Market Review

Second Quarter 2020

Alsworth Capital Management, LLC

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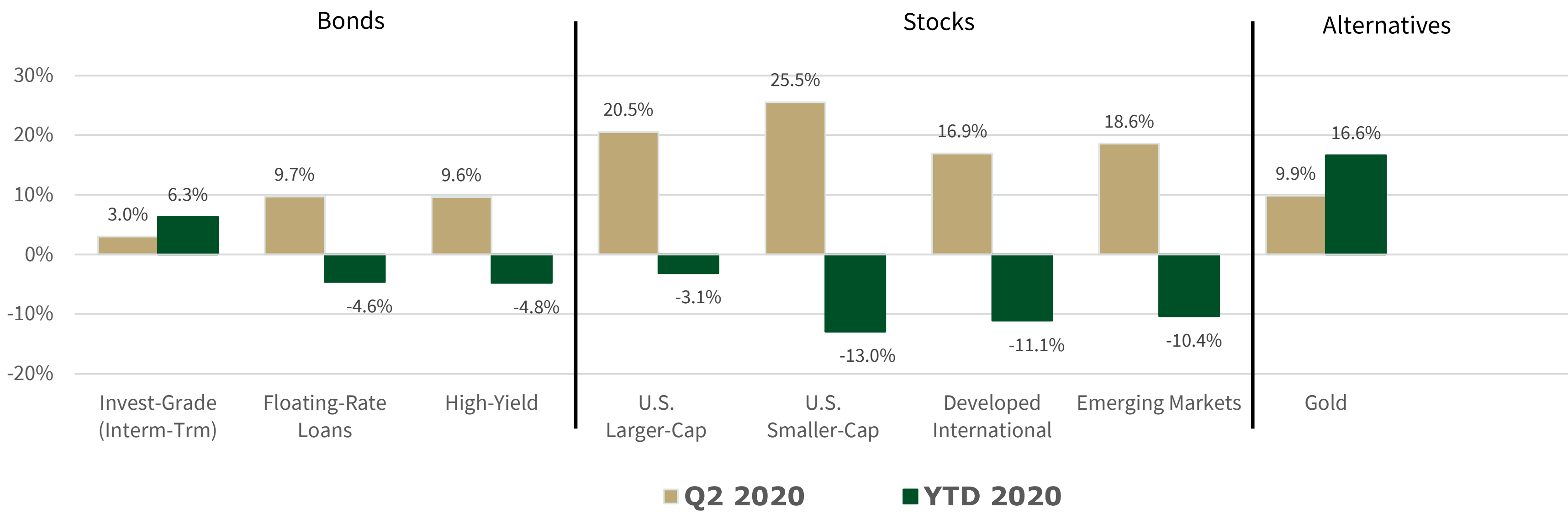


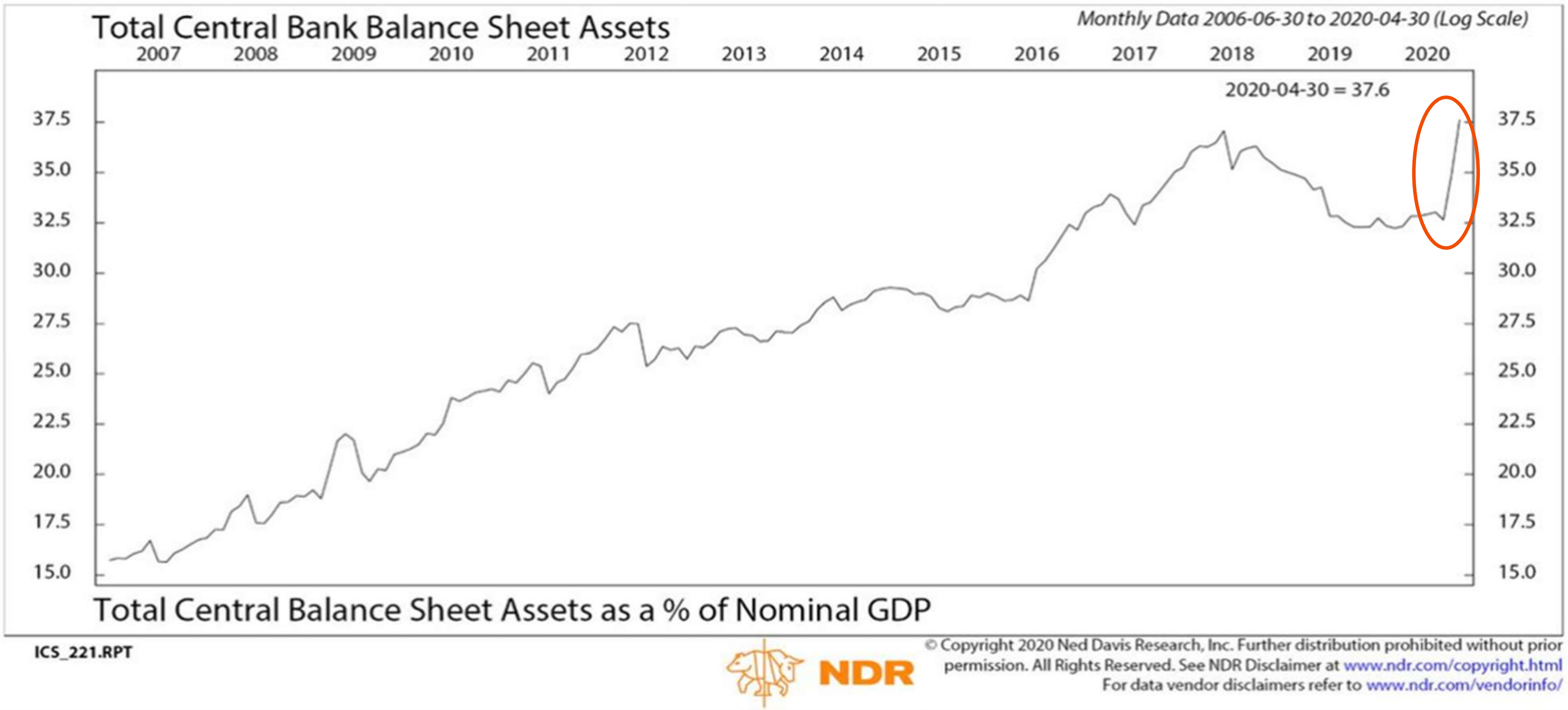
- Equity investors have been on quite a roller-coaster ride this year. After hitting an all-time high on February 19, the S&P 500 Index plunged a gut-wrenching 34% over the next month, marking the quickest bear market in U.S. history. Then from the March 23 low, the market soared 40%, notching its best return ever over any 50-day period. Talk about whiplash.

