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Economic and Market Environment

Fourth Quarter 2020

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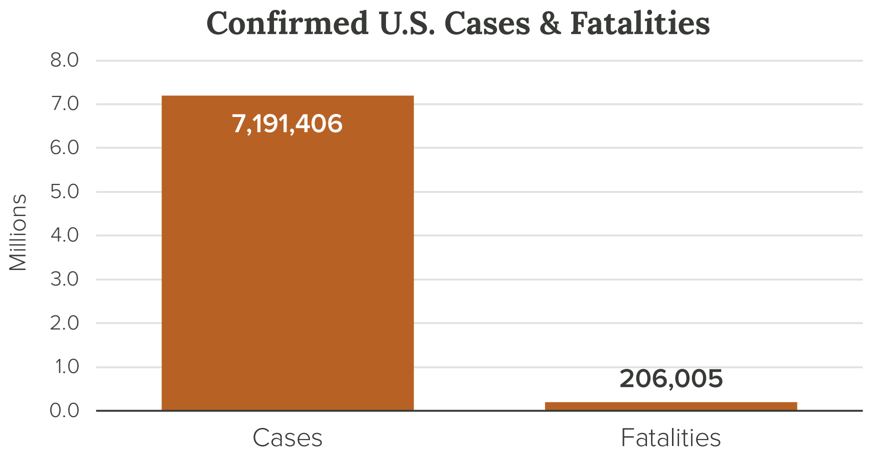
The Economy

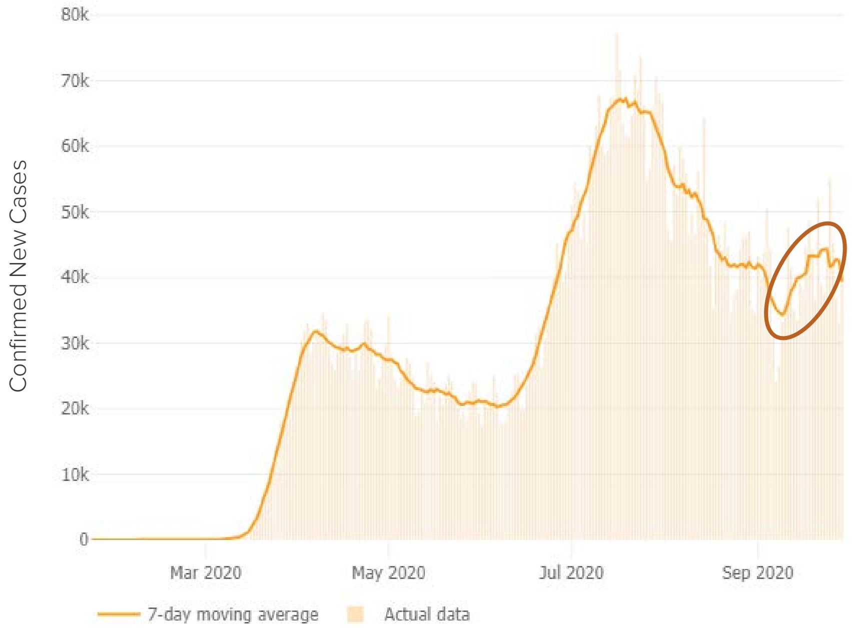
- The U.S. economy is now in recovery after reaching its nadir in March/April of this year.
- The recovery is proceeding at a faster rate than initially expected but has a long way to go to reach pre-pandemic levels.
- Real Gross Domestic Product (GDP) and unemployment are the two broadest measures of economic health. Both have shown steady improvement in recent months.
- Monetary and fiscal policy has been aggressive and effective. Further fiscal stimulus may be required to sustain the recovery.
- Progress in containing COVID-19 is crucial. An effective vaccine will most likely be necessary to enable a "return to normal."
- We expect the U.S. economy will fully recover and begin another long recovery/expansion cycle that could last for years. We believe the "2% World" of 2% GDP growth, inflation, and interest rates will return.

Stocks and Bonds

- After a peak-to-trough decline of 35%, stocks recovered to new all-time highs. Technically, this signals a new bull market.
- After peaking, stocks are in a correction. This is not surprising considering the dramatic recovery from its low point. Volatility is normal in pre-presidential election periods.
- Stocks are being driven by improving economic fundamentals, low interest rates, and the absence of attractive alternatives.
- Bond yields remain at historically low levels. Both economic fundamentals and monetary policy are exerting downward pressure on yields.
- Bond yields could rise somewhat in coming years, but we expect increases to be moderate until inflation becomes a threat.
- The financial markets are always subject to geopolitical developments. In future years, management of the U.S./China relationship will be among the more important global challenges. High-quality, liquid investments are the best hedges against these threats.



