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Market & Economic Update

David Shotwell | Certified Financial Planner™ | December 7, 2020

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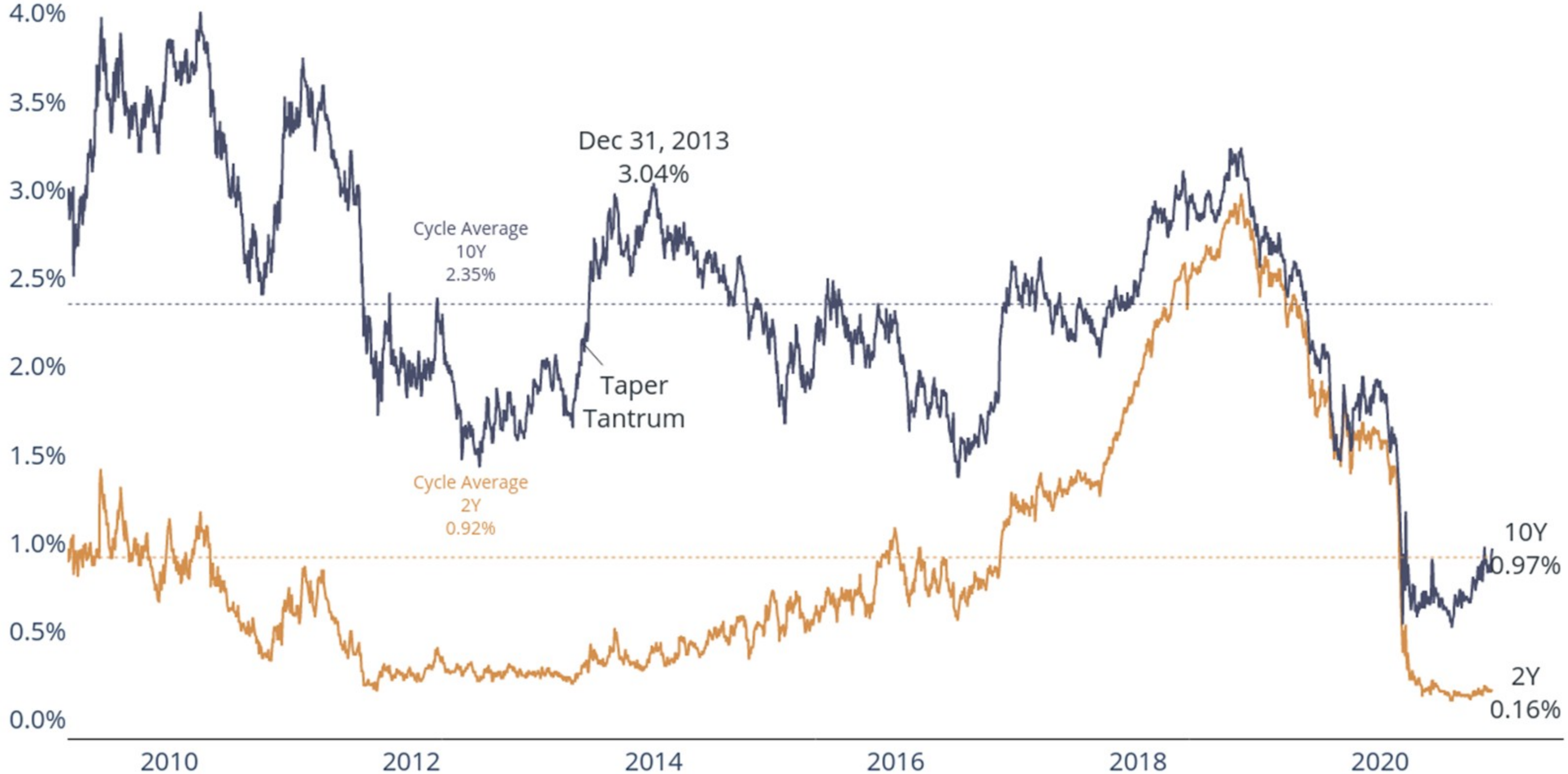
Interest Rates

Interest Rates

10-year and 2-year yields since 2012



Latest data point is Dec 4, 2020

- Long-term interest rates have plummeted in 2020 due to the pandemic and economic uncertainty.
- The 10-year Treasury yield continues to sit at low levels due partly to Fed rate cuts.
- Late in 2020 we've seen interest rates begin to rise as investment outlook has improved.

