Past performance is no guarantee of future results. Financial term and index definitions are available in the appendix.
Unprecedented Use of the Word “Unprecedented”

Popularity of "Unprecedented" in Google Searches

Interest in search term over time: numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. Data as of Sept. 30, 2020. Source: Google Trends. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
Panic Attacks

“The definition of insanity is doing the same thing over and over again and expecting a different result.”
- Attributed to Albert Einstein

Data as of Sept. 30, 2020. Source: MSCI. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
Effects of Panic Attacks on Average Investors
20 Years Annualized Returns (1999-2019)

Source: Bloomberg, June 30, 2019. Average asset allocation investor return is based on an analysis by DALBAR, Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Indices shown are as follows: REITs are represented by the NAREIT Equity REIT Index, U.S. Stocks are represented by the S&P 500 Index, International Equities are represented by the MSCI EAFE Index, Government-Related Bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index, Homes are represented by U.S. existing home sales median price, Gold is represented by the U.S. dollar spot price of one troy ounce, Inflation is represented by the Consumer Price Index. Indices are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is no guarantee of future results.
The speed of the market’s response to coronavirus, on both the way down and up, have been outliers relative to history.
How Long Does the Typical Recession Last?
On Average, Recessions Have Lasted 13 Months

Number of Months U.S. Economy in Recession

The 1918 recession, which occurred amidst the Spanish Flu, lasted about half as long as a typical recession.
Fed Tsunami

Fed QE Purchases

- The Fed's balance sheet has increased by ~$3T since the coronavirus crisis became apparent.
- Some of this increased liquidity will be offset by Treasury issuance, which is expected to run ~$225B per month vs. $120B in expected monthly QE.
Supersize Stimulus
Fiscal Stimulus Has Been Bigger and Faster

- Policymakers have been able to deliver support programs in a more effective manner compared to past recessions.
- The current stimulus spending is 21 times larger than the Marshall Plan ($140B in today’s dollars), and 3 times larger than the Vietnam War ($1T in today’s dollars).

Source: Congressional Budget Office, Bureau of Labor Statistics and Bloomberg. Data includes impacts from Economic Growth and Tax Relief Reconciliation Act of 2001 which was passed before the recession began. Stimulus is based on CBO bill scoring as a % of GDP peak prior to recession and only includes Congressional outlays. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
Counter Trend Rallies Are Commonplace
Recessionary Bear Markets Often See Pockets of Strength
U.S. Recession Recovery Dashboard

- 9 variables have historically foreshadowed a durable recovery
- The overall signal suggests the economy has started a new economic expansion

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2020</th>
<th>August 31, 2020</th>
<th>July 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Confidence</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Confidence</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Business Confidence (ISM)</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Investor Sentiment</td>
<td>▴</td>
<td>▴</td>
<td>▴</td>
</tr>
<tr>
<td><strong>Economic</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing Starts</td>
<td>↑</td>
<td>↑</td>
<td>●</td>
</tr>
<tr>
<td>Initial Jobless Claims</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Philly Fed</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td><strong>Financial</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Spreads</td>
<td>↑</td>
<td>↑</td>
<td>●</td>
</tr>
<tr>
<td>Fed Policy</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Financial Conditions</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td><strong>Overall Signal</strong></td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
</tr>
</tbody>
</table>

▲ Expansion  ● Improvement  ▴ Recession
U.S. Recession Recovery Dashboard

- 9 variables have historically foreshadowed a durable recovery
- The overall signal suggests the economy has started a new economic expansion

