

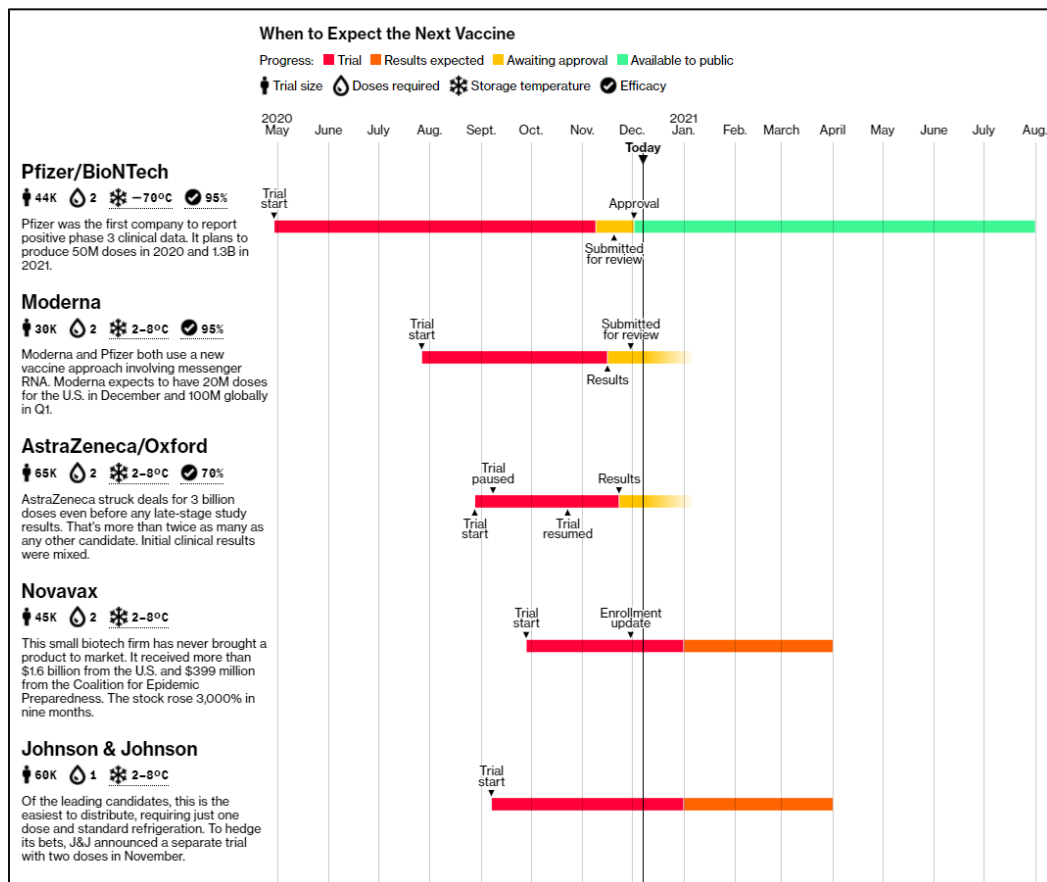
Monthly Investment Update

December 2020

Investors were rewarded in November as several stock indices provided double-digit monthly returns. Two stories in particular seemed to have driven the stock market surge; significant progress toward COVID-19 vaccinations and the diminishing uncertainty related to the US Presidential election outcome. The S&P 500 gained 11% during the month, with value stocks and more economically sensitive cyclical sectors outperformed the growth and technology-oriented names that had led through much of the year. US large cap value stocks returned 14% and small cap and foreign equities returned 18% and 16%, respectively¹.

The election of Joe Biden as the next President of the United States became more certain during the month after an extended process of counting mail-in ballots in swing states as well as subsequent legal challenges from President Trump’s team. The Electoral College is set to meet to vote on December 14, marking the next step on the path to Inauguration Day.

In the race for a COVID-19 vaccine, three companies (Pfizer, Moderna, and AstraZeneca) have recently completed trials of their vaccines. The initial results surprised to the upside, as the Pfizer and Moderna vaccines reporting 95% efficacy, and those companies are expected to seek FDA emergency approval in the weeks to come. Markets applauded the news, hoping that life may return to pre-pandemic normal in 2021.

