Journal* in 2016.
- **Stearns Financial** has been featured in numerous publications, including *Forbes,* the *Wall Street Journal,* the *NY Times,* AICPA's *The Tax Adviser*, the *Chicago Tribune, Kiplinger's* and the *Journal of Financial Planning*.
- **Stearns Financial** was selected as one of **RIA Citywire's Future 50 for 2019**, independent wealth management firms that embody future trends in investing and financial planning.
- Dennis is a **TEDx speaker on The Changing Future of Jobs.**
- Dennis participates in **national think tanks and special scenario exercises for major companies and organizations** on economics and future trends related to investments, entrepreneurship, technology, globalization and demographics.
- Dennis is a former **chess expert** and was a **member of one of the winningest Pan American Chess Teams in U.S. history.** He coaches an inner-city chess club and often plays up to 35 people at the same time to raise money for children's charities.

SFG’s 10 Predictions for 2021

We were sailing in uncharted waters before the pandemic, with the techno-industrial revolution taking center stage driving a small fraction of large technology-themed companies to become larger than entire stock markets in Europe or Asia or even the rest of the 500 largest companies in the U.S. That trend has cooled off a bit, but the revolution is here to stay, and has even been accelerated in tech and bio-tech by the pandemic.

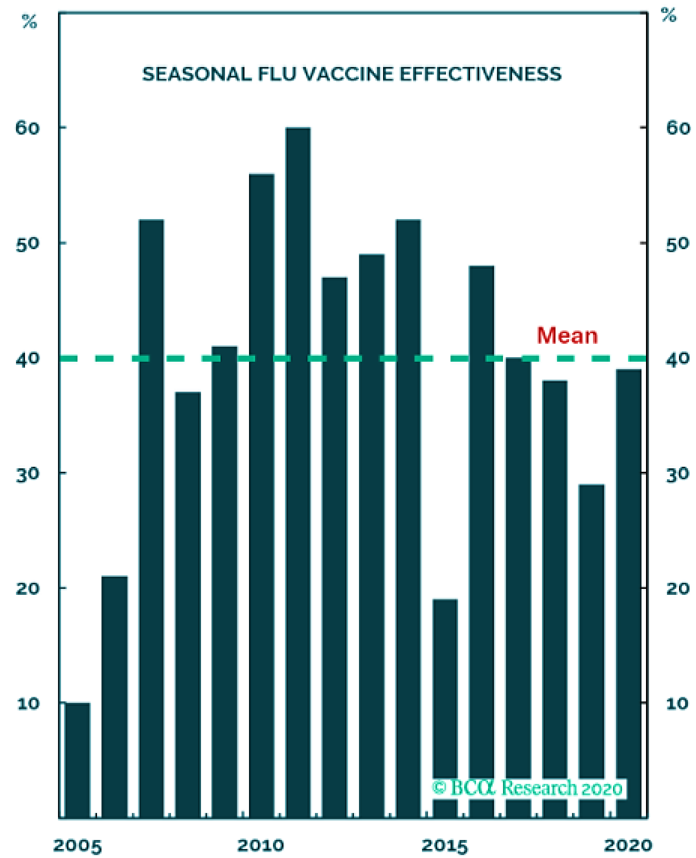
Here are SFG’s highest conviction predictions for 2021.

SFG's 10 Predictions for 2021

#1 - COVID-19 will be "under control" in the last half of 2021.

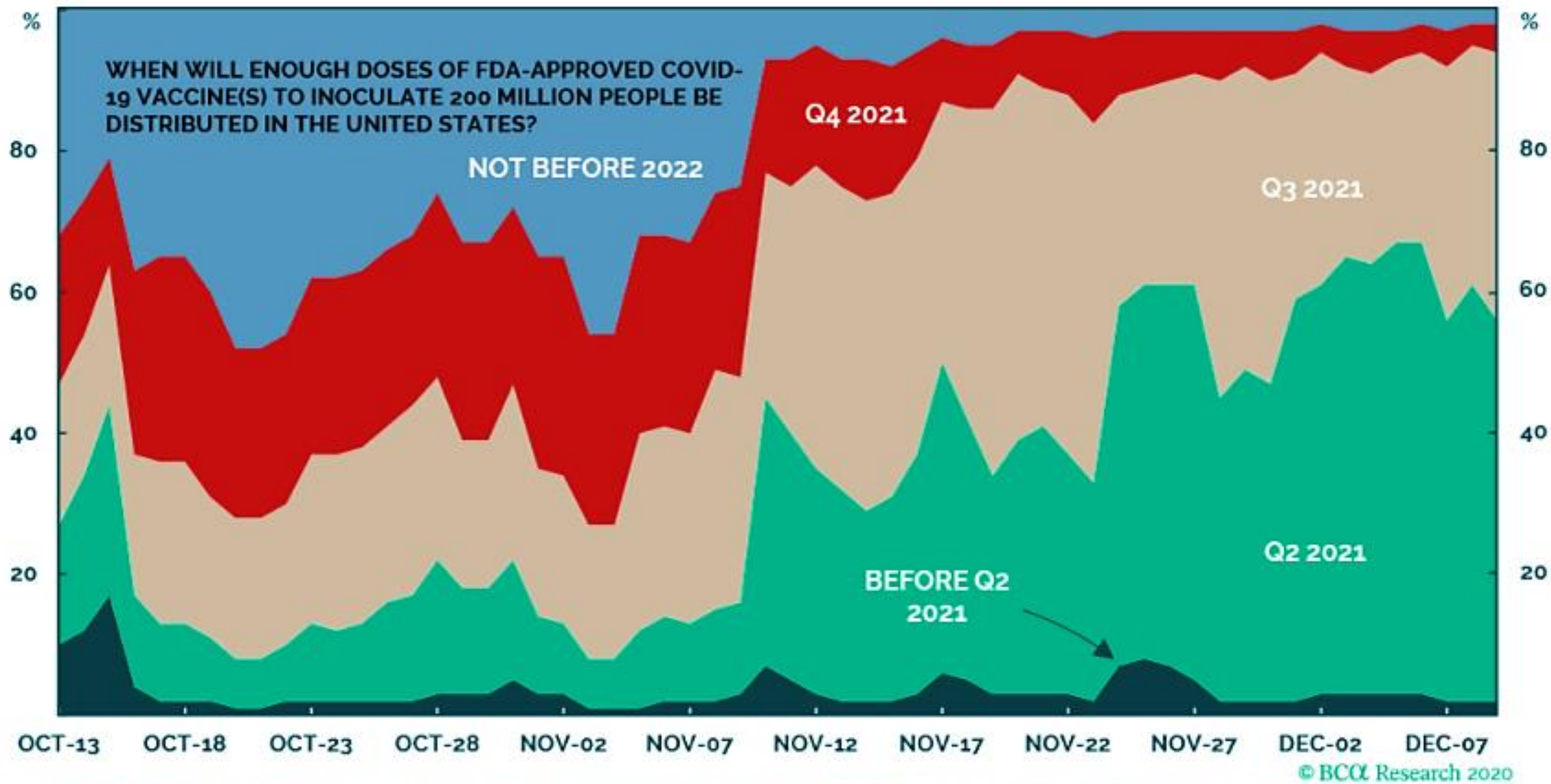
- Infections and hospitalizations will be falling rapidly. An incredible three vaccines will be available in most areas. The U.S. and the world in general have invested well in multiple vaccine development options and logistics for manufacturing and distribution in response to what many experts described as "only a level three event on a five scale."
- The combination of those who have already had COVID-19 and those who are vaccinated will likely reach the 70% tipping point by mid-year.
- We still expect some bumps and setbacks in the greatest vaccine rollout in history and have already seen some state-by-state issues.

Efficacy Rates of Seasonal Flu Vaccines are Well Below Those of the COVID-19 Vaccines



SOURCE: CDC.
NOTE: VALUE FOR 2020 IS BASED ON PRELIMINARY END-OF-SEASON ESTIMATES.

Mass Distribution of COVID-19 Vaccines Expected By Mid-2021



SOURCE: THE ECONOMIST/GOOD JUDGMENT INC. FORECASTS FROM GOOD JUDGMENT'S PROFESSIONAL SUPERFORECASTERS. DATA ACCESSED DEC. 9, 2020.

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SFG's 10 Predictions for 2021

#2 - The aftermath of the pandemic, even at level three, will be lingering. Health care has been stressed, but also turbo-charged, by the pandemic.

- Every week we hear about some new advancement in health care research in a non-COVID-19 area as a result of lessons learned in the pandemic.
- Millions of workers will need job re-training even faster than the pre-pandemic techno-industrial revolution predicted.
- Education has been hard hit by the pandemic, with McKinsey and others predicting learning levels have been set back six months for the average student, and 10 months for lower income students.

SFG's 10 Predictions for 2021

#3 - Corporate earnings should rebound well in 2021, and we expect stock prices to advance modestly.

- The normal cost strategies plus the "digital pivot" that many companies accelerated during the pandemic could increase free cash flow by 10-20% or more.
- Low interest rates remain a benefit as companies finance their future growth.
- Many companies, including banks, are resuming stock buybacks.
- In many cases, earnings are simply catching up to the pandemic frenzy hopes baked into the stock market in the fourth quarter of 2020. These catch-up periods where reality chases expectations are common – they are also usually very volatile.

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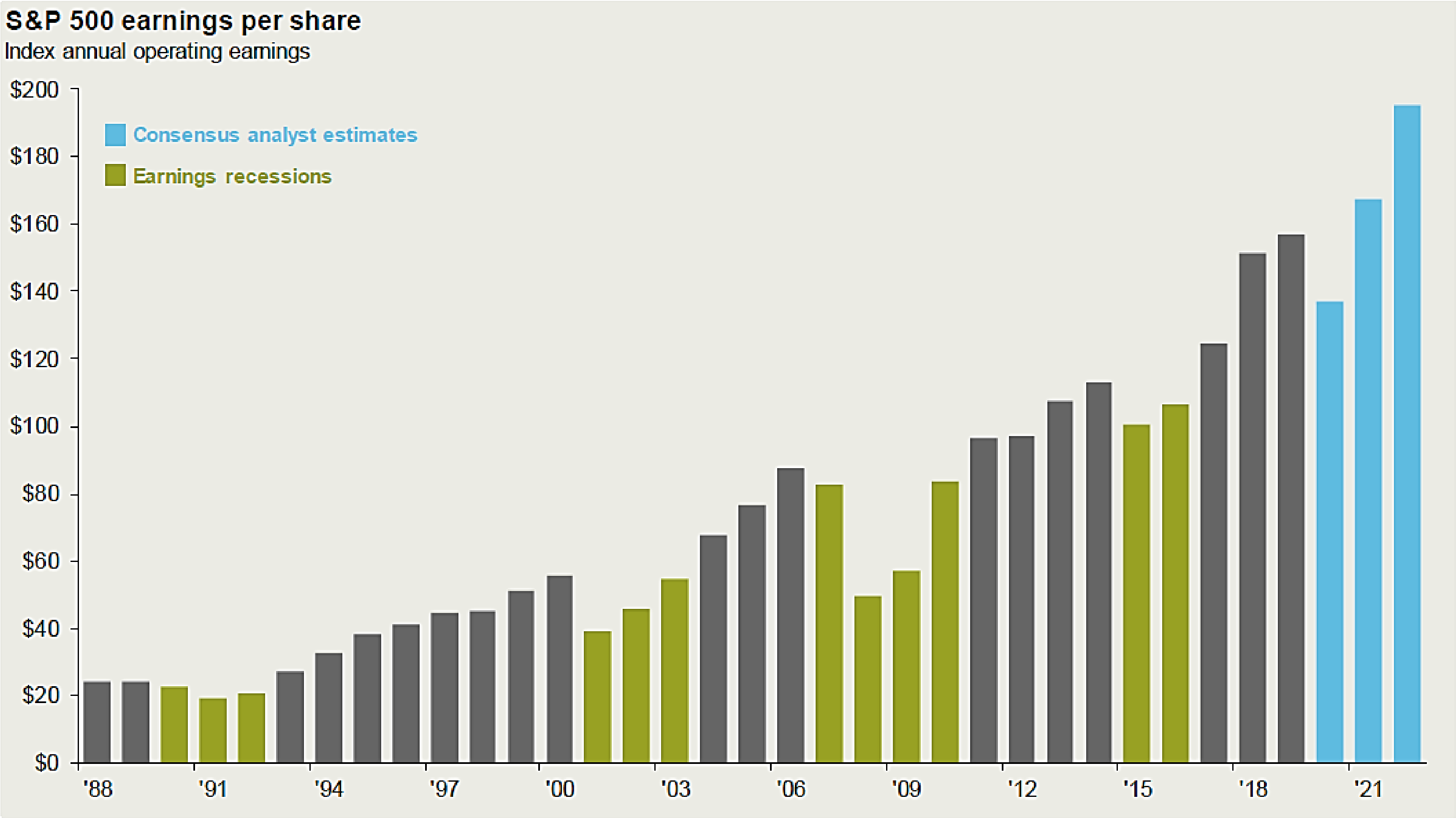
Corporate Profit – Strong Rebound Likely



