SUMMER 2020
2Q 2020 REVIEW & 2020-2021 OUTLOOK

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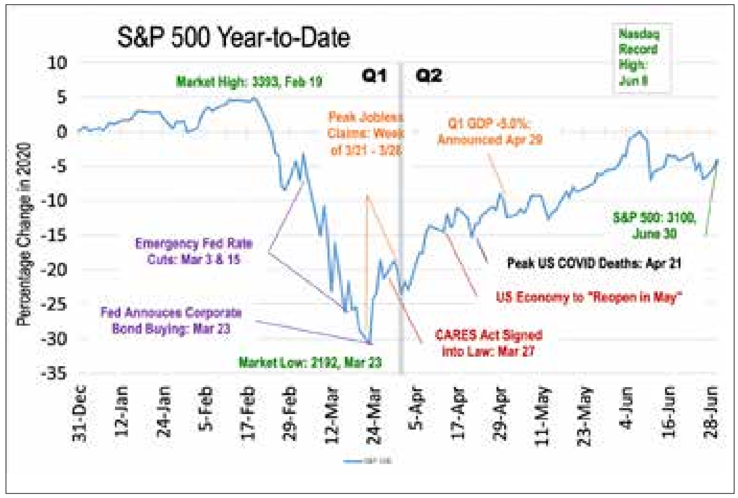
SUMMARY: Fading "V" Recovery?

The S&P 500 finished the first quarter down 20% and 24% from its peak on February 19 – losing $3 trillion in value in March alone (please see Figure 1). The index fell 34% to its low point on March 23, after reaching an all-time high of 3,394 on February 19 – the fastest market decline in history. It took a little over a month, however, for the S&P 500 to rebound out of bear market territory. Since mid-April, the S&P 500 has remained out of bear market territory and ranged between 2,800 and 3,200 for the rest of the quarter recovering 20.5% in 2Q to finish at 3,100 - down only 3.1% year-to-date (-8% from peak). The market has moved sideways after it made its sharp "V" recovery move from mid-April to mid-May. Uncertainties surrounding the rebound in new COVID cases in late June put the speed of recovery in doubt and have investors questioning whether it will be stuck moving sideways until new cases start falling or a vaccine is available.

Unprecedented Monetary & Fiscal Action: Monetary solutions implemented by the Federal Reserve and massive fiscal legislation signed during March formed the basis for a strong market recovery in the second quarter. The Fed cut rates to zero on March 15 and by the end of March it enacted more stimulus than it did over the first 12 months of the financial crisis. On March 27, President Trump signed the CARES Act authorizing almost $2 trillion in direct aide that could potentially expand to $6.5 trillion, marking the largest fiscal stimulus and relief package in U.S. history. The market regained half of its losses by the second week of April after the Chinese announced the reopening of Wuhan and the Coronavirus Task Force announced it expected the U.S. to reopen before the end of May.

Breadth of Recovery Narrow: The market recovery has been much narrower than the picture painted by the results for the S&P 500. For example, the "equal weight" S&P 500 ETF (RSP), trailed the "market cap weighted" index by 9% for most of the quarter. The average stock ended June down 12% year-to-date vs. -3% for the S&P 500 "market cap weighted" index. Much of the difference in returns is explained by a higher concentration of its leading stocks. The S&P 500 is more concentrated now than at any time in its history with five stocks, Alphabet, Amazon, Apple, Facebook and Microsoft comprising 23% of the index (see Figure 2). The

Figure 1: S&P 500 Rebounds Aided by Monetary & Fiscal Policy



Source: CB&T; Thomson Reuters

Table 1: YTD Market Returns

As of 6/30/2020 (except 1Q Data)	June YTD	2nd Quarter	1st Quarter	Last 12 Months	Last 3 Years	Last 5 Years	Last 10 Years
S&P 500	-3.08%	20.54%	-19.60%	7.51%	10.72%	10.71%	13.97%
Russell 2000 (Small Cap)	-12.99%	25.42%	-30.61%	-6.63%	1.98%	4.26%	10.48%
MSCI EAFE (International)	-11.03%	15.15%	-22.83%	-4.62%	1.38%	2.63%	6.31%
MSCI EME (Emerging Markets)	-9.70%	18.14%	-23.60%	-3.10%	2.23%	3.24%	3.63%
BBG BARC Aggregate Bond	6.14%	2.90%	3.15%	8.71%	5.32%	4.30%	3.82%
BBG BARC Municipal Bond Index	2.08%	2.72%	-0.63%	4.45%	4.22%	3.93%	4.22%
ICE BofA/ML High Yield Index	-4.78%	9.61%	-13.12%	-1.10%	2.94%	4.58%	6.48%
BBG BARC Global Aggregate Bond	2.98%	3.32%	-0.33%	4.22%	3.79%	3.56%	2.81%
BBG BARC Emerging Markets Bond	-5.65%	6.75%	-11.62%	-2.28%	1.31%	2.22%	1.24%

