Quarterly NEWSLETTER

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Happily Looking Ahead…

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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. 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. Subsequently, the market rallied on the approval of highly-effective vaccines from Pfizer and Moderna post-election. Passage of a $908 billion stimulus package in last days of 2020 helped the market to finish on an all-time-high.

For more details on CBandT's investment outlook, please visit our Investment Commentary page at: https://cbandt.com/wealth-trust/resources/.

Q4 2020
S&P 500 Sector Performance

	Q4	1 Year
Healthcare	8.03%	13.45%
Consumer Discretionary	8.04%	33.30%
Consumer Staples	6.35%	10.75%
Financials	23.19%	-1.76%
Telecommunication	13.82%	23.61%
Information Technology	11.81%	43.89%
Materials	14.47%	20.73%
Energy	27.76%	-33.68%
Industrials	15.67%	11.05%
Utilities	6.58%	0.52%
Real Estate	4.94%	-2.17%

Proprietary Performance Results

Equities	4th Qtr	YTD	1 year	3 year	5 year	10 year
Focused Equity Fund[1]	13.55%	23.29%	23.29%	16.06%	15.46%	13.86%
Science/Technology Fund[2]	11.58%	45.02%	45.02%	27.06%	23.52%	17.92%
Aggressive Growth Fund[3]	13.96%	8.68%	8.68%	14.83%	16.48%	15.73%1
S&P 500	12.15%	18.40%	18.40%	14.18%	15.20%	13.87%
Balanced	**4th Qtr**	**YTD**	**1 year**	**3 year**	**5 year**	**10 year**
Strategic Income Builder Fund[4]	10.64%	7.96%	7.96%	7.64%	8.98%	8.38%
60% Russell 3000 Value, 40% Barclays Aggregate Index	10.50%	5.71%	5.71%	6.21%	7.97%	8.01%
Alternatives	**4th Qtr**	**YTD**	**1 year**	**3 year**	**5 year**	**10 year**
Liquid Alpha Fund	3.46%	0.61%	0.61%	1.90%	1.17%	n/a
Structured Alpha LP	2.94%	-4.44%	-4.44%	0.16%	n/a	n/a
SG CTA Index	6.75%	3.16%	3.16%	1.06%	0.54%	n/a
Tax-Free	**4th Qtr**	**YTD**	**1 year**	**3 year**	**5 year**	**10 year**
Muni Funds Blend	1.12%	5.57%	5.57%	4.81%	3.98%	3.87%
Barclays 1-12 yr. Muni Index	0.98%	4.23%	4.23%	3.82%	2.96%	3.26%
Aquila Churchill Tax-Free Fund of KY	1.03%	3.66%	3.66%	3.46%	2.80%	3.59%
Dupree KY Tax-Free Income	1.43%	4.34%	4.34%	3.96%	3.21%	4.00%

There is no assurance that any of these investment strategies will meet its investment objective. Performance results for each strategy are computed on the strategy's overall returns. Each strategy and index includes the reinvestment of dividends. Past performance does not guarantee future results. Current performance may be lower or higher than the performance results quoted. [1] Net of management fees; Inception date 7/1/1989; performance results of SMC Capital and/or its principals as advisor from inception to 2/28/06 and as sub-advisors to CBandT since 3/1/06. [2] Inception date 12/31/2008. [3] Inception date 3/31/2006. [4] Inception date 12/31/2008.

Fixed Income

In December, the Federal Reserve kept the Fed Funds rate unchanged at 0-0.25%. Their renewed interest-rate projections still show that collectively, they expect to remain zero-bound through 2023. Not only did the Fed do nothing to change policy at this meeting, the FOMC statement was almost identical to the one in November. Although, the Fed's increase in asset holdings, at an $80bn/month pace for Treasuries and a $40bn pace for MBS, is spelled out. As for their economic forecasts, GDP growth was revised from -3.7% to -2.4% in 2020, with '21 and '22 revised up two tenths each to 4.2% and 3.2%, respectively.

While uneventful of late, there can be no denying the Fed's significant impact on fixed income markets in 2020, given their quick response to the 2020 collapse in financial markets. Late-March, the Fed announced it would soon buy corporate bonds, unprecedented for our central bank. Initially purchasing only corporate exchange-traded funds (ETF's) including high-yield, they later expanded this to include individual bonds. In all, investment-grade corporate bonds returned an astounding +9.89% last year, with high-yield returning a respectable +7.11%, according to Bloomberg Barclays. To emphasize the selloff and recovery, high-yield was down nearly 20% through the bottom on March 23 (YTD). In yield terminology, investment-grade corporate yield (to worst) fell to 1.74% from 2.84% to start last year, as high-yield corporate yield fell to 4.18% from 5.19%.