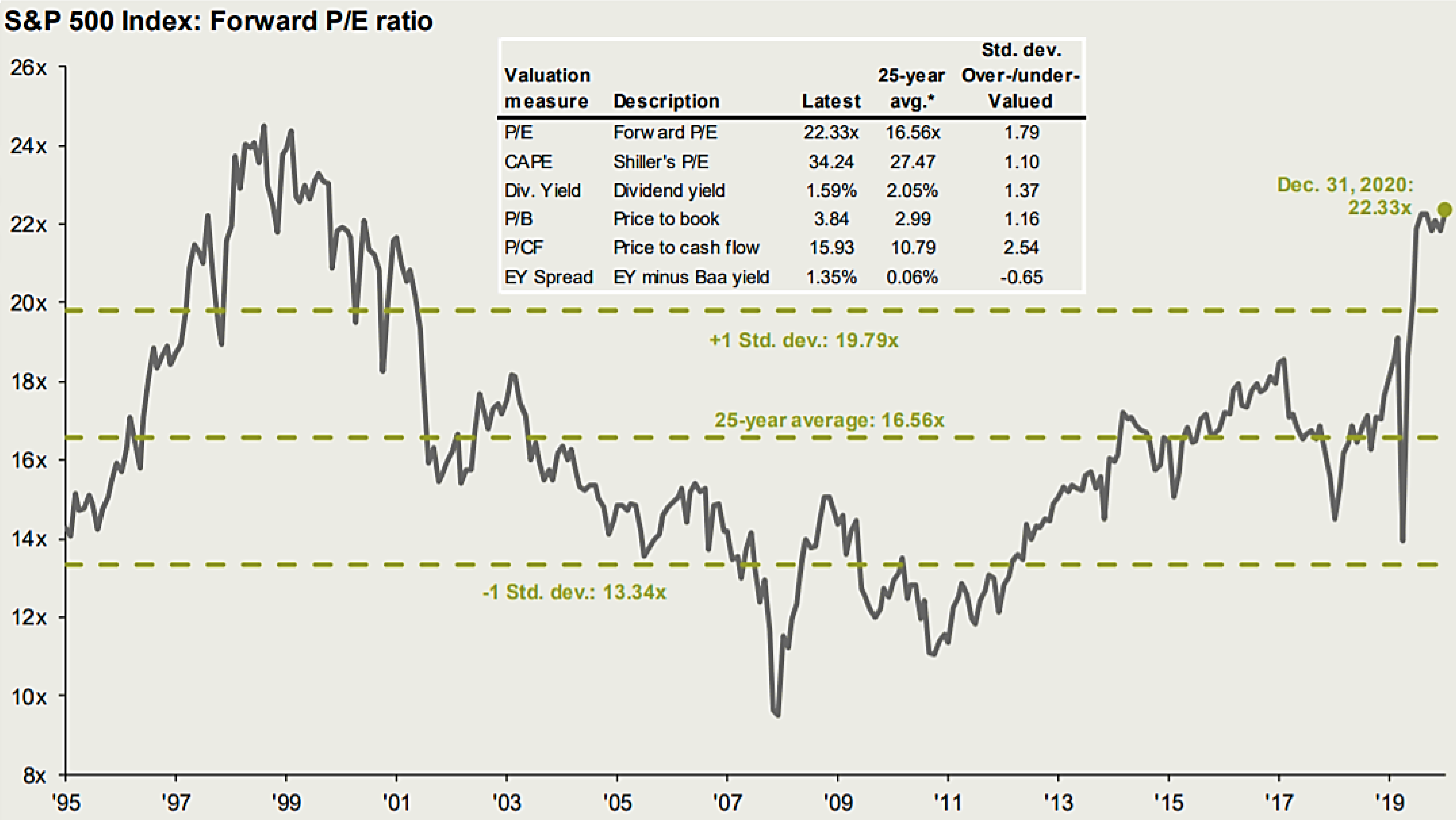
Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Historical EPS levels are based on annual operating earnings per share. Earnings estimates are based on estimates from FactSet Market Aggregates. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of December 31, 2020..

SFG's 10 Predictions for 2021

#4 - U.S large companies will putter along while smaller companies will rebound faster after lagging for years.

- Stretched valuations in many (but not all) U.S. large stocks will limit returns over the next five years.
- Value stocks (post-COVID-19 themes) will be competitive with growth stocks (pandemic frenzy themes)
- Some growth companies will grow into their stretched P/E valuation while others will be hamstrung by new regulatory pressures.
- Smaller companies that are value-oriented offer good three- to five-year total return potential.

S&P 500 Valuation Measures



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	22.33x	16.56x	1.79
CAPE	Shiller's P/E	34.24	27.47	1.10
Div. Yield	Dividend yield	1.59%	2.05%	1.37
P/B	Price to book	3.84	2.99	1.16
P/CF	Price to cash flow	15.93	10.79	2.54
EY Spread	EY minus Baa yield	1.35%	0.06%	-0.65

Source: FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since December 1995, and FactSet for December 31, 2020. Current next 12-months consensus earnings estimates are $167. Average P/E and standard deviations are calculated using 25 years of IBES history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. Guide to the Markets – U.S. Data are as of December 31, 2020.

Believe It or Not, Few Signs Bull Market Has Exhausted Itself

Bull Market Top Checklist

	2000	2007	Current	Comments
1. Blow-off top	✓	✓	X	Don't want to call this a blow off top yet although the S&P is about 10% above its 200 day moving average.
2. Heavy inflows into equity market funds	✓	✓	X	ETF's have seen large inflows but overall equity fund flows are underwhelming in aggregate. Money market mutual fund assets remains high as well.
3. Big pick-up in M&A activity	✓	✓	X	M&A activity has begun to pick up but completed activity remains low this year. The pipeline remains robust which could help to drive equity prices higher.
4. IPO activity	✓	✓	✓	IPO activity has shown a significant pick-up lately and blank check companies have raised more capital this year than they did in the prior five years combined.
5. Rising real interest rates	✓	✓	X	Real rates have declined meaningfully after peaking last November.
6. Weakening upward earnings revisions	✓	✓	X	Earnings revisions remain near the highest levels in history.
7. Erosion in number of stocks making new highs	✓	✓	X	Breadth has expanded significantly during the current rally.
8. Shift towards defensive leadership	✓	✓	X	Cyclically oriented sectors have continued to turn higher. Although Tech has been a leader this year, the pace of outperformance has begun to slow.
9. Widening credit spreads	✓	✓	X	Investment grade spreads are back to their lows and high yield spreads have recovered significantly from the pandemic highs.

Source: Strategas, 01/04/2021

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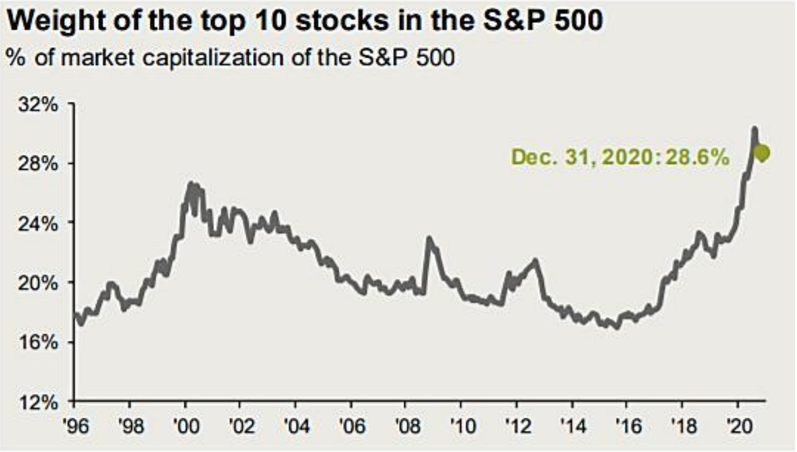
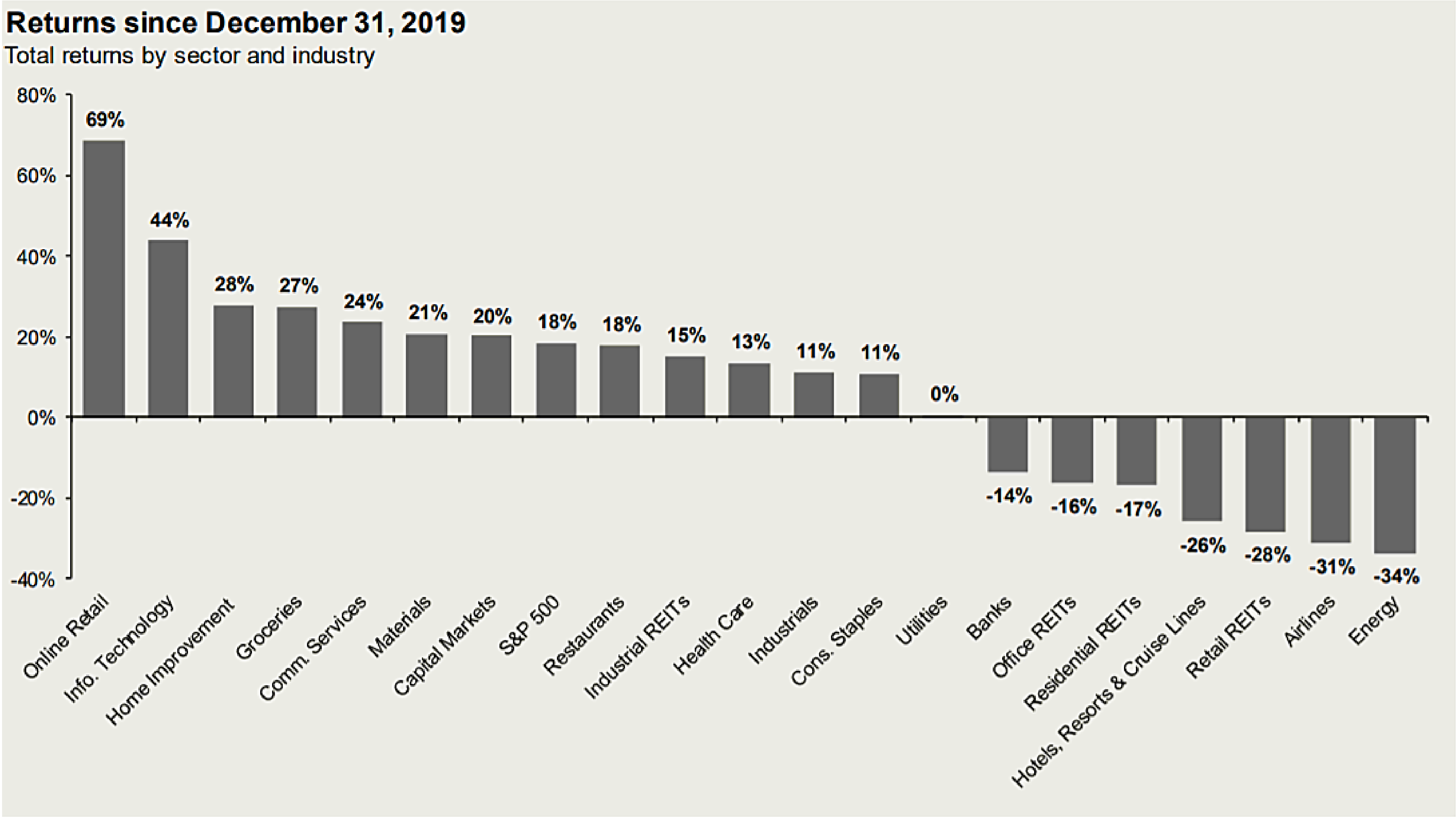
S&P 500: Index Concentration, Valuations and Earnings

	Current	Average	% of avg.
Top 10	33.3x	19.4x	172%
Remaining stocks	19.7x	15.5x	127%
S&P 500	22.3x	16.2x	138%