Source: Informa & Bloomberg

Table 2: Sector Returns

As of 6/30/2020 (except 1Q Data)	June YTD	2nd Quarter	1st Quarter	Last 12 Months	Last 3 Years	Last 5 Years	Last 10 Years
S&P 500	-3.08%	20.54%	-19.60%	7.51%	10.72%	10.71%	13.97%
Communication Services	-0.31%	20.04%	-16.95%	11.05%	8.57%	7.17%	10.57%
Consumer Discretion	7.23%	32.86%	-19.29%	12.56%	15.27%	13.19%	18.17%
Consumer Staples	-5.66%	8.12%	-12.74%	3.61%	5.03%	7.21%	11.78%
Energy	-35.34%	30.51%	-50.45%	-36.01%	-12.45%	-9.17%	0.20%
Financials	-23.65%	12.20%	-31.95%	-13.94%	0.08%	5.37%	9.64%
Healthcare	-0.81%	13.59%	-12.67%	10.87%	10.30%	8.13%	15.71%
Industrials	-14.64%	17.01%	-27.05%	-9.03%	1.88%	6.70%	11.73%
Info. Tech	14.95%	30.53%	-11.93%	35.78%	26.80%	23.38%	20.46%
Materials	-6.92%	26.01%	-26.13%	-1.10%	3.90%	5.43%	9.84%
Real Estate	-8.53%	13.21%	-19.21%	-2.01%	6.32%	7.99%	11.76%
Utilities	-11.14%	2.74%	-13.50%	-2.10%	6.41%	10.16%	11.31%

Source: Informa & Bloomberg

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S&P 500 is also significantly outperforming small cap (10% outperformance), mid cap (10%), developed international (8%) and emerging market (7%) equities. The gap in returns between the S&P 500 and other equity classes continued to widen in July except for emerging market stocks, which have rallied as the dollar has weakened.

Fed Actions Result in Significant Bond Market Dislocations : When the Fed cut rates to zero and started its nine stimulus vehicles in mid-March, most fixed income markets sold off except U.S. Treasuries. The main bond market index, the Bloomberg Barclays Aggregate Bond (the "AGG") index, has a significant allocation to Treasuries. Treasury rates fell to their lowest rates in history sending treasury prices and returns soaring in a flight to safety move. As a result, the AGG is significantly outperforming other bond indices year-to-date (please see Table 1). The AGG added another 2.90% in the second quarter, but other fixed income asset classes rallied higher against treasury bonds closing a large portion of the gap in performance. Part of the rally was led by the Fed, which started buying corporate and high yield bonds via exchange traded funds.

