DT INVESTMENT PARTNERS, LLC

Q4 2020

FINANCIAL MARKETS COMMENTARY & 2021 OUTLOOK

"Don't Fight The Fed"

RISK-BASED ASSETS PERFORMANCE SUMMARY

- Despite a once in a century global pandemic, a bruising global recession, and social and political unrest, stocks across the world rose during the fourth quarter and year. The extraordinary response by global central banks, particularly the Federal Reserve, combined with investors' ability to look past short-term troubles and focus on the delivery of vaccines and long-term prospects for the world economy pushed many stock markets to levels at or near all-time highs.
- After delivering their best monthly returns in over a quarter century in November, global stock prices continued to climb in December as U.S. election concerns and the resurgence in Covid-19 infections became yesterday's news. Investors turned their focus towards the increasing possibility of a strong global economic recovery in 2021 thanks to highly effective vaccine test results and the Fed's reiterated commitment to ultra-easy monetary policy.
- Dubbed the "everything rally," investors bid up the prices of most risk-based assets, raising expectations that a swift and sustainable economic rebound will push prices even higher. The S&P 500 Index and Dow Jones Industrial Average closed the quarter at all-time highs, while the value of the U.S. dollar reached a 2 ½ year low.
- With the exception of Real Estate Investment Trusts, all equity asset classes posted double-digit returns for the quarter (See page 5). U.S. Small Cap stocks led the way higher followed by U.S. Mid Cap and Emerging Market equities (EM). Investors bought shares of these economically sensitive asset classes (U.S. Small Cap & EM) and commodities based upon optimism that the global economy will boom in the second half of 2021.
- All U.S. Large Cap stock sectors rose for the quarter led by Energy. Financials, Industrials, Materials, Communication Services, and Technology also generated double-digit returns. Investors willingness to look past the current situation and focus on prospects for a cyclical recovery and future economic growth helped these sectors post attractive gains.

BOND PERFORMANCE SUMMARY

- With the exception of U.S. Treasuries, all U.S. fixed income sectors generated positive returns for the quarter. The yields of 5-30 year maturity U.S. Treasuries rose/price fell as investors continued to pile into risk-based assets and out of safe government bonds, anticipating that coronavirus vaccines and monetary and fiscal policy stimulus programs will lead to a durable economic recovery in 2021.
- The performance of Investment Grade (IG) Corporate bonds once again led the way higher in fixed income thanks to the attractiveness of their yields relative to other bond sectors. In addition, Fed buying and investors' outlook for improved corporate earnings in 2021 have supported prices. Municipal bonds were the second best performer during the quarter due to strong investor demand and significantly diminished supply.
- Mortgage-Backed Securities (MBS) generated slightly positive total returns for the quarter. Low mortgage rates continued to power a surge in refinance activity amid the escalation of virus cases across the U.S. Low rates typically fuel a surge in refinance activity which leads to increased prepayment speeds for MBS. When interest rates are so low, the last thing a bond investor wants is to have their principal returned to them well before maturity, leaving them forced to reinvest at lower yields.

CONTRIBUTORS & DETRACTORS TO PERFORMANCE

- Performance contributors for the fourth quarter versus the Global Stock/Intermediate Maturity U.S. Bond blended benchmark index included our overweight allocation to risk-based assets, particularly U.S. Large Cap stocks. In addition, our overweight allocation to Investment Grade Corporate bonds, our outside-of-benchmark allocation to U.S. Small Cap stocks, and our bond duration short of the benchmark index added to performance.
- Detractors to performance versus the benchmark index included our underweight allocation to U.S. Mid Cap and Emerging Market stocks and our overweight allocation to U.S. Government bonds.

- Despite a recent resurgence in Covid-19 cases across the globe, the commencement of initial distribution phases of effective vaccines from December helped the S&P 500 and Dow reach all-time highs. Investors appear to believe that once the re-escalation of documented virus cases subsides and larger numbers of people get vaccinated, economies around the globe will accelerate re-opening plans. Stock markets are forward-looking by nature leading to price rallies usually 6-12 months before business prospects begin to improve in any meaningful and sustainable way.

- ***The primary means of stock market buying support during the pandemic has been the amount of liquidity injected into the financial system by the Fed. The Fed is the buyer and lender of last resort.*** It enters 2021 following a historic 2020, when it mobilized its largest and quickest crisis response ever to counter the economic effects of the coronavirus pandemic. Since early March of 2020, the Fed has encouraged investor risk-taking by pumping an unprecedented abundance of liquidity into the financial system that wants/needs higher returns than what bonds currently provide. They reduced the fed funds target rate from 1.5% to 0.25%, agreed to buy $120 billion monthly in Treasuries and MBS, established a lending facility to support short-term debt markets, and committed to buy investment grade and non-investment grade corporate bonds.