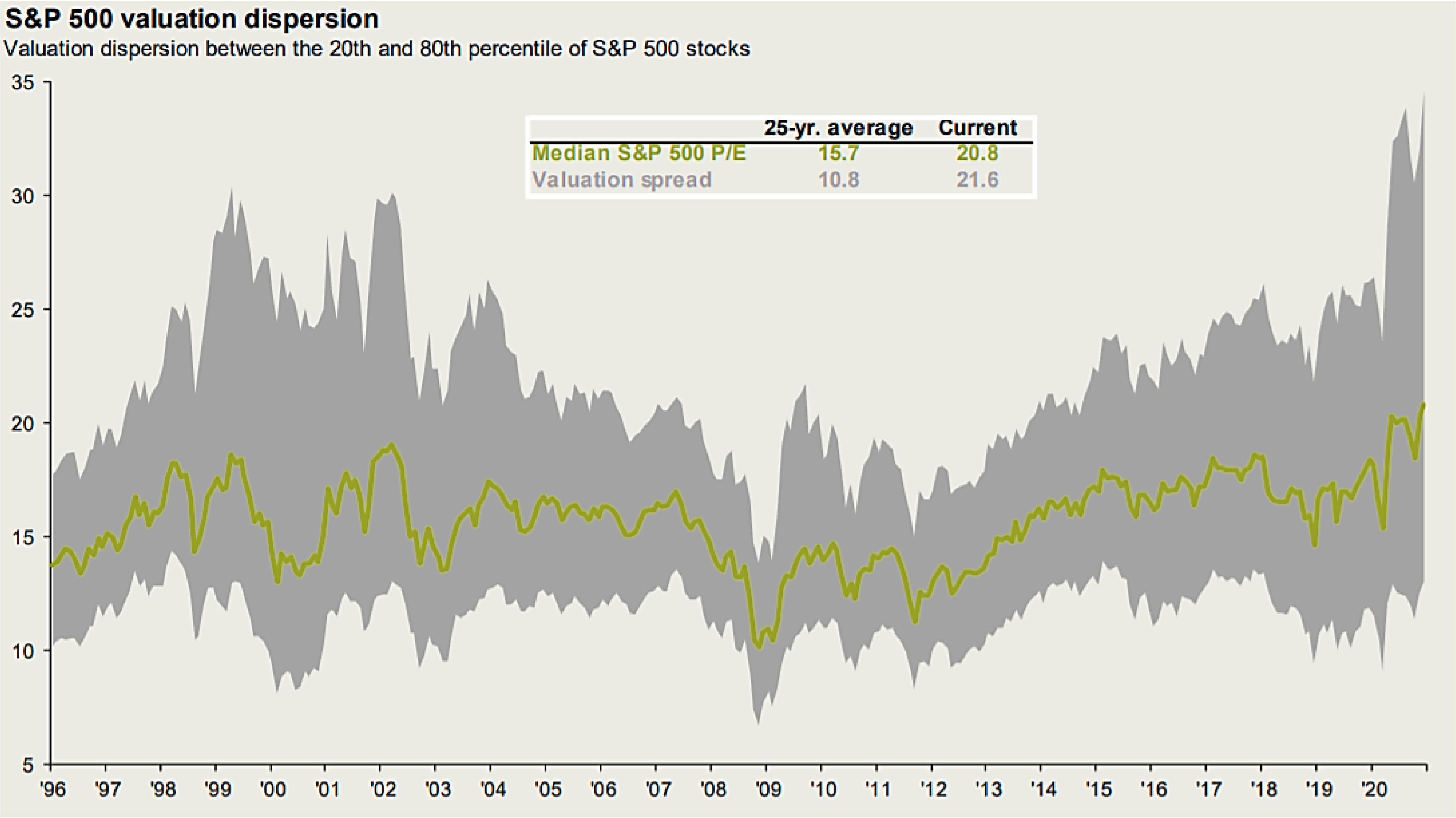
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
The top 10 S&P 500 companies are based on the 10 largest index constituents at the beginning of each month. The weight of each of these companies is revised monthly. As of December 31, 2020, the top 10 companies in the index were: AAPL (6.8%), MSFT (5.3%), AMZN (4.5%), FB (2.1%), TSLA (1.7%), GOOGL (1.7%), GOOG (1.6%), BRK.B (1.4%), JNJ (1.3%), JPM (1.2%) and V(1.2%).
Guide to the Markets – U.S. Data are as of December 31, 2020.

S&P 500 Performance By Sector



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of December 31, 2020.

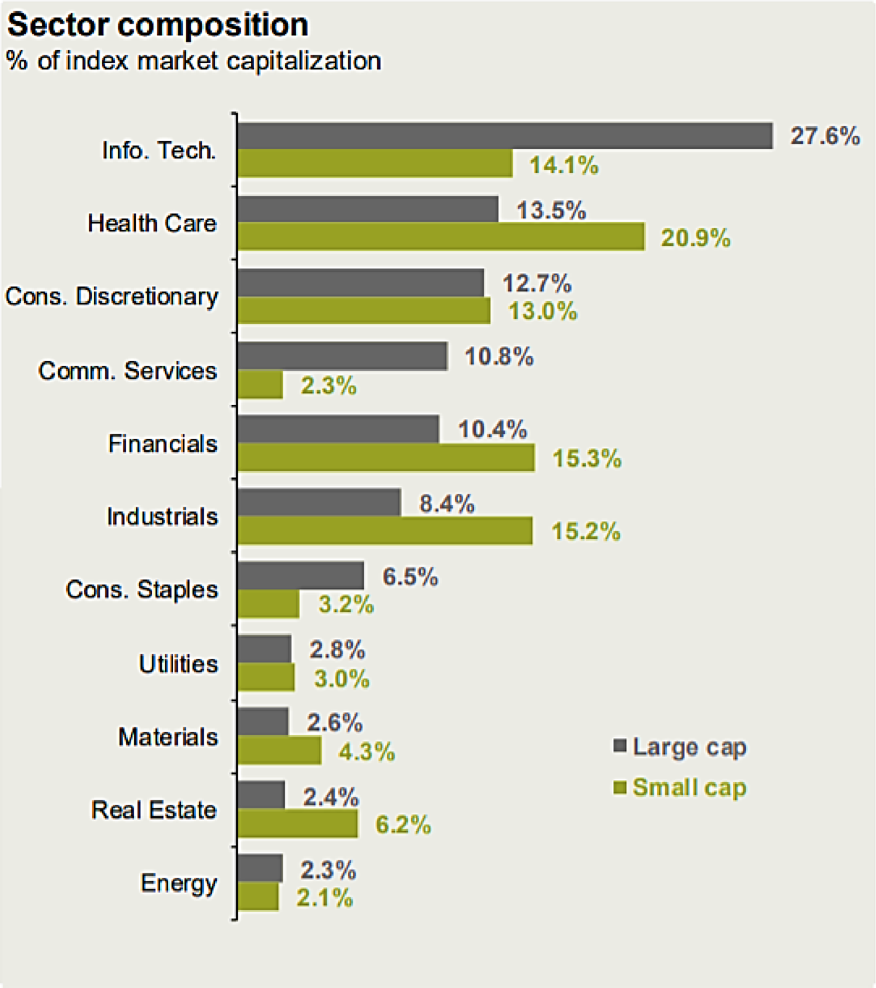
S&P 500 Valuation Dispersion

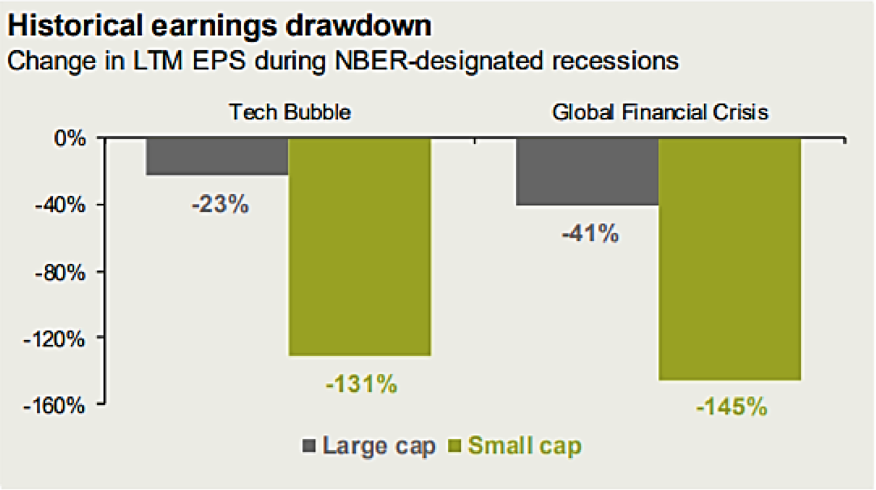


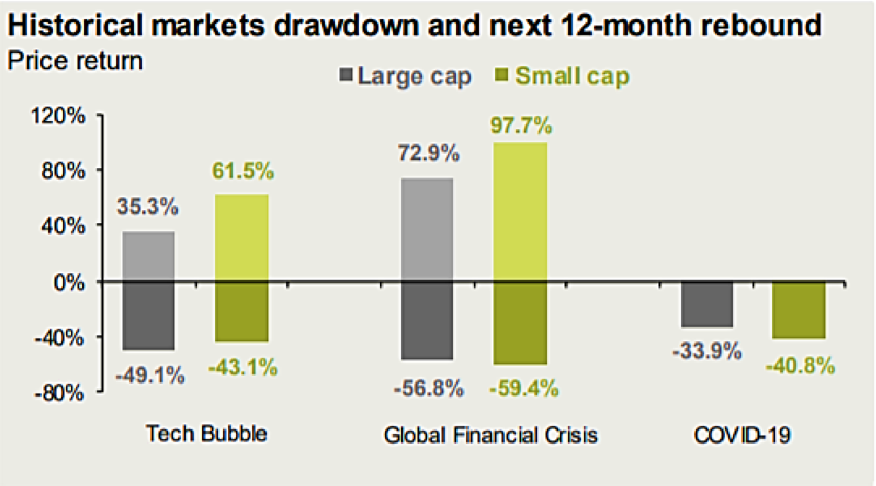
	25-yr. average	Current
Median S&P 500 P/E	15.7	20.8
Valuation spread	10.8	21.6

Sources: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of December 31, 2020.

Small Cap vs. Large Cap Stocks







Source: FactSet, FTSE Russell, NBER, J.P. Morgan Asset Management.
The S&P 500 is used for large cap and the Russell 2000 is used for small cap. Market drawdowns during the Tech Bubble, Great Financial Crisis and COVID-19 were calculated for the periods 3/24/00 – 10/9/02, 10/9/07 – 3/9/09 and 2/19/20 – 3/23/20, respectively.
Guide to the Markets – U.S. Data are as of December 31, 2020.

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Strategas Recommended Asset Allocation (Dec'20)

	Equities			Bonds			Cash & Equivalents		
		64%			27%			9%	
B'mark	MSCI ACWI	60%		Barclays Agg	38%		Cash	2%	
			M/M CHG			M/M CHG			M/M CHG
	Domestic	37%		Core Credit	26%	+41 bps	Cash	7%	
	International	27%		Extended Credit*	1%	-41 bps	Gold	2%	
		64%			27%			9%	
Overweight	US LC Value	9%		IG Corporates	13%	+27 bps	Cash	7%	
	EM AC Core	8%					Gold	2%	
	US MC Value	3%							
	US SC Core	3%							
Neutral				ABS/CMBS	1%	+14 bps			
	Dev AC Core	19%		Agencies	1%				
	US LC Growth	15%		TIPS	1%				
	US MC Growth	2%		Bank Loans*	1%				
				US Dollar EMD*	0%	-14 bps			
Underweight	US LC Core	6%		US MBS	9%				
	US MC Core	0%		U.S. Treasuries	1%				
				High Yield*	0%	-27 bps			
		64%			27%			9%	

