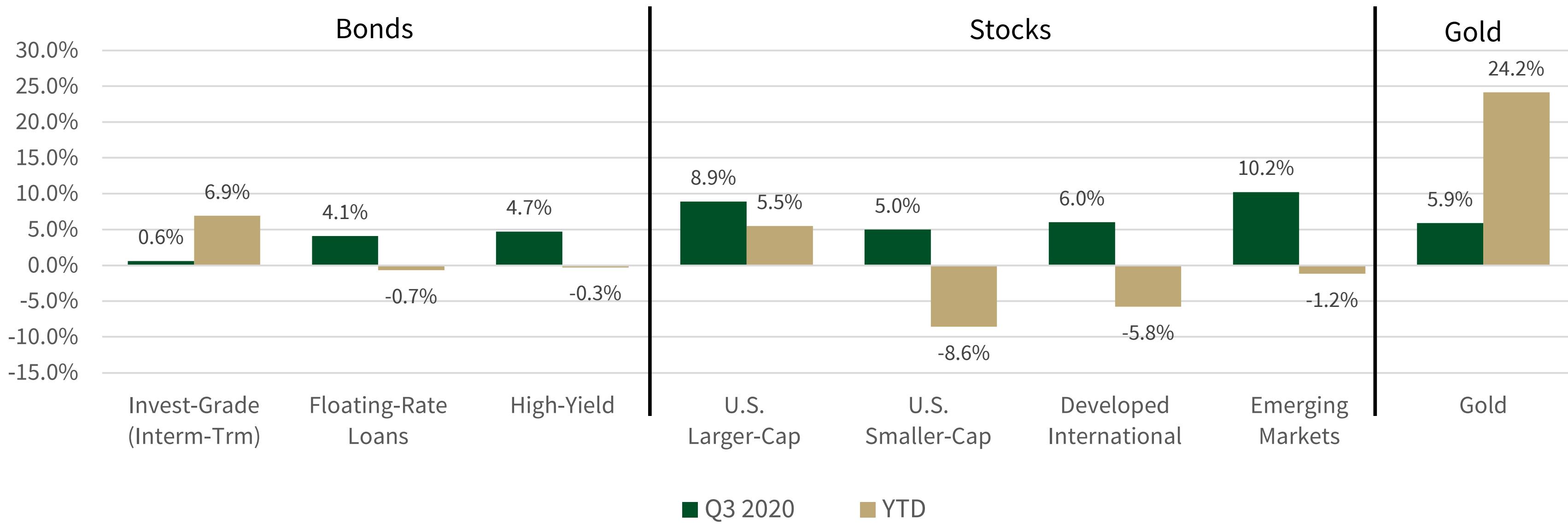
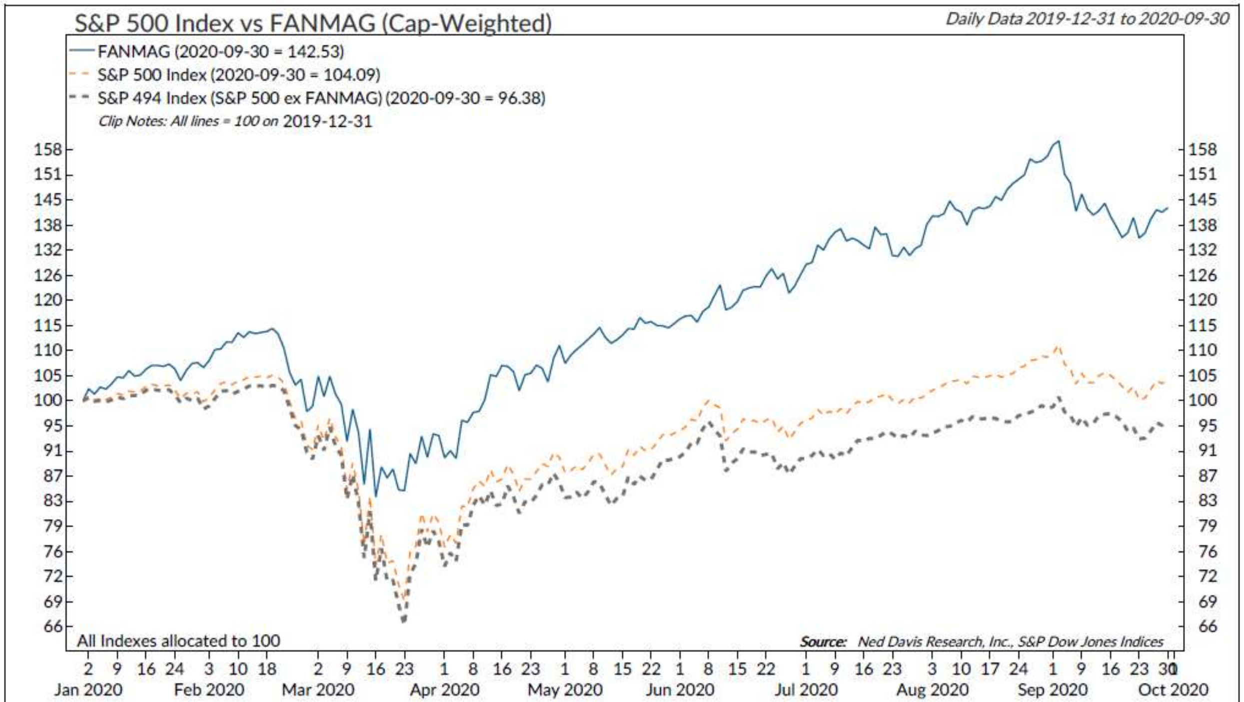
Market Review



- Despite some choppiness in September, equity investors were treated to solid gains during the third quarter, even after the meteoric rise witnessed in the second quarter. The S&P 500 Index rose 8.9% in the quarter and has recovered all its losses for the year, up 5.5% year to date. Smaller-cap U.S. stocks posted a return of 5.0% but remain negative year to date with a decline of 8.6%. Looking abroad, developed international and emerging-market (EM) stocks were up 6.0% and 10.2% in the quarter, respectively; both remain in negative territory on a year-to-date basis, down 5.8% and 1.2%, respectively.
- Within the fixed-income markets, core bonds gained 0.6% for the third quarter. The 10-Year Treasury yield held steady at around 70 basis points during the quarter. Investment-grade corporate bond spreads narrowed slightly, as did spreads for high-yield bonds. This led to good gains for high-yield bonds and floating-rate loans, each up over 4% during the quarter. Both remain slightly negative on the year, though by less than 1.0%.

