

Litman Gregory

ASSET MANAGEMENT

Market Update Webinar

with Chief Investment Officer Jeremy DeGroot

Today's Speakers



Gretchen Hollstein, CFP®
Senior Advisor, Principal

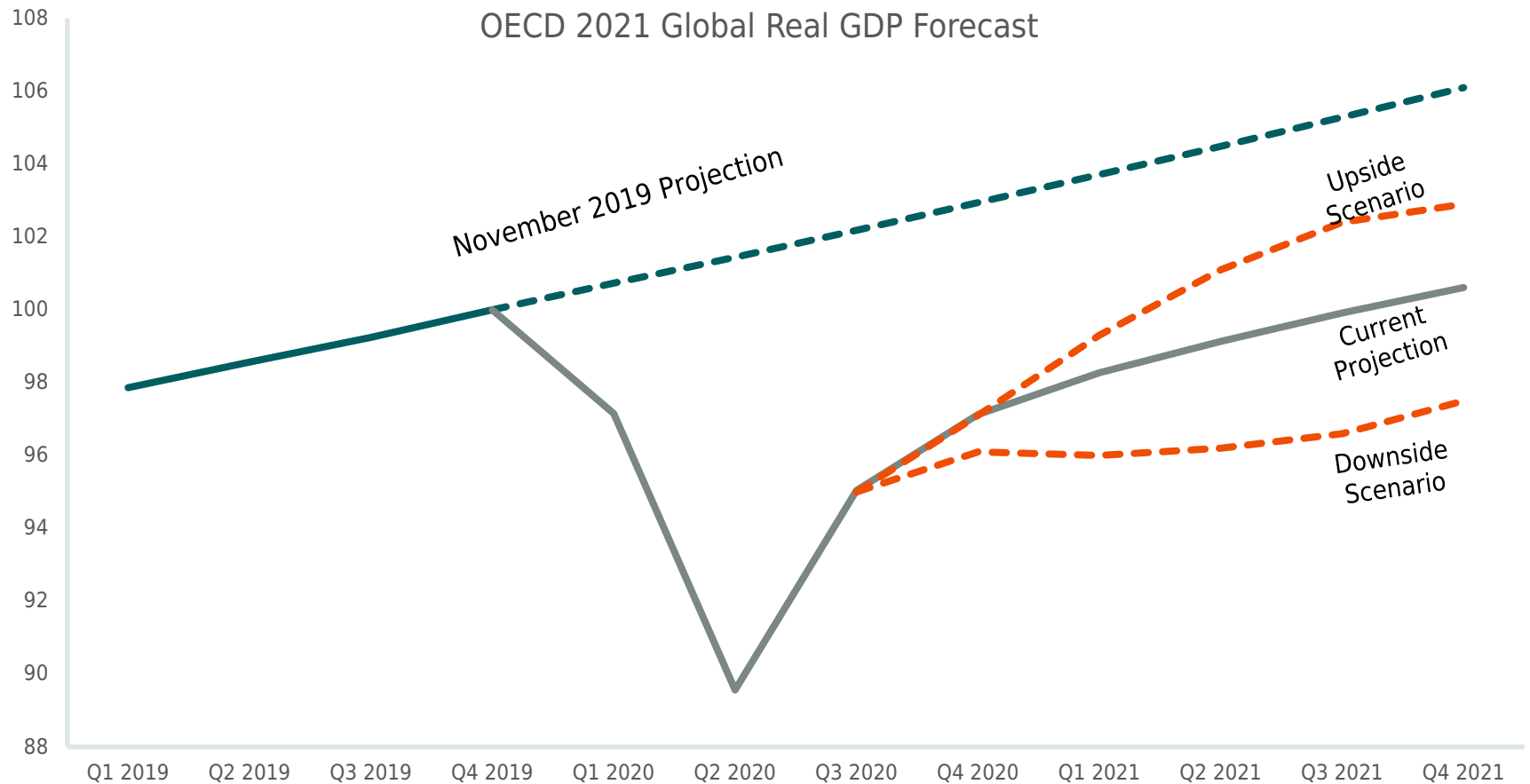


Jeremy DeGroot, CFA®
Chief Investment Officer, Principal

Topics We'll Address Today

- Economy: Recession & Recovery
- COVID-19 Pandemic: Impact on Economic Projections
- Policy Drivers: Monetary & Fiscal
- Election: Expectations & Potential Impact
- Financial Markets: Wall Street vs. Main Street, Projections From Here
- Portfolio Positioning: Balance & Opportunities

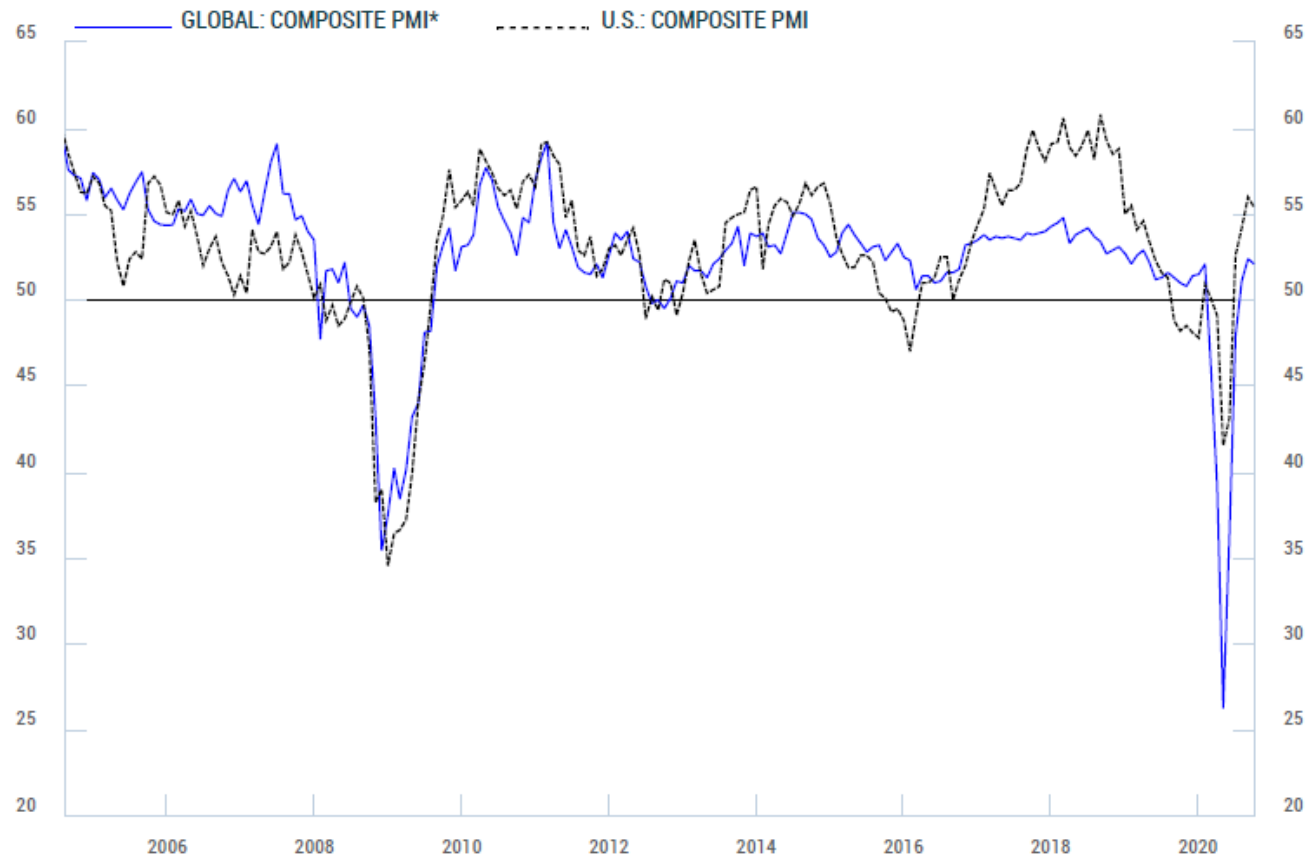
Forecasted Global Real GDP Growth Has Improved Recently



Source: OECD (2020), "OECD Economic Outlook, Interim Report September 2020", OECD Economic Outlook: Statistics and Projections (database). Data as of 9/16/2020.