Source: Strategas

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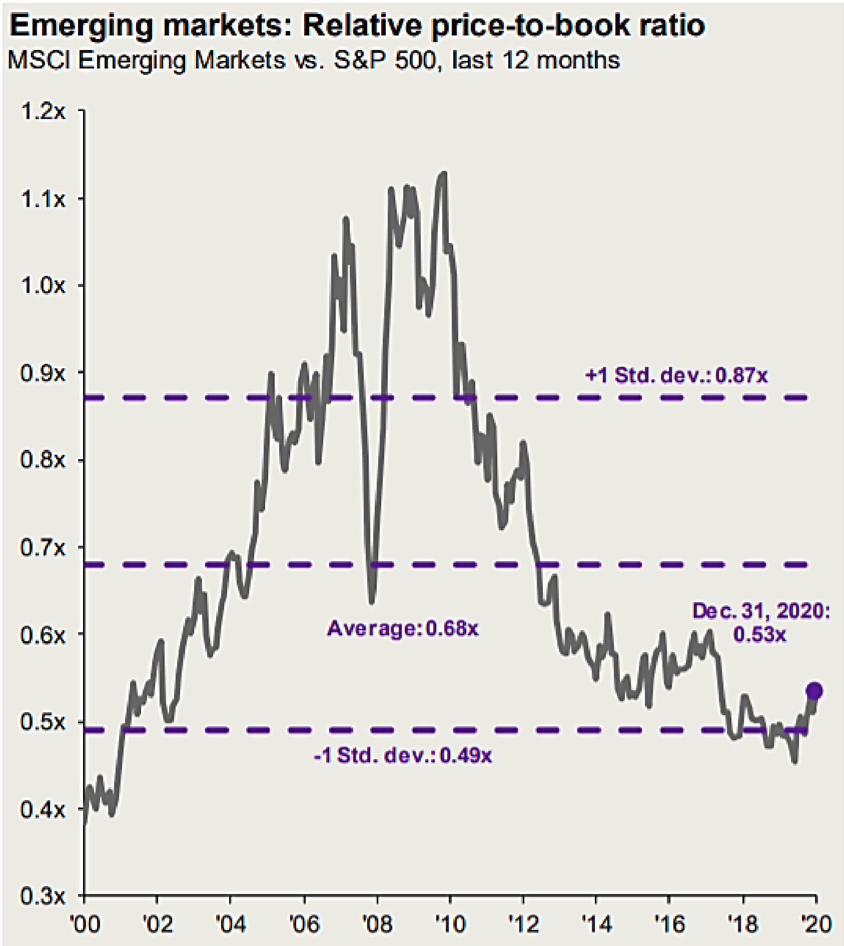
SFG's 10 Predictions for 2021

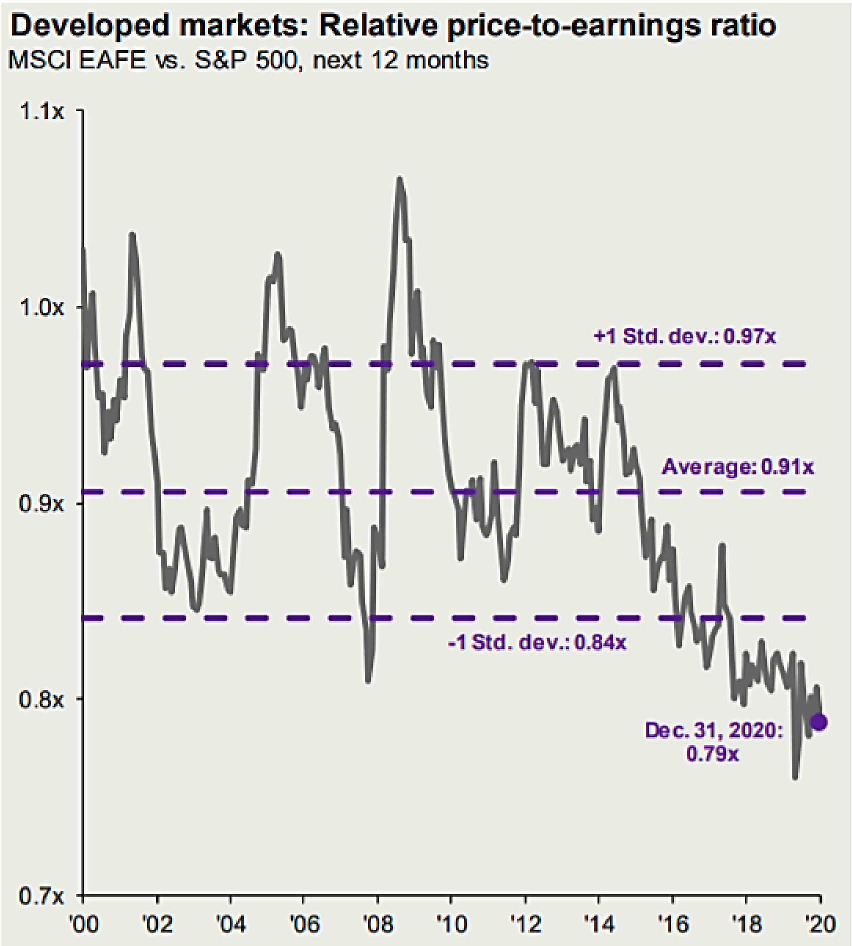
#5 - International large company stocks will outperform U.S. large company stocks.

This trend was already in motion in the fourth quarter for 2020.

- The vaccine rollout is equally positive news overseas as it is in the U.S. Many international companies trade below fair value while many U.S. companies trade at premiums to fair value.
- A weak U.S. dollar may help widen the international stock performance gap in 2021.

International Valuations





Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of December 31, 2020.:

SFG's 10 Predictions for 2021

#6 - Many flavors of alternative assets will outperform their liquid stock benchmarks.

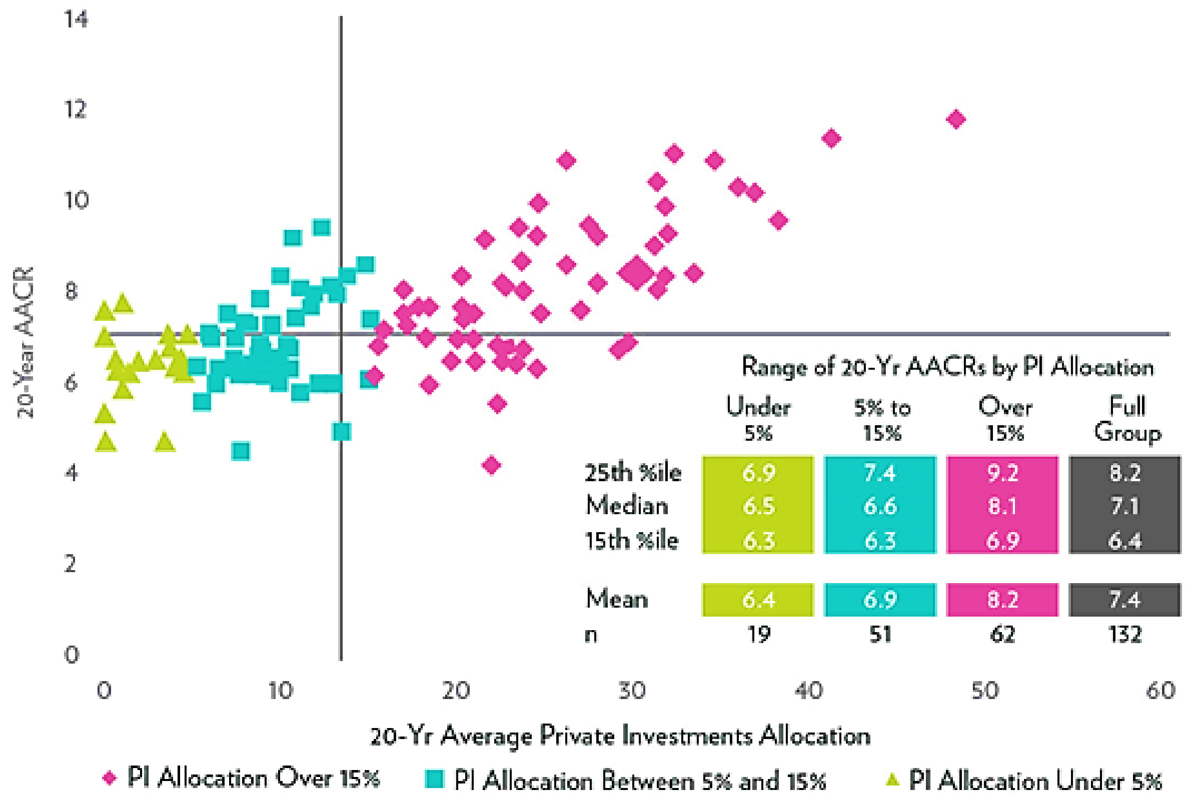
This trend has already been strong even through the pandemic.

- Many niches in liquid and illiquid investments, including real estate, private equity, mezzanine investing and venture capital, have attractive forward-looking returns.
- SFG continues to be careful in how we select managers and diversify for those who can participate in these areas.

FIGURE1 INSTITUTIONAL INVESTORS WITH HIGH PRIVATE ALLOCATIONS ALSO EARNED THE HIGHEST RETURNS OVER 20 YEARS

Mean Private Investments Allocation vs. Investment Return

20-Yr Period Ending June 30, 2018



Range of 20-Yr AACRs by PI Allocation

	Under 5%	5% to 15%	Over 15%	Full Group
25th %ile	6.9	7.4	9.2	8.2
Median	6.5	6.6	8.1	7.1
15th %ile	6.3	6.3	6.9	6.4
Mean	6.4	6.9	8.2	7.4
n	19	51	62	132

Sources: Endowment and foundation data as reported to Cambridge Associates LLC.
Notes: Analysis includes 132 endowments and foundations that provided returns and beginning year asset allocation for each June 30 from 1998 to 2018. Subgroups are based on each institution's 20-year average allocation to private investments. Solid lines are drawn where the median private investments allocation for the entire universe intersects with the median return for the entire universe.

SFG's 10 Predictions for 2021

#7 - The U.S. economy will increase at its fastest pace in 20 years.

- Coming off a modest pandemic-induced decline in 2020, this is remarkable only because it's happening so quickly and in the midst of the massive second wave of COVID-19 infections. We have the rise of e-commerce, virtual workers with lots of money to spend and rapid vaccine development to thank for this forecast.
- Current forecasts we trust project U.S. economic levels getting back to pre-pandemic levels by the third quarter of 2021.

SFG's 10 Predictions for 2021

#8 - The U.S. economic recovery will be very uneven.

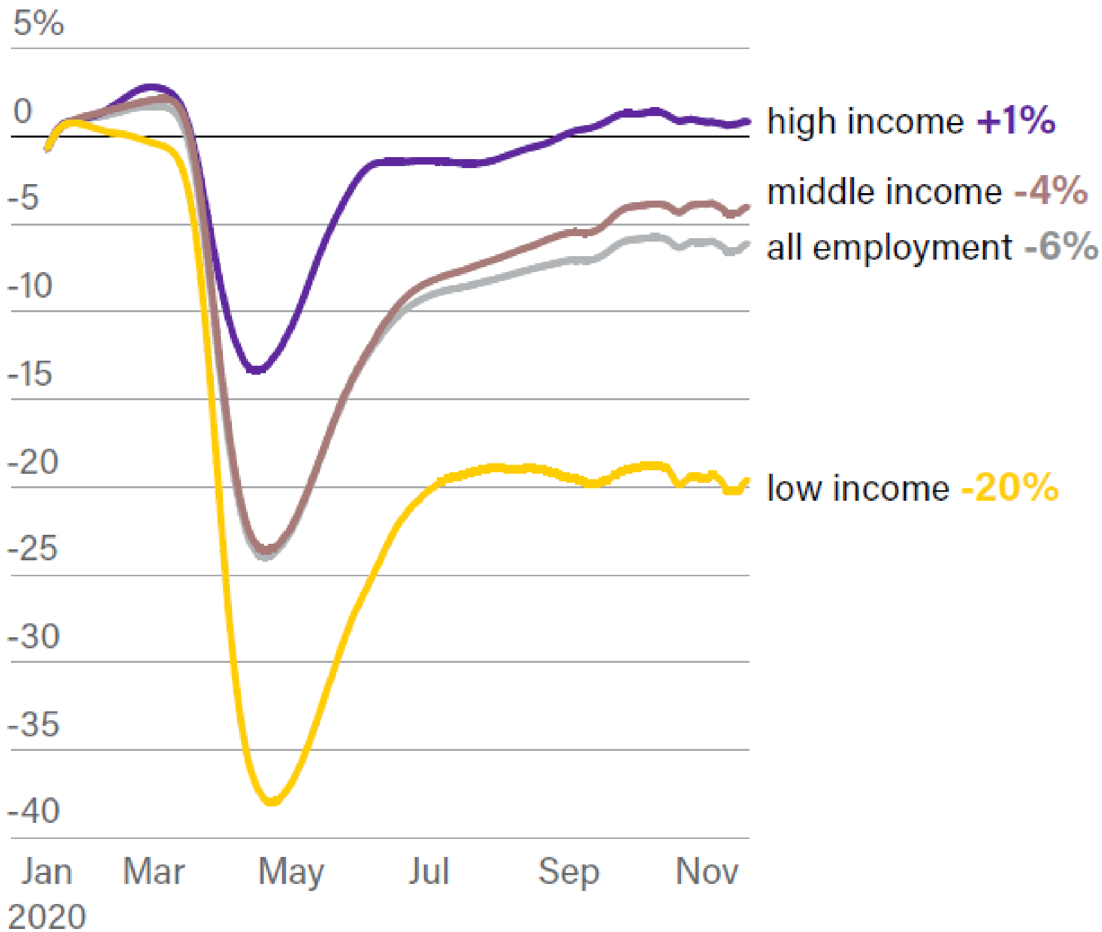
- We've been inspired by the number of restaurants who shifted gears and stayed solvent, and even thrived, despite the vast majority of consumers shunning eating out. Unfortunately, many restaurants couldn't stay afloat for a variety of reasons.
- Pent-up demand, modest consumer debt levels and pandemic fatigue may cause a surge in consumer spending in select areas (probably not toilet paper).
- SFG has written many times about the creative destruction cycle in the U.S. Job patterns shifting are the norm, but now they are happening faster than ever.