Source: Morningstar Direct. Data as of 9/30/2020.

The U.S. Stock Market Remains Bifurcated



Ticker	Name
FB	Facebook
AMZN	Amazon.com
NFLX	Netflix
MSFT	Microsoft
AAPL	Apple
GOOGL	Alphabet

Index (Cap-Weighted)	Gain/Annum % 2019-12-31 to 2020-09-30	YTD % 2019-12-31 to 2020-09-30
FANMAG	60.33	42.53
S&P 500 Index	5.49	4.09
S&P 494 Index (S&P 500 ex FANMAG)	-4.80	-3.62

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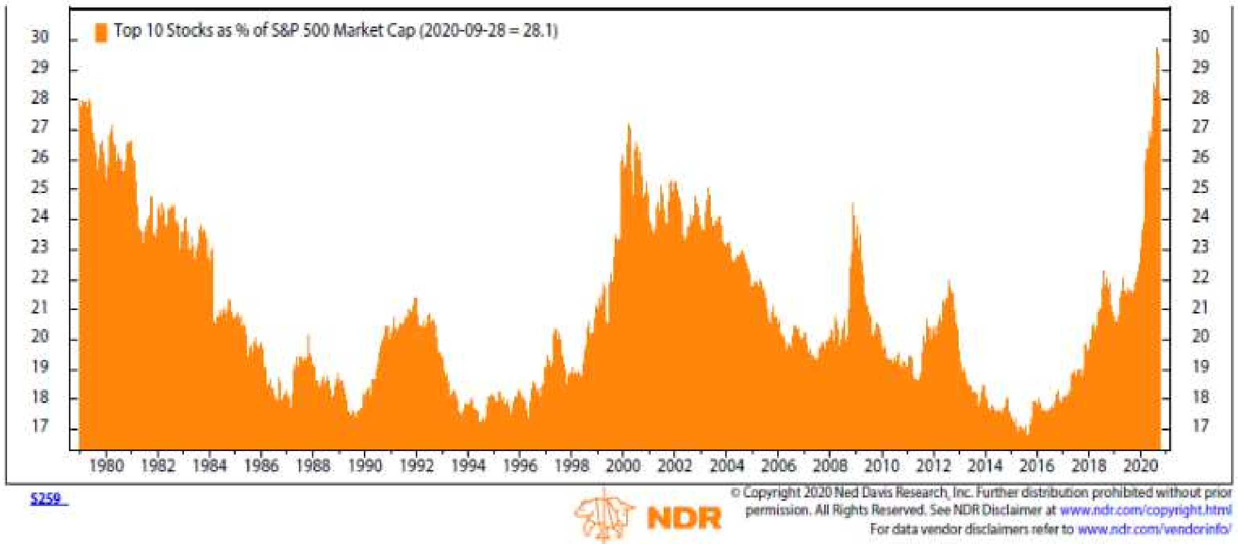
- Beneath the market surface a major bifurcation remains. The mega-cap growth names continue to perform at a much different pace than the other U.S. large-cap stocks in the S&P 500 Index.
- The often-referenced FANMAG group of stocks (Facebook, Amazon.com, Netflix, Microsoft, Apple, and Google parent Alphabet) are up an astonishing 42.5% year to date on a price basis, while the price return for the S&P 500 is only 4.1%.
- Excluding the FANMAG stocks, the other 494 stocks have a price loss of 3.6% year to date.

Source: Ned Davis Research. Data as of 9/30/2020.