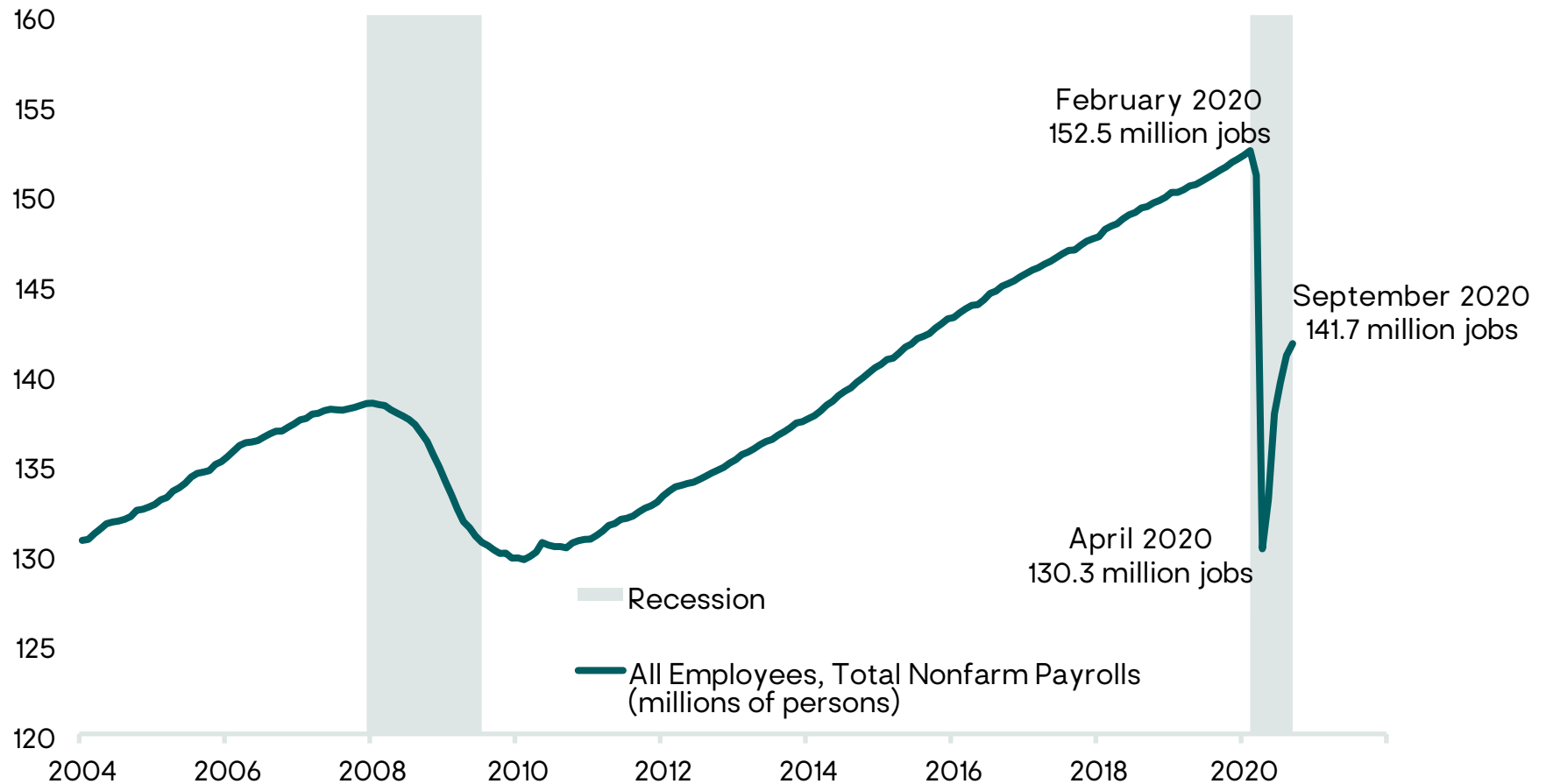
An Economic Recovery is Underway in U.S. and Globally

Composite PMI: Global And U.S.



Source: BCA Research; JP Morgan & MARKIT.

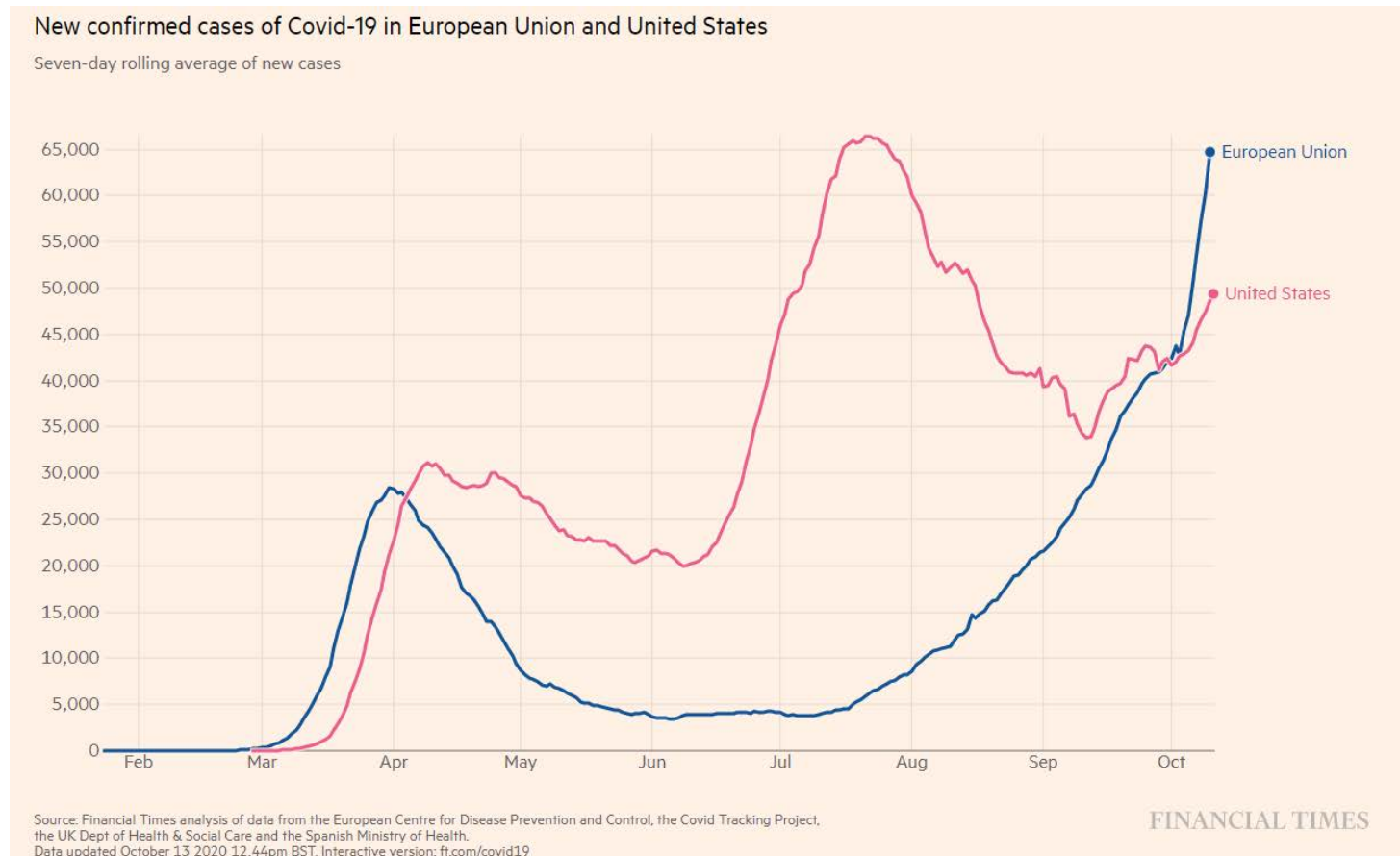
About Half of the Jobs Lost in March & April Have Been Recovered



Source: U.S. Bureau of Labor Statistics. Data as of 8/31/2020.

