Commonwealth
Bank & Trust Company

4Q 2020 Review & 2021 Outlook

WINTER 2021
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SUMMARY: Looking on the Bright Side... at least the Market Finished Up

Despite the medical, economic, political, and social turmoil in 2020, the S&P 500 posted an all-time-high closing price (3,756) on December 31 - an 18.40% total return. Let's hope it is a sign of good things to come in 2021. The S&P 500 closed 2019 with a 31.49% return placing the index up over 55% for the last two years. It was an extraordinary year for the market (please see Figure 1). The pre-pandemic S&P 500 made a new all-time-high on February 19 (3,393) only to free fall after the first COVID case in New York City was recorded on March 1. The Fed jumped in immediately, eventually cutting rates to zero and enacting more stimulus by the end of March than it did over the first 12 months of the 2008-2009 Financial Crisis. Nevertheless, the S&P 500 crashed fast, bottoming on March 23 down 34% from the all-time-high made the prior month. On March 27, the CARES Act authorized almost $2 trillion in direct aid (9% of 2019 GDP). These two unprecedented actions marked the largest monetary and fiscal stimulus package in U.S. history and formed the basis for a strong market recovery in the second and third quarters. Concerns over a contested election result erased gains in October. The market rallied on the approval of highly-effective vaccines from Pfizer and Moderna after the election. Passage of a $908 billion stimulus package in last days of 2020 helped the market to finish on an all-time-high.

Figure 1: S&P 500 Finishes at All-Time-High

Table 1: Index Returns

As of 12/31/2020 (except 1Q, 2Q, & 3Q Data)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	LTM (2020)	Last 3 Years	Last 5 Years	Last 10 Years
S&P 500	-19.60%	20.54%	8.93%	12.14%	18.40%	14.18%	15.20%	13.87%
Russell 2000 (Small Cap)	-30.61%	25.42%	4.93%	31.37%	19.96%	10.25%	13.26%	11.20%
MSCI EAFE (International)	-22.83%	14.88%	4.80%	16.05%	7.82%	4.28%	7.45%	5.51%
MSCI EME (Emerging Markets)	-23.60%	18.08%	9.56%	19.70%	18.31%	6.17%	12.81%	3.63%
BBG BARC Aggregate Bond	3.15%	2.90%	0.62%	0.67%	7.51%	5.34%	4.44%	3.84%
BBG BARC Municipal Bond Index	-0.63%	2.72%	1.23%	1.82%	5.21%	4.64%	3.91%	4.63%
ICE BofA/ML High Yield Index	-13.12%	9.61%	4.71%	6.48%	6.17%	5.89%	8.43%	6.62%
BBG BARC Global Aggregate Bond	-0.33%	3.32%	2.66%	3.28%	9.20%	4.85%	4.79%	2.83%
BBG BARC Emerging Markets Bond	-9.48%	10.00%	2.37%	4.50%	6.52%	5.53%	6.91%	6.01%

Source for Figure 1: CB&T; Thomson Reuters | Source for Table 1: Informa & Bloomberg

4Q20 Rotation Reverses Many Extreme Dislocations : Contrary to many bear markets, U.S. large cap growth stocks significantly outperformed most asset classes in the first half of the year, outperforming value stocks by 30%. Despite the rebound in April, 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 remained in bear market territory, or down more than 20%. Furthermore, small, mid-cap, international and emerging market equities trailed the S&P by 12% to 14%. After the vaccine announcement, investors rotated into asset classes and industry sectors that were out of favor for the first three quarters of the year. Small cap, midcap, international and emerging markets outperformed the S&P 500 large cap index in the fourth quarter. Small cap and emerging markets stock performance ended the year ahead of or in line with the S&P 500, 19.9% and 18.3% vs. 18.4%, respectively (please see Table 1). Performance of growth stocks outpaced value stocks earlier in the year, but underperformed value in the fourth quarter.

Table 2: Sector Returns

As of 12/31/2020 (except 1Q, 2Q, & 3Q Data)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	LTM (2020)	Last 3 Years	Last 5 Years	Last 10 Years
S&P 500	-19.60%	20.54%	8.93%	12.14%	18.40%	14.18%	15.20%	13.87%
Communication Services	-16.95%	20.04%	8.94%	13.82%	23.61%	12.77%	11.86%	10.08%
Consumer Discretion	-19.29%	32.86%	15.06%	8.04%	33.30%	19.80%	17.54%	17.72%
Consumer Staples	-12.74%	8.12%	10.38%	6.35%	10.75%	8.99%	9.14%	11.82%
Energy	-50.45%	30.51%	-19.72%	27.76%	-33.68%	-33.68%	-15.31%	-5.20%
Financials	-31.92%	12.20%	4.44%	23.19%	-1.76%	4.11%	11.08%	10.77%
Healthcare	-12.67%	13.59%	5.87%	8.03%	13.45%	13.43%	11.63%	15.88%
Industrials	-27.06%	17.01%	12.47%	15.67%	11.05%	7.57%	12.35%	11.94%
Info. Tech	-11.93%	30.53%	11.95%	11.81%	43.89%	29.19%	27.78%	20.67%
Materials	-26.14%	26.01%	13.31%	14.47%	20.73%	8.66%	13.14%	9.06%
Real Estate	-19.21%	13.22%	1.92%	4.94%	-2.17%	7.26%	7.17%	10.07%
Utilities	-13.50%	2.73%	6.14%	6.58%	0.52%	9.76%	11.49%	11.27%

