The Anatomy of a Recession: What to Look for and Where We’re Headed

First Quarter 2021

Past performance is no guarantee of future results. Financial term and index definitions are available in the appendix.
Probabilities vs. Possibilities
The Wall of Worry

- Equity Valuations
- Fed Policy Error
- Civil Unrest
- Trade Wars
- North Korea Escalation
- Inflation
- COVID-19
- Sovereign Debt Crisis
- Depression
- Dollar Strengthens
- Corporate Leverage
- China Over-Tightening
- Populism
- EM Problems Intensify
“The definition of insanity is doing the same thing over and over again and expecting a different result.”
- Attributed to Albert Einstein
Effects of Panic Attacks on Average Investors
20 Years Annualized Returns (1999-2019)

9.9% 7.7% 5.6% 4.5% 4.0% 3.4% 2.9% 2.2%

REITs Gold U.S. Stock Government Related Bonds International Equities Homes Average Investor Inflation

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.
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

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<tbody>
<tr>
<td><strong>Consumer Confidence</strong></td>
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<td><strong>Business Confidence (ISM)</strong></td>
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<td><strong>Investor Sentiment</strong></td>
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<td><strong>Housing Starts</strong></td>
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<td><strong>Credit Spreads</strong></td>
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<td><strong>Fed Policy</strong></td>
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<td><strong>Financial Conditions</strong></td>
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<tr>
<td><strong>Overall Signal</strong></td>
<td>● Expansion</td>
<td>● Improvement</td>
<td>● Expansion</td>
<td>● Recession</td>
</tr>
</tbody>
</table>

Historic Earnings Surprise
Earnings Beats in 2Q20 & 3Q20 Were Much Stronger than the Last Recovery

Data as of Sept. 30, 2020, latest available as of Dec. 31, 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.

Earnings have handily beat expectations and helped power the market’s rally.
Retail Sales Suggest V-Shaped Recovery

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

Data as of Nov. 30, 2020, latest available as of Dec. 31, 2020. 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.
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.

Data as of March 1 – Dec. 31, 2020. Source: Our World in Data, European Centre for Disease Control (ECDC), Covid Tracking Project. 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.
Labor Market Losing Steam

The pace of the labor recovery has recently cooled as the U.S. economy combats the fall/winter surge of COVID-19.

Data as of Nov, 30, 2020. Source: Department of Labor, 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.
U.S. Recession Risk Indicators

- 12 variables have historically foreshadowed a looming recession
- Job sentiment, jobless claims, wage growth, profit margins and truck shipments signal risk right now

<table>
<thead>
<tr>
<th>Consumer</th>
<th>December 31, 2020</th>
<th>November 30, 2020</th>
<th>October 30, 2020</th>
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<tbody>
<tr>
<td>Housing Permits</td>
<td>🔹</td>
<td>🔹</td>
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<tr>
<td>Job Sentiment</td>
<td>✗</td>
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<tr>
<td>Jobless Claims</td>
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<tr>
<td>Retail Sales</td>
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<td>Wage Growth</td>
<td>✗</td>
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<td>Business Activity</td>
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<td>Commodities</td>
<td>🔹</td>
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<td>ISM New Orders</td>
<td>🔹</td>
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<tr>
<td>Profit Margins</td>
<td>✮</td>
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<tr>
<td>Truck Shipments</td>
<td>✮</td>
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<td>Financial</td>
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<td>Credit Spreads</td>
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<td>Money Supply</td>
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<td>Yield Curve</td>
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<td>Overall Signal</td>
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🔹 Expansion  ✮ Caution  ✗ Recession
## U.S. Recession Risk Indicators

- 12 variables have historically foreshadowed a looming recession
- Job sentiment, jobless claims, wage growth, profit margins and truck shipments signal risk right now

<table>
<thead>
<tr>
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▲ Expansion  ● Caution  ❌ Recession

Data as of Dec. 31, 2020. Source: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg. The ClearBridge Recession Risk Dashboard was created in January 2016. References to the signals it would have sent in the years prior to January 2016 are based on how the underlying data was reflected in the component indicators at the time.
U.S. Recession Risk Dashboard
Case Study: 2018-2020

Source: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg. The ClearBridge Recession Risk Dashboard was created in January 2016. References to the signals it would have sent in the years prior to January 2016 are based on how the underlying data was reflected in the component indicators at the time.
Vaccines to Accelerate Herd Immunity

- **Herd immunity could be reached by late 2Q or early 3Q in the U.S. with several vaccines already approved and more coming in 2021.**
- **By focusing on the most vulnerable, economic activity could begin to improve well ahead of herd immunity being achieved.**
The inability to spend and government transfer payments have resulted in an abundance of consumer savings.

As the economy renormalizes, some of these reserves will be drawn which should further fuel the recovery.
Corporations have accumulated approximately $500 billion in additional cash since the onset of the pandemic.

