WESTEND
Advisors

Macroeconomic Highlights

Q4 2020

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WestEnd Outlook Highlights

- Economic recovery and expansion should continue, as fiscal support has more than offset aggregate income losses and, thus, we believe provides a bridge for consumption into 2021.
- As earnings growth normalizes with economic recovery, we anticipate more economically sensitive equity sectors and regions will benefit from early-phase cyclical tailwinds.
- We continue to underweight developed international equities in global portfolios, given the relative economic strength of the U.S., opportunities we see in certain U.S. sectors, and headwinds we see in Europe and Japan. Our outlook is more positive for Asian emerging markets, where the COVID-19 is relatively well contained and sector exposures are favorable in our view.
- We have continued to shift away from the relatively defensive portfolio positioning in place at the start of the COVID-19 crisis, while seeking to balance opportunity against ongoing medical, political, and economic risks. Since late Q1, we have:
  - Increased exposures to more economically-sensitive areas of the markets across portfolios, including establishing allocations to the U.S. Financials, Industrials, and Energy equity sectors.
  - Established a new U.S. small/mid-cap equity allocation, trimmed the U.S. large-cap equity overweight, and moved to an overweight of Asian emerging market equities in global portfolios.
  - Retained an overweight to corporate bonds in fixed-income allocations and reduced duration to manage risk.

U.S. Equity Sector Allocations

WESTEND ETF STRATEGIES

Large-Cap U.S. Equity Sector Positioning and Q2/Q3 2020 Adjustments as of September 30, 2020*

Sector Exposures Increased

- Financials
- Industrials

Sector Exposures Maintained/Decreased

- Consumer Discretionary
- Communication Services
- Consumer Staples
- Energy
- Health Care
- Information Technology

Sectors Avoided

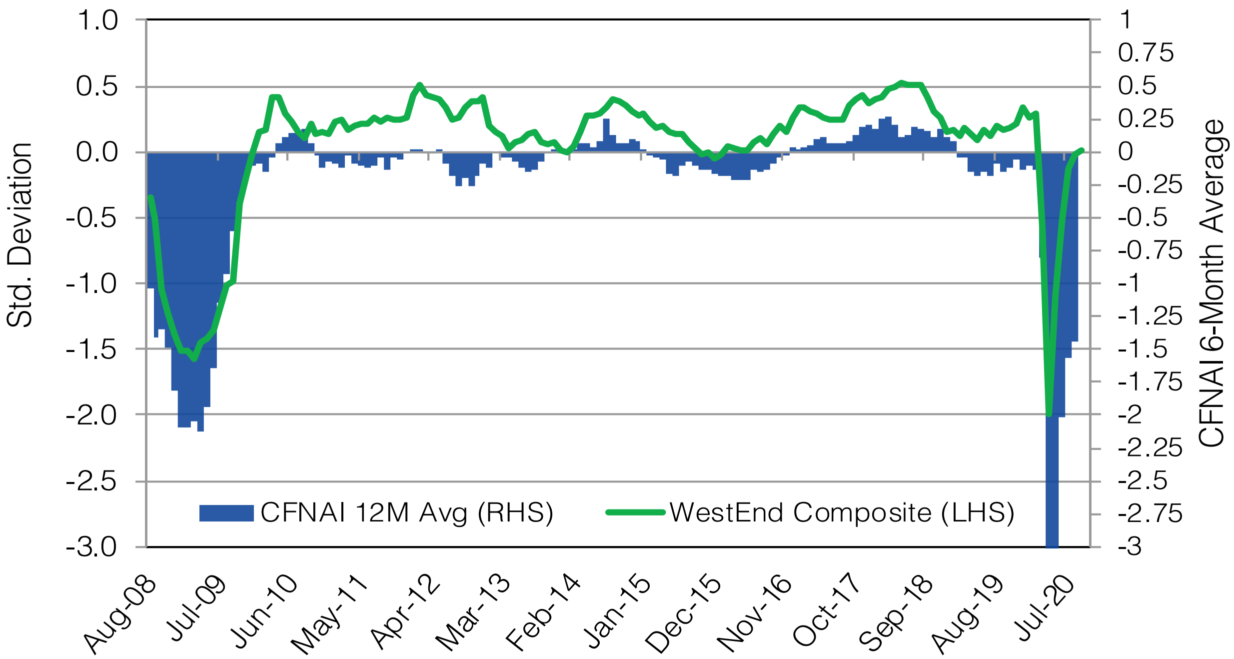
- Materials
- Real Estate
- Utilities

* For illustrative purposes only. Sector changes based on U.S. Sector Strategy model portfolio comparing allocations on March 31, 2020 and September 30, 2020. Source: WestEnd Advisors.

U.S. Economic & Market Backdrop

Sharp Rebound Matches the Severe COVID-Induced Recession

BROAD ECONOMIC ACTIVITY INDICATORS



Source: WestEnd Advisors, Chicago Fed

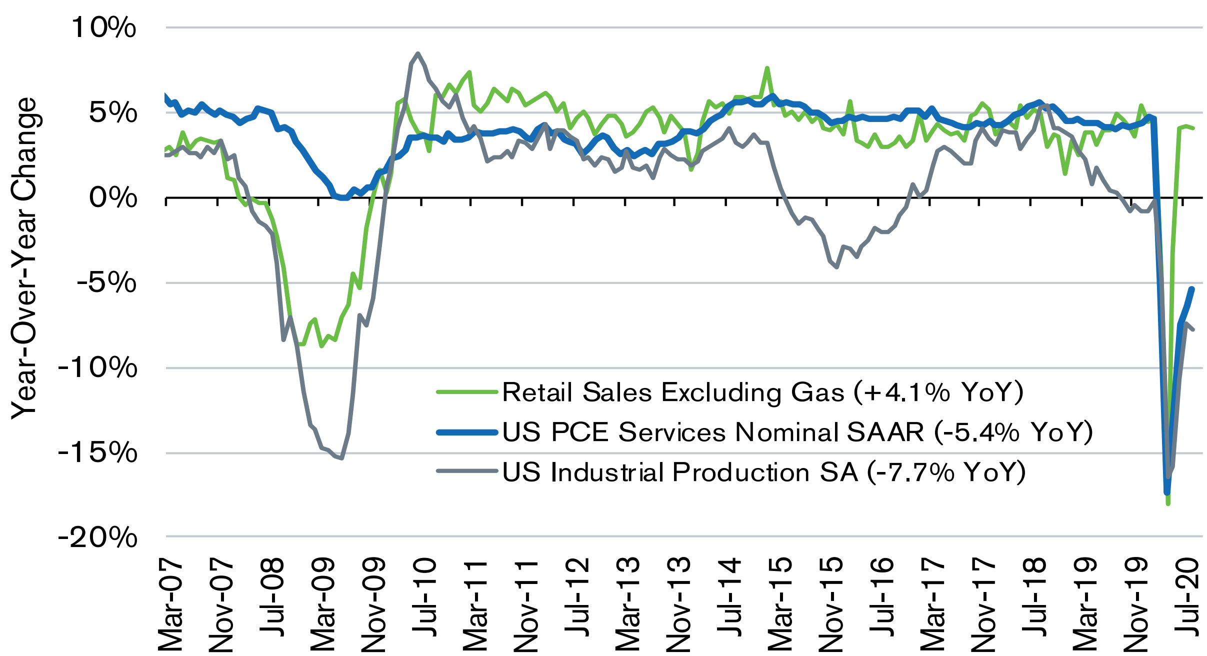
Portfolio Impact: Traction with the U.S. economic recovery warrants significant allocations to economically sensitive sectors like **Industrials, Financials, Information Technology** and **Communication Services**. Smaller allocations to less economically sensitive sectors like **Health Care** are appropriate as health and economic risks remain.