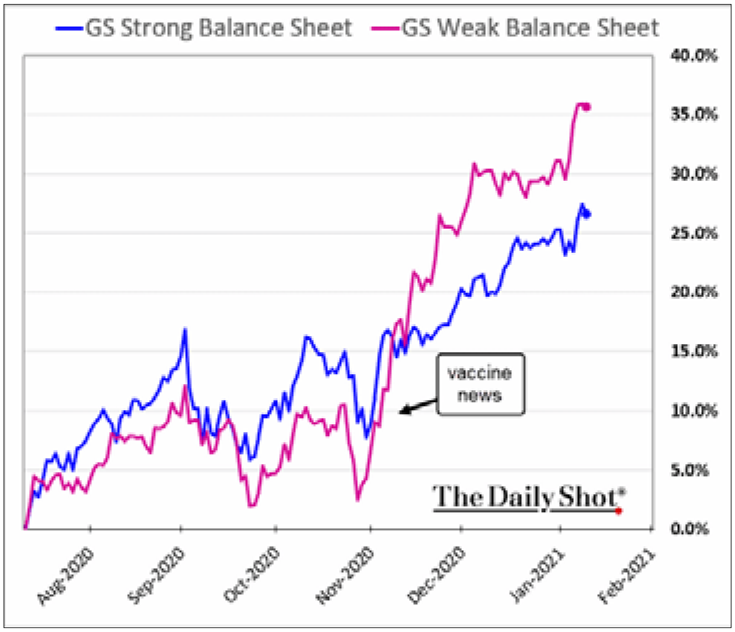
Source for Table 2: Informa & Bloomberg

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

CB&T's client portfolios outperformed in the downturn and sustained that outperformance through the end of the year. Our 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, whereas value companies often carry significant debt. Many of these businesses have been less impacted by the pandemic and in some cases benefited. The S&P 500 growth index outperformed the S&P 500 value index by 30% through the third quarter, but lower quality value companies started to outperform after a vaccine was announced in the fourth quarter (please see Figure 2)..

Rebalancing to Lagging Asset Classes: The rebalancing initiatives we took in March and early April, when we bought equities that had sold off more than 20%, paid off for our customers in 2020. By May, other market dispersions reached record levels and we made additional advantageous reallocations to portfolios. Initially, U.S. mega cap growth stocks led the recovery by a wide margin, but we expected other asset classes to catch up and narrow this gap into year end. For instance, the average S&P 500 stock was underperforming the index by 12 percentage points in early May. We swapped a portion of large cap holdings for the S&P 500 "equal weight" index (RSP). The RSP outperformed the S&P by 6 percentage points in the last half of the year. Small, mid-cap, international and emerging market equities trailed the S&P by 12% to 14% at the end of the first quarter. We have been adding weight to these asset classes in 2020

Figure 2: Low Quality Stocks Rally on Vaccine News



Source: The Daily Shot, Goldman Sachs

and in early 2021. All of these asset classes outperformed the large cap S&P 500 index in the fourth quarter (please see Table 1). Small, mid-cap emerging market stocks outperformed large cap stocks during the last nine months of the year.

Capitalizing on "Fat Pitches": We look for significant dislocations or "Fat Pitches" in asset class values that present a rare profit opportunity for client portfolios. As in prior crises, high yield and municipal bonds (munis) sold off sharply setting up a "fat pitch". We executed a heavy allocation swap from investment grade to high yield and muni bonds or taxable munis in client accounts and the pivot was a home run. The muni position generated a 10% to 12% return and the high yield position returned 16% to 18% for accounts on average, before we closed these positions in late August and early September.

CB&T Common Trust Fund Results: Most of our ideas for individual portfolios come from our management of common trust funds (CTFs). Our CTFs delivered significant outperformance in 2020 with lower volatility than their indices.

COVID & RE-OPENING: Surge Begins to Decline in February; Herd Immunity by End of 2Q21

The holidays and possibly a more virulent strain of COVID led to a surge in cases and hospitalizations in December and January forcing further shutdowns of institutions, businesses and activities across states (please see Figure 3). Problems with last-mile logistics have also placed the rollout of immunizations behind schedule. As a result economic data for December and January are retreating from recent sequentially improving levels, albeit well ahead of forecasts made last spring. Cases and hospitalizations are rolling over and immunization logistics are improving in mid-January. We expect cases and hospitalizations to decline from surge levels in February. Despite the disappointing pace of vaccine rollout, models estimate the death rate will decline rapidly in coming months (please see Figure 4). Epidemiologists believe that 20% of the population has been exposed. Even with the slower than expected pace of the early vaccine rollout, most experts believe 40% of the population can be inoculated by the end of June, which would bring the U.S. near the level of herd immunity (60%). We cannot accurately predict the timing and magnitude of how the U.S. economy will re-open. Since roughly 95% of the U.S. economy was estimated to have been open in the fall of 2020 without a vaccine, we would expect 95% to 100% of the economy to re-open by the end of summer with hopes for a full re-opening by year end. If death rates fall precipitously by the end of March as predicted, it may prompt a stronger re-opening sooner.

MARKET OUTLOOK: Market Melt Up Continues, If Fed Can Maintain Rates Near Zero

Extraordinary low interest rates are supporting high valuations for stocks and other assets. Until the economy is restored to full employment, the Fed intends to keep rates at current levels. As long as short term rates remain near zero (Zero Interest Rate Policy or "ZIRP"), we believe equity markets will continue to "melt up" into valuations that look high relative to historical multiples (e.g. forward P/E multiples > 20x). Troubling for investors, forward earnings