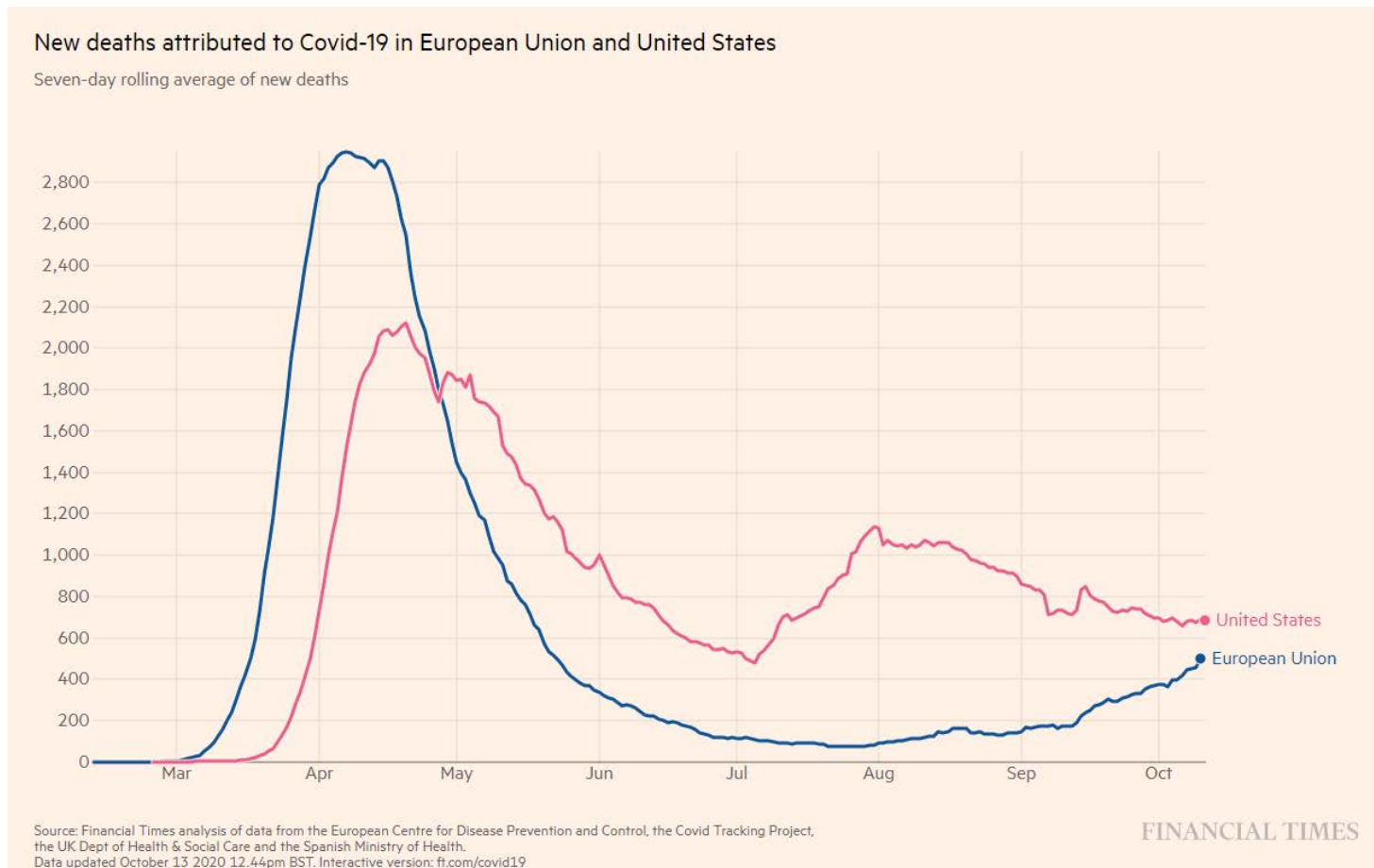
Risk of a Resurgence of COVID-19 in the Fall/Winter

We're seeing an upsurge in U.S. and Europe new daily infections...



Risk of a Resurgence of COVID-19 in the Fall/Winter

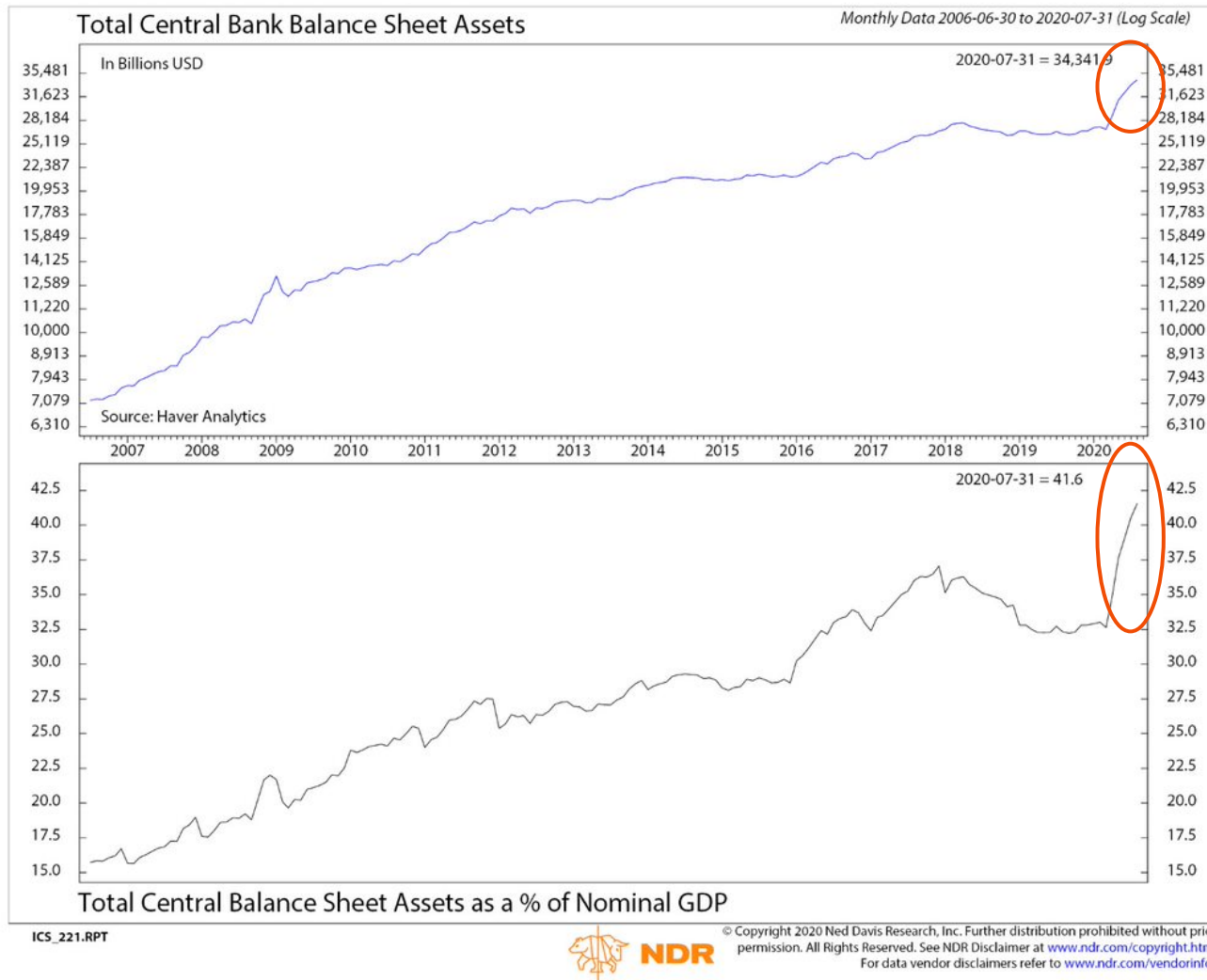
But, so far, the death rate has not increased in line with new cases of infection