As the economy renormalizes, these funds could be redeployed into capex, dividends, and share repurchases.
Inventory Rebuild, Economic Tailwind?

- **Inventory levels relative to sales have not been this depleted since 2014.**
- **Businesses will likely re-stock inventories in anticipation of growing demand, providing further economic upside in 2021.**

Data as of Oct. 30, 2020. 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.
The New (Old) Normal?

Following the COVID-19 GDP collapse, 2021 is expected to see the strongest growth in 20 years.

This strength is currently expected to persist into 2022 with the best GDP growth since 2004.
QE Forever?

- The Fed’s smaller balance sheet as a % of GDP affords policymakers greater flexibility to continue to support the recovery.
- The Fed’s current QE program ($120B/month) is much greater than any post-GFC QE program.

Data as of Dec. 31, 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.
Inflation has consistently undershot the Fed's 2% target, prompting a change of their framework to average 2% inflation over the medium term.

Should the economy normalize faster than anticipated, the Fed could find itself behind the curve.
Not The Global Financial Crisis: Labor

Post-GFC, it took until 2014 for the labor market to recover to pre-crisis levels.

The recovery from the COVID-19 recession has been much quicker.
Similar to the labor market, small business optimism has recovered much quicker relative to the post-GFC recovery.
Business Formation Anomaly

The number of applications to form new businesses has skyrocketed despite the recession.

This could be an important driver of job creation and GDP growth as the expansion unfolds.
2009 Demographic Headwind

In the wake of the GFC, poor demographic trends were a headwind to economic growth as the Baby Boomers aged out of the workforce.

The smaller size of Gen X meant fewer individuals in their prime spending and earning years.

Source: U.S. Census Bureau. 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.
Similar to the mid-1990s, demographics should be a tailwind for economic growth as the Millennials enter their prime earning and spending years.

This impulse should be somewhat dampened compared to 1994 due to the larger cohort of retirees today.
Earnings to Take the Baton

In the nine months following recessionary troughs, multiple expansion has been an outsized contributor to returns.

As the recovery matures, earnings typically drive stock upside as multiples contract.
## Can Year-End 2020 Strength Continue?

Following 10%+ rallies in November and December, stocks have typically continued to deliver strong gains in the subsequent year.

### S&P 500 Price Return

<table>
<thead>
<tr>
<th>Date</th>
<th>S&amp;P 500 November-December Price Return</th>
<th>3 Month</th>
<th>6 Month</th>
<th>12 Month</th>
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<tbody>
<tr>
<td>1954</td>
<td>13.6%</td>
<td>1.7%</td>
<td>14.0%</td>
<td>26.4%</td>
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<tr>
<td>1962</td>
<td>11.6%</td>
<td>5.5%</td>
<td>9.9%</td>
<td>18.9%</td>
</tr>
<tr>
<td>1970</td>
<td>10.5%</td>
<td>9.0%</td>
<td>8.4%</td>
<td>10.8%</td>
</tr>
<tr>
<td>1985</td>
<td>11.3%</td>
<td>13.1%</td>
<td>18.7%</td>
<td>14.6%</td>
</tr>
<tr>
<td>1998</td>
<td>11.9%</td>
<td>4.6%</td>
<td>11.7%</td>
<td>19.5%</td>
</tr>
<tr>
<td>2020</td>
<td>14.9%</td>
<td>?</td>
<td>?</td>
<td>?</td>
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</table>

**Average**

<table>
<thead>
<tr>
<th></th>
<th>6.8%</th>
<th>12.5%</th>
<th>18.1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Positive</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

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.
Market 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>
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<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>
</tbody>
</table>

Average: 74 96.0%
Secular Bull Average: 88 148.8%
Secular Bear Average: 56 25.7%

▶ 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.

Source: FactSet, NBER. 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.
New Secular Bull Market?

In the 12 months following an all-time high, stocks have historically been up 8.6% on average with positive returns 71% of the time.
One Year Outlook
Themes That Will Drive the Market Over the Next 12 Months

- Recovery Risks
- Valuations
- Market Concentration
- International
- Currency
- Demographics
- Volatility
Recovery Risks
Could Rising Rates Be a Black Swan?

Consensus expectations for 2021 are skewed towards a modest pickup in Treasury rates.

If economic growth surprises to the upside, long rates could follow which would likely require a recalibration of equity market leadership.