Figure 3: COVID Cases Surge over Holidays

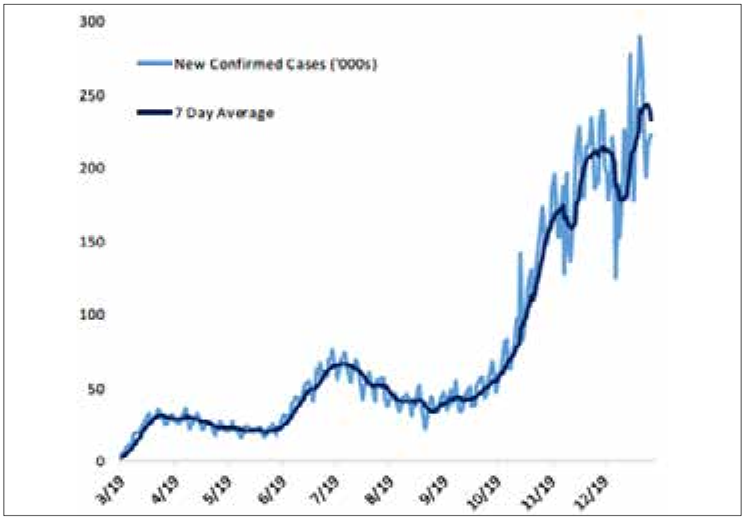
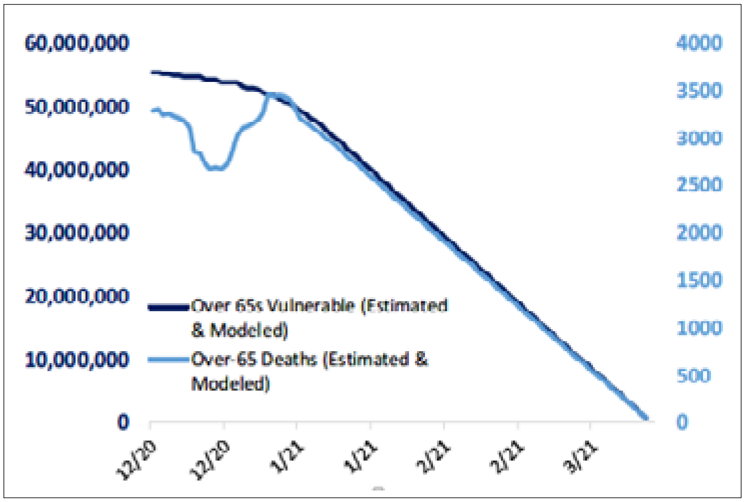


Figure 4: Death Rate will Drop Faster than Expected



Source for Figures 3 & 4 : The Bespoke Group

Table 3: CB&T Common Trust Fund Returns

As of 12/31/2020 (except 1Q, 2Q, & 3Q Data)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	LTM (2020)	Last 3 Years	Last 5 Years	Last 10 Years
EQUITY FUNDS								
CB&T Focused Equity Core	-14.91%	17.30%	8.79%	13.55%	23.29%	16.06%	15.46%	13.86%
CB&T Sci-Tech Growth	-9.99%	28.99%	11.94%	11.58%	45.02%	27.06%	23.52%	17.92%
CB&T Aggressive Growth	-22.85%	18.25%	4.52%	13.96%	8.68%	14.83%	16.48%	15.73%
S&P 500	-19.60%	20.54%	8.93%	12.14%	18.40%	14.18%	15.20%	13.87%
EQUITY INCOME								
CB&T Strategic Income	-17.01%	13.31%	3.76%	10.64%	7.96%	7.64%	8.98%	8.38%
Strategic Income Benchmark	-15.87%	9.86%	3.52%	10.50%	5.71%	6.21%	7.97%	8.01%
ALTERNATIVES								
CB&T Liquid Alpha	0.17%	-5.10%	0.69%	3.46%	0.61%	1.90%	1.17%	N/A
Liquid Alpha Benchmark	-0.54%	-2.15%	-0.70%	6.75%	3.16%	1.06%	0.54%	N/A
MUNICIPAL FIXED INCOME								
Muni Fund Blend	0.32%	2.56%	1.00%	1.09%	5.57%	4.81%	3.98%	3.87%
Barclays 1-12 Yr. Muni Index	-0.56%	2.69%	1.07%	0.98%	4.23%	3.82%	2.96%	3.26%

Source for Table 3: Informa & Bloomberg

Figure 5: Employment Recovery

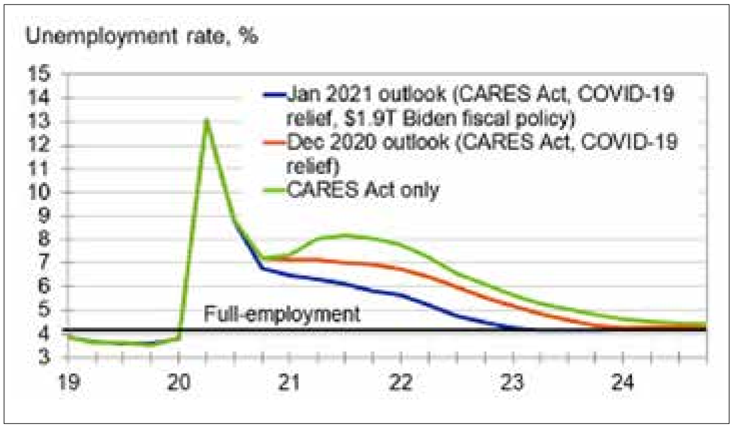
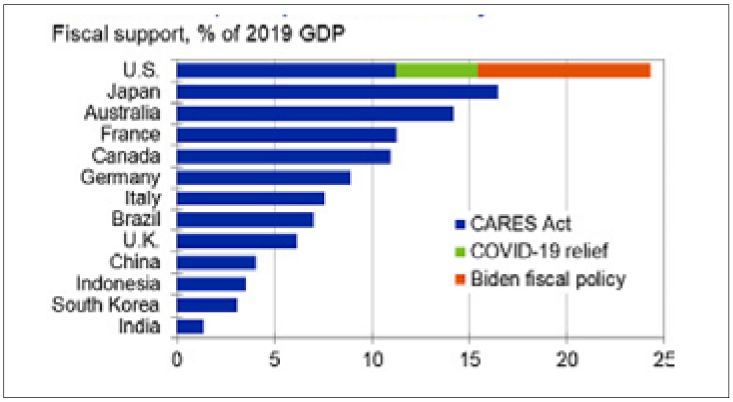


Figure 6: U.S. Stimulus Exceeds Other Economics



Source for Figures 5 & 6: Moody's Analytics

multiples in excess of 20x are often reached ahead of bear market (20%+) corrections. While "this time may not be different", we believe there are several factors including those discussed below that could put off such a correction for most of this year or longer and lead us to recommend staying the course in equities.