Municipal bonds were also helped by Fed intervention, another market it had left untouched in prior crises. At its low during March 2020, tax-exempts were off over 10%, its worst rout in history. The Fed's Municipal Liquidity Facility (MLF), announced on April 9th, would act as a lender of last resort to issuers unable to borrow at reasonable rates. This caused tax-exempt rates to fall quickly and they continued to fall throughout the summer as the economy improved. This program expired at the end of last year, with a very limited number of actual participants. In all, tax-exempt municipals returned +5.21% last year according to Bloomberg, as tax-free yields fell to 1.07% from 1.78%. We took advantage of both the municipal market buying opportunity last March, as well as the high-yield opportunity referenced previously for our clients.

There was also a very major shift in Fed policy announced last year. The new framework adopted in August would allow inflation to run above 2% for some period of time, often referred to as an "average inflation target". With inflation mostly running below their 2% target over the last decade, U.S. Treasury rates reflect that current policy rates are here for many years to come. Recall that after the great recession, the Fed's initial hike came seven years (2015) after going to near zero in 2008. During the quarter, the 10-year Treasury yield did rise 0.23% to 0.91%, much of this coming on positive vaccine news in early November. Although last year, the 10-year Treasury yield fell basically 1% from its starting point of 1.92%. Given the significant drop in rates, Treasuries returned +8.0% for the calendar year.

From a broad-based perspective, the Bloomberg Barclays Aggregate index returned +0.67% during the quarter but had a very strong +7.51% return last year. Though it still could not match the +8.72% return from 2019. International bond performance varied if hedged or unhedged vs. the U.S. dollar. For example, the "hedged" Barclays Global Aggregate ex-US returned only +3.94% last year vs. +10.11% unhedged, obviously a week dollar environment. In that environment, emerging market (EM) bonds tend to do well, so we were active in the asset class late last year. Hedging is less frequent, as much of EM debt is already U.S. dollar denominated, but we did benefit from a switch to a local currency manager during the quarter. As a proxy, the iShares USD Emerging Market ETF returned +5.98% for the quarter, but only +5.42% for the full year.

Given the new Fed policy regime, interest rates will probably be range bound near record lows for many years to come. "Lower for longer" is unfortunately the reality for fixed income investors. On the flipside, it is very beneficial for borrowers and for the U.S. government, which has been increasing debt due to record fiscal stimulus. We typically end by providing a 3-5 year "annualized" return forecast and an outlook for investment-grade bonds. This return forecast has been in the 1-3% range in recent years. Obviously with the performance referenced above, one may question our forecast and outlook. Although historically, the "starting-point" yield has been a strong predictor of future/multi-year returns. At year-end, the Barclays Aggregate index had an overall yield of 1.12% compared to 2.31% at the beginning of 2020. We would reiterate our 1-3% annualized return estimates for investment-grade fixed income over the next 3-5 years, with a bias towards lower returns. We know that the returns of the last few years are "not repeatable", unless a significant amount of U.S. debt begins to trade at "negative yields", a concept we first discussed in 2016. Not totally out of the question, but a low probability, as efficient vaccines are being rolled out around the world. We believe there will be significant progress towards "economic" normalcy by the end of this year.

Focused Equity

Marriott Intl Inc. (MAR)
10/1/2020 – 12/31/2020

For the fourth quarter and the twelve months ending December 31, the strategy returned 13.55% and 23.29%, respectively, versus a 12.15% and 18.40% gain for the S&P 500 Equity Index. Since inception, the strategy has outperformed the S&P 500's annual return of 14.97% by 0.14% with an annualized gain of 15.11%. The fund has achieved these results taking on meaningfully less risk than the S&P 500 with a beta of 0.87 and capturing only 90% of the index's annualized standard deviation, thus producing annualized alpha (the amount of risk-adjusted performance greater than the benchmark) of 1.74 since inception (12/31/2008).

