

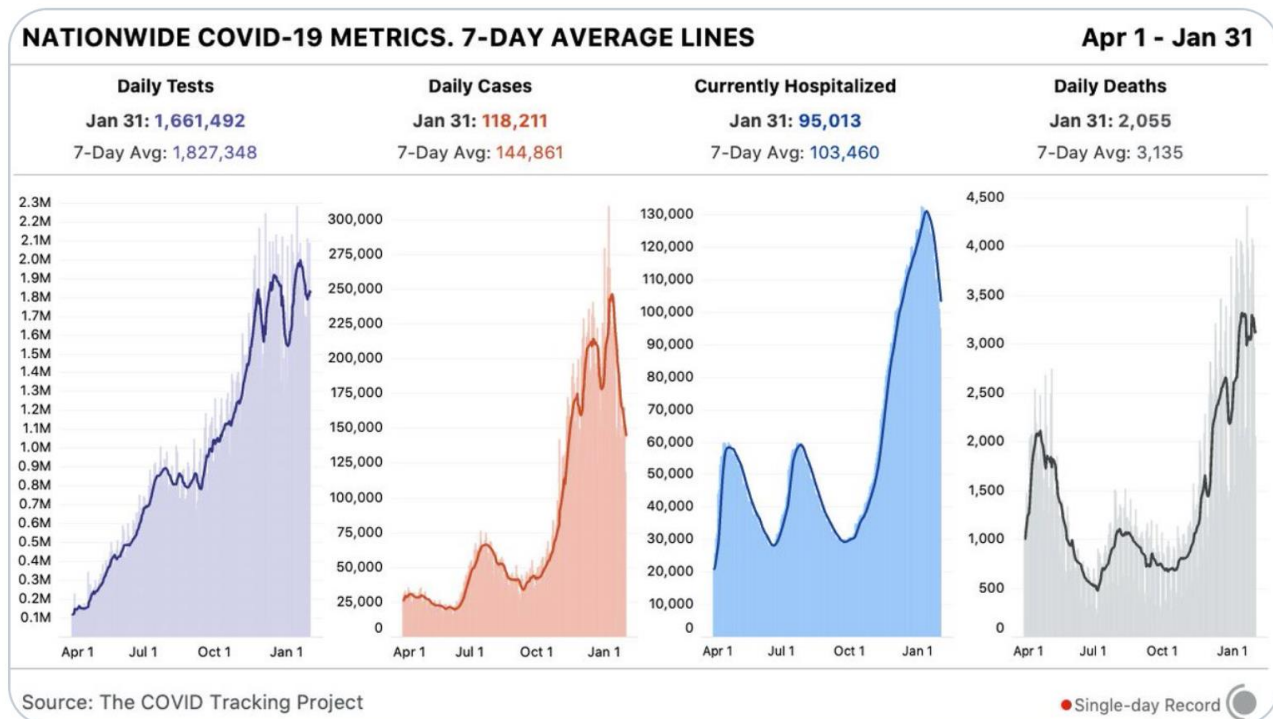
## Monthly Investment Update

February 2021

January was an eventful month with the inauguration of Joe Biden as the 46<sup>th</sup> President of the United States, the beginning of corporate earnings season, and the continued fight against the COVID-19 pandemic. For the month, the global stocks (as represented by the MSCI ACWI index) fell 0.5% while US large caps (S&P 500 index) fell 1%<sup>1</sup>.

### COVID-19 Pandemic

In the US, confirmed cases, hospitalizations, and deaths trended in the right direction toward the end of January, receding from high water marks earlier in the month (see below). The vaccine rollout, despite hiccups along the way, has now administered 31.8 million doses which equates to 9.7 doses for every 100 people<sup>2</sup>.



On the surface, news regarding Covid-19 in the US is positive and hopefully this trend continues as more and more people get vaccinated. However, we continue to monitor how developments related to different strains (i.e., UK, Brazil, and South Africa) play out, as new strains have the potential to complicate the vaccination process and global recovery<sup>3</sup>.