Source: Federal Reserve

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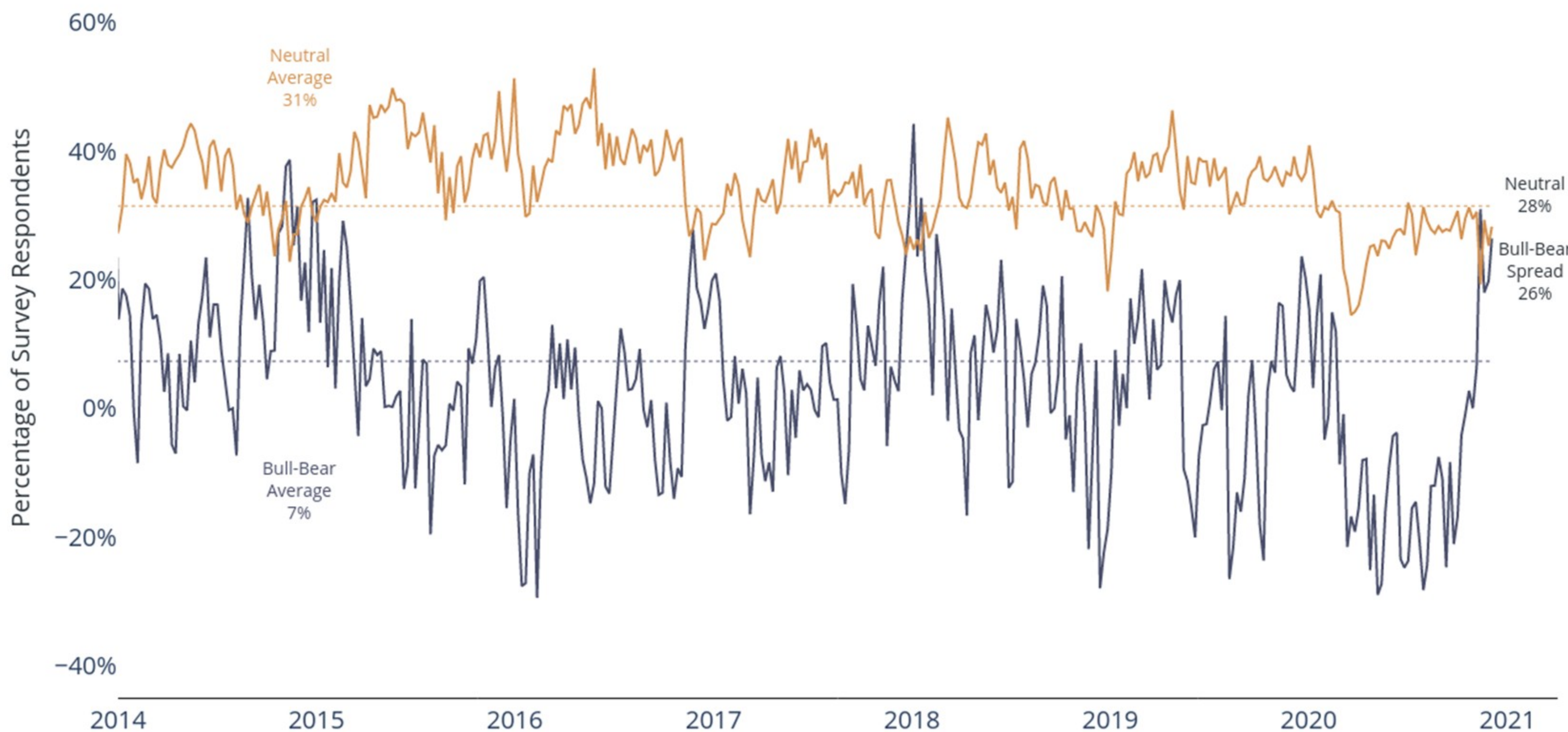
U.S. Stock Market

Investor Sentiment

AAII Investor Sentiment Survey



Latest data point is Dec 3, 2020

- Investor sentiment has been shifting weekly based on COVID-19 and the economic recovery.
- Stock market bubbles are often characterized by irrational exuberance. Sentiment is still average.
- Staying disciplined often means not over-reacting to short-term market movements.