- For the full second quarter, larger-cap U.S. stocks gained 21% and smaller-cap stocks climbed 26%. Despite the medical, economic, and social turmoil all around, the U.S. market is down just 3% year to date and is only 8% below its all-time high on February 19. However, there is a major style bifurcation beneath the surface: the Russell 1000 Growth Index is up 10% on the year, while its Value sibling is down 16%. Looking overseas, developed international stocks rose 17% and emerging-market stocks gained 19% in the second quarter. For the year, they are down 11% and 10%, respectively.

- Core bonds added 3% as Treasury yields fell slightly. Riskier credit-sensitive sectors within the fixed-income universe posted very strong gains, making up ground from their first quarter losses. Floating-rate loans and high-yield bonds each gained about 10%, leaving them down about 5% for the year.

Source: Morningstar Direct. Data as of 6/30/2020.

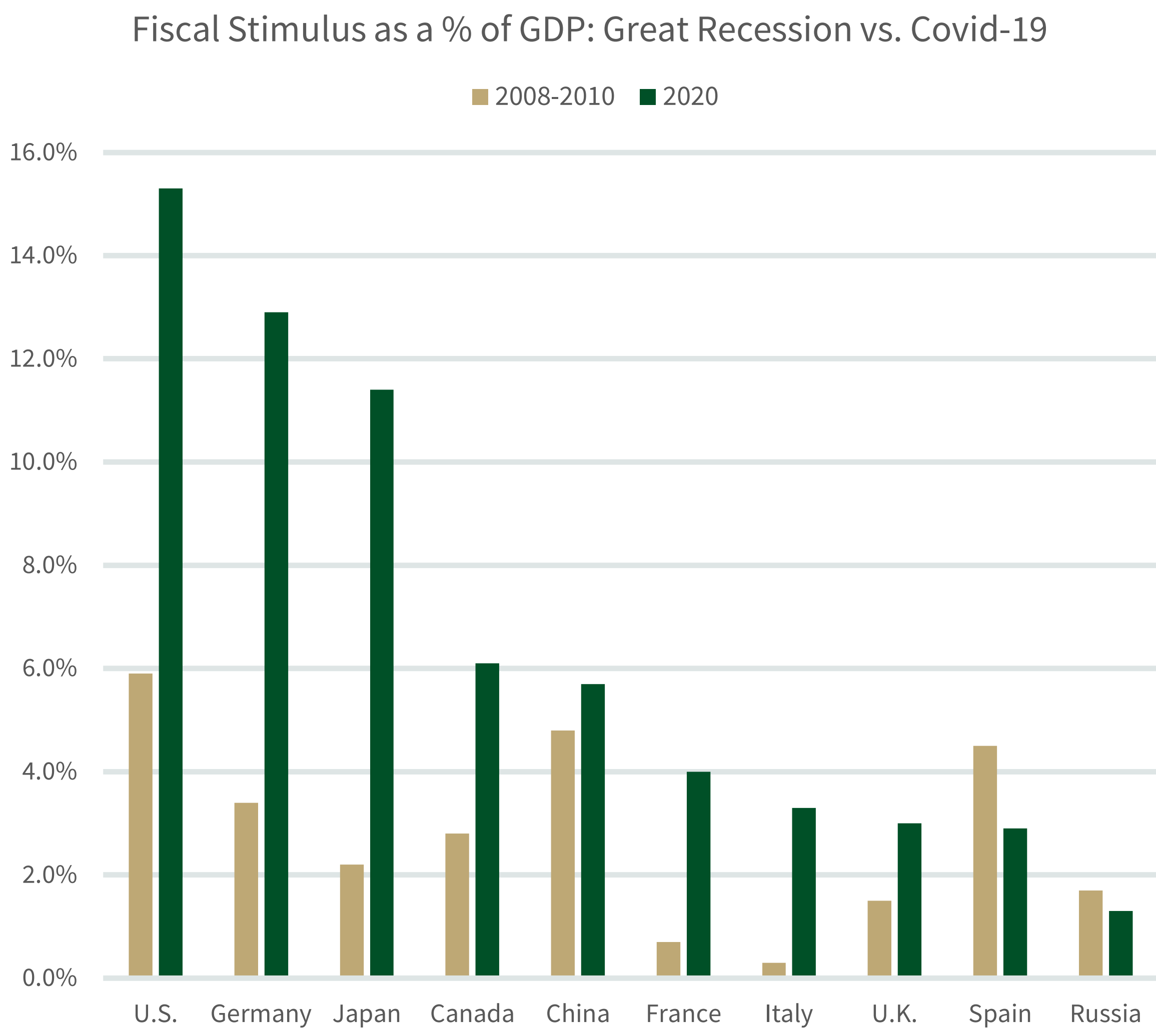
In Addition to Near-Zero Interest Rates, Central Banks Have Also Expanded Their Balance Sheets



