MARKET AND ECONOMIC REVIEW & OUTLOOK

AN UPDATE FROM THE ADVISORS AT GASKIN ASSET MANAGEMENT *CHARLOTTE, NORTH CAROLINA*

The following letter was written for you by the undersigned. The opinions expressed are those of your advisors at Gaskin Asset Management and do not necessarily reflect the opinions of Raymond James or its affiliates. We know this is a long letter, but we hope you will invest five minutes in reading it. Thank you.

Dear Reader,

We hope you enjoyed a peaceful end to 2020 with family and loved ones. However, we know this well-intentioned wish may not be true for all as it was a tough year. We hope you are healthy. The year now past was particularly difficult for our country, neighborhoods, small companies, faith communities, families, and basically every living person on earth – with a few notable exceptions. We think it's fair to say that along with many other tech CEOs, Jeff Bezos, the CEO of Amazon, had a pretty good year.

We are optimistic for a new beginning in 2021 as the COVID-19 vaccines roll out to healthcare workers and other frontline workers, those who are at higher risk and then the rest of us. We also hope the new year offers less volatility in not only markets but also our communities.

2020 REVIEW

To interact directly, in person, with friends, neighbors, coworkers, faith communities, and even family invited the risk of infection and even possible death. Sadly, that reality remains as we write this letter to you. The late winter/early spring arrival of Covid-19 set the stage for a year like none other. Unemployment spiked to 14.7% in April from a low of 3.5% only 2 months earlier in February.[i] When compared to the financial crisis of 2007-2009, the highest unemployment rate was 10% in October of 2009, following months of a slow steady rise. Due to the nature of the nationwide shutdowns last year, the unemployment spike was inevitable, but was subsequently cut in half to 6.7% by December due to U.S. Federal stimulus and other factors which varied greatly among industries, businesses, and individuals.

With daily commuting and travel significantly curtailed, we witnessed a drop in crude oil prices of over 60% in 2020 while the S&P 500 Energy Index fell over 33%. [See chart nearby] Food supply chains were disrupted but were then reorganized with remarkable speed to ensure food security. Reminiscent of World War II days, automotive and other industrial companies retooled to produce ventilators and personal protective equipment (PPE) to meet healthcare and personal protective needs.

With children engaged in remote learning, parents, and others (who were able) working from home, as well as companies shifting to digital platforms, the S&P 500 Tech Sector rose by more than 43% for the year. Technology and digital platforms enabled a shift from in-person commerce and communication to a virtual world unimaginable just a few years earlier. With concerts, sporting events, movies, and summer beach trips cancelled or postponed, consumers spent more time at home, sending more of their discretionary spending towards home improvement and "stuff" over experiences.

As evident in the nearby chart, certain segments of the market performed better than others. For example, the popular consumer discretionary stock Tesla Inc. continues to trade at unreasonably high levels in our judgement. Tesla's price recently traded at a price to earnings (P/E) ratio of 1,392[ii]. Tesla is earning roughly 63 cents per share while recently priced at $877.02. While we can certainly understand the excitement around Tesla and their electric cars, we believe much of any future earnings expectations are already priced into the stock. To trade at the average P/E ratio for the S&P 500 of 27.23, as of December 31, 2020[iii], Tesla would need to grow its earnings to more than $32/share, more than 5,000%. We believe this is unlikely in the foreseeable future.

	Total Return %		
SELECT MARKET INDEXES & SECTORS	**Month to Date**	**Quarter to Date**	**Year to Date**
S&P 500	3.84%	12.15%	18.40%
Dow Jones Industrial Average	3.41%	10.73%	9.72%
Russell 1000 Value	3.83%	16.25%	2.80%
Russell 1000 Growth	4.60%	11.39%	38.49%
Russell 2000 Small Cap	8.65%	31.37%	19.96%
MSCI EAFE International	4.65%	16.05%	7.82%
S&P 500 Consumer Discretionary Sector	2.53%	8.04%	33.30%
S&P 500 Energy Sector	4.40%	27.77%	-33.68%
S&P 500 Financials Sector	6.28%	23.22%	-1.69%
S&P 500 Health Care Sector	3.91%	8.03%	13.45%
S&P 500 Information Tech Sector	5.74%	11.81%	43.89%
Barclays US Aggregate Bond	0.14%	0.67%	7.51%
Dow Jones Crude Oil	6.58%	18.38%	-60.33%
Dow Jones US Real Estate Investment Trust	3.24%	12.92%	-11.20%

Source: Morningstar; Performance reflects price returns as of market close on Dec. 31, 2020.