CB&T'S PANDEMIC RESPONSE: Generating Higher Returns for Clients

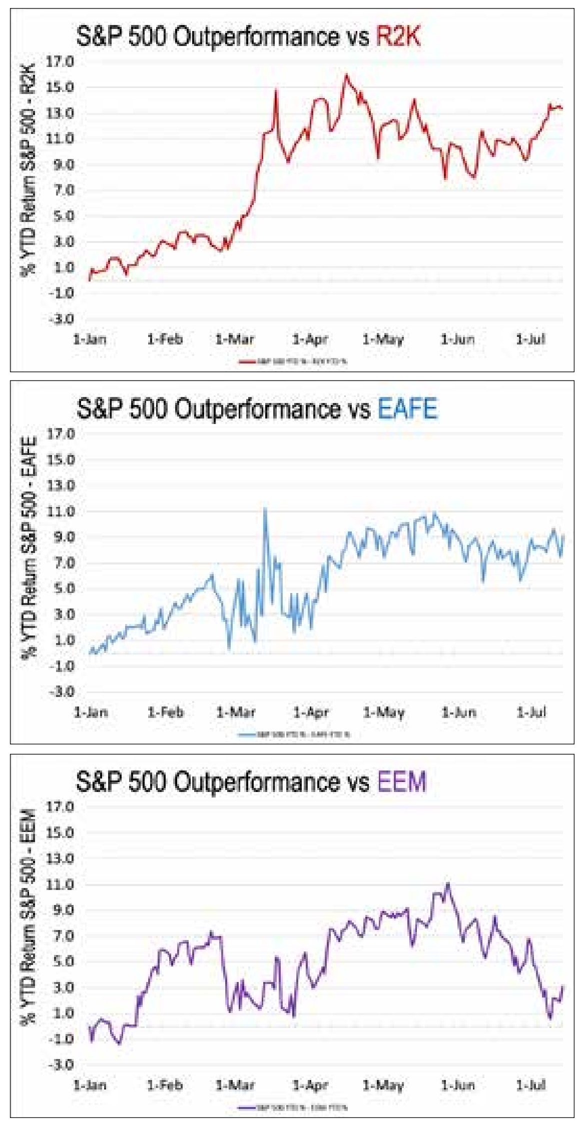
The vast majority of CB&T's client portfolios outperformed in the downturn. CB&T's investment style focuses on buying Quality Growth (companies) at a Reasonable Price or allocating to managers that invest in these companies. Quality growth companies include many tech, healthcare, consumer and communications firms with large net cash positions. Many of these businesses are less impacted by the pandemic and in some cases benefit. Traditional "Value" holdings with large dividend yields have been punished as these companies tend to grow slowly and fund shortfalls in cash flow by borrowing to pay dividends or buy back shares. They have above average debt levels and sold off more than the broader market. The S&P 500 growth index is outperforming the S&P 500 value index by 25% this year.

Rebalancing to Lagging Asset Classes: The rebalancing initiatives we took in March and early April paid off for our customers in the second quarter. A 75/25 portfolio fell to around 67/33 after the selloff and a 60/40 portfolio fell to 53/47. We dollar cost averaged into equities at lower prices in March and early April. The additional funds allocated to stocks were able to participate in the 20%+ rally in the S&P 500 and

Figure 2: Record S&P 500 Concentration

Source: WSJ: The Daily Shot, BofA, Bloomberg

Figure 3: S&P 500 vs. Major Indices



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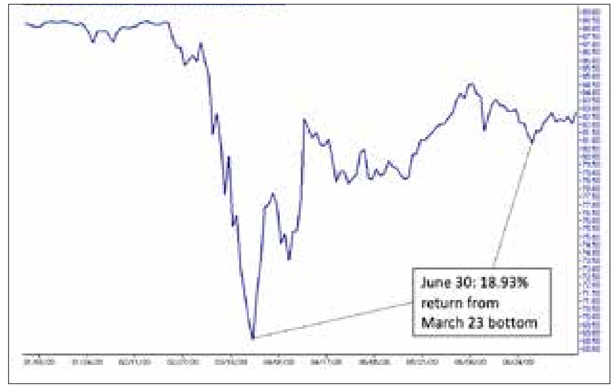
other equities. By quarter end most of our accounts were over allocated to equities following significant gains from the recovery.

By May, several market dispersions reached record levels and we began to reallocate portfolios to take advantage of these spreads. Generally, U.S. mega cap growth stocks are leading the recovery race by a very wide margin. We expect other asset classes to catch up and narrow this gap over the next 6 to 12 months. For instance, the average S&P 500 stock was underperforming the index by 12 percentage points in early May. Many of the financial, staples, consumer discretionary, industrial, energy, and materials stocks remain in a bear market down more than 20%. With almost half of the S&P 500 constituents down more trailing by 10% or more, we swapped a portion of large cap holdings for the S&P 500 "equal weight" index (RSP). By the end of the quarter the RSP closed the gap to 7% (outperformed the S&P by 5%), although the gap has widened again in July over Covid-19 shut down anxieties. In accounts that own individual securities, we continued to purchase leading companies with solid long-term growth prospects in the beaten down sectors, such as JP Morgan (JPM), Goldman Sachs (GS), Starbucks (SBUX), Target (TGT), Ulta Beauty (ULTA), TJX Companies (TJX), Boeing (BA), etc. These sectors and companies may not be able to recover materially until a vaccine is available, but we expect these selections to beat market returns over the next two to three years of recovery. Similarly, small and mid-cap, international and emerging market equities trailed the S&P by 12% to 14% at the end of the first quarter. We did not change our weightings to these asset classes, but we rebalanced to bring the holdings back to target weights. Small and mid-cap outperformed large cap stocks during the quarter but the YTD performance gap is back to roughly 12% in July. International and emerging market stocks closed the gap from 14% to 8% and 2%, respectively.