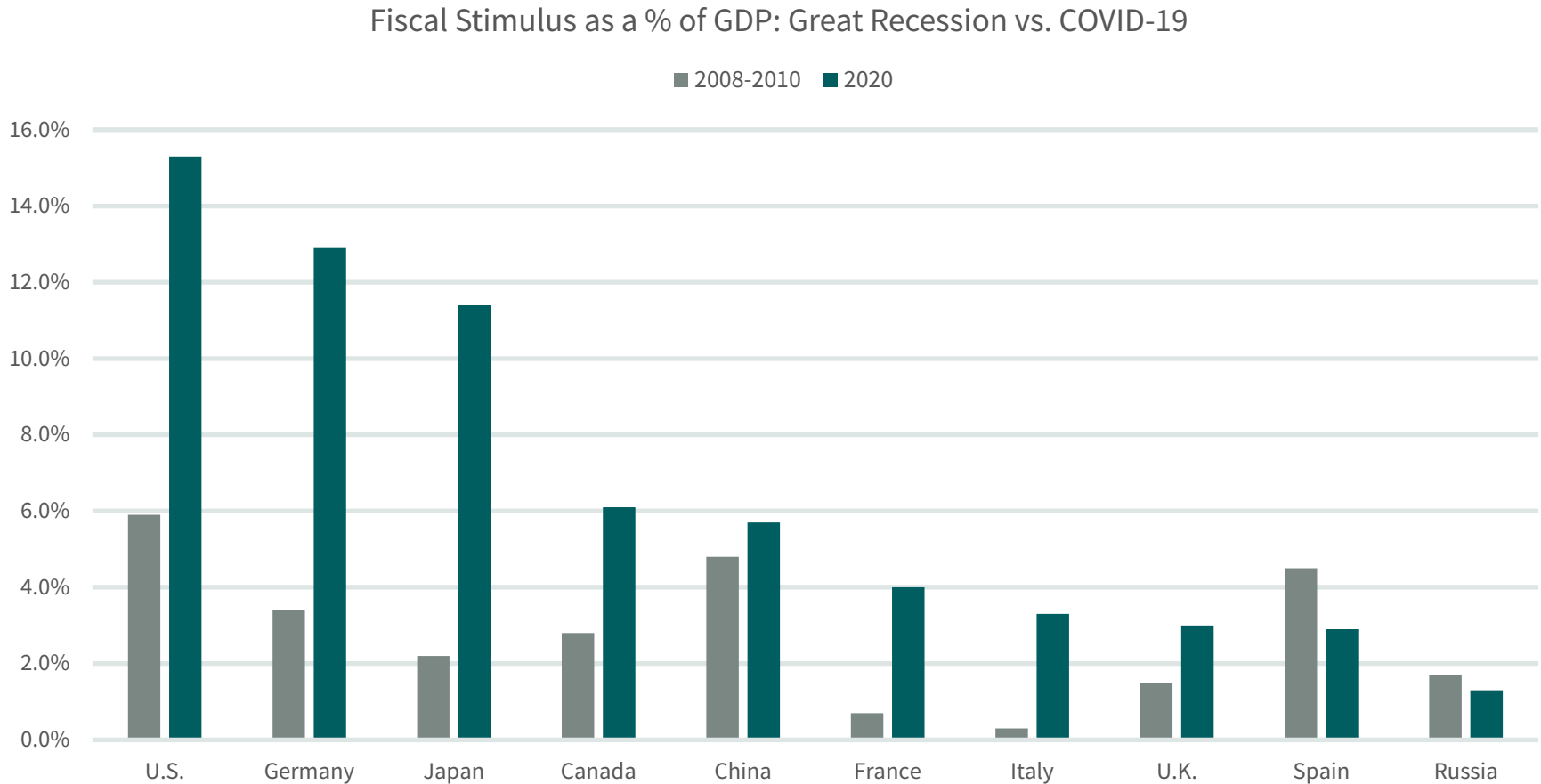
However, Vaccine and Treatment Developments are Encouraging

- The majority of expert forecasts show expectations for an effective and widely distributed vaccine in the U.S. within the next 6-12 months
- Nine coronavirus vaccines are currently in Phase 3 trials, including four in the U.S.
- No matter the exact timing, we are optimistic the pandemic *will* become manageable and brought under control. This will enable economic activity to eventually return to normal.
- In the meantime, the world is learning to adapt to living with the virus (testing, tracing, treatment, masks, social distancing, etc.) without total shutdowns of economic activity – the impacts are more localized.

Extremely Accommodative Monetary Policy Has Boosted Financial Assets

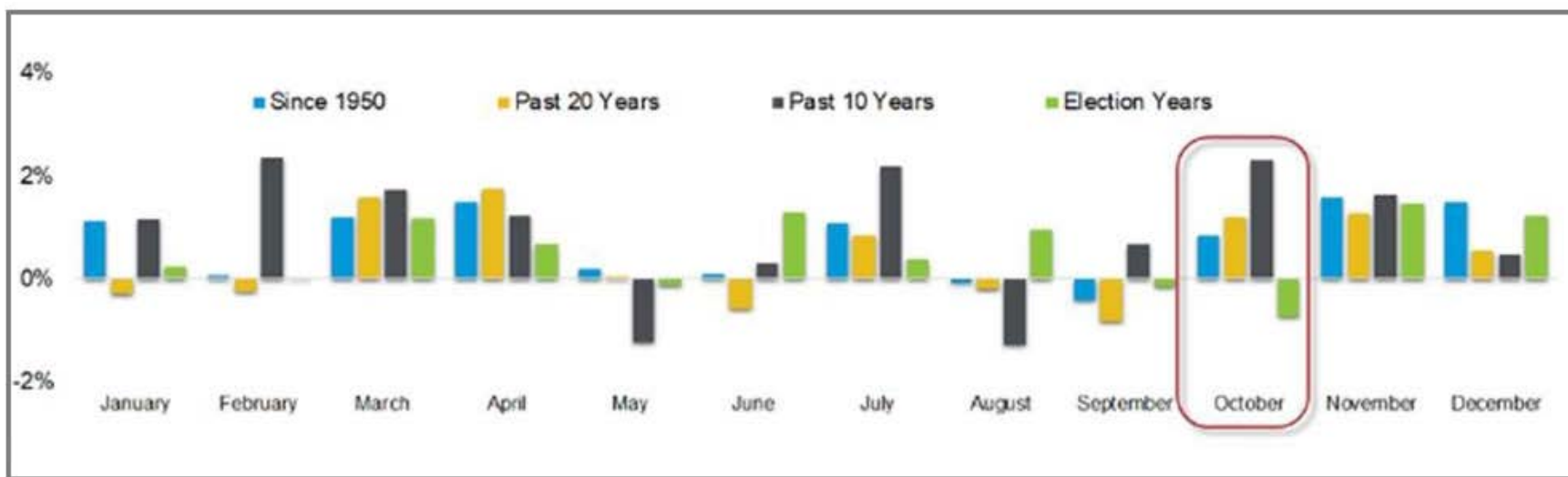


Fiscal Policy Response to the Coronavirus Recession Has Also Been Unprecedented



Source: BCA Research; various news and government agencies; Brookings; IMF. Data as of 6/19/2020.

