OUT OF THE BOX

INVESTMENT COMMITTEE UPDATE
2020 Q4

Faith | Trust | Excellence | Care

Our Mission is to help people with complex financial needs experience an **EXCEPTIONAL** life.

Our Website **www.boxfinancialadvisors.com**: easy access to account login, office directions, and more!

Our Investment Committee

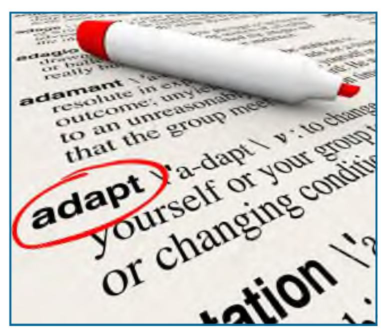
Each quarter our Investment Committee meets to review the markets and economy. Three voting members review significant market data and hear from current advisors and appropriate support staff. When necessary the Committee adjusts the model portfolios managed by the firm. Our quarterly newsletter represents the Committee's general thoughts behind any adjustments.

Our Team

In October, a group from our team was able to help pack food with **Feed My Starving Children**.

We are glad several us were able to get together and serve many who still need daily meals around the world—especially during these challenging times. For information on this organization and their ministry, please visit www.fmsc.org.

ADAPT—WORD OF THE YEAR



Some things will never be the same. You may find yourself working in a home office or temporary workstation and it is beginning to feel more permanent. You may also be working odd hours to accommodate distance learning or trying to help friends and family members who feel isolated and unable to enjoy life as they once did. Change is hard, but where there is a will, there is a way. Simply put, Sir Isaac Newton's first law states an object will not change its motion unless a force acts on it. The changes in 2020 acted as a force for change in very uncomfortable ways, but we are resilient, our clients are resilient, and change doesn't have to be all bad. Adaptation. It just means accepting the next new normal. As we enter this new normal, the economic metrics and indicators have not changed, but now we look to adapt and apply those metrics and indicators to the new normal.

Economic Commentary

A look at What **Was**, What **Is**, and What **Could Be**

What Was

The last few months have demonstrated the adaptation of the U.S. people. Schools have started up again in various formats, and people are adjusting to the new normal. This is a positive movement. As we wrote in our last newsletter, for our economy to fully get back on track people must be able to get back to an effective work routine and return to living a full robust life. We are hopeful a successful COVID-19 vaccine will be an important step in igniting confidence. As of writing this, we have recently heard about a new vaccine that looks to have 90% efficacy with many more vaccines most likely to follow. With the flu season right around the corner and the new wave of COVID-19 cases, we hope improvements on the vaccine and the therapeutics front will continue to encourage people to live in a new normal.

