Outlook and Opportunities

The Investment Puzzle: Putting the Pieces Together

Seminar Overview

01 When will the economy recover from the downturn caused by COVID-19?
02 Will interest rates go lower or even negative?
03 How will the economic downturn affect the equity market?
04 Will global markets keep underperforming?
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01

When will the economy recover from the downturn caused by COVID-19?

Source: CDC, 8/24/2020.
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COVID-19 Impact - U.S. Economy Enters Recession

Unemployment Rate Rises Sharply from Historic Lows

Source: FRED, 6/30/2020.
Source: FRED, 7/31/2020.
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Inflation Falls Below Fed Target

![Core vs. Headline Inflation](Source: FRED, 5/19/2020.)

Business Investment Drops Sharply from Last Year

![Nonresidential Investment Growth (CapEx, %)](Source: FactSet, 8/19/2020.)
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Source: Bank of international settlements.

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Will interest rates go lower or even negative?
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The Effect of Interest Rate Cuts

Source: Board of Governors of the Federal Reserve System (US), Effective Federal Funds Rate [FEDFUNDS], retrieved from FRED, Federal Reserve Bank of St. Louis; January 6, 2020.

How Have Long-term Government Bonds Fared?


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How will the economic downturn affect the equity market?

Earnings Growth in 2020 Uncertain

Source: S&P Indices.
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Will global markets keep underperforming?

Source: FactSet, Q2 2020

China’s V-shaped Recovery

Source: FactSet, Q2 2020
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A Look at the Global Manufacturing PMI

The USD is Negative Correlated with Global Growth

Source: FactSet, 8/2020

Overseas Market Valuations

Overseas Market Valuations Relative to the S&P 500

Source: FactSet
Series: MSCI EAFE, MSCI EM

Source: FactSet, 8/2020
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What impact will politics have on the markets?

Source: Michigan University Consumer Confidence Survey, Rolling 6-Month Average
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Source: Morningstar (1936-2019), Edward Jones calculations. The S&P 500 is an unmanaged index and cannot be invested in directly. Past performance is not a guarantee of what will happen in the future.
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What are the risks to our outlook?

Source: Congressional Budget Office

Economic Rebound Could Follow Several Paths

Source: Congressional Budget Office
Source: Pre-crisis projections are based on data from the Congressional Budget Office’s March 2020 budget projections. Post-crisis projections are based on the Congressional Budget Office’s April 2020 near-term budget projections and its May 2020 Interim Economic Projections. *Pre-crisis Alternative Scenario projections assume discretionary spending grows with GDP and various expiring tax provisions are continued; post-crisis Alternative Scenario projections assume the aforementioned but also assume an additional $1 trillion of fiscal relief is enacted.

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What common mistakes can I avoid?
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Source: MorningStar direct, 12/31/2019. Int'l high yield bonds represented by the Barclay’s global high yield index.

Source: Morningstar Direct
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The Chances of Positive Returns Over Time

<table>
<thead>
<tr>
<th>Time Horizon</th>
<th>100% U.S. Stocks</th>
<th>65% U.S. Stocks 35% U.S. Bonds</th>
<th>65% U.S. &amp; International Stocks 35% U.S. Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Month</td>
<td>64.5%</td>
<td>65.6%</td>
<td>66.4%</td>
</tr>
<tr>
<td>1 Year</td>
<td>81.7%</td>
<td>84.4%</td>
<td>86.5%</td>
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<tr>
<td>3 Years</td>
<td>88.1%</td>
<td>90.2%</td>
<td>90.4%</td>
</tr>
<tr>
<td>5 Years</td>
<td>89.6%</td>
<td>99.1%</td>
<td>99.1%</td>
</tr>
<tr>
<td>10 Years</td>
<td>93.7%</td>
<td>99.7%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Morningstar Direct, 1/1/1976 - 2/7/2020. The hypothetical portfolios are for illustrative purposes only. Results may vary for a portfolio with similar holdings. The hypothetical portfolios consist of: (1) 100% stocks represented by the S&P 500 Total Return Index; (2) 65% stocks represented by the S&P 500 Total Return Index and 35% bonds represented by the Barclays U.S. Aggregate Bond Index; (3) 48.75% U.S. stocks represented by the S&P 500 Total Return Index, 16.25% international stocks represented by the MSCI EAFE NR Index, and 35% bonds represented by the Barclays U.S. Aggregate Bond Index. The hypothetical portfolios are for illustrative purposes only. Results may vary for an individual portfolio with similar holdings. Indexes are unmanaged and are not available for direct investment. Investing in stocks involves risk. The value of your shares will fluctuate, and you may lose principal. The prices of bonds can fluctuate, and an investor may lose principal value if the investment is sold prior to maturity. Diversification does not guarantee a profit or protect against loss in declining markets. Past performance is no guarantee of future results. The S&P 500 is an unmanaged index and not available for direct investment.

Don't Chase Performance

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Understanding Volatility

- Dip: 3.3x/year, -5%
- Correction: 1.1x/year, -10%
- Bear: About 1 every 3 years, -20%

Source: Ned Davis, 12/31/2019. Copyright © Ned Davis Research, Inc. All rights reserved. Further distribution prohibited without prior permission. Past performance is not a guarantee of what will happen in the future.

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How can I put all the pieces together?
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Portfolio Construction

Stock and Bonds Often Move in Opposite Directions

Source: Morningstar, total return. Stocks represented by the S&P 500 total return index. Bonds represented by the Barclays U.S. Aggregate Bond Index. Investment indices are unmanaged and cannot be invested in directly.
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Staying Invested in a Balanced Portfolio

<table>
<thead>
<tr>
<th>Bear Market Tech Crash 00-02</th>
<th>Bull Market Housing Boom 02-07</th>
<th>Bear Market Financial Crisis 08-09</th>
<th>Bull Market Current Expansion 09-19</th>
<th>Entire Period Return 00-19</th>
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<tbody>
<tr>
<td>Stock Market</td>
<td></td>
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<tr>
<td>Bear Market</td>
<td>-46%</td>
<td></td>
<td>49.3%</td>
<td>217%</td>
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<tr>
<td>Balanced Portfolio</td>
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<tr>
<td>Bear Market</td>
<td>-20%</td>
<td>18.4%</td>
<td></td>
<td>168%</td>
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<tr>
<td>Balanced Portfolio</td>
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</tbody>
</table>

Stock market measured by the total return of the S&P 500 Index.
Balanced portfolio measured by GSG equity and 65% Bond Fund Rebalanced Annually.

Past performance is not a guarantee of future results. The indexes represented are unmanaged and not available for direct investment. The hypothetical portfolios are for illustrative purposes only. Results will vary for a portfolio with similar holdings.

Summary

The economy entered recession this year as a result of the global coronavirus pandemic, ending the longest expansion in U.S. history.

Despite significant short-term headwinds associated with the virus, we think investing in the U.S. market continues to be attractive because of:

- Positive conditions before the pandemic, including solid household balance sheets
- Low interest rates
- Modest inflation
- Highly accommodative monetary policy

Remember that pullbacks can create opportunities to add quality investments at lower prices.

As volatile times come and go, focus on the bigger picture of your long-term goals.

Seek opportunities for a complete investment mosaic this year and throughout your investment horizon.
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Questions & Answers

Thank You