- In response to the COVID-19 pandemic, the size of central bank balance sheets as a % of nominal GDP has grown at a vertical rate in 2020. Looking at key individual central banks, the Federal Reserve's balance sheet assets stand at 33% of GDP, while the European Central Bank is at 44%, and the Bank of Japan is a whopping 118%.
- Asset purchases by central banks support the fluid functioning of credit, lending, and financial markets and help to keep interest rates and borrowing costs low.

Source: Ned Davis Research. Data as of 4/30/2020.

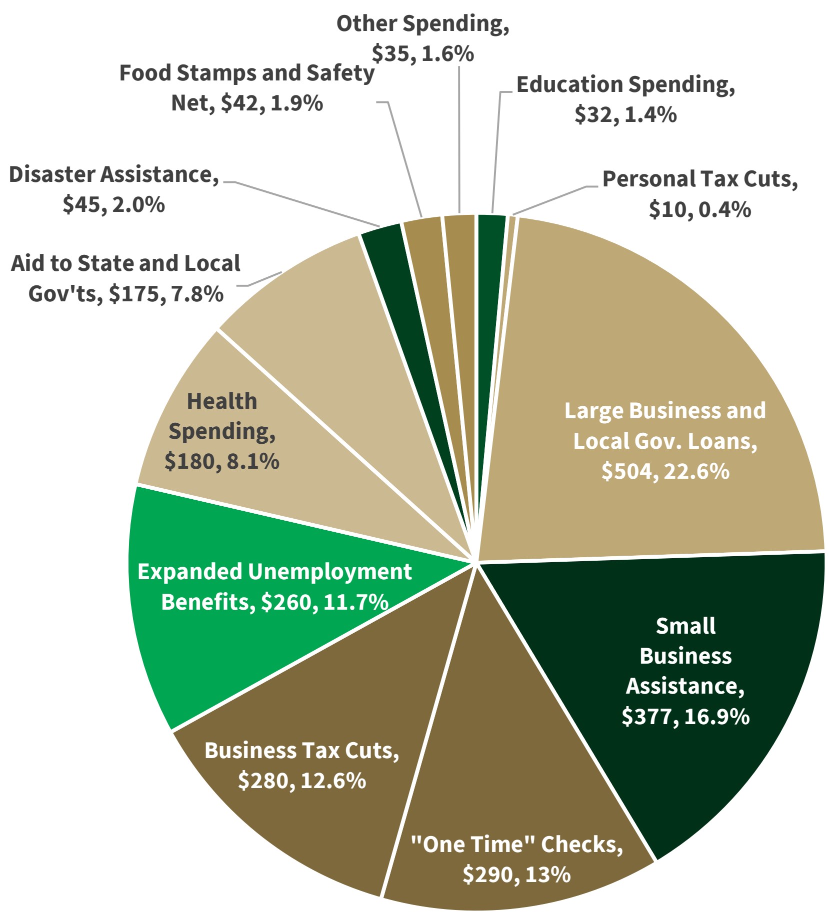
Fiscal Policy Response Has Been Unprecedented



- The fiscal stimulus and support programs in response to the COVID-19 pandemic have been much larger than during the financial crisis of 2008–09 for most countries.
- It appears that even more relief will be coming as another $1 trillion fiscal stimulus package in the United States seems likely later this summer.
- The response by governments to deal with the COVID-19 pandemic and resulting economic shutdown has helped prevent a depressionary spiral from taking hold, boosting financial markets globally.

