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April 9, 2021

BCA 1Q2021 Investment Review and Outlook

- What a difference a quarter can make. We are now just past the one-year mark of the start of the global pandemic. We continue to hope that you, your families, and friends are all healthy and thriving in this challenging time.
- While the pandemic remains front and center in the news, current US vaccination rates are increasing, standing at 4 million doses per day as we write this letter. Given the increasing interest in and acceptance of the vaccines, US herd immunity is estimated to occur by late summer / early fall.
- The Federal Reserve continues to communicate with transparency and consistency, remaining very focused on overall US employment and vowing to maintain easy monetary policy into the foreseeable future.
- President Biden signed the American Rescue Plan into law on March 11th with stimulus totaling ~$1.9 trillion. His infrastructure plan was just announced, and the American Family Plan is anticipated to come shortly.
- Equity markets continued their strong rally with the S&P500 index up 6.2% for the quarter. Value stocks (+11.9%) outperformed growth stocks (+1.19%); small capitalization stocks (+12.7%) outperformed larger capitalization stocks (+5.91%).
- International stock markets (+3.6%) saw more muted returns as vaccine rollouts were plagued with challenges, lockdowns were reinstated, and the US dollar strengthened. Emerging markets lagged as well (+2.3%) as Brazil's COVID situation worsened and China's market traded lower.
- The biggest market movement was in the US treasury market with the 10-year bond rising over 80 bps during the quarter to 1.71%, resulting in negative quarterly returns for the broad bond market index (-3.4%). Inflationary concerns coupled with anticipated strong US economic growth pushed yields to more normalized interest rate levels.
- A long list of risks abounds including virus variants, global vaccine distribution challenges, a fourth COVID wave, and inflation concerns, but we maintain a long-term investment focus, our positive stance on stocks, and consider bonds more of a ballast/liquidity source in traditional portfolios.
- We continue our diligence efforts in the active management arena, focused on alternative strategies and private markets where we seek to identify attractive risk-adjusted returns that add value and diversification to client portfolios.

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1Q 2021 Performance

Total Index Return	Jan-21	Feb-21	Mar-21	YTD 2021	2020
S&P 500	-1.0%	2.8%	4.4%	6.2%	18.3%
Russell 1000 Growth	-0.7%	0.0%	1.7%	0.9%	38.4%
Russell 1000 Value	-0.9%	6.0%	5.9%	11.3%	2.8%
Russell Small Cap	5.0%	6.2%	1.0%	12.7%	19.9%
MSCI EAFE (International)	-1.1%	2.2%	2.3%	3.5%	7.8%
MSCI Emerging Markets	3.1%	0.8%	-1.5%	2.3%	18.3%
US Aggregate Bond	-0.7%	-1.4%	-1.2%	-3.4%	7.5%
High Yield Bonds	0.3%	0.4%	0.1%	0.8%	7.1%

Source: Factset Research;data through 3/31/2021
Note: Int'l market returns reported in U.S. Dollars

The first quarter was a continuation of the "re-opening trade" that started in November 2020 once the vaccines were first announced. US equities continued to post very strong returns, hitting multiple record highs during the quarter. Growth/Tech stocks that benefitted during the pandemic have traded off meaningfully while Energy, Industrials and Financials have rallied strongly, boosted by the recently announced infrastructure plan and anticipated resumption of dividend payouts.

Value stocks dominated growth stocks and the smaller the capitalization the better. Small cap value stocks are now up over 20% for 1Q21 and almost 100% in the last year off the lows of the pandemic. With 47% of the Russell 2000 companies not making any money, many of these strong performers are lower in quality, trading off very low levels, and more easily impacted by small volumes. Value has clearly dominated recently but we expect more normalization as the economy re-opens and individual company differentiation comes into greater focus.

US GDP estimates for 2021 are very strong with some forecasters anticipating 10% growth. Unemployment continues to improve every month with March'21 data confirming close to a million new jobs and a 6% unemployment rate down from over 14% seen in April 2020. S&P500 forecast earnings are anticipated to surge with some forecasts for as much as 40% this year and possibly 16% into 2022. Inflation measures are likely to begin to exceed 2% in April (YOY) as measured off of last year's very low base. We view near-term inflation as transitory and expect recent supply chain problems to be resolved in the coming months. (For additional discussion on our views on inflation, please see our client communication from mid-March'21.)