Source: Johns Hopkins University & Medicine – Coronavirus Resource Center
Data as of September 30, 2020



Source: Johns Hopkins University & Medicine – Coronavirus Resource Center
Data as of September 30, 2020

- It is important to monitor the progress of COVID-19 because of its continuing impact on economic activity. Its influence should not be underestimated.
- COVID-19 limits economic activity due to complete or partial lockdowns. Even in the absence of lockdowns, mobility and engagement are limited by fear.
- Experts warn that a fall/winter wave could be extreme, mixing in with the flu season.
- It is encouraging that hospitalizations and deaths are occurring at a lower rate than infections.
- Returning completely to "normal" will most probably require a successful vaccine. Such a state may be at least one year away.

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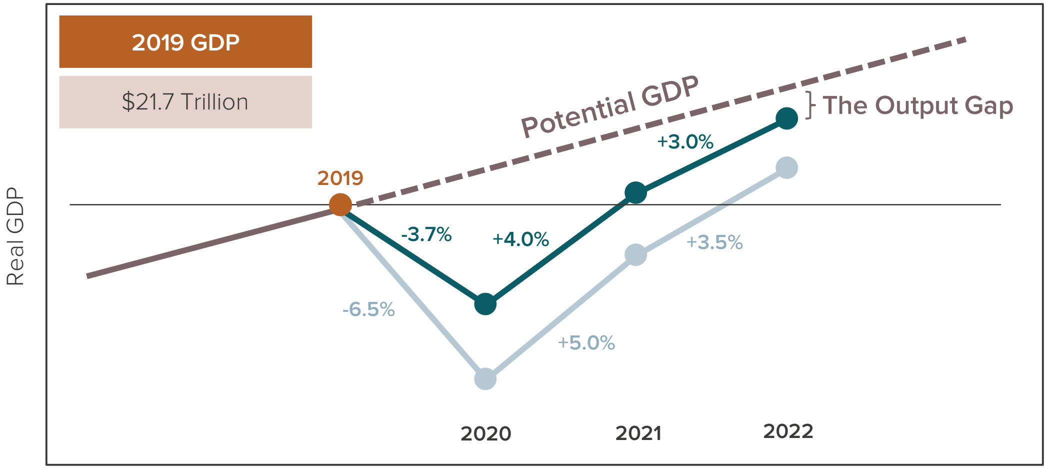

	2020 GDP	2021 GDP	2022 GDP
June Projections	$20.3 Trillion (-6.5%)	$21.3 Trillion (+5.0%)	$22.0 Trillion (+3.5%)
September Projections	$20.9 Trillion (-3.7%)	$21.8 Trillion (+4.0%)	$22.4 Trillion (+3.0%)

Source: Federal Reserve projections – FOMC Press Conference September 16, 2020; Crawford estimates

- Using Federal Reserve (Fed) projections for real GDP growth, we are encouraged that estimates for recovery are improving.
- September estimates indicate a smaller contraction in 2020 than the June estimates. Should these estimates prove correct, previous peak levels of GDP could be reached by the end of 2021.
- Lower estimates for 2021 and 2022 suggest a slower, more halting path after a stronger initial bounce in the second half of 2020.
- While encouraging, these estimates still leave the U.S. economy with an output gap at the end of 2022.