WestEnd's composite of key economic readings indicates the U.S. economy in aggregate has recovered significantly from the depths of the recession and the stay-at-home mandates, even as certain segments of the economy and many individuals continue to face financial challenges.

Although medical and economic risks remain, **we believe the economic recovery will continue to progress and thus an overweight of economically sensitive sectors is appropriate.**

Recovery Has Not Been Uniform Across the Economy

U.S. CONSUMER & MANUFACTURING ACTIVITY



Source: BEA, Census Bureau, Federal Reserve, WestEnd Advisors

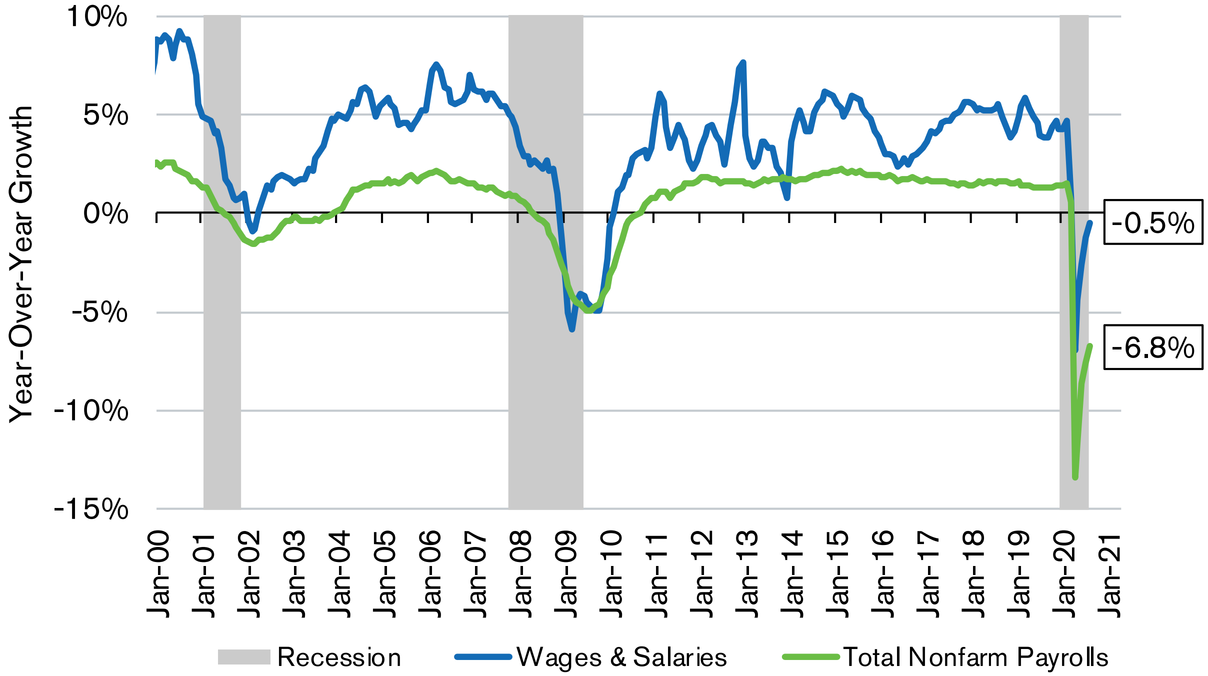
Portfolio Impact: Consumer spending on goods has returned to year-over-year growth as spending in certain areas like e-commerce and home improvement have increased significantly. Leading companies in the **Consumer Discretionary** sector have benefitted from these shifts in spending, which we believe have staying power.

The recovery has varied within the U.S. economy. Within consumer spending, for example, **retail sales, which consists primarily of spending on goods, has returned to the pre-recession pace of growth**, as seen in the chart above. Alternatively, consumer spending on services is about 8% below prior year levels as cutbacks in spending on travel, leisure and other activities has hurt services spending.

Manufacturing, a key driver of the economy after consumer spending, has rebounded from its lows, but Industrial Production is still below prior year levels.

Decline in Income Not as Severe as Job Losses

WAGES & SALARIES MORE RESILIENT THAN JOB LOSSES



Source: WestEnd Advisors

Portfolio Impact: Allocations to **economically sensitive exposures like small-cap are appropriate** even as certain economic headlines remain ugly.

Wage declines, for example, are not as severe as job losses since the labor market fallout from the virus-induced recession has primarily been focused in low-wage industries, such as restaurants, leisure & hospitality, and retail.

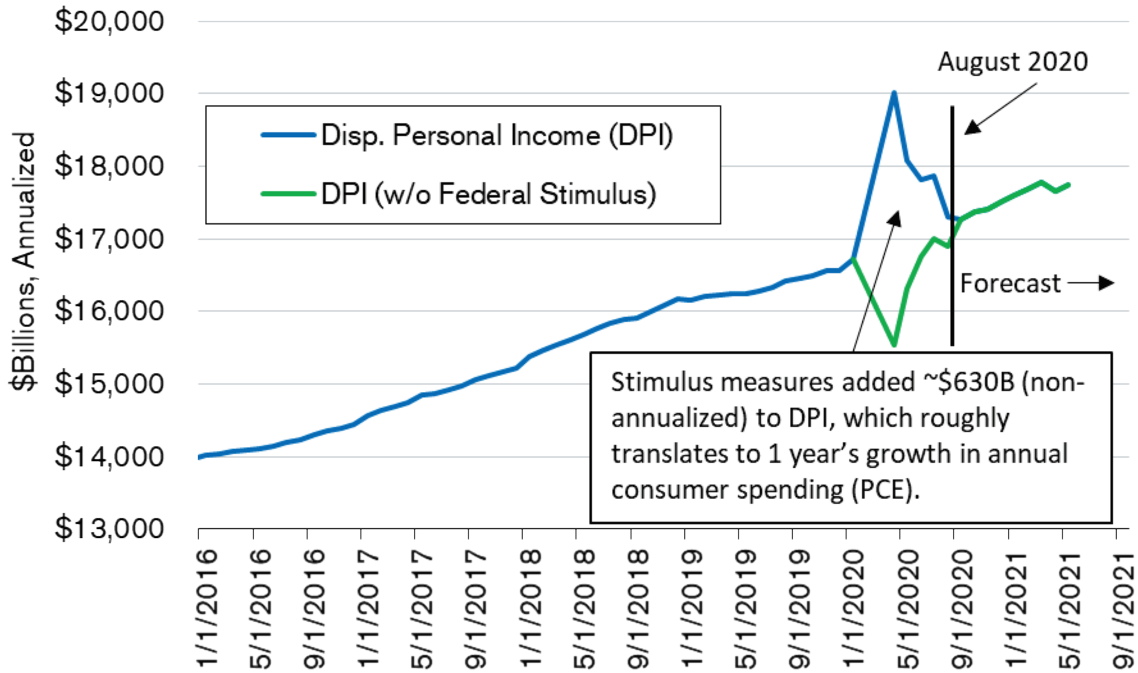
The COVID-19 recession has had widely varying impacts on different segments of the U.S. economy.