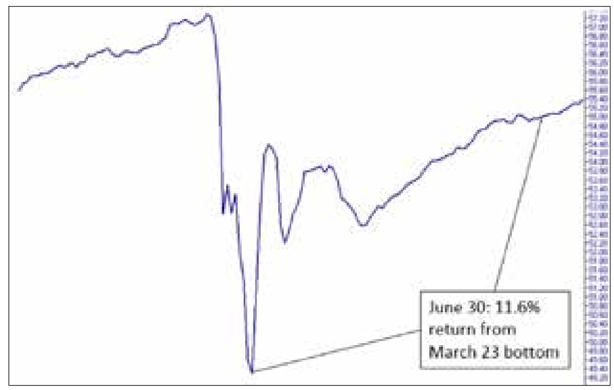
Capitalizing on "Fat Pitches": We are looking for significant dislocations or "Fat Pitches" in asset class values that present a rare opportunity to overweight the asset class for client portfolios. As in prior crises, high yield bonds and munis sold off sharply setting up a "fat pitch". We made a heavy allocation swap from investment grade to high yield and muni bonds or taxable munis in client accounts. So far the pivot has been a home run. The muni position generated an 8% to 9% return and the high yield position returned 11% to 12% for accounts on average.

Figure 4: High Yield Bond Returns



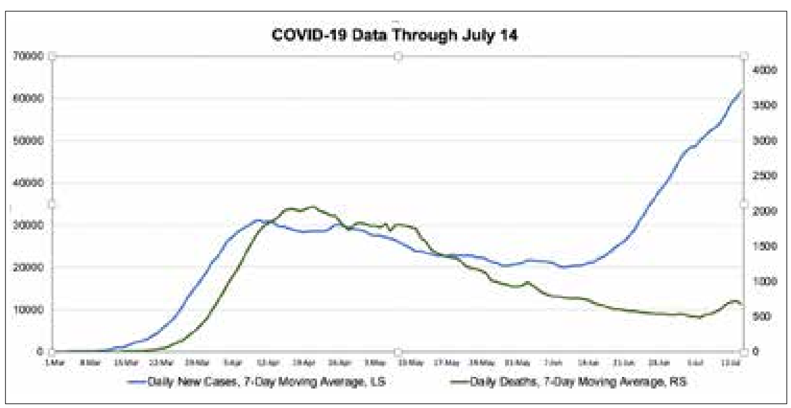
Source: CB&T; ThomspsonOne

Figure 5: Muni Bond Returns



Source: CB&T; ThomspsonOne

Figure 6: Cases Resurging, Deaths Down



Source: CB&T; The COVID Tracking Project

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As we discussed last quarter, we expected Emerging Market equities, which are heavily weighted to Asia, to rebound out of the downturn ahead of U.S. stocks. EM equities rebounded strongly during the quarter as the dollar began falling. We will likely increase EM allocations, but concern over the speed of de-globalization and potential backlash on China relative to the Hong Kong security law will likely keep us from overweighting to the level of a "fat pitch" swing.

OUTLOOK: Stretched Valuations Amid Re-opening Uncertainty

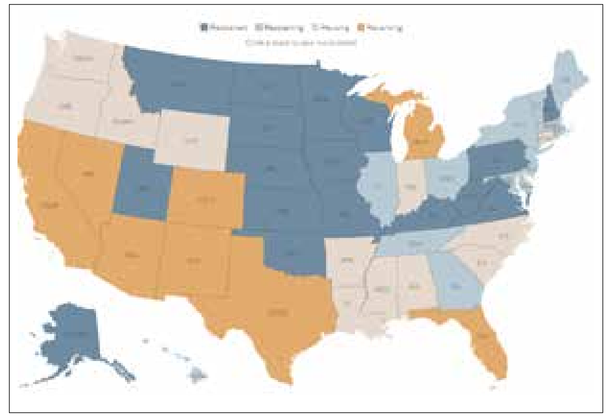
It took a little over a month for the S&P 500 to rebound out of bear market territory. Since mid-April the large cap index ranged between 2,800 (-18% from peak; -13% YTD) and 3,200 (-6%; -1%), finishing the quarter at 3,100 (-8%; -3%). The market appears to be about a year ahead of itself, in our opinion. The recovery has been sentiment driven and the S&P 500 is trading at 19x to 20x forward earnings - much higher than typical fundamental valuations.

