ECONOMIC AND MARKET COMMENTARY

3rd Quarter 2020

SMITH SHELLNUT WILSON

INVESTMENT COUNSEL AND MANAGEMENT

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OUR MISSION

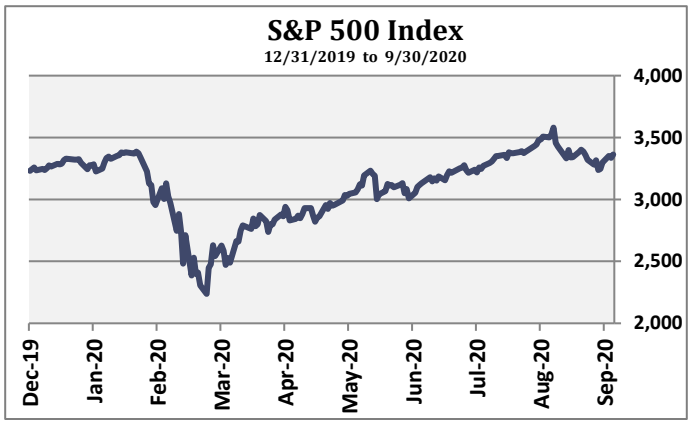
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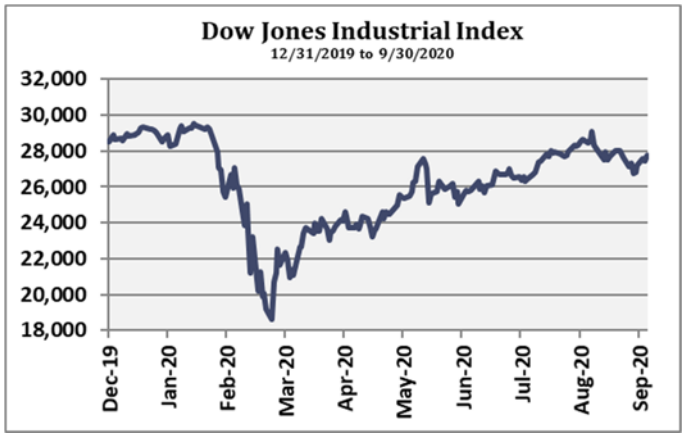
I. THIRD-QUARTER 2020 EQUITY MARKET RECAP

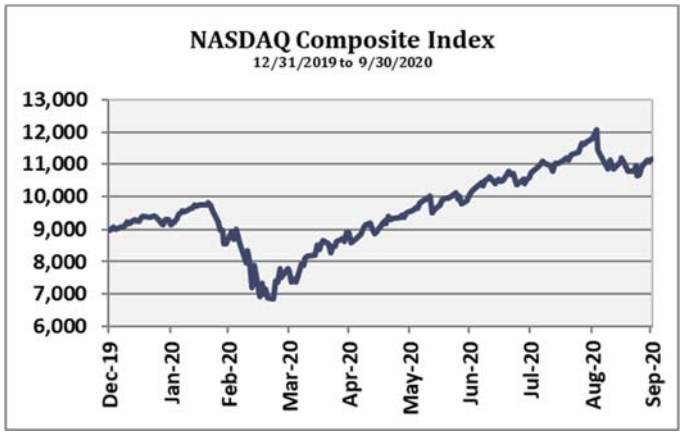
Despite a pullback in September, major U.S. equity indexes posted solid gains for the quarter, with the Dow Jones Industrial Average increasing by 8.2% on a dividends-reinvested basis, while the Standard & Poor's 500 Index posted a total return of 8.9% and the NASDAQ Composite Index rose by 11.2%.

Internationally, foreign equity markets had uneven quarterly performance relative to American stocks. Overseas developed markets underperformed the U.S. S&P 500 benchmark by 4.1% in the third quarter, while emerging markets performed better, outpacing the S&P 500 by 0.63%. Globally, the MSCI AII-Country World Index advanced 8.13% last quarter, while world stocks excluding the U.S. climbed 6.25%.

On a year-to-date basis through September 30, the Dow is down by 0.9%, while the S&P 500 is up by 5.6% and the NASDAQ posted an impressive 25.4% gain on the back of early strength in the technology sector.





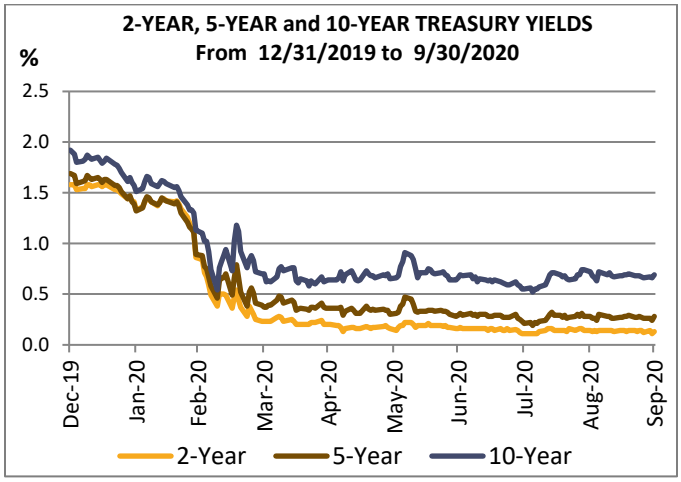


*Registration of an Investment Adviser does not imply any certain level of skill or training.

Third-quarter GDP estimates currently top a record 32% on an annualized basis and should, all else being equal, impart further momentum to domestic stock market returns going forward. However, investors' resolve continues to be tested by implications from a resurgence in COVID-19 case rates, growing uncertainty over possible contested election results in November, and stalled talks in Washington over a new fiscal stimulus package.

II. THIRD-QUARTER 2020 BOND MARKET RECAP

After plumbing new lows in early August, U.S. Treasury yields were little changed over the quarter, with the 2-year Treasury falling by 2 basis points, while 5-year Treasury yields fell by 1 basis point and 10-year yields rose by 3 basis points. On a year-to-date basis, yields are down by approximately 125-145 basis points.



In other fixed-income sectors, investment-grade bonds of all types (as measured by the Bloomberg Barclays U.S. Aggregate Bond Index) outperformed safe-haven government debt, with municipal bonds outperforming other investment-grade bonds. Risk appetites extended into the third quarter for non-investment-grade high-yield debt, with the Bloomberg Barclays U.S. Corporate High Yield Index climbing 4.60%, down from the previous quarter's 10.2% gain, fueled by the Fed's continued asset purchases of high-yield bond exchange-traded funds.

On August 27th, the Fed announced a new strategy to bring the United States back to full employment and drive the inflation rate up to healthier long-term levels. Under the new scheme, the U.S. central bank will target "average inflation" over time of 2% counterbalancing periods of below 2% inflation levels with periods of above 2% levels. The new statement also pledges to ensure that employment doesn't fall short of a "broad-based and inclusive goal" of maximum employment.

Thus far, the Fed's new strategy has had only a marginal impact on market inflation expectations and, with permanent and long-term job losses ballooning, will face an uphill climb to bring the U.S. economy back to any semblance of full employment.

