July 1, 2020 • Portfolio Management Team

Glass Half Full

Unprecedented is a word that investors have heard a lot this year. First, it described the onset of the COVID-19 crisis and the shutdown of the global economy. Next, it described the size and scope of government stimulus efforts. Then, it applied to the market rally following the March 23rd low, with stocks posting the biggest fifty-day gain in history. Today, unprecedented might describe the level of uncertainty that investors feel in the face of developments never seen before.

Despite the uncertainty, we maintain a "glass half full" view of the markets. It is easy to view the outlook as being "glass half empty" given the many challenges today, including high unemployment, political turmoil, and a possible second wave of the virus. However, there are many reasons to be cautiously optimistic, starting with the fact that the COVID crisis, like other pandemics before it through the centuries, is ultimately a temporary situation. Other reasons include promising developments with vaccines and therapeutics, record amounts of economic stimulus, and perhaps above all, the ability of individuals and businesses to adapt to change and overcome challenges. The unprecedented mobilization of Americans to work from home is one important example.

It may sound like a bold claim, but the COVID recession is likely already over (the definition of a recession being a decline in economic activity). That does not mean economic activity has returned to normal levels, far from it. It will be a long, rocky road to recovery, at least until the commercialization of a vaccine. But the economy likely bottomed in April or May, and it is the *direction* of economic activity – not the level – that matters most for markets. In this quarter's report, we address the most common questions from clients about today's investing environment, and in doing so give reasons for our glass half full outlook.

Tracking the Reopening of the U.S. Economy

	1/31	2/28	3/6	3/13	3/20	3/27	4/3	4/10	4/17	4/24	5/1	5/8	5/15	5/22	5/29	6/5	6/12	6/19	6/26
Jobless Claims (000's)	201	217	211	282	3307	6867	6615	5237	4442	3867	3176	2687	2446	2123	1897	1566	1508	1480	
Public Transit Ridership	5%	7%	4%	-2%	-36%	-61%	-68%	-72%	-73%	-74%	-72%	-70%	-69%	-67%	-66%	-62%	-60%	-58%	-56%
Airline Passengers (000's)			2100	1800	1000	300	200	100	100	100	200	200	300	300	300	300	400	500	500
Mortgage Applications	100%	118%	182%	167%	119%	136%	113%	121%	121%	118%	119%	120%	117%	120%	104%	125%	133%	121%	
Consumer Comfort	67	63	63	63	60	56	50	45	41	40	37	36	35	36	37	39	40	41	
Same Store Sales Change	5.4%	5.4%	6.0%	7.2%	7.9%	7.5%	7.0%	-2.0%	-4.4%	-5.7%	-6.6%	-7.5%	-8.5%	-7.5%	-7.5%	-9.7%	-8.3%	-6.1%	-5.7%
Restaurant Bookings Change		1%	-6%	-36%	-99%	-100%	-100%	-100%	-100%	-100%	-99%	-87%	-94%	-87%	-82%	-80%	-65%	-60%	-59%
Active Oil Rigs	2%	2%	3%	3%	0%	-6%	-15%	-24%	-34%	-43%	-51%	-56%	-61%	-64%	-67%	-69%	-70%	-72%	-72%
Steel Production	0%	1%	0%	-2%	-3%	-13%	-20%	-34%	-33%	-35%	-40%	-37%	-38%	-38%	-37%	-38%	-36%	-36%	
Electricity Demand	0.7%	0.3%	-0.5%	-0.4%	-0.6%	-2.9%	-5.4%	-7.3%	-7.0%	-7.4%	-7.4%	-7.2%	-7.0%	-6.9%	-6.9%	-4.5%	-3.8%	-3%	-3%
Hotel Occupancy	58%	63%	62%	60%	40%	22%	24%	23%	25%	26%	27%	30%	33%	36%	36%	40%	42%	44%	
Apple's Driving Index	1%	12%	12%	-6%	-40%	-50%	-51%	-49%	-43%	-39%	-29%	-23%	-12%	0%	2%	7%	18%	23%	49%
Apple's Walking Index	-1%	8%	6%	-16%	-53%	-59%	-60%	-59%	-57%	-54%	-45%	-42%	-27%	-18%	-14%	-11%	1%	7%	37%
Fed Mobility Index	15	5	1	-13	-79	-97	-100	-100	-100	-92	-85	-81	-73	-63	-58	-55	-56	-9	-13