Biggest Market Risk – Re-closing: In our assessment, the greatest risk to current market levels is for states to return to the lockdown status of March and April. New COVID daily cases peaked and started to decline during the first phase in mid-April, but new cases started to accelerate in mid-June. By the end of June, new cases exceeded the prior April peak. The good news is that the trajectory for deaths is much lower. An increase in testing is leading to earlier intervention. New treatments such as Remdesivir and Dexamethasone as well as improved medical management are improving outcomes. Nevertheless, cases are rising in 31 states that represent 90% of U.S. GDP and 21 states have paused re-opening or started to re-implement some prior restrictions. We do not believe, however, the U.S. will completely reverse to the lockdown levels of March or April.

Market Underestimating Recovery Time: The U.S. is going through the deepest economic contraction since WWII. We think the 3,200 level of the S&P 500 is pricing in a 95%+ economic recovery by the end of 2020 or early 2021. We view this as overly optimistic even if most states continued to re-open at the same pace prior to the case resurgence in late June. While GDP growth should turn positive in 3Q20, we believe it will take some time for employment and income to recover to pre-pandemic levels (please see Figures 8 and 9). Due to the shutdown of retail shops, restaurants, hotels, etc., consumer spending may take longer to recover because of supply disruptions and changes in consumer behavior.

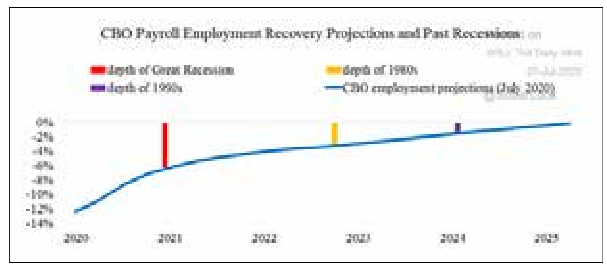
Election Risk Typically Brief: The presidential election poses another risk to markets this fall. Biden appears to have locked up several traditional blue states with large electoral blocks such as California, Illinois and New York (please

Figure 7: Re-opening Progress



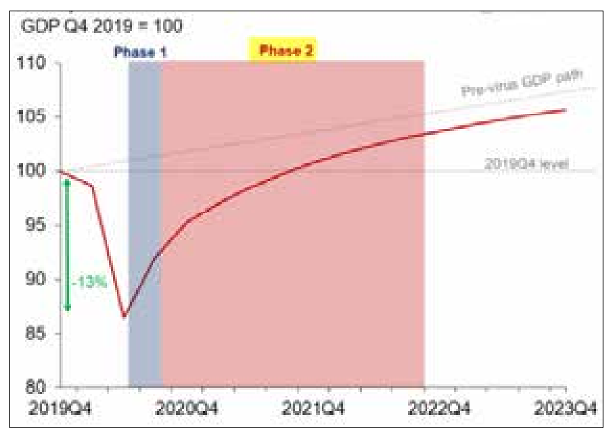
Source: The New York Times

Figure 8: Years for Employment to Recover



Source: CBO, BLS, WSJ, The Daily Shot

Figure 9: 2 Phase Recovery Likely



Source: Oxford Economics

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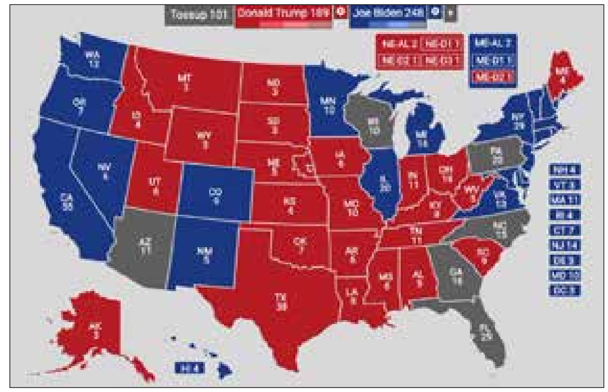
see Figure 10). Trump probably needs to win Florida and Pennsylvania plus three of four of the remaining states up for grabs (AZ, GA, NC and WI). Biden may only need to carry Florida to win. When an incumbent loses, the impact on markets is typically short-lived. Over the last 70 years, the market pulled back about 6% on average when the incumbent lost. The pullback often starts in late September, when it becomes apparent the current President may lose and the market typically recovers to its prior trajectory within three to six months (please see Figure 11).

