SENIOR SOLUTIONS UPDATE

FROM:	PATRICE HORNER, CFP, MBA
SUBJECT:	4Q2020 INVESTMENT COMMENTARY
DATE:	OCTOBER 20, 2020

SSL Senior Solutions

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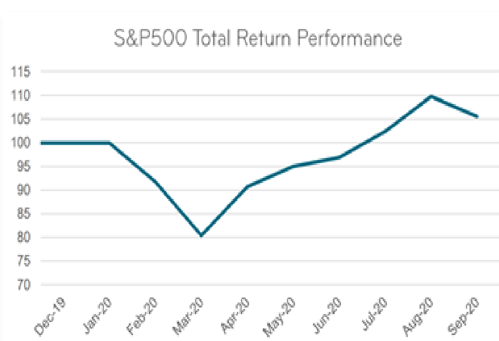
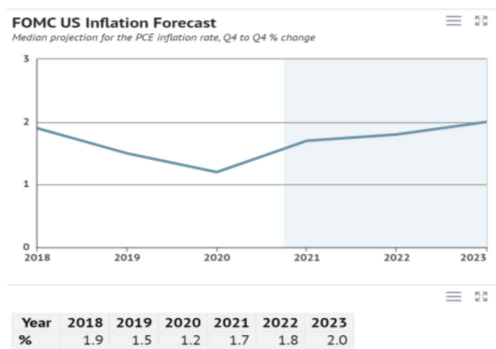
Review

Markets are disconnected from reality. Investor Sentiment remains low. Unemployment remains high. The US Fed will continue supporting the market. The rallies in the United States and Europe have slumped, with equity prices pulling back from September peaks and bond credit spreads widening. At current yields, the Fixed Income sector is dead weight in asset allocations. Price to Earnings ratios (P/Es) of US equities are at a high 23x earnings which limits future potential gains.

As of this writing, the S&P 500 is up nearly 9% for the year, while the Industrial heavy Dow Jones Index is basically flat, and the Tech dominate NASDAQ up 32%. An average dividend yield on the index of around 1.7% and a 10-year US Treasury yield of less than 0.75% leaves investors with difficult choices. The 10-year inflation expectations have spiked to 1.77%, still below the target 2%.

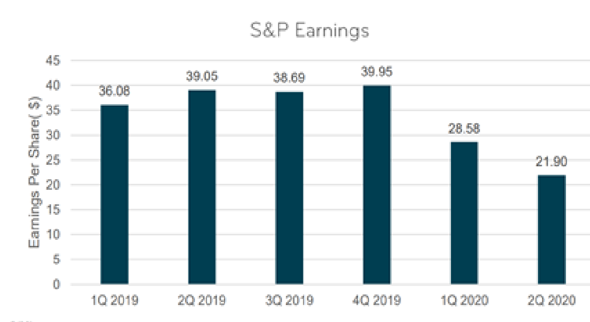


Source: Bloomberg



Source: Knoema Data Solutions

Only 7% of the S&P companies had revenues over 20% year over year reports KKR. The number of companies delivering growth of 8%+ has declined sharply to 16% in 2020 from 45% at the beginning of the millieum. The current structural global GDP slowdown is impeding the ability of companies to grow. However, moderate growth is forecast for most developed countries in 2021.

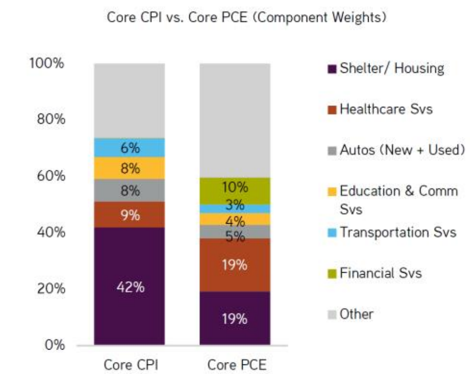


GDP growth (in %, year-on-year)

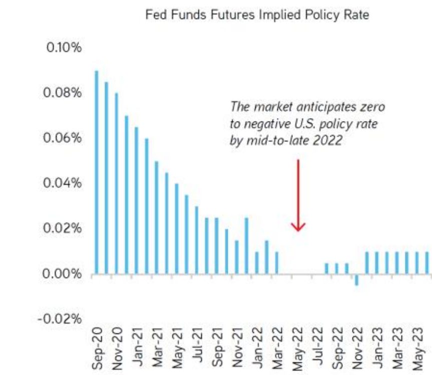
Region	2020F		2021F
United States	−5.4	↗	4.2
Eurozone	−8.5	↗	5.5
United Kingdom	−9.5	↗	6.0
Japan	−5.5	↗	3.3
China	2.0	↗	8.5
World	−3.8	↗	5.3

Source Bloomberg Financial- FactSet Research Systems Inc as of 8/20/2020

The third quarter earnings season will be a litmus test. They may be down 20% y/y in 2019/2020, according to Nuveen. Earnings expections were modest after the second quarter recovery from the first quarter collapse. Valuations have risen fast and now equities are expensive. There is the possibility of inflation which will lift values of Real Assets such as Gold, Real Estate, as well as Treasury Inflation Protected Securities (TIPS). The FOMC's new flexible average inflation targeting (FAIT) is supportive of the economy and of stocks. However, the focus on 'financial stability' may reduce froth from the financial markets as they enter a condolidation stage.



Data as at July 31, 2020. Source: BEA, BLS, Haver Analytics.



Data as at September 11, 2020. Source: Bloomberg.

Household spending is 2/3rds for the Services Sector and will remain muted. In addition, there are still 10 million displaced workers in the US.. Smaller companies are the major employers and they have been most hurt by the Covid crisis. Most small businesses are not reflected in the stock market returns due to the dominance of the mega tech stocks. Lacking further support, business insolvencies amongst smaller companies will increase as broad-based economic recovery is delayed.