Explanation of table: Jobless Claims: Weekly unemployment insurance claims, in thousands. **Public Transit Ridership:** Public transit usage compared against typical week before the pandemic, equal-weighted average of 7 largest US cities. **Airline Passengers:** Nationwide weekly average number of airline passengers, thousands **Mortgage Applications:** As a percentage of level prior to pandemic. **Consumer Comfort:** Bloomberg Consumer Comfort Index, higher indicates better consumer mood. **Same Store Sales:** Year-over-year change in same store sales for the physical locations of general merchandise retailers. **Restaurant Bookings:** Year-over-year change in restaurant reservations and walk-ins, according to Open Table. **Active Oil Rigs:** Change in number active oil rigs compared to before the pandemic. **Steel Production:** Steel production as a percent change from before the pandemic. **Electricity Demand:** Difference between actual daily load versus expectations. **Hotel Occupancy:** Relative to year prior, 100% represents full booked hotels. **Apple's Driving Index:** Number of App requests for driving directions versus prior to the pandemic. **Apple's Walking Index:** Number of App requests for walking directions versus prior to the outbreak. **Fed Mobility Index:** Summarizes seven variables from geolocation data collected from mobile devices to gain insight into economic impact of COVID-19. Measures the deviation from normal mobility. *Sources: Hefren-Tillotson based on Bloomberg analysis, Apple, Inc., Federal Reserve Bank of Dallas, MOOVIT, OpenTable, STR.com, and Bureau of Transportation Statistics. Data as of 6/30/2020*

Asset Class Returns as of 6/30/2020

		Latest Quarter	Year-to-Date	1 Year	Annualized Return 3 Year	5 Year	10 Year	Current Yield	P/E Ratio
Fixed Income	**Domestic Taxable**								
	Barclays Capital US Treasury Index	0.5	8.7	10.4	5.6	4.1	3.4	0.5	
	Barclays Capital US Aggregate	2.9	6.1	8.7	5.3	4.3	3.8	1.3	
	Barclays Capital Corporate	9.0	5.0	9.5	6.3	5.8	5.5	2.2	
	Barclays Capital High Yield	10.2	(3.8)	0.0	3.3	4.8	6.7	6.9	
	Domestic Tax Exempt								
	Barclays Municipal Bond Index	2.7	2.1	4.4	4.2	3.9	4.2	1.5	
	BarCap Muni High Yield	4.6	(2.6)	1.0	5.3	5.8	6.1	4.9	
	International/Global								
	Barclays Capital Global Aggregate	3.3	3.0	4.2	3.8	3.6	2.8	1.0	
	Barclays Capital Emerging Market Bond	9.6	(0.8)	2.1	3.8	4.8	5.7	4.4	
Equity	**Domestic Equities**								
	S&P 500 Index	20.5	(3.1)	7.5	10.7	10.7	14.0	2.0	24.9
	S&P 500 Index (Equal Weight)	21.7	(10.8)	(3.3)	5.4	7.1	12.6	0.0	-
	Dow Jones Industrial Average	18.5	(8.4)	(0.5)	9.1	10.6	13.0	2.5	23.7
	S&P Mid Cap Index	24.1	(12.8)	(6.7)	2.4	5.2	11.3	2.0	27.6
	Russell 2000	25.4	(13.0)	(6.7)	2.0	4.3	10.5	1.8	-
	Investment Styles								
	S&P 500 Value	13.1	(15.5)	(4.5)	3.7	6.0	10.9	3.1	20.0
	S&P 500 Growth	26.2	7.9	17.7	16.7	14.6	16.6	1.2	30.0
	Foreign Equities								
	MSCI World	19.6	(5.5)	3.4	7.3	7.5	10.6	2.3	23.0
	MSCI EAFE	15.1	(11.0)	(4.6)	1.4	2.6	6.3	3.0	19.7
	MSCI Emerging Markets	18.1	(9.7)	(3.1)	2.2	3.2	3.6	2.7	15.8
Other	**Other Assets**								
	Bloomberg Commodity Index	5.0	(19.7)	(18.4)	(7.7)	(8.7)	(6.4)	0.0	
	Dow Jones Global Real Estate Index	9.2	(22.9)	(17.7)	(2.2)	1.1	7.6	5.0	21.0
	Gold	13.0	17.1	25.7	12.3	8.3	3.2	0.0	