The S&P 500 is Highly Concentrated at the Top



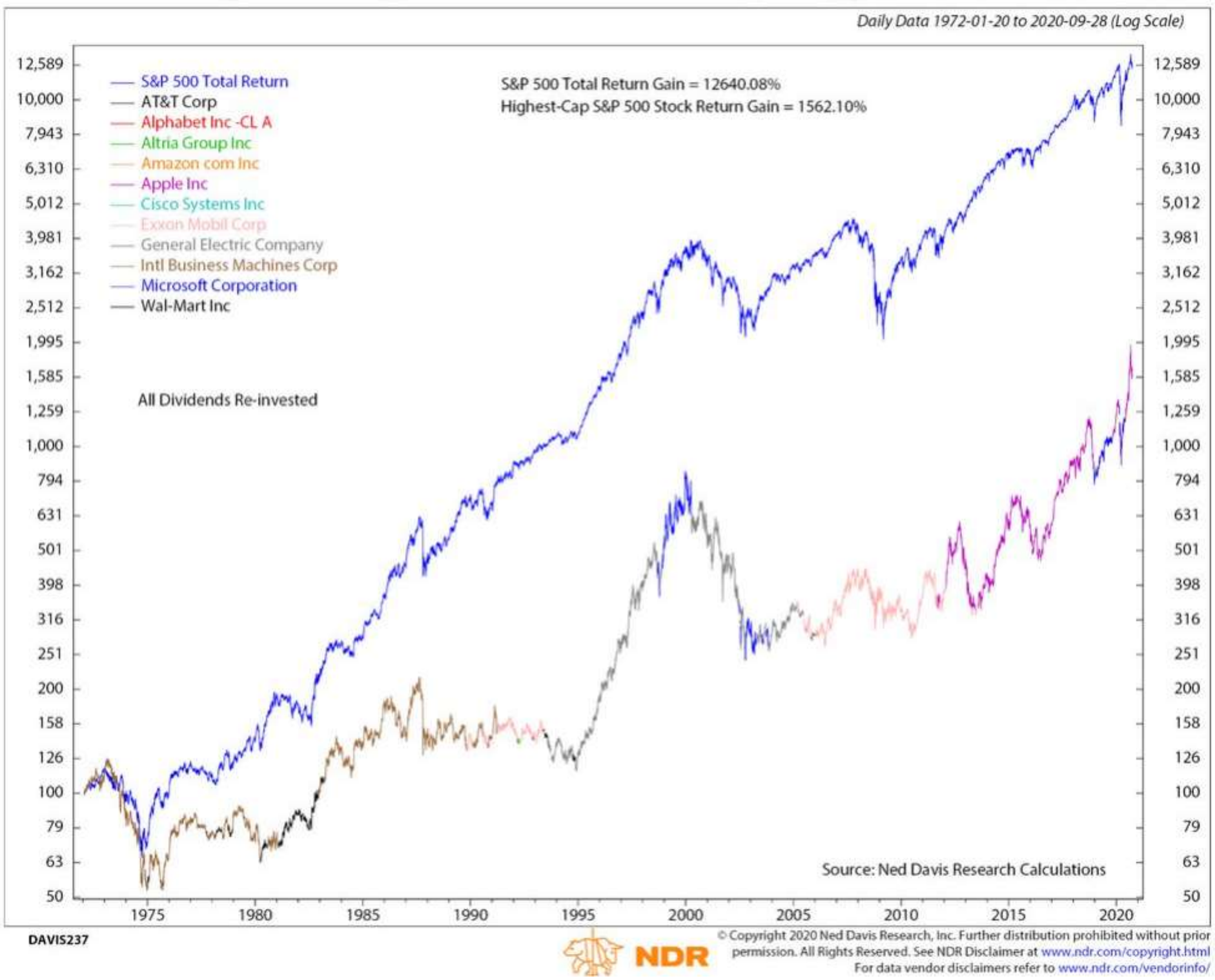
Top 10 S&P 500 Constituents During Other Highly Concentrated Periods

1980	1999	2020
IBM	Microsoft	Apple
AT&T	General Electric	Microsoft
Exxon	Cisco Systems	Amazon.com
Standard Oil of Indiana	Wal-Mart Stores	Facebook
Schlumberger	Exxon Mobil	Alphabet
Shell Oil	Intel	Berkshire Hathaway
Mobil	Lucent Technologies	Johnson & Johnson
Standard Oil of California	IBM	Procter & Gamble
Atlantic Richfield	Citigroup	Visa
General Electric	America Online	NVIDIA

- The outperformance of FANMAG stocks means concentration within the index has soared to record highs. The top 10 stocks in the S&P 500 make up a record 28% of the total market cap of the index.
- The top names in the index have constantly changed throughout history. Back in the 1980s, oil and gas companies dominated the top 10 in the S&P 500. In the late 1990s, it was technology companies that held the top position (but Microsoft is the only one still in the top 10 today). Today, the FANMAG stocks are in the pole position.

Source: Ned Davis Research. ETFdb.com and Morningstar Direct. Top names in 2020 as of 9/24/2020.

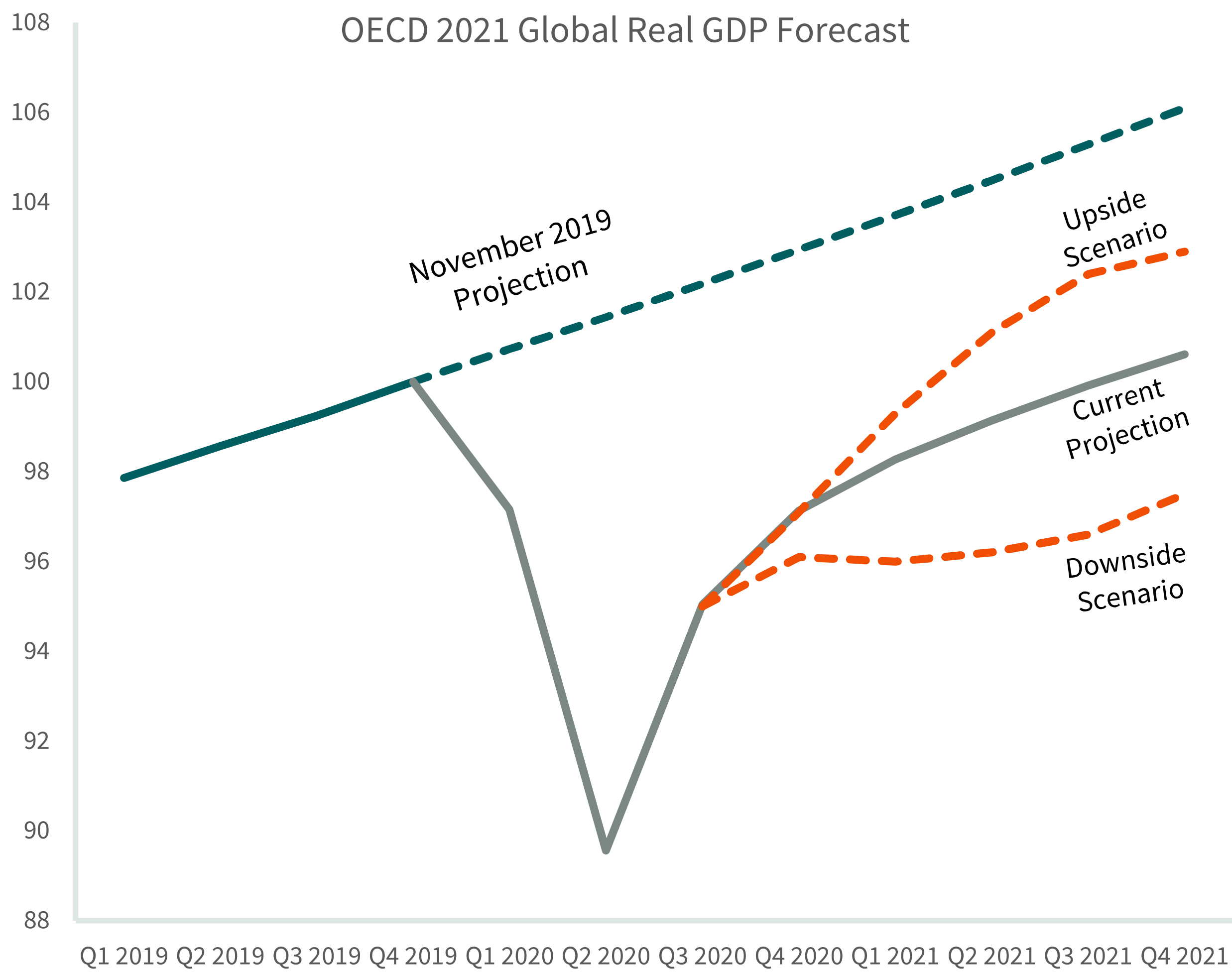
Owning the Largest Stock Has Badly Lagged Over Time