III. CAPITAL ECONOMICS: ELECTIONS, VACCINE, AND VIRUS RESURGENCE ALL KEY RISKS

Overview – Following a 3.7% decline this year, we expect GDP growth to be a solid 4.5% in 2021, but the risks to that forecast on both sides are, frankly, enormous. The key downside risk is that recurring waves of coronavirus infections during the winter flu season prompt more economy-damaging lockdowns. The key upside risks are that an effective vaccine becomes widely available early next year or that, post-election, the new Congress agrees on another major fiscal stimulus.

• Consumer Spending – The initial post-lockdown recovery in consumption was impressive but, with the enhanced unemployment benefits expiring and ongoing physical distancing restrictions still weighing on services spending, consumption growth is already losing momentum. Nevertheless, spending should return to its pre-pandemic level by the middle of next year. We expect real consumption to rebound by 5.5% in 2021 and 4.0% in 2022.

• Investment – Low interest rates are contributing to a strong rebound in investment which, after declining by 3.4% in 2020, we expect to rebound by 4.0% in 2021. But that masks a big divergence among the different

components of investment, with prospects for residential property brightest.

• External Demand – The strong rebound in domestic goods demand has blown out the trade deficit, but with demand overseas also now picking up and the dollar weakening, we do not think that marks the start of a sustained deterioration in the current account.

• Labour – The recovery in employment is likely to continue lagging, as weakness in labour-intensive sectors like leisure and food services provides an ongoing drag. Nevertheless, we still expect the unemployment rate to continue falling, which will limit downward pressure on wage growth.

• Inflation – The initial impact of the pandemic was sharply deflationary, but prices have already begun to rebound and several unique factors mean that inflation is likely to recover more quickly than in past cycles. We forecast that CPI inflation will average 2.5% next year, although that is partly because of base effects linked to the temporary price falls earlier this year. Inflation will drop back a little in 2022.

• Monetary & Fiscal Policy –With monetary policy close to its limits, any further significant stimulus would have to come from the fiscal side. The chances of a pre-election package are now close to zero but, depending on the outcome of the upcoming elections, there is still the possibility of additional fiscal stimulus sometime next year.

Key Forecasts Table

Table 1: Key US Forecasts

% q/q annualised	2020				2021				2022				Annual (% y/y)		
(unless otherwise stated)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2020	2021	2022
Demand															
GDP	-5.0	-31.4	30.0	4.5	4.4	4.0	4.0	4.0	3.9	4.0	4.0	3.8	**-3.7**	**4.5**	**4.0**
Consumption	-6.9	-33.2	38.5	6.4	4.3	4.2	4.1	4.0	4.1	4.0	3.9	3.9	**-3.9**	**5.5**	**4.0**
Private Fixed Investment	-1.4	-29.2	20.7	5.7	3.9	3.9	4.0	4.0	4.0	5.4	5.4	5.5	**-3.6**	**3.8**	**4.5**
- Business	-6.7	-27.2	15.0	3.9	3.9	3.9	3.9	3.9	3.9	5.8	5.8	5.8	**-5.3**	**3.0**	**4.5**
- Residential	19.0	-35.6	47.9	13.3	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	**3.4**	**7.3**	**4.0**
Government Expenditure	1.3	2.5	3.2	-2.0	-2.5	-0.2	-0.2	-0.2	0.7	1.0	1.6	1.6	**2.1**	**-0.5**	**0.5**
Domestic Demand	-6.1	-30.5	32.8	5.7	4.2	3.9	4.0	3.9	3.9	3.9	4.0	3.7	**-3.8**	**5.0**	**4.0**
Exports	-9.5	-64.4	94.1	23.9	2.6	2.3	2.3	2.3	2.3	2.3	2.3	2.3	**-10.7**	**8.2**	**2.3**
Imports	-15.0	-54.1	92.4	26.2	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	**-9.4**	**10.0**	**2.4**
Labour Market															
Unemployment Rate (%)	3.8	13.0	8.9	7.5	6.2	5.9	5.6	5.5	5.5	5.4	5.4	5.3	**8.3**	**5.8**	**5.4**
Payroll Emp. (Mth Chg 000s)	45	-6070	2359	1000	833	333	333	200	200	200	200	200	**-667**	**425**	**200**
Non-Farm Productivity	-0.3	10.1	11.5	-4.0	-2.6	1.2	1.3	2.3	2.3	2.3	2.4	2.2	**3.3**	**1.1**	**2.1**
Income & Saving															
Real Personal Disp. Income	2.6	46.7	-19.5	1.1	2.5	3.8	3.3	3.2	3.5	3.6	3.6	3.7	**6.0**	**1.9**	**3.5**
Average Hourly Earnings (%y/y)	3.1	6.5	6.0	5.9	5.6	2.2	2.4	2.4	2.5	2.8	3.0	3.3	**5.4**	**3.2**	**2.9**
Saving Rate (% of Disp. Inc.)	9.6	25.6	15.0	13.9	13.5	13.4	13.2	13.1	12.9	12.9	12.8	12.8	**16.0**	**13.3**	**12.8**
Prices (%y/y)															
Consumer Prices	2.1	0.4	1.3	1.4	1.7	3.3	2.5	2.4	2.4	2.3	2.3	2.3	**1.3**	**2.5**	**2.3**
Core Consumer Prices	2.2	1.3	1.7	1.8	1.9	2.9	2.3	2.2	2.2	2.2	2.2	2.2	**1.8**	**2.3**	**2.2**
Markets (end period)															
Fed Funds Rate Target (%)	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	**0.13**	**0.13**	**0.13**
10 Year Treasury Yield (%)	0.6	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	**0.5**	**0.5**	**0.5**
Dollar/Euro	1.09	1.10	1.18	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	**1.20**	**1.20**	**1.20**
Other															
Current Account (% of GDP)	-2.1	-3.5	-2.3	-2.4	-2.4	-2.4	-2.3	-2.3	-2.3	-2.3	-2.3	-2.2	**-2.6**	**-2.3**	**-2.3**
Federal Gov't Bal. (% of GDP)	-	-	-	-	-	-	-	-	-	-	-	-	**-16.0**	**-8.5**	**-6.0**