Market Returns by Phase of the Economic Crisis

	Onset of Crisis: Beginning of Year to Market Low on March 23	Rank	Anticipating Economic Recovery: Market Low to May 15th	Rank	Economic Recovery Begins: May 15th to June 30th	Rank	Year-To-Date: as of June 30th (Sorted)	Rank
Technology Sector	-21.6	5	32.6	1	12.6	8	16.4	1
Investment Grade Bonds	1.0	2	4.8	19	1.2	22	6.1	2
Short Term Bonds	2.6	1	0.6	22	0.0	23	3.1	3
Consumer Discretionary Sector	-25.4	8	27.6	4	10.1	13	2.3	4
Health Care Sector	-26.1	9	29.9	2	2.4	21	0.8	5
Foreign Bonds	-5.3	3	3.7	20	2.8	19	0.6	6
Consumer Staples Sector	-29.5	10	22.7	9	9.9	14	-3.1	7
U.S. Large Cap Stocks	-30.2	12	24.6	6	9.0	15	-3.1	8
High Yield Corporate Bonds	-19.8	4	11.4	17	5.3	17	-3.8	9
Materials Sector	-38.7	19	29.3	3	13.1	6	-7.9	10
Industrials Sector	-37.7	16	21.8	10	14.9	3	-9.2	11
Emerging Market Stocks	-32.0	13	12.6	16	11.0	12	-9.7	12
Foreign Stocks	-33.2	14	15.2	12	12.4	9	-11.0	13
Utilities Sector	-30.1	11	15.3	11	2.6	20	-12.0	14
Telecomm Sector	-22.8	6	5.7	18	3.3	18	-12.1	15
U.S. Mid Cap Stocks	-40.6	22	25.8	5	14.1	5	-12.8	16
U.S. Small Cap Stocks	-39.6	20	24.3	7	16.7	2	-13.0	17
Foreign Small Cap Stocks	-38.2	18	23.1	8	12.6	7	-13.1	18
Real Estate Sector	-37.6	15	14.3	14	14.4	4	-13.9	19
Financial Sector	-40.1	21	14.6	13	11.1	11	-18.9	20
Commodities	-23.8	7	0.9	21	6.0	16	-19.7	21
Global Real Estate	-37.8	17	13.7	15	11.6	10	-22.9	22
Energy Sector	-57.0	23	-10.9	23	28.7	1	-52.0	23

Short Term Bonds: BBgBarc 1-3 Yr US Treasury TR USD, **Foreign Bonds:** BBgBarc Gbl Agg Ex USD TR USD, **High Yield Corporate Bonds:** BBgBarc High Yield Corporate TR USD, **Investment Grade Bonds:** BBgBarc US Agg Bond TR USD, **Commodities:** Bloomberg Commodity PR USD, **Energy Sector:** DJ Cmmdty Energy TR USD, **Real Estate:** DJ Global World Real Estate TR USD, **Materials Sector:** DJ US Basic Materials TR USD, **Consumer Staples Sector:** DJ US Consumer Goods TR USD, **Consumer Discretionary Sector:** DJ US Consumer Svcs TR USD, **Financial Sector:** DJ US Financial TR USD, **Health Care Sector:** DJ US Health Care TR USD, **Industrials Sector:** DJ US Industrials TR USD, **Real Estate Sector:** DJ US Real Estate TR USD, **Technology Sector:** DJ US Technology TR USD, **Telecomm Sector:** DJ US Telecom TR USD, **Utilities Sector:** DJ US Utilities TR USD, **Foreign Stocks:** MSCI EAFE NR USD, **Foreign Small Cap Stocks:** MSCI EAFE Small Cap NR USD, **Emerging Market Stocks:** MSCI EM NR USD, **U.S. Small Cap Stocks:** Russell 2000 TR USD, **U.S. Mid Cap Stocks:** S&P MidCap 400 TR, **U.S. Large Cap Stocks:** S&P 500 TR USD; Source: HT, Bloomberg as of 6/30/2020

Market Disconnect?

How can the stock market be down less than 10% from its February peak when clearly the world is more than 10% worse than it was a few months ago?

This is perhaps the most common question we receive from clients about the stock market, and it is a good one. At face value, the impressive rebound in stocks from the depths of the March lows doesn't seem to correspond to the amount of economic damage wrought by the pandemic. Even so, there are good reasons for stocks to be up from their lows, and we do not share the glass-half-empty view that the market rebound defies reality.

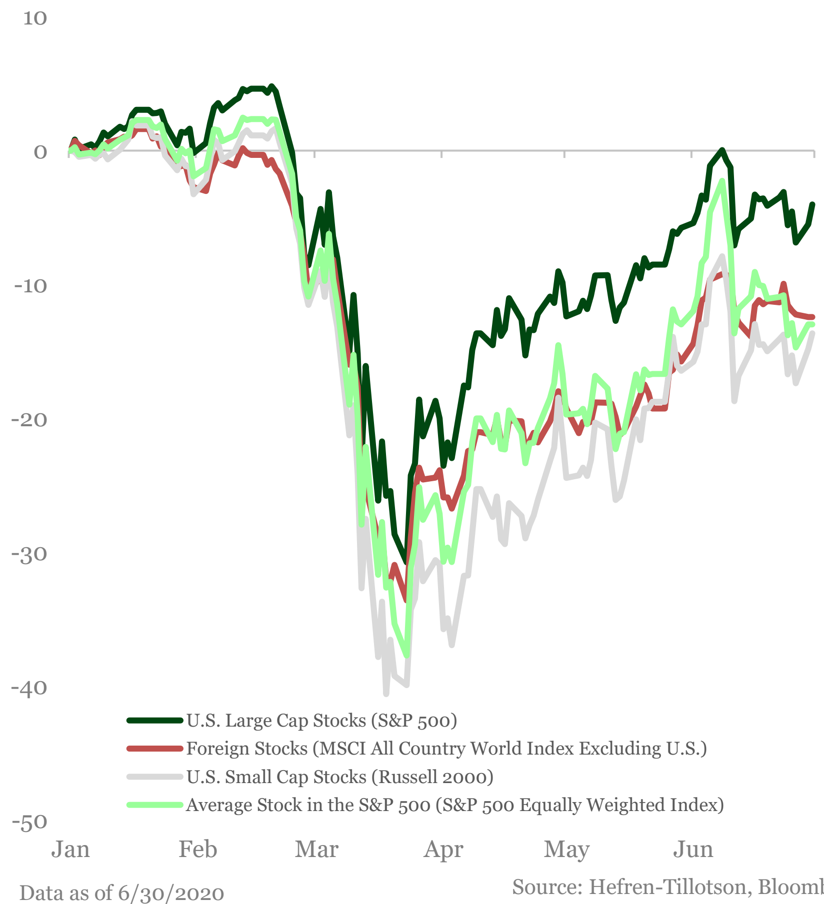
There are two main reasons. The first is the size, speed, and scope of government stimulus. Unprecedented is the best word to describe it: trillions of dollars flowing into the financial markets, banking system, and directly to consumers. The world has never seen anything like it – not only in size, but also in the coordination of countries around the world (see bottom chart).