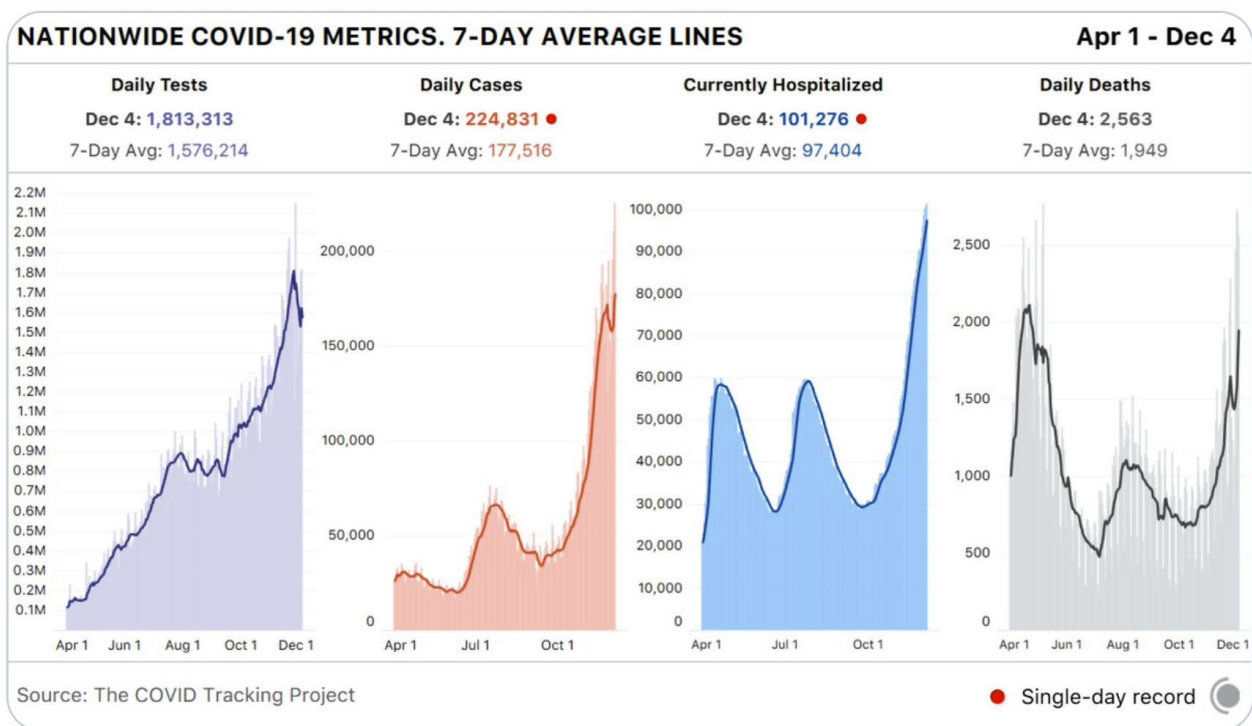


Source: Bloomberg

¹ Russell 1000 Value Index, Russell 2000 Index, and MSCI EAFE Index, respectively.

Despite progress toward a vaccine, the pandemic continues to rage on in the US. Late November and early December saw record numbers of new cases and hospitalizations, with hospital systems in some states nearing bed capacity.

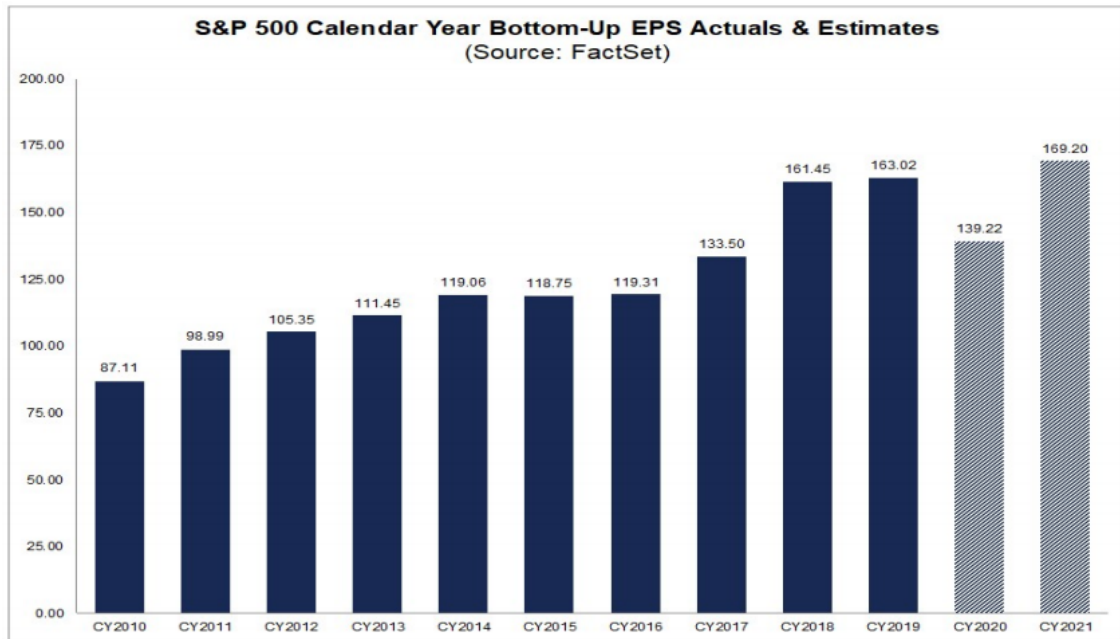
For many, it is increasingly difficult to process the sharp contrast between how grim the real-life situation is today versus the optimism surrounding the upcoming distribution of a vaccine. Assuming the vaccines prove effective and the logistical challenges with distribution can be solved, the light at the end of the tunnel appears to be getting closer.