The industries with the largest number of job losses were those with the lowest hourly earnings rates and hours worked. As such, the negative impact to aggregate wages & salaries has been less severe than the absolute number of job losses, as indicated in the chart above.

As a result, we expect the recovery in consumer spending to continue as the labor market gradually recovers.

Fiscal Support Has More Than Offset Income Losses

FISCAL SUPPORT BRIDGING THE DISPOSABLE PERSONAL INCOME GAP



Source: WestEnd Advisors

Portfolio Impact: Q3 data indicates that spending has rebounded faster than many expected, driven by a recovery in wages and salaries and supplementary income provided by fiscal stimulus. We believe this should **bode well for the overall economy and for cyclical sectors**.

Fiscal stimulus, in our view, should limit the risk that the labor market shock spreads from industries like leisure, hospitality and retail trade to other industries, and leads to a further decline in personal income and spending.

As of August, wages and salaries were down ~$378 billion relative to pre-COVID levels. The chart above shows that **the income relief measures in the CARES Act have more than offset the recent income losses**. These measures included one-time cash payments and expanded federal unemployment benefits, which together provided ~$600 billion of income support through August and helped smooth the cash flow shock to households and businesses.

Even as some relief measured have expired, **the support provided by various emergency unemployment programs is set to run through Dec. 31st or into 2021**.

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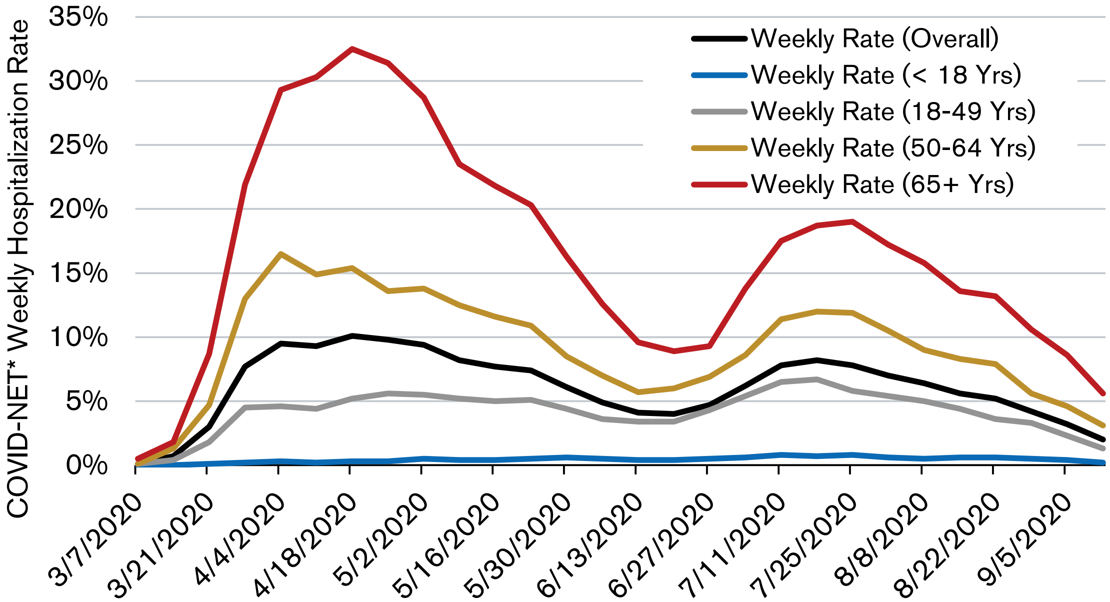
U.S. COVID Cases Pick Up, But Treatment of Patients Improves

HOSPITALIZATION PICTURE HAS IMPROVED DRAMATICALLY



**The COVID-19 Associated Hospitalization Surveillance Network (COVID-NET) covers 100 counties across 14 different states, representing ~10% of the total U.S. population*

Source: CDC, WestEnd Advisors

Vaccine Development: With over 50 COVID-19 vaccine candidates undergoing clinical trials, we believe there is a high likelihood that an effective vaccine will be ready for wide scale distribution before the second half of 2021.

Global Covid-19 Vaccine Candidates

Phase 3 (Efficacy)	11
Phase 2 (Safety/Efficacy)	14
Phase 1 (Safety/Dosage)	28

Source: New York Times, WestEnd Advisors

After declining in August, daily new COVID-19 cases in the U.S. begun ticking higher in mid-September, in part due to new outbreaks in the Midwest. While this development poses risks to the economic recovery, another nationwide shutdown remains unlikely, in our view.

According to CDC data, **hospitalization rates for all age groups have retreated to the lowest levels since March**. In recent months, new cases have become less likely to translate to fatal outcomes, as the **medical community has become more informed on effective approaches to treat the virus.**

Election Impacts Through a Sector-Investing Lens

Election uncertainty is high, with the predictability of polls in question after 2016 and prediction markets recently near even odds, but we believe lack of a strong consensus reduces the risk of a market-dislocating surprise. Thus, we are focused on potential sector impacts of various election scenarios.

TOO CLOSE TO CALL: Polls show Biden with a nearly seven-point lead over Trump (49.7% vs. 43.1%), but polls proved unreliable in 2016. Prediction markets have shown Presidential election odds at essentially 50/50 as recently as Sept. 2nd, though they widened to favor Biden by double digits after the first debate.

BROAD MARKET IMPACT SHOULD BE LIMITED: Given current expectations, a Democratic sweep or split government would not be a major surprise and, thus, are less likely to cause a sharp shift in market direction in our view.

BIDEN TAX PLAN LIKELY TO BE WATERED DOWN: Biden's tax plan would require a Democratic sweep (est. at about 50% probability). We estimate raising the corporate tax rate to 28% should only have a roughly -7% impact on 2021 S&P 500 EPS. Expanded fiscal stimulus and a likely delay in implementing tax reforms amid the COVID crisis should materially lessen the impact of higher corporate taxes compared to the original Biden plan.

Select Election Opportunities and Risks by Sector

Health Care: ***Democratic sweep*** *likely a net positive*

+ Medicare expansion could increase covered patient population
- We would expect increased, but targeted, government control on pharmaceutical pricing
+ Greater certainty around regulatory framework could benefit valuations, even if policies are suboptimal

Industrials: *We see near-term positives in all election outcomes*

+ Could benefit from increased infrastructure spending in a **Democratic sweep** or as a rare area of bipartisan cooperation in a **split government** scenario
+ Likely one of the greater short-term beneficiaries of possible economic optimism if there is a **Republican sweep**

Info. Tech. and Comm. Services: ***Sweep by either party*** *has risk*

- Democratic tax plan could negatively impact international profits
- Both parties have problems with major Tech firms, but their concerns and solutions don't match so a sweep could increase risks of break-ups and/or more regulation of big tech platforms

Energy:

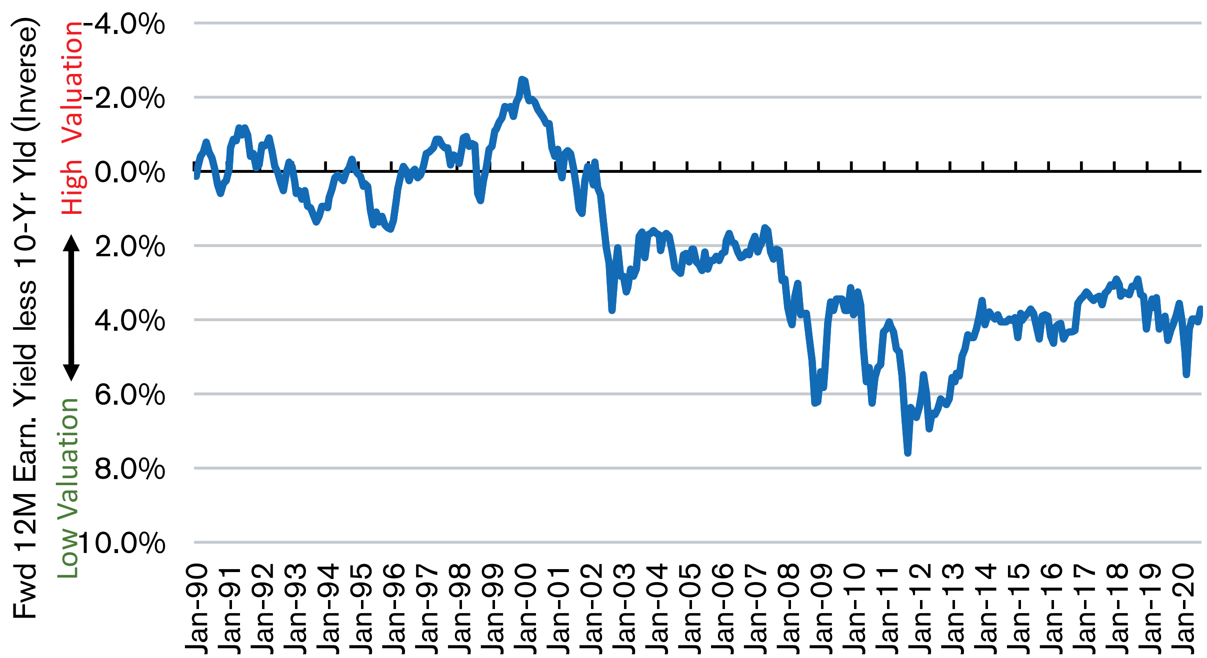
± **Democratic sweep** could see significant reduction in fracking and other oil and gas exploration (- for output / + for oil prices)

Utilities: ***Democratic sweep*** *is primary risk*

- Utilities earnings would likely be among the most directly impacted by a corporate tax rate increase by Democrats

S&P 500's Valuation is Below Average When Accounting for Interest Rates

RATE-ADJUSTED EQUITY VALUATIONS REMAIN ATTRACTIVE



Source: Bloomberg, WestEnd Advisors

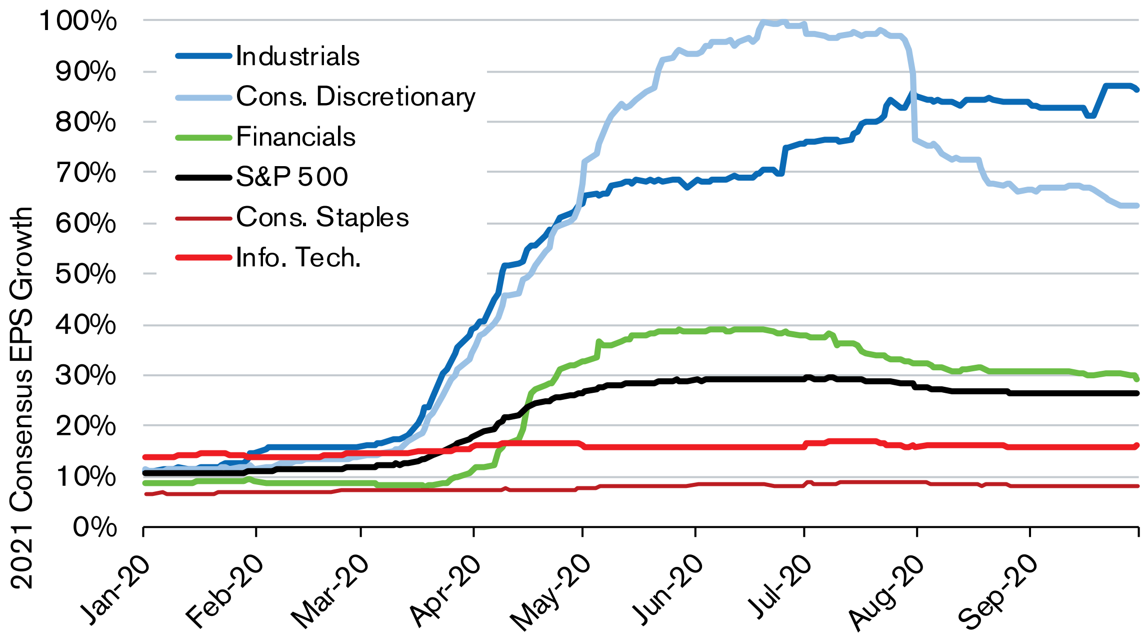
Portfolio Impact: Equities have rallied significantly from the March 23rd bottom, but interest rates have remained very low. **Historically low interest rates should support equity valuations.**

The equity market recovery from the March lows marked the fastest 40% rise since the end of the Great Depression. Despite this significant rebound, **equity valuations remain attractive compared to history when adjusted for the record low level of long-term interest rates**.

The current S&P 500 Forward Earnings Yield (E/P) less the 10-Year Treasury yield indicates interest-rate-adjusted equity valuations have been higher 70% of the time over the last 30 years.

Earnings Growth Prospects Vary by Sector as Recovery Takes Hold

2021 CONSENSUS EPS GROWTH EVOLUTION



Source: Bloomberg, WestEnd Advisors

Portfolio Impact: Cyclical sectors like **Industrials, Consumer Discretionary and Financials** are poised to deliver strong earnings growth, in our view, as the economic recovery progresses into 2021.

As is typical at the start of a new economic cycle, we expect earnings growth will likely be significantly different across market sectors.

Economically sensitive sectors are expected to deliver the strongest growth, as a pickup in demand together with cost management during the downturn should lead to a strong uptick in earnings, after substantial earnings declines during the recession.

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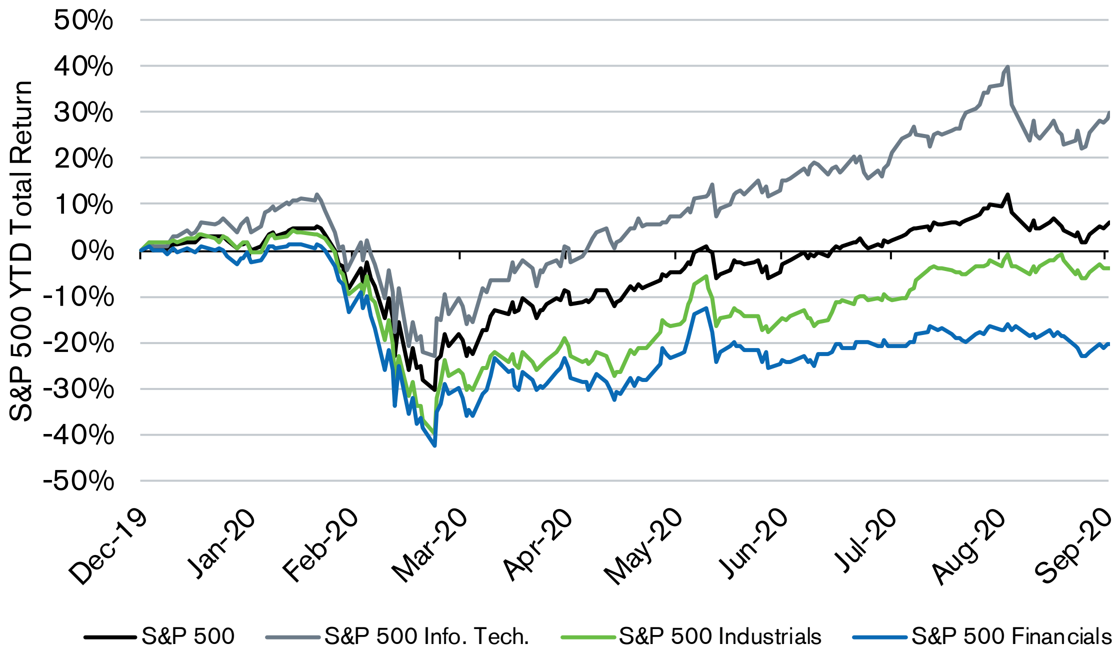
Opportunity in Traditional Cyclical Sectors Like Industrials and Financials