Fed "Put"s Floor in Market: In March, the Fed enacted more stimulus than it did over the initial 12 months of the financial crisis, expanding its balance sheet to substantially higher levels (please Figure 13). Moreover, Congress enacted $3 trillion in fiscal stimulus in February and March; additional stimulus is expected this summer. To date, fiscal policy has increased federal debt to GDP to levels not seen since WWII (please see Figure 12). Even though the market may be ahead of itself amid pandemic, economic and political uncertainty, the Fed's active stimulus management coupled with fiscal stimulus will likely act as a "put" option, which places a floor in the price and limits the downside risk of a security. In this case, the Fed Put is expected to "put" a floor in the overall stock market. As Fed Chair Powell stated recently, rates will stay low as long as it takes the U.S. economy to recover fully, which should be several years.

Market Valuation Stretched Based on Fundamentals: There is no historical precedent for a global shutdown of this scale. The world is more interconnected than in prior recessions, and there are numerous scenarios for the resumption of global activity making fundamentals nearly impossible to predict. Prior to the coronavirus outbreak, S&P 500 earnings were expected to grow roughly 9% to $177. We now estimate EPS will fall between $115 and $125 for 2020. Assuming that a vaccine is distributed in the first half of 2021, we believe 2021 earnings can recover to the level of 2019 or about $160 to $165. We expect earnings to expand to between $170 and $175 for 2022 (please see Table 3). Basically earnings will be reset for two years, but it should not take the market two years to recover to the recent high. We believe that means the yield for the 10-year Treasury is likely to remain between 0.75% and 1.25%, which implies investment grade bonds are likely to offer 1% to 2% annual returns. With the risk free rate so low and bonds offering low returns, we expect the forward Price to Earnings multiple for the market to range between 18.0x and 19.0x. Until the market knows when the

Figure 10: Trump Currently Trailing Biden

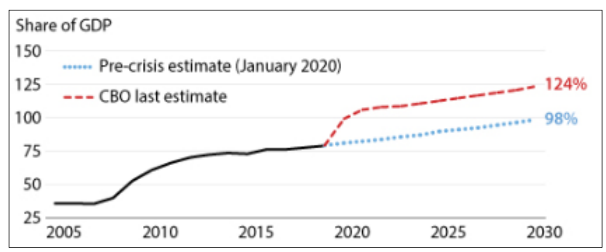


Source: 538 as of July 12, 2020

Figure 11: Pull-back when Incumbent Loses

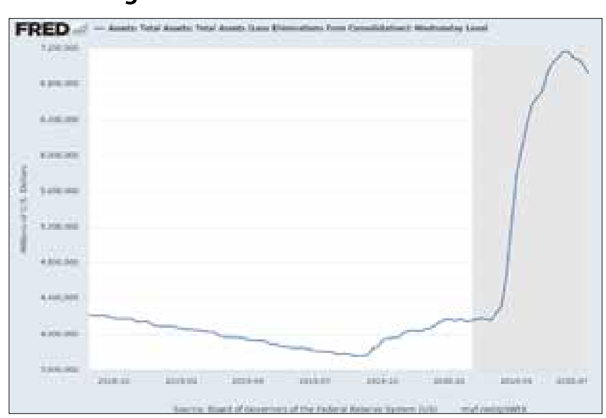
Source: WSJ The Daily Shot

Figure 12: Federal Debt % of GDP



Source: St. Louis Federal Reserve

Figure 13: Record Fed Balance Sheet



Source: St. Louis Federal Reserve

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world's population will be immunized, we believe investors will price the market off 2021 earnings which we estimate will be roughly $163. This methodology supports a S&P 500 range between 2,900 and 3,200. If our thesis about the immunization timing and earnings recovery is correct, we think the range may shift higher to 3,100 and 3,400 later in 2021 based on our estimate of $172 for 2022 earnings.