Source: AAII

Stock Market Performance

S&P 500 Index, recent period

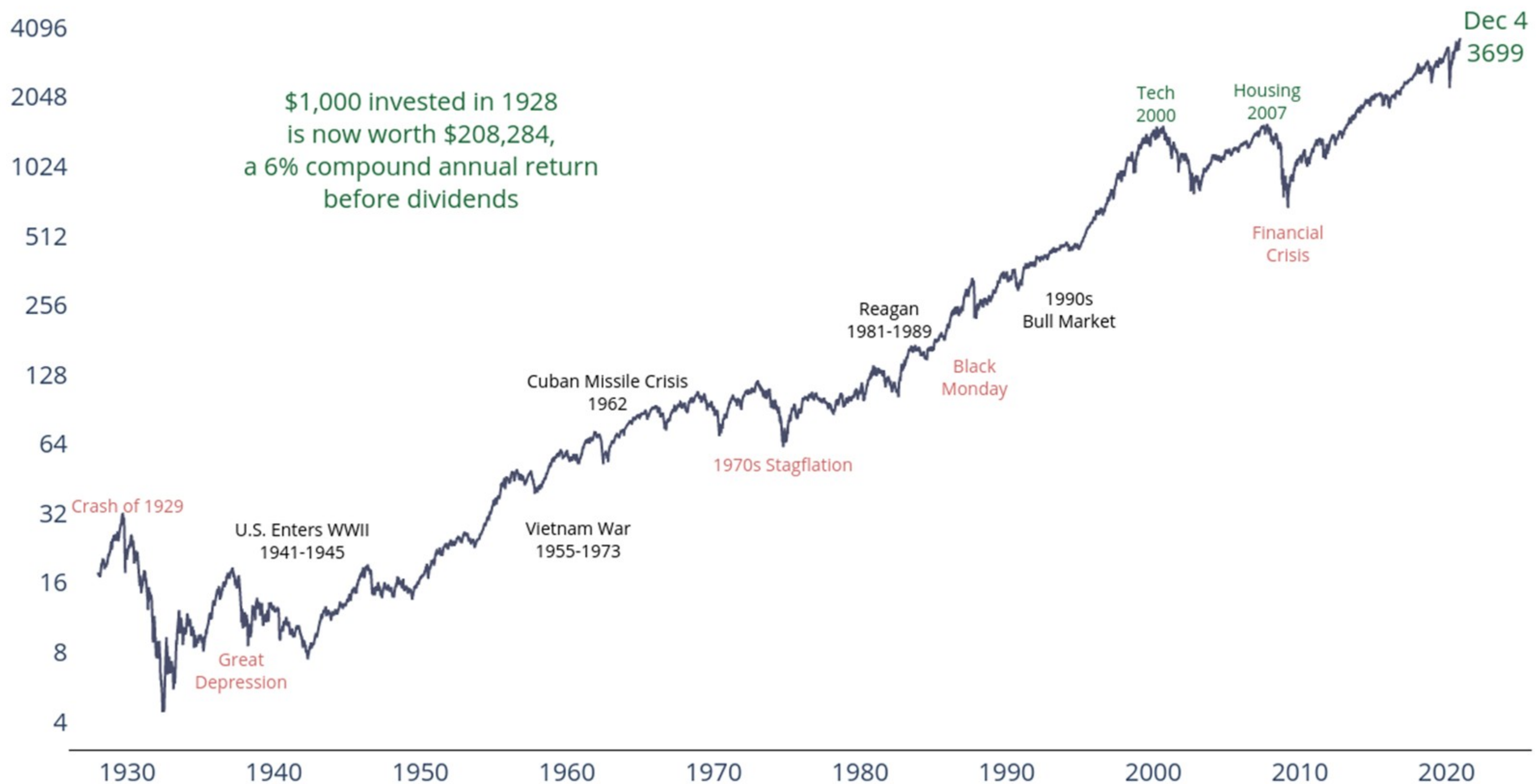
Latest data point is Dec 4, 2020

- The stock market rebounded quickly from the pandemic-induced bear market.
- However, uncertainty remains high due to the uneven economic recovery and sectors like tech.
- For long-term investors, it is important to maintain the proper perspective and look past short-term volatility.

Source: Standard & Poor's

Stocks Since the Great Depression

S&P 500 Index since 1928 (Log Scale)



Latest data point is Dec 4, 2020

- The stock market has performed extremely well since the Great Depression - a nearly century-long period.
- This occurred despite problems along the way throughout the 20th and early 21st century.
- Investors should focus on the long run in order to benefit from growth.

