GRANT STREET ASSET MANAGEMENT, INC.
QUARTERLY LETTER
4th QUARTER 2020
DECEMBER 31, 2020

2020 will likely be remembered as one of the most eventful and infamous years in our history. A year that began with seemingly unprecedented events such as the U.S. Presidential impeachment trial and devastating Australian wildfires quickly intensified when the COVID-19 global pandemic changed the world. What followed was a global economic recession, record high unemployment, a stock market crash and rapid recovery, 0% interest rates around much of the world, the two largest fiscal stimulus programs in our country's history, nation-wide race protests, and a contentious U.S. election. All the while, our way of living, working and caring for our families was turned upside down. The good news is that the worst is likely behind us, and we believe the future appears brighter.

The events of the fourth quarter lived up to 2020's notorious reputation. The U.S. Presidential election delivered the drama we have all grown accustomed to. Even as recently as we draft this letter, the electoral votes have only just been verified. Sadly, our country continues to be divided politically, but our democracy will carry on. The GOP could not maintain its control, and Democrat Joe Biden will become the next President. Following the Georgia Senate run-off this week, both houses of Congress will also have a Democratic majority as we begin 2021. Secondly, within ten months of the virus spreading around the globe, the first vaccines were distributed in the fourth quarter. The global coordination and effort to develop a vaccine in record time was nothing short of incredible. There is still work to do to accelerate the rollout of the vaccines, but there is renewed optimism and hope compared to just a few months ago. Finally, Congress approved a second stimulus bill of $900 billion in the fourth quarter to continue to buoy consumers, businesses and the economy through the recovery.

The investment environment in 2020 was equally extraordinary. As shown in the tables below, global stock and bond markets had a strong fourth quarter and posted surprisingly solid returns for the full year. What is not evident from the annual figures is the dramatic peaks and valleys we witnessed across asset classes. Take small company stocks for example, as measured by the Russell 2000. From the market peak on February 19 to the bottom on March 23, small cap stocks lost 40.6% of their value only to recover 99.0% through year-end. The fixed income environment was also rewarding given the dramatic decline of interest rates (causing prices to rise) and a Federal Reserve committed to upholding market liquidity in these uncertain times. Despite a tumultuous year, investors disciplined enough to remain invested were rewarded with another year of solid returns.

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Equity Index	1Q 2020	2Q 2020	3Q 2020	4Q 2020	2020
S&P 500 (Large Companies)	-19.6%	20.5%	8.9%	12.1%	18.4%
S&P 400 (Mid-sized Companies)	-29.7%	24.1%	4.8%	24.4%	13.7%
Russell 2000 (Small-sized Companies)	-30.6%	25.4%	4.9%	31.4%	20.0%
MSCI EAFE (Europe, Australia & Far East)	-22.7%	14.9%	4.8%	16.0%	7.8%
MSCI Emerging Markets	-23.6%	18.1%	9.6%	19.7%	18.3%
MSCI ACWI (All Country World Index)	-21.4%	19.2%	8.1%	14.7%	16.3%

Fixed Income Index	1Q 2020	2Q 2020	3Q 2020	4Q 2020	2020
Bloomberg Barclays U.S. Aggregate Bond	3.2%	2.9%	0.6%	0.7%	7.5%
Bloomberg Barclays 1-3 yr. U.S. Treasury	2.8%	0.2%	0.1%	0.0%	3.2%
U.S. 3-month T-Bills	0.6%	0.0%	0.0%	0.0%	0.7%
Bloomberg Barclays U.S. Corp. High Yield	-12.7%	10.2%	4.6%	6.5%	7.1%
Bloomberg Barclays Municipal Bond	-0.6%	2.7%	1.2%	1.8%	5.2%
Bloomberg Barclays Municipal 5-year	-1.0%	3.3%	1.3%	0.8%	4.3%