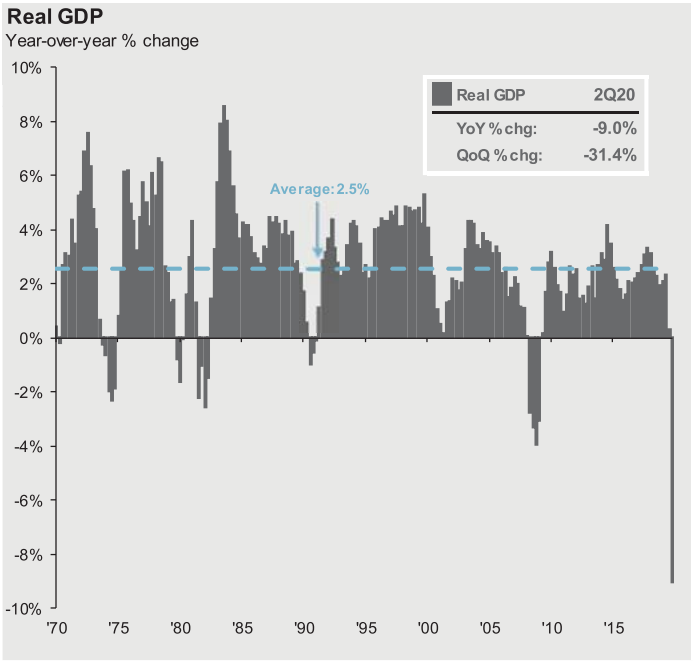
Sources: Refinitiv, Capital Economics

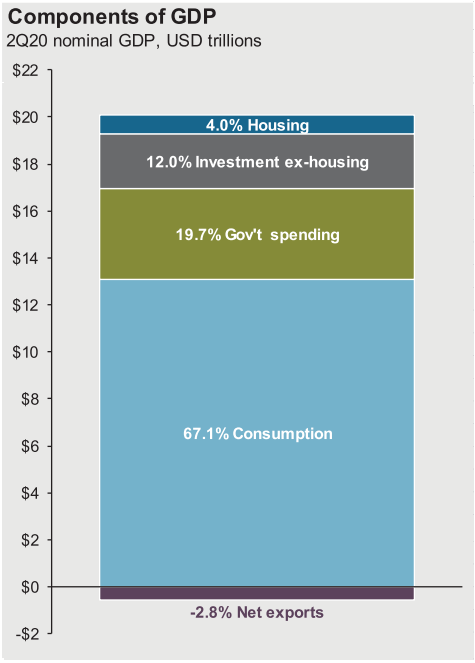
• Long-term Outlook – The pandemic could change the long-term economic outlook in a number of ways, but the most obvious shift is that the higher public debt burden will necessitate even lower interest rates for longer than we previously anticipated.

The source of the information in this commentary is SSW, Capital Economics and Bloomberg unless otherwise noted.

Economy

Economic growth and the composition of GDP

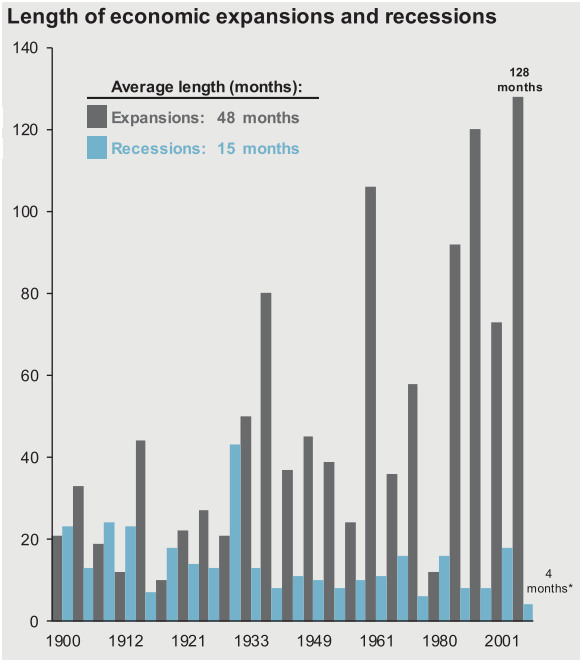


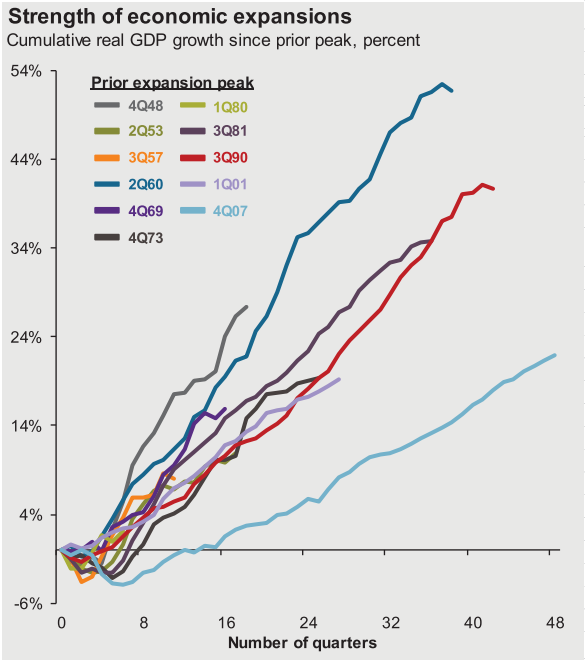


Source: BEA, FactSet, J.P. Morgan Asset Management.
Values may not sum to 100% due to rounding. Quarter-over-quarter percent changes are at an annualized rate. Average represents the annualized growth rate for the full period.
Guide to the Markets – U.S. Data are as of September 30, 2020.

Economy

The length and strength of expansions





Source: BEA, NBER, J.P. Morgan Asset Management. *Chart assumes current recession began in March 2020 and continued through June 2020, lasting 4 months so far. Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). These data can be found at www.nber.org/cycles/ and reflect information through June 2020. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of June 30, 2020.

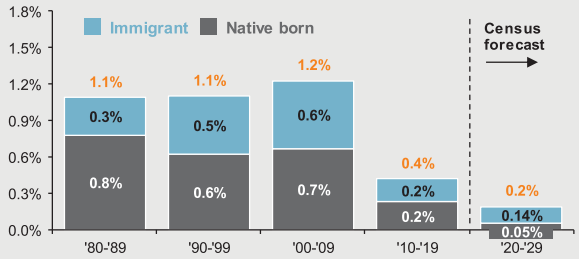
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Economy

Long-term drivers of economic growth

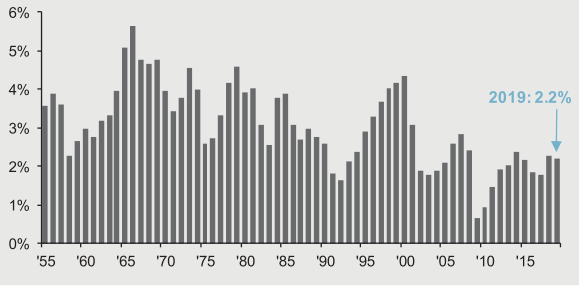
Growth in working-age population

Percent increase in civilian non-institutional population ages 16-64



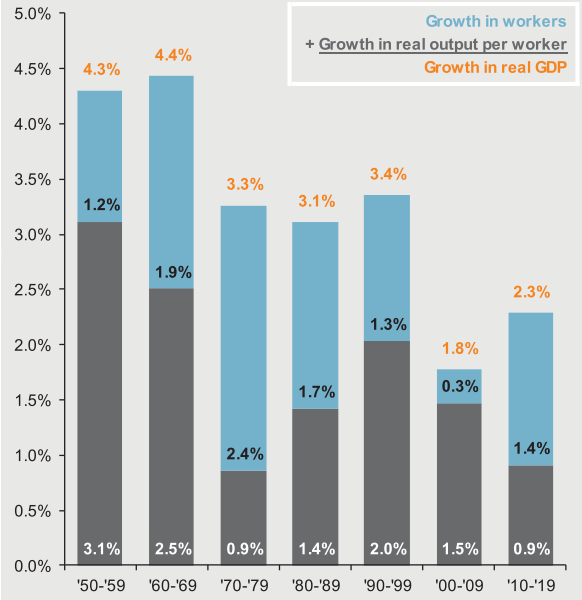
Growth in private non-residential capital stock