UNEMPLOYMENT: IMPROVING, BUT A LONG WAY TO GO

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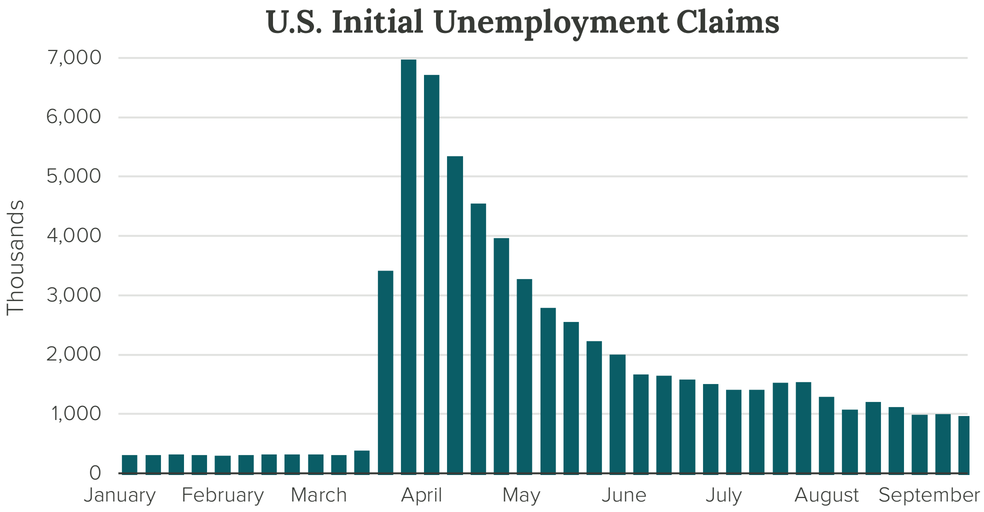
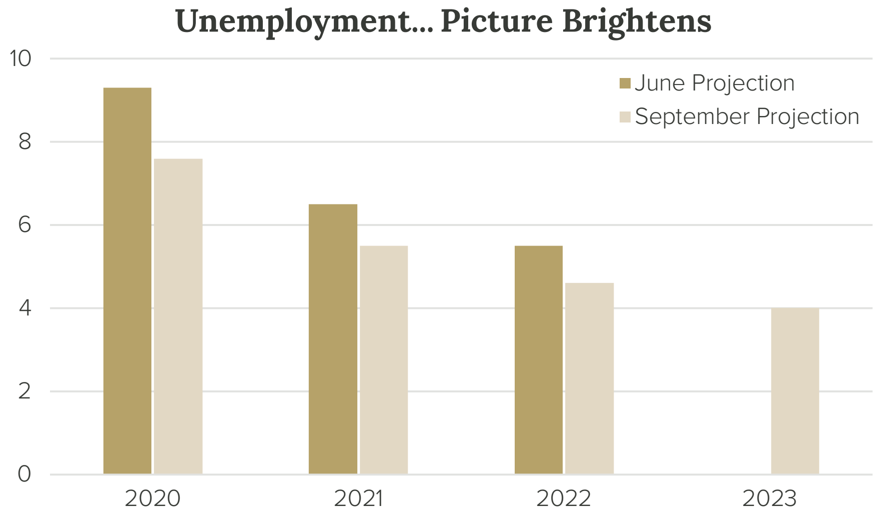
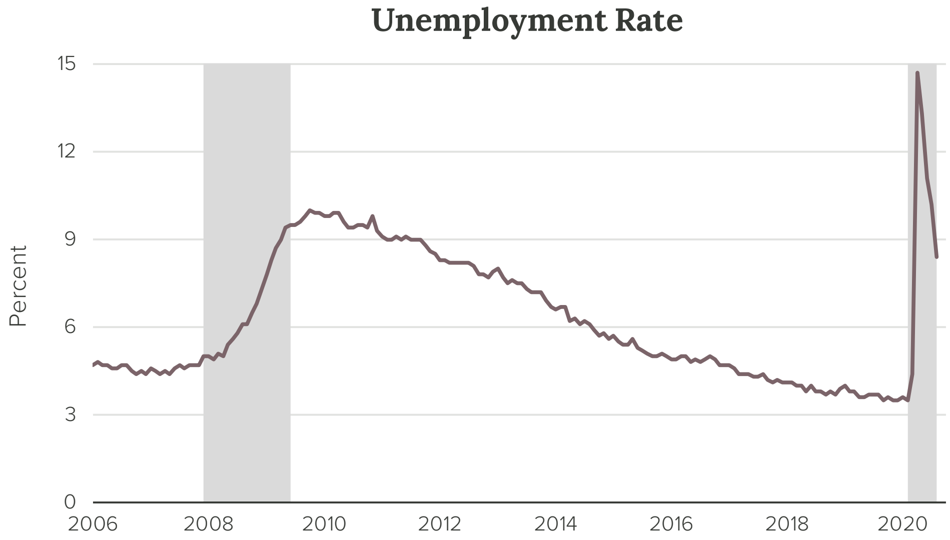


Source: Federal Reserve Bank of St. Louis
Initial Claims, Number, Weekly, Seasonally Adjusted (Data through September 12, 2020)



Source: Federal Reserve projections – FOMC Press Conference September 16, 2020



Source: Federal Reserve Bank of St. Louis
Unemployment Rate, Percent, Monthly, Seasonally Adjusted
(Data Through: August 2020)

- Other than GDP, unemployment may be the most important measure of broad economic activity. If people don't work, they are not financially confident and they cannot spend.
- Employment is the engine of aggregate demand.
- These three displays are encouraging in that they show improvement, but they illustrate just how depressed the economy is today.
- The unemployment message: we have a long way to go.

