Investment Strategy Update January 11, 2021

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I believe in intuitions and inspirations. I sometimes feel that I am right. I do not know that I am. – Albert Einstein, 1929 interview with George Sylvester Viereck

After nine months of navigating stay-at-home orders, we acknowledge the challenge that the past year has been to our inspirations and how good it feels to put 2020 behind us. During the final quarter of the year, we welcomed a renewed sense of inspiration fueled by the approval of highly effective vaccines. As vaccine distribution increases, we will confidently emerge from our homes and the world will emerge from the pandemic. Closed businesses around the world will re-open, and economies will begin to repair in earnest.

Since the announcement of vaccines, expectations have shifted to higher global growth in the year ahead. In the US, the virus continues to rage while the Georgia Senate elections have delivered Democrats a majority in the Senate. With a Senate majority, optimism for more fiscal support has been reignited. President-elect Joe Biden has indicated that the December coronavirus relief package is a "down payment" on what will ultimately be enacted in 2021. Meanwhile, the most recent jobs report reflected a sluggish economy, and the US Federal Reserve is expected to maintain an accommodative posture with rates near zero. We also observe that the Service Price Managers Index, a measure of the prevailing direction of the Services economy, indicates economic expansion. We are slowly repairing in the US, and the stock market has been extraordinarily resilient due to the outlook for vaccines, fiscal support, and monetary support, despite high and climbing case counts.

Outside of the US, regionally different approaches to the pandemic have had a direct correlation with economic recovery. We have seen a range of outcomes with our diversified portfolios which have exposure to Europe, Asia, and Emerging Markets. Highlighting our Asia exposure, the Chinese economy has shown robust manufacturing and export data since effectively arresting the spread of Covid-19, and we expect this to continue well into 2021. As the global economy recovers, Chinese exports should benefit thus driving profits and share prices higher. Our outlook for China and Asia remains positive, while our outlook for Europe is more nuanced.

Though the case for optimism is strong, we see a potential risk to our bond portfolios emerging. This risk comes in the form of inflation. Our outlook for global economic growth is consistent with inflation beginning to drift higher. Recall that bond prices move inversely to bond yields, and as economic growth rises, bond prices tend to fall as investor confidence increases and more growth-related strategies are pursued. Stronger economic growth tends to coincide with Central Banks raising rates to stave off inflation. With this as our base case, we will be incorporating globally invested bond funds that are high quality and have shorter maturity profiles thus offering better protection against rising rates. We will add to our existing Asian bond strategy, for example, where we can capture a yield that is 2.0-2.5% higher than on US bonds with similar maturity profiles. These investments will also benefit from any US dollar weakness that may materialize.

Our diversified portfolios are designed to be flexible and responsive to changing market conditions. As conditions change and new data emerges, we, like Einstein, will rely on our disciplined processes to inform our decision making. We wish you a Happy New Year and thank you for your continued trust.

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