Corporate Earnings

Third quarter earnings for the S&P 500 generally beat expectations, with more than 85% of companies outperforming analysts' consensus estimates, and earnings were nearly 20% above expectations, on average². Looking forward, the expectation is for the S&P 500 to earn approximately \$169 per share in 2021, which would mark a 22% increase in earnings over 2020 and a 4% increase in 2019 earnings that occurred prior to the pandemic. As of November 30, the S&P 500 index level was 3,622, which implies that investors are paying 21x next year's expected earnings.

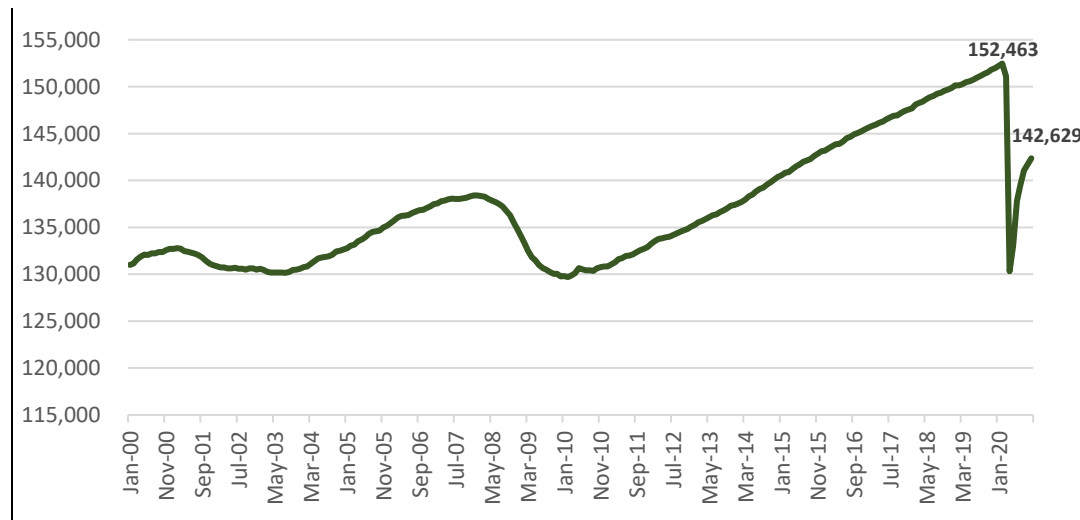
² Source: FactSet



US Economy

In early December, U.S. Bureau of Labor Statistics released the November employment report. Economists were anticipating that the US economy added approximately 450,000 jobs during the month, but the actual number was only 245,000. The total number of those employed in the US remains significantly below the pre-pandemic peak in January of 2020. The headline unemployment rate remained relatively unchanged at 6.8%, and the total unemployment rate (when accounting for those who are part-time for economic reasons) was more than 12% of the labor force as of November, which is nearly double the rate in January, though significantly lower than the nearly 23% rate at the height of the stay-at-home orders in April.

Total Non-Farm Payrolls (millions)