Source: Clearnomics,
Standard and Poor's

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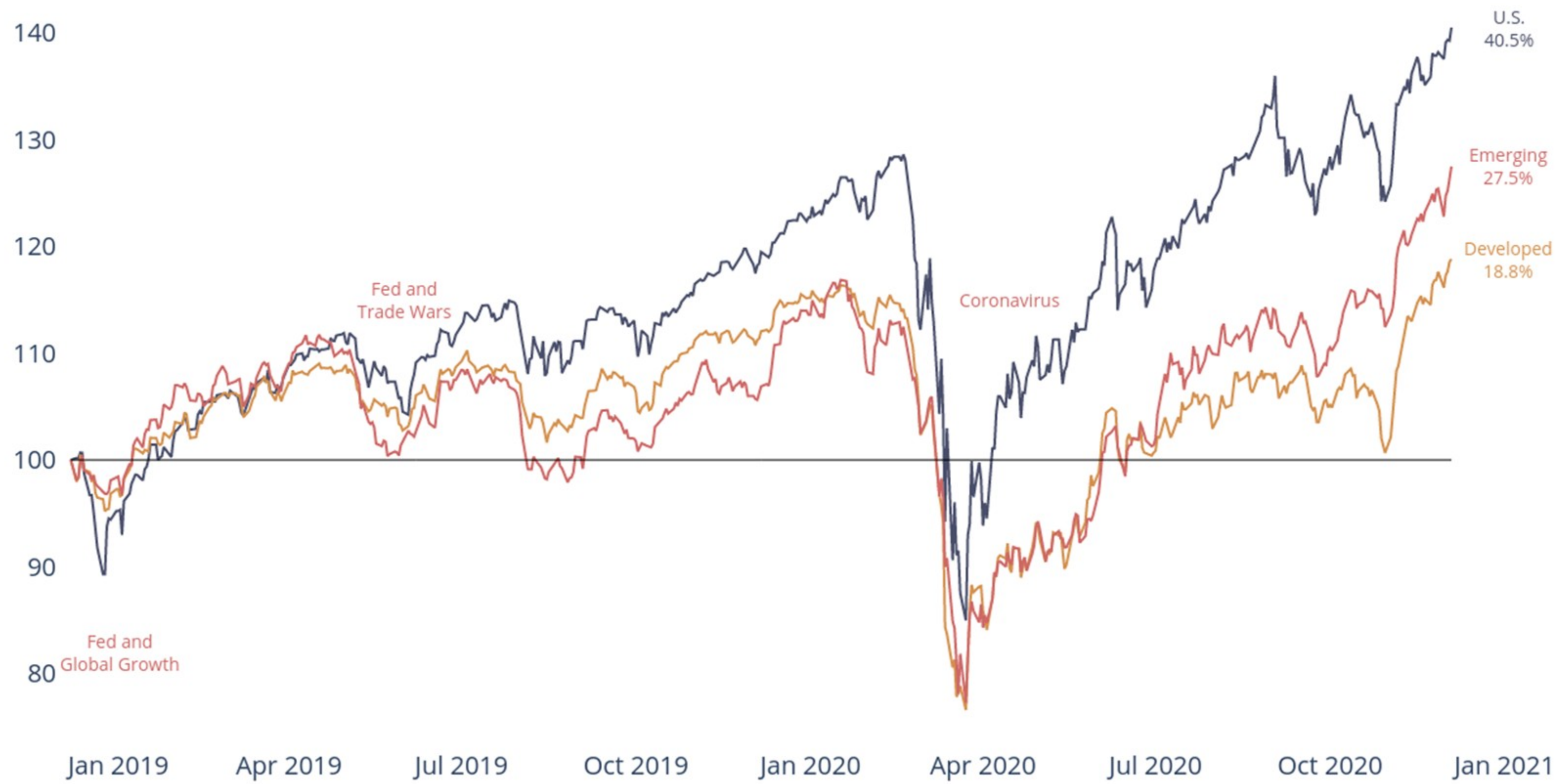
Global Markets

Global Stock Market Performance

S&P 500, MSCI EAFE, and MSCI EME. Prior 2 years



Latest data point is Dec 4, 2020

- The pandemic has resulted in significant uncertainty for the stock market in 2020.
- While volatility spiked and economic growth stumbled, long-both the market and business activity has rebounded.
- Investors ought to remain focused on the long run rather than the past few days, weeks or months.