Leaders: Positive vaccine developments accelerating the reopening time horizon lifted value stocks in Q4 to post the group's best quarter since 2009, with Financials (+24.10%), Energy (+16.38%), Industrials (+11.30%) and Communications Services (+15.46%) sectors delivering the largest total returns within Focused Equity. With economic reopening in sight, companies involved in travel, entertainment & brick and mortar retail saw strong price recovery, including Marriott International (MAR, +42.49%), Live Nation Entertainment (LYV, +36.38%), Cheesecake Factory (CAKE, +33.60%), Pioneer Natural Resources (PXD, +33.05%) and Booking Holdings (BKNG, +30.20%), and were among the largest total returns in the strategy for the fourth quarter. Over the last twelve months, size, quality growth, and specifically FANMAG continued leadership throughout the COVID crisis and subsequent recovery, as PayPal (PYPL, +116.82%), Apple (AAPL, +82.63%), Amazon (AMZN, +76.26%), Micron Technology (MU, +66.85%) and Adobe (ADBE, +51.64%) produced the largest returns in 2020.

Laggards: The "blue wave" in Washington, growing optimism for reopening the US economy and additional stimulus driving interest rates higher in Q4 caused defense stocks, companies that benefit from work-from-home migration and rate sensitive sectors to lag, including positions in Home Depot (HD, -3.83%), Lockheed Martin (LMT, -6.70%) and American Tower (AMT, -6.65%). Despite a healthy rebound during the second half of 2020, oil finished the year down -29.54% alongside the strategy's allocation to the Energy sector (-31.79%) and positions in Diamondback Energy (FANG, -55.51%) Chevron (CVX, -25.34%), Enbridge (ENB, -13.64%) and Suncor Energy (SU, -9.05%). new tax year.

Strategy Update: Focused Equity Fund invests in quality growth companies and select external managers. Our stock selection process and that of the managers we have selected is dedicated to identifying world-class companies that are positioned for sustainable growth and possess the characteristics needed to generate superior long-term performance. The portfolio is concentrated and focused on companies that have sustainable advantages over their competitors, allowing them to consistently grow cash flows, and generate value for shareholders. Our internal stock selection process, which emphasizes Quality Growth and large/mid cap companies, is complemented by select external managers focused more on Value and smaller capitalization companies, as well as special situations and event-driven opportunities. These managers typically run long/short portfolios, reducing overall risk for Focused Equity and enhancing risk-adjusted returns.

Strategic Income Builder

Last year was a difficult year for equity income and "value" investors. The Russell 3000 Value Index declined over -38% at its lows in March, vs. -26% for its "Growth" counterpart. Despite the recovery and relative gains to close out the year, the Russell 3000 Value lagged "Growth" by over 35%, or +2.9% vs. +38.3% in 2020. During the 4th quarter, "value" stocks made up some ground with nearly a 5% advantage, or +17.2% vs. +12.4% respectively. Luckily, the significant gain for the quarter was enough to move the return into positive territory. Although an indicated dividend yield of +2.5% to start last year provided the bulk of that +2.9% return for the Russell 3000 Value Index.

U.S. corporate bonds also experienced a "roller-coaster" of a year. Last March, investment-grade corporates fell by over 13%, with high-yield bond prices down nearly 19%. Given the Fed's unprecedented support (see fixed income commentary), corporate bonds recovered like stocks, with calendar year returns of +9.9% for investment-grade and +7.1% for high yield, per Bloomberg Barclays. Spreads vs. Treasuries ended up mostly unchanged at roughly +1% and +3.5%, after skyrocketing to nearly +4% for investment-grade and +11% for high yield.

For the quarter, the strategy (SIB) returned +10.64% vs. +10.50% for its weighted benchmark (60% Russell 3000 Value & 40% Barclay's US Aggregate). Since inception (1/1/09), the SIB strategy has returned an annualized +9.50%, outpacing its benchmark return of +8.96% by over 0.5%. The yield generated from the strategy has consistently exceeded that of its benchmark. On a risk-adjusted basis, the strategy has generated a positive alpha of +0.81% annualized with a volatility beta of 0.96. The success of the portfolio is the result of an attractive mix of income producing securities, asset class and sector allocations, and tactical positions in global markets.