Non-residential fixed assets, year-over-year % change



Drivers of GDP growth

Average year-over-year % change

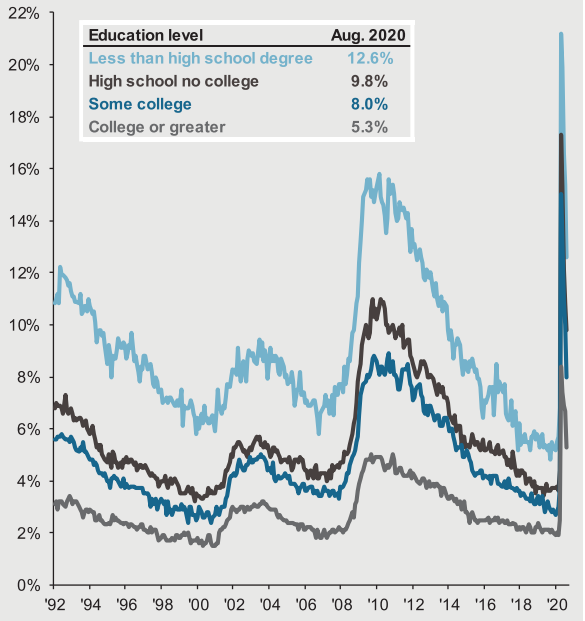


Source: J.P. Morgan Asset Management; (Top left) Census Bureau, DOD, DOJ; (Top left and right) BLS; (Right and bottom left) BEA.
GDP drivers are calculated as the average annualized growth in the 10 years ending in 4Q19. Future working-age population is calculated as the total estimated number of Americans from the Census Bureau, per the February 2020 report, controlled for military enrollment, growth in institutionalized population and demographic trends. Growth in working-age population does not include illegal immigration; DOD Troop Readiness reports used to estimate percent of population enlisted. Numbers may not sum due to rounding.
Guide to the Markets – U.S. Data are as of September 30, 2020.

Economy

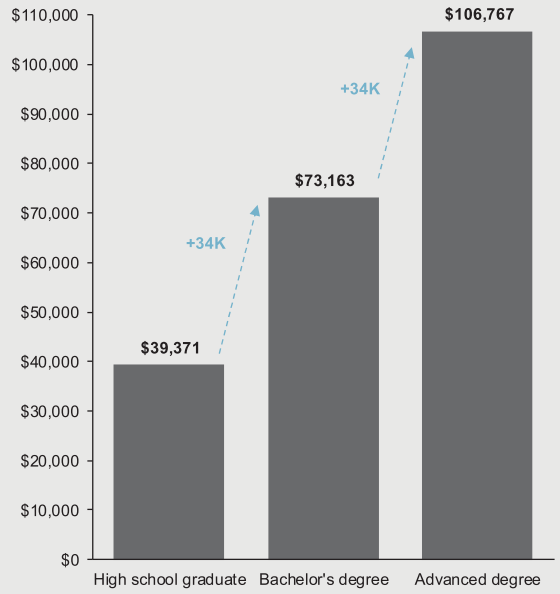
Employment and income by educational attainment

Unemployment rate by education level



Average annual earnings by highest degree earned

Workers aged 18 and older, 2019



Source: J.P. Morgan Asset Management; (Left) BLS, FactSet; (Right) Census Bureau.
Unemployment rates shown are for civilians aged 25 and older. Earnings by educational attainment comes from the Current Population Survey and is published under historical income tables by person by the Census Bureau.
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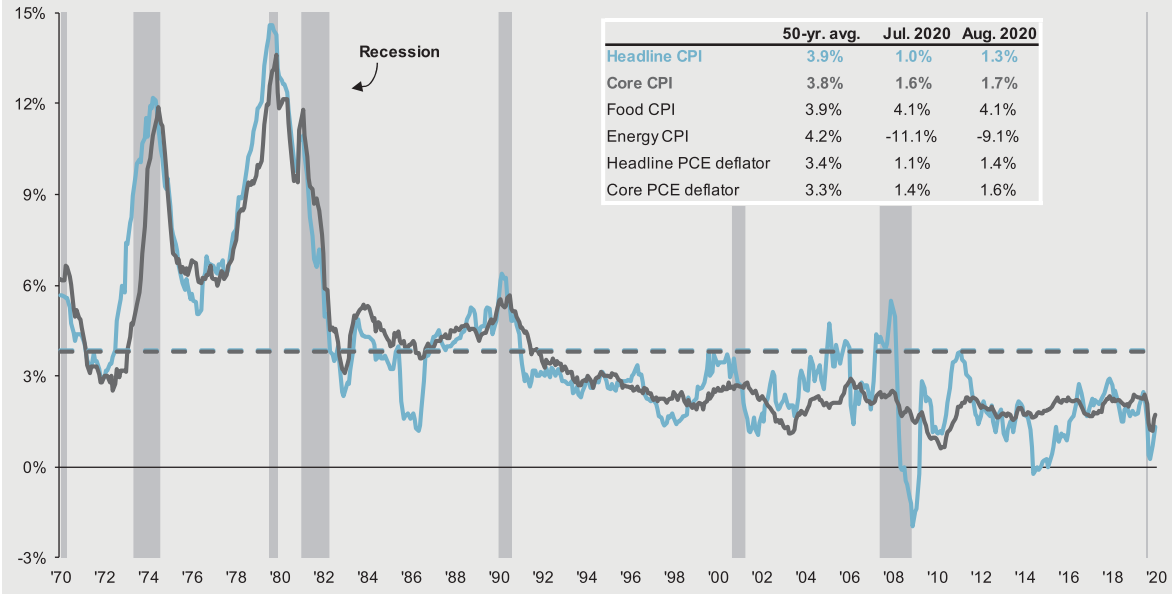
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Inflation

Economy

CPI and core CPI

% change vs. prior year, seasonally adjusted



	50-yr. avg.	Jul. 2020	Aug. 2020
Headline CPI	3.9%	1.0%	1.3%
Core CPI	3.8%	1.6%	1.7%
Food CPI	3.9%	4.1%	4.1%
Energy CPI	4.2%	-11.1%	-9.1%
Headline PCE deflator	3.4%	1.1%	1.4%
Core PCE deflator	3.3%	1.4%	1.6%