- In December the Fed announced that it would continue to support the economy until it sees "substantial further progress" in employment and inflation. The majority of Fed officials forecast that the funds rate would be held in a 0-.25% range at least through 2023. They have placed an enormous safety net under risk-taking. They are providing a bridge for the economy until it can grow organically by itself. ***Despite inevitable bouts of future volatility, the path of least resistance for stock prices may be higher, as long as the Fed stays so accommodative.***

- Further development and distribution of vaccines, pent up demand from economic shutdowns, low rates/borrowing costs, low energy prices, and ultra-easy monetary policy may lead to an economic recovery in the Spring of 2021.

- At the very end of the quarter, Congress was finally able to legislate a second fiscal package aimed at pandemic relief. This should provide an economic buffer until the availability and distribution of vaccines helps an economic recovery gain traction and sustainability. Stronger growth typically results in more cyclical stocks (Large Cap Value & Small Cap) outperforming the highest-valued stocks (Large Cap growth).

- A reduction in trade tensions could provide a boost to Emerging Market (EM) stocks and U.S. Large Cap Industrial and Materials sector stocks. Financial, Energy, and Healthcare stocks could also benefit from the reduced likelihood of an increase in government regulation from a divided government. The Fed's new policy stance of keeping interest rates lower for longer, while vaccines help lead to a global economic recovery are likely to extend the dollar weakening trend. As vaccines are rolled out and the global economy recovers, the currencies of countries that export commodities and manufactured goods are likely to keep strengthening against the dollar. A weakening dollar tends to boost the prices of International Developed and EM stocks and the demand for commodities as they become cheaper for foreign buyers.

- Bond yields will likely remain low as the Fed has pledged to hold rates near zero through at least 2023. A rise in bond yields/decline in prices should be limited by the enormous demand shock created by Covid-19. Growth in the developed world was already being challenged by a lack of demand and an abundance of supply of goods/services before the virus.

- Heading into 2021, the supply of available Municipal bonds may remain diminished due to strong demand from a large number of maturing bonds early in the new year. Credit selection will remain paramount as the Municipal bond market continues to work its way through the budgetary effects of lockdown orders.

- A major risk to investment allocations is an increase in inflation. However, inflation may be a long way off. We view deflation as a much bigger risk over the next few years, despite the unprecedented amount of policy stimulus. Deflationary pressures will be prevalent as the labor market may not quickly return to full employment.

- Despite historically low bond yields, a bond allocation still provides balance and stability to an asset allocation portfolio, as bonds remain negatively correlated to risk-based assets (stocks). This negative correlation will continue to limit volatility.

- As we begin the New Year, the structural backdrop in the U.S. is very supportive for a sustainable bull market in risk assets. There is a strong pro-business environment with low corporate tax rates and global trade deals in place. Developments in artificial intelligence, vaccine creation, and digitalization are occurring on a daily basis. Fed monetary policy is ultra-accommodative with expectations that interest rates will remain low for years to come. Lastly, Democratic control of the federal government increases the likelihood of additional fiscal policy stimulus.

- A Democratic sweep in both of Georgia's run-off elections gives the party an ultra-thin majority in the Senate by way of Vice President-elect Harris's ability to break any ties in the 50 Democrat/50 Republican chamber. Democrats control the Senate by the narrowest of possible margins. The federal government is essentially split and a split government may be a recipe for inaction when it comes to major policy initiatives regarding tax increases and regulations.

- The 2020 U.S. election illustrated that the country is divided and neither political party has a clear mandate. Both parties should be incentivized to work together, as the consequences of not doing may loom large for incumbents in the 2022 mid-term elections.

- One way the U.S. government may be likely to work together in 2021 is by passing additional fiscal policy stimulus (government infrastructure spending programs) to support the economic recovery from the pandemic. This could propel further stock market gains, particularly in cyclical sectors, while bond yields would likely creep higher, but remain tempered by Fed buying support.

- Regardless of which party controls the White House and Congress, Risk-Based Assets have historically performed well over most time periods. ***Political events rarely have a lasting impact upon the direction of the economy and financial markets.*** Moving forward, defeating the pandemic and fully re-opening all aspects of the global economy will remain the key drivers of financial market performance.