Source: MSCI, Standard and Poor's, Refinitiv

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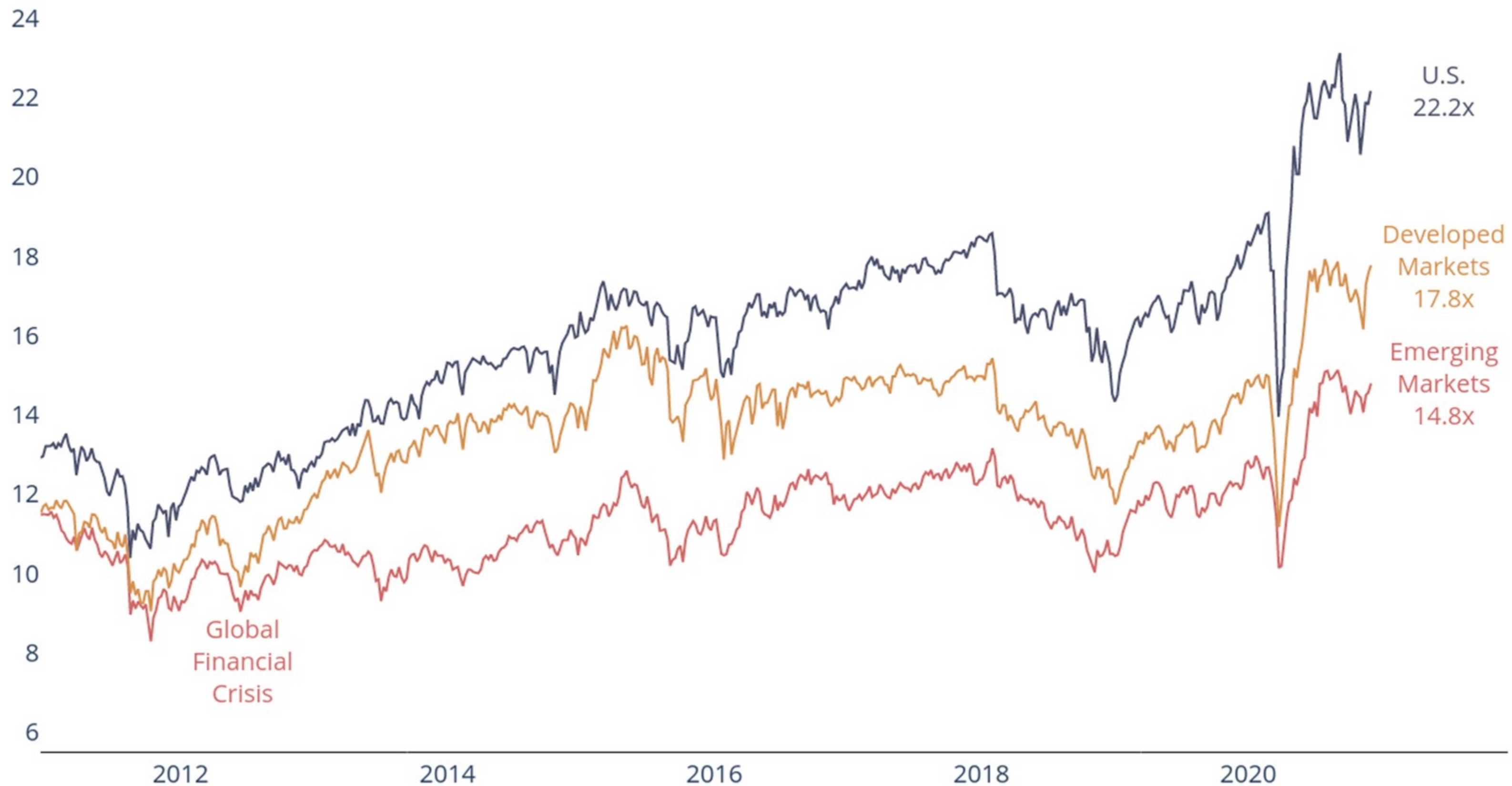
Global Markets

