Market Overview
The Return to Normal.

2020 was certainly unique. While the COVID pandemic impacted nearly every aspect of our society and normal became anything but, financial markets performed relatively well. Massive monetary and fiscal stimulus buoyed financial markets and masked the full impact of the COVID pandemic with hopes of sustaining the broad economy. After a rapid and significant downturn across nearly every asset class in March, the backstopping efforts deployed by the Federal Reserve through purchasing programs and lending facilities provided the needed catalyst for asset reflation over the remainder of the year. Although challenges remain, there is reason for cautious optimism.

Investment Themes

- **Quality with a dash of cyclicality should be a focus for US equity investors.**
- **Fixed income investors should move up in quality, and look to core bonds for portfolio ballast.**
- **Long-term growth prospects and cheap absolute and relative valuations support international equities.**

Dr. David Kelly, Chief Global Strategist
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Monetary and fiscal stimulus are likely to remain accommodative, at least through the front half of the year and potentially into 2022. Vaccinations should allow the US economy to further re-open and life to move toward a state of normalcy. In turn, consumers will once again frequent local merchants, enjoy entertainment facilities, travel freely, and book vacations, providing oxygen to industries that have been severely hindered. These factors, in combination with a weakening dollar, benign inflation and historically low interest rates set the stage for a global recovery.

In this environment, our predisposition is to modestly overweight equities (stocks) and underweight fixed income (bonds) as the recovery unfolds. Within equities, we see the potential for a modest transition towards value and away from growth. Energy, financials, industrials, and materials should benefit significantly as the economy re-normalizes while long-term secular growth areas of the market likely continue to illustrate their position of strength.

Fixed income is difficult, with benchmark yields on Treasury securities at historic lows across the entire maturity spectrum. At current, US Treasury bonds present little defense for investors and have the potential for significant price volatility should prevailing interest rates begin to rise.

Nobel Prize laureate Harry Markowitz once said; "Diversification is the only free lunch." 2020 provided a strong reminder why portfolios need to stay diversified and properly risk-allocated. Risk Allocation or Asset Allocation goes far beyond simple diversification (don't put all your eggs in one basket), employing mathematical models built on the Nobel Prize winning research of Markowitz and his colleagues. In technical terms, this is referred to as mean-variance optimization.

We believe strongly in this framework and 2020 served to reinforce that belief. Remember the old maxim, "bulls make money, bears make money, but pigs get slaughtered." In good times and in bad, being vigilant is always the best policy.

Equity

Domestic equities rallied strongly into year-end, lifting valuations despite the potential for near-term softening in macroeconomic data from re-instituted stay-at-home orders. The good news; multiple vaccines are on the way, however distribution may take some time and apply pressure on broad economic activity until late spring. Once a significant number of people are vaccinated, pent-up demand should take flight and drive robust economic growth in the second half of 2021 and into 2022. Despite the onslaught of negatives brought on by COVID, 2020 was generally a good year for equities. The stimulus delivered to financial markets through legislative action and monetary policy proved an effective backstop, first providing needed stability and ultimately enabling the risk-on environment that drove returns. While we view some of this strength as the pulling forward of future returns, we remain positive towards equities globally as vaccination levels have the potential to exceed 50% sometime in Q2 and the world renormalizes.

The average broad domestic equity index advanced nearly 20% in 2020, providing disciplined market participants with strong total returns, an outcome that seemed inconceivable at the end of the first quarter. As is often the case, discipline won the day. In November, market participation began to widen beyond large-cap stocks with small and mid-caps recovering significantly, to post much of their total return. From a style perspective, growth handily outperformed value across all capitalization ranges during 2020. During the fourth quarter, value stocks rallied, significantly besting growth stocks and potentially signaling the early stages of reversion. The best performing sectors in 2020 included technology, consumer discretionary, and communication services while the lagging sectors were energy, financials, and utilities. Technology benefitted significantly from the work-from-home trend (up over 43% in 2020) brought on by COVID while energy suffered from reduction in commuting and travel (down 32% in 2020.) Technology has the potential to be volatile in 2021 as winners and losers are revealed from the technology supported changes brought on by COVID, and companies work to support their long-term growth prospects. Energy has several potential catalysts for a rebound as demand recovers, supply is right-sized and coordination among OPEC nations plays out.