SFG's 10 Predictions for 2021

#9 - Unemployment getting gradually better but staying higher than pre-pandemic levels.

- It appears it could take two to three years to get back to 4% unemployment.
- The U.S. lived at 5% unemployment as "normal" for many decades, so this is a problem for displaced workers more than consumer spending or investment trends.
- The pandemic has magnified the income gap between high-income earners and low-income earners.

Changes in U.S. Employment



Source: tracktherecovery.org

SFG's 10 Predictions for 2021

#10 - China-U.S. tensions will remain at high levels. Geopolitics will continue to be volatile. Cybersecurity will remain a high priority for governments, corporations and individuals.

- The tensions with China will include age-old themes like intellectual property theft, human rights and unfair trade practices.
- China's economy has bounced back faster than any other large economy in the world, accelerating its long-term goal to become a global economic powerhouse with strong ties to Europe and throughout Asia, Australia and Africa.
- China is already using vaccines as a tool in its Belt and Road trade superhighway.

SFG's 10 Predictions for 2021

- Geopolitical hot spots will remain hot in 2021, including Iran (and the Middle East in general), Turkey and Russia.
- Cybersecurity threats are creating massive responses from U.S. Cyber-Security command and private security companies. Microsoft used advanced cyber-defense tools in the December breaches.

FireEye Cyber Attack Was Reportedly Done by a Nation-Backed Hacker Group, Targeted Security Tools

The December 2020 hack on the $3.5 billion cyber security firm, FireEye, will go down as one of the most important cyber attacks and infiltrations reported this year.

Frequently Asked Questions (in order of frequency)

1. In a “K” type uneven COVID-19 endgame economic recovery, how might this impact my investments? My child’s career?
2. What will investment returns look like in the next three to five years in the COVID-19 endgame and aftermath?
3. How can I benefit from the pandemic acceleration of disruptive technology?
4. How do I achieve good income and good downside protection with bonds at current levels?
5. How will the large budget deficits impact future economic conditions and interest rates? Possible impact on future tax rates?
6. Of the many economic, political and geo-political threats that loom, which should we focus on? What threats are low likelihood, high impact? Should we try to hedge low likelihood possibilities?
7. What should be my number one Financial Planning focus?

Frequently Asked Questions (in order of frequency)

1. **In a "K" type uneven COVID-19 endgame economic recovery, how might this impact my investments? My child's career?**

   SFG believes active rebalancing (strategic and tactical within asset classes) is critical in this environment.

   As opposed to the Great Recession bargain chest, most stocks are fully valued or overvalued today.

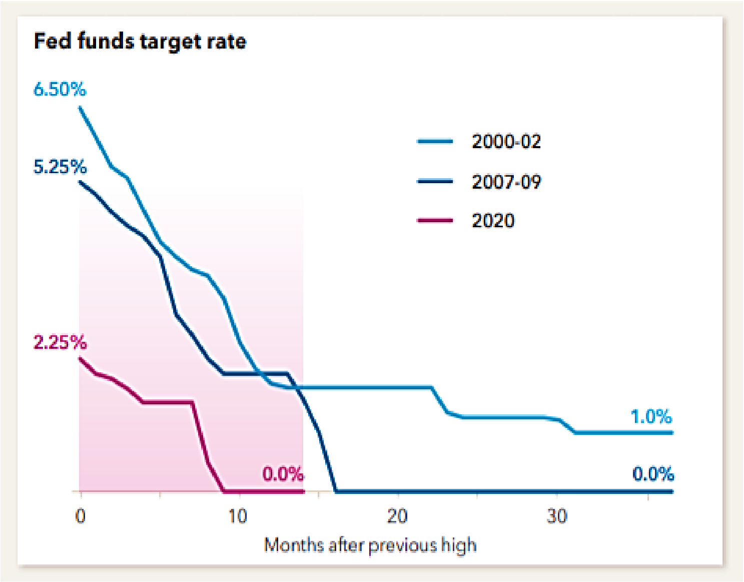
   Low interest rates for the next few years helps justify higher valuations, up to a point. High cash on the sidelines is another positive.

   "Living at home" stocks are likely to return less for a while. "Return to normal" stocks have already had major rallies, although many still have interesting prospects.

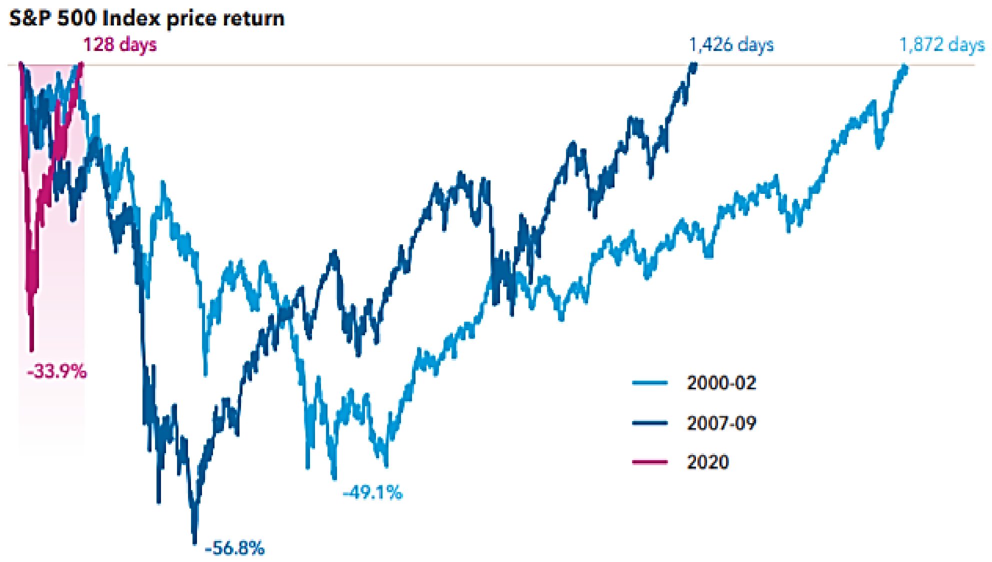
   "Tech enabled" companies have more interesting return vs. risk characteristics now than technology companies.

Don’t Fight the Fed

The Fed cut rates in record time in 2020



Markets responded with the fastest recovery in history



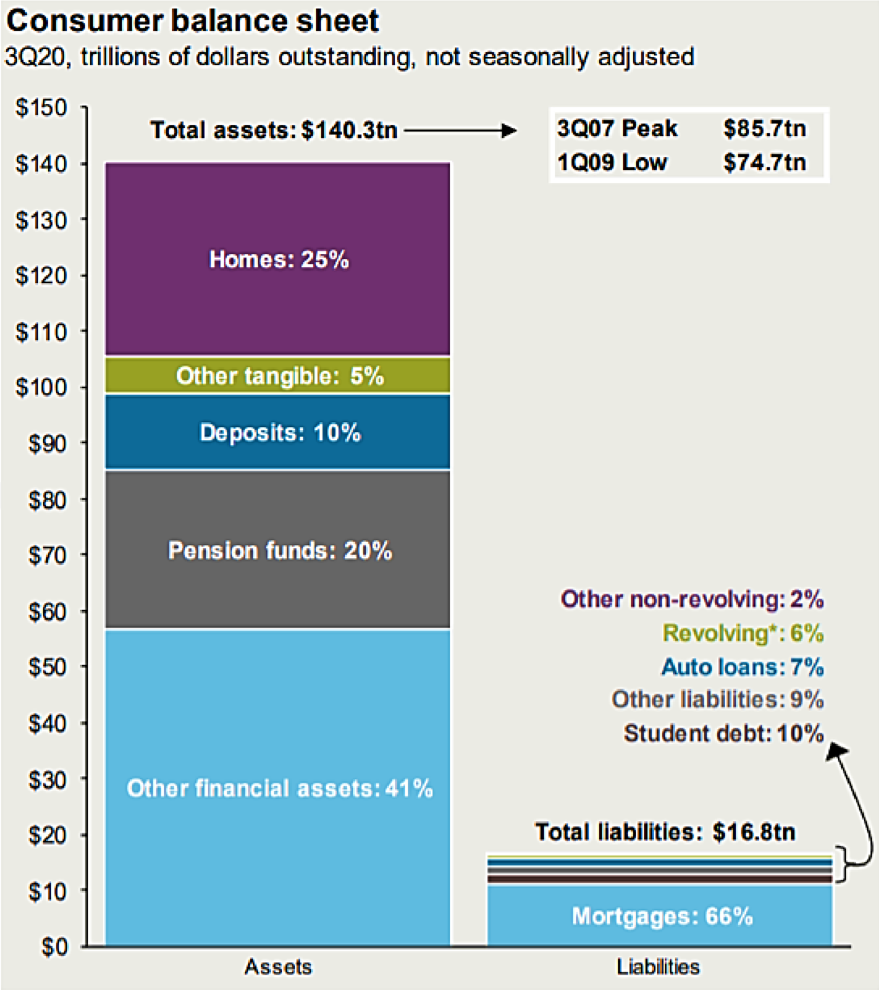
Source: (Left chart) Federal Reserve. As of 11/30/20. In periods when the Federal Reserve had a target range, the lower bound has been used. (Right chart) RIMES, Standard & Poor’s. As of 11/30/20. Returns are in USD.

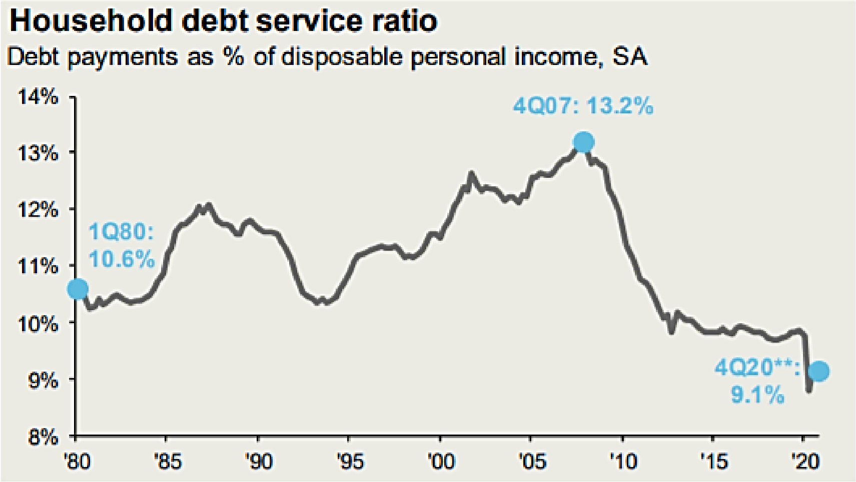
Asset Class Returns

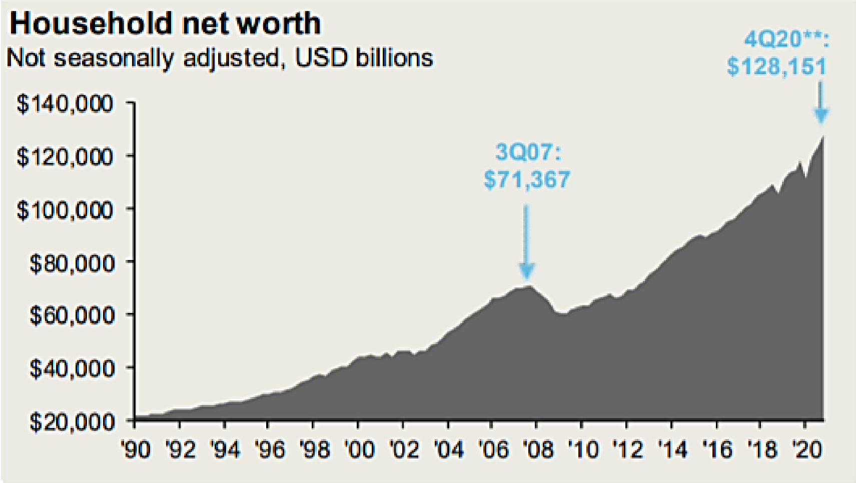
2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2006 - 2020	
																Ann.	Vol.
EM Equity 34.5%	REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	Large Cap 9.8%	EM Equity 23.3%
Comdty. 21.4%	EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Small Cap 8.9%	REITs 23.1%
DM Equity 14.0%	DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	High Yield 7.5%	Small Cap 22.6%
REITs 12.2%	Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	REITs 7.1%	DM Equity 19.1%
Asset Alloc. 8.1%	Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	EM Equity 6.9%	Comdty. 18.8%
Large Cap 4.9%	Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	Asset Alloc. 6.7%	Large Cap 16.7%
Small Cap 4.6%	High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	DM Equity 5.0%	High Yield 12.2%
High Yield 3.6%	Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Fixed Income 4.5%	Asset Alloc. 11.8%
Cash 3.0%	Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Cash 1.2%	Fixed Income 3.2%
Fixed Income 2.4%	Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	Comdty. -4.0%	Cash 0.8%

Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Barclays Global HY Index, Fixed Income: Bloomberg Barclays US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg Barclays 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg Barclays US Aggregate, 5% in the Bloomberg Barclays 1-3m Treasury, 5% in the
Bloomberg Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/05 to 12/31/20. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of December 31, 2020..