Fed Committed to ZIRP Monetary Policy: The Fed continues to stand by its assertion that it expects to keep rates near zero until at least the end of 2023. The Fed's *"dual mandate"* is *"to promote goals of maximum employment and stable prices [inflation]."* During the current economic downturn the Fed has made clear that it is strongly committed to restoring full employment. Comments and testimony made by Fed Chairman Powell also indicate a focus on restoring employment to a level where relative wages improve more broadly for U.S. citizens in rural areas and in lower income brackets. Furthermore, Biden's choice of Janet Yellen as Treasury Secretary further indicates an emphasis on broader employment and income initiatives. Some of Yellen's economic research papers at Berkeley/Haas focused on income inequality and she is viewed as a leader in unemployment and labor market economic research. The Fed declared it would relax its inflation target of 2% and permit inflation to rise higher, or "run hot". In recent speeches some Fed governors have stated that the Fed is willing to sustain a period of 3% inflation readings. The move signals that the Fed will not remain on autopilot with traditional inflation policy, lowering the risk of raising rates before the economy and employment have recovered, which can result in stagflation. Easy monetary policy is probably the strongest support for increasing market returns.

Biden Committed to Massive Fiscal Policy: In March the government enacted $2 trillion in legislation to fund vaccine development, the manufacturing for ventilators and protective medical equipment, direct payments to individuals, forgivable loans to businesses (PPP) and extended/enhanced unemployment insurance support. Following more than six months of partisan bickering and political theater, Congress enacted an additional $900 billion in stimulus funding similar programs in December. On January 14, President-elect Biden introduced a $1.9 trillion spending proposal to increase and extend benefits until the end of September 2021. If the Biden proposal is enacted, the government will spend $4.8 trillion in stimulus over 18 months or roughly 23% of 2019's $21 trillion in GDP. GDP is estimated to have fallen between 2.5% and 3.5% in 2020, which is much less than the 5.7% drawdown estimated in April. Assuming herd immunity is reached by the end of the first quarter and almost all of the economy is reopened, we estimate that $2.8 trillion new stimulus could overshoot the output gap to restore the economy to 2019 levels by $400 to $900 billion. On one hand, the large stimulus would be extremely bullish for corporate earnings, consumer spending and the market. On the other hand, overshooting the output gap by 2% to 4% of GDP could result in inflation or other unintended consequences (e.g. asset bubbles, stagflation, etc.).

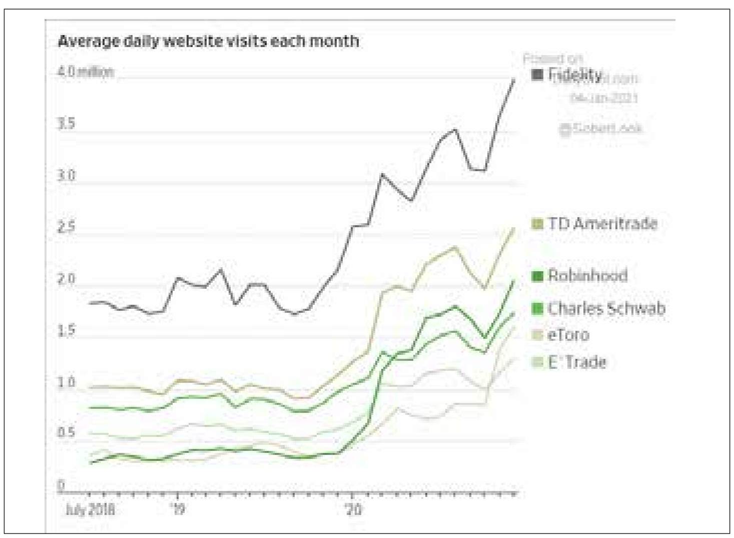
Speed of Recovery Exceeding Estimates: Economic results for 2020 did not turn out as dire as predicted in March and April. Most importantly, unemployment finished significantly lower at 6.7%, but better than early estimates of 9.0% or higher. Additionally, GDP, manufacturing, and housing have all surprised to the upside. The recent COVID surge and increased unemployment benefits have caused jobless claims to increase in December and January, but are expected to decline in February. We expect economic data to continue to surprise to the upside after January for at least the remainder of the first half of 2021, until year over year comparisons become more difficult in the second half. With help from Asia, global GDP is recovering faster than U.S. GDP (please see Figure7). Since about 40% of S&P 500 revenues is generated overseas, global recovery and a weaker dollar should boost earnings for many S&P 500 heavyweights.

Incremental Market Flows Resulting from Increased Savings: Even though many lost their jobs and income during the pandemic lockdowns, the net savings rate in the U.S. increased significantly. Untargeted helicopter stimulus checks of $1,200 were paid to

Figure 7: Global GDP Recovery in 2021?

Figure 8: Possibly $2 Trillion in Excess Savings

Figure 9: Record Trading for On-line/Discount Brokers



Source for Figures 7 & 8: Morgan Stanley | Source for Figure 9: The Daily Shot

individuals making less than $75,000 and up to $2,400 to couples making less than $150,000, even if still employed. In most states, unemployment benefits were as much as 50% higher than average earnings and in many cases unemployment wages were more than those paid by the lost or furloughed job. With much of the population and economy on lock down, consumers had less opportunity to spend, particularly on services, restaurants, travel, etc. The net result has been a surge in savings, which found its way into markets (please see Figures 8 and 9). Discount and on-line brokers experienced record account openings and on peak trading days in 2020 trading volume from individuals accounted for 25% of trading volume vs. 10% in 2019. It is estimated that $1 trillion in excess savings was created prior to the $900 billion stimulus package in December. It is possible the $900 billion and $1.9 trillion stimulus, if passed, could result in an additional $1 trillion of excess savings to flow into the market via retail investors further supporting a market melt-up.

What Can Derail the Melt-Up in 2021?: We think interest rates are the key to market stability for 2021. We believe the market will correct if short term rates rise materially or the 10-year treasury starts to rise above 1.50%. The market could also correct if the Biden administration enacts some of the campaign policies that were business or market unfriendly such as those targeted towards increasing capital gains and corporate taxes and reducing tax deductibility of contributions to 401Ks and IRAs.