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consumer Confidence</strong></td>
<td>↑</td>
<td>↓</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>↓</td>
<td>↑</td>
<td>↓</td>
</tr>
<tr>
<td><strong>Business Confidence (ISM)</strong></td>
<td>↑</td>
<td>↓</td>
<td>↓</td>
<td>✗</td>
<td>✗</td>
<td></td>
<td>↑</td>
<td>↓</td>
</tr>
<tr>
<td><strong>Investor Sentiment</strong></td>
<td>✗</td>
<td>✗</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td><strong>Housing Starts</strong></td>
<td>↑</td>
<td>✗</td>
<td>✗</td>
<td>↑</td>
<td>↑</td>
<td></td>
<td>↑</td>
<td>✗</td>
</tr>
<tr>
<td><strong>Initial Jobless Claims</strong></td>
<td>✗</td>
<td>✗</td>
<td>↑</td>
<td>✗</td>
<td>↑</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Philly Fed</strong></td>
<td>↑</td>
<td>↑</td>
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<td>↑</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td><strong>Credit Spreads</strong></td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td></td>
<td>↑</td>
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</tr>
<tr>
<td><strong>Fed Policy</strong></td>
<td>↑</td>
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<td>↑</td>
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<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td><strong>Financial Conditions</strong></td>
<td>↑</td>
<td>✗</td>
<td>✗</td>
<td>↑</td>
<td>↑</td>
<td></td>
<td>↑</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Overall</strong></td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
</tr>
</tbody>
</table>

**Months From Green to End of Recession**

|                      | ?      | +5     | -1    | 0      | -2     | +1    | -1     | +6     |

↑ Expansion  ○ Improvement  ✗ Recession
What Shape Recovery?
The Shape of the Economic Recovery Will Likely Influence the Market’s Path Forward

- **V-Shaped**
  - Economy recovers but activity permanently lost

- **U-Shaped**
  - GDP recovers, but slower than V-shape

- **Swoosh-Shaped**
  - Recovery is longer than V-shape, faster than U-shape

- **Z-Shaped**
  - Spending surge fuels GDP above pre-crisis levels

- **W-Shaped**
  - Restrictions lifted too soon, more cases paralyze economy

- **L-Shaped**
  - Economy never fully recovers

Note: recoveries are using sample data. Source: Brookings Institution, The Wall Street Journal. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
Retail Sales Suggest V-Shaped Recovery

Strong stimulus measures have supported a robust recovery in consumer spending.

Source: U.S. Census Bureau, FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
While 2020 was not the first recession where consumers made more, the current increase drove a much more rapid recovery than anticipated.
Historic Economic Surprise
Citi Economic Surprise Index (CESI) Set New Record Highs

- Coming off the lows, the breadth of economic strength was historically strong and well ahead of expectations.
- We believe this dynamic has been one of the key drivers for the equity rally.
Historic Earnings Surprise
Earnings Beats in 2Q20 Were Much Stronger than the Last Recovery

Earnings coming in well ahead of expectations have also helped power the market’s run to new highs.

Data as of June 30, 2020. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
Fly in the Ointment
Jobless Claims Remain Historically High

Although claims are well below the COVID-19 peak, they remain well above prior periods of stress.

Winter is Coming
U.S. COVID-19 Cases and Deaths

The virus remains a key concern for investors, particularly as the Northern Hemisphere enters colder months.

Better awareness and protocols have significantly reduced mortality rates, making full lockdowns less likely.
Liquidity Addressed, Solvency Risk Remains

Policymakers have addressed near-term liquidity concerns. However, longer-term bankruptcy risks remain possible due to shifts in consumer behavior.
Elections Spark Higher Volatility

Historically, volatility increases prior to presidential elections as participants price the potential impact of a new administration.

Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
Strongest 50-Day Rallies in History

<table>
<thead>
<tr>
<th>Date</th>
<th>50-Day % Change</th>
<th>S&amp;P 500 Index Return</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>3 Months</td>
</tr>
<tr>
<td>March 6, 1975</td>
<td>26.9%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Oct. 22, 1982</td>
<td>35.6%</td>
<td>3.6%</td>
</tr>
<tr>
<td>March 26, 1991</td>
<td>20.4%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>June 24, 1997</td>
<td>20.5%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Dec. 18, 1998</td>
<td>23.8%</td>
<td>10.8%</td>
</tr>
<tr>
<td>May 19, 2009</td>
<td>34.2%</td>
<td>9.7%</td>
</tr>
<tr>
<td>Sept. 16, 2009</td>
<td>21.3%</td>
<td>3.8%</td>
</tr>
<tr>
<td>June 3, 2020</td>
<td>39.6%</td>
<td>10.6%</td>
</tr>
</tbody>
</table>

Average

<table>
<thead>
<tr>
<th>% Positive</th>
<th>6.6%</th>
<th>9.5%</th>
<th>17.2%</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Positive</td>
<td>87.5%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Equities have historically continued to do well following the strongest market runs.