Source: BCA Research; various news and government agencies; Brookings; IMF. Data as of 6/19/2020.

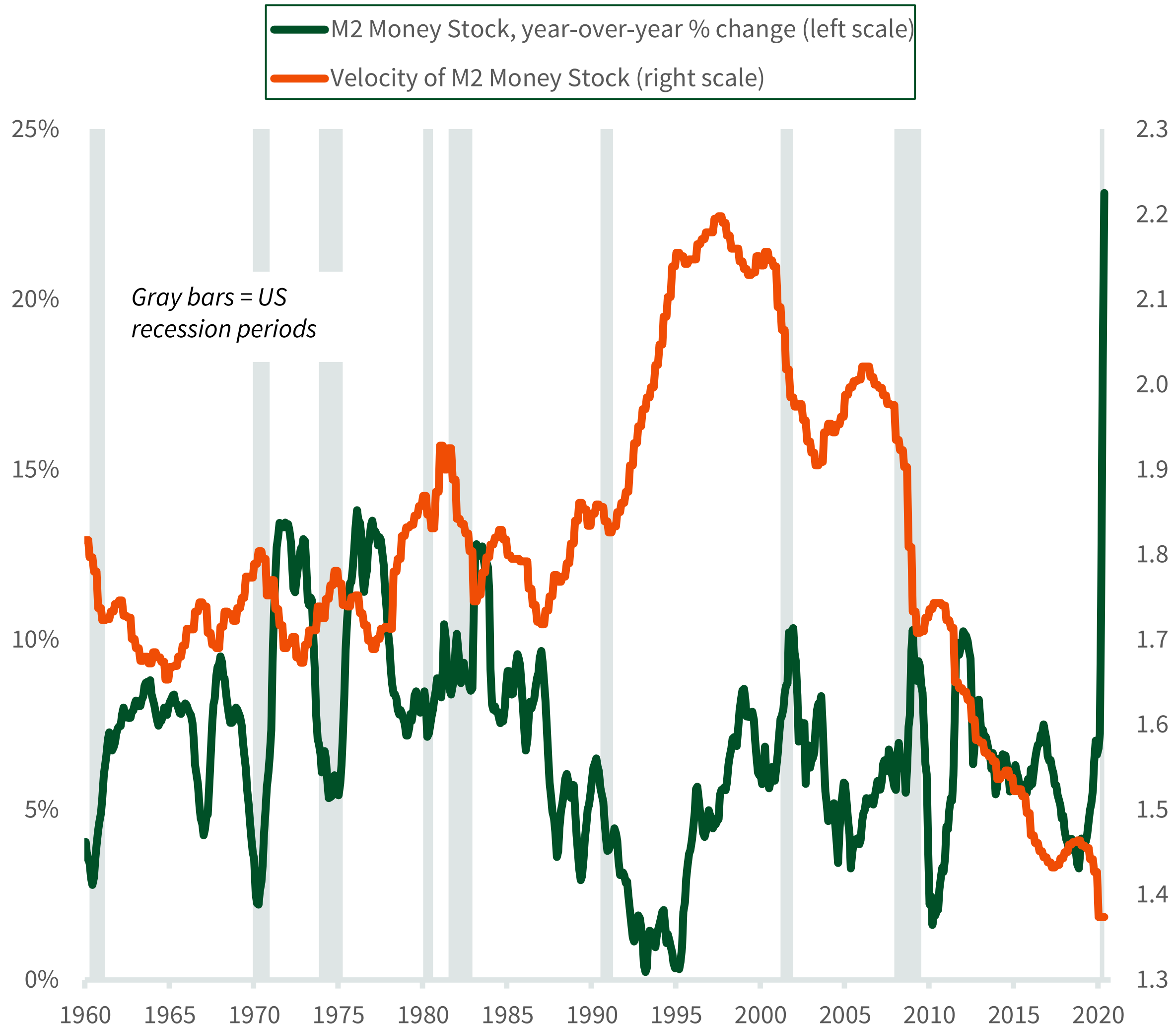
The U.S. $2.2 Trillion Coronavirus Relief Package



- On March 27, the U.S. government approved a $2.2 trillion spending plan, representing approximately 10% of annual GDP.
- The U.S. relief package is mainly targeted to bridge the income gaps to businesses and individuals caused by the economic shutdown.
- Nearly one-half of the stimulus will go to large business and local government loans, small business assistance, and “one-time” checks.
- Approximately one-quarter of the package will be in the form of business tax cuts and expanded unemployment benefits.