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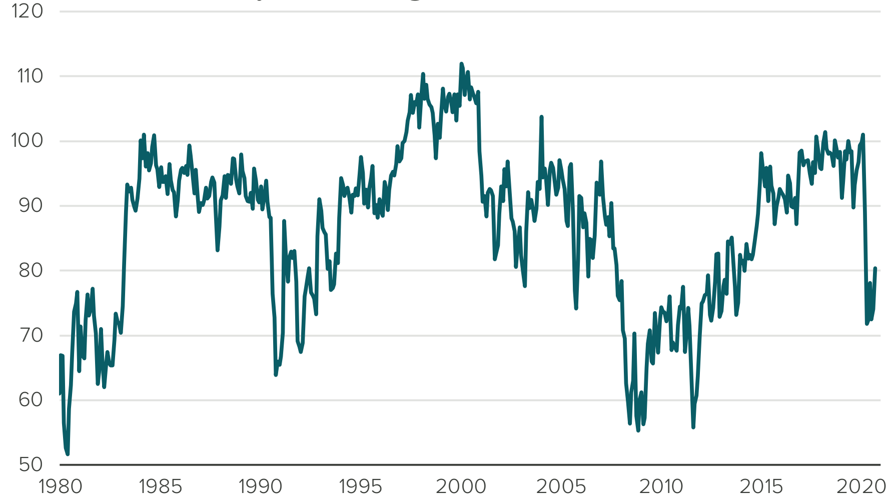
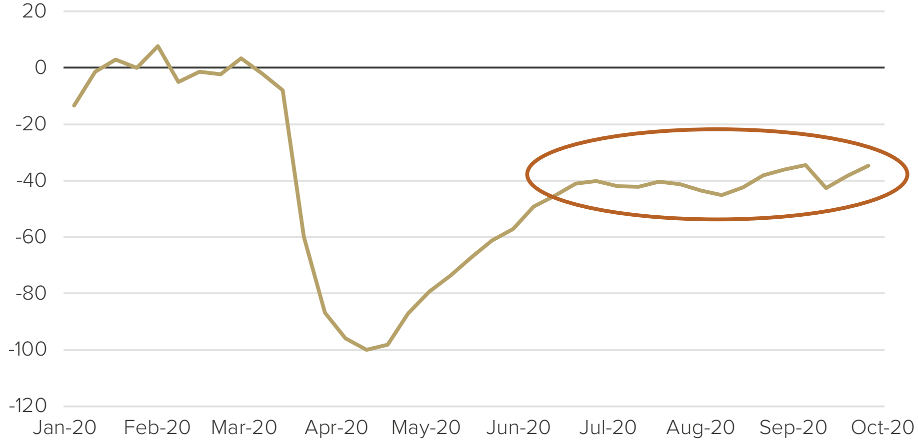
University of Michigan: Consumer Sentiment



Source: Federal Reserve Bank of St. Louis, University of Michigan
University of Michigan: Consumer Sentiment, Index 1966:Q1=100, Monthly, Not Seasonally Adjusted
(Data Through: September 2020)