For the quarter, our equities returned +14.83% compared to the Russell 3000 Value return of +17.21%. Our large-cap bias impacted returns somewhat during that period. Although, we were soundly ahead for the year, at +8.01% and +2.87%, respectively. Like most years, the strategy benefited from an overweighting in stock. Our typical overweighting in stocks is roughly 5% on average, for a 65% equity allocation. Dividend yield for the portfolio ended the quarter at 2.8%, or roughly 0.5% higher than the Russell 3000 Value and 1.2% more than the S&P 500. Moreover, these yields carry a growing advantage vs. investment-grade bond yields.

Financials (+35.9% portfolio returns) added the most in terms of attribution and overall investment gains during the quarter. Energy and Materials (+28.7% each) followed in terms of sector returns, but not attribution. Consumer Staples (+3.6%) and Utilities (+0.5%) produced limited returns for us and our benchmark alike, as one might expect from these defensive sectors.

Discover Financial Services (DFS)
10/1/2020 – 12/31/2020

Discover Financial Services (DFS +57.4%) regained its "reopening" momentum and closed the year at $90.53, with a total return of +10.1% during 2020. However, we established our position in February at $75.20 and doubled our shares in May at $39.36, for a portfolio return of +22.8% for our Discover position. We reduced shares somewhat during December and may continue to do so. As the stock has an indicated yield of only 1.8%, given the significant share price advance during the quarter. We appreciate Discover's relatively high return on equity (ROE), particularly in the financial sector. For example, its ROE for calendar year 2019 was 26.6%.

Quarterly fixed income closed out strong with returns of +2.27% vs. +0.67% for the Bloomberg Barclays Aggregate Bond Index. Our credit-based funds, and particularly high yield, performed very well during the quarter. For 2020, our bond returns slightly trailed the index, at +6.95% vs. +7.51% for the Aggregate Index. Projected yield on our fixed income portfolio is roughly 3.1%, or 2% above the 1.1% yield for the Aggregate Index to start the year.

Our risk-reducing alternatives produced solid results again for a very strong year, returning +6.1% during the quarter and +12.3% for all of 2020. We also utilize short-term bond funds as cash alternatives, which returned 0.5% during the quarter. Combined, our alternatives and near-cash were just over 10% at year-end.

Science & Technology Strategy

The Science & Technology strategy fund (SciTech) returned +11.6% for the 4th quarter after outpacing the S&P 500 in prior quarters this year. As Value-style investments took the lead toward the end of the year on vaccine approvals and reopening optimism, SciTech trailed the Lipper Science & Tech Fund Index benchmark (+21.7%) in the fourth quarter, but nonetheless gained 45.0% in 2020. The Lipper benchmark edged out SciTech for the full year, rising 50.5%, owing to a heavier weighting in Technology, which was 2020's strongest sector (+43.9%). The SciTech fund is more diversified than its benchmark, and invests in innovative companies that deploy leading edge technologies in such sectors as Health Care, Communications, Discretionary and Real Estate sectors. For further comparison, the S&P 500 and the S&P 500 Growth Index gained 12.2% and 10.7% in the fourth quarter, respectively, but both trailed SciTech and the Lipper Index for the year, gaining just 18.4% and 33.5%.

Stock selection continues to lead to outperformance. Our sector holdings outperformed their respective indices across all five groups we own in the fund. For example, our Tech stocks gained 59.4% (versus 43.9%) and our Health Care equities gained 33.5% (versus 13.5%); our Real Estate returned +11.5% while the sector in total returned -2.2%. While diversification away from strictly Tech sector stocks has proved a headwind for SciTech, the fund's mandate and our allocation decisions lower the risk profile of the portfolio. Over the past 5 years, SciTech has gained an annualized 23.5% versus 25.2% for the Lipper Science & Tech Index and 15.2% for the S&P 500. SciTech holds higher risk-adjusted returns, with a Sharpe Ratio of 1.15 (vs 1.14), standard deviation of 16.6% (vs 18.2%), and a beta of 0.88 to its benchmark.

Leaders: Leaders in 4Q benefitted from positive vaccine news. Align Technologies (ALGN), a maker of orthodontic products, gained 63.2% as orders and elective procedures rebounded. SciTech also benefited from strength in the semiconductor/chip industry on a firming global demand outlook. Holdings here include Micron (MU), Taiwan Semi (TSM), and ASML Holdings (ASML), which posted 4Q gains of 60.2%, 35.2% and 32.5%, respectively. Bookings Holdings (BKNG), which owns top on-line travel brands rose 30.2% during 2020's final quarter. For the year, digital payments players Square (SQ +256.6%) and PayPal (PYPL +116.5%) were top technology sector performers as consumer spending shifted on-line in the pandemic lockdown. Outside of technology, other pandemic stay-at-home stocks led, including Netflix (NFLX +66.8%) and Amazon (AMZN +76.3%).