October Has Been Strong Lately for Stocks, But Typically Weak During Election Years



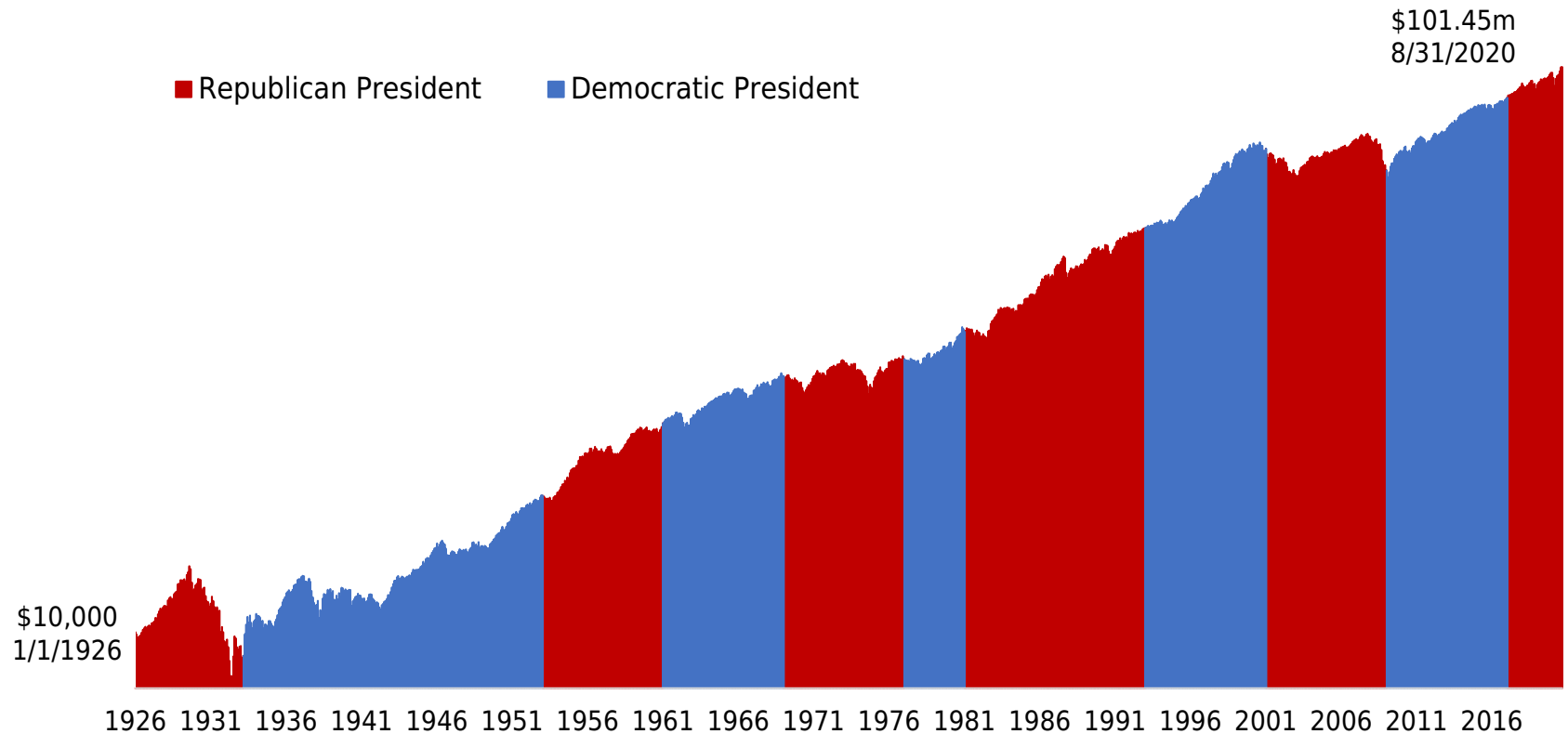
LPL Research, FactSet 09/30/20 (1950 - Current)

All indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

Our Investment Approach to Elections

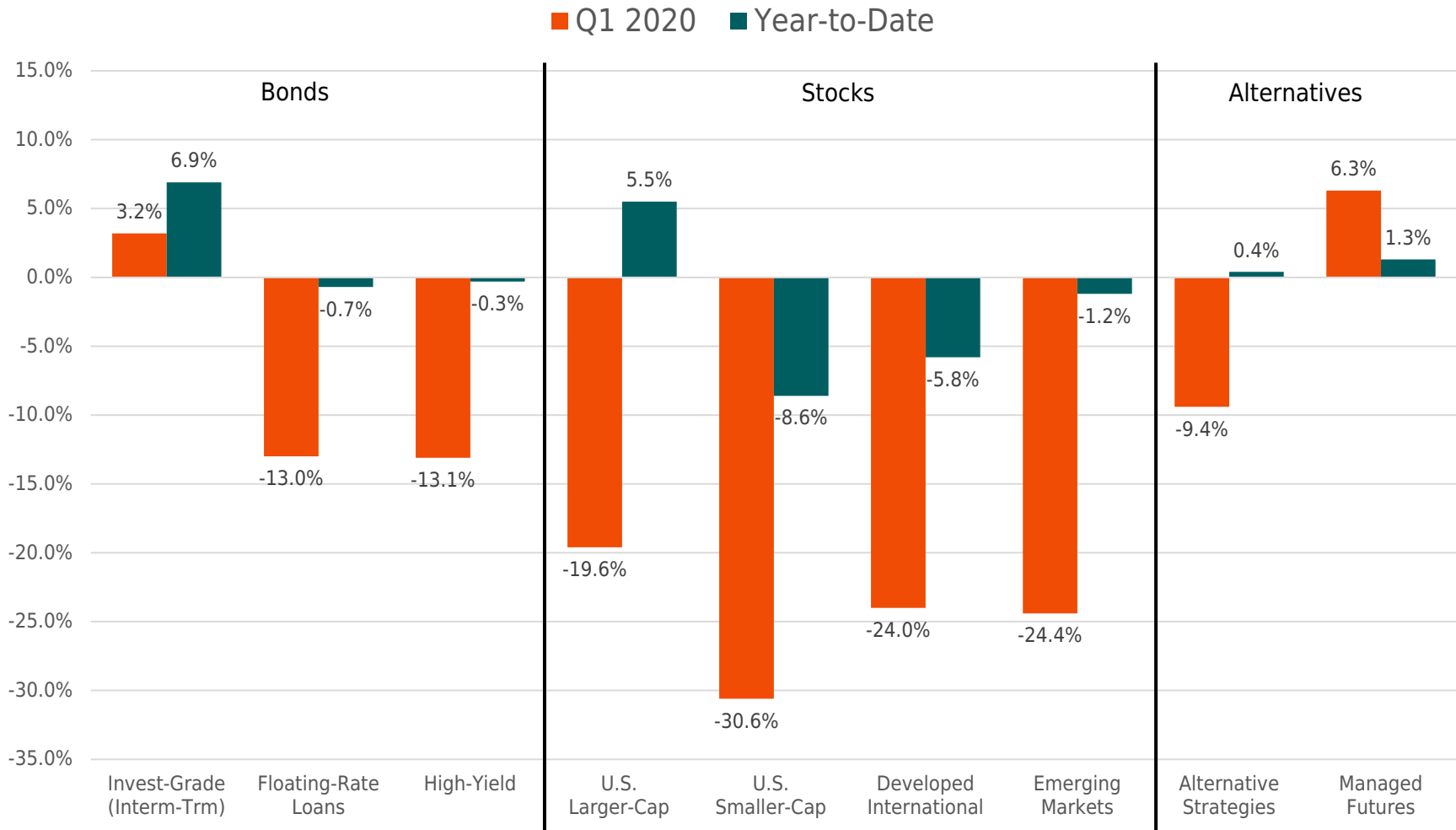
- We don't market-time elections
 - Market prices *already* reflect consensus views of the election outcomes and probabilities of enactment of new policies
- For us to make a tactical portfolio change in advance of an election:
 - We need to have an edge/conviction in assessing the likely election outcome *better than the consensus view*
 - Our view would also have to be materially *different* from the consensus view (i.e., not yet discounted in current prices)
 - And, we'd need to have conviction in how the election result translates into *financial market* results
- In sum: There is too much uncertainty and too many *non-election* variables that impact financial markets over time
- History shows economic/business fundamentals drive long-term investment outcomes, regardless of the political party in power