Why do higher rates result in a market correction? A stock price represents the future cash flow, earnings and value creation discounted back at a risk-appropriate rate for that stock. A market index such as the S&P 500 represents the weighted sum of those valuations. Price-to-earnings (P/E) and other stock valuation multiples are short-hand methods to apply the risk appropriate discount rate. That discount rate is made up of the risk-free rate, usually the 10-year treasury rate or the short-term T-bill rate plus an equity risk premium appropriate for the risks related to a given company or stock. A P/E multiple is the inverse of the discount rate. If the 10-year treasury is 1.0% and the equity risk premium for a tech stock is 4.0%, the discount rate would be 5.0%. This would equate to a 20.0x P/E multiple (1/0.05 = 20.0). If the 10-year treasury rises to 1.50% and is expected to remain at that level, the discount rate rises to 5.50% and the P/E multiple falls to 18.2x, which could mathematically cause the stock to fall 9%. Collectively, if the market trades at 20.0x, the market could also correct by 9%.

We see three scenarios below that could cause rates to rise to levels that could create a market correction:

1. **Unemployment, wages and other fundamental economic factors recover much stronger and faster than expected, so the Fed decides to raise short-term rates unexpectedly.** We think this scenario is unlikely in 2021. Its guidance indicate that the Fed believes that fundamental labor and economic improvements will not be achieved until 2023.
2. **Inflation**, possibly resulting from fiscal stimulus policies, surges past 3% and appears to be running out of control for a sustainable period. In this worst-case circumstance, inflation could force the

Figure 10: Largest Tax Increase since LBJ

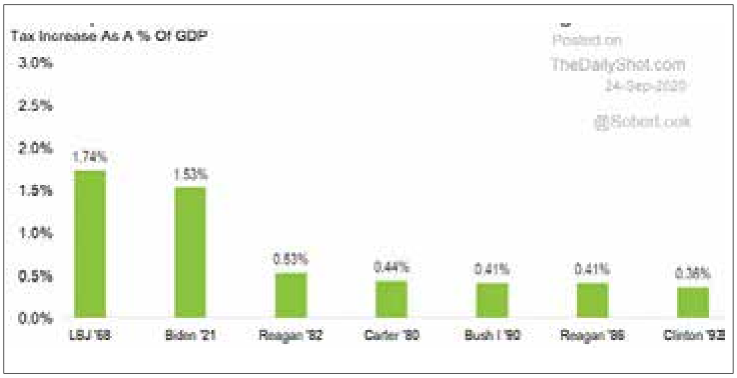
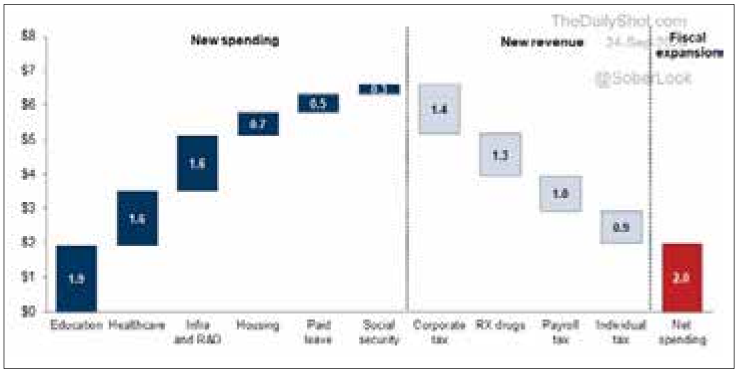


Figure 11: Large Tax Increase + Larger Spending = $2T Deficit



Source for Figures 10 & 11: The Daily Shot, Goldman Sachs, U of Pennsylvania

Fed's hand. This seems unlikely given demographics, economic growth and inflation trends of the last few decades. Inflation has not been able to reach 3% in over 25 years, even when the Fed wanted to reach those levels to jump start the economy after the financial crisis. Nevertheless, if this were to happen it would likely put the brakes on economic growth and usher in a period of stagflation (high inflation with stagnant economic growth). We think this scenario is least likely, but it could carry the highest probability for a bear market correction (20%+) of the three scenarios.

3. **Inflation fears** (investor sentiment), likely resulting from increasingly higher inflation readings, leads to a sell-off in Treasuries causing short term and/or long-term rates to rise significantly higher. We think this is the most likely of the three scenarios that could cause rates to rise in 2021 and could lead to a short-term, but significant market correction (5% to 15%). This would likely be manageable via monetary policy and the Fed could step up targeted purchases of bonds to bring rates back to targets. We would probably buy this dip. We also think this scenario may be the catalyst to burst bubbles that have developed in certain parts of the market (please see "Valuations Stretched, but Few Stocks in Bubble Territory" below).

Biden's Tax Policies Could Also Derail the Market: We remain concerned that Biden could introduce or enact substantial tax and spending campaign policies prematurely in 2021. Additionally, Biden has started to reverse executive orders that relaxed costly Obama-era regulatory restraints. Even with a 50/50 Senate, tax policies cannot be legislated independently and will have to be part of budget reconciliation or continuous resolution bills. We would expect tax and spending legislation as well as tighter regulatory constraints to be introduced after a strong recovery in the U.S. economy, which we think takes until 2022.

Biden's campaign tax policy would be the largest tax increase since LBJ established "The Great Society" Medicaid and Medicare programs and permanently boosted social security benefits (please see Figures 10 and 11). The policy fails to fund $2 trillion of spending over ten years. Only about $2 trillion of the $7 trillion spending proposal invests in productivity enhancing policies, and also disincentivize capital formation for future investment.

Valuations Stretched, but Few Stocks in Bubble Territory: On the surface, valuations for the S&P 500 large cap and other indices look stretched. If one digs a little deeper, however, the analysis shows that valuations are within reason even for the large tech names and more reasonable for the median S&P 500 stock (18.7x 2022 P/E).

We believe market volatility leading to a significant correction (>10%) led by inflation fears or Biden policies are not likely to lead to a bear market as long as the Fed remains accommodative. Nevertheless, certain industries and stocks are in bubble territory: Electric vehicles (EV) and the EV supply chain companies, CRSPR stocks, recent tech IPOs, and COVID stay-at-home stocks (please see Tables 6-9). Valuations for some of these stocks are reminiscent of the 1999 to 2000 dotcom tech bubble. Furthermore, these stocks are also among the most frequently owned by retail and on-line investors. Some of the companies are trading at 20x forward revenues and many are not yet profitable. We think a strong period of volatility or significant correction could pop these asset bubbles causing the stocks to be re-rated to more sensible valuations. While valuations are stretched for some of the tech giants, their valuations are more reasonable given their competitive advantages, high profit margins, strong free cash flow generation, and clean balance sheets.