- It's not uncommon for a handful of companies to make up a significant percentage of the index. But keep in mind that these companies' outsized past returns have come from their ascension up the market cap spectrum, not from owning them once they are at the top of the mountain.
- Since 1972, an investor owning just the largest stock in the S&P 500 would have dramatically underperformed holding the diversified index.
- This observation is a helpful reminder not to "buy high."

Source: Ned Davis Research.

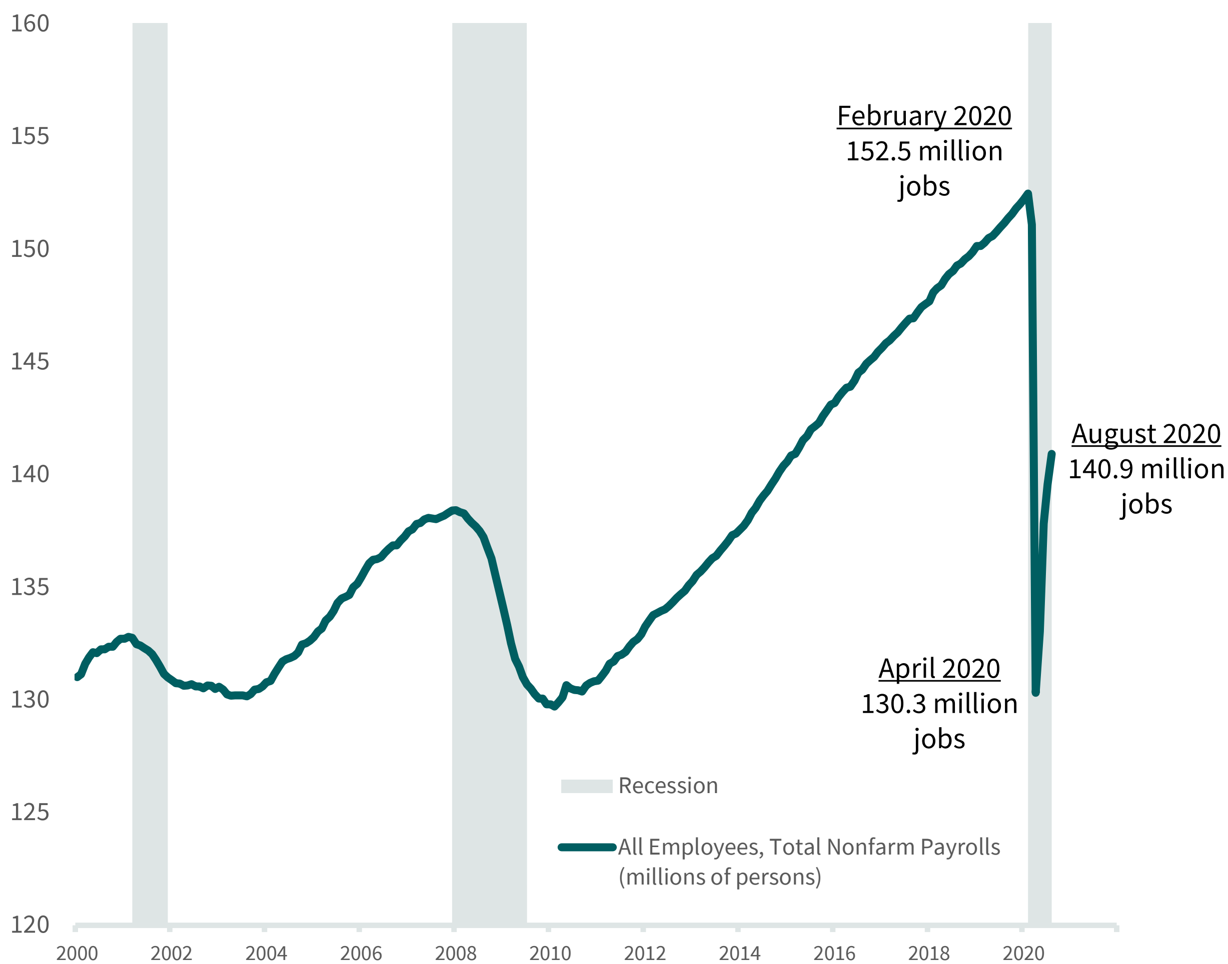
Forecasted Global Real GDP Growth Has Improved Recently



- In September, the Organisation for Economic Co-operation and Development (OECD) revised upward its outlook for the global economy, forecasting it will shrink 4.5% this year, compared to an estimate of 6% it had forecasted in June.
- The OECD is forecasting 5% global real GDP growth for 2021, which would bring the world economy to slightly above where it ended in 2019, while still allowing for better than or worse than expected outcomes.