GROWTH STOCKS VS. VALUE STOCKS

As we have noted in previous letters, another important observation we can draw from 2020 is the performance divergence of growth stocks from value stocks. Growth stocks are typically companies which grow their earnings at a rate faster than the overall market on average. They tend to trade at higher-than-average price to earnings (P/E) multiples and typically do not pay dividends. By contrast, value stocks tend to trade at lower P/E multiples and usually pay dividends. Technology companies are generally considered to be growth stocks while banks & utilities are typically examples of value stocks. The Russell 1000 Value & Growth Indices are often used as proxies for the performance of U.S. growth & value stocks. In 2020, the Russell 1000 Value Index was up only 2.8% while the Russell 1000 Growth Index was up +38.49%. [See chart above] The 35.69% spread between U.S. large cap value & growth stocks is one of the largest we have seen in our careers. According to Jason Zweig of *The Wall Street Journal*., this represents the largest spread of growth over value recorded since the 26% margin in 1999 which was followed by the dotcom bust of 2000. If you were invested in the US stock market during the late 1990's and early 2000, you surely remember the performance of the tech sector. What many investors missed as the tech bubble burst in 2000 was the performance of value stocks.

The year 2000 was not kind to growth stocks, which included most technology and internet related companies due to the historic dotcom boom. Many investors experienced significant losses. However, an often-forgotten fact of that year was the outperformance of traditional "blue chip" value stocks. We researched the performance of the Wilshire US Large-Cap Growth and Wilshire US Large-Cap Value indices for a historical perspective that may provide some insight for today.

VALUE OUTPERFORMED GROWTH FOLLOWING THE DOTCOM BUST IN 2000

As expected, the Wilshire US Large-Cap Growth index was down in 2000 due to the tech bubble rupture, losing 23.77% of its value according to Federal Reserve Bank of St. Louis.[iv] Due to overexposure to the "hot" segments of the market in the late '90's, many investors experienced negative returns that year. By contrast, however, the Wilshire US Large-Cap Value index was up +8.7% in 2000 for a net difference of 32.47%[v]. While past performance is no guarantee of the future, this important distinction should not be ignored. Many have asserted that the current market is in a bubble[vi]. We cannot know this for certain, of course. This we do know: Certain stocks have traded well above their long-term averages resulting in high price/earnings ratios while others have lagged. This is most clearly noticeable in the aforementioned divergence of growth and value stocks. We believe this will be a factor in market performance in 2021 and may represent an opportunity for value stocks.

IMPLICATIONS OF THE NATIONAL ELECTION

Well, the election is finally over. President-Elect Biden became President Biden on January 20th as expected. The U.S. Congress will remain Democrat-led but with a much smaller majority. The Republicans have conceded control of the U.S. Senate by the narrowest of margins with Vice President Harris in a position to break potential tie votes as she did on February 5, 2021 to advance the $1.9 trillion Covid-19 relief package.[vii]

We do not know how the next few months or years will play out, but we can say with confidence that we expect much of President Trump's and the Republicans initiatives over the last 4 years to be changed. As recently witnessed, President Biden signed seventeen (17) executive actions and orders on his first day in office[viii]. These orders and actions will address the COVID-19 pandemic, immigration policy, energy, education, climate change, social policy, and many other issues. These changes are being followed with additional executive actions as we write today. These policies will impact U.S. economic sectors unequally as some industries will be punished while others are rewarded. Thus, the effect of these changes will need to be carefully monitored and evaluated going forward with an eye to their short and long-term impact on investment outlook.