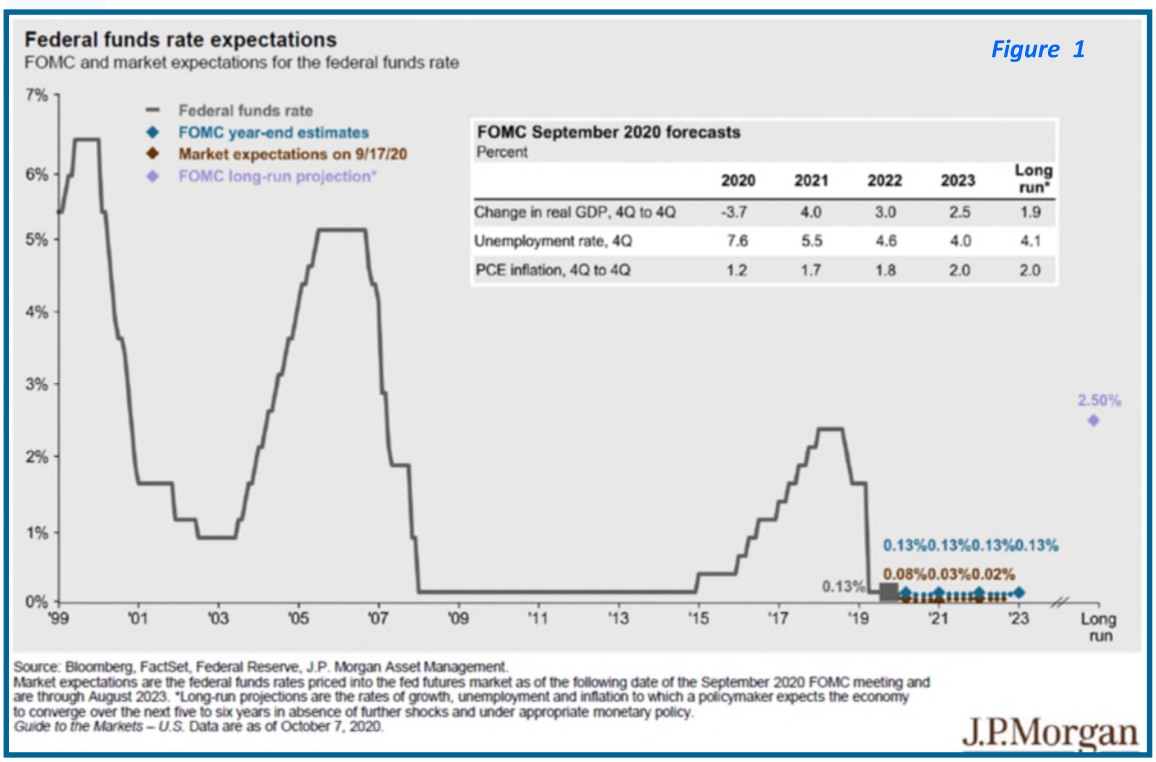
What Is

We are happy to see continual improvements on many economic fronts. Unemployment has seen steady improvements moving from its peak at 14.7% in April to 6.9% in October (U.S. Bureau of Labor Statistics). GDP has seen a large bounce back with third quarter estimates on track for 32% annualized (Cetera Investment Management) and global GDP expected to be up 5% in the second quarter (Cetera Investment Management).

But with economic momentum having slowed over late summer, investors have shifted focus to third quarter earnings for clues about future market direction—although actual earnings numbers may be less important than corporate expectations moving forward. Business leaders now are more confident in their outlook than when they reported last quarter. For the third quarter earnings have declined by 18% from the prior year's third quarter; however, we do not believe this tells the whole story.

We see pockets of the economy continuing to perform well such as technology, housing and retail; however, other sectors such as hospitality, financials and energy continue to struggle. Aggregating these companies together may not paint the most accurate picture of the economy.

On August 21, 2020, the Federal Reserve (Fed) announced the central bank would shift to a new policy framework – flexible average inflation targeting. We see the Fed continuing to target inflation at 2%, but over longer periods. In the future, if inflation does not meet the 2% target, it will be allowed to run well above target so inflation averages 2% over time. By making this change, the Federal Open Markets Committee hopes to anchor longer-term inflation expectations over years not just by quarter by quarter. The Fed has also made it clear we should be expecting interest rates to be lower for longer. We believe investors should expect monetary policy to remain accommodative even if inflation were to accelerate from current levels perhaps resulting in a green light to continue to be in riskier assets in order to fuel the economy. (See Figure 1.)



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. *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.
Guide to the Markets – U.S. Data are as of October 7, 2020.

What Could Be

With the Fed holding interest rates low (potentially through 2023), inflation is going to be a key data point to watch. We are preparing to see inflation move above interest rates. This means real yields could be negative as inflation outpaces interest rates which are held artificially low and make investing in safe assets increasingly challenging.