Source: OECD (2020), "OECD Economic Outlook, Interim Report September 2020", OECD Economic Outlook: Statistics and Projections (database). Data as of 9/16/2020.

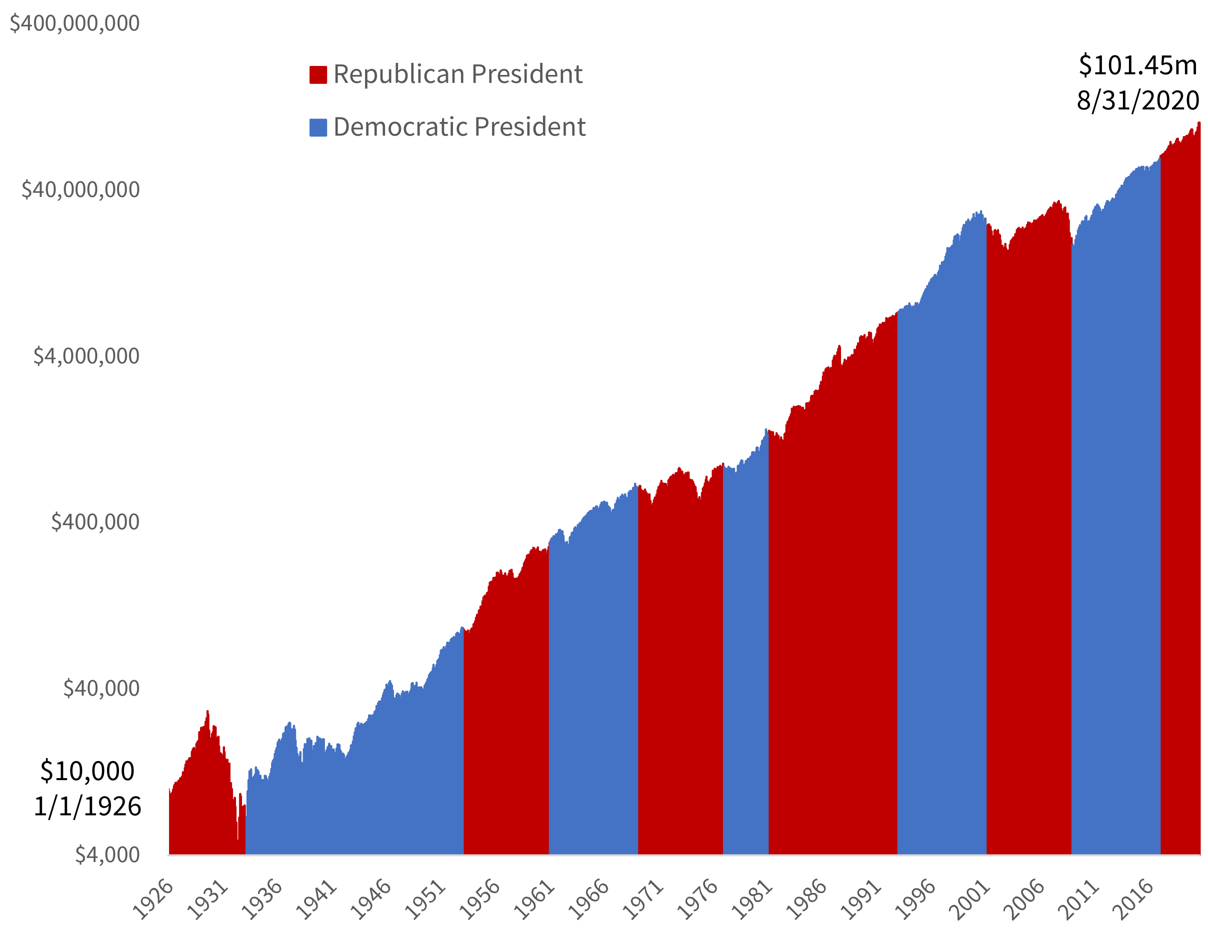
About Half of the Jobs Lost in March and April Have Been Recovered



- Another reason for caution is economic risk due to a resurgence of COVID-19 cases. Fed chair Jerome Powell has said “The outlook for the economy is extraordinarily uncertain and will depend in large part on our success in keeping the virus in check.”
- A resurgence in COVID-19 cases could force more economic shutdowns. The unemployment rate has fallen sharply from its April high of 14.7% to 8.4% in August, but that number could spike again in the event of another shutdown.

Source: U.S. Bureau of Labor Statistics. Data as of 8/31/2020.

U.S. Stocks Have Risen Over the Long Run Regardless of Presidential Party



- One reason for caution is election risk. There is a meaningful likelihood that we won't know the final result of the presidential election for several days or weeks after polls close. There is also the risk of a disputed or contested election result. This uncertainty could lead to short-term fluctuations in markets.
- That said, history has shown that the party in power is not a significant differentiator of investment returns. There are simply too many other factors, variables, and events that impact markets and asset prices over time.

Source: Morningstar Direct. Chart concept courtesy of BlackRock. Data as of 8/31/2020.

Asset Class Return Estimates Over Next Five Years

Macroeconomic uncertainty is elevated and there is a wide range of potential outcomes over the near term.