Dates refer to the end of each 50-day rally. Source: LPL Research, FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
Fed’s Emergency Lending Facilities

- Commercial Paper Funding: $30B
- Corporate Credit Facility: $13B
- Money Market Fund Liquidity: $10B
- Main Street Lending Program: $600B
- Municipal Liquidity: $500B
- PPP Liquidity: $68B
- Term Asset-Backed: $100B

Fed Program Limit
Actual Allocated Thus Far (Sept. 30, 2020)

Only $124 billion of the total $4.1T in potential Fed support is currently being utilized.
U.S. Has More Room for QE

- The Fed’s smaller balance sheet as a % of GDP affords policymakers greater flexibility if the economy rolls over.
- The Fed balance sheet would be $10T if mirroring ECB and $21T if aligned to the BOJ (as a % of GDP).

Data as of Sept. 30, 2020. Source: FactSet, FRED, Bloomberg, Bank of Japan. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
The Fed's New Framework

- Inflation has consistently undershot the Fed's 2% target, prompting a change of their inflation framework.
- The Fed's new aim is to achieve an average of 2% inflation over the medium term.

Lots of Shots on Vaccine Goal

- From over 200 candidates, nine drugs have already reached Phase 3 clinical trials. 141 remain in pre-clinical development.

- Historically, the success rate at this stage has been over 85%. The odds point to at least one vaccine being approved.

More Money, Fewer Problems

The U.S. personal savings rate has far exceeded levels typically seen in the post-WWII era.

This money will help insulate consumer spending until either the economy improves or another fiscal package is passed.
Dry Powder Abundant

Investors cash holdings are at 16% of total equity market cap, the highest level since 2012.

* Institutional & Retail Money Funds – ICI
** MSCI U.S. IMI Index
Data as of Sept. 25, 2020. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
## S&P 500 Returns During Economic Expansions

Following the End of Recessions, Equities Typically Do Quite Well

<table>
<thead>
<tr>
<th>Trough Month</th>
<th>S&amp;P 500 Level</th>
<th>Peak Month</th>
<th>S&amp;P 500 Level</th>
<th>Duration (Months)</th>
<th>Change</th>
<th>Secular Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov. 30, 1970</td>
<td>87.2</td>
<td>Nov. 30, 1973</td>
<td>95.9</td>
<td>36</td>
<td>10.0%</td>
<td>Secular Bear</td>
</tr>
<tr>
<td>Mar. 31, 1975</td>
<td>83.4</td>
<td>Jan. 31, 1980</td>
<td>115.1</td>
<td>58</td>
<td>38.1%</td>
<td>Secular Bear</td>
</tr>
<tr>
<td>July 31, 1980</td>
<td>121.7</td>
<td>Jul. 31, 1981</td>
<td>130.9</td>
<td>12</td>
<td>7.6%</td>
<td>Secular Bull</td>
</tr>
<tr>
<td>Nov. 30, 1982</td>
<td>138.5</td>
<td>Jul. 31, 1990</td>
<td>356.2</td>
<td>92</td>
<td>157.1%</td>
<td>Secular Bull</td>
</tr>
<tr>
<td>Mar. 28, 1991</td>
<td>375.2</td>
<td>Mar. 30, 2001</td>
<td>1160.3</td>
<td>120</td>
<td>209.2%</td>
<td>Secular Bull</td>
</tr>
<tr>
<td>Nov. 30, 2001</td>
<td>1139.5</td>
<td>Dec. 31, 2007</td>
<td>1468.4</td>
<td>73</td>
<td>28.9%</td>
<td>Secular Bear</td>
</tr>
<tr>
<td>Jun. 30, 2009</td>
<td>919.3</td>
<td>Feb. 28, 2020</td>
<td>2954.2</td>
<td>128</td>
<td>221.3%</td>
<td>Secular Bull</td>
</tr>
<tr>
<td><strong>Average:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S&amp;P 500 Bull:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>96.0%</td>
<td></td>
</tr>
<tr>
<td>S&amp;P 500 Bear:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>148.8%</td>
<td></td>
</tr>
</tbody>
</table>