UNEVEN S&P 500 SECTOR RECOVERIES



Source: WestEnd Advisors

Portfolio Impact: The market has come a long way from the March 23rd bottom, which has made market risks and opportunities more balanced at this point. Over the intermediate term, however, **significant fiscal and monetary support** for consumers and businesses, as well as **attractive interest-rate adjusted equity valuations**, should set the stage for improved equity returns during the recovery.

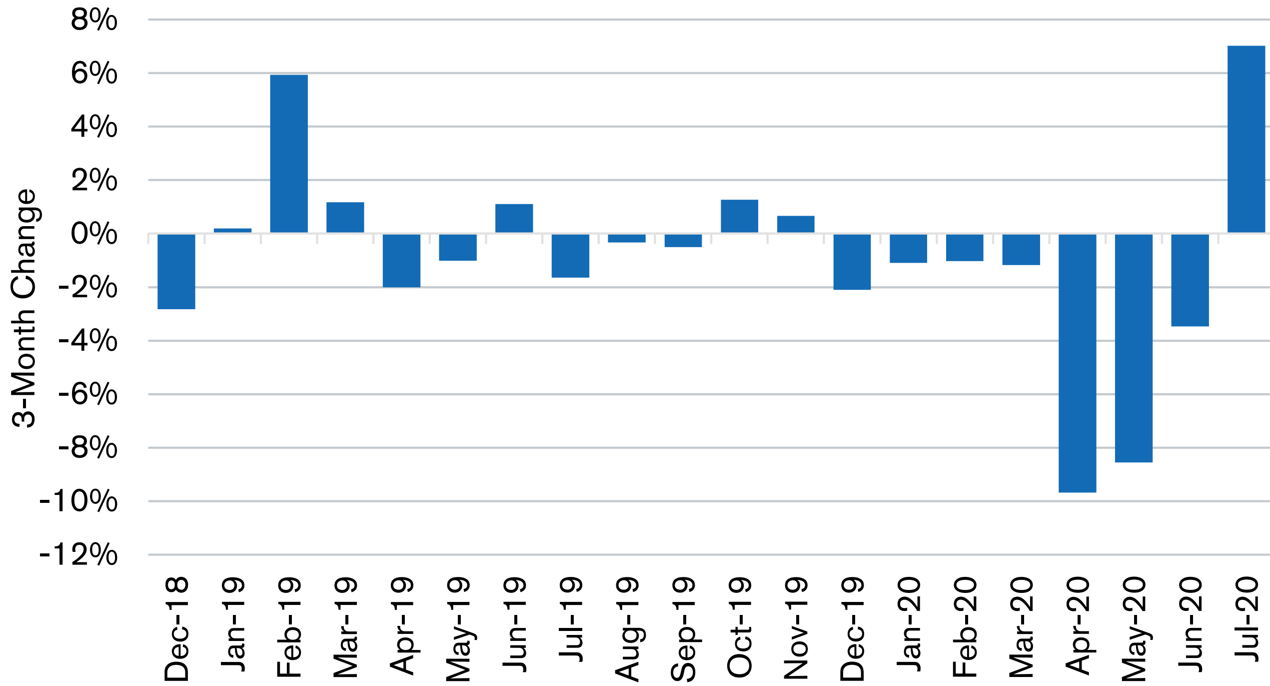
The stock market recovery has been led by Technology companies. The rally has been supported by a pull forward of growth, driven by shifting consumer habits in the wake of the COVID epidemic.

Looking forward, traditionally economically sensitive sectors like Industrials and Financials look well positioned, in our opinion, to capitalize on the economic recovery. **These sectors have underperformed the S&P 500 to date even as we expect to deliver outsized earnings growth in 2021.**

U.S. Sector Outlook

Industrials Sector Positioned to Benefit from the Recovery

MACHINERY ORDERS GROWTH



Source: WestEnd Advisors

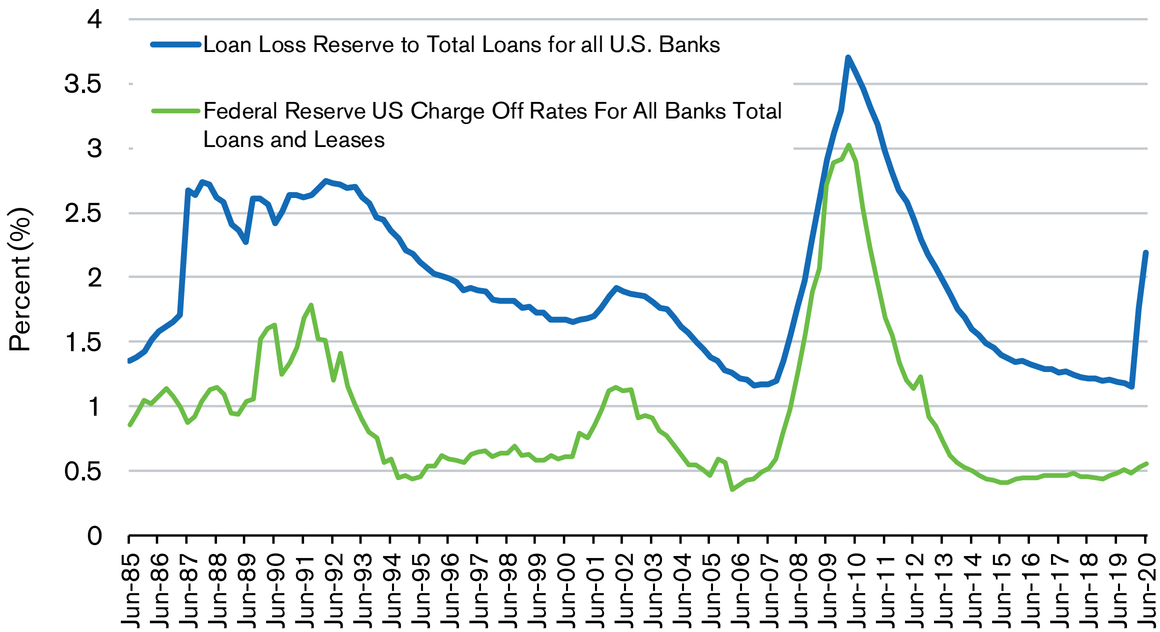
Portfolio Impact: We believe the more economically sensitive parts of the market should perform well as the COVID-19 crisis wanes. As such, **an overweight to the Industrials sector is desirable**, in our view, as we expect companies in the sector will take advantage of economic tailwinds to improve earnings growth.