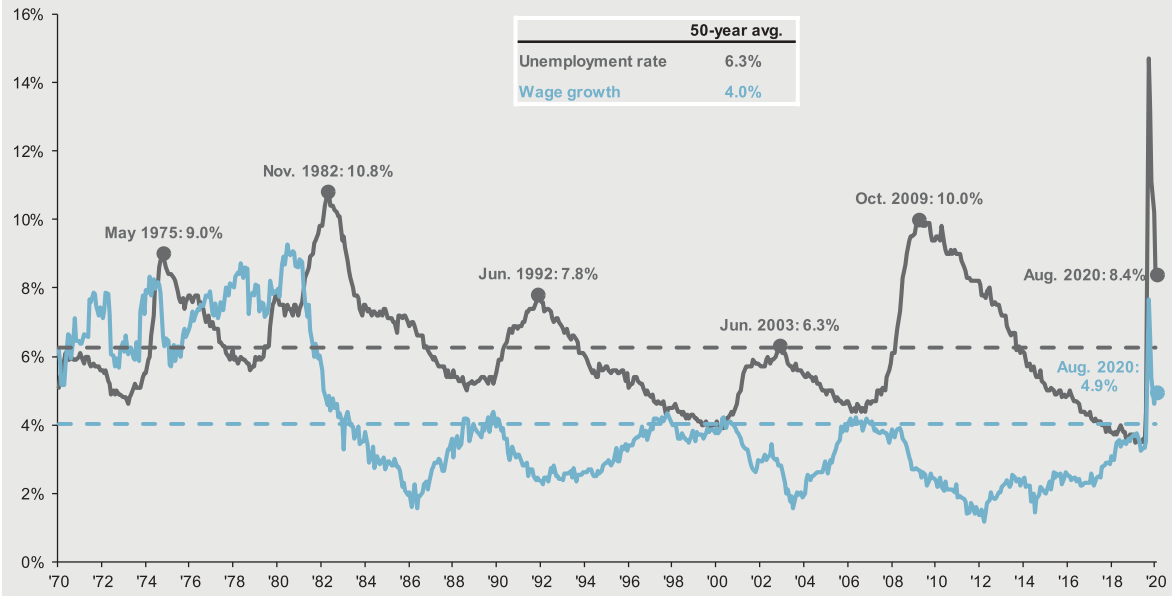
Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.
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Unemployment and wages

Economy

Civilian unemployment rate and year-over-year wage growth for private production and non-supervisory workers

Seasonally adjusted, percent



	50-year avg.
Unemployment rate	6.3%
Wage growth	4.0%

Source: BLS, FactSet, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of September 30, 2020.

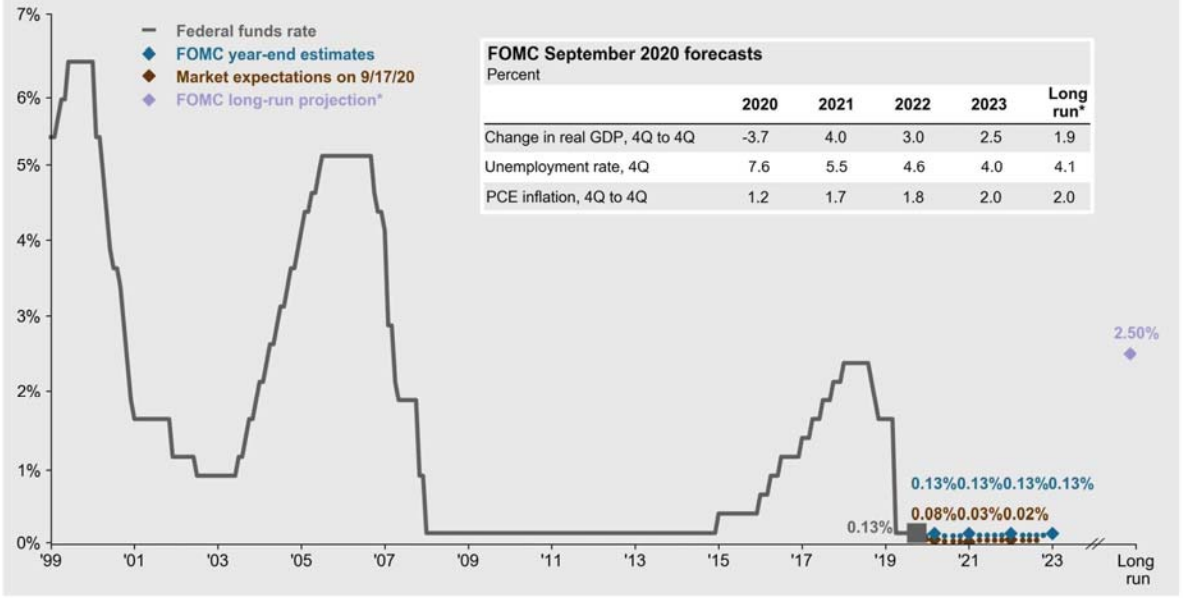
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The Fed and interest rates

Fixed income

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FOMC September 2020 forecasts

Percent

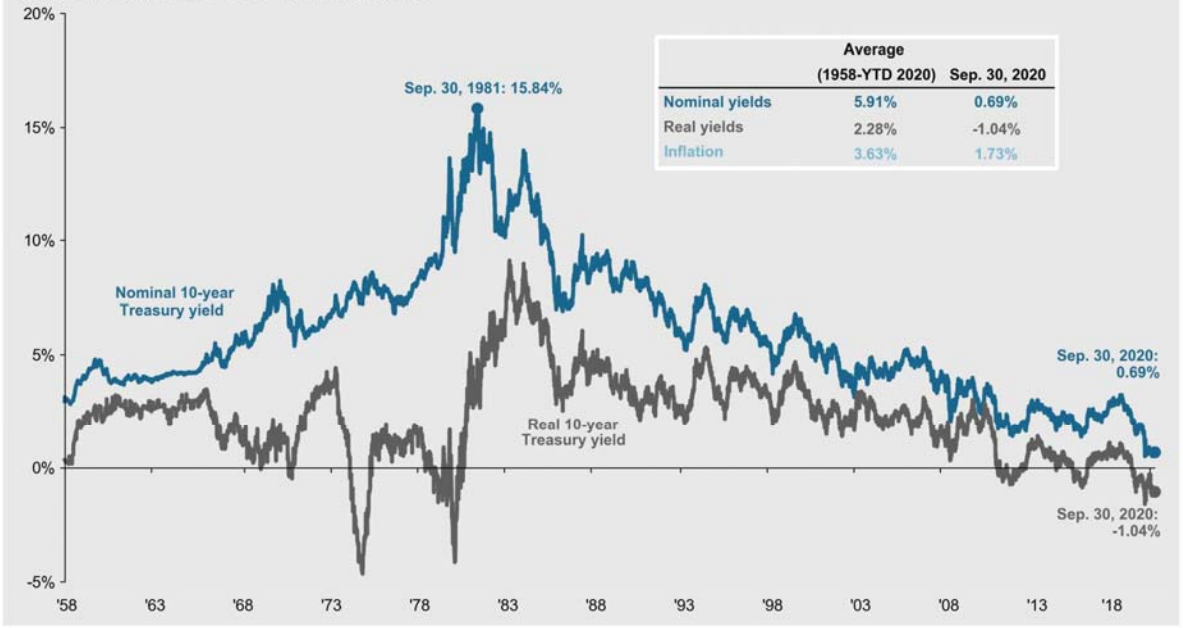
	2020	2021	2022	2023	Long run*
Change in real GDP, 4Q to 4Q	-3.7	4.0	3.0	2.5	1.9
Unemployment rate, 4Q	7.6	5.5	4.6	4.0	4.1
PCE inflation, 4Q to 4Q	1.2	1.7	1.8	2.0	2.0