Consumer Finances







Source: FactSet, FRB, J.P. Morgan Asset Management; (Top and bottom right) BEA.
Data include households and nonprofit organizations. SA – seasonally adjusted. *Revolving includes credit cards. Values may not sum to 100% due to rounding. **4Q20 figures for debt service ratio and household net worth are J.P. Morgan Asset Management estimates.
Guide to the Markets – U.S. Data are as of December 31, 2020.

Frequently Asked Questions (in order of frequency)

2. What will investment returns look like in the next three to five years in the COVID-19 endgame and aftermath?

Most asset classes will likely have lower returns than normal.

- Bonds may be lucky to equal inflation in the next few years.
- We expect the S&P 500 forward returns will be less than historical averages, likely in the 5-6% range (includes dividends).
- Dividend aristocrats should do a bit better but are subject to “taper tantrum” risks in the next few years.
- Small company stocks, especially value, look promising.
- International high-quality stocks have more interesting return vs. risk profiles.
- Emerging market stocks may have higher returns over the longer term.

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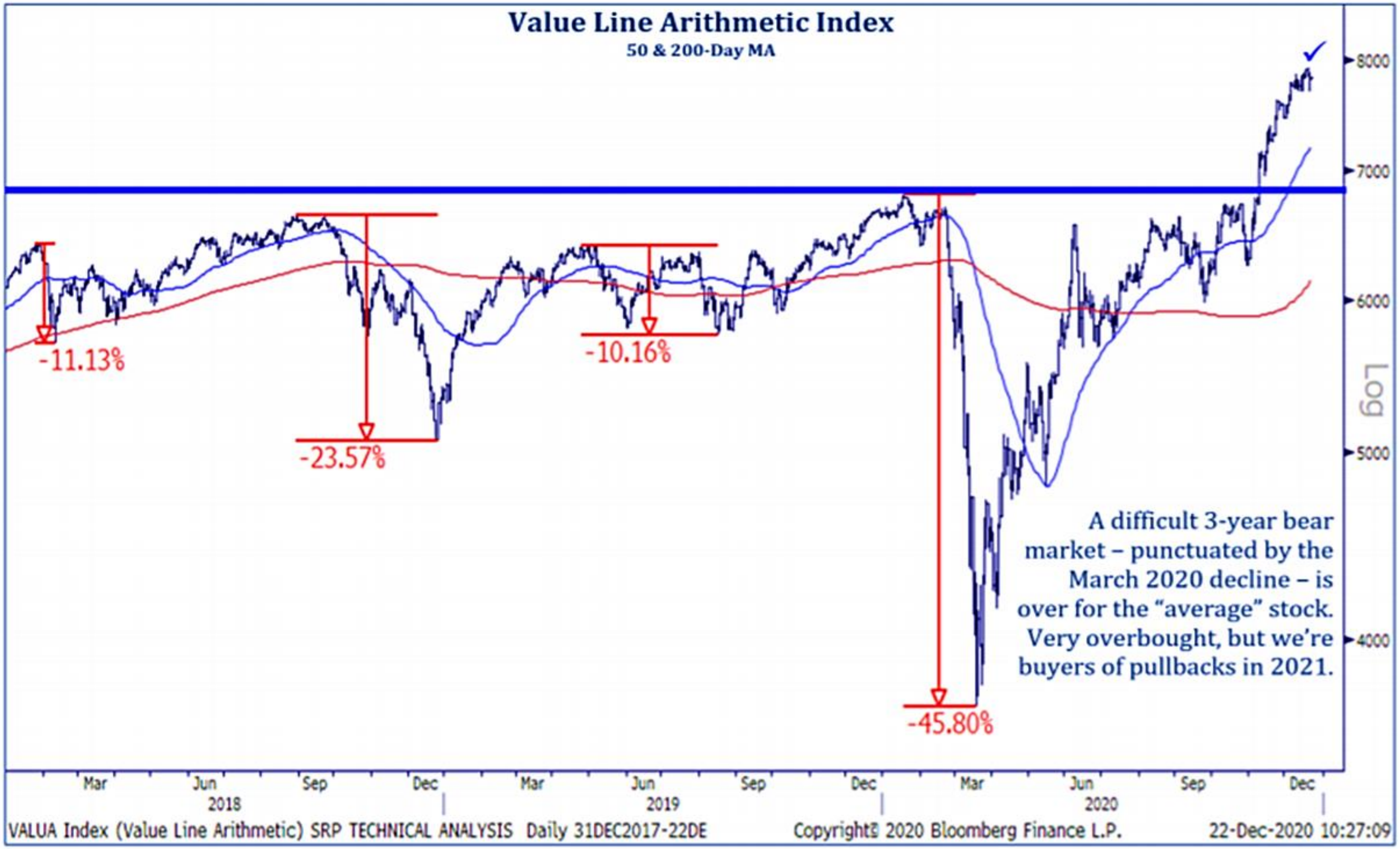
BCA Global Investment Strategy View Matrix

	3-Month	12-Month	10-Year
Global Asset Allocation			
Equities	3	4	3
Fixed Income	2	2	1
Cash	4	3	4
Global Equities (Region)*			
US	2	2	2
Euro Area	4	4	3
UK	4	4	3
Canada	4	4	3
Australia	4	4	3
Japan	4	4	3
EM	4	4	5
Global Fixed Income**			
Government	3	2	1
Investment Grade	3	3	3
High Yield	3	4	4
Duration	3	2	1
Inflation Protection	3	4	5
Global Fixed Income (Region)**			
US Treasuries	3	2	2
UK Gilts	3	3	2
German Bunds	3	3	3
JGBs	3	4	3
EM Sovereign	3	4	4
Currencies***			
USD	3	2	2
EUR	3	4	4
GBP	3	4	4
CHF	3	2	2
JPY	3	2	2
CAD	3	4	4
AUD	3	4	4
EM Currencies	3	4	4
Commodities (vs USD)			
Energy	4	5	3
Base/Bulk Metals	3	4	4
Gold	4	4	5
Softs	2	2	4

LEGEND:
1 – DENOTES STRONG UNDERWEIGHT/VERY BEARISH VIEW.
2 – DENOTES UNDERWEIGHT/BEARISH VIEW.
3 – DENOTES NEUTRAL VIEW.
4 – DENOTES OVERWEIGHT/BULLISH VIEW.
5 – DENOTES STRONG OVERWEIGHT/VERY BULLISH VIEW.
* RELATIVE TO MSCI ACWI (CURRENCY UNHEDGED).
** RELATIVE TO BLOOMBERG BARCLAYS GLOBAL AGGREGATE (CURRENCY HEDGED).
*** IN TRADE-WEIGHTED TERMS.

Source: BCA Research – Global Investment Strategy: Strategy Outlook – 2021 Key Views: Navigating A Post-Pandemic World, 12.10.20

Brutal Three-Year Stretch for the “Average” Stock Is Over



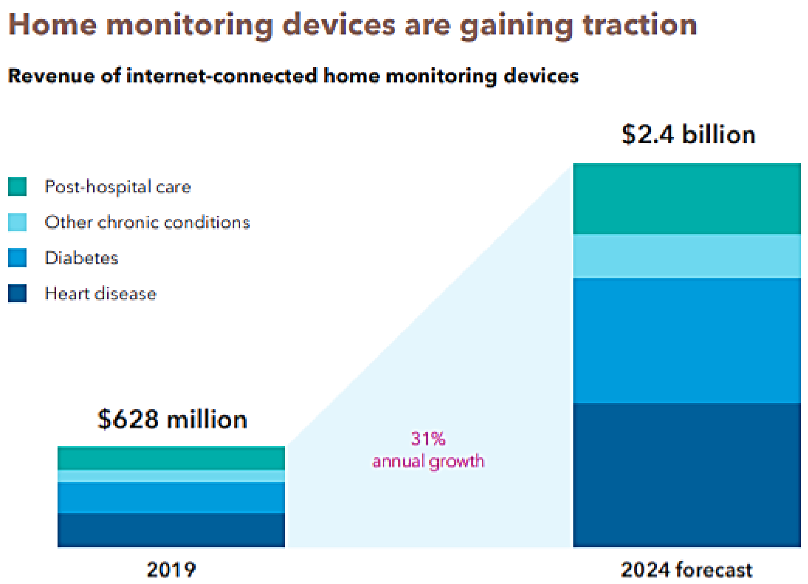
Source: Strategas

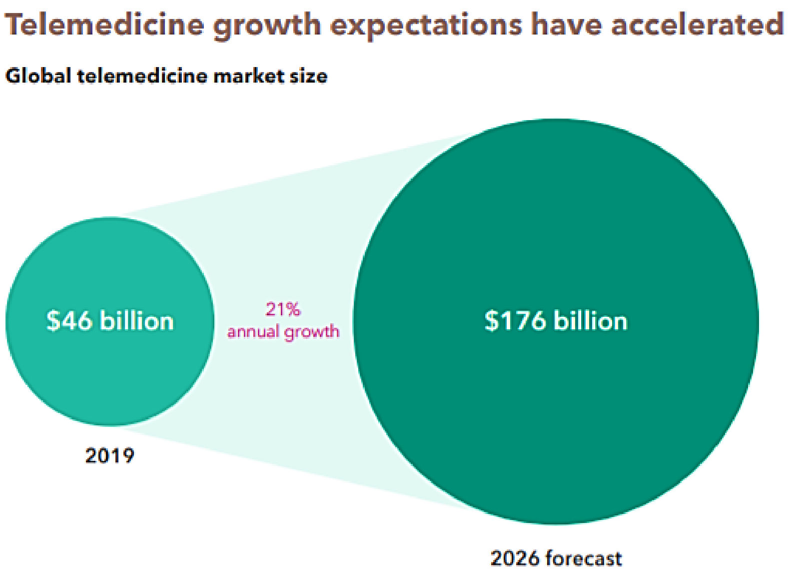
Frequently Asked Questions (in order of frequency)

3. How can I benefit from the pandemic acceleration of disruptive technology?

- The techno-industrial revolution is in full swing. In some areas, the pandemic has accelerated disruptive technology.
- A traditional stock portfolio will have many companies who are leaders in disruptive technology. Ex – Microsoft in tech-enabled trend and cyber-security.
- Small tech has been exciting in 2020, but has the most stretched valuations and could be in for a period of sideways volatility.
- High conviction FutureTech trends:
  - Industrialized AI
  - Personalized medicine including genomics
  - Robotics
  - Digital pivot tools
  - Internet of Things
  - Advanced data analytics