The Industrials sector has underperformed the market YTD through Q3, even as economic activity has rebounded. As the ongoing recovery takes hold, we believe the Industrial sector's earnings prospects will improve significantly, in part due to cost savings measures implemented during the recession. **Early signs of improved demand have begun to appear, including an acceleration in machinery orders growth and rising freight and trucking volumes.**

Companies in sector sub-industries with the highest direct exposure to lingering impacts from the pandemic, like Airlines, have relatively small weights within the sector, while we believe the larger companies in the sector will benefit from rebounding demand much sooner.

Fiscal Support and Economic Rebound Should Limit Loan Loss Provisions and Support the Financials Sector

LOW CHARGE OFF RATES SIGNAL BANK CONSERVATISM



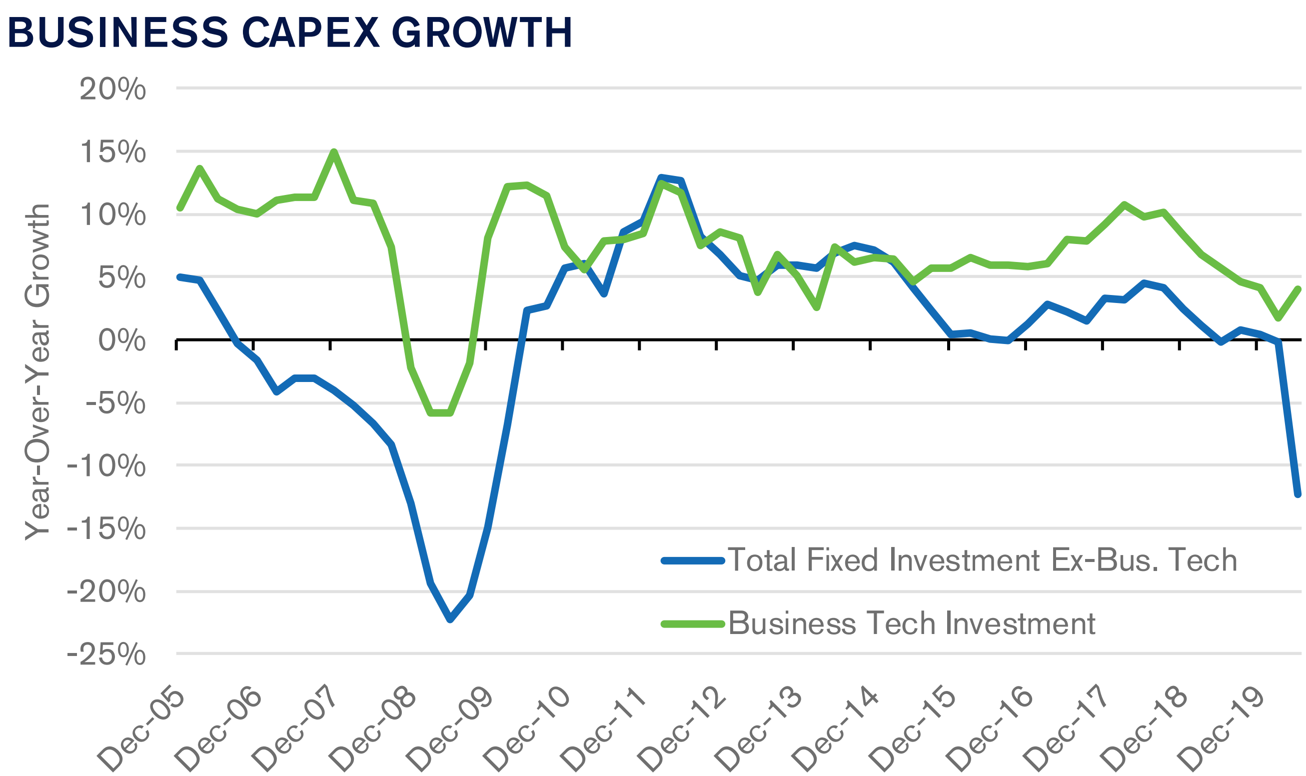
Source: Federal Reserve, WestEnd Advisors

Portfolio Impact: Financials are well positioned in our view to benefit from the next phase of the economic recovery. **The strong initial economic and labor market rebound should limit banks' need for additional loan loss provisions**, especially given the support provided to businesses and individuals by the Federal government.

U.S. financial institutions are well capitalized following regulatory changes implemented following the 2008 financial crisis. As a result, the current pandemic-induced recession has proven manageable and systemic risk has remained low.

The sizeable loan loss provisions that large banks recorded in Q1 and Q2 were a conservative move, in our view, as the initial economic rebound was stronger than anticipated and charge-off rates were low in Q2. This, combined with improved capital markets activity and elevated loan growth during the economic recovery, should lead to a better-than-consensus recovery in Financials sector earnings, as some of those conservative provisions are unwound in a recovery.

Tech Investment Continues to Grow Despite Recession



Source: Bloomberg, WestEnd Advisors

Portfolio Impact: In the near-term, we expect all forms of business investment are likely to face headwinds stemming from uncertainty around COVID-19. Nevertheless, we believe material allocations to the **Information Technology** and **Communication Services sectors** are warranted regardless of the exact shape of the economic recovery given the secular tailwinds benefiting these sectors.

Businesses and consumers have increasingly embraced digital platforms like cloud computing, eCommerce, digital payments and social media in recent years. The nature of the coronavirus pandemic means that, today, spending in these areas have been less negatively impacted compared to a traditional recession, and in certain cases, like digital video conferencing software and video gaming platforms, companies are seeing increased demand.

The chart above illustrates that **CapEx on technology continued to grow during Q2 even as the quarterly GDP fell at a 32% annualized pace.**

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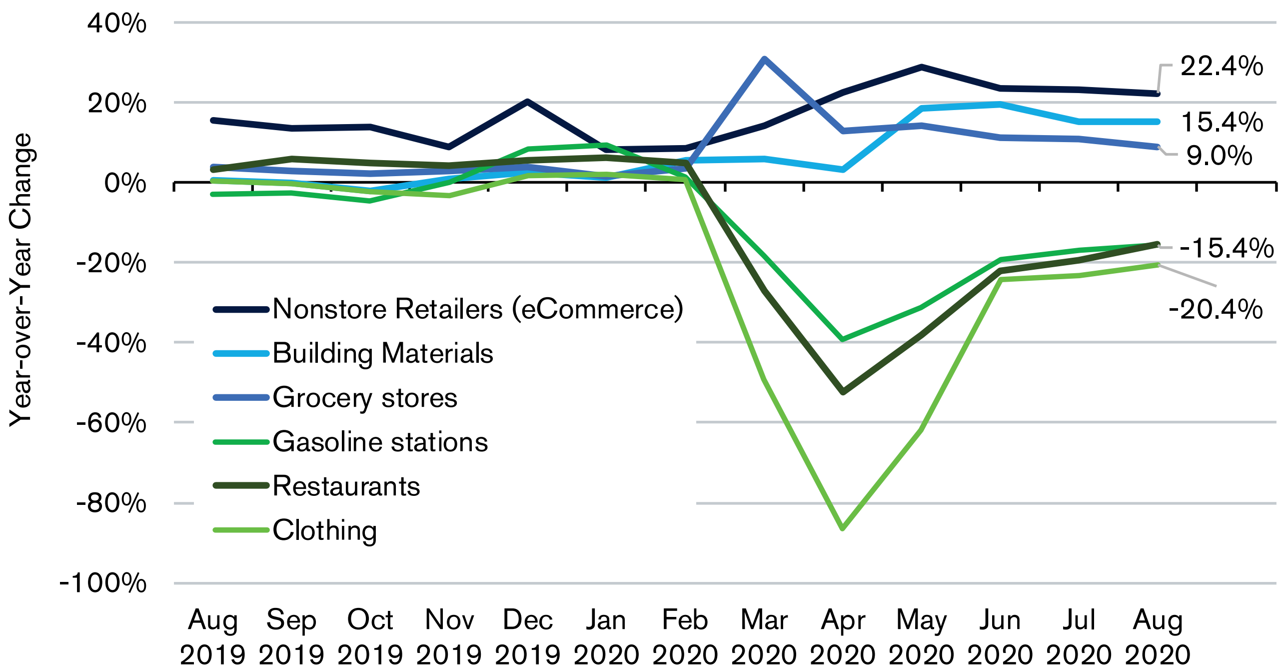
Consumer Spending Winners and Losers Have Emerged