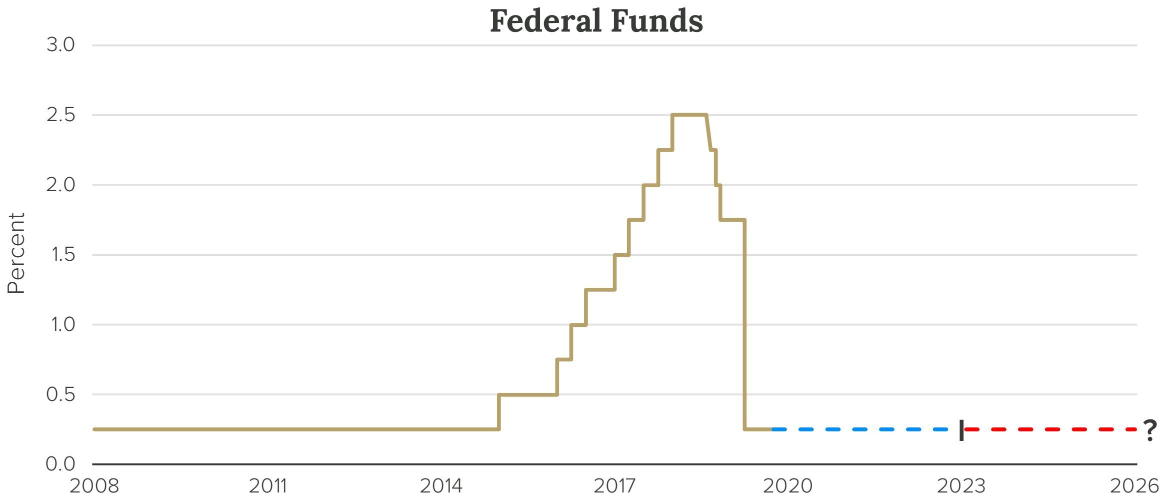
Mobility & Engagement Index



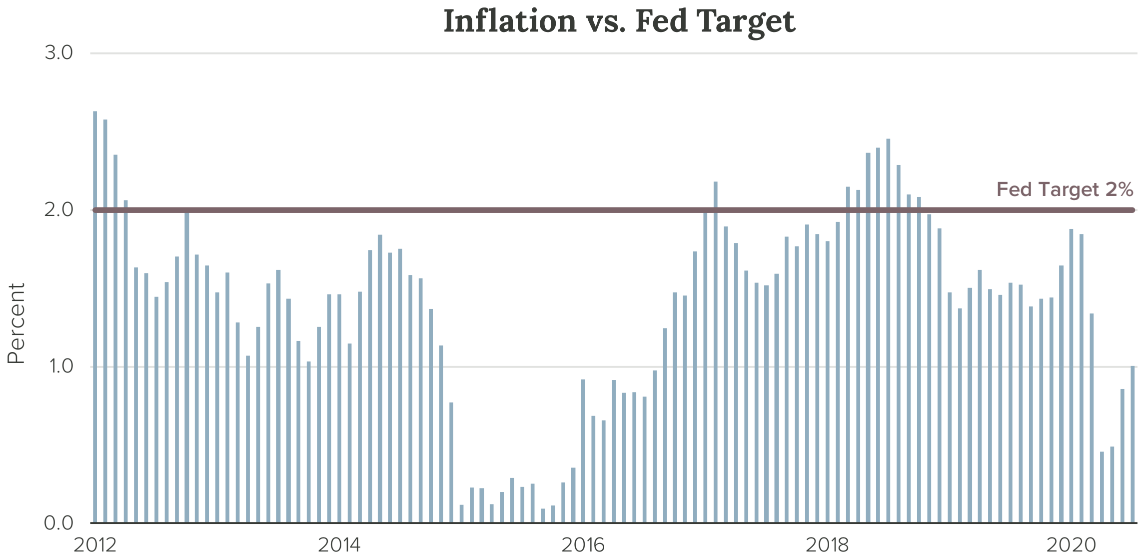
Source: Federal Reserve Bank of Dallas
Mobility and Engagement Index, National, Scaled Weekly (Data Through: September 26, 2020)

- Confidence is one of the more important economic factors.
- If consumers and businesses are confident, optimistic about the future, and feel safe, their timeframe for purchases or investments is extended further into the future. They are more inclined to spend and invest.
- While confidence has improved, it is still quite low relative to recent readings.
- The bottom display clearly illustrates the impact of COVID-19. People do not yet feel safe, and while mobility and engagement has improved, it has leveled off over the last three months.

Please see the last page for important disclosures.
The Mobility and Engagement Index (formerly the “Social Distancing Index”) measures the deviation from normal mobility behaviors induced by COVID-19. The updated name recognizes that social distancing, or the limiting of close contact with others outside your household, can be practiced while mobility and engagement improve.