Source: BCA Research; Committee for a Responsible Budget.

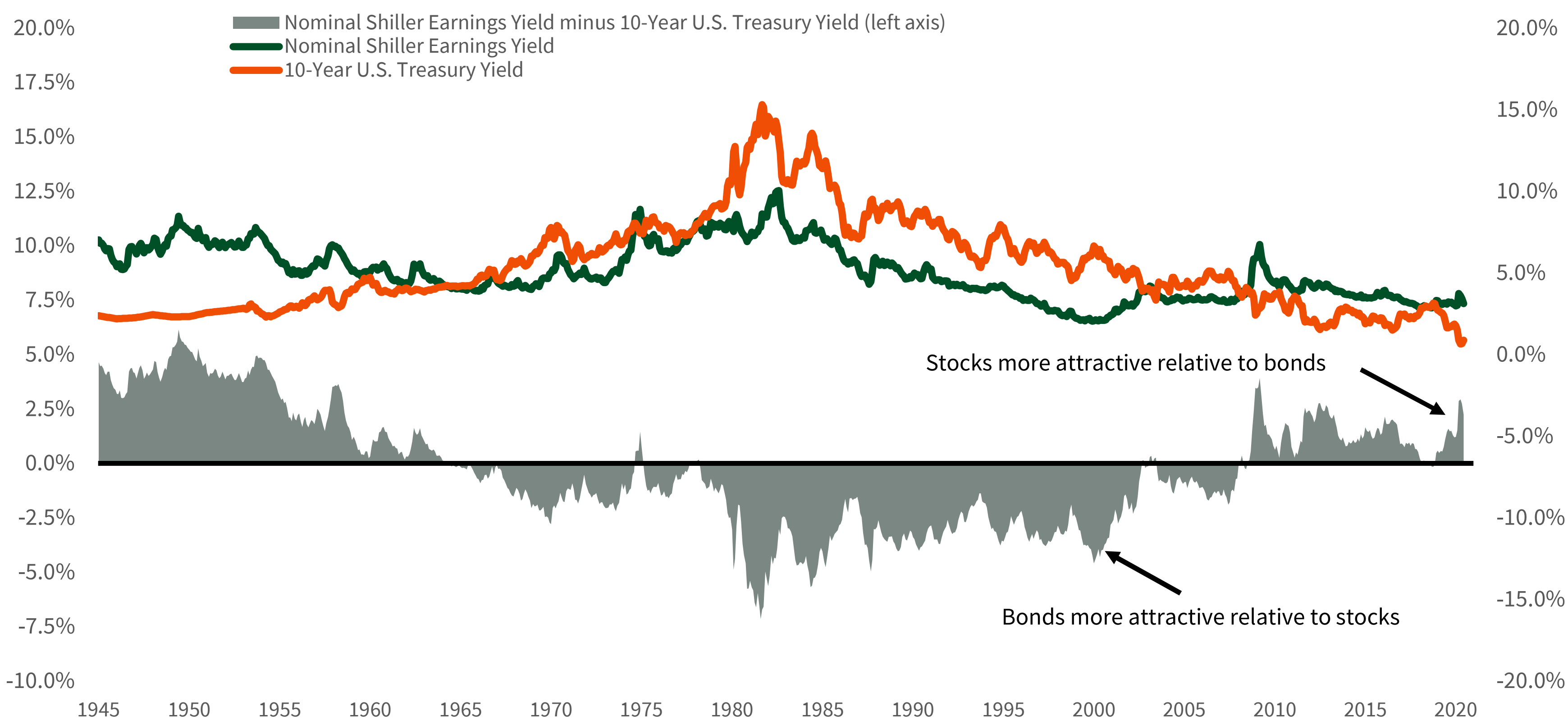
Surging Money Supply Has Been Offset by Falling Money Velocity, Helping to Keep Inflation in Check



- There has been increased discussion in the financial press that massive stimulus from the Fed and multi-trillion-dollar debt-financed fiscal support programs may heighten the risk of inflation in the United States. We don't view inflation as a near-term risk.
- At present, there is too much slack in the economy due to the COVID-induced shutdown; it will take time to recover.
- While skyrocketing money supply is inflationary, that effect is offset by falling money velocity—how often money changes hands in economic transactions. Money velocity is at an all-time low.
- If policies remain extremely loose after the economy has reached full capacity and full employment, there is a strong risk that these policies will translate into inflation.

Source: Federal Reserve Bank of St. Louis. Data as of 5/31/2020.

U.S. Stocks Look Attractive Relative to U.S. Bonds



- After rallying nearly 40% since their March lows, U.S. stocks are overvalued in our baseline scenario. We estimate a five-year annualized expected return for the S&P 500 of only 1.8% in our base case. So, from an absolute valuation perspective the U.S. market is expensive.
- However, because core bond yields are extremely low, stock valuations—despite being absolutely high—still look relatively attractive compared to core bonds.