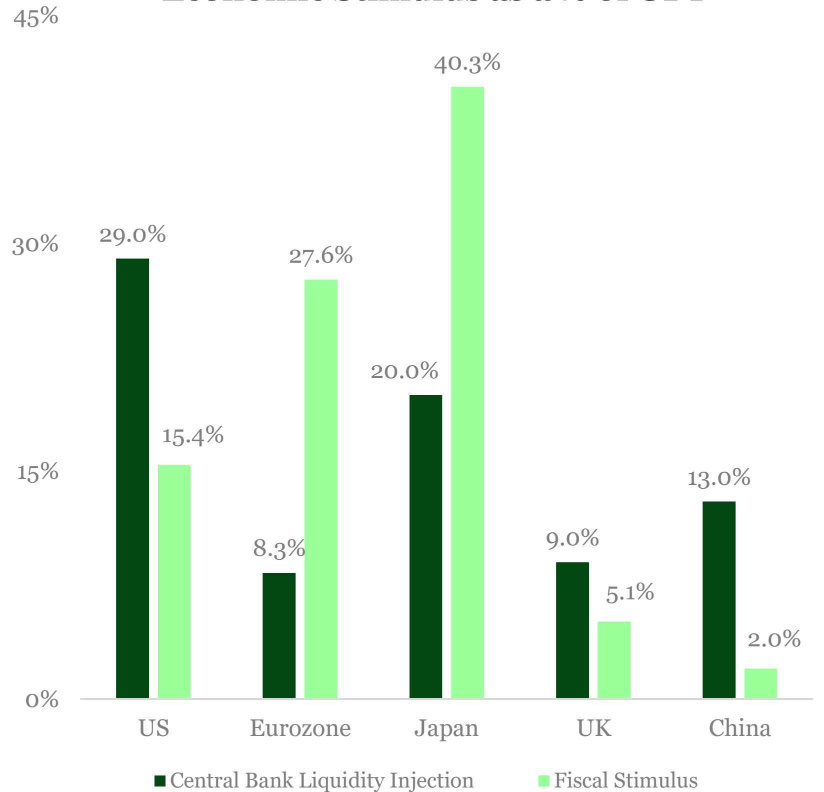
Perhaps this is best illustrated by the data on personal income for Americans, which rose by 11% in April – the largest increase in nearly 40 years – despite a record rise in unemployment. The reason is simple: direct stimulus payments to Americans more than offset the decline in income due to job losses. Just think: Americans as a whole have more cash in their wallets today than if the pandemic never happened. We suspect some of this cash has made its way back to the stock market, and some has boosted retail sales, which rose 17% in May.

All of this raises questions about the sustainability of the stimulus and whether it could have unwelcome side effects like higher inflation, which we'll discuss later. For now, however, the benefits of the stimulus are outweighing the risks.

A second reason the stock market rebound is justified is that many large companies, including those that make up the bulk of major stock indices, have been able to use the crisis to their advantage. While fears of the virus have led to the shuttering of the economy, the world's largest companies have survived and even thrived during the pandemic.

Two sectors that capture this trend the best are internet-related stocks and retailers. Internet stocks, including





companies like Microsoft, Facebook, and Google, benefited as the physical economy shut down and economic activity moved online. With their huge pools of talent and exhaustive financial resources, these companies can gain market share in a virtual economy setting.