Following the extraordinary steps taken in 2020 in response to the nationwide economic shutdowns, the U.S. Treasury ended the 2020 fiscal year with a budget deficit of $3.1 trillion according to the Congressional Budget Office (CBO). This was more than triple the deficit recorded in 2019. 2020 marked the highest budget deficit as a percentage of GDP since 1945. Following the record deficit of 2020, the U.S. Congress passed a $900 billion stimulus compromise in December[ix]. The Biden Administration is promoting an additional $1.9 trillion stimulus which would push the 2021 budget deficit toward another record level. Regardless of political views or the perceived necessity of these decisions, this additional debt will have long-term ramifications for the U.S. economy, which will eventually require actions that will impact growth in our view.

ECONOMIC & MARKET OUTLOOK

The ongoing pandemic is expected to dominate the economic outlook in the first part of the year, according to Raymond James Chief Economist Scott Brown, with continued restraint on consumer services. As vaccines are distributed, people should become more comfortable going out again. Activity in face-to-face industries, such as travel, hotels, restaurants and in-person entertainment, should pick up substantially in the second half of the year.

The Federal Reserve is expected to remain accommodative, with short-term interest rates remaining low through 2023. The recent fiscal aid package will provide important support in the near term. All the good news, of course, comes as COVID-19 continues to hold record high rates of cases and as vaccinations are expected to continue into the middle part of the year. Though we may be at the beginning of the end, it is still not the end.

THE BOTTOM LINE

We are not out of the weeds yet, but there seems to be real momentum behind the market and an opportunity to potentially pick-up value from stocks most tied to an economic recovery, as well as some possible stability from 2020's top performers. Still, there is a good chance we are going to see bumps in the road.

We believe that investors should always consider their portfolio allocations for not only growth and income potential but also price volatility in light of time horizon. Regardless of the outcome of the vaccine rollout and the new administration in Washington, we believe volatility will be with us for the foreseeable future. In our judgement, this is an appropriate time for investors to consider the possible impact on their investment portfolios due to changes in interest rates and economic conditions, as well as U.S. fiscal & monetary policy.

We welcome the opportunity to review these general issues and any personal matters that might be on your mind. Best wishes for good health and happiness for you and your family in the New Year!

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Investments mentioned may not be suitable for all investors.

Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations.

S&P 500 Index – [a registered trademark of the McGraw Hill Companies] is an unmanaged index of common stocks representing 500 industrial, utility, transportation and financial companies of the US markets (mostly NYSE issues).

The Russell 1000 measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the investible U.S. equity market. The Russell 1000 is highly correlated with the S&P 500 and is reconstituted annually on May 31
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The Russell 1000 Value Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and lower forecasted growth values.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Sector Investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Investing in the energy sector involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for investors. The companies engaged in the communications and technology industries are subject to fierce competition and their products and services may be subject to rapid

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[i] U.S. Bureau of Labor Statistics, Economic Employment Summary, Jan. 8, 2021, https://www.bls.gov/news.release/empsit.nr0.htm

[ii] Closing price as of 2/2/2021. Source: Thompson One market data.

[iii] Source: Morningstar

[iv] FRED Economic Data, St. Louis FED, https://fred.stlouisfed.org/series/WILLLRGCAPGR

[v] FRED Economic Data, St. Louis FED, https://fred.stlouisfed.org/series/WILLLRGCAPVAL

[vi] Franck, Thomas, "Short seller Carson Block says rolling bubbles that keep popping up show fragility of stock market", CNBC, Feb. 2, 2021, https://www.cnbc.com/2021/02/02/short-seller-carson-block-says-rolling-bubbles-that-keep-popping-up-show-fragility-of-stock-market.html

[vii] Duehren, Andrew, "Senate Moves Forward with Biden's $1.9 Trillion Covid-19 Releif Plan", The Wall Street Journal. Feb. 5, 2021. https://www.wsj.com/articles/gop-puts-minimum-wage-school-reopenings-in-covid-aid-spotlight-11612467876?st=cjypu67ydt6wh8t&reflink=article_email_share

[viii]//www.whitehouse.gov/briefing-room/presidential-actions/2021/01/20/executive-order-protecting-public-health-and-environment-and-restoring-science-to-tackle-climate-crisis/

[ix] Wesbury, Brian, First Trust Monday Morning Outlook, January 25, 2021