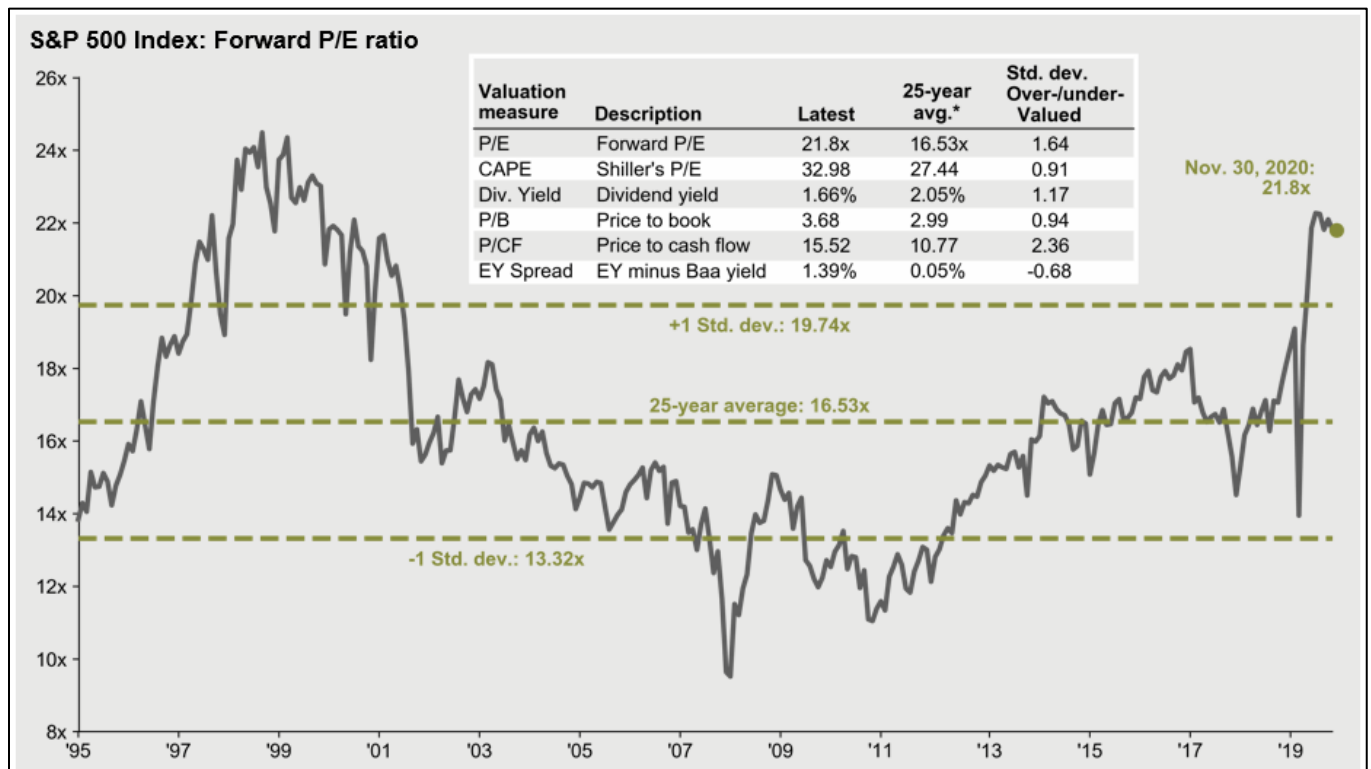


Implications for Portfolio Management

The chart below highlights the valuation of large cap US equities as measured by the S&P 500 index, which may be moderately overextended relative to historical averages. Today, markets are at a potential inflection point with economic and human suffering from the pandemic juxtaposed against the prospect for a cure on the horizon as well as significant levels of fiscal and monetary stimulus.

Given the unprecedented nature of the current situation, many traditional measures of valuation may not be as meaningful in an extended environment of zero interest rates. Market participants seem to be looking beyond 2020 earnings and are willing to pay a higher multiple for growth in the recovery years.

S&P 500 Index Valuation



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 November 30, 2020. Current next 12-months consensus earnings estimates are \$166. 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 November 30, 2020.



Asset Class Returns

Category	Representative Index	Nov. 2020	YTD 2020	Full Year 2019
Global Equity	MSCI All-Country	12.3%	11.1%	26.6%
US Large Cap Equity	S&P 500	11.0%	14.0%	31.5%
US Small Cap Equity	Russell 2000	18.4%	10.4%	25.5%
Foreign Developed Equity	MSCI EAFE	15.5%	3.0%	22.0%
Emerging Market Equity	MSCI Emerging Markets	9.3%	10.2%	18.4%
US High Yield Fixed Income	ICE BofAML High Yield	4.0%	4.2%	14.4%
US Fixed Income	Barclays Aggregate Bond	1.0%	7.4%	8.7%
Cash Equivalents	ICE BofAML 3 Mo Deposit	0.0%	0.5%	2.2%

Source: Morningstar (total returns shown gross of fees)
As of November 30, 2020

Prices & Interest Rates

Representative Index	Nov. 30, 2020	Year-End 2019
S&P 500	3,622	3,231
Dow Jones Industrial Avg.	29,629	28,538
NASDAQ	12,277	8,973
Crude Oil (US WTI)	\$45.34	\$61.21
Gold	\$1,776	\$1,520
US Dollar	91.87	96.39
2 Year Treasury	0.16%	1.58%
10 Year Treasury	0.84%	1.92%
30 Year Treasury	1.58%	2.39%

Source: Bloomberg, US Treasury (total returns shown gross of fees)
As of November 30, 2020

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