Global Equity Valuations

Forward P/E Ratios for the S&P 500, MSCI EAFE and MSCI EM



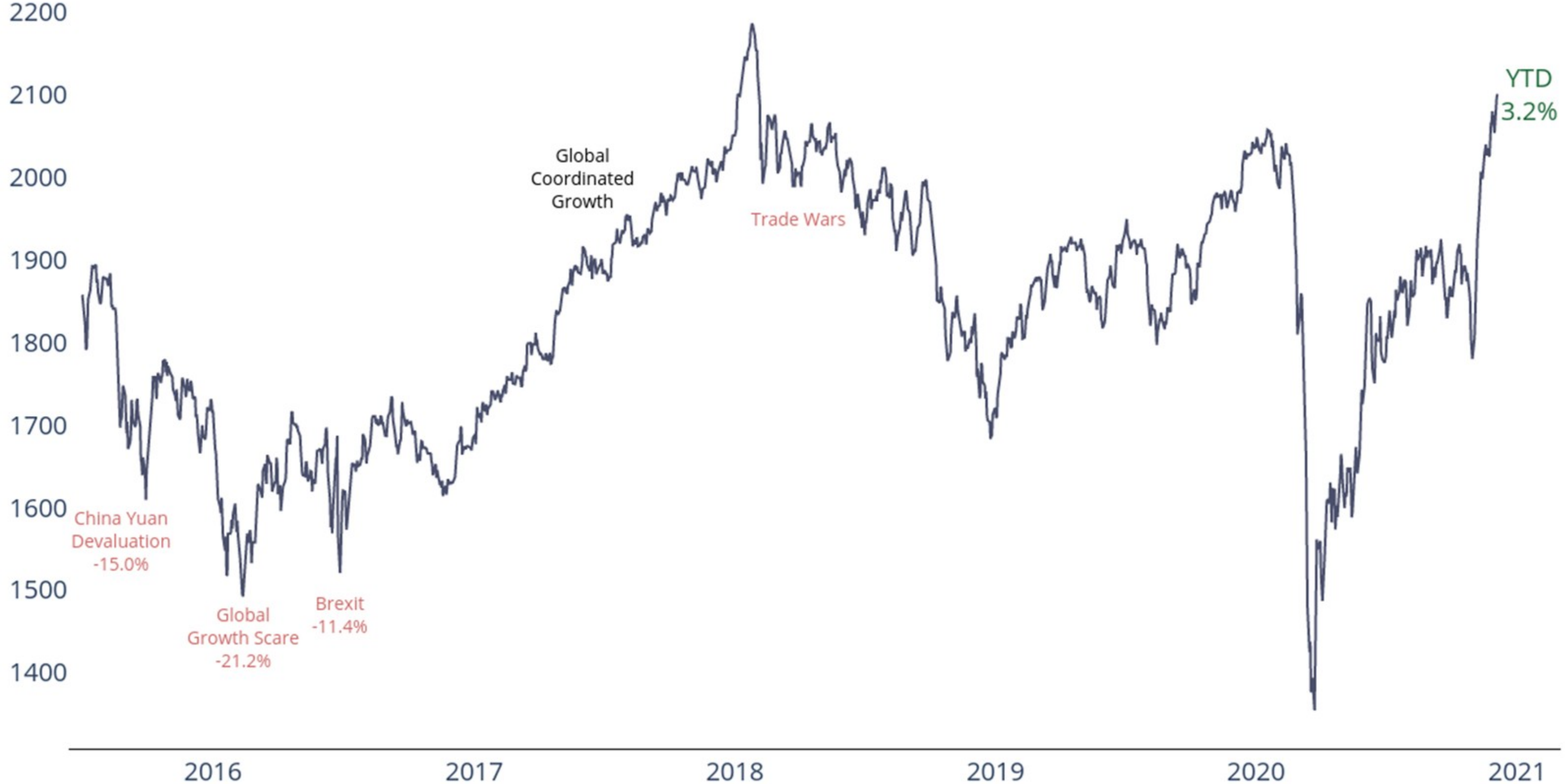
Latest data point is Dec 1, 2020

- Major stock market indices have taken very different trajectories over the past decade.
- The U.S. market had risen dramatically, but all market valuations have been affected by the COVID-19 crisis.
- International stocks, on the hand, are still cheaper in relative terms across both the developed and emerging world.

Source: Standard & Poor's, MSCI, Refinitiv

Developed Market Recent Performance

MSCI EAFE Index (USD)



Latest data point is Dec 4, 2020

- Developed markets fell into bear market territory along with other regions due to COVID-19. They have since rebounded.
- It is unclear what the ultimate impact of this pandemic will be on developed market economies.
- Many countries, especially those in Europe, continue to face coronavirus outbreaks.

Source: MSCI

Emerging Markets

Emerging Market Recent Performance

MSCI EM Index (USD)

Latest data point is Dec 4, 2020

- Emerging markets crashed alongside other regions earlier this year but have since recovered.
- Even before the pandemic, the asset class had been volatile over the past decade due to growth concerns.
- Longer term, emerging markets still play a very important role in portfolio diversification.