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are the federal funds rates priced into the fed futures market as of the following date of the September 2020 FOMC meeting and are through August 2023 due to data availability. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy.
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Interest rates and inflation

Fixed income

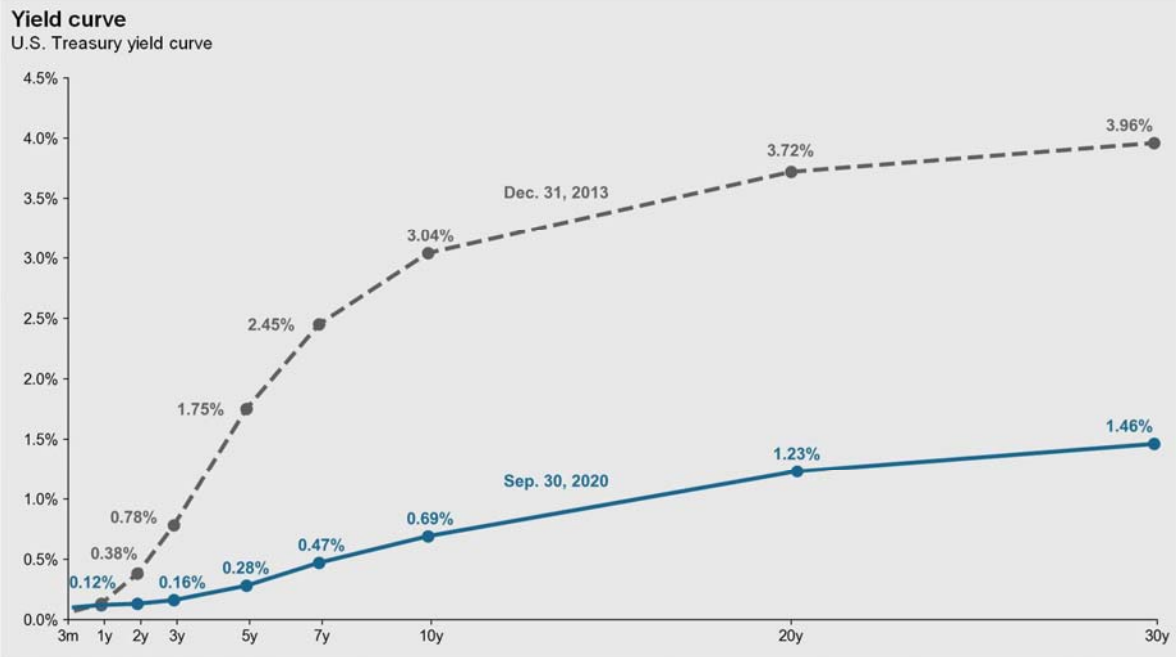
Nominal and real 10-year Treasury yields



	Average (1958-YTD 2020)	Sep. 30, 2020
Nominal yields	5.91%	0.69%
Real yields	2.28%	-1.04%
Inflation	3.63%	1.73%

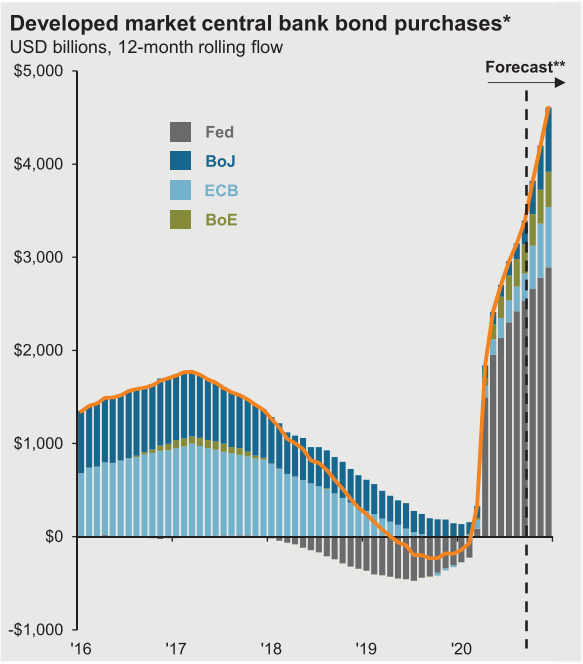
Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month except for September 2020 where real yields are calculated by subtracting out August 2020 year-over-year core inflation.
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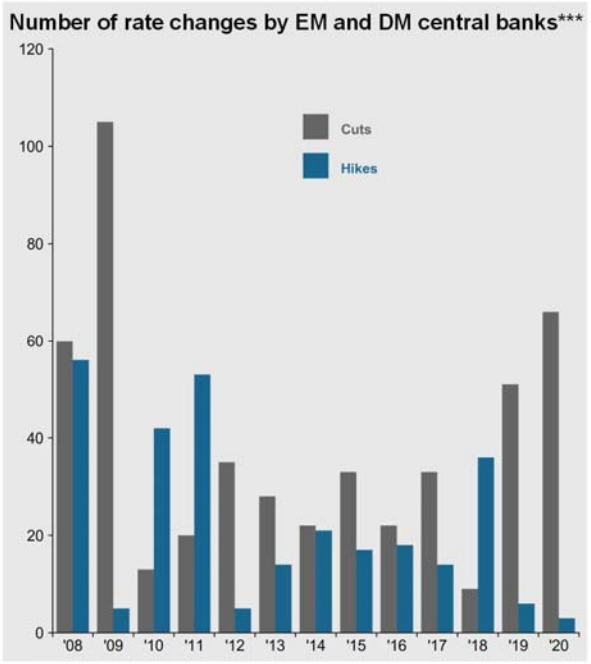
Yield curve



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
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Global monetary policy

