GREAT SCOTT FINANCIAL SERVICES

2021 Economic & Market Outlook

2021 Outlook Summary

Should Continue To Improve
Temporary Unemployment
Corporate Earnings
GDP Growth
Volatility
Equity Markets

No Significant Movement Likely
Interest Rates
US Dollar
Bond Markets

On Our Watch List
International Markets
Permanent Unemployment Rates
Inflation
Tax Policy

To Our Valued Clients,

The resilient economy, combined with expected tailwinds from additional stimulus and further public health progress, indicate we are in a relatively good place to start the year.

There is the possibility for further volatility in the short term, but continued recovery remains the most likely outcome.

Given the possible short-term uncertainty, a well-diversified portfolio of fundamentally solid investments that matches investor goals and timelines remains the best path forward.

Our investment strategy takes into account current levels and forecasts of bond yields, inflation, stock prices, GDP and corporate earnings. The following shines a spotlight on a few of these factors and offers insight into our outlook for 2021.

Thank you for your ongoing confidence and trust. Please know that our entire team will remain dedicated to helping you successfully navigate this challenging investment environment.

Warmest Regards,
Scott

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2021 Economic Outlook

The ultimate recovery depends on the health of the nation.

Economic conditions are improving, and we expect the improvement to continue. Wild swings in the economy should soon start to settle. Investors should be prepared for traditional low single-digit growth rates during the next few quarters.

These forecasts are based on expectations for a continued recovery in the consumer sector as the unemployment rate slowly heads downward; a stable-to-declining dollar; oil prices that hover near $50 per barrel; and low interest rates as the Fed keeps its focus on job growth instead of inflation.

U.S. Dollar

Will likely remain at current low levels, with possible weakening given its countercyclical nature.

Labor Markets

Employment growth may be restrained after an initial period of recovery. Stimulus packages focus on returning employment to pre-COVID levels, but there is still more improvement needed. Current reports show a decline in temporary unemployment, but a rise in permanent job losses, as bankruptcies are near 2008-2009 levels.

Interest Rates

Rates are expected to remain low into 2022. At the short end of the yield curve, the Federal Reserve is expected to keep interest rates at zero until at least 2022, as unemployment fails to drop back to pre-COVID levels.

Corporate Earnings

Corporate earnings are showing signs of recovery, which should continue.

GDP: Gross Domestic Product

Slow growth is expected until mid 2021.

In Focus: Labor Market Recovery

The success and speed of the vaccinations will directly impact the breadth of the recovery as communal habits will be able to resume allowing the hardest hit sectors to rebound.

The pandemic has dramatically changed the employment landscape by accelerating trends and changing consumer behaviors. Some sectors may not recover completely, as many temporary changes have become instilled as common and permanent in a post-pandemic world.

A reduction of the unemployment rate and improved labor participation rates are expected. Continued supportive monetary and fiscal stimulus globally will play an important role in the recovery of the global economy.

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2021 Market Outlook

2021 Asset allocation will continue to favor stocks over bonds.

Equities Expected to Advance in 2021

Profit growth is expected to be paced by the secular growth sectors: Information Technology, Healthcare, Communication Services and Consumer.

Growth is expected to continue to outperform value, as long as interest rates stay low, and growth groups include technology & healthcare, while value groups include energy and materials, which face major secular challenges.

Equity valuations will likely start to improve further once corporate earnings begin to rebound in 2021.

2020

Investors flocked to companies making our world more digital and sustainable while cutting costs in lagging legacy areas.

Large Cap
Technology
Domestic

2021

We expect to see a rise in popularity for areas hardest hit by the pandemic, as investors seek lower valuations and growth recovery revenues.

Small/Mid Cap
Cyclicals
Global

Fixed Income Municipals Remain In Favor

Relative to last year, interest rates are lower and are likely to remain lower for even longer. As the economy improves, we expect longer term rates to gradually increase. However, we also expect they will remain well below the long-term averages.

Municipal bonds were affected severely at the outbreak of the pandemic in March with record outflows. Decisive fiscal and monetary action helped to restore calm quickly. As with equity markets, certain Municipal bond sectors have been impacted more adversely, notably Airports, Transport, and Senior Living Facilities.

It may take somewhat longer for these to return to pre-pandemic levels but in general, we believe that municipal bonds remain an attractive high-quality investment.

International A weak dollar favors global markets.

As the world reopens, international and especially emerging markets are expected to benefit more from the release of pent-up demand and a decline in geopolitical (trade) risk under a Biden administration.

Traditionally international markets are more cyclical and are less concentrated in the technology sector relatively to the U.S markets.

Consequently, exposure to these foreign markets will not only offer potential on a relative value basis but will also help reduce the portfolio reliance on domestic Technology and insert cyclicality.

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On Our Watchlist

Many factors affect investment decisions. As 2021 gets underway, we highlight a few topics that we remain vigilant in monitoring, as any significant changes may further influence investment strategy.

Markets
Rotation

We expect smaller capitalization, value, cyclicals and foreign investments to gain popularity in lock step with the recovery. Investors will undoubtedly chase returns in companies with weak financials and lofty valuations.

We continue to be cautious when reviewing investments and company financials, patient before rotating fully into cyclicals; and continue to manage our forward looking expectations, as even a minor moderation in business activity and consumer spending will impact a significant portion of companies.

We remain committed to our disciplined investment strategy, focusing on sustainable, high quality and financially sound investments.

Economics
Inflation

One of the most notable damages from the pandemic is rising government debt.

High fiscal deficits and increasing debt levels present long-term risks and traditionally have increased inflationary pressures.

Currently, inflation risk in 2021 is minimal, but not disregardable.

We actively monitor inflation risk, which could elevate if the economy surges more quickly, and with greater force, than is presently expected; while global productive capacity remains constrained.

Biden Administration
Tax Policy

The transition from a Trump presidency to a Biden presidency could have significant implications on tax policy, with repect to tax and budget reform.

There is likely to be a wide gap between what Biden campaigned on, and what passable legislation would entail. We intend to wait for the incoming administration to officially outline their passable tax agenda.

It's important to note that the items above are only campaign proposals. Any changes to the tax code will require full legislative approval.

Please consult with your legal and/or tax professional before implementing any tax or legal strategies.

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Disclosures

Certain sections of this commentary contain forward-looking statements based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Barclays Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Bloomberg Barclays government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Bloomberg Barclays U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

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