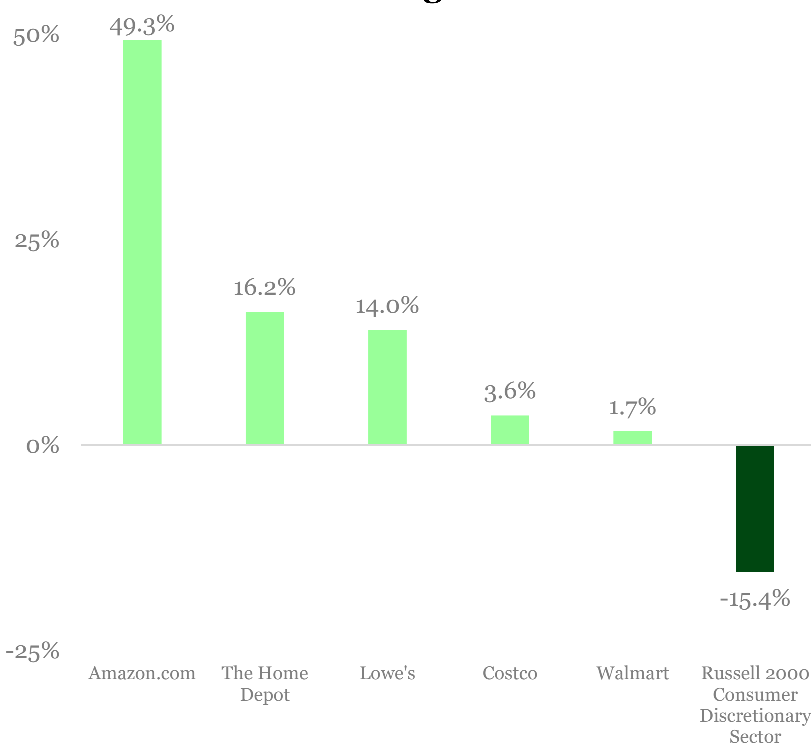
Indeed, with the onset of the pandemic, the "new economy" promised in the late 1990s has finally arrived. Millions of Americans are working, shopping, socializing, and being entertained primarily on-line. If the 2000 tech bust showed the idea of a "new economy" to be an illusion, or at least premature, the present crisis has done the opposite by hastening its arrival.

The five big internet companies are also the largest companies in the S&P 500 and have an outsized influence on the returns of the index (top chart). These stocks have performed well in 2020 and their influence on the index helps to account for the disconnect that some feel exists between Wall Street and Main Street.

Retailing is another sector where large companies have been able to capitalize on the crisis. The five largest retailing stocks are all positive this year (chart). These companies, with their online presence, logistics expertise, and deep pockets, have been able to take market share from smaller retail companies, including locally owned stores that lack the same resources.

Not everyone would cheer this development at a societal level. But stock prices have benefited nonetheless.

More broadly, remember that the virus is not the same thing as the economy, and the economy is not the same thing as the stock market, which is made up of individual companies. Therefore, we cannot equate what is happening with the public health crisis or even on Main Street to what is happening in the market. That said, the disconnect between Wall Street and Main Street is not as pronounced as it may seem. Stocks are down more than one might assume based on the S&P 500, which is comprised primarily of large multinational companies. The average stock in the S&P 500 is still 15% below its February peak, and small companies as measured by the Russell 2000 are 16% below their high. Thus, a lot of economic pain is indeed reflected in the stock prices of many companies, and much of the global equity market is still "on sale" even after the second quarter rally.



Will the Bill Come Due?

How will the U.S. pay for trillions of dollars of stimulus? Will it cause interest rates and inflation to soar? What about the national debt?

This is another set of good questions that are frequently asked by clients. Much of our glass-half-full view rests on the government's ability to provide stimulus to "bridge the gap" to the other side of the pandemic. Higher inflation is the main reason central banks might need to reverse course, which would threaten the economic and market recovery.

Remember that today's situation is not entirely unique. Washington is using much of the same rescue playbook from the 2008 financial crisis, albeit larger in scope. Back then, there were similar worries about rising budget deficits and inflation. Those fears proved to be unfounded, however, as inflation stayed tame over the next decade and stocks went on to enjoy solid returns.

Inflation is not a clear and present danger today. In fact, the opposite is true: the COVID crisis has unleashed *deflationary* forces across the economy. This can be seen in lower commodity prices, with oil prices briefly falling below zero in April, and also in the weak jobs market. Historically, a main cause of higher inflation is when the jobs market heats up, and wages rise. That is not happening today.

Another potential source of inflation would be a shortage of consumer goods due to disruptions to company supply chains. Up until now, however, there is little evidence of this happening outside of isolated cases -- for example, in parts of the nation's food supply.

That said, higher inflation remains a risk as the Fed pumps money into the economy and Washington runs record deficits. When the Fed last embarked on its money printing campaign a decade ago, it was able to keep a lid on inflation by dialing back stimulus as the new money supply entered the economy. We are hopeful this past experience can guide the Fed to repeat success during the present crisis.