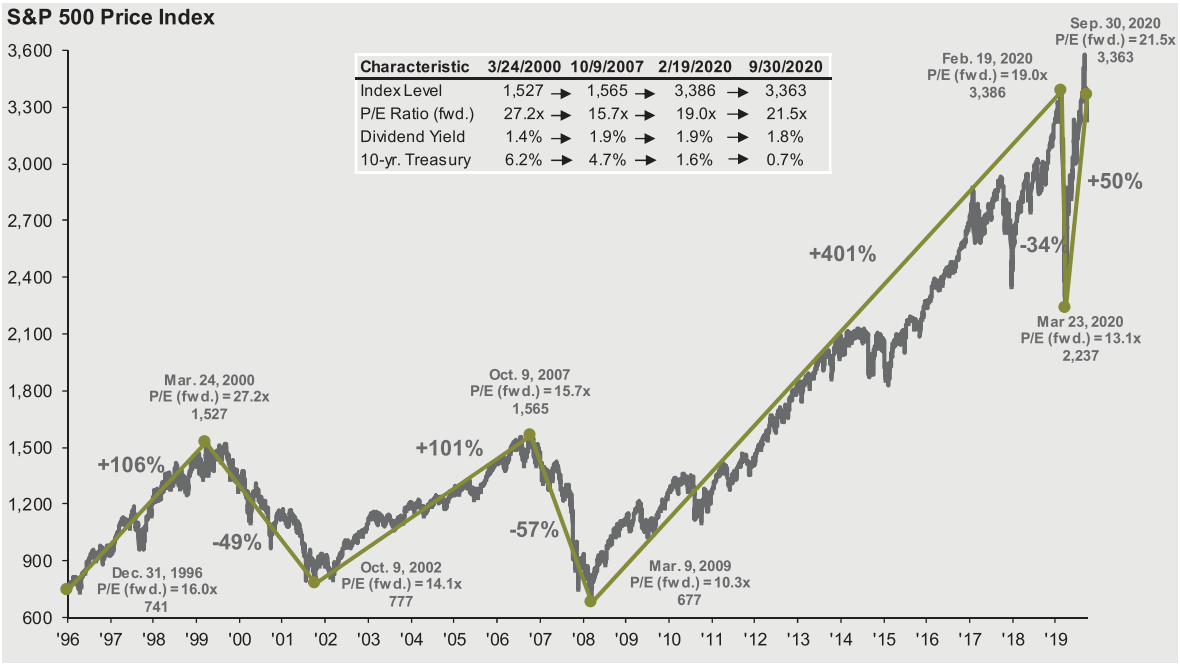




Source: J.P. Morgan Asset Management; (Left) Bank of England, Bank of Japan, European Central Bank, FactSet, Federal Reserve System, J.P. Morgan Global Economic Research; (Right) Bloomberg. *Includes the Bank of Japan (BoJ), Bank of England (BoE), European Central Bank (ECB) and Federal Reserve. **Bond purchase forecast assumes $110bn GBP in net purchases from BoE through June 2021; BoJ QE of $200trn JPY ann. for 2020 and $65trn JPY ann. through mid-2021; $950trn EUR in net purchases from the ECB through June 2021; and the Federal Reserve to purchase $720bn of Treasuries, $360bn of agency MBS through June 2021. Fed assumptions are based on purchase activity through 3Q20 and previous QE announcements. ***Central banks include Australia, Brazil, Canada, Chile, China, Colombia, Denmark, euro area, Hong Kong SAR, Indonesia, India, Japan, Korea, Malaysia, Mexico, Norway, Peru, Philippines, Poland, Russia, Saudi Arabia, South Africa, Sweden, Switzerland, Thailand, Turkey, United Kingdom and the United States. *Guide to the Markets – U.S.* Data are as of September 30, 2020.

S&P 500 Index at inflection points

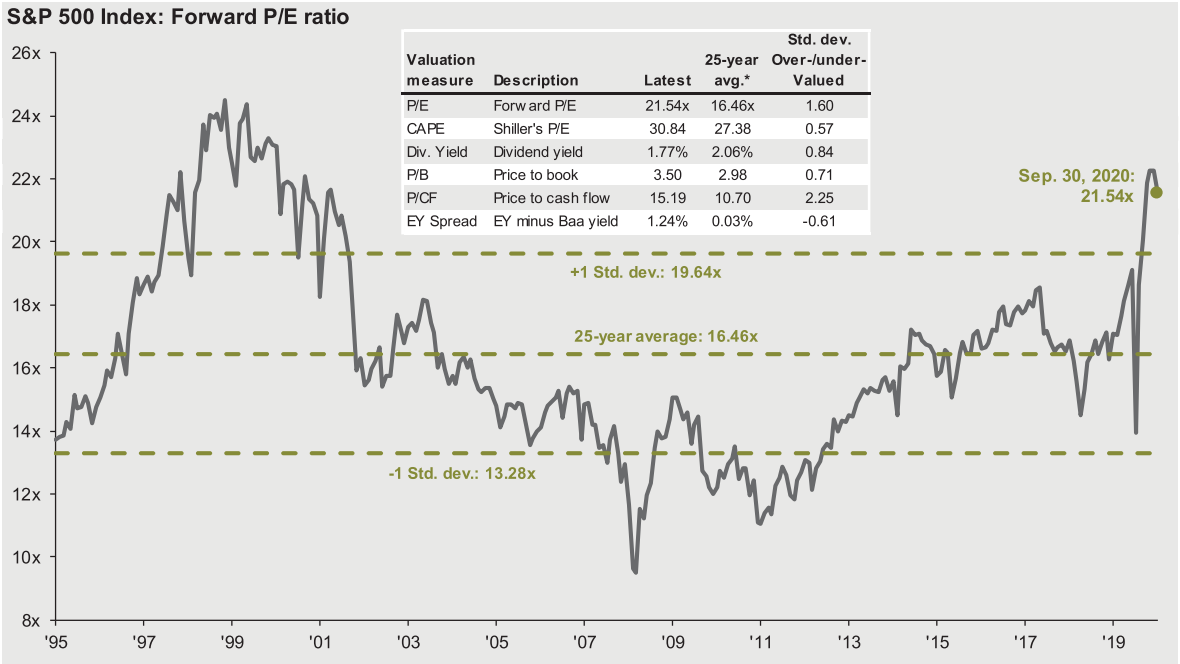
Equities



Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management.
Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price to earnings ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of September 30, 2020.

S&P 500 valuation measures

Equities



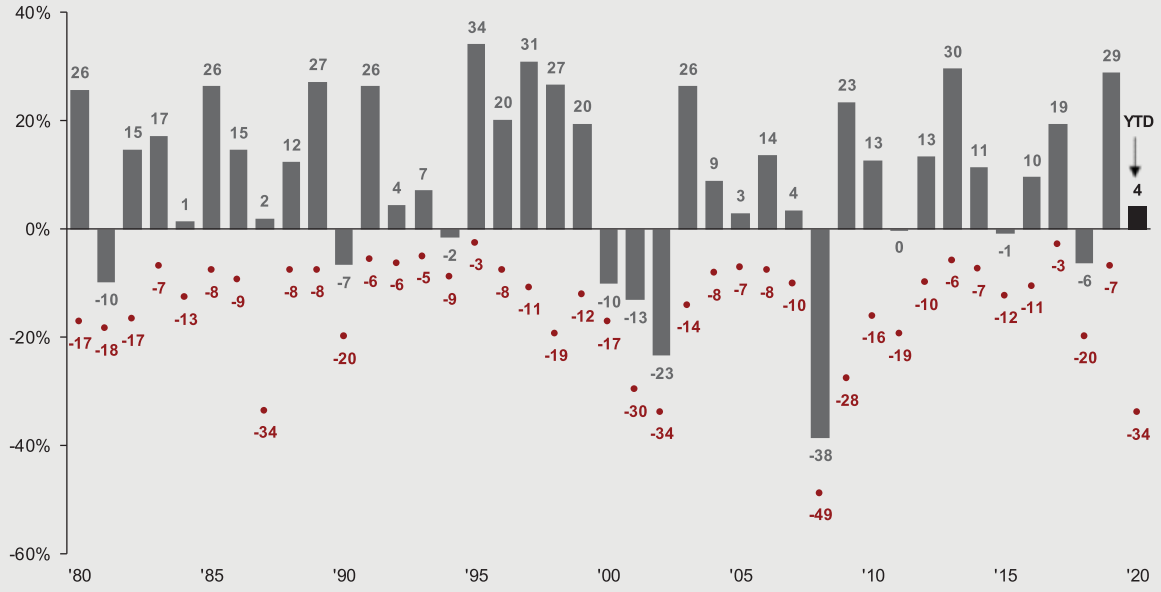
Source: FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Price to earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since September 1995, and FactSet for September 30, 2020. Current next 12-months consensus earnings estimates are $156. Average P/E and standard deviations are calculated using 25 years of IBES history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price to book ratio is the price divided by book value per share. Price to cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure.
Guide to the Markets – U.S. Data are as of September 30, 2020.