Regarding the consumer, we have been regularly tracking employment data and consumer spending throughout 2020 to understand the broader economic impact of the virus. After reaching a peak of 6.8 million initial jobless claims back in March, employment improved month over month to reach a low point of just below 900,000 weekly claims in the fourth quarter. This is a dramatic improvement and likely a result of March's CARES Act stimulus, but the road is long as we strive to reach the pre-pandemic rate of 200,000 weekly claims. Unfortunately, unemployment claims unexpectedly rose in mid-December. Consumer confidence also dipped in December. Taking a closer look at consumer spending, we witnessed a dramatic recovery of 41% growth in spending in the third quarter following a drop of 33.2% in the second quarter. For the year, spending is expected to be slightly positive (+0.8%), although well below the long-term average of 2-3% annual growth since 2010. A slowdown in spending and a jump in jobless claims signaled the need for additional support for Americans still struggling through the recession. Although a second fiscal stimulus package was initially proposed in May, it was effectively shelved until the economic data supported its necessity and the November election was past.

As anticipated, Congress approved the second stimulus in December in the amount of $900 billion. Congress combined this relief package with a $1.4 trillion government funding deal in the interest of time and to avoid a government shutdown. A summary of the largest allocations are as follows:

- $285+ billion in direct aid, including direct stimulus checks to Americans within a certain income threshold and additional unemployment benefits;
- $325+ billion in support for small businesses, the bulk of which is additional funding for the Paycheck Protection Program;
- $82 billion for schools;
- $69 billion for public-health measures, including vaccinations and testing;
- $45 billion for transportation, including airlines, mass transit, state highways and airports; and

- $25 billion in rental assistance, providing aid to qualified families and extending the CDC eviction moratorium through January 31, 2021.

With Democrats now controlling both houses of Congress, we anticipate additional stimulus in early 2021 is likely. As has been the case historically, more stimulus should be supportive of equity markets in the near term.

With regard to corporations' health, analysts are forecasting a 12.2% decrease in earnings relative to the fourth quarter of 2019 and -13.7% for 2020 overall. That said, analysts are currently forecasting 2021 earnings estimates to grow by +22%, reflecting a sharp rebound from last year. From a valuation perspective, we are taking a closer look at the large cap stocks inside the S&P 500, and it is striking how concentrated the index has become. For example, the top 10 companies represent almost 29% of the overall index (based on market cap), a level not seen since the late 1990s. While these companies have performed exceptionally well (both operationally and their stocks), their valuations are well above long-term averages. Because they represent the largest weights and the index is size-weighted, we would argue there is some distortion in the overall index valuation levels. We believe that despite current index valuation levels, there are attractive opportunities within the other 490 stocks that have underperformed over the past few years and are trading at levels much closer to long-term averages. GDP growth for 2020 is expected to be -3.5% year over year, but similarly to the corporate earnings rebound analysts expect next year, there are also strong expectations for GDP, ranging from 4-7% growth in 2021.

With respect to positioning of portfolios, we continued to add to equities after the November election, and portfolios benefited from strong fourth quarter performance. Going into 2021, some of what we grappled with in 2020 will continue: low global interest rates, slowly retreating unemployment, global lockdowns while widespread vaccinations are rolled out and continued fiscal and monetary support from governments across the world. However, additional government support and the optimism fueled by the vaccine may prompt investors to look beyond these near-term challenges to better times ahead. As a result, we remain constructive on equities and are particularly focused on adding to international equities. Not only are valuations relative to U.S. stocks at 20-year lows, but we also expect the U.S. dollar to continue to weaken under a Democratic U.S. government, and dollar weakness provides a tailwind for U.S. investors' international equity returns. We are considering adding to equities that are more attractively valued as the economy begins to return to normalcy in late 2021 and 2022 and businesses that have been challenged are able to recover to their pre-pandemic levels. Within fixed income, we are trimming some core traditional bonds yielding 1-2% to add to modestly higher yielding opportunities that maintain a quality tilt and particularly a low correlation to equities. Afterall, the defensive side of the portfolio must still act defensively when stocks fall.

We look forward to the positive developments of 2021, not just for the economy and markets but also for our clients and your families. We continue to wish you health and wellness as we endure the impacts of COVID-19, and we are ever-grateful for your business and trust.