<sup>1</sup> Source: Morningstar

<sup>2</sup> Source: [Bloomberg Covid-19 Tracker](#) as of 2/1/2021

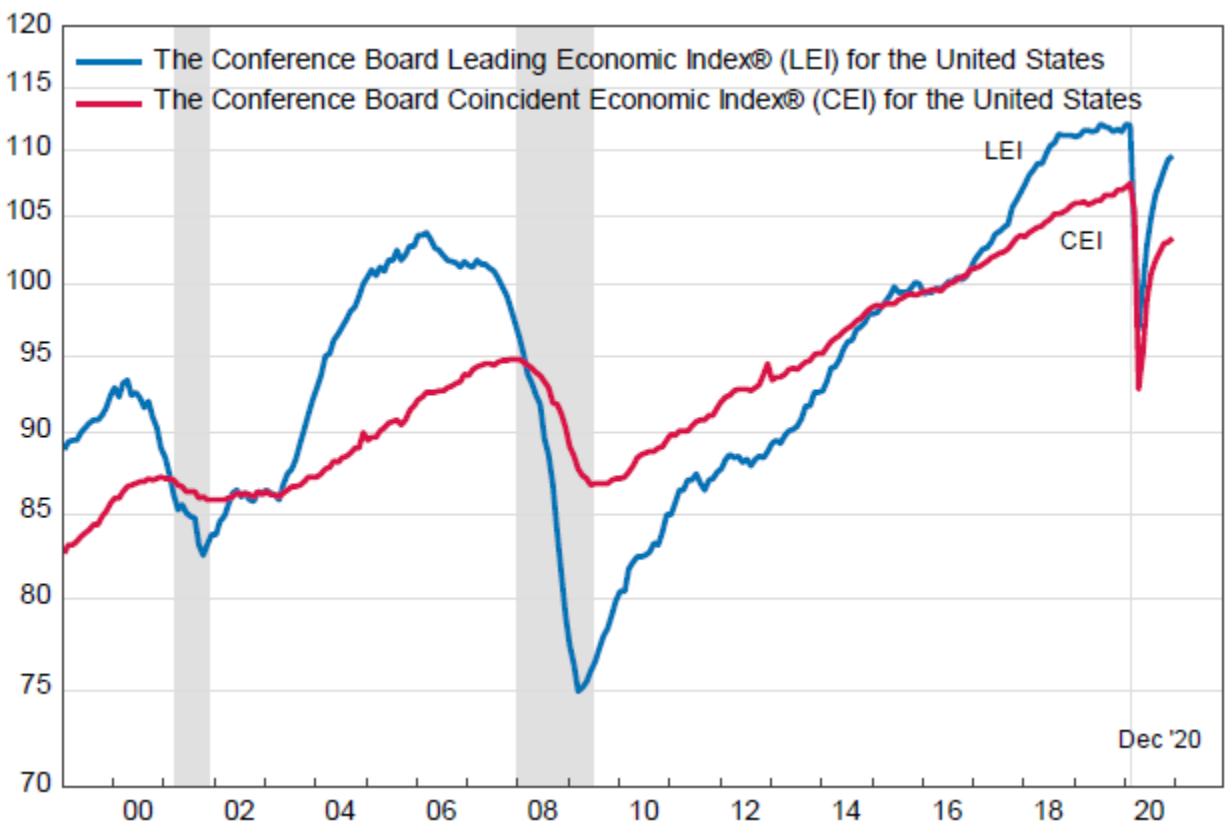
<sup>3</sup> Source: [Bloomberg Prognosis](#) as of 2/1/2021

## US Economy

The US economy advanced by 4% in the fourth quarter, according to the Bureau of Economic Analysis, which tracks US gross domestic product. The headline unemployment rate remains elevated at 6.7%, though it continues to decline. Weekly initial claims for unemployment insurance remain stubbornly high, averaging 800-900 thousand per week during January.

The federal government and the US Federal Reserve have continued to pledge support for the economy, with the Fed stating last week that they intend to keep accommodative policies and near-zero interest rates in place for the foreseeable future. In addition, Washington is in the process of negotiating an additional stimulus package that is expected to include direct cash payments to Americans and enhanced unemployment benefits.