SHIFTS IN RETAIL SALES CATEGORY GROWTH POST-COVID-19



Source: WestEnd Advisors

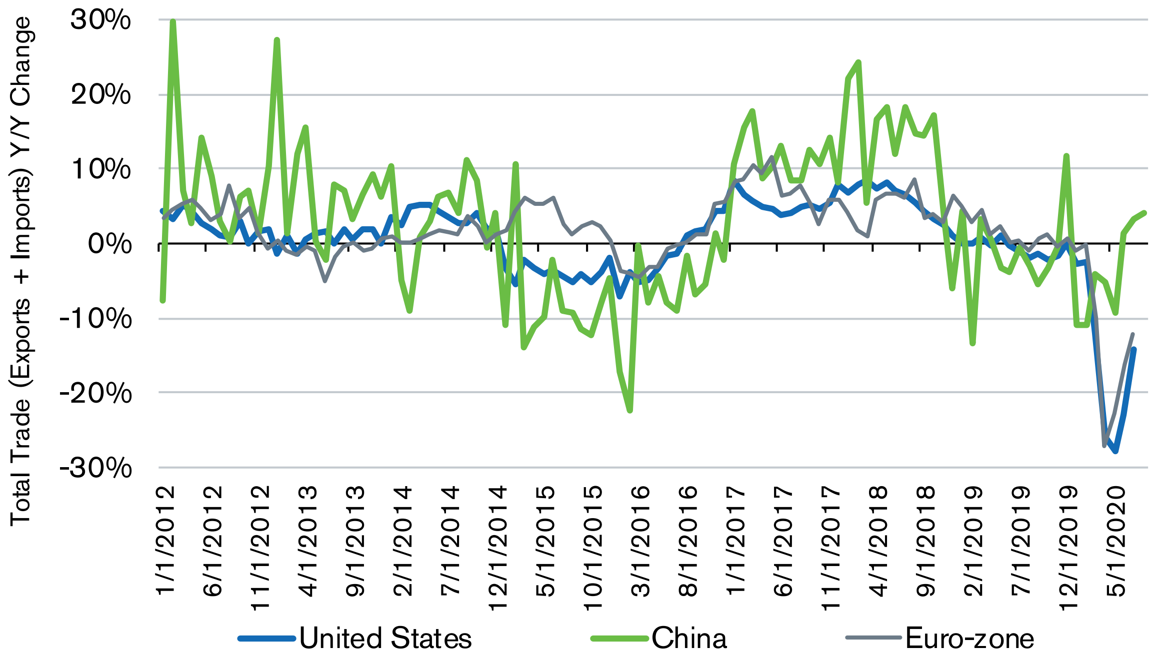
Portfolio Impact: While certain areas within the **Consumer Discretionary** Sector have faced challenges, fiscal support and recovering wages and salaries should continue to drive consumption and the economy overall. The two largest sub-industries in the sector, Internet & Direct Marketing Retail and Home Improvement Retail, **are benefitting from the shift in spending towards eCommerce and building materials**.

The shifts in consumer spending behavior that were brought on by the pandemic have proven to be sustainable in recent months, as the chart above shows. **Retail sales spending fully recovered in Q3, primarily due to robust eCommerce growth and pent-up demand for household goods.** Spending in other areas, such as entertainment services and travel, which make up smaller portions of the Discretionary sector, will take longer to recover, in our opinion.

International Economic & Market Backdrop

China Leads the Recovery in Global Trade

REGIONAL DIVERGENCE IN INTERNATIONAL TRADE ACTIVITY



Source: Bloomberg, WestEnd Advisors

Portfolio Impact: While Asia was the first epicenter of the COVID-19 crisis, the region's largest economies have proven better able to keep new virus outbreaks under control. This has led to a widening divergence in industrial and trade activity relative to Europe and the U.S.

Asian stocks fared poorly early in this crisis due to both the fears and actual economic impacts of COVID-19 (and related policy responses). Now, however, economic activity in Asia is approaching normal levels, as evidenced by the re-acceleration in manufacturing production growth and international trade activity.

While the global growth outlook remains uncertain, we believe these factors **reduce the relative risk of Asian equities as compared to those of developed Europe,** for example. We continue to monitor Asia's recovery closely, as it can provide clues for progress in other regions.

China Liquidity Backdrop Support Economy and Equities

CREDIT CONDTIONS IN CHINA ARE FAVORABLE

Source: Bloomberg, WestEnd Advisors

Portfolio Impact: Economic data has shown that Emerging Asia leads other regions in its economic recovery, which should support positive GDP and earnings growth 2020 and 2021. EM Asia provides **exposure to favorable secular trends in the Information Technology, Communication Services, and Consumer Discretionary sectors, but at a discount to the U.S**, which we believe warrants an overweight allocation to the region.

In response to the COVID-19 pandemic, the PBOC implemented a raft of fiscal and monetary measures designed to support the Chinese economy. These included liquidity injections into the banking system, an expansion of lending facilities, reduced interest rates, and discretionary fiscal spending equivalent to ~4.5% of GDP.