House Calls Are Coming to Healthcare



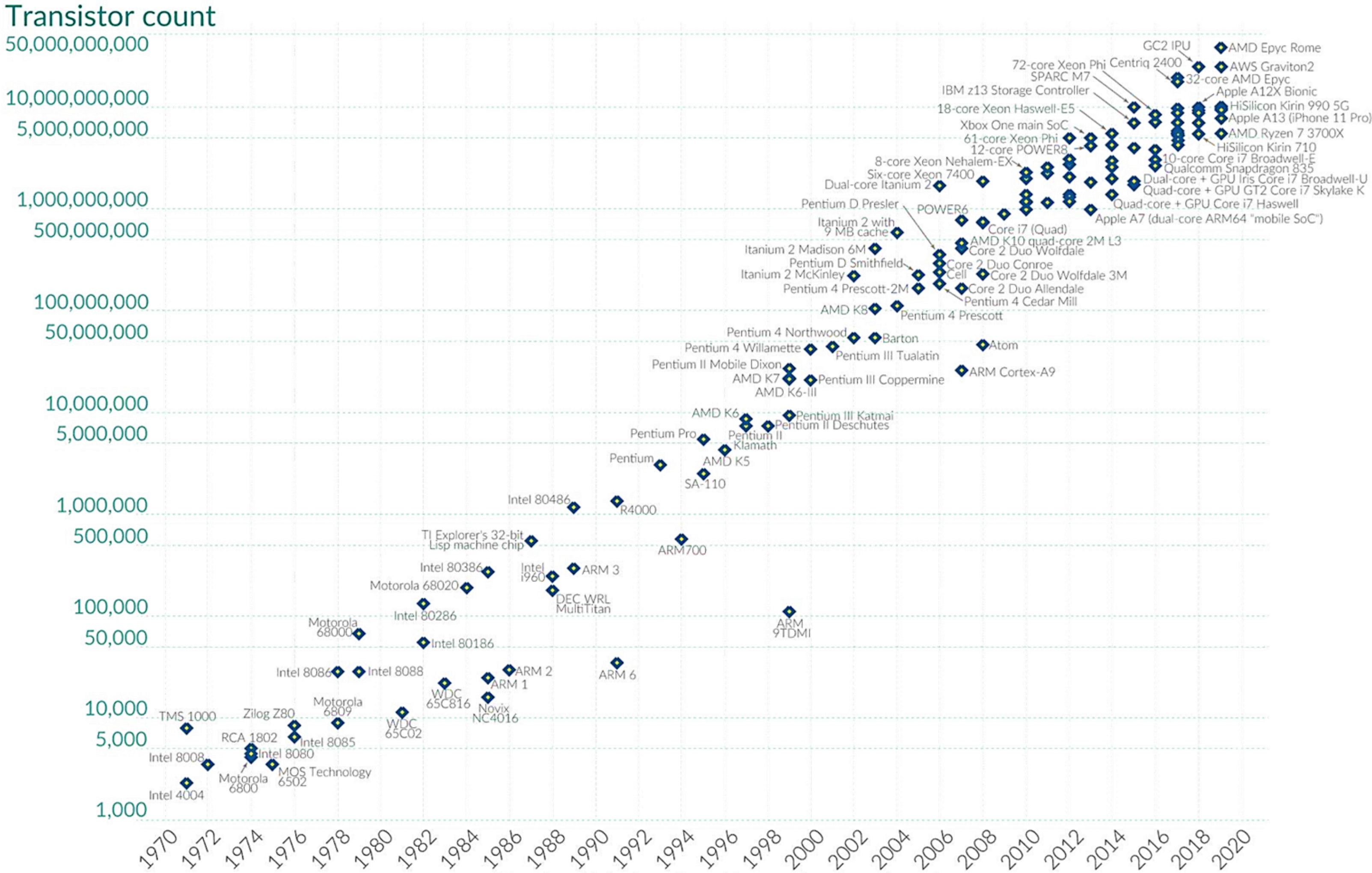


Source: (Left chart) Industry and government data, Kagan estimates, Standard & Poor's. Data compiled June 2020.
(Right chart) Capital Group, Statista. As of 4/30/20. Forecast includes impact of COVID-19. Values in USD.

Moore's Law: The number of transistors on microchips doubles every two years

Our World in Data

Moore's law describes the empirical regularity that the number of transistors on integrated circuits doubles approximately every two years. This advancement is important for other aspects of technological progress in computing – such as processing speed or the price of computers.



Data source: Wikipedia (wikipedia.org/wiki/Transistor_count)

OurWorldinData.org – Research and data to make progress against the world's largest problems.

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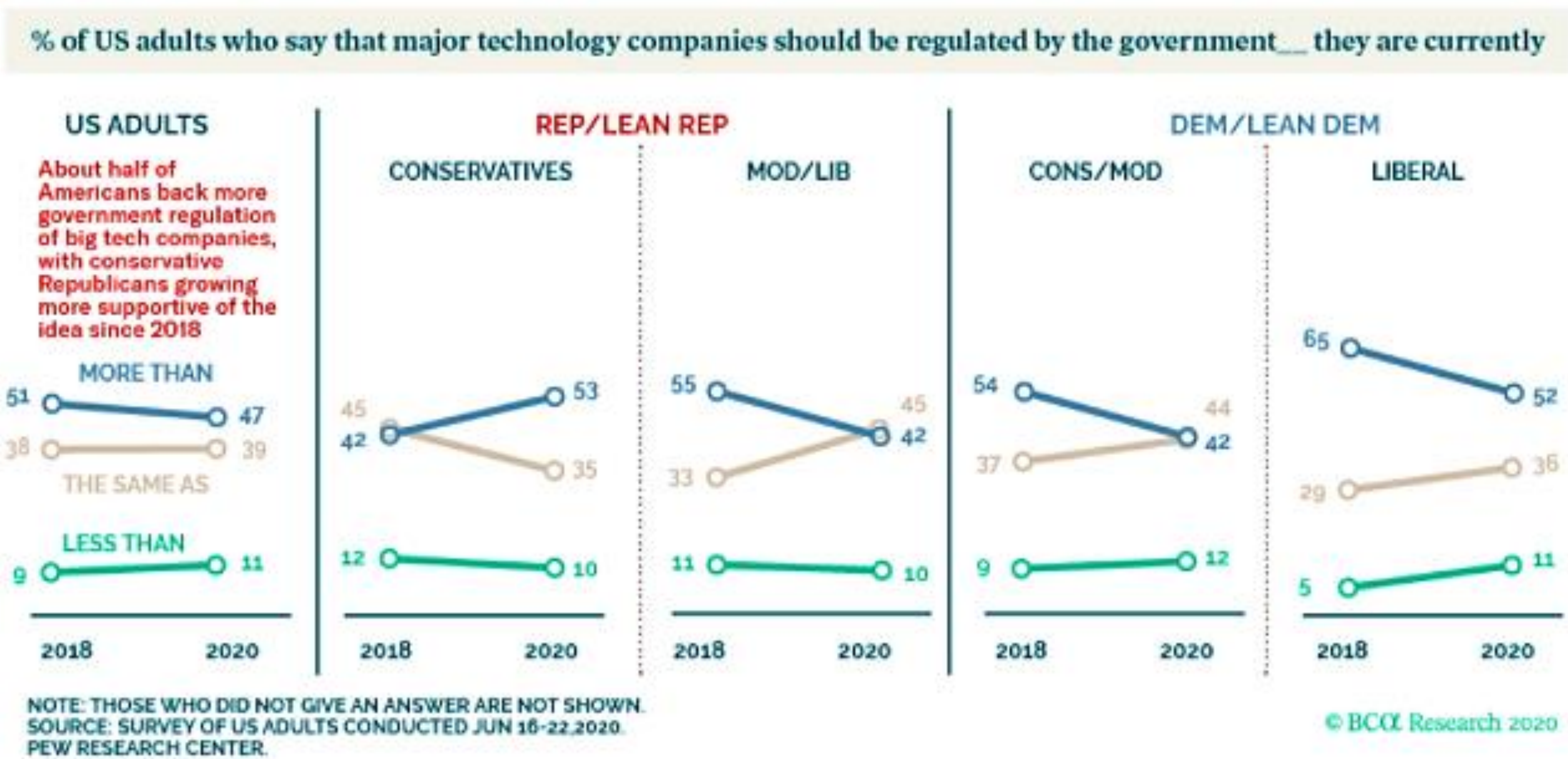
Regulation Considerations for Big Tech

Conservatives Favor Increased Government Regulation Of Big Tech Companies



Frequently Asked Questions (in order of frequency)

4. How do I achieve good income and good downside protection with bonds at current levels?

   A: SFG thinks there is a place for bonds in a portfolio, but is currently significantly underweight compared to normal bond allocations.

   - We favor corporate bonds over government bonds, and active over passive.
   - We like select high quality, high yield bonds.
   - In the near future, we will likely add to inflation adjusted bonds.
   - We consider some higher dividend and dividend growing “aristocrat” stocks to be attractive while interest rates are lower.
   - We like bond substitutes that are not as subject to “taper tantrums” as interest rates slowly normalize over the next few years.

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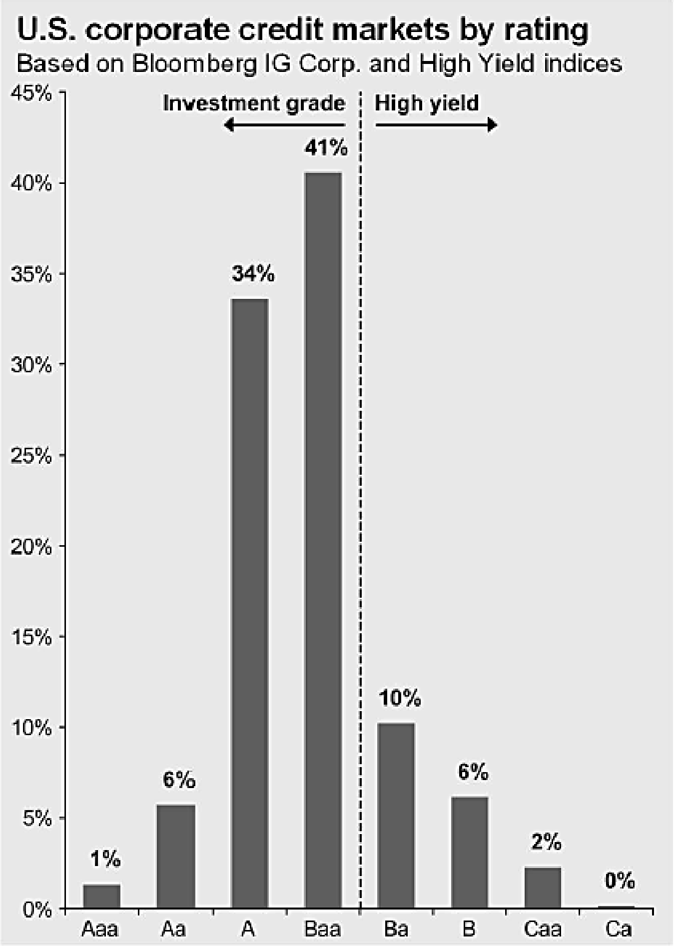
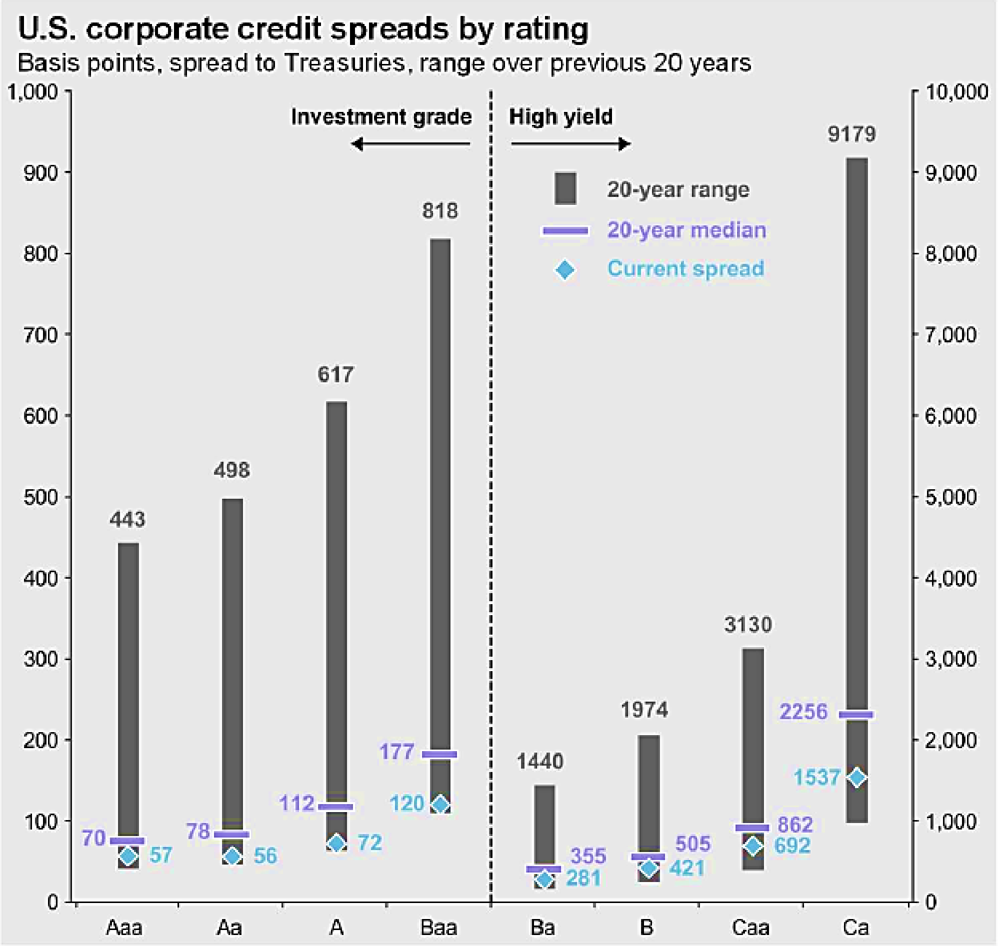
Corporate Debt Characteristics