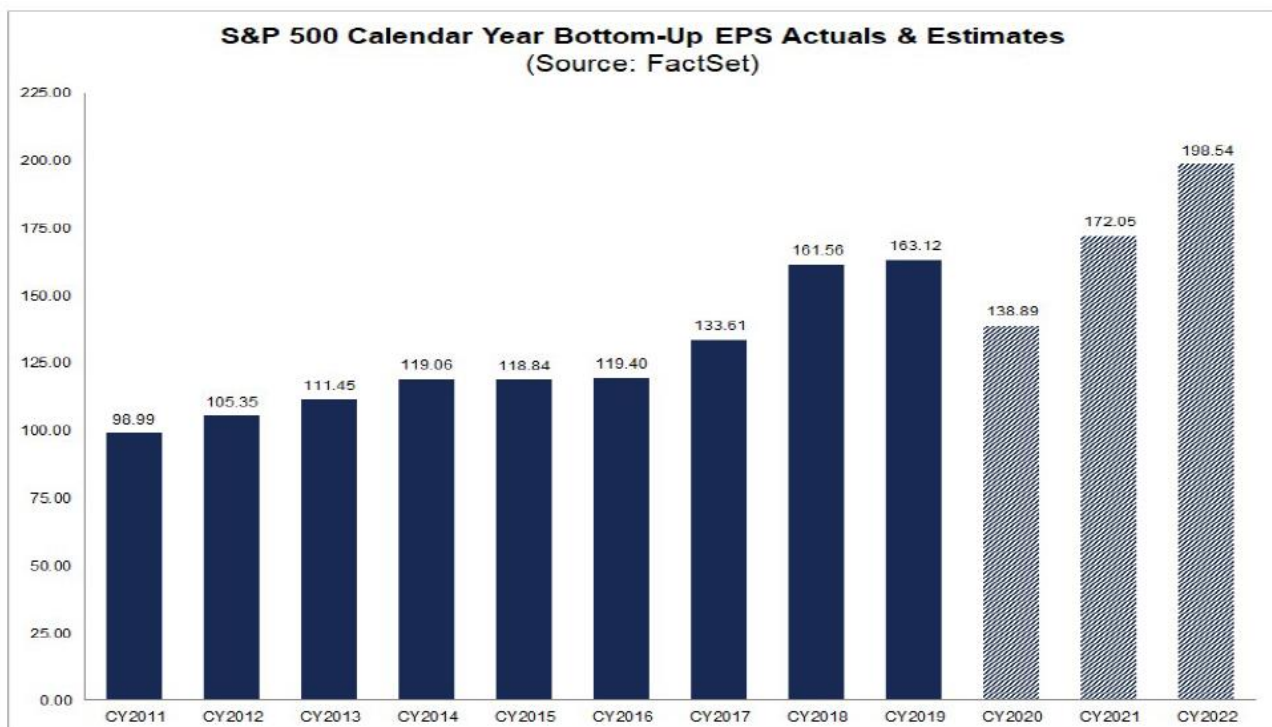
The Conference Board's series of Leading Economic Indicators (LEIs) increased in December, but at a moderating pace. Improvements in the composite were broad-based, with the exception of rising initial claims for unemployment insurance and mixed consumer outlook on business and economic conditions. The fact that the LEI series remains in an uptrend implies that economic growth should remain positive in 2021, absent a significant shock.



Source: Conference Board

### Corporate Earnings

S&P 500 earnings have been, on average, better-than-expected for those companies that have reported fourth quarter 2020 results. To date, 37% of companies have reported, and 82% of those have posted results above analysts' expectations with the information technology, healthcare, and financials sectors seeing the most upside surprises. Encouragingly, expectations for 2021 and 2022 are increasing as well with analysts now anticipating that aggregate S&P 500 earnings will be \$172 in 2021 and \$199 in 2022, which represent 6% and 22% increases, respectively, relative to the pre-pandemic earnings of 2019 (\$163). As of this writing, the S&P 500 index is trading near 3,700, which would imply that investors are willing to pay 22x this year's expected earnings and 19x next year's expected earnings.<sup>4</sup>