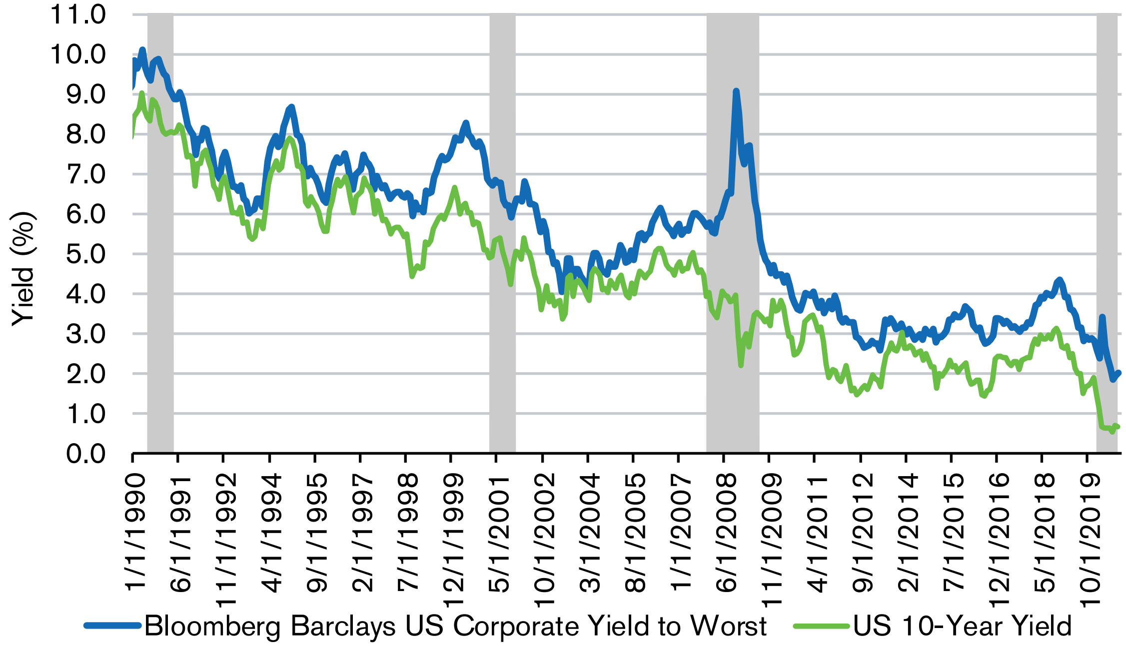
These measures have limited the fallout of the pandemic on the Chinese economy, as shown in the chart above, and have created an accommodative environment for companies operating in the region.

Interest Rates & Inflation

Corporate Bonds: Favorable Outlook as Economy Gains Traction

Portfolio Impact: With prospects for an economic recovery improved and with the Fed providing significant credit market stimulus, **we see solid return potential for Investment Grade credits.**

CORPORATE BOND YIELDS VS. TREASURY BOND YIELDS



Source: Bloomberg, WestEnd Advisors

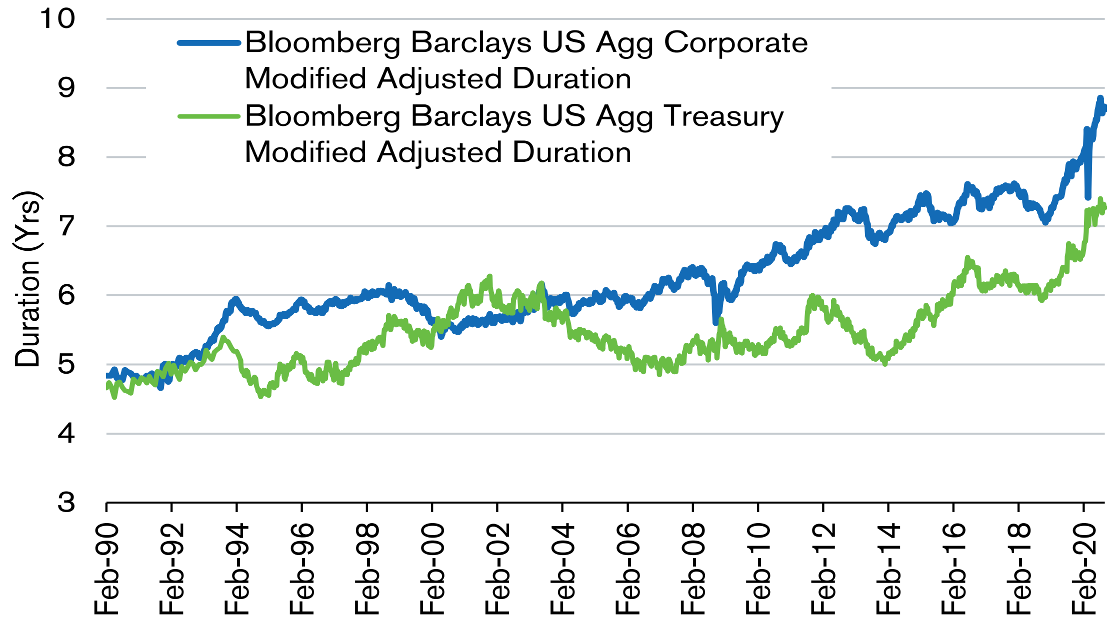
Corporate bond spreads have moved lower after widening in Q1 to the highest levels since the Financial Crisis. Fiscal and monetary stimulus, including the Federal Reserve's actions to inject liquidity into markets, have supported corporate credit performance.

That said, **investment grade corporate bonds yields are elevated relative to Treasury yields, which have remained near all-time lows.** Investment-grade corporate bonds are currently yielding 4 times the amount of similar-duration treasuries. As the economic data improves and the recovery continues to take shape, we believe there is room for rates to move higher and for credit spreads to return to non-recessionary levels.

Bonds: Broad Bond Index Durations Elevated

Portfolio Impact: Bond durations are at all-time highs. **Investors should be aware of the risks of rising rates or outright interest rate volatility.** With corporate bond spreads currently greater than pre-COVID spreads, we prefer short-duration, corporate exposure.

BOND DURATION ELEVATED



Source: Bloomberg, WestEnd Advisors

Over the last 10 years, broad bond indices have seen a shift in characteristics, including maturity and duration. Lower bond yields and lengthening bond maturities have combined to drive investment-grade corporate and Treasury bond index durations to their highest-ever levels.

Investors who invest in broad-market bond exposure should beware of the risks of rising rates given the currently high durations. In particular, with rates at or near all-time lows, longer-duration bonds provide little compensation for the risk of interest rates rising or, as was seen in mid-March 2020, interest rate volatility. **We prefer short-duration, corporate investment-grade bond exposure as corporates generate higher yields than Treasuries and the short-duration subset is more insulated from interest rate volatility.**

Footnotes & Disclosures

WestEnd Advisors is an SEC-registered investment advisor. Registration of an investment adviser does not imply any level of skill or training. The firm is an independent investment management firm, 100% owned by its active principals. WestEnd manages equity securities for individuals and institutional clients.

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The Standard and Poor's 500 Stock Index includes 500 stocks and is a common measure of the performance of the overall U.S. stock market. The MSCI ACWI consists of 49 country indexes comprising 23 developed and 26 emerging market country indexes. The total return of the MSCI ACWI (Net) Index is calculated using net dividends. Net total return reflects the reinvestment of dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The Bloomberg Barclays US Aggregate Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. The Bloomberg Barclays US Aggregate Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. An index is unmanaged and is not available for direct investment.

Any portfolio characteristics, including position sizes and sector allocations, among others, are generally averages and are for illustrative purposes only and do not reflect the investments of an actual portfolio unless otherwise noted. The investment guidelines of an actual portfolio may permit or restrict investments that are materially different in size, nature, and risk from those shown. The investment processes, research processes, or risk processes shown herein are for informational purposes to demonstrate an overview of the process. Such processes may differ by product, client mandate, or market conditions. Portfolios that are concentrated in a specific sector or industry may be subject to a higher degree of market risk than a portfolio whose investments are more diversified.

Holdings, Sector Weightings, and Portfolio Characteristics were current as of the date specified in this presentation. The listing of particular securities should not be considered a recommendation to purchase or sell these securities. While these securities were among WestEnd Advisors' strategies' holdings at the time this material was assembled, holdings will change over time. There can be no assurance that the securities remain in the portfolio or that other securities have not been purchased. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities presently in the portfolio. Individual clients' portfolios may vary. Upon request, WestEnd Advisors will provide a list of all recommendations for the prior year.