- **There is a strong likelihood the economy has entered the next expansion.**
- **We continue to believe stocks are in the midst of a secular bull market. If correct, this would bode well for equity investors in the coming years.**
In the 12 months following an All-Time High, stocks have historically been up 8.5% on average with positive returns 72% of the time.

Secular Bear: Average Drawdown -46.1%
Secular Bull: Average Drawdown -25.3%
One Year Outlook
Themes That Will Drive the Market Over the Next 12 Months

Recovery Risks
U.S. Presidential Agenda
Market Concentration
International

Currency
Volatility
Valuations
Recovery Risks
Not All Markets Pricing In A Recovery

- Treasuries started selling off in response to COVID-19 fears well before equities, and remain near trough levels even as equities have rallied.
Those most at risk to coronavirus (55+) account for over 40% of spending in the U.S. Absent a medical breakthrough, spending from this cohort may remain tepid.
Dichotomy in the Housing Market

While lower rates have fueled new mortgage applications, delinquencies have also risen to levels last seen in the wake of the housing bubble.

This divergence is evident across many sectors of the economy.

Inflation Unlikely Near Term

Money Velocity Tends to Move with Inflation

- Although Fed actions have substantially increased the supply of money, the velocity of money has collapsed.
- This suggests inflation will remain muted in the near term.
U.S. Debt Levels Set to Rise Higher

- Barring a change in spending, U.S. debt levels will grow substantially in the coming decades.
U.S. Presidential Agenda
When It Comes to Re-election, It's All About the Economy

<table>
<thead>
<tr>
<th>Year</th>
<th>President</th>
<th>Change in Election Year Unemployment Rate</th>
<th>Recession?</th>
<th>Re-election?</th>
<th>Margin of Victory (Popular Vote)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>Obama</td>
<td>-1.6%</td>
<td>No</td>
<td>Yes</td>
<td>3.9%</td>
</tr>
<tr>
<td>2004</td>
<td>Bush 43</td>
<td>-0.2%</td>
<td>No</td>
<td>Yes</td>
<td>2.5%</td>
</tr>
<tr>
<td>1996</td>
<td>Clinton</td>
<td>-0.6%</td>
<td>No</td>
<td>Yes</td>
<td>8.5%</td>
</tr>
<tr>
<td>1984</td>
<td>Reagan</td>
<td>-3.0%</td>
<td>No</td>
<td>Yes</td>
<td>18.2%</td>
</tr>
<tr>
<td>1972</td>
<td>Nixon</td>
<td>0.1%</td>
<td>No</td>
<td>Yes</td>
<td>23.2%</td>
</tr>
<tr>
<td>1964</td>
<td>Johnson</td>
<td>-0.3%</td>
<td>No</td>
<td>Yes</td>
<td>22.6%</td>
</tr>
<tr>
<td>1956</td>
<td>Eisenhower</td>
<td>-1.8%</td>
<td>No</td>
<td>Yes</td>
<td>15.4%</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Year</th>
<th>President</th>
<th>Change in Election Year Unemployment Rate</th>
<th>Recession?</th>
<th>Re-election?</th>
<th>Margin of Victory (Popular Vote)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>Bush 41</td>
<td>1.4%</td>
<td>Yes</td>
<td>No</td>
<td>-5.6%</td>
</tr>
<tr>
<td>1980</td>
<td>Carter</td>
<td>1.7%</td>
<td>Yes</td>
<td>No</td>
<td>-9.7%</td>
</tr>
<tr>
<td>1976</td>
<td>Ford</td>
<td>1.7%</td>
<td>Yes</td>
<td>No</td>
<td>-2.1%</td>
</tr>
</tbody>
</table>

Presidents facing re-election tend to win when the economy is strong, and not when conditions worsen ahead of voting day.