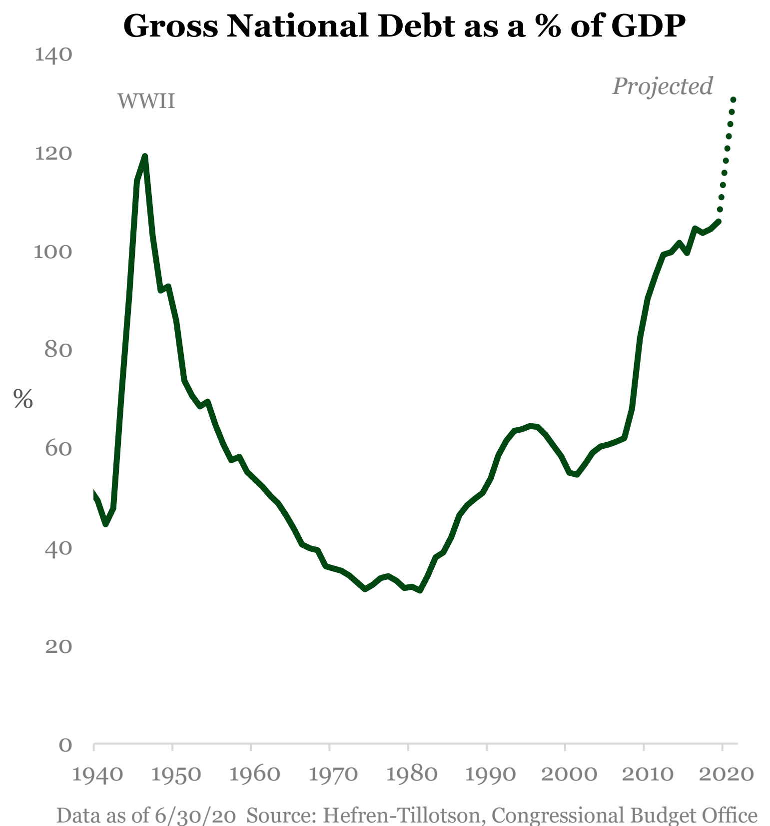
A final way higher inflation could take hold relates to the dollar's position as the world's primary reserve currency – that is, the currency that other countries use to store their savings. Vast amounts of capital flows into dollar-based assets every day simply by default. Economists call this America's "exorbitant privilege" since gives the U.S. carte blanche to finance large deficits at low interest rates.

As long as that reserve currency status remains in place, the U.S. should be able to borrow and spend large sums of money. For the U.S. to lose reserve currency status, other currencies would need to take its place. At this time, no other currency is in a position to do so.

Large fiscal deficits do add to the national debt, which in 2021 is projected by the Congressional Budget Office to reach 132% of GDP, the largest amount ever. (chart below) While the longer-term trend in the nation's debt is problematic, there is little evidence that it is weighing on economic growth today, with the U.S. able to borrow at near zero percent thanks to the dollar's reserve currency status.

Eventually, the nation's rising debt burden, if it continues its present course, will negatively affect the economy. However, that day of reckoning could still be far away, and we do not believe that the national debt will be an obstacle to financial markets over the short- and intermediate term.

The main takeaway for investors is that stimulus spending can be both good and bad, but we expect the "good" to matter for markets before any "bad" might materialize. Meanwhile, the negative effects can still be avoided, especially if economic growth accelerates.



Data as of 6/30/20 Source: Hefren-Tillotson, Congressional Budget Office

International Markets

International equity markets have lagged the U.S. this year, despite generally having lower per capita caseloads of COVID-19. Nevertheless, the U.S. has been the most aggressive country in implementing stimulus and is home to many top performing technology stocks, which has led to better market performance.

Even before the pandemic, international markets had disappointed in recent years. The essential challenge is that the global economy has not experienced synchronized growth for nearly a decade, other than a short period in 2017 before the trade war heated up in early 2018.

Developed markets like Europe and Japan have struggled to grow due to a combination of poor demographics, high debt levels, and political dysfunction, including the recent Brexit saga. These regions must instead rely on exports to the U.S. and China to grow – a big challenge in light of the pandemic.

Still, there is a strong case for continuing to invest overseas. Disappointing market performance has left foreign stocks very inexpensive. Dividend yields are attractive (3.1% in Europe and 4.6% in the U.K) and overseas currencies are generally cheap and have appreciation potential. With these starting conditions, a rebound in global growth could lead to surprisingly strong returns for foreign stocks. Indeed, Germany's DAX stock index has outperformed the S&P 500 by eight percentage points since the March market low.

Emerging markets have also disappointed investors over the last decade. One challenge: while emerging market economies have grown at a rapid pace due to strong demographics and a rapidly growing middle class, not all the benefits of that growth has gone to local companies.