Laggards: Telecom and data infrastructure REITs were laggards in 4Q. Crown Castle (CCI -3.6%) and Equinix (EQIX -5.6%) fell during the quarter, albeit both positions were positive for 2020. Only two established positions lost money for the SciTech fund in 2020: Amgen (AMGN, -1.9%) and American Tower (AMT, -0.5%). Investors rotated into cell towers and data centers early in 2020 as a safe haven, only to see a reversal of the trade later in the year. We are adding to AMT and other towers at these levels, which we view as key infrastructure plays in the global 5G rollout. We started to build a position in Amgen in late 2019 ahead of portfolio catalysts for lung cancer expected early this year and biosimilar catalysts over the next few years.

Small Cap

The Small Cap Value Composite returned 25.09% for Q4 versus 33.36% for the Russell 2000 Value index. For the full year, the composite return is 3.25% vs benchmark return of 4.63%.

One of the top contributing holdings in the Portfolio during Q4 was NCR Corp. (NCR, +70%), a provider of transaction software, services, and hardware largely to banks, retailers, restaurants, and the hospitality industry. Shares rallied following its Investor Day in early December. Management highlighted NCR's success shifting from hardware to software/services, which is making the business highly recurring, stickier, and more predictable. More importantly, the 'as-a-service' model generates more revenue over the than the traditional hardware plus software license model. We maintained the position. Another top contributor during the quarter was Air Transport Services Group Inc. (ATSG, +25%), the premier lessor of midsize freighter aircraft (including the Boeing 767) and services essential to support e-commerce. While its Q3 results were slightly above expectations, management's longer-range outlook into 2022e and beyond became increasingly bullish. Although the improved long-range tone does not impact our 2021e estimates, it reflects strengthening secular tailwinds around our thesis for the mission-critical role ATSG's fleet will play in global e-commerce for many years. We took no action on the position during the quarter. Another positive contributor was ORBCOMM Inc. (ORBC; +118%; +112 bps), a global provider of hardware and service solutions that help customers track, monitor, and control their assets during transport. ORBC's Q3 2020 results were ahead of expectations, showing sequential improvement in both product deployments and net customer adds. Late in the quarter, ORBC refinanced its debt and cut its interest rate by more than half, generating more than $12 MM annually of interest expense savings. Finally, ORBC rounded out the year with a sizeable multi-year contract win with the U.S. Army. We trimmed the position as it approached our assessed value.

NCR Corp (NCR)
10/1/2020 – 12/31/2020

One of the largest negative contributing holding in Q4 was BJ's Wholesale Club Holdings Inc. (BJ; -10%; -32 bps), a warehouse club retailer with more than 200 stores primarily located in the eastern United States. BJ's reported Q3 results exceeded high expectations for the third consecutive quarter. Same-store sales increased +19% (ex-fuel prices), benefiting from higher traffic and higher average ticket size. Membership fee revenue increased +11%. Operating expense controls led to EBITDA growth of +57%. Despite these strong results, BJ shares traded lower during the quarter as investors harvested year-to-date gains and questioned whether these elevated sales levels can be sustained. We added to the position due to BJ's attractive discount to our assessed value, its significantly strengthened balance sheet, accelerated new store growth, and considerably larger membership base. Another poor performer was Computer Services Inc. (CSVI; -2%; -6 bps), a provider of core processing and technology solutions for small banks. The stock's lackluster performance in the quarter was somewhat surprising as the company's fiscal Q2 2021 results revealed record new bank signings despite the selling challenges presented by COVID-19. The headwind of lower transactional volumes from reduced economic activity was offset by strong sales of digital banking solutions and high customer renewal rates, which led to record annualized operating margins. We maintained the position during the quarter. Another bottom contributor during the quarter was Computer Programs and Systems Inc. (CPSI; -3%; -3 bps), a provider of information technology software and ancillary services to small hospitals. Q3 results were in line with our expectations in a challenging environment as revenue and EBITDA only declined -1% and -3%, respectively. However, shares failed to keep up when the market rallied on vaccine news. Patient volumes within CPSI's footprint are -15% below pre-pandemic levels. Widely distributed vaccines should give patients the confidence to return for elective procedures and deferred care, which we believe should be positive for future volumes. We maintained the position.