Source: Robert Shiller; Litman Gregory. Data as of 6/9/2020.

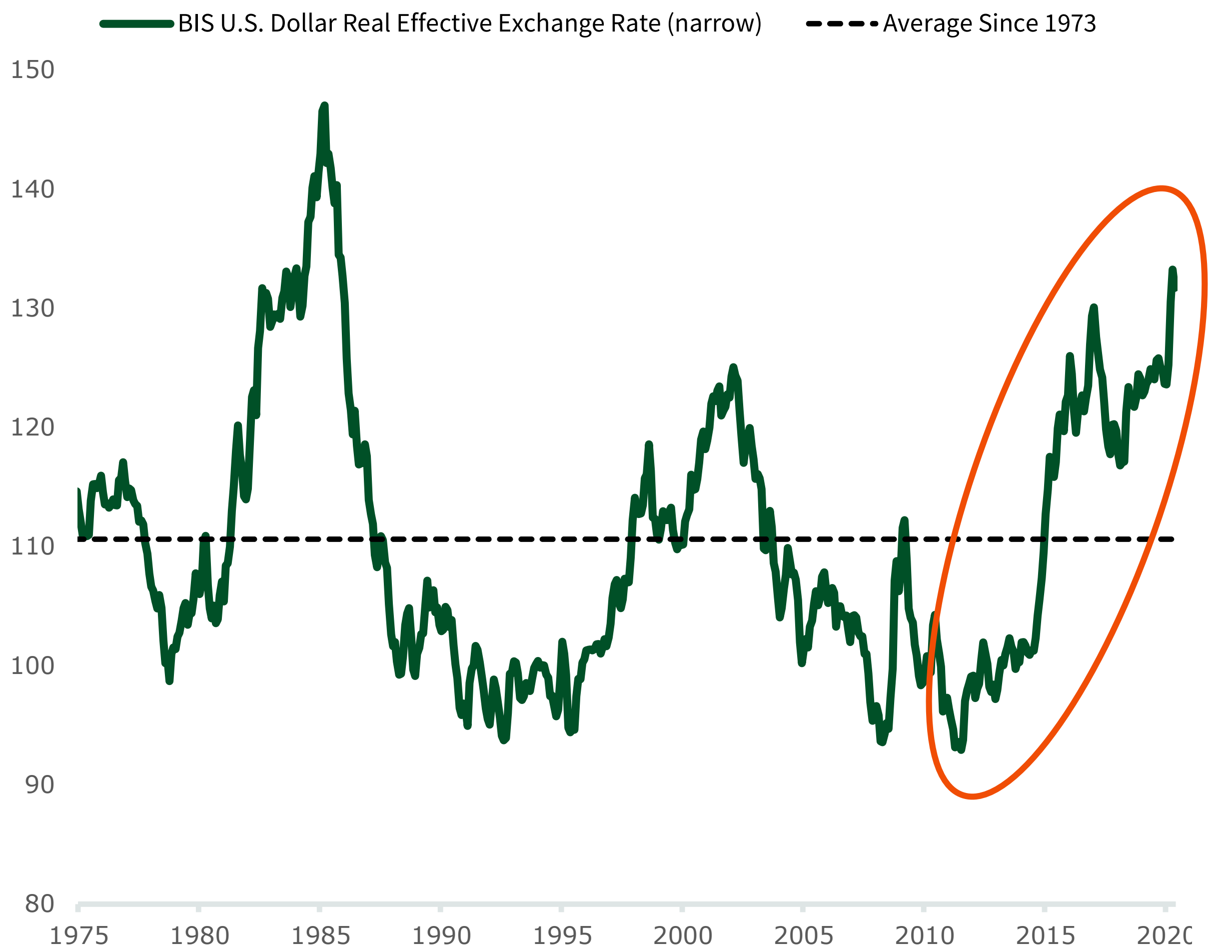
Valuations for EM Stocks are Cheap

- The cyclically adjusted P/E ratio—an absolute valuation metric—for the EM stock index is near its lowest level in 35 years of history.
- Low valuations reflect investors' pessimistic outlook for these regions. This creates the potential for a meaningful positive surprise. Things don't have to become great for emerging markets; they just need to get relatively better from current depressed levels.

*BCA calculations using EM and U.S. stock prices and EPS in U.S. dollar terms and deflated by U.S. consumer price inflation.

Source: BCA Research; MSCI. Data as of 6/30/2020.