Trying to value the market at already stretched valuations presents additional challenges. From an inflexible fundamental basis, the S&P 500 has little upside beyond 3,800 (based on consensus earnings estimates) - roughly a 3% total return expectation including dividends. We expect the market to melt up beyond current fundamental valuations for the next 6 to 12 months as the economy recovers. If the S&P 500 is trading at 20.4x 2022 aggregate estimated earnings of $184 and the median S&P 500 company is trading at 18.7x, we believe this valuation gap is likely to close as investors rotate into

Table 4: S&P 500 Valuation

- S&P 500 Value 12/31/20:	3,756
- S&P 500 Multiple 19A:	23.1x
- S&P 500 Forward Multiple 20E:	28.9x
- S&P 500 Forward Multiple 21E:	22.6x
- S&P 500 Forward Multiple 22E:	20.4x

	Pre Covid-19	Cons/ CB&T	CB&T Growth %
- 2019 Actual:	$163	$163	0.6%
- 2020 Estimate:	$177	$130	-20.2%
- 2021 Estimate:	$196	$166	27.7%
- 2022 Estimate:	NA	$184	10.8%

Implied S&P 500 Valuation

	$160	$165	$170	$175	$180	$185	$190	$195	$200
14.0x	2,240	2,310	2,380	2,450	2,520	2,590	2,660	2,730	2,800
14.5x	2,320	2,393	2,465	2,538	2,610	2,683	2,755	2,828	2,900
15.0x	2,400	2,475	2,550	2,625	2,700	2,775	2,850	2,925	3,000
15.5x	2,480	2,558	2,635	2,713	2,790	2,868	2,945	3,023	3,100
16.0x	2,560	2,640	2,720	2,800	2,880	2,960	3,040	3,120	3,200
16.5x	2,640	2,723	2,805	2,888	2,970	3,053	3,135	3,218	3,300
17.0x	2,720	2,805	2,890	2,975	3,060	3,145	3,230	3,315	3,400
17.5x	2,800	2,888	2,975	3,063	3,150	3,238	3,325	3,413	3,500
18.0x	2,880	2,970	3,060	3,150	3,240	3,330	3,420	3,510	3,600
18.5x	2,960	3,053	3,145	3,238	3,330	3,423	3,515	3,608	3,700
19.0x	3,040	3,135	3,230	3,325	3,420	3,515	3,610	3,705	3,800
19.5x	3,120	3,218	3,315	3,413	3,510	3,608	3,705	3,803	3,900
20.0x	3,200	3,300	3,400	3,500	3,600	3,700	3,800	3,900	4,000
20.5x	3,280	3,383	3,485	3,588	3,690	3,793	3,895	3,998	4,100
21.0x	3,360	3,465	3,570	3,675	3,780	3,885	3,990	4,095	4,200
21.5x	3,440	3,548	3,655	3,763	3,870	3,978	4,085	4,193	4,300
22.0x	3,520	3,630	3,740	3,850	3,960	4,070	4,180	4,290	4,400

Implied S&P 500 Price Change

	$160	$165	$170	$175	$180	$185	$190	$195	$200
14.0x	-40%	-38%	-37%	-35%	-33%	-31%	-29%	-27%	-25%
14.5x	-38%	-36%	-34%	-32%	-31%	-29%	-27%	-25%	-23%
15.0x	-36%	-34%	-32%	-30%	-28%	-26%	-24%	-22%	-20%
15.5x	-34%	-32%	-30%	-28%	-26%	-24%	-22%	-20%	-17%
16.0x	-32%	-30%	-28%	-25%	-23%	-21%	-19%	-17%	-15%
16.5x	-30%	-28%	-25%	-23%	-21%	-19%	-17%	-14%	-12%
17.0x	-28%	-25%	-23%	-21%	-19%	-16%	-14%	-12%	-9%
17.5x	-25%	-23%	-21%	-18%	-16%	-14%	-11%	-9%	-7%
18.0x	-23%	-21%	-19%	-16%	-14%	-11%	-9%	-7%	-4%
18.5x	-21%	-19%	-16%	-14%	-11%	-9%	-6%	-4%	-1%
19.0x	-19%	-17%	-14%	-11%	-9%	-6%	-4%	-1%	1%
19.5x	-17%	-14%	-12%	-9%	-7%	-4%	-1%	1%	4%
20.0x	-15%	-12%	-9%	-7%	-4%	-1%	1%	4%	6%
20.5x	-13%	-10%	-7%	-4%	-2%	1%	4%	6%	9%
21.0x	-11%	-8%	-5%	-2%	1%	3%	6%	9%	12%
21.5x	-8%	-6%	-3%	0%	3%	6%	9%	12%	14%
22.0x	-6%	-3%	0%	3%	5%	8%	11%	14%	17%

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

Pink Shade - Bear Market from 3,756 2020 closing peak; Yellow Shade - Expected Levels; Green Shade - Irrational Exuberance

stocks that have lagged for the last year. If median or lower valued stocks approached a 20.0x valuation and most other stocks hold their value as additional funds flow into the market, the S&P 500 could rise by 10% to 4,130. An increase to fundamental earnings estimates is another area of potential market support. Companies have been raising guidance and analysts have been raising estimates as fundamental economic data surprised to the upside in the third and fourth quarters. Some of the increase in estimates appear legitimate. Other increases appear to be calibrated to justify a buy rating on a stock valuation that has overshot its estimates. Large brokerages and trading desks (wire houses) are in the business to sell and trade securities. We are already seeing 2022 market estimates raised above $200 for the S&P 500 by two of the large wire houses. If the 2022 market multiple remains 20.4x and estimates rise to $200, the market could rise to 4,080 (8.6%).