U.S. Stocks Have Risen Over Long Run Regardless of Presidential Party



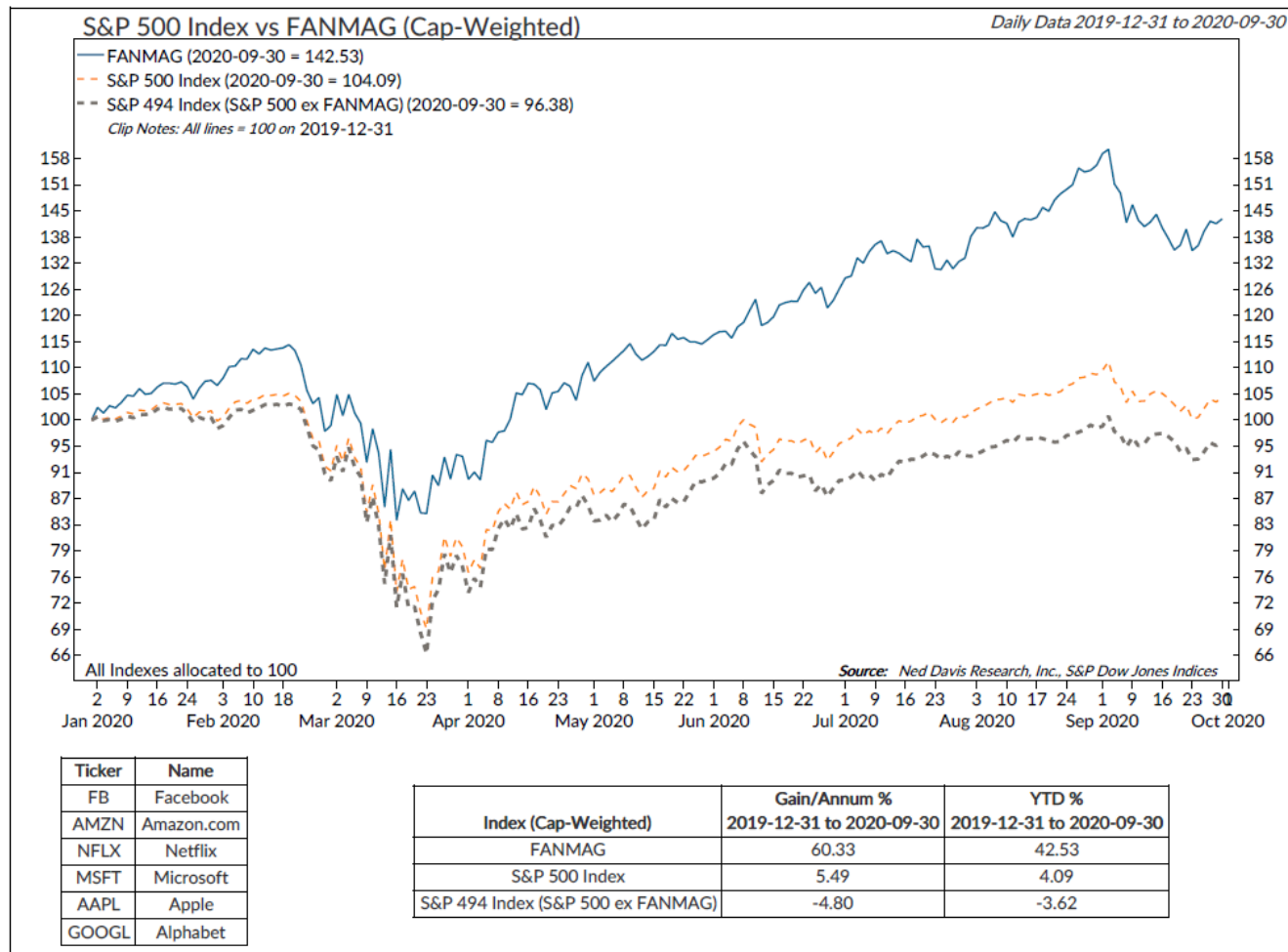
Source: Morningstar Direct. Chart concept courtesy of BlackRock. Data as of 8/31/2020.

After Significant Decline in the First Quarter, Financial Markets Rebounded in Response to Accommodative Policy



Source: Morningstar Direct. Data as of 9/30/2020.

But the U.S. Stock Market Remains Bifurcated, Driven by Mega-Cap Tech Growth Stocks



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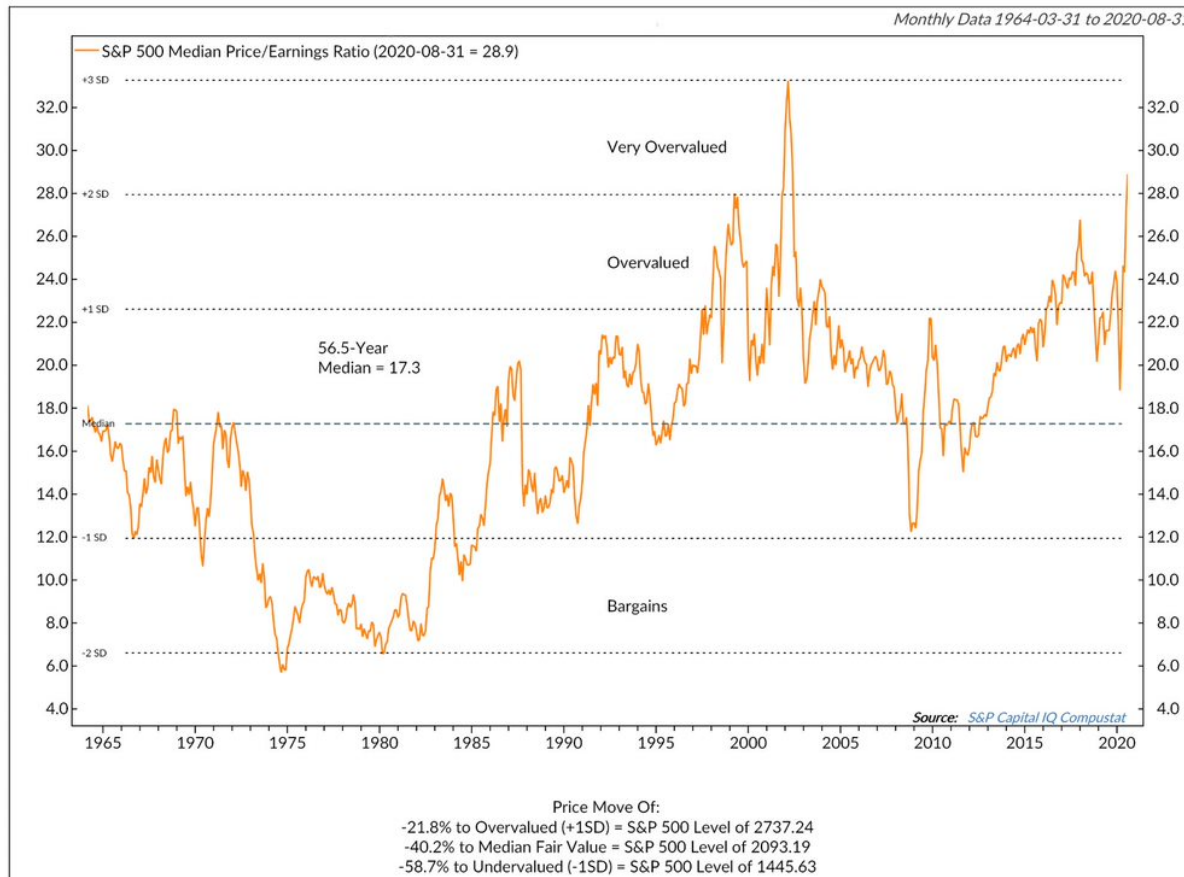


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Source: Ned Davis Research. Data as of 9/30/2020.