Source: Federal Reserve Bank of St. Louis
Federal Funds Target Range - Upper Limit, Percent, Daily, Not Seasonally Adjusted (Data through September 29, 2020)



Source: Federal Reserve Bank of St. Louis
Personal Consumption Expenditures: Chain-type Price Index, Percent Change from Year Ago, Monthly, Seasonally Adjusted(Data Through July 2020)

- Could seven years of zero federal funds be in store for the U.S., as it was following The Great Recession? Perhaps.
- "We are not even thinking about thinking about raising interest rates." – Jerome Powell, Fed Chairman
- The Fed targets 2% inflation as desirable, but has indicated it will maintain current policy even after inflation exceeds the target.
- Fed support for the economy seems assured for the foreseeable future.
- As long as federal funds are at zero, it will be difficult for bond yields to rise substantially.

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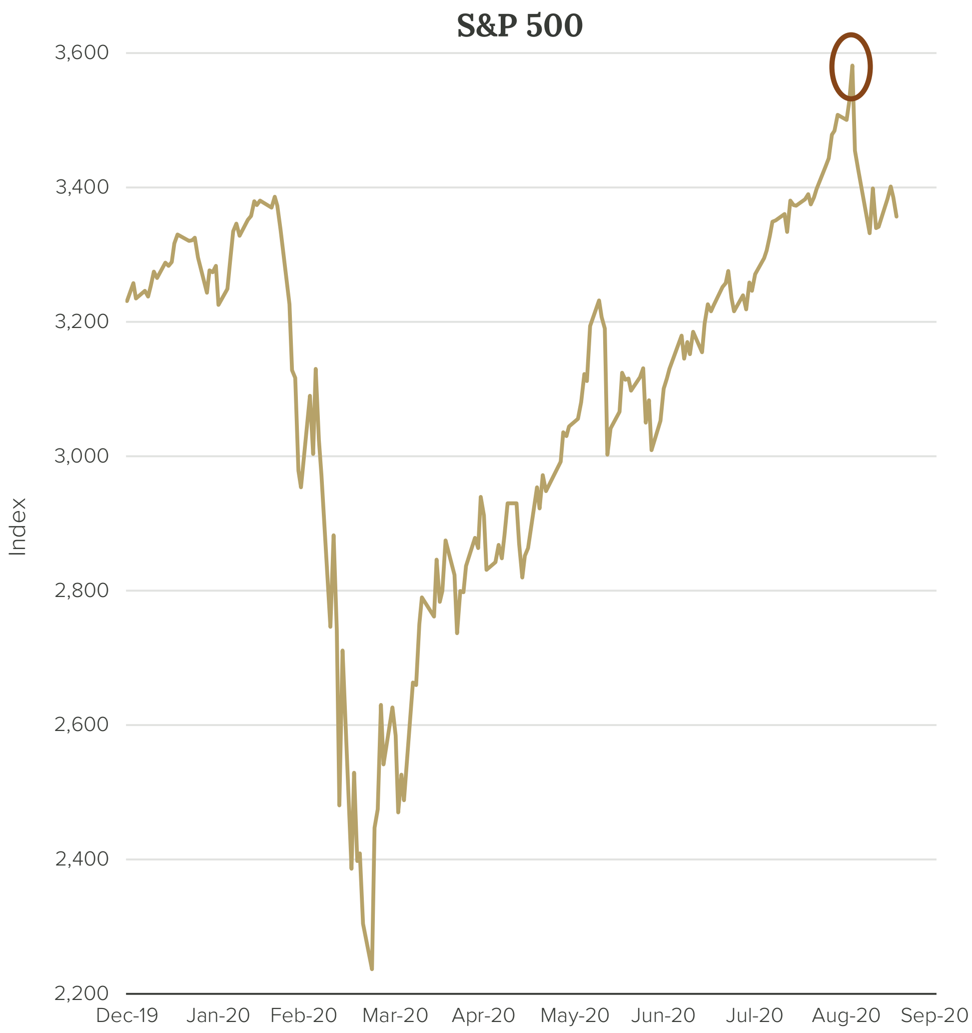
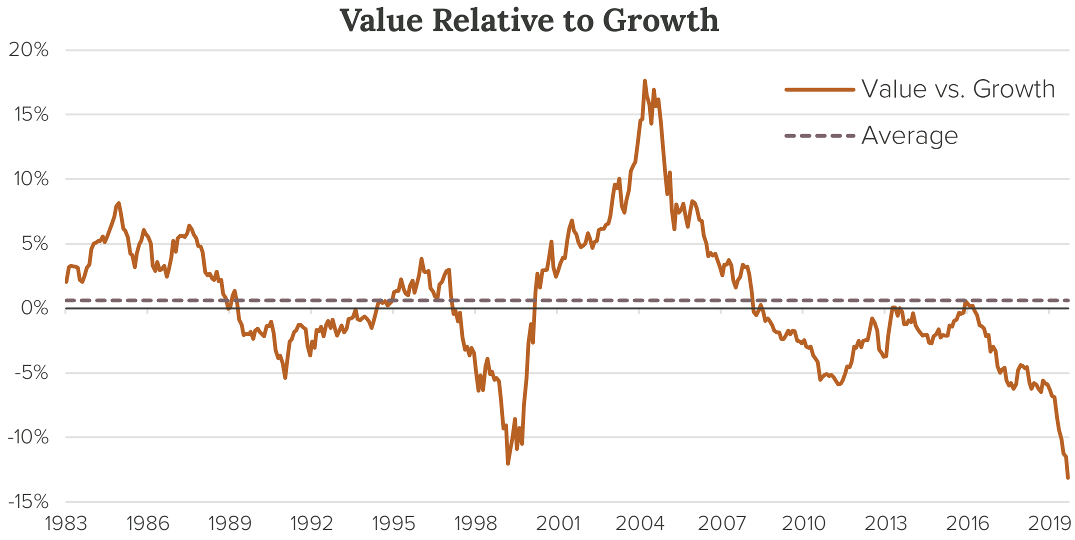