Pocketbooks, Not Politics, Win Elections

Rising disposable incomes have historically been associated with an incumbent winning re-election.

Data as of August 2020, latest available as of Sept. 30, 2020. Source: BEA, FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
In the three months before the election, stocks have historically fallen ahead of a change in party, and rallied when the incumbent retained the White House.

The market has correctly "predicted" every election since 1984 and 86% of the time since 1936.
Corporate Tax Rates

While the election could bring about higher corporate tax rates, they would likely still be lower than anything seen since WWII.

If corporate rates rise to 28%, S&P 500 earnings would decline by 5-10%.
Market Concentration
Historic Run for Growth

Growth's relative outperformance over the past year is now even larger than during the peak of the dot-com era.
Sector Mix Explains Leadership

The performance of Financials and Industrials relative to Technology and Discretionary explains a large share of Growth/Value leadership.
Is FAANGM a Bubble?
Leader Valuations Get Extreme During Manias

<table>
<thead>
<tr>
<th></th>
<th>December 1972</th>
<th>March 2000</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nifty Fifty</td>
<td>P/E</td>
<td>Dot-Com Darlings</td>
<td>NTM P/E</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>46.4</td>
<td>Intel</td>
<td>44.3</td>
</tr>
<tr>
<td>McDonald’s</td>
<td>71.0</td>
<td>Cisco</td>
<td>126.3</td>
</tr>
<tr>
<td>Texas Instruments</td>
<td>39.5</td>
<td>EMC</td>
<td>80.0</td>
</tr>
<tr>
<td>IBM</td>
<td>35.5</td>
<td>Microsoft</td>
<td>57.1</td>
</tr>
<tr>
<td>Xerox</td>
<td>45.8</td>
<td>Oracle</td>
<td>107.2</td>
</tr>
<tr>
<td>Polaroid</td>
<td>94.8</td>
<td>Nortel</td>
<td>92.0</td>
</tr>
<tr>
<td>Average</td>
<td>55.5</td>
<td>Average</td>
<td>84.5</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>18.9</td>
<td>S&amp;P 500</td>
<td>23.8</td>
</tr>
</tbody>
</table>

Although FAANGM trades at a large premium to the market, past bubbles have seen even more inflated valuations.

Are Valuations Justified by Earnings?

- The 5 largest stocks are expected to account for 15% of 2021 earnings.
- The Technology sector accounts for over 75% of buybacks executed YTD.
U.S. Market Concentration Not An Outlier

The top 1% of companies often make up a large share of the market cap in global indices.

Contrary to common wisdom, the concentration of mega-cap Tech in the S&P 500 is not an outlier.

* Total weight of companies with market caps larger than 99% of the companies held within the benchmark. ** Data as of Aug. 31, 2020. Data as of Sept. 30, 2020. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets.
U.S. vs. International Equity Performance

Geographic leadership tends to persist for multiple years.

S&P 500 vs. MSCI EAFE. Data as of Sept. 30, 2020. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
Dollar Regimes Coincide With Global Equity Leadership

- Periods of sustained dollar strength have aligned with U.S. equity outperformance.
- Dollar weakness could lead to a shift in global equity market leadership.

Governments around the world have adopted strong measures to combat the drag from shutdowns.
Tighter Fiscal Union, Less Risk

**Outstanding Euro-Denominated Bonds (EU includes Planned Issuance)**

- Joint issuance of Eurozone debt creates a more integrated fiscal union which bodes well for the Euro's long-term prospects.
- This milestone could act as a catalyst for European assets to embed lower risk premiums going forward.

It's (Not) a Small World After All

Fortune 500 Companies Based in China vs. Europe and United States

- **China**: 2
- **United States**: 148
- **Europe**: 153
- **EU27 + Switzerland & UK**: 133

- **Europe**: 133
- **China**: 124
- **United States**: 121

Leading Chinese companies have increasingly become more important on the global stage.
Corporations Have Been the Largest Buyers of Equities

One of the key drivers over the last cycle was corporate buybacks.