Equity Asset Classes

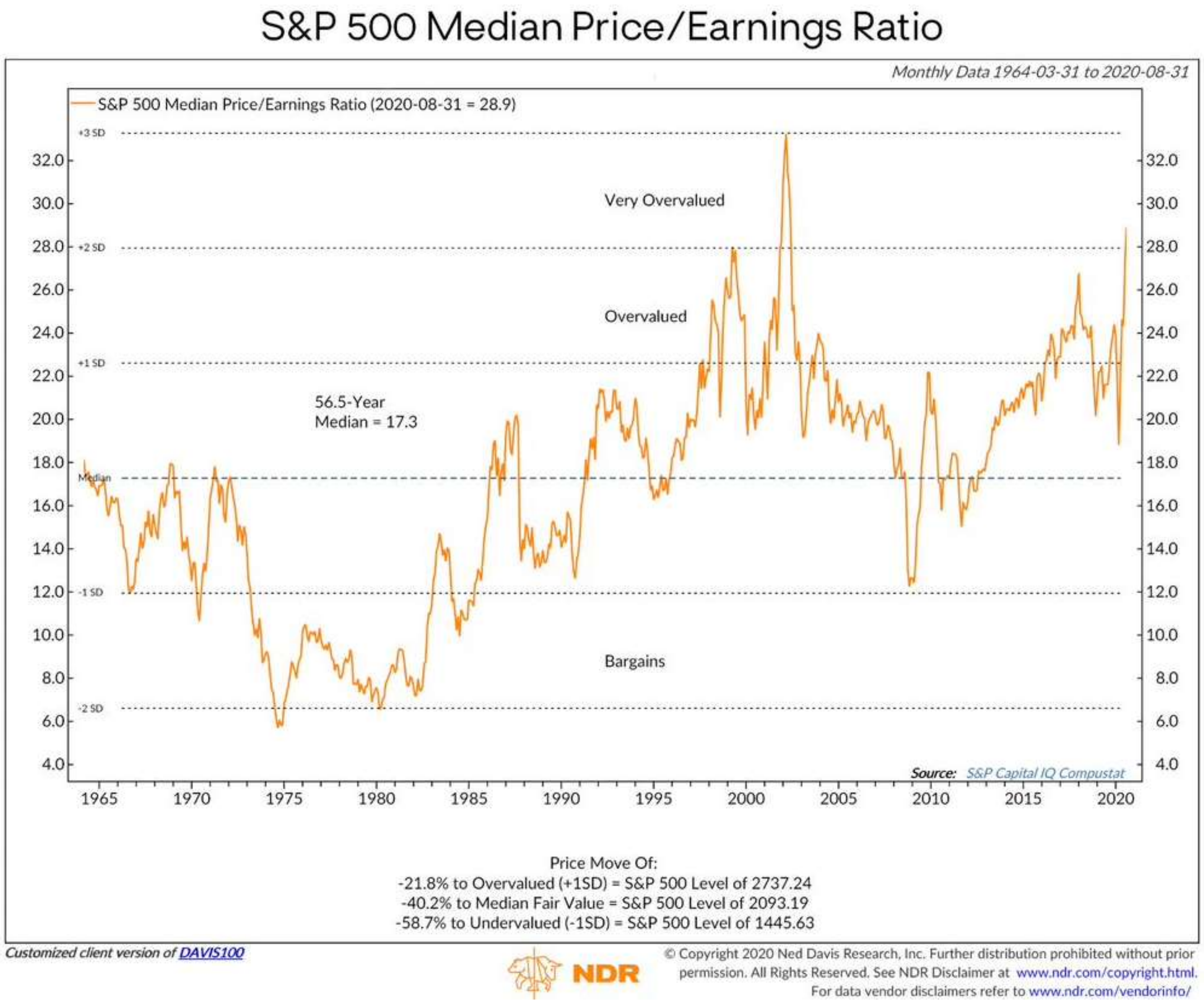
	Bear Case	**BASE CASE**	Bull Case
U.S. Larger Cap	-10.4%	0.3%	9.1%
Developed International – Europe	-10.4%	9.8%	18.6%
Emerging Markets	-3.6%	10.1%	8.1%

Fixed-Income Asset Classes

	Bear Case	**BASE CASE**	Bull Case
Investment-Grade Bonds	1.6%	1.2%	0.9%
High-Yield Bonds	1.9%	3.3%	4.6%
Floating-Rate Loans	3.8%	5.0%	5.9%

S&P 500 at 3363, Bloomberg Barclays U.S. Aggregate Bond Index yield at 1.20%, MSCI Europe Index at 1596, MSCI EM Index at 1082, ICE BofA High Yield Cash Pay Index at 5.80%

The S&P 500 Is Again Historically Overvalued



- Another reason for caution is U.S. equity market valuation risk. After soaring more than 50% from its March market low, the S&P 500 Index is again in historically overvalued territory (driven largely by a handful of mega-cap tech/growth stocks).
- The last time the median P/E ratio was at levels this elevated was during the dot-com era of the early 2000s.