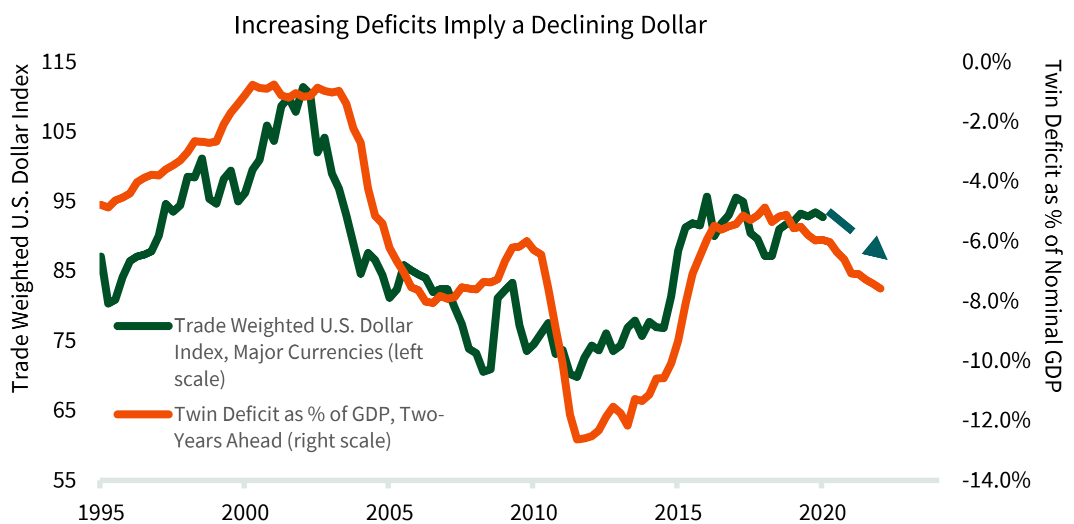
The U.S. Dollar is Overvalued

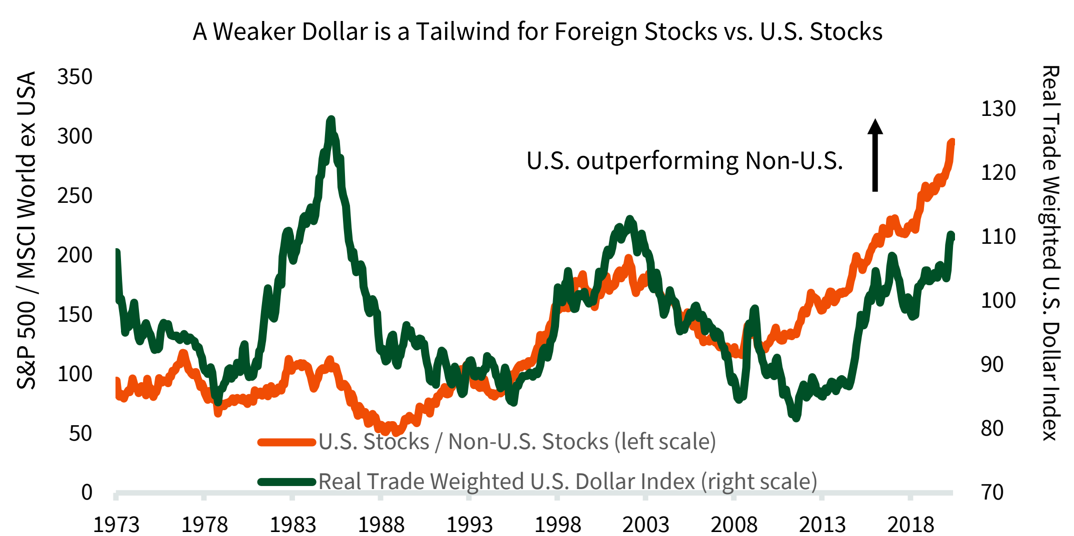


- Since 2011, the U.S. dollar has appreciated more than 35% versus a trade-weighted currency basket. This has been a headwind for U.S. dollar–based investors in foreign stocks.
- After appreciating over the past nine years, the dollar now looks overvalued relative to other currencies.
- One reason this may end is the extremely accommodative monetary policy in the United States, with the Fed recently cutting rates to near-zero and restarting massive quantitative easing asset purchases. What was once a large interest rate advantage for the dollar compared to lower rates in other developed countries is no longer the case.

Source: Bank of International Settlements. Data as of 5/31/2020.