Buybacks are likely to slow due to negative earnings growth and restrictions associated with government stimulus funds.

Data as of Sept. 30, 2020. Source: Federal Reserve Bank, Deutsche Bank. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
U.S. Dollar Cycle

- U.S. dollar cycles typically last approximately 16 years.
- History suggests that the dollar may be approaching an inflection point.

Twin Deficits: Budget and Trade

![Graph showing Twin Deficits: Budget and Trade]

- Twin deficits show the dollar should weaken over the next several years.
Growth Differentials Drive Greenback

The fate of the dollar is influenced by how fast the U.S. is growing vs. other major economies.

Post-Election Dollar Bounce

Historically, the greenback tends to strengthen immediately following presidential elections.

Data as of Sept. 18, 2020, latest available as of Sept. 30, 2020. Source: FactSet, Federal Reserve. Note: Nominal Trade-Weighted Exchange Rate Index, Major Currencies as dollar Index. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
The U.S. Dollar Dominates the International Monetary System

The greenback is firmly entrenched as the world’s reserve currency.
Volatility
Volatility Does Not Equal a Financial Loss Unless You Sell

Volatility Does Not Equal a Financial Loss Unless You Sell

As of Dec. 31, 2019. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
# Missing the Best Days Can Drastically Reduce Returns

<table>
<thead>
<tr>
<th>Decade</th>
<th>Price Return</th>
<th>Excluding 10 Best Days Per Decade</th>
<th>Price Return</th>
<th>Excluding 10 Best Days Per Decade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>-42%</td>
<td>-79%</td>
<td>-5%</td>
<td>-15%</td>
</tr>
<tr>
<td>1940</td>
<td>35%</td>
<td>-14%</td>
<td>3%</td>
<td>-2%</td>
</tr>
<tr>
<td>1950</td>
<td>257%</td>
<td>167%</td>
<td>14%</td>
<td>11%</td>
</tr>
<tr>
<td>1960</td>
<td>54%</td>
<td>14%</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>1970</td>
<td>17%</td>
<td>-20%</td>
<td>2%</td>
<td>-2%</td>
</tr>
<tr>
<td>1980</td>
<td>227%</td>
<td>108%</td>
<td>13%</td>
<td>8%</td>
</tr>
<tr>
<td>1990</td>
<td>316%</td>
<td>186%</td>
<td>15%</td>
<td>12%</td>
</tr>
<tr>
<td>2000</td>
<td>-24%</td>
<td>-62%</td>
<td>-3%</td>
<td>-10%</td>
</tr>
<tr>
<td>2010</td>
<td>190%</td>
<td>95%</td>
<td>11%</td>
<td>7%</td>
</tr>
<tr>
<td>Average Since 1930</td>
<td>114%</td>
<td>44%</td>
<td>6%</td>
<td>1%</td>
</tr>
</tbody>
</table>

- **Investors that missed the 10 best days in a given decade would have seen 70% lower returns over the course of that decade on average.**
- **28% of the best days (5% or more) took place in the first two months of a bull market.**

Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
Since 1936, an investor that consistently sold 10 months prior to a market peak and bought back 10 months after the trough was worse overall than a buy and hold investor.
## Typical Market Leadership in a Downturn

<table>
<thead>
<tr>
<th>Market Cap</th>
<th>Investment Style</th>
<th>Large Cap Value</th>
<th>Mid Cap Value</th>
<th>Small Cap Value</th>
<th>Large Cap</th>
<th>Mid Cap</th>
<th>Small Cap</th>
<th>Large Cap Growth</th>
<th>Mid Cap Growth</th>
<th>Small Cap Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>Value</td>
<td>-13.5%</td>
<td>-14.9%</td>
<td>-15.6%</td>
<td>-12.9%</td>
<td>-14.4%</td>
<td>-14.9%</td>
<td>-12.1%</td>
<td>-13.8%</td>
<td>-14.3%</td>
</tr>
<tr>
<td></td>
<td>Blend</td>
<td>37%</td>
<td>19%</td>
<td>15%</td>
<td>82%</td>
<td>26%</td>
<td>19%</td>
<td>74%</td>
<td>33%</td>
<td>37%</td>
</tr>
<tr>
<td></td>
<td>Growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Which Equities Do Well Following Selloffs?
Following the Last Seven Major Market Drawdowns, Some Sectors Have Rebounded More Strongly

Following periods of market turmoil, more cyclical sectors such as IT, Financials, Industrials, and Consumer Discretionary have historically tended to deliver better relative performance.