After Capturing a "Buying Point" in March, the S&P 500 is Again Historically Overvalued

S&P 500 Median Price/Earnings Ratio



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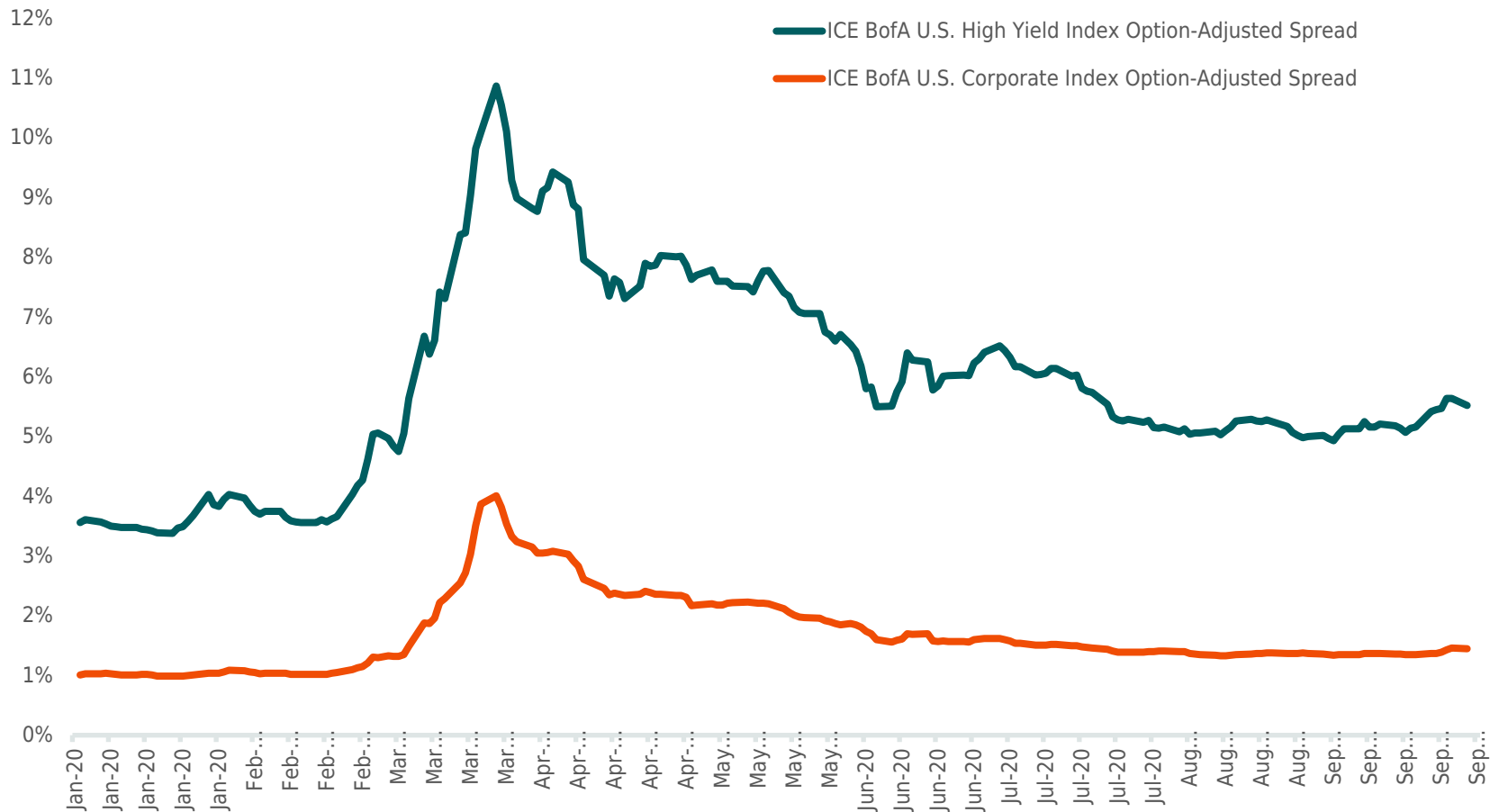
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U.S. Treasury Bond Yields Have Hit Generational Lows



Source: Board of Governors of the Federal Reserve System. Data as of 9/30/2020.

Corporate Bond Yield Spreads Have Narrowed but Remain Wider Than Pre-COVID-19



Source: FRED and Ice Data Indices, LLC. Data as of 9/28/2020.

Stocks are Cheap Relative to Bonds



Source: BCA Research; Refinitive Datastream and MSCI Inc.

Emerging Markets Stocks are Attractive on Both an Absolute Basis and Relative to U.S. Stocks