Within international equities, emerging markets (+16.9% in 2020) outdistanced developed markets (+7.8% in 2020.) Emerging market equities benefitted from attractive relative valuations and a quicker reflation of asset prices coming out of March's extraordinary downturn. We believe that valuations continue to favor emerging markets, especially in the case of a broad global recovery. The US dollar began to weaken during the second half of 2020, a trend that has the potential to continue into 2021, providing a favorable backdrop to international and emerging market equities in the near and medium term.

As we look ahead to 2021, we believe a broad global recovery benefits equities. A significant amount of global liquidity will likely continue to find its way to financial markets, providing fertile ground for multiple asset classes. As earnings recover across more sectors and industries, these valuations will be judged by market participants as capital rotation differentiates winners from losers. Although this may cause dislocation in various asset classes throughout the year, this rotation is necessary and healthy to drive future returns by broadening the number of market contributors. Stock selection and discipline will be paramount going forward as asset classes and individual issues differentiate. Given the

Exhibit 1

Exchange Traded Fund Equity Indexes	Performance through December 31, 2020						
Index ETF	Ticker	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Vanguard Total Stock Market	VTI	21.03%	21.03%	14.45%	15.44%	13.77%	10.08%
iShares MSCI EAFE	EFA	7.59%	7.59%	4.21%	7.49%	5.37%	4.33%
Vanguard FTSE Emerging Markets	VWO	15.19%	15.19%	5.84%	11.83%	3.09%	6.03%

continuance of accommodative fiscal and monetary policy, a weakening US dollar and historically low interest rates, our predisposition is to slightly overweight equities versus fixed income. Opportunity also exists in emerging market equities (relative valuation and a weaker US dollar), value stocks (improving macroeconomy and style reversion) and specifically in sectors tied to a cyclical recovery (energy, financials, industrials, and materials).

Fixed Income

2020 was a good year for fixed income performance, however in many cases much of the return came during the front-half of the year as a consequence of significant policy action by the Federal Reserve. These actions were necessary and effectively quelled the liquidity crisis in fixed income markets. The aggregate bond category ended 2020 higher by approximately 7.5%, benefitting from a significant flight to safety fueled by the outbreak of COVID, unprecedented central bank monetary accommodation, and the continuance of low interest rates.

Within domestic markets, long-dated treasuries took the prize returning approximately 17.5%. Corporate investment grade returned 9.9%, and corporate high yield increased 7.1%, both proving their mettle after an extraordinarily difficult front-half. Credit spreads within corporate investment grade and corporate high yield have narrowed dramatically and are now near pre-COVID levels. This compression is largely a result of the Federal Reserve's bond buying program which provided protection and narrowed differential yields across the complex. Municipal bonds also benefitted from the Federal Reserve actions, producing respectable mid-single digit percentage gains for the year. In late 2020, markets saw a healthy amount of new municipal debt issuance which was well received and provided further evidence of the recovery. International credit markets saw both developed and emerging market debt post mid -single digit gains, benefitting from a weakening US dollar during the back-half of 2020.

As we consider 2021, we do so with a sense of reserve within the fixed income complex. Given the historically low interest rate environment, we believe most US Treasury debt should be avoided as it has the potential to demonstrate significant risk, with little meaningful benefit should rates move higher. The lone exception to this is treasury inflation protected securities (TIPS). TIPS primarily defend against inflation risk and the erosion of purchasing power. In the forward inflation risk may elevate, as the considerable fiscal and monetary stimulus combining with economic renormalization to create an attractive environment for TIPS and floating rate securities. Our marginal predisposition within fixed income is toward economic risk factors and away from interest rate risk, favoring the high yield, floating rate, TIPS and emerging market areas within debt markets.