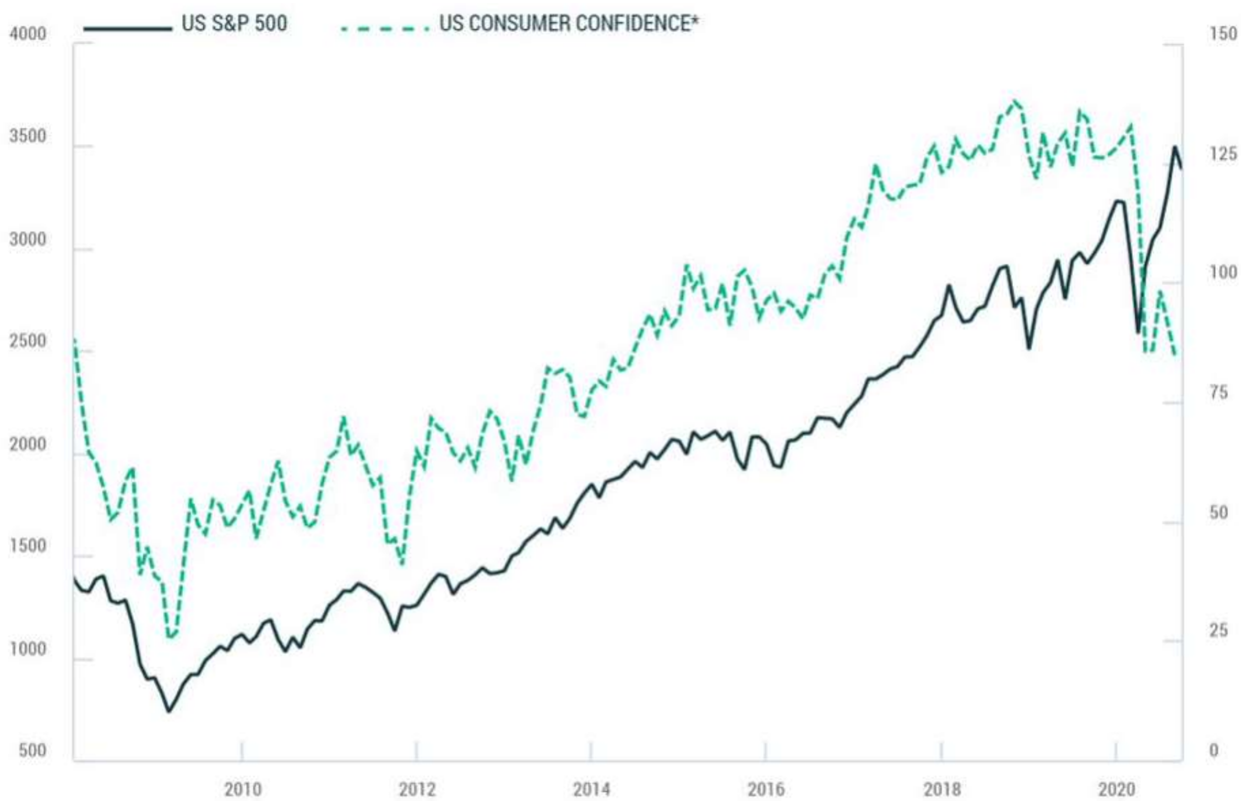
Source: Ned Davis Research.

However, Stocks are Cheap Relative to Bonds

- While it is true that U.S. stocks have absolute valuation risk, a countervailing factor is that U.S. stocks look relatively cheap when compared to current sub-1% Treasury bond yields.
- Put differently, the "risk premium" for owning equities relative to bonds is historically high and attractive, suggesting stocks should outperform bonds over a medium-term horizon.
- Furthermore, the risk premium for owning equities outside the United States is even more attractive than for U.S. equities.

Source: BCA Research; Refinitive Datastream and MSCI Inc.

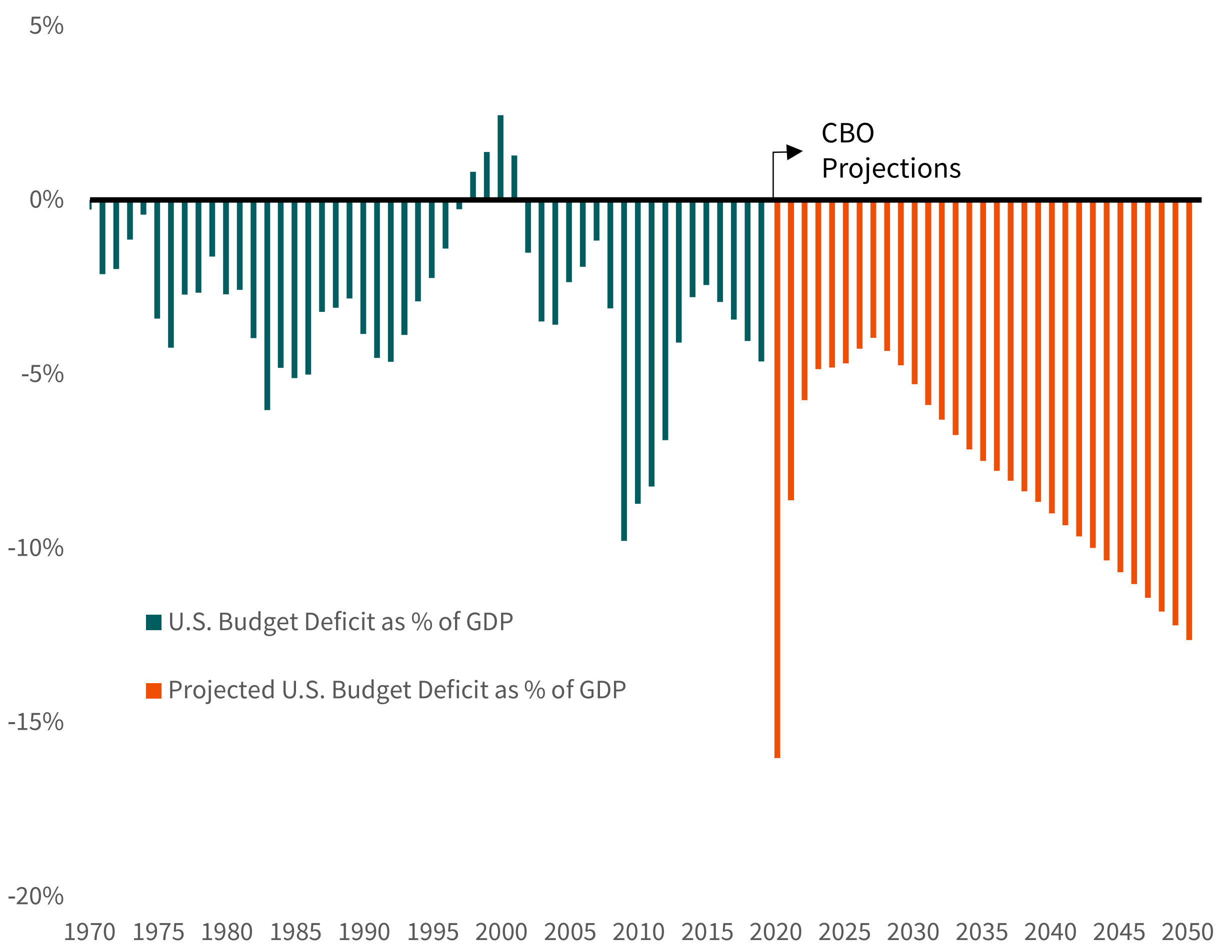
Why Are Stocks Rising When Consumers Are So Wary?