Source: MSCI

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Asset Allocation

Asset Class Performance

Total Returns

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
EM 34.5%	EM 32.6%	EM 39.8%	Fixed Income 7.9%	EM 79.0%	Small Cap 26.3%	Fixed Income 7.7%	EM 18.6%	Small Cap 41.3%	S&P 500 13.7%	S&P 500 1.4%	Small Cap 26.6%	EM 37.8%	Fixed Income 0.1%	S&P 500 31.5%	S&P 500 16.5%
Commodities 21.4%	EAFE 26.9%	Commodities 16.2%	Balanced -22.3%	EAFE 32.5%	EM 19.2%	S&P 500 2.1%	EAFE 17.9%	S&P 500 32.4%	Balanced 6.5%	Fixed Income 0.5%	S&P 500 12.0%	EAFE 25.6%	S&P 500 -4.4%	Small Cap 22.8%	EM 14.7%
EAFE 14.0%	S&P 500 15.8%	EAFE 11.6%	Small Cap -31.1%	S&P 500 26.5%	Commodities 16.8%	Small Cap 1.0%	Small Cap 16.3%	EAFE 23.3%	Fixed Income 6.0%	EAFE -0.4%	Commodities 11.8%	S&P 500 21.8%	Balanced -4.8%	EAFE 22.7%	Balanced 10.3%
Small Cap 7.7%	Small Cap 15.1%	Balanced 8.5%	Commodities -35.6%	Small Cap 25.6%	S&P 500 15.1%	Balanced 0.8%	S&P 500 16.0%	Balanced 16.1%	Small Cap 5.8%	Balanced -1.4%	EM 11.6%	Balanced 15.2%	Small Cap -8.5%	Balanced 20.3%	Small Cap 7.8%
Balanced 7.3%	Balanced 12.9%	Fixed Income 6.6%	S&P 500 -37.0%	Balanced 21.0%	Balanced 12.2%	EAFE -11.7%	Balanced 11.2%	Fixed Income -2.0%	EM -1.8%	Small Cap -2.0%	Balanced 8.3%	Small Cap 13.2%	Commodities -11.2%	EM 18.9%	Fixed Income 6.8%
S&P 500 4.9%	Fixed Income 3.9%	S&P 500 5.5%	EAFE -43.1%	Commodities 18.9%	EAFE 8.2%	Commodities -13.3%	Fixed Income 3.8%	EM -2.3%	EAFE -4.5%	EM -14.6%	Fixed Income 2.4%	Fixed Income 3.6%	EAFE -13.4%	Fixed Income 8.5%	EAFE 5.9%
Fixed Income 2.3%	Commodities 2.1%	Small Cap -0.3%	EM -53.2%	Fixed Income 3.0%	Fixed Income 6.4%	EM -18.2%	Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	EAFE 1.5%	Commodities 1.7%	EM -14.2%	Commodities 7.7%	Commodities -7.8%

Latest data point is Dec 4, 2020

- Diversifying properly across a variety of asset classes is the most important way for investors to weather market volatility.
- The balanced portfolio approximates a 60/40 stock/bond allocation. By design, it performs steadily through both good and bad markets.
- It is difficult if not impossible to predict which asset classes will outperform from year to year.

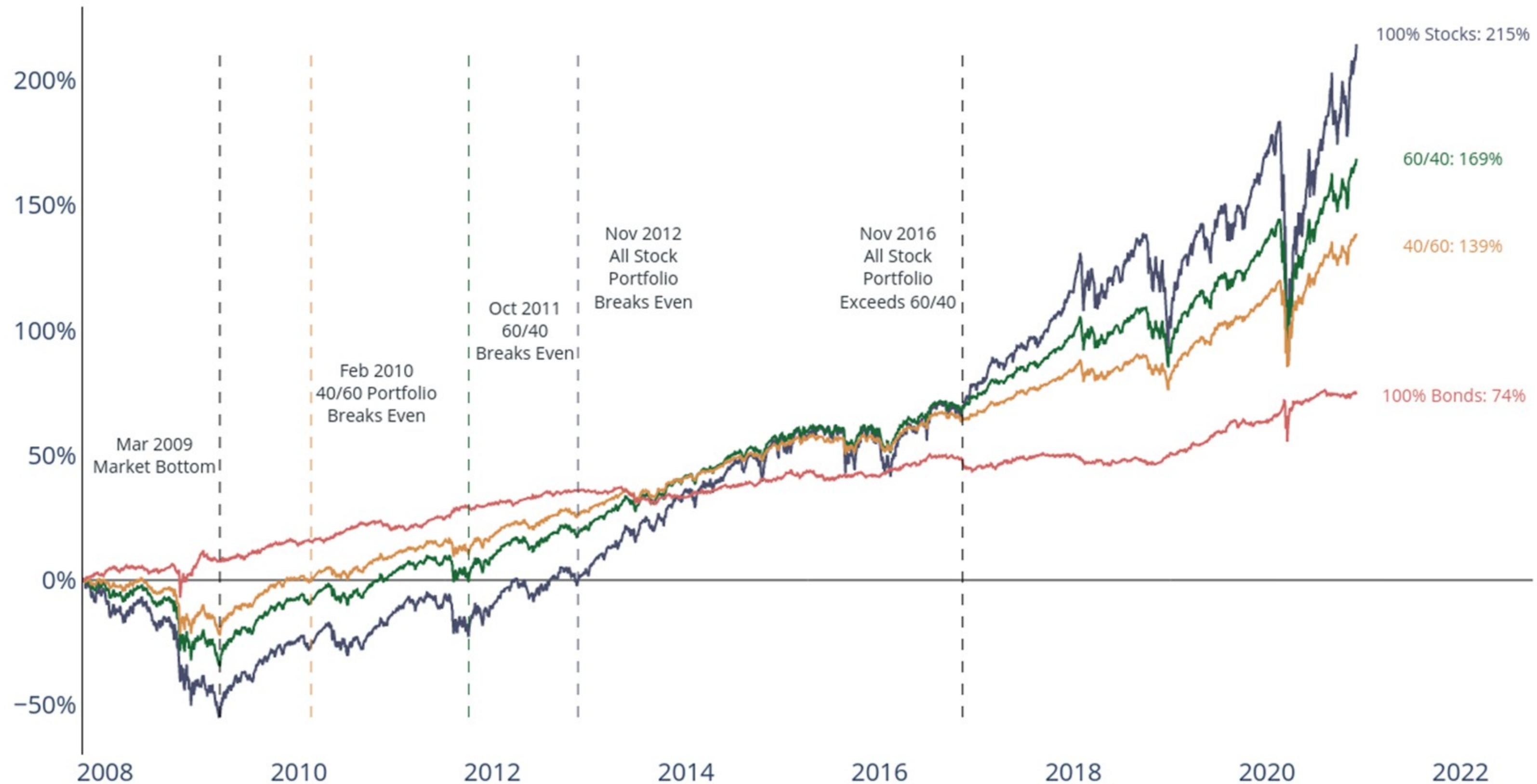
The Balanced Portfolio is a hypothetical 60/40 portfolio consisting of 40% U.S. Large Cap, 5% Small Cap, 10% International Developed Equities, 5% Emerging Market Equities, 35% U.S. Bonds, and 5% Commodities.