Indeed, emerging market stock performance has lagged behind economic growth in these regions. This is the opposite situation of the U.S., where stocks have greatly outperformed the underlying economy, a testament to the profit-generating prowess of American businesses. (chart)

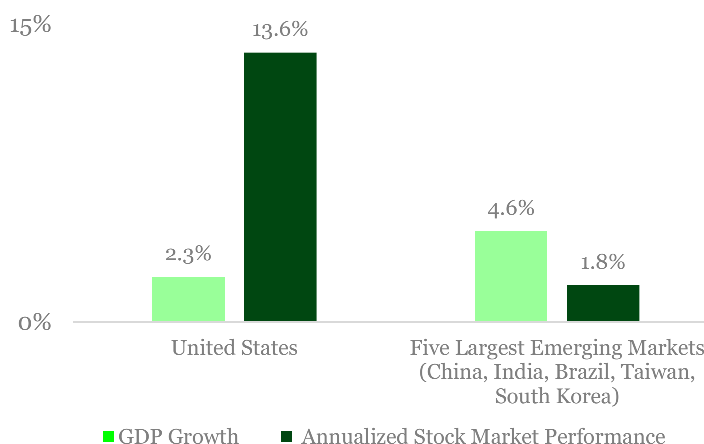
Multinational companies based in the U.S. and Europe have successfully tapped into emerging market growth, especially in the technology, healthcare, and consumer staples sectors. This has boosted profits for multinationals and provided fierce competition to emerging market companies seeking to grow local market share.

In light of this dynamic, we continue to believe that American Funds New World fund (NFFFX) is a compelling way for investors to capitalize on emerging market fundamentals. The fund is broadly owned by Hefren-Tillotson clients.

New World invests both in emerging market companies and in multinationals that do considerable business in emerging markets. The fund's top holdings (below) include a number of U.S. technology companies as well as emerging market industrials, banks, and technology stocks. Thus, we believe the fund can deliver the best of both worlds: direct emerging market exposure when local companies have an advantage, and indirect exposure through multinationals.

Over time, this approach has led to strong results relative to other emerging market funds, with the fund ranking near the top of Morningstar's Diversified Emerging Markets category over the 10 years ended 6/30. We expect the fund to continue to be a good investment in the years to come.

U.S. vs. Emerging Markets During Decade of 2010's



American Funds New World Top Holdings

Name	Country	Sector
Microsoft Corp	United States	Technology
Tencent Holdings Ltd	China	Communication Services
Kotak Mahindra Bank Ltd	India	Financial Services
Reliance Industries Ltd	India	Energy
Taiwan Semi	Taiwan	Technology
AIA Group Ltd	Hong Kong	Financial Services
Mastercard Inc A	United States	Financial Services
Facebook Inc A	United States	Communication Services
Alphabet Inc Class C	United States	Communication Services
MercadoLibre Inc	Brazil	Consumer Cyclical

Source: Hefren-Tillotson, Morningstar. Holdings as of 3/31/2020. American Funds New World Annualized % Returns as of 6/30/2020: 1 YR 4.9; 3 YR 7.3; 5 Yr 6.7; 10 YR 6.8; Prospectus Expense Ratio: 0.71%; Inception Date: 6/17/1999. PAST PERFORMANCE DOES NOT PREDICT FUTURE RESULTS.

Presidential Election

In a typical election year, the presidential race would be front and center for financial markets. But 2020 is no typical year. The election has taken a back seat to the COVID crisis in garnering investor attention. But that could change as November approaches and if we move past the crisis phase of the health emergency.

This year's election pits President Trump versus former Vice President Joe Biden. Fortunately, both candidates are well known to investors (markets do not need any more uncertainty than is already present!) and there is little guesswork about the policy goals of either candidate.

Furthermore, markets have performed well under the Trump administration, and also performed well under the Obama administration. Thus, our base case expectation is that the election is not a "make or break" event for markets, assuming Trump would extend his policies into a second term and a Biden administration would mostly be in continuity with President Obama's time in office. Perhaps the biggest wildcard is how Biden, if elected, would treat President Trump's 2017 corporate tax cuts.

We believe the biggest market impact of the election will be at the industry level in response to regulatory priorities. Below are industries that could be most affected if the White House were to change hands in November.

Fixed Income Markets

Fixed income markets have experienced their own share of unprecedented events in 2020, starting with the collapse of Treasury yields to near zero.

Today, the bond market can be more or less split into two groups of securities: Treasury bonds and almost everything else. For Treasuries, the outlook is poor. The 10-year Treasury yields just 0.65%, well below the expected rate of inflation. Meanwhile, a 10-year Treasury would lose nearly 10% in value if interest rates were to rise by a mere 1%. This presents an exceptionally poor risk and reward tradeoff, and Treasury securities should be de-emphasized in portfolios.

Outside of Treasuries, there are solid opportunities for fixed income investors. This includes the municipal market, especially taxable municipal bonds (2.4% average yield to maturity) and high yield municipal bonds (4.9%), which look especially attractive on an after-tax basis.