- It is very unusual that the stock market has been rallying so strongly while consumer confidence has been plunging.
- The two are usually highly correlated—a rising market coinciding with rising consumer confidence.
- This type of divergence is not sustainable. The only question is which line will catch up (or down) to the other.

Source: BCA Research; The Conference Board.

The U.S. Budget Deficit Is Set To Balloon



- The massive (and necessary) fiscal stimulus in response to the pandemic will lead to a large increase in the U.S. budget deficit.
- However, the QE bond purchases by the Fed have gone a long way in offsetting ("monetizing") the debt being issued by the Treasury to fund the massive pandemic fiscal stimulus and deficits.
- These purchases have kept downward pressure on interest rates. Otherwise, the massive increase in bond supply relative to demand would likely have pushed down bond prices, increasing bond yields/interest rates, and increasing the interest expense on the federal government's huge and growing pile of debt.
- As long as rates stay below the growth rate of GDP, the government debt service cost should be manageable and the debt-to-GDP ratio sustainable.

Source: Morningstar Direct. Chart concept courtesy of BlackRock. Data as of 8/31/2020.

Investment Outlook

- Our base-case macroeconomic scenario assumes moderate, trend economic growth, both in the United States and globally, and that corporate earnings growth and interest rates normalize over our five-year tactical investment time horizon.
- The U.S. and global economies entered a severe recession in the first quarter as a result of COVID-19 and the lockdown efforts to contain its spread. This was consistent with our prior base-case expectation that a U.S. recession was "very likely" within our five-year tactical horizon.
- The depth and duration of this recession remains highly uncertain, given how dependent it is on the course of the virus and the medical outcomes, at least until a vaccine is widely available.
- If there is no widespread resurgence of COVID-19 later this year, it appears we have seen the worst of the recession and bear market for this cycle. But if the pandemic materially worsens, it could lead to a double-dip recession and a sharp decline in stocks, possibly retesting the March low.
- During the sharp selloff in stocks in March, we increased our allocation to U.S. stocks by an increment (approximately 4%). But after the ensuing market rally, they offer sub-par expected returns and we are underweight to them. U.S. core bonds also continue to offer very low expected returns (very low yields).
- As such, our portfolios are tilted toward opportunities we believe offer more attractive reward relative to risk—specifically, international and emerging-market (EM) stocks, non-core fixed-income strategies, and alternative strategies.

Asset Class	Outlook and Positioning
U.S. Stocks	The U.S. stock market is overvalued at current levels, offering poor five-year expected returns in our base case.
Developed International Stocks	Return potential is attractive versus U.S. stocks. However, the structural issues related to the eurozone and Brexit lower our conviction.
Emerging-Market Stocks	Valuations in relation to our estimate of EM normalized earnings power are very attractive, both in absolute terms and relative to U.S. stocks. In the short term there could be relatively more downside risk in EM stocks.
Investment-Grade Bonds	We're underweight to investment-grade bonds in favor of flexible core bond funds, unconstrained and absolute-return-oriented funds, and floating-rate loan funds we believe can generate higher returns and better manage their sensitivity to interest rate changes.
Alternative Strategies	We own alternative strategies we believe improve the overall risk-adjusted return potential of our portfolios, with different risk and return drivers than traditional stocks and bonds.

Disclosure

<u>Asset Class Descriptions:</u>

Domestic Investment-Grade Bonds (Barclays Capital U.S. Aggregate Bond Index): We are currently using the Vanguard Total Bond Market Index Fund to represent the Barclays Capital U.S. Aggregate Bond Index, an index of domestic investment grade bonds.

Floating Rate Loans (S&P/LSTA Leveraged Loan Index): We are currently using the S&P/LSTA Leveraged Loan Index to represent an index of floating rate loans.

High Yield Bonds (Merrill Lynch U.S. High Yield Master Cash Pay Index): We are currently using the Merrill Lynch U.S. High Yield Master Cash Pay Index to represent an index of domestic high yield bonds.

Domestic Larger-Cap Stocks (S&P 500 Index): We are currently using the Vanguard 500 Index Fund to represent the S&P 500, an index of primarily domestic larger-cap stocks.

Domestic Smaller-Cap Stocks (Russell 2000 Index): We are currently using the Russell 2000 Index iShares Exchange Traded Fund (ETF) to represent the Russell 2000, an index of primarily domestic smaller-cap stocks.

International Developed-Market Stocks (FTSE Developed ex North America Index): We are currently using the Vanguard FTSE Developed Markets Exchange Trade Fund (ETF) to represent an index of international developed-market stocks. Prior to May 2013, this Vanguard Exchange Traded Fund followed MSCI-EAFE. Prior to the July 2007 inception of Vanguard MSCI EAFE ETF, we use iShares MSCI EAFE Index from September 2001 to July 2007, and the MSCI EAFE Index adjusted for 0.35% expenses annually prior to September 2001.

International Emerging-Market Stocks (FTSE Emerging Markets Index): We are currently using the Vanguard FTSE Emerging Markets Index Exchange Traded Fund (ETF) to represent an index of emerging market stocks. Prior to January 2013, this Vanguard Exchange Traded Fund followed the MSCI Emerging Markets Index. Prior to the March 2005 inception of Vanguard MSCI Emerging Markets ETF, we use iShares MSCI Emerging Markets Index from May 2003 to March 2005, and the MSCI Emerging Markets Index adjusted for 0.67% expenses annually prior to May 2003.