Source: Strategas. 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.
Trade Détente May Fall Flat

Multilateral trade negotiations with China could prove tricky given China’s role as a key partner for many countries outside of North America.
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.
Inflation Unlikely Near Term

Money Velocity Tends to Move with Inflation

- Velocity of Money (20m Lead) (LHS)
- Core CPI (RHS)

- **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.**

Data as of Sept. 30, 2020, latest available as of Dec. 31, 2020. Source: Federal Reserve Bank of St. Louis, DOL, 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.
Barring a change in spending, U.S. debt levels will grow substantially in the coming decades.
Market Annual Returns
Distribution of S&P 500 Total Returns Since 1926

Source: Strategas Research Partners.
Price/Earnings Is Not The Only Indicator To Watch

Data as of Dec. 31, 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 near-record share of the S&P 500 today.
Dividend-Paying Equities Attractive

49% of S&P 500 stocks now have a dividend yield greater than the 30-year Treasury.
Just How Stretched are Valuations?

<table>
<thead>
<tr>
<th>Historical Average P/E</th>
<th>Sector Mix Impact</th>
<th>Interest Rate Impact</th>
<th>2021 EPS “Catch-Up”</th>
<th>Other</th>
<th>Current P/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.0x</td>
<td>1.0x</td>
<td>2.0x</td>
<td>1.5x</td>
<td>2.0x</td>
<td>22.5x</td>
</tr>
</tbody>
</table>

*Current valuations appear rich relative to history. Much of this can be explained by sector mix differences, lower interest rates, and an expected earnings "catch-up" in 2021.*

Source: Bloomberg, FactSet, Federal Reserve, Moody’s, and S&P. Note: NTM = next twelve months; Historical Average P/E represents 1995-present. 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 valuation of stocks (in bond yield terms) relative to Treasurys is attractive.

Historically, the S&P 500 has delivered above-average returns from current ERP levels.
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.

Data as of Dec. 31, 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.
## Is FAANGM a Bubble?
Leader Valuations Get Extreme During Manias

<table>
<thead>
<tr>
<th>Nifty Fifty</th>
<th>P/E*</th>
<th>Dot-Com Darlings</th>
<th>NTM P/E</th>
</tr>
</thead>
<tbody>
<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>

<table>
<thead>
<tr>
<th>FAANGM</th>
<th>NTM P/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facebook</td>
<td>26.1</td>
</tr>
<tr>
<td>Amazon</td>
<td>72.6</td>
</tr>
<tr>
<td>Apple</td>
<td>32.5</td>
</tr>
<tr>
<td>Netflix</td>
<td>59.5</td>
</tr>
<tr>
<td>Google</td>
<td>28.4</td>
</tr>
<tr>
<td>Microsoft</td>
<td>31.2</td>
</tr>
<tr>
<td>Average</td>
<td>41.7</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>22.5</td>
</tr>
</tbody>
</table>

*Actual P/E ratios; forward P/Es unavailable for this period. NTM = next twelve months. Data as of Dec. 31, 2020. Source: FactSet; "Valuing Growth Stocks: Revisiting the Nifty Fifty" by Jeremy Siegel, AAII Journal, October 1998. 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.

► **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 20% of 2021 earnings.
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 Dec. 31, 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 Dec. 31, 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.

Weaker Dollar Supercharges Non-U.S. Stocks

International equities tend to outperform during periods of dollar weakness.
European EPS growth has only outpaced the U.S. once since 2007.

2021 is expected to be the second time which could mark a shift in leadership.
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.
The Rise of China

Over the last 25 years, China has become an increasingly important driver of global growth while the U.S. has become less integral.

In 1995, China had two Fortune 500 companies compared to the U.S.’s 148. Today, China is home to 124 versus 121 for the U.S.
Corporations Have Been the Largest Buyers of Equities

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

Buybacks could slow as corporations prioritize capex and future growth initiatives over shareholder return of capital early in the new business cycle.
Currency
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

- Twin deficits show the dollar should weaken over the next several years.

Data as of Sept. 30, 2020, most recent available as of Dec. 31, 2020. Source: BEA, Federal Reserve, 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.
Growth Differentials Drive Greenback

The fate of the dollar is influenced by how fast the U.S. is growing vs. other major economies.
The U.S. Dollar Dominates the International Monetary System

The greenback is firmly entrenched as the world’s reserve currency.
The Earnings and Spending Lifecycle
U.S. Consumption by Age (2018)

- Individuals typically reach their peak earnings and spending years between the ages of 35 and 54.
- As a result, the share of the population in this age range has a strong influence on economic growth and financial markets.

A growing share of middle-age (35-49), relative to younger (20-34), workers has historically coincided with stronger equity market returns.

The demographic profile of the U.S. suggests a healthy environment for stocks well into the 2030s.
Fear of “Japanification” in the U.S. may be overblown due to a more favorable demographic profile.
Volatility
Volatility Does Not Equal a Financial Loss Unless You Sell

As of Dec. 31, 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.
# Missing the Best Days Can Drastically Reduce Returns

<table>
<thead>
<tr>
<th>Decade</th>
<th>Cumulative Price Return</th>
<th>Cumulative Excluding 10 Best Days Per Decade</th>
<th>Annualized Price Return</th>
<th>Annualized 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><strong>114%</strong></td>
<td><strong>44%</strong></td>
<td><strong>6%</strong></td>
<td><strong>1%</strong></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.**
Can You Time the Market?