- We are comfortable with our current positioning as we continue to monitor vaccine distribution, the transition to a Biden administration, and an impending economic recovery. We are overweight to the strategic target for risk-based assets, underweight bonds, and overweight cash. In particular, we are overweight International Developed Market stocks and Government bonds. We are equal-weight U.S. Large Cap and Small Cap stocks, Corporate bonds, and Gold, while underweight U.S. Mid Cap and Emerging Markets stocks, High Yield bonds, and Mortgage-Backed Securities.

- The only concern we have with our economic outlook and bullish market forecast is that it is also the consensus view among economists and investors, alike. There is a saying among veteran traders that the market always moves in the direction that punishes the most people. ***However, not having a pro-growth/pro-risk stance right now would be akin to fighting the Fed, and if we've learned anything from 2020, it's that you don't fight the Fed.***

Andrew Zimmerman, Chief Investment Strategist

ASSET CLASS TOTAL RATE OF RETURN PERFORMANCE SUMMARY AS OF 12/31/2020

Stock Indices	Asset Class	QTD Return	1 Year Return
MSCI AC World Daily TR N	Global Equities	14.68%	16.25%
S&P 500 INDEX	U.S. Large Cap Equities	12.14%	18.39%
S&P 400 MIDCAP INDEX	U.S. Mid Cap Equities	24.36%	13.65%
RUSSELL 2000 INDEX	U.S. Small Cap Equities	31.36%	19.93%
MSCI EAFE	International Developed Market Equities	16.09%	8.39%
MSCI EM	Emerging Market Equities	19.61%	18.50%
FTSE E/N All Eqty ReitTR	Real Estate (REITs)	8.15%	-5.12%
U.S. Large Cap Sector Stock Indices			
S&P 500 ENERGY INDEX	U.S. Large Cap Equities - Energy Sector	27.76%	-33.68%
S&P 500 HEALTH CARE IDX	U.S. Large Cap Equities - Health Care Sector	8.03%	13.45%
S&P 500 CONS DISCRET IDX	U.S. Large Cap Equities - Consumer Discretionary Sector	8.04%	33.30%
S&P 500 CONS STAPLES IDX	U.S. Large Cap Equities - Consumer Staples Sector	6.35%	10.75%
S&P 500 INFO TECH INDEX	U.S. Large Cap Equities - Information Technology Sector	11.81%	43.89%
S&P 500 UTILITIES INDEX	U.S. Large Cap Equities - Utilities Sector	6.58%	0.52%
S&P 500 INDUSTRIALS IDX	U.S. Large Cap Equities - Industrials Sector	15.67%	11.05%
S&P 500 COMM SVC	U.S. Large Cap Equities - Telecom Sector	13.82%	23.61%
S&P 500 MATERIALS INDEX	U.S. Large Cap Equities - Materials Sector	14.47%	20.73%
S&P 500 FINANCIALS INDEX	U.S. Large Cap Equities - Financials Sector	23.19%	-1.76%
S&P 500 REAL ESTATE IDX	U.S. Large Cap Equities - Real Estate Sector	4.94%	-2.17%
Commodities Indices			
ISHARES GOLD TRUST	Gold	0.78%	25.03%
S&P GSCI Tot Return Indx	Broad Commodities	14.49%	-23.72%
Bond Indices			
U.S. Aggregate	Core Bonds	0.67%	7.51%
Intermediate	Intermediate Government & Corporate Bonds	0.48%	6.43%
US Corporate High Yield	High Yield Debt	6.45%	7.11%
U.S. Treasury	U.S. Treasuries	-0.83%	8.00%
U.S. TIPS	U.S. TIPs	1.62%	10.99%
U.S. Agency	U.S. Government Agencies	0.04%	5.48%
U.S. MBS	Mortgage-Backed Securities	0.25%	3.87%
Corporate	Corporate Debt	3.05%	9.89%
Municipal Bond Index	Municipal Debt	1.82%	5.21%

Notes: The DT Investment Partners' Commentary and Outlook discusses general developments, financial events in the news and broad investment principles. It is provided for information purposes only. The material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Investments in various asset classes entail different investment risks. For example, small cap stocks tend to be more volatile than large or mid-cap stocks. International and emerging markets stocks have exposure to currency fluctuations, foreign taxes, political instability and the possibility for illiquid markets. Fixed income investments involve interest rate and credit risks among others. Real estate investing includes risks such as declines in value of real estate, changing economic conditions, tax laws or property taxes. Commodities' investing is highly volatile and subject to changing economic conditions and the vagaries of speculators among other risks. One cannot invest directly in an index. Past performance does not guarantee future results.