### Implications for Portfolio Management

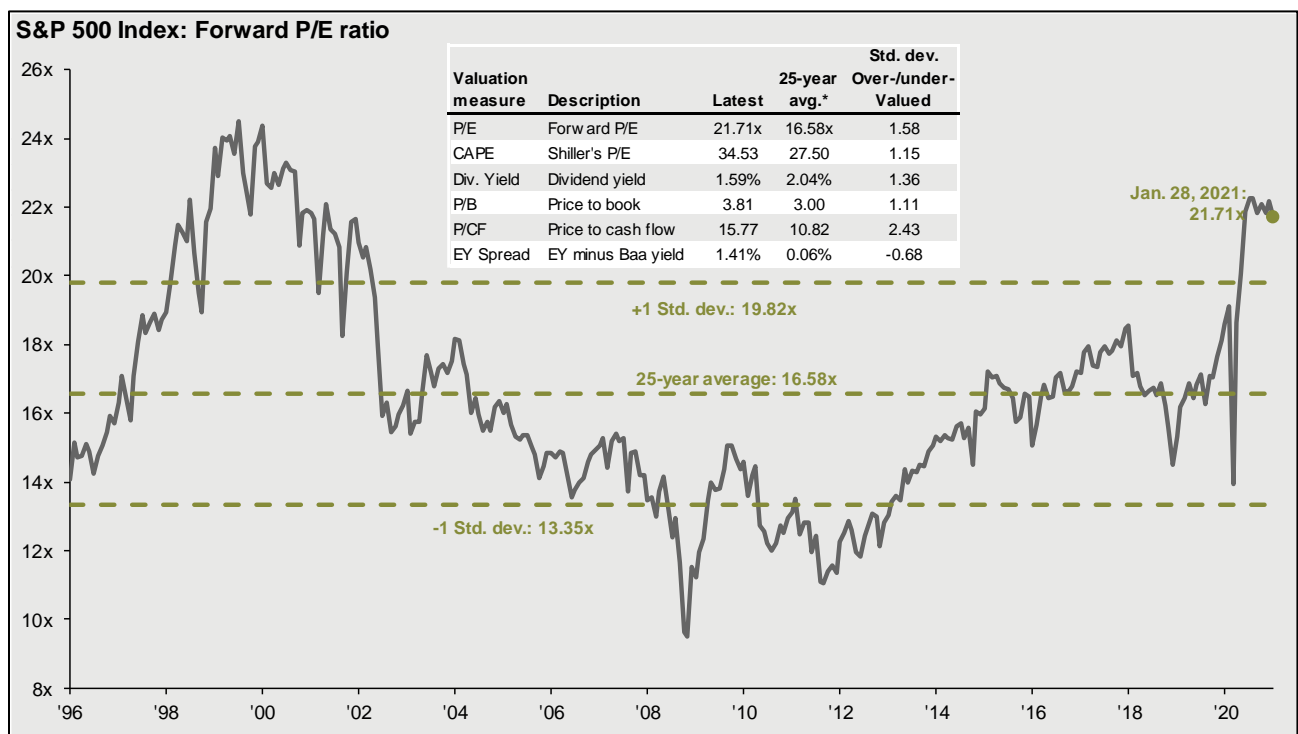
There are still pockets of significant challenge, particularly in employment. However, the recovery remains on track and the overall economic outlook is trending positively with continued pledges of fiscal and monetary support from the federal government and the US Federal Reserve.

There may be significant pent-up demand for some industries that have struggled during the pandemic, like travel, hotels, airlines, and restaurants. However, it also appears that equity investors are increasingly optimistic, and prices for indices like the S&P 500 seem to reflect a very positive environment with little

<sup>4</sup>[https://www.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight\\_012921A.pdf](https://www.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_012921A.pdf)

chance for economic slowdown or little buffer against an exogenous shock like slower-than-expected containment of the COVID-19 virus or other geopolitical event.

### 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 January 1996, and FactSet for January 28, 2021. Current next 12-months consensus earnings estimates are \$174. 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 January 28, 2021.

#### Asset Class Returns

Category	Representative Index	Jan. 2021	Full Year 2020	Full Year 2019
Global Equity	MSCI All-Country	-0.5%	16.3%	26.6%
US Large Cap Equity	S&P 500	-1.0%	18.4%	31.5%
US Small Cap Equity	Russell 2000	5.0%	20.0%	25.5%
Foreign Developed Equity	MSCI EAFE	-1.1%	7.8%	22.0%
Emerging Market Equity	MSCI Emerging Markets	3.1%	18.3%	18.4%
US High Yield Fixed Income	ICE BofAML High Yield	0.4%	6.2%	14.4%
US Fixed Income	Barclays Aggregate Bond	-0.7%	7.5%	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 January 31, 2021

#### Prices & Interest Rates

Representative Index	Jan. 31, 2021	Year-End 2020
S&P 500	3,714	3,756
Dow Jones Industrial Avg.	29,770	30,606
NASDAQ	12,824	12,888
Crude Oil (US WTI)	\$52.03	\$48.42
Gold	\$1,856	\$1,902
US Dollar	90.58	89.94
2 Year Treasury	0.11%	0.13%
10 Year Treasury	1.11%	0.93%
30 Year Treasury	1.87%	1.65%

Source: Bloomberg, US Treasury (total returns shown gross of fees)  
As of January 31, 2021

*Past performance may not be representative of future results. All investments are subject to loss. Forecasts regarding the market or economy are subject to a wide range of possible outcomes. The views presented in this market update may prove to be inaccurate for a variety of factors. These views are as of the date listed above and are subject to change based on changes in fundamental economic or market-related data. Please contact your Financial Advisor in order to complete an updated risk assessment to ensure that your investment allocation is appropriate.*