Table 3: S&P 500 Valuation

- S&P 500 Value 06/30/20:	3,100
- S&P 500 Multiple 19A:	19.0x
- S&P 500 Forward Multiple 20E:	25.8x
- S&P 500 Forward Multiple 21E:	19.0x
- S&P 500 Forward Multiple 22E:	18.0x

	Pre Covid-19	Cons/ CB&T	CB&T Growth %
- 2019 Actual:	$163	$163	0.6%
- 2020 Estimate:	$177	$120	-26.3%
- 2021 Estimate:	$196	$163	36.1%
- 2022 Estimate:	NA	$172	5.3%

Implied S&P 500 Valuation

	$150	$155	$160	$165	$170	$175	$180	$185
13.0x	1,950	2,015	2,080	2,145	2,210	2,275	2,340	2,405
13.5x	2,025	2,093	2,160	2,228	2,295	2,363	2,430	2,498
14.0x	2,100	2,170	2,240	2,310	2,380	2,450	2,520	2,590
14.5x	2,175	2,248	2,320	2,393	2,465	2,538	2,610	2,683
15.0x	2,250	2,325	2,400	2,475	2,550	2,625	2,700	2,775
15.5x	2,325	2,403	2,480	2,558	2,635	2,713	2,790	2,868
16.0x	2,400	2,480	2,560	2,640	2,720	2,800	2,880	2,960
16.5x	2,475	2,558	2,640	2,723	2,805	2,888	2,970	3,053
17.0x	2,550	2,635	2,720	2,805	2,890	2,975	3,060	3,145
17.5x	2,625	2,713	2,800	2,888	2,975	3,063	3,150	3,238
18.0x	2,700	2,790	2,880	2,970	3,060	3,150	3,240	3,330
18.5x	2,775	2,868	2,960	3,053	3,145	3,238	3,330	3,423
19.0x	2,850	2,945	3,040	3,135	3,230	3,325	3,420	3,515
19.5x	2,925	3,023	3,120	3,218	3,315	3,413	3,510	3,608
20.0x	3,000	3,100	3,200	3,300	3,400	3,500	3,600	3,700

Implied S&P 500 Price Change

	$150	$155	$160	$165	$170	$175	$180	$185
13.0x	-37%	-35%	-33%	-31%	-29%	-27%	-25%	-22%
13.5x	-35%	-33%	-30%	-28%	-26%	-24%	-22%	-19%
14.0x	-32%	-30%	-28%	-25%	-23%	-21%	-19%	-16%
14.5x	-30%	-28%	-25%	-23%	-20%	-18%	-16%	-13%
15.0x	-27%	-25%	-23%	-20%	-18%	-15%	-13%	-10%
15.5x	-25%	-23%	-20%	-18%	-15%	-13%	-10%	-8%
16.0x	-23%	-20%	-17%	-15%	-12%	-10%	-7%	-5%
16.5x	-20%	-18%	-15%	-12%	-10%	-7%	-4%	-2%
17.0x	-18%	-15%	-12%	-10%	-7%	-4%	-1%	1%
17.5x	-15%	-13%	-10%	-7%	-4%	-1%	2%	4%
18.0x	-13%	-10%	-7%	-4%	-1%	2%	5%	7%
18.5x	-10%	-8%	-5%	-2%	1%	4%	7%	10%
19.0x	-8%	-5%	-2%	1%	4%	7%	10%	13%
19.5x	-6%	-3%	1%	4%	7%	10%	13%	16%
20.0x	-3%	0%	3%	6%	10%	13%	16%	19%

Source: Yardeni Research & CB&T. Note add ~2% in dividends for S&P 500 total return

Pink Shade - Bear Market from 33394 2020 peak; Yellow Shade - Expected Levels; Green Shade - Irrational Exuberance

Recommendation: Even though the S&P 500 is closer to peak fundamental valuation and investors are ignoring the economic risk of a longer recovery and the political risk of a Trump loss, there is probably not too much downside in the face of an active Fed. We believe the market is likely to continue to "melt up", particularly if it looks like President Trump will be re-elected. In early 2021, fundamental data are likely to be lower and unlikely to support higher "melt up" valuations, which could lead to a pull-back. Nevertheless, an active Fed, the potential for a vaccine and forward 2022 fundamentals, would probably limit a pull back to current market levels. Given the low expected returns for bonds, we think investors are better off taking their chances remaining in equity markets and are not likely much or any worse off if lower than expected data materializes early next year. We are cautious on U.S. large cap stocks, but would remain equal weight. We believe there may be more opportunity in small and mid-cap U.S. equities as well as international and emerging market equities to close the gap in current performance versus the S&P 500, but does not offer a strong enough risk/return opportunity to overweight yet. We are remaining overweight in munis, high yield and credit in fixed income markets.