Source: FactSet. Note: Market Drawdowns defined as pullbacks of 15% or greater in S&P 500 since 1987. Hit rate defined as % of severe declines with relative outperformance vs. S&P 500 12 months after each decline. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
Market Annual Returns
Distribution of S&P 500 Total Returns Since 1926

As of Dec. 31, 2019.
Source: Strategas Research Partners.
Price/Earnings Is Not The Only Indicator To Watch

Data as of Sept. 30, 2020. Source: Bloomberg. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
Index Composition Supports Higher P/Es

Cyclical Sector Representation is at 100-Year Low

Less-volatile sectors are typically rewarded with higher multiples. These groups make up a record-high share of the S&P 500 today.
Dividend-Paying Equities Attractive

58% of S&P stocks now have a dividend yield greater than the 30-year Treasury.

As of Sept. 30, 2020. Source: FactSet.Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.
Equities Attractive Relative to Bonds

- The valuation of stocks (in bond yield terms) relative to Treasuries is attractive.
- Historically, the S&P 500 has on average delivered superior returns relative to Treasuries from current levels.
Glossary of Terms

**BEA:** Bureau of Economic Analysis

**ERP:** Equity Risk Premium

**GDP:** Gross Domestic Product

**DAX:** Blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

**IFO:** The Ifo Institute for Economic Research is a Munich-based research institution.

**P/E Ratio:** Price/Earnings ratio

**PMI:** Purchasing Manager’s Index

**Quantitative easing (QE):** Monetary policy implemented by a central bank in which it increases the excess reserves of the banking system through the direct purchase of debt securities.

**Shibor:** Shanghai Interbank Offered Rate

**S&P 500 Index:** Unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S.

**VIX:** VIX is the ticker symbol and the popular name for the Chicago Board Options Exchange’s CBOE Volatility Index, a popular measure of the stock market’s expectation of volatility based on S&P 500 index options.

**Yield Curve:** Comparison of interest rates at a point in time of bonds with equal credit quality but different maturity dates.

**YoY:** Year Over Year

**U.S. Treasuries:** Direct debt obligations issued and backed by the “full faith and credit” of the U.S. government. The U.S. government guarantees the principal and interest payments on U.S. Treasuries when the securities are held to maturity. Unlike U.S. Treasury securities, debt securities issued by the federal agencies and instrumentalities and related investments may or may not be backed by the full faith and credit of the U.S. government. Even when the U.S. government guarantees principal and interest payments on securities, this guarantee does not apply to losses resulting from declines in the market value of these securities.
# Biographies

<table>
<thead>
<tr>
<th>Name and Position</th>
<th>Industry Experience</th>
<th>ClearBridge Tenure</th>
<th>Education, Experience and Professional Designations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Jeffrey Schulze CFA</strong>&lt;br&gt;Director, Investment Strategist</td>
<td>15 years</td>
<td>• Joined ClearBridge in 2014</td>
<td>• Member of the CFA Institute&lt;br&gt;• Lord Abbett &amp; Co., LLC – Portfolio Specialist&lt;br&gt;• BS in Finance from Rutgers University</td>
</tr>
<tr>
<td><strong>Josh Jamner CFA</strong>&lt;br&gt;Vice President, Investment Strategy Analyst</td>
<td>11 years</td>
<td>• Joined ClearBridge in 2017</td>
<td>• Member of the CFA Institute&lt;br&gt;• RBC Capital Markets - Assistant Vice President, Associate Strategist - U.S. Equity&lt;br&gt;• Bessemer Trust - Assistant Vice President, Client Portfolio Analyst&lt;br&gt;• BA in Government from Colby College</td>
</tr>
</tbody>
</table>
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