There are a few key reasons we believe inflation could be in our near future other than the trillions of dollars poured into our economy. There is reason to believe suppliers will have difficulty keeping up with demand as consumers get back to work and spend money. Suppliers need to get their production ramped back up, but they need to do it within new safety guidelines which could make it difficult to meet demand. These suppliers are also going to be facing deglobalization pressures and are spending increased resources on creating resilient supply chains as they try to learn from mistakes which appeared during the early COVID-19 lockdowns in March and April. Deglobalization also leads to higher costs as supplying domestically may mean they are no longer getting the cheapest prices. It also gives domestic producers and workers leverage to increase prices as the number of competitors decreases. These factors could lead to higher prices for suppliers and could be the spark we have been watching for and begins a new era of inflation. (Blackrock Investment Institute)

As we discussed in our *What Was* section, we will continue watching the COVID-19 effects on our economy. COVID-19 has made a lasting impression on our work and personal lives. Some of COVID-19's economic effects will also be everlasting and include greater opportunities for companies which support an increasingly remote workforce. As any new technology disrupts the status quo, it brings new challenges. We anticipate businesses that solve these new challenges will experience exponential growth. Specifically, businesses that solve mobile remote working challenges like internet security, cloud support, mobile applications and e-commerce.

COVID-19 may make a stronger comeback this winter. With government stimulus seemingly far off, we don't yet see a fundamental reason to pursue discounted equity prices in market segments like small-cap and value equities. Europe may also be undervalued, but COVID-19 cases have exploded in ways not seen since March. This has forced governments to act with localized lockdowns denting consumer confidence in the recovery.

In the U.S., despite continued optimism in the markets, we continue to be very skeptical of any stimulus before the inauguration. Given the strong partisan environment, passing a bill in the lame duck period may be nearly impossible.

While the issues we listed could seem dismal, we see economic data in the U.S. continues to point to a faster recovery. We expect retail sales to continue to exceed expectations, another sign of strong consumer

health along with strong home sales. While we see the industrial production continue to lag it will continue to highlight how uneven and stimulus-driven this recovery has been. Longer term, as supply for industrial production diminishes and global demand surges, we see opportunities for growth in the value space especially those who integrate with the latest technology.

In the U.S., it seems decision makers are shifting their focus from COVID-19 hospitalizations and deaths to the number of people who get it. With the potential increase in cases over the winter months, we will be watching closely to see if policy makers make any adjustments that could negatively affect the economy to try to curb the spread of COVID-19. We hope continued positive news about vaccines and treatments continue to carry us through these months and allow our economy to move in a positive direction.

Final Thoughts

We believe Newton's first law, the law of inertia, applies to humans as well. We will all remember how we were abruptly impacted by COVID-19. Eventually, we will consider normal what once required adaptation as some of the ways we learn, work, shop and entertain ourselves will never be the same. We know 2020 has been full of unprecedented and uncomfortable change. This year alone we experienced two of the worst one-day S&P 500 drops ever recorded, but we have hope. Hope that what is born out of this process and this pain will be a better, more resilient world able to navigate life with even more confidence. Again, we appreciate the trust you put in us as we navigate this change together, and we look forward to a continued partnership as we move into this new normal.

MARKETS

We saw the S&P 500 return another 8.5% in the third quarter as the U.S. stock market continues to perform strongly with eyes on a better future. The new trends of e-commerce, gaming, online learning, remote working, and other technologies have fueled much of the growth to this point, but there are still many opportunities as the market has become disjointed. When looking at the S&P 500 for the year it is up about 4% through the third quarter, but if we were to make all of the holdings inside of the S&P 500 equal, it would have performed about -6.5% through the third quarter. This is important to understand because the top 5 companies inside the S&P 500 of Apple, Microsoft, Amazon, Facebook, and Alphabet make up about 23% of the index. These companies have carried us so far, but there are many companies that look to be good value as they continue to recover.

There have been a lot of changes in our managed portfolios over the last year and we appreciate your trust in us as we have worked hard to diligently guide the portfolios through these choppy waters caused by the Corona Crash. We have continued to position the portfolios with heavier weightings in more conservative holdings and tactically positioned portfolios to take advantage of the surge in technology stock returns. This process has not been easy, but we have invested in improved portfolio management technology. Also, we are confident we have the research and resources necessary to guide the portfolios through the next transitions in the markets.

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