Source: Federal Reserve Bank of St. Louis
S&P 500, Index, Daily, Not Seasonally Adjusted (Data Through: September 17, 2020)

- From their low point in March, stocks staged an amazing recovery and reached all-time high levels in August.
- Technically, these new highs represent the beginning of a new bull market.
- Investors continue to be puzzled by the action of the stock market in the face of economic turmoil.
- There are reasons stocks in general are recovering:
  - The market is always forward-looking
  - Low interest rates make stocks worth more as they discount future earnings and dividends
  - TINA, an acronym for There Is No Alternative, because bond yields are so low
- All is not good with the stock market:
  - Too much concentration in too few stocks
  - The broad range of stocks is still negative for the year



Source: eVestment
Annualized 5 Year Return Difference: Russell 1000 Growth Index and Russell 1000 Value Index, Monthly Return Series (Data Through: August 2020)

Large Caps: Value vs. Growth Comparison of Total Returns

		1926 - 2020	Post 1970	Post 2007
Cap - Weighted	Value	11.5	11.7	3.3
	Growth	9.9	10.7	11.6
	Value minus Growth	1.6	1.1	-8.3
Equal - Weighted	Value	12.6	12.8	3.8
	Growth	9.6	10.4	10.7
	Value minus Growth	3.0	2.3	-6.9

Source: BCA Research, Inc.
Global Investment Strategy, Weekly Report, Pivot to Value – September 18, 2020
Annualized Total Returns (%) – Large Caps

- Investors typically divide stocks into the categories of growth or value.
- The performance of the categories runs in cycles, often extending for a long time.
- The current cycle of growth outperformance is extended.
- The table below indicates that over the very long term, value has outperformed growth.
- Factors that would favor value vs. growth:
  - A weaker U.S. dollar
  - Faster recovery in the global economy
  - Rising interest rates
- Many consider the long outperformance of growth to be a market “extreme” that needs to be corrected to enable a broader-based recovery for stocks in general.

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Observations

- History indicates that the stock market has no clear bias in favor of one party or the other.
- Stock market volatility in pre-presidential election periods, such as we are experiencing now, is normal.
- Since 1860, nine U.S. presidents have been re-elected. In eight of these nine cases, higher returns were achieved in the first term than in the second term.
  - First term: 83% return
  - Second term: 28% return
- The stock market tends to do better when an incumbent loses, regardless of party.

What We Believe

- Presidents are important, but their influence can be greater in areas other than the economy and markets.
- The ability of presidents to materially influence the course of economic activity is limited by:
  - The size, complexity, and international dimension of the economy
  - Long-term, ongoing economic trends can be immune to policy changes
- Timing is everything. The inception of a presidential term in relation to an economic or market cycle can be an important determinant of success or failure.

Ruchir Sharma, New York Times: Is the Stock Market Rooting for Trump or Biden? 9/21/2020

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