Exhibit 2

Exchange Traded Fund Fixed Income Indexes	Performance through December 31, 2020						
Index	Ticker	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
iShares Core US Aggregate Bond	AGG	7.48%	7.48%	5.28%	4.35%	3.74%	4.33%
SPDR Barclays High Yield Bond	JNK	4.95%	4.95%	5.26%	7.28%	5.36%	

Exhibit 3

Exchange Traded Fund Allocation Indexes	Performance through December 31, 2020					
Index ETF	Ticker	YTD	1 Year	3 Years	5 Years	10 Years
iShares Core Aggressive Allocation	AOA	12.81%	12.81%	8.42%	10.51%	9.11%
iShares Core Growth Allocation	AOR	11.41%	11.41%	7.65%	9.04%	7.78%
iShares Core Moderate Allocation	AOM	10.02%	10.02%	6.92%	7.60%	6.18%
iShares Core Conservative Allocation	AOK	9.33%	9.33%	6.47%	6.82%	5.42%

KbC Equity and Allocation Strategy Model Portfolios

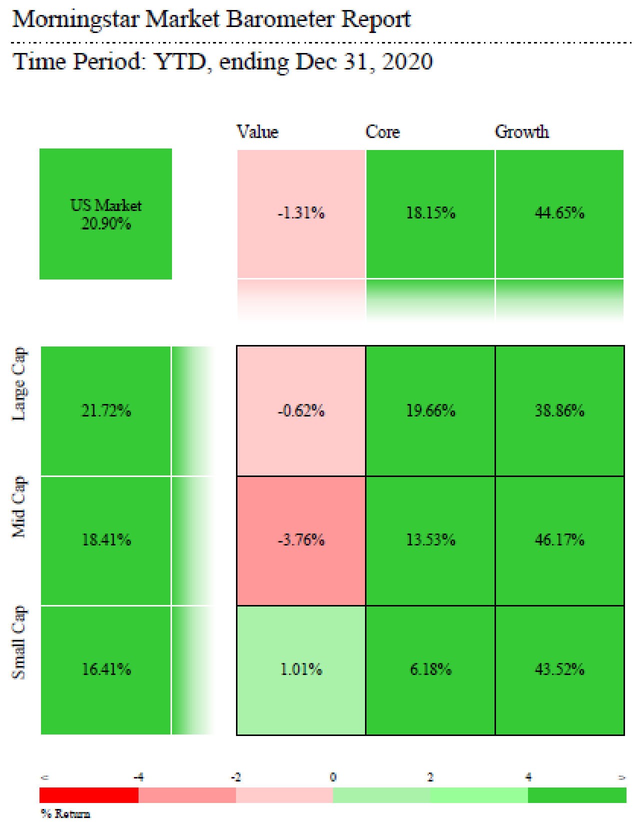

Exhibit 4

KbC equity and allocation strategies performed admirably in 2020, recording significant aggregate performance during an exceptionally challenging year. After a tumultuous March that drove virtually all asset classes into negative territory, our strategies found footing and reclaimed lost ground as the broader market recovered and portfolio discipline proved beneficial. KbC Leaders and Mid Cap strategies were bolstered by slight to modest growth tilts, both posting exceptional total returns last year. These strategies were aided by the "work from home" trend fueled by COVID and continuing throughout 2020. All KbC portfolios employ a diversified approach, blending both growth and value positions. For example, KbC Market strategies posted solid absolute performance, benefitting from exposure to growth stocks as well as value positions that performed well on a relative basis. Alpha Tax & Alpha Qualified strategies were aided by their equal-weight approach late in the year versus cap-weighted counterparts as value stocks rallied. KbC Dividend strategies posted commendable relative returns due largely to its commitment to strong balance sheets and devoted dividend growers. Dividend strategies seem poised to benefit from a broad economic recovery as they work to reclaim a portion of the differential performance posted in 2020. Lastly, the Strategic Asset Allocation Strategy series posted exceptional returns across the risk spectrum in 2020. Investors gained from staying fully invested and alpha was generated through tactical reallocation to risk assets in mid-to-late March and again in early May.

1. https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/market-updates/economic-update/

Exhibit 1, 2, 3: Data source Morningstar Office.

Exhibit 4: Morningstar Market Barometer provides a visualization of the performance of Morningstar Indexes. ©2020 Morningstar .