EM Equity Valuations Are Low

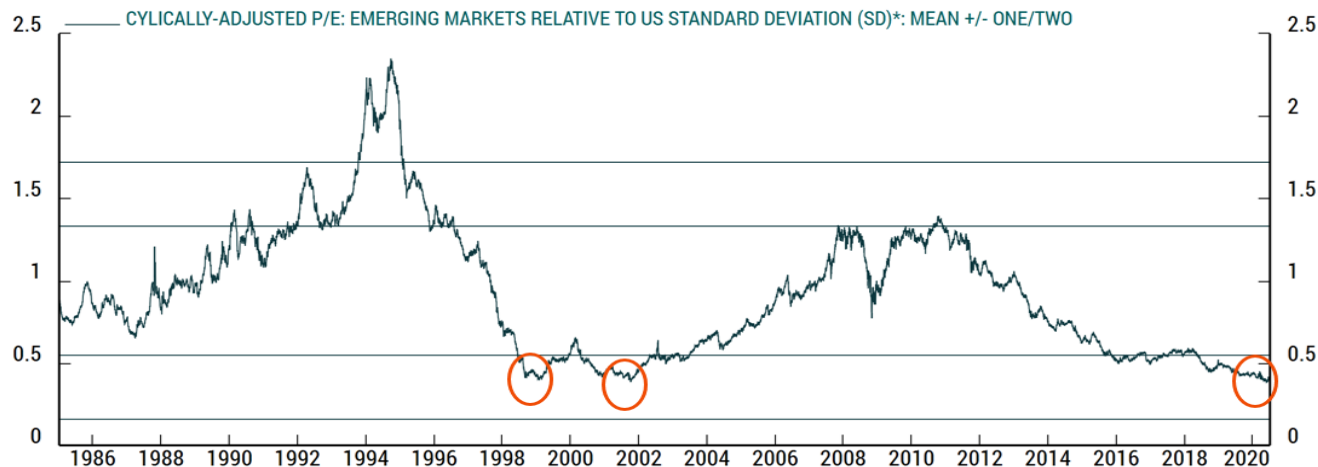


Base Case Return Estimates:
5-year annualized return

U.S. Large Cap Equities: 0.3%

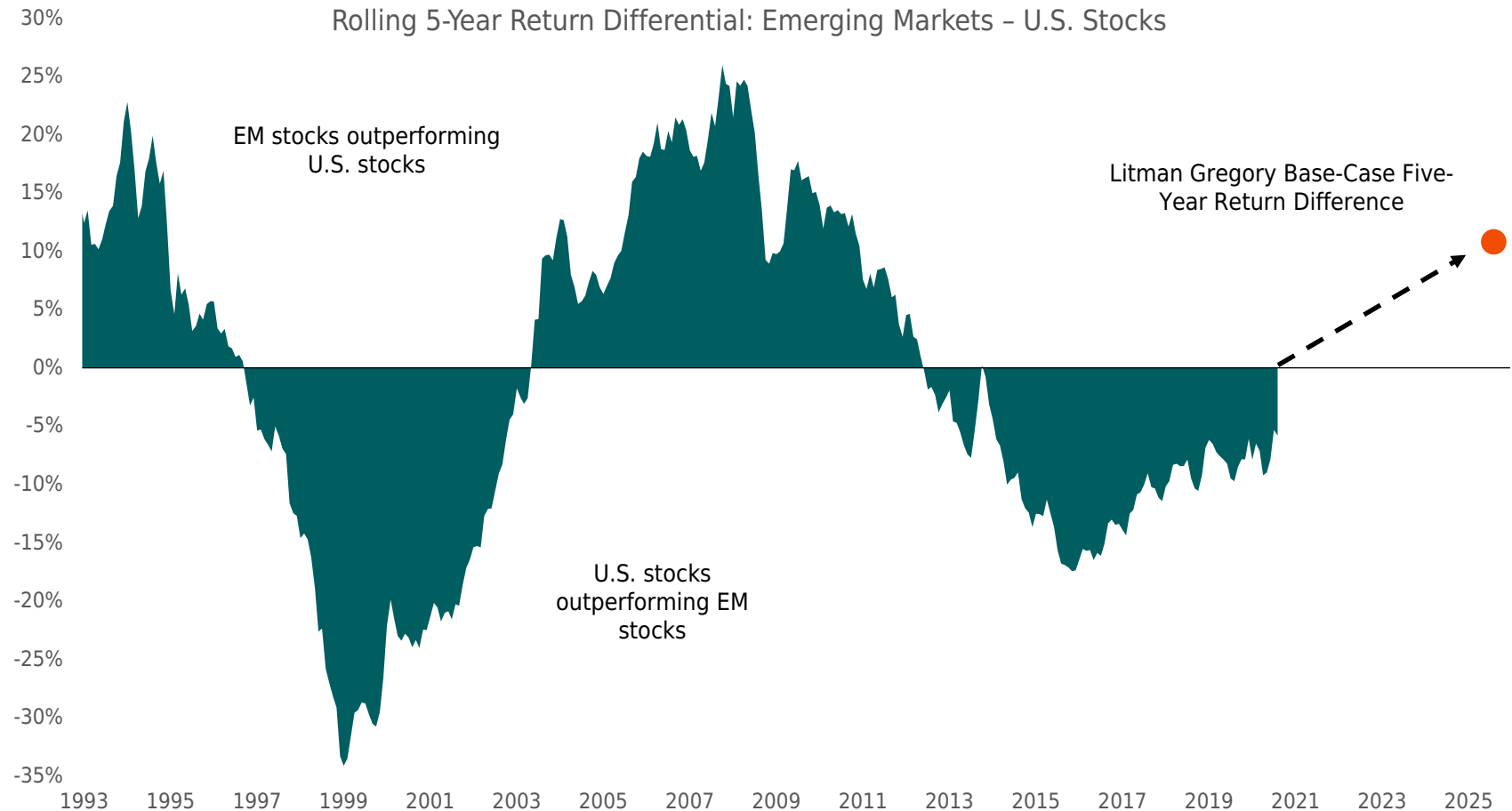
Emerging Markets Equities: 10.1%

EM Versus US Equity Valuations



*BCA calculations using EM and U.S. stock prices and EPS in U.S. dollar terms and deflated by U.S. consumer price inflation.
Source: BCA Research; MSCI. Data as of 6/30/2020.

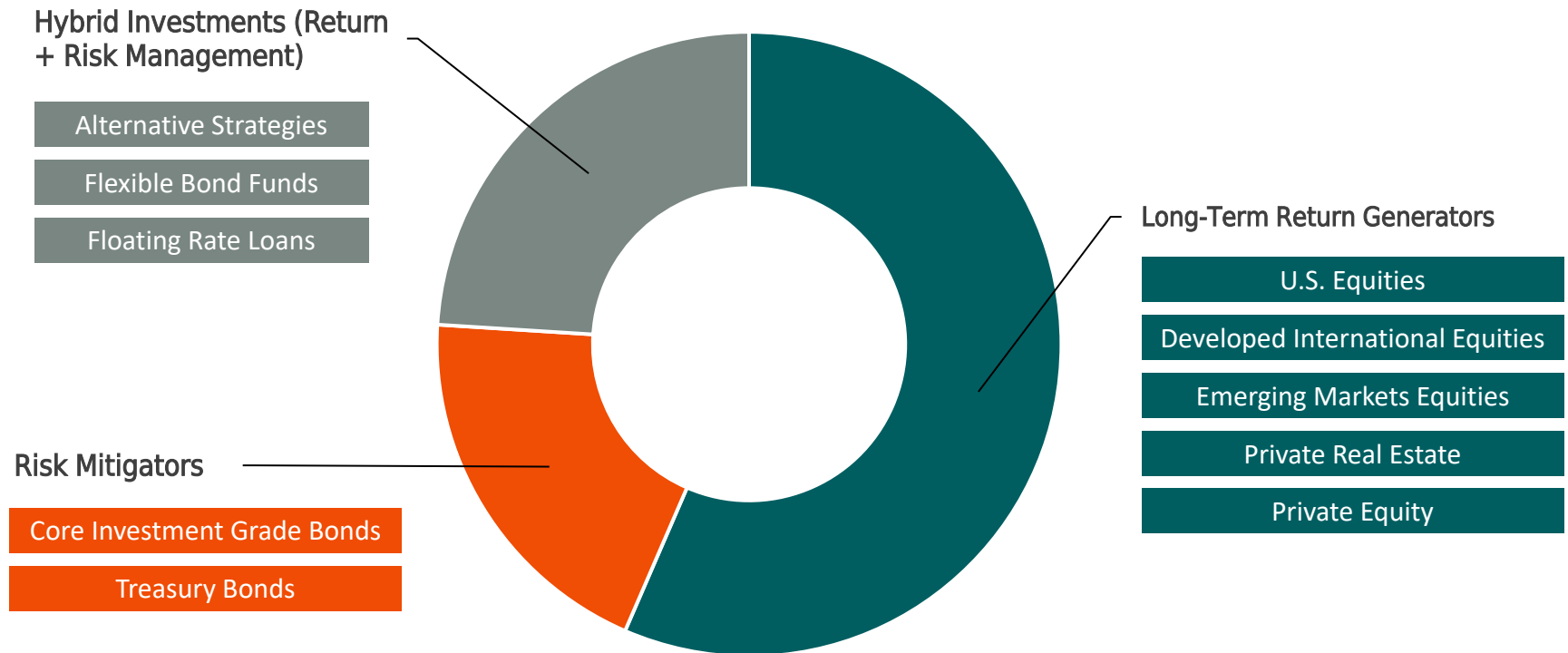
The Outlook for Emerging Markets Stocks vs. U.S. Stocks Is Very Attractive



Source : Morningstar Direct. Data as of 8/31/2020.

Our Portfolios Are Built to be Balanced, Resilient and Opportunistic

Global Balanced Portfolio Components




Closing Thoughts

- During these historical times, it is paramount to stay disciplined and recognize when emotion rears its head in investment decision making.
- Maintain a focus on long-term financial goals and objectives, with an eye to near-term risks.
- Avoid the temptation to time the market -- it is a fool's errand.
- We will get through this period of uncertainty. Things will improve and recover.
- We understand that each individual client has unique circumstances. Please contact your advisor directly to discuss any of today's comments in the context of your portfolio.
- Most importantly, we sincerely hope you and yours are able to remain healthy and manage well through this extraordinary period.



Thank you for joining us today!

*For further questions, please contact your advisor directly, or the
Litman Gregory Client Services team at:*

 **415.526.4380**

 ***information@lgam.com***

 ***www.lgam.com***

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