Source: Clearnomics, Refinitiv

Asset Allocation

Asset Allocation Performance

Total returns of hypothetical stock/bond portfolios since 2007 pre-financial crisis peak using the S&P 500 and iShares Core U.S. Bond indices, before expenses and fees



Latest data point is Dec 4, 2020

- This chart shows the performance of various asset allocations during bear markets.
- Holding an appropriately diversified portfolio creates a much smoother ride.
- In fact, these portfolios have done well even against a 100% stock portfolio.

Source: Clearnomics, Standard & Poor's, Refinitiv

Definitions and Methodology

The **S&P 500** is a market capitalization-weighted index of large cap U.S. stocks. U.S. **mid cap** and **small cap** are the S&P 400 and S&P 600, respectively. **Value** and **growth** are the corresponding Standard and Poor's value and growth indices.

MSCI EME is an index of emerging market stocks. **MSCI EAFE** is an index of developed market stocks. **MSCI ACWI** is an index of global stocks.

The **forward P/E** is a ratio of the current market price of an index divided by an estimate of earnings over the next twelve months. The **Shiller P/E** is based on Robert Shiller's cyclically adjusted price-to-earnings ratio.

The **AAII Investor Sentiment** index is based on a weekly survey conducted by AAII.

Unless stated otherwise, **earnings** and **valuations** data are from Refinitiv indices.

The **LEI**, or Leading Economic Index, is produced monthly by the Conference Board.

Consumer sentiment indices are based on surveys conducted by the University of Michigan Surveys of Consumers.

Asset Class Performance and Asset Classes Relative to U.S. Stocks charts: The EM, EAFE, Small Cap, Fixed Income and Commodities are these indices, respectively: MSCI EM, MSCI EAFE, Russell 2000, iShares Core U.S. Bond Aggregate, Bloomberg Commodity Index.

The Balanced Portfolio is a hypothetical 60/40 portfolio consisting of 40% U.S. Large Cap, 5% Small Cap, 10% International Developed Equities, 5% Emerging Market Equities, 35% U.S. Bonds, and 5% Commodities.

The **Bloomberg Commodity Index** is a broadly diversified basket of physical commodities futures contracts.

The **DXY** is a U.S. dollar index based on a basket of currencies, including the Euro, Yen, Pound, Canadian Dollar, Swedish Krona and Swiss Franc.

Portfolio Risk/Reward and Portfolio Drift Since 2009 charts: stocks and bonds are the S&P 500 and iShares Core U.S. Bond Aggregate, respectively. Each portfolio represents a hypothetical stock/bond asset allocation.

The **MSCI Factor** indices are created and maintained by MSCI to capture factor returns. They cover various factors including Quality, Size, Momentum, Volatility, Value and Yield. The Multi-Factor index tracks the performance of Value, Momentum, Quality and Size.

The **MSCI USA** index tracks large and mid cap U.S. stocks.

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Clearnomics Disclosures