Kentucky Municipals-4Q 2020

Quarterly bond issuance by Kentucky municipalities fell to $670 million from $1.26 billion in the previous quarter. Competitively awarded deals were $382 million with negotiated deals of $288 million. Deal size was relatively standard, averaging $14.2 million with 47 new issues in total. Bank-qualified (BQ) issuance was $58 million or roughly 9% while non-BQ issuance was the majority coming in at $396 million or 59%. The remaining $216 million (32%) were "federally" taxable municipal issues, 14 in total. Nationally, taxable muni issuance is now a significant portion of supply (~30%) as borrowers "advance" refund existing debt at a lower cost. Visible KY supply is relatively small with $140 million on the calendar in coming months; issuers should benefit from the record low interest rates. Interestingly, there is very little "taxable" supply on the calendar, only one issue of $1.8 million. We pay special attention here as "advance" refunding candidates is a big part of our portfolio management strategy.

Issuers of note included Fayette County School District who issued $55 million in revenue bonds. Moody's maintains the Aa2 long-term issuer rating (stable) and Aa3 "lease" revenue ratings, such as this issuance. $33 million of "taxable" municipal issuance was used to "advance" refund certain outstanding bonds for debt service savings. $22 million of "tax-exempt" issuance was used for the acquisition of properties for a new middle school and a new elementary school, as well as property for a new career technology center facility, on Polo Club Boulevard and Midland Avenue in Lexington, respectively.

KY bonds trailed the national market slightly during the quarter, or +1.59% vs. +1.82%. For 2020, the S&P Municipal Bond Kentucky Total Return Index returned +5.05%, or just off the +5.21% return for the Bloomberg Barclays Municipal Index. Like the national market, the S&P KY Municipal Index declined over 10% at its trough in March 2020. According to S&P, its yield-to-worst (YTW) fell to a record low of 1.20%, down from 2.04% to start the year, and down from the peak yield of 3.87% during the height of the stress.

For comparison, the Bloomberg Barclays Municipal Index has a yield-to-worst of 1.07%, so the state's yield advantage is now only 0.13%. As discussed in our fixed income commentary, we actively took advantage of the dislocations in municipals during the volatility. This included tactical purchases within accounts that do not normally purchase tax-exempts.

Gov. Andy Beshear presents state budget plan with direct COVID-19 relief: *(Joe Sonka- Louisville Courier Journal, excerpts)*

Gov. Andy Beshear on Thursday unveiled his one-year state budget proposal, which he said would create "bold investments" for Kentucky to defeat and recover from the COVID-19 pandemic, with no spending cuts or tax increases. The executive summary of the governor's recommended budget for the 2021-22 fiscal year outlines the use of $613 million in one-time funds to provide immediate relief for those negatively impacted by the pandemic and long-term investments in infrastructure, while also giving raises to state workers and employees of K-12 schools.

Along with his budget recommendation, Beshear seeks to advance a special appropriations bill to pass early in the session and provide $340 million in COVID-19 relief, including $220 million in aid to small businesses, $20 million to small nonprofits, and $100 million to repay the interest and principal on the $865 million federal loan to Kentucky's unemployment insurance trust fund. An additional $152 million of funds from the federal CARES Act will go toward paying back the insurance fund loan, with $48 million from the federal act going toward direct supplemental unemployment insurance payments to Kentuckians.

The executive summary of Beshear's budget recommendation states it would be the first time in over a decade in which there were two consecutive years with no budget cuts, over which time more than $2.3 billion in General Fund spending cuts have taken place. Last year, legislators scrapped plans to pass a two-year budget — as is typical during even-numbered years — when the pandemic hit and wrecked the economy, instead passing a one-year budget with a pessimistic revenue forecast and few of the lofty spending increases proposed by Beshear. The pandemic's impact on revenue was not as large as many feared, as Beshear's budget projects a surplus of $126 million left over at the end of the fiscal year ending June 30.

Nearly half of the $613 million in one-time funds will be directed to long-term investments, including $100 million to the state's Rainy Day Fund, $100 million for K-12 school renovations and replacements, $50 million to expand broadband access, and $22 million of economic incentives to developing technologies and advanced manufacturing.

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/.

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