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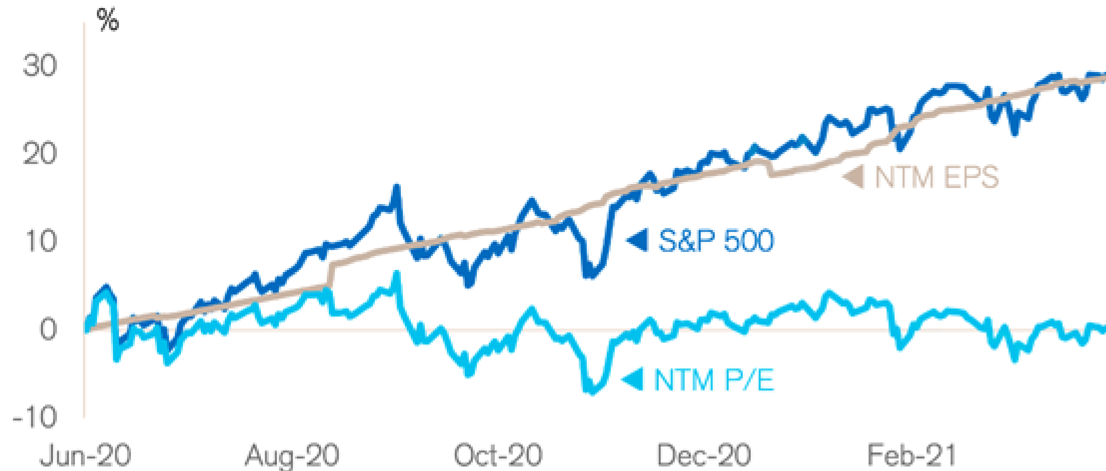
2021 Outlook

The equity and economic outlook for 2021 is positive. While not without risk, the markets are reacting to the continued successful distribution of the vaccine in the US and the expectation for that to follow globally, in more challenged areas, throughout 2021. Equity market valuations are historically high, but earnings are supportive (see below), so we maintain our positive stance on public equity exposures. We continue to favor more actively managed strategies believing that as the expansion evolves, market dispersion will provide greater opportunities for individual stock selection.

Figure 4: Percent Change in S&P 500 Index, EPS and P/E



Note: Change from 6/2/20. Both PE and EPS are on NTM basis
Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

Stocks and earnings are all up. (Credit Suisse)

While interest rates have moved dramatically higher, we view this as a normalization of interest rates in an anticipated strong economic growth environment rather than a reflection of rising inflation. At the end of 2019, 10-year yields were 1.9%. Today, 10-year yields are 1.71% and GDP growth rates substantially higher. While the markets are looking through the 2021 GDP numbers to a sustainable future level, it seems likely that by 2022 we will find ourselves back in an environment more like where we were prior to the pandemic, and rates should reflect that normalization. While we continue to see municipal and high-quality bonds serving as a ballast in portfolios to help weather volatility, we continue to emphasize credit strategies (both public and private) where

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default risks have declined, and yield advantages help to cushion returns from any future increases in interest rates.

Internationally, the developed markets have really lagged in their vaccination progress, and recently announced new lockdowns continue to keep their economies subdued. While we expect the vaccine situation to get resolved in the coming months, economic growth is likely to remain impacted. With the US dollar strengthening, emerging markets struggled a bit in the first quarter as Brazil is suffering from a significant increase in virus infection rates and China's return to secular trend growth makes it less attractive on a relative basis. Longer-term though China's 6% growth target will likely drive attractive return opportunities as global growth normalizes.

Expanding on the active management theme, hedge funds continue to be an area of focus. With increasing individual stock dispersion and a likely evolution of winners and losers coming out of the pandemic, we continue to favor this strategy. Market dislocation creates opportunity, and we continue to evolve the manager line-up in BCA Hedged to provide upside participation as well as downside protection.

Alternative investments across the private markets continue to be a meaningful source of attractive strategies. With longer-term expected returns for public markets likely challenged into the future, we seek the potential for higher returns that private markets can provide beyond their illiquidity premium. The private debt strategies we have identified are focused on generating income and providing principal stability along with capital preservation. In Private Equity, we continue to seek the strongest managers who glean the best access to innovative and growing companies in predominantly technology and consumer-related businesses in the US and Asia. We are also seeing opportunities in hybrid public / private equity strategies that we think allow for unique investment opportunities and alignment of interest with innovative companies over their full life cycle.

Conclusion

While the markets continue to rally, we do want to highlight the unchartered territory we are currently in, having never before experienced the combination of a global pandemic like COVID-19, monetary stimulus of the level and speed that has been provided by the Federal Reserve, and the very significant fiscal stimulus helping to bridge the gap to the full restart of the US economy. This unique combination of conditions makes forecasting

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future outcomes exceedingly difficult given no real historical precedence to rely on and a wide range of potential outcomes.

Looking ahead, both corporate and individual tax rates are expected to increase, with the degree and detail to be determined by Congress. At some point in the future, the Federal Reserve will begin to reduce its monetary stimulus. While that remains in the distant future as of today and equity markets remain focused on the positive narratives, should the economy recover more quickly than anticipated, the Fed may need to act sooner than currently anticipated. Equity markets have weathered the significant rise in rates to date quite well, but it is unclear at what level higher rates might begin to negatively impact equity market valuations. Higher interest rates, stronger wage growth, a slower growing economy, and higher taxes seem more likely looking ahead into 2022 when this pandemic is hopefully a more distant memory.

With that backdrop, we continue to work diligently to identify attractive investment opportunities and unique managers targeting strong risk-adjusted returns that will benefit client portfolios over time.

Please contact us or your Berman Capital Wealth Advisor with any questions or comments.

Sincerely,

Berman Capital Advisors Research Team

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