Annual returns and intra-year declines

Equities

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 13.8%, annual returns positive in 30 of 40 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2019, over which time period the average annual return was 8.9%.
Guide to the Markets – U.S. Data are as of September 30, 2020.

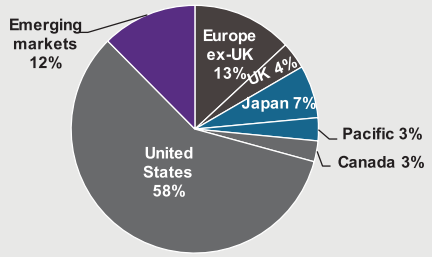
Global equity markets

International

Returns	2020 YTD		2019		15-years	
	Local	USD	Local	USD	Ann.	Beta
Regions						
U.S. (S&P 500)	-	5.6	-	31.5	9.0	0.87
AC World ex-U.S.	-5.5	-5.1	21.4	22.1	5.7	1.10
EAFE	-9.1	-6.7	22.3	22.7	5.3	1.06
Europe ex-UK	-7.4	-3.2	27.5	25.9	5.9	1.20
Emerging markets	2.9	-0.9	18.5	18.9	7.8	1.26
Selected Countries						
United Kingdom	-21.5	-23.4	16.5	21.1	4.2	1.01
France	-16.8	-13.0	29.3	27.0	5.9	1.22
Germany	-3.6	0.7	23.9	21.7	6.4	1.32
Japan	-3.2	-0.3	18.9	20.1	4.3	0.75
China	15.9	16.6	23.3	23.7	11.3	1.26
India	-1.1	-4.4	10.0	7.6	9.2	1.31
Brazil	-17.1	-40.8	31.5	26.7	9.5	1.47
Russia	-11.6	-27.6	38.8	52.7	7.4	1.53

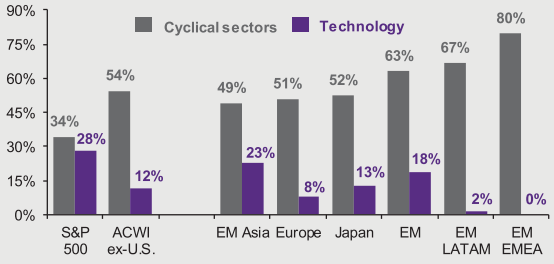
Weights in MSCI All Country World Index

% global market capitalization, float adjusted



Representation of cyclical and technology sectors

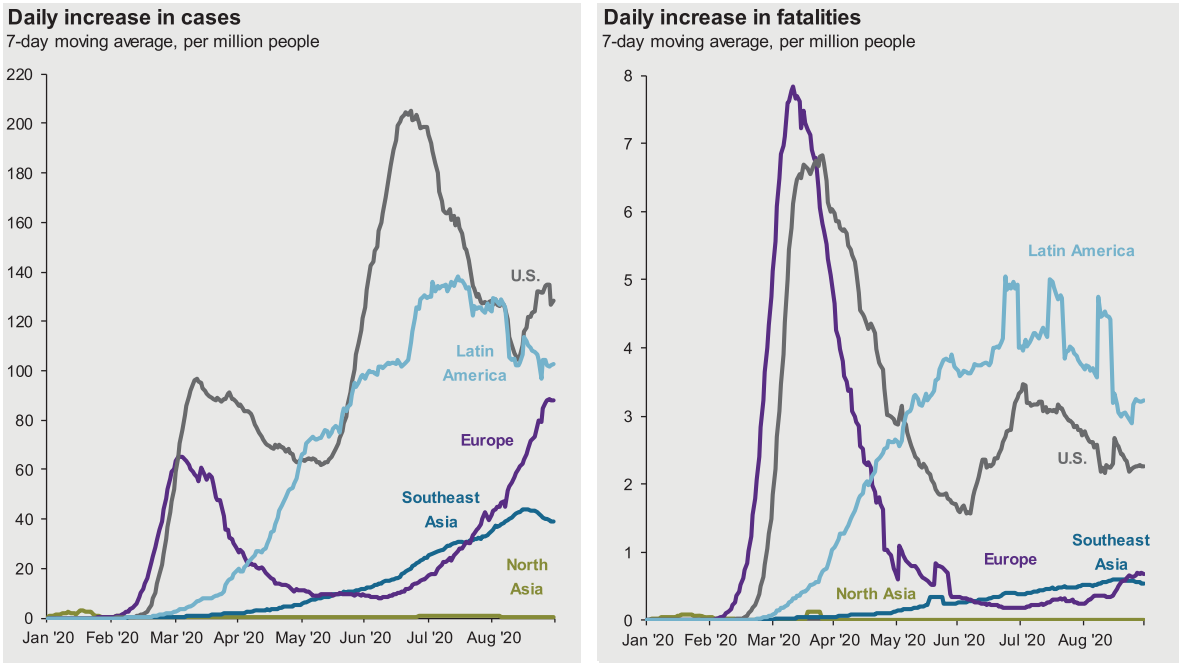
% of index market capitalization



Source: FactSet, Federal Reserve, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
All return values are MSCI Gross Index (official) data. 15-year history based on U.S. dollar returns. 15-year return and beta figures are calculated for the time period 12/31/04-12/31/19. Beta is for monthly returns relative to the MSCI AC World Index. Annualized volatility is calculated as the standard deviation of quarterly returns multiplied by the square root of 4. Chart is for illustrative purposes only. Please see disclosure page for index definitions. Past performance is not a reliable indicator of current and future results. Sector breakdown includes the following aggregates: Technology (Information Technology) and cyclicals (Consumer Discretionary, Financials, Industrials, Energy and Materials).
Guide to the Markets – U.S. Data are as of September 30, 2020.

SMITH SHELLNUT WILSON

COVID-19: Global confirmed cases and fatalities



Source: Johns Hopkins CSSE, The World Bank, Worldometers, J.P. Morgan Asset Management. Cases include both laboratory confirmed and "presumptive positive" cases.
Guide to the Markets – U.S. Data are as of September 30, 2020.