The Dollar May Soon Be Headed for a Sustained Downturn

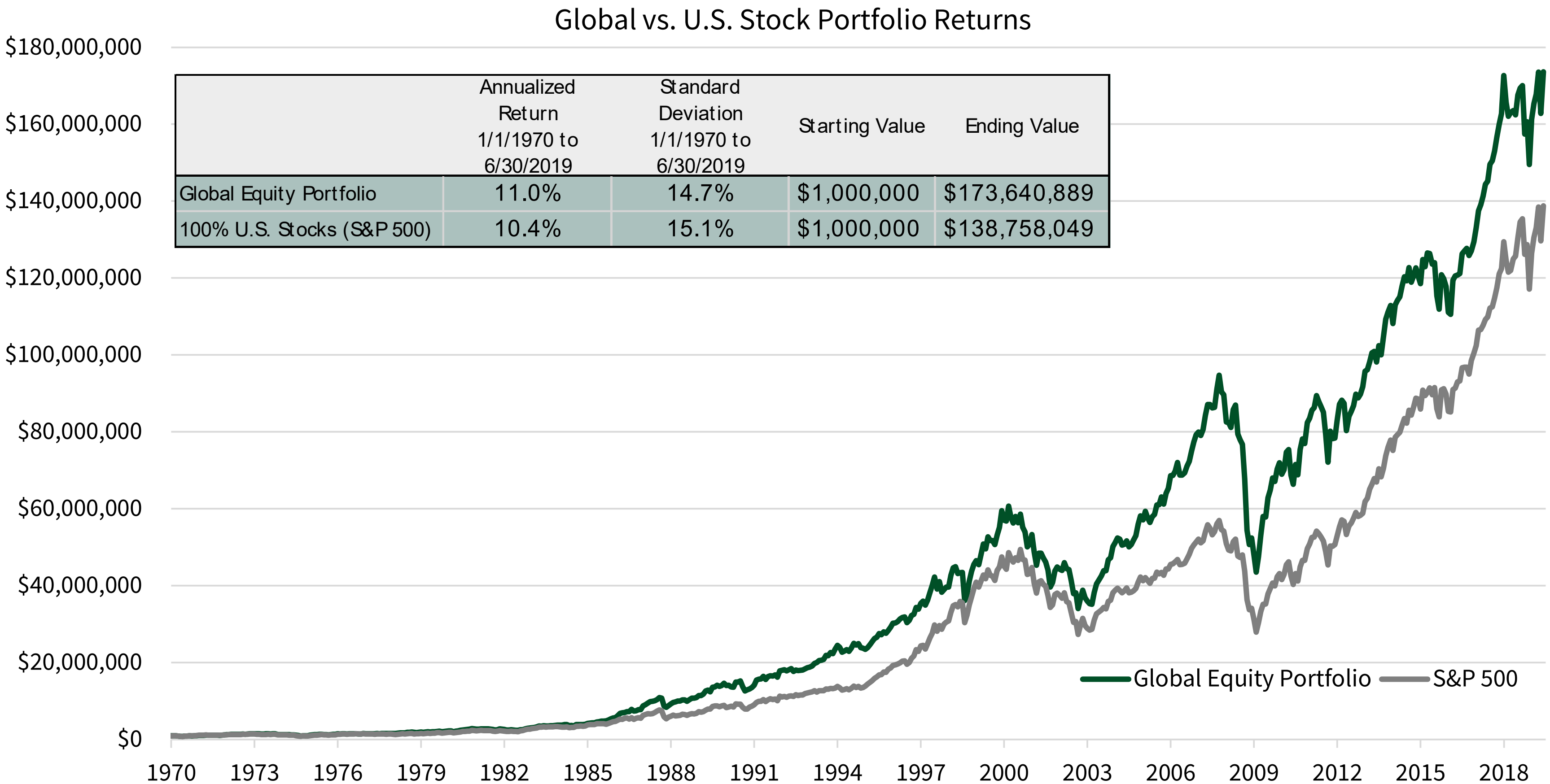




- The dollar is also likely to face downward pressure from the large and expanding U.S. “twin deficits”—the federal budget deficit and current account deficit (the largest component of the current account deficit is the merchandise trade deficit)
- Because the dollar is considered a safe-haven currency, it is likely to depreciate as the COVID-19 pandemic fades and the global economy recovers.
- Historically, a weaker dollar has been a tailwind for non-U.S. stock markets relative to the U.S. stock market. We expect the relationship to hold true again this cycle.

Top: Source: U.S. Bureau of Economic Analysis and U.S. Department of the Treasury. Chart concept courtesy of DoubleLine. Data as of 3/31/2020. Bottom: Source: Board of Governors of the Federal Reserve System and Morningstar Direct. Data as of 5/31/2020.

The Long-Term Case for Global Equity Exposure



	Annualized Return 1/1/1970 to 6/30/2019	Standard Deviation 1/1/1970 to 6/30/2019	Starting Value	Ending Value
Global Equity Portfolio	11.0%	14.7%	$1,000,000	$173,640,889
100% U.S. Stocks (S&P 500)	10.4%	15.1%	$1,000,000	$138,758,049

Source: Morningstar. Data as of 6/30/2019. Note: From 1970 to 1987 global equity portfolio is 60% S&P 500 and 40% MSCI EAFE. From 1988 onwards portfolio is 60% S&P 500, 20% MSCI EAFE, and 20% MSCI Emerging Markets.

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.

Source: Litman Gregory Research

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.

Gold: We are currently using Aberdeen Physical Gold ETF to represent the Gold sector

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