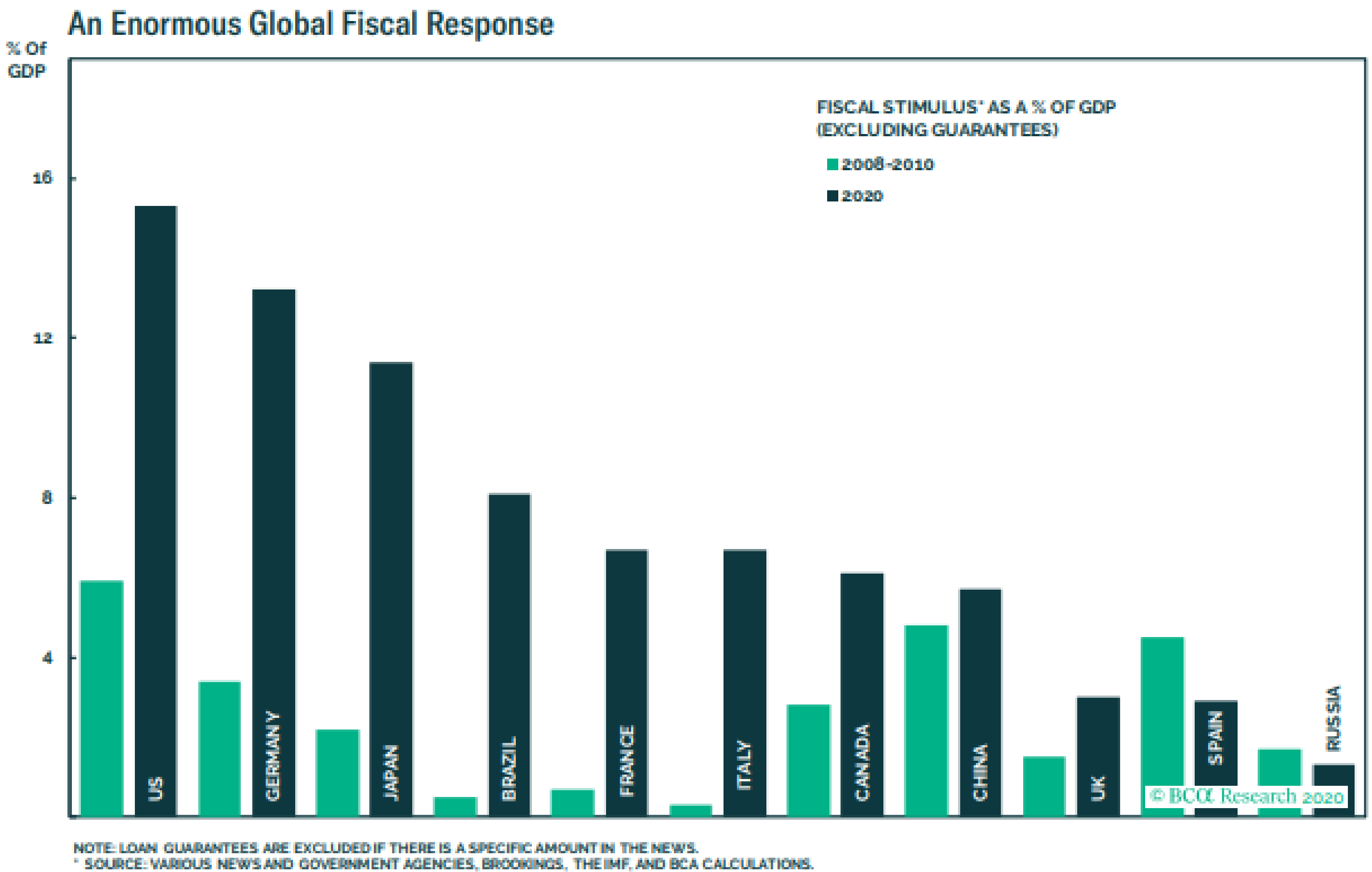


Source: Barclays, Bloomberg, FactSet, J.P. Morgan Asset Management. Distribution of corporate credit is based on the current market value of the Bloomberg US Corporate Investment Grade and U.S. High Yield sub-indices. Spread-to-worst indicated is the difference between the yield-to-worst of a bond and yield-to-worst of a U.S. Treasury security with a similar duration.
Guide to the Markets – U.S. Data are as of December 31, 2020

Frequently Asked Questions (in order of frequency)

5. **How will the large budget deficits impact future economic conditions and interest rates? Possible impact on future tax rates?**
   - The near-term impact of higher deficits is likely to be minimal.
   - The longer term "crowding out" effect of high debt is a higher risk over the 6- to10-year time horizon.
   - SFG has projected future tax rates in 2026 and beyond under various scenarios – most middle-class taxpayers will have modest impacts. Higher income taxpayers may see effective and marginal tax rates rise 30-50%.

Global Fiscal Stimulus



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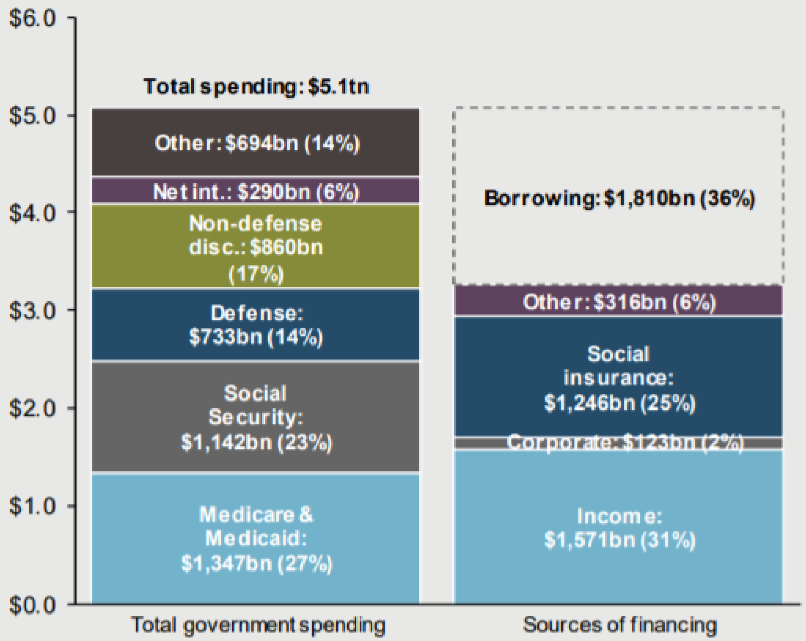
Federal Finances

The 2021 federal budget

CBO Baseline forecast, USD trillions

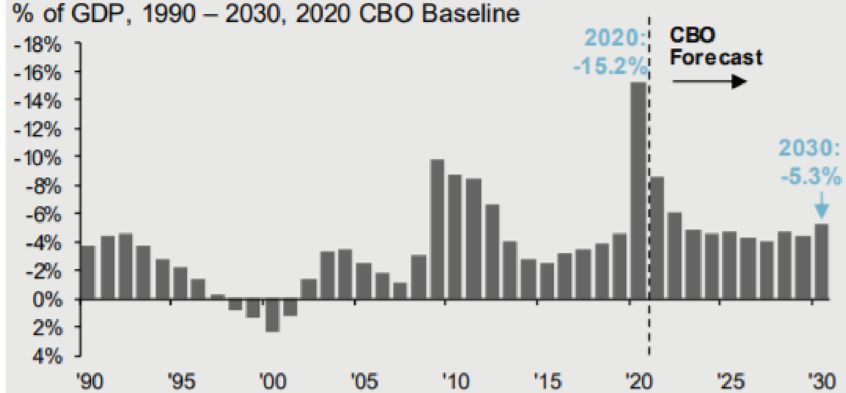


CBO's Baseline economic assumptions

	2021	'22-'23	'24-'25	'26-'30
Real GDP growth	1.1%	2.9%	2.3%	2.1%
10-year Treasury	0.8%	1.2%	1.7%	2.7%
Headline inflation (CPI)	0.9%	1.9%	2.3%	2.2%
Unemployment	9.1%	7.0%	5.9%	4.7%

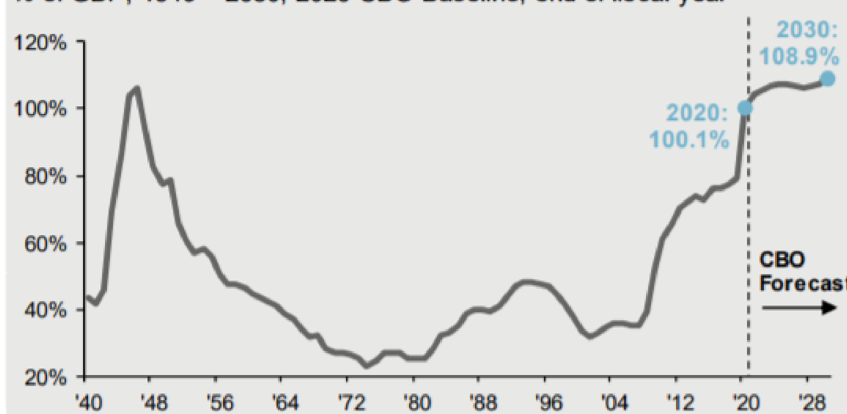
Federal budget surplus/deficit

% of GDP, 1990 – 2030, 2020 CBO Baseline



Federal net debt (accumulated deficits)

% of GDP, 1940 – 2030, 2020 CBO Baseline, end of fiscal year



Source: CBO, J.P. Morgan Asset Management; (Top and bottom right) BEA, Treasury Department.
2021 Federal Budget is based on the Congressional Budget Office (CBO) September 2020 Baseline Budget Forecast. CBO Baseline economic assumptions are based on the Congressional Budget Office (CBO) July 2020 Update to Economic Outlook. Other spending includes, but is not limited to, health insurance subsidies, income security and federal civilian and military retirement. Note: Years shown are fiscal years (Oct. 1 through Sep. 30).
Guide to the Markets – U.S. Data are as of December 31, 2020.

Foreign Holdings of U.S. Treasuries Has Slid to a 20-Year Low

Source: Federal Reserve, TD Securities
©FT

Frequently Asked Questions (in order of frequency)

6. Of the many economic, political and geo-political threats that loom, which should we focus on? What threats are low likelihood, high impact? Should we try to hedge low likelihood possibilities?

SFG believes the combination of political and geo-political threats are higher than normal.

- Grid-lock in DC is often good for the economy and stocks, but that may not be true in the challenging environment ahead.
- The rise of nationalistic populism has increased stress points around the world.
- China's advancing Belt and Road plans will create heightened competition with the U.S. and disrupt some U.S. supply chains.

In this environment, we advise that clients have multiple safety nets in place and be careful about high withdrawal rates where volatility is your enemy.

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Frequently Asked Questions (in order of frequency)

7. What should be my focus areas in Financial Planning?

- Know your spending limitations given your assets, return expectations at your "sleep well" level, and how increased and prolonged volatility may impact your strategy.
  - Consider the ROI on getting professional career coaching for your child or grandchild.
- With cash returns so low, create multiple approaches to cash reserve management.
- Understand your personal "CPI" – are you subject to higher inflation than the averages?
- Analyze your true tax picture in the future before making radical moves towards Roth conversions or other future tax avoidance strategies.
- Be ready for higher expenses post-COVID-19 – "pandemic retail therapy."
- Revisit the fourth quarter fumbles – rate them green, yellow and red. Consider risk mitigation ideas in the yellow and red categories.

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Questions?

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Offices in Greensboro and Chapel Hill

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