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ASSET ALLOCATION OUTLOOK

LAST QUARTER			THIS QUARTER	
WE BELIEVED →	ACTIONS TAKEN →	RESULTS	WE BELIEVE →	ACTIONS WE ARE TAKING
DOMESTIC EQUITIES			DOMESTIC EQUITIES	
We favored large cap with stronger balance sheets over small/mid-cap until we had greater clarity on treatment, vaccine and re-opening.	We held off trimming small / mid-cap and maintained model holdings as the gap widened between large cap expecting a rebound.	**Large Cap +20.5% in 2Q20, underperforming small cap +25.4% and mid-cap +24.1%**	We believe that small and mid-cap stocks will close much of the performance gap with large cap stocks in the next 6 - 12 months.	We are maintaining model weights established earlier in the year until we see a larger recovery in small and mid-cap stocks.
INTERNATIONAL EQUITIES			INTERNATIONAL EQUITIES	
We favored U.S. large cap over both international and EM holdings for the near term. Fed action is likely strong dollar near term, but lower in the long term.	We thought we may trim international to add to U.S. large cap. The dollar weakened during the quarter, so we maintained our international and EM weights. Our selections outperformed their benchmarks.	**International equities (+15.2%) underperformed U.S. large cap (+20.5%). EM (+18.1%) also underperformed U.S. large cap, but started to outperform late in the quarter and is outperforming in July.**	As the dollar remains lower, we believe that EM should show strong recovery and developed international will have a period of catch up to U.S. indices. We expect active managers with skillful security selection will outperform indices.	We expect to maintain our international allocation in the near term. We anticipate a catch-up rally on the back of EU fiscal stimulus. We are debating increasing allocation to EM.
FIXED INCOME			FIXED INCOME	
The Fed will keep rates low until the economy makes a robust recovery (24+ months). Returns likely between 1% and 2%.	We made a large overweight allocation to high yield (HY) in late March as yield spreads widened. The allocation is posting double digit returns and should continue to outperform core bonds near term.	**The BBG Aggregate returned +2.9%, while the High Yield index gained 9.6%. Local currency international and emerging market bonds gained 3.3% and 6.8%, respectively. Our bond selections outperformed the aggregate bond index during the quarter.**	The Fed will keep rates low until the economy makes a robust recovery (24+ months). Returns likely between 1% and 2% for core investment grade bonds.	We are maintaining our overweight to high yield. We believe there remains additional upside and high yield bonds should outperform core investment grade bonds during recovery.
We thought munis were oversold relative to the risks, particularly with Fed and fiscal action to aide states.	We made a large overweight allocation to munis in taxable accounts and taxable munis in non-taxable accounts in late March and have not trimmed.	**Munis underperformed core bonds in the quarter (+2.7% vs. +2.9%) on an absolute basis, but outperformed on tax-effective basis.**	We think munis remain attractive relative to investment grade bonds, considering the risks.	We are maintaining a slight overweight to munis and believe there remains additional upside. Longer-term: Biden tax reform could create a positive catalyst, if he is successful.
ALTERNATIVE ASSETS			ALTERNATIVE ASSETS	
We believed volatility would remain elevated until a coronavirus vaccine is widely available.	We maintained a 10% allocation to alternative strategies.	**Equity market volatility declined during the quarter, but remains above levels earlier this year and last year. Our alternatives baskets experienced a difficult quarter as equities rebounded sharply, falling -5.1% and -6.5% vs. -2.2% for the index.**	We believe volatility will remain elevated as new COVID cases rise, through the November election, and/or until a coronavirus vaccine is widely available.	We are maintaining our 10% allocation and continue to focus on strategies with no structural correlation to equities. We expect near term deflation due to growth stalled by COVID. Longer term inflation risks are rising upon recover due to record monetary & fiscal policy.
For more details on CBandT's investment outlook, please visit our Investment Commentary page at: https://cbandt.com/wealth-trust/resources/.				

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