Recommendations: The current economic, political and market backdrop is challenging for asset allocation. Several equity asset classes have reached stretched valuations. Meanwhile, investing in fixed income markets is particularly difficult as the Fed maintains a focus on keeping short-term rates near zero. Money markets yield around 0.01% as they did after the financial crisis. Ten-year treasury rates are near 1.00%, so traditional bonds likely offer less

Table 5: Mega-Cap S&P 500 Stocks vs. the Median Stock

Company	Ticker	1/22/2021 PRICE	Market Cap $MM	2-Yr fwd EPS CAGR to 2022	Sales 2-yr. CAGR Fwd	CURRENT Price 2022 P/E	2022 PEG Ratio	EV/ REVS. 2022
TOP 10 S&P 500 Stock Average[1]			$980,043	21.5%	13.9%	26.4x	1.50x	6.1x
FANMAG Average			$1,291,223	24.5%	16.3%	34.0x	1.51x	6.0x
Median S&P 500 Stock			$27,760	11.5%	5.6%	18.7x	1.62x	3.6x

FANMAG = FB, AAPL, NFLX, MSFT, AMZN, GOOGL

Table 6: Electric Vehicles / Hydrogen / Clean Energy

Company	Ticker	1/22/2021 PRICE	Market Cap $MM	2-Yr fwd EPS CAGR to 2022	Sales 2-yr. CAGR Fwd	CURRENT Price 2022 P/E	2022 PEG Ratio	EV/ REVS. 2022
Bloom Energy Corp	BE	$40.18	$5,557	NA	24.8%	179.4x	NA	5.2x
Ballard Power Systen	BLDP	$37.07	$10,450	-47.4%	34.7%	NA	NA	52.1x
Blink Charging Co	BLNK	$44.35	$1,834	-14.0%	94.7%	NA	NA	91.0x
Nio Inc	NIO	$61.95	$80,059	NA	84.2%	89.9x	NA	9.2x
Plug Power Inc	PLUG	$66.87	$31,298	-37.4%	42.5%	NA	NA	46.6x
SunRun Inc	RUN	$86.39	$17,065	96.9%	32.6%	229.8x	2.37x	11.9x
Tesla Inc	TSLA	$846.64	$802,531	50.1%	36.7%	158.9x	3.17x	13.8x
Workhorse Group Inc	WKHS	$23.51	$2,834	NA	N.M.	N.M.	NA	9.3x
Xpeng Inc	XPEV	$56.39	$27,387	-49.6%	120.9%	NA	NA	6.1x
Average EV / Hydrogen / Clean Energy Stock				-0.2%	58.9%	164.5x	N.M.	27.2x

Source for Tables 5 & 6: CB&T and Thomson Reuters

urce for Figures 10 & 11: The Daily Shot, Goldman Sachs, U of Pennsylvania

Table 7: Recent IPOs

Company	Ticker	1/22/2021 PRICE	Market Cap $MM	2-Yr fwd EPS CAGR to 2022	Sales 2-yr. CAGR Fwd	CURRENT Price 2022 P/E	2022 PEG Ratio	EV/ REVS. 2022
AirBnB Inc	ABNB	$181.87	$109,328	-75.3%	37.2%	NA	NA	17.5x
Affirm Holdings Inc	AFRM	$119.95	$18,391	NA	NA	NA	NA	NA
AsaNA Inc	ASAN	$38.97	$6,207	NA	31.2%	NA	NA	16.1x
JFROG LTD	FROG	$64.74	$5,904	-19.2%	30.0%	NA	NA	21.1x
LEMONADE INC	LMND	$153.49	$9,192	-13.3%	37.1%	NA	NA	49.4x
Palantir Technologies Inc	PLTR	$32.58	$61,182	45.2%	29.1%	208.6x	4.62x	33.4x
Snowflake Inc.	SNOW	$285.68	$83,796	NA	74.2%	NA	NA	44.9x
Sumo Logic Inc	SUMO	$34.01	$3,480	NA	NA	NA	NA	10.9x
ZoomInfo Technologies Inc	ZI	$46.27	$18,013	34.7%	27.4%	79.6x	2.29x	24.3x
Average Recent IPOs				**NM**	**38.0%**	**N.M.**	**N.M.**	**27.2x**

Table 8: Stay-at-Home Stocks

Company	Ticker	1/22/2021 PRICE	Market Cap $MM	2-Yr fwd EPS CAGR to 2022	Sales 2-yr. CAGR Fwd	CURRENT Price 2022 P/E	2022 PEG Ratio	EV/ REVS. 2022
ETSY INC	ETSY	$213.59	$26,932	20.5%	14.8%	69.5x	3.38x	12.4x
Fastly Inc	FSLY	$103.28	$11,750	NA	32.4%	NA	NA	22.4x
Freshpet Inc	FRPT	$148.72	$6,043	202.0%	30.4%	161.5x	0.80x	11.0x
Peloton Interactive Inc	PTON	$159.75	$46,693	NA	73.0%	NA	NA	8.5x
ROKU INC	ROKU	$422.85	$57,284	NA	37.8%	NA	NA	17.0x
Shopify Inc	SHOP	$1,196.70	$131,690	16.7%	32.6%	239.1x	14.32x	25.0x
Wayfair Inc	W	$299.94	$29,829	-4.2%	15.7%	NA	NA	N.M.
Zoom Video Communications Inc	ZM	$383.40	$116,293	232.8%	138.4%	128.2x	0.55x	33.0x
Average Stay-at-Home Stock				**20.5%**	**46.9%**	**149.6x**	**4.76x**	**18.5x**

Table 9: CRSPR

Company	Ticker	1/22/2021 PRICE	Market Cap $MM	2-Yr fwd EPS CAGR to 2022	Sales 2-yr. CAGR Fwd	CURRENT Price 2022 P/E	2022 PEG Ratio	EV/ REVS. 2022
Crispr Therapeutics AG	CRSP	$188.49	$13,932	4.6%	737.1%	-34.3x	-7.49x	398.5x
Editas Medicine Inc	EDIT	$65.76	$4,353	42.6%	-51.4%	NA	NA	192.9x
Intellia Therapeutics Inc	NTLA	$74.36	$4,393	22.1%	-21.1%	-21.7x	-0.98x	99.6x
Average CRSPR Stock				**22.1%**	**221.5%**	**-28.0x**	**-4.23x**	**230.3x**