Corporate bonds rebounded in the second quarter, thanks in part to purchases by the Federal Reserve. The average price of high yield corporate bonds began the year at $101, fell to a low of $80 on March 23rd, and ended June 30th at $98 to yield 6.9% presently. There remain opportunities for actively managed mutual funds in corporate bonds, as well as in real estate backed bonds and emerging market fixed income. Above all, bond investors should stay diversified.

What if the White House Changes Hands?

Areas that Could Benefit Under a Biden Administration	Areas that Could be Hindered Under a Biden Administration
Emerging Markets - These regions tend to be heavily exposed to global trade, and could benefit from reduced trade tensions.	**Small Caps -** Smaller companies benefited the most from the 2017 corporate tax cuts, and could see that reversed if tax rates go back up.
Infrastructure - Biden has a released a $1.2 trillion infrastructure plan targeting roads, bridges, and rails.	**Banks and Financial Services -** Regulation of the financial services industry was a major focus of the Obama administration and may be pursued by a Biden adminstration.
Hospitals and Managed Care - Expansion of the Affordable Care Act could benefit healthcare providers.	**Pharmaceuticals -** Biden will seek to give the government power to negotiate drug prices, which could result in lower drug company revenues.
Renewable Energy & Electric Vehicles - Biden endorses a "Green New Deal" with a goal of making the U.S. zero net emissions by 2050. He pledges to revive incentives to purchase electric vehicles.	**Traditional Energy -** Biden supports banning new permits for fracking for oil & gas drilling on U.S. federal land, as well as offshore, potentially increasing costs for energy producers.
Foreign Oil & Gas - Restrained new supply of domestic oil and gas could raise global energy prices.	**Chemical manufacturers -** The industry presently benefits from the low cost of natural gas and other commodities produced in fracking and could see higher costs from new regulation.
Municipal Bonds - Expect more Federal assistance for cash-strapped communities. Municipal bonds could also benefit if Biden reverses the 2017 personal income tax cuts.	**For Profit Education -** Biden has pledged to make public community colleges tuition-free, and public four-year colleges tuition-free for families earning up to $125,000 annually.

Source: Hefren-Tillotson

Investment Strategy Summary

Outlook and Strategy Overview

- Patience is the best investment strategy today. The near-term market outlook is unusually uncertain, with several variables at play: the spread of the virus, whether additional stimulus will be implemented, the success of nations in re-opening their economies, and, in the U.S., the upcoming presidential election. In this environment, investors should avoid making bold bets about the near-term direction of the markets. Instead, remain diversified, own quality investments, and focus on the long-term, knowing that the COVID crisis is ultimately a temporary situation.
- Despite the uncertainty, we have a glass-half-full view on the markets. Nations, companies, and individuals will continue to adapt and find ways to move the economy forward in the face of the pandemic. We expect continued progress on vaccines and therapeutics, with the commercialization of a vaccine possible within the next 12 months. We expect governments around the globe to enact more stimulus if needed to ensure that the "mandated" recession of March/April does not become a "structural" recession similar to the 2008 crisis when the banking system nearly failed.
- The glass-half-empty view for markets is that a second wave of the virus will lead to additional widespread shutdowns of the economy, and that no additional stimulus is forthcoming. While this outcome is possible, we do not think it is the most likely scenario. We do not expect that Washington will balk at another round of stimulus with a national election just months away, especially if the introduction of a vaccine is in sight. New restrictions on economic activity are likely as the economy re-opens and virus cases increase. However, we do not believe there is the political will to implement repeated broad-based shutdowns similar to this past spring. Furthermore, much of the workforce has been able to successfully transition to working remotely, something not possible twenty or thirty years ago.
- The 2020 presidential election will soon come into view for investors. We do not recommend making portfolio shifts in anticipation of a particular winner. Depending on the outcome, however, certain adjustments may be warranted.

Fixed Dollar Assets

- Short-term interest rates have fallen this year as a result of Fed rate cuts, making short-term fixed income less compelling than it was 12 months ago.

Fixed Income Strategy

- Stay diversified and de-emphasize Treasury securities, which offer poor return potential and elevated downside if interest rates rise.
- Outside of Treasuries, most mainstream parts of the bond market offer solid return potential, including municipal bonds, corporates, high yield, and some markets overseas.
- Areas of the market that the Fed has not purchased remain attractively valued, in particular high yield muni bonds and some real estate backed debt.

Equity Strategy

- Equity portfolio should focus on the "twin pillars" of U.S. and emerging market stocks. U.S. companies are arguably the best and most resilient in the world. Emerging markets have the best long-term growth profile among regions
- Markets have separated between "haves" – companies that benefit from COVID uncertainty, namely technology and healthcare stocks – and the "have nots" including financials and industrials that would benefit from a successful reopening. We recommend owning both amid today's uncertainty.

Other Assets

- Pockets of the real estate market appear to be attractively valued after the sector was among the hardest hit by the shutdown of the economy. The path forward is very uncertain, however, and this corner of the market is best owned through an actively managed mutual fund.

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