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.

Cumulative Return: Sell 10 Months Before Peak, Buy 10 Months After Trough
Cumulative Return: Buy & Hold

Data as of April 30, 2019, 10 months before current prior market peak. Source: Yardeni Research. 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.
Typical Market Leadership in a Downturn

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.
Glossary of Terms

**BEA:** Bureau of Economic Analysis

**Black Swan:** An unlikely and unpredictable event with potentially extreme consequences for markets.

**Bloomberg Barclays US Aggregate Bond Index:** an unmanaged index of U.S. investment-grade fixed-income securities.

**Bloomberg Barclays US Corporate Investment Grade Bond Index:** an unmanaged index of U.S. investment-grade corporate bond securities.

**Capex (Capital expenditures):** corporate spending on productive assets (such as buildings, machinery and equipment, vehicles) intended to increase capacity or efficiency for more than one accounting period.

**CPI (Consumer Price Index):** measure of the average change in U.S. consumer prices over time in a fixed market basket of goods and services as determined by U.S. Bureau of Labor Statistics.

**EPS (Earnings per Share):** the portion of a company's profit allocated to each outstanding share of common stock.

**ERP (Equity Risk Premium):** the excess return that an individual stock or the overall stock market provides over a risk-free rate. **ERP tranche** refers to statistical segments of ERP data used for relative comparison.

**FAANGM:** Shorthand term for a group of leading technology stocks including Facebook, Apple, Amazon, Netflix, Google/Alphabet, and Microsoft.

**GDP:** Gross Domestic Product

**GFC (Great Financial Crisis):** the severe economic and market downturn experienced in 2007–2008.

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

**Fed (Federal Reserve Board):** the U.S. central bank, responsible for policies designed to promote full economic growth, full employment, and price stability.

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

**Mortgage Bankers Association (MBA) Purchase Index:** measure of relative change over time in mortgage applications for property purchases

**MSCI All Country World Index:** unmanaged index of large- and mid-cap stocks in developed and emerging markets.

**MSCI EM Index:** unmanaged index of large- and mid-cap stocks in 27 emerging market countries.

**MSCI EAFE Index:** unmanaged index of equity securities from developed countries in Western Europe, the Far East, and Australasia.

**MSCI USA Index:** unmanaged index of US large- and mid-cap equity securities.

**NAREIT All-Equity REITS Total Return Index:** free-float-adjusted market capitalization weighted index that includes all tax qualified REITS listed in the NYSE, AMEX and NASDAQ National Markets.

**NFIB (National Federation of Independent Business):** a U.S. small business advocacy association, representing over 350,000 small and independent business owners.
Glossary of Terms

NFIB Small Business Optimism Index: measure of small business sentiment produced by the National Federation of Independent Business based on its monthly survey of small business owners.

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.

Russell 1000 Growth Index: unmanaged index of large-cap stocks chosen for their growth orientation.

Russell 1000 Value Index: unmanaged index of large-cap stocks chosen for their value orientation.

Shibor: Shanghai Interbank Offered Rate

S&P MidCap 400 Index: unmanaged index of 400 US mid-cap stocks

S&P 400 Growth Index: unmanaged index of mid-cap stocks having higher price-to-book ratios relative to the S&P 400 MidCap as a whole.

S&P 400 Value Index: unmanaged index of mid-cap stocks having lower price-to-book ratios relative to the S&P 400 MidCap as a whole.

S&P 500 Growth Index: unmanaged index of large-cap stocks selected based on sales growth, the ratio of earnings change to price and momentum.

S&P 500 Value Index: unmanaged index of large-cap stocks selected based on the ratios of book value, earnings, and sales to price.

S&P 600 Index: unmanaged index of 600 US small-cap stocks

S&P 600 Growth Index: unmanaged index of US small-cap growth stocks, selected based on sales growth, the ratio of earnings change to price, and momentum.

S&P 600 Value Index: unmanaged index of US small-cap value stocks, selected based on ratios of book value, earnings, and sales to price.

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. Treasurys: 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. Treasurys 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.
<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>
</table>
| Josh Jamner CFA   | 11 years            | Joined ClearBridge in 2017 | • Member of the CFA Institute  
• RBC Capital Markets - Assistant Vice President, Associate Strategist - U.S. Equity  
• Bessemer Trust - Assistant Vice President, Client Portfolio Analyst  
• BA in Government from Colby College |
| Jeffrey Schulze CFA | 15 years | Joined ClearBridge in 2014 | • Member of the CFA Institute  
• Lord Abbett & Co., LLC – Portfolio Specialist  
• BS in Finance from Rutgers University |
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