Source for Tables 7, 8 & 9: CB&T and Thomson Reuters

diversification protection from an equity bear market. Stimulus and Biden polices are inflationary, but inflation may not be able to make a sustainable surge past 3% if it takes several years for employment to recover. Nevertheless, inflation will likely rise and even a little upward pressure on rates at these low levels can result in material losses for bonds of longer duration. The market is back to the "There Is No Alternative" aka "TINA" scenario. This time rates are lower than after the financial crisis and fixed income presents higher potential risk, giving investors little choice than to allocate more to equities and other risk assets. Furthermore, active monetary stimulus coupled with fiscal stimulus should continue to act like a "put" option, which limits the downside risk of a security. In this case, the Fed Put is expected to "put" a floor in the overall stock market. Nevertheless, an active Fed, would probably limit a pull back to around the 3,200 level (-15%). Given the low expected returns for bonds and inflation risk, we think investors will be better off remaining in equity markets.

As previously discussed there are pockets of opportunity within equity markets. For instance, the average large cap stock in the S&P 500 is trading closer to historical norms, when adjusted for low risk-free rates, versus the mega cap tech and communications stocks. Those mega caps are trading within the bounds of reason considering their growth rates, pricing power, profitability and net cash positions versus stocks we view at bubble valuations. Adjusted for earnings growth, mega cap tech stocks are less expensive than the median S&P 500 stock (please see Table 5). Nevertheless, for the next 6 to 12 months, we are incrementally reallocating to value stocks over growth stocks, preferring quality cyclical and "re-open" names. Periods of economic acceleration correspond to quicker earnings growth for value stocks, which are typically rebuilding off of depressed levels. Financials, industrials, energy and other sectors are still down or trailing since the March sell-off. Small, mid-cap and emerging market stocks caught up to the S&P 500 at year end and are leading it in 2021. International stocks and the median S&P 500 stock significantly lagged U.S. large cap returns at year end. Selectively rotating into lagging asset classes and sectors, particularly those that may get a boost from a vaccine / re-opening scenario, created incremental returns for our portfolios last year and should generate stronger returns over the next six to twelve months. Small cap and international indices have substantial underweights in healthcare and tech names versus the S&P 500. Accordingly, these equity classes have heavier weights to cyclical and value relative to large-cap benchmarks.

We believe the growth prospects of select emerging markets and a lower dollar will make them more attractive than equities of most advanced international economies. We have been increasing our allocation to emerging markets. Furthermore, we have been adding to emerging market bond allocations, which look like a better risk/reward than high yield or advanced economy bonds. As the yield curve steepens, we have been reducing the duration of our fixed income holdings.

ASSET ALLOCATION OUTLOOK

LAST QUARTER			THIS QUARTER	
WE BELIEVED →	**ACTIONS TAKEN →**	**RESULTS**	**WE BELIEVE →**	**ACTIONS WE ARE TAKING**
DOMESTIC EQUITIES			**DOMESTIC EQUITIES**	
We believed that small and mid-cap stocks will close much of the performance gap with large cap stocks in the next 6 - 12 months.	We maintained model weights for small and mid-cap stocks and let positions drift beyond targets as the asset classes outperformed in 4Q.	**Large Cap +12.1% underperformed small +31.4% and mid-cap +24.4%. Small cap outperformed the S&P 500 for 2020 20.0% vs. 18.4%.**	We believe that small and mid-cap stocks will continue to out perform large cap stocks in the next 6 - 12 months.	We have been increasing model weights in 1Q21.
INTERNATIONAL EQUITIES			**INTERNATIONAL EQUITIES**	
We believed the dollar would remains lower and EM would 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 maintained our international and EM weights. We let positions drift beyond targets as the asset classes outperformed in 4Q.	**International equities (+16.1%) and EM (+19.7%) outperformed U.S. large cap as the dollar declined. EM results were in line with (18.3%), but developed international underperformed U.S. large cap (18.4%) in 2020. Our developed international and EM selections outperformed the S&P 500 and their benchmarks during 2020.**	As the dollar remains lower, we believe that EM should continue to outperform 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 are increasing our international and EM allocations in 1Q21.
FIXED INCOME			**FIXED INCOME**	
We continue to believe the Fed will keep rates low until 2023. Returns likely between 1% and 2% for core investment grade bonds.	We cut our exposure to high yield with a 16%-18% average profit in portfolios. We have a little weight via shorter duration high yield. We increased weight to EM bonds and changed exposure from hedged to local currency as the dollar dropped.	**The BBG Aggregate returned +0.7%. Local currency international and emerging market bonds gained 3.3% and 8.2%, respectively. Our bond selections significantly outperformed the aggregate bond index during the quarter.**	The Fed will keep rates low until 2023. It relaxed its inflation policy, which enables Fed to use judgment on raising rates as inflation rises. Returns likely between 1% and 2% for core investment grade bonds.	As the 10-year rises above 1.0% on stimulus expectations, we are lowering the duration of our fixed income portfolios.
We think munis are about equally attractive investment grade bonds, considering the risks.	We started reducing an overweight to munis during the quarter. We still held some munis so as not to recognize short-term gains.	**Munis outperformed core bonds in the quarter (+1.8% vs. +0.7%) on an absolute basis and tax-effective basis. Our fixed income selections outperformed the benchmark.**	We think munis are about equally attractive investment grade bonds, considering the risks.	We are continuing to reduce muni exposure, but most will be reduced in early April once gains become long-term.
ALTERNATIVE ASSETS			**ALTERNATIVE ASSETS**	
We believed volatility will remain elevated as new COVID cases rise, through the November election, and/or until a coronavirus vaccine is widely available.	We maintained a 10% allocation to alternative strategies.	**Our alternatives funds generated reasonable returns (appx 3% for the quarter) despite close to zero exposure to the stock market, as the market rallied but volatility remained elevated.**	We believe volatility will remain elevated as new COVID cases remain elevated, the vaccine is rolled out, and new stimulus is introduced.	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/.				