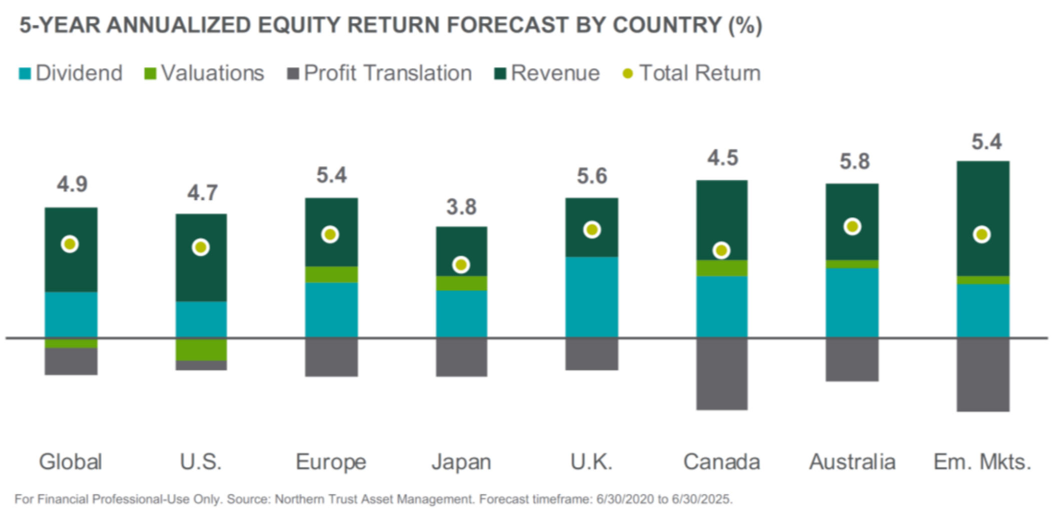
The massive liquidity infusions into the global financial markets have been a life-saver for the economy. The velocity of money changing hands and the reignition of inflation to lift all boats has yet to occur. The economy still has signs of extreme distress, including constant announcements of mass layoffs. Republicans and Democrats continue to argue about the size and content of the stimulus of $1.5 and $3.4 trillion dollars respectively, which equals between about 7% and 15% of the US GDP. Stimulous could diminish wealth disparity so that capitalism benefits everyone.

The necessary restructuring of the global markets presents an opportunity and an obligation to incorporate goals for global sustainability. Morningstar notes that equity markets are implying a major reshaping of the U.S. economy compared with pre-pandemic sectors. This is likely to include bouts of creative destruction and chaotic redistribution of capital. There will be micro-bursts of volatility due to the uncertainty of outcomes. This will keep investors nerves on edge.

At the end of September, the first undignified TV debate between the two US presidential candidates was broadcast. The incumbent President intimated he would not commit to leaving office in the event of an election defeat. Across the pond, the UK prime minister Boris Johnson likely to create a hard Brexit by renegotiating an agreement he negotiated last year. The pandemic rose its head again in September with a sharp rise in new infections, especially in Europe. To-date there has been 30 million positive tests worldwide and more than one million Covid-19 deaths reported.

Market Overview

The Morningstar US markets index was up 12.3% at its peak in mid-September and settled a 9.2% for the quarter. The series of projections for the Russell 1000, the Financial Times Stock Exchange (FTSE) UK, and the FTSE Asia Pacific indexes still have positive trajectories, although they are losing momentum. Market returns are forecast in mid-single digits for the next 5 years.



There is debate whether to emphasize investments in the United States or Europe. US companies that applied for federal assistance will be prohibited from paying a dividend for a time. The dividend portion of stock returns in the US is much less than in Europe. German consumer confidence has improved given the introduction of a temporary cut to the VAT rate. The German construction industry has proved to be robust during the crisis. Also, there will be stronger demand for autos in China will end up benefiting Germany.

UK returns are driven by dividends. The UK has limited the steps that smaller companies take to obtain support. Major UK exporters or companies with EU reliant supply chains will be particularly hit by a hard Brexit. UK overseas terriorties of Canada and Australia will rise more.

The performance of Japan is unclear after the resignation of the Japanese PrimeMinster ShinzoAbe for health reasons. The country is already suffering political uncertainty. Japanese equity returns are lagging. Emerging Markets, especially China and the Asian region, will be more revenue driven.

Quarterly Market Performance Barometer

	Return %		
Equities	Q3 2020	Q2 2020	1-Year
U.S. Market	9.24	21.98	15.36
Dividend Focus	0.28	14.71	-10.68
Global ex-U.S.	6.64	16.96	3.49
Developed ex-U.S.	5.77	16.20	1.64
Emerging Markets	8.65	19.71	9.34
Fixed Income			
U.S. Core Bond	0.63	2.82	6.97
U.S. Government	0.34	0.67	7.97
U.S. High-Yield	4.75	10.29	3.24

	Return %		
Top Morningstar Sector Indexes	Q3 2020	Q2 2020	1-Year
Consumer Cyclical	20.12	36.20	36.65
Basic Materials	11.86	27.71	10.05
Technology	11.82	31.71	47.56
Bottom Morningstar Sector Indexes			
Financial Services	4.76	16.09	-6.09
Real Estate	2.21	14.60	-11.45
Energy	-18.93	34.68	-44.37

Source: Morningstar Direct.

The Morningstar US Market Index gained 9.2% during the quarter, despite a 3.6% drop in September. Interestingly, the Global and Emerging-Markets stock indexes fell less in September than the Morningstar US Market Index, and ended the 3Q20 up 6.6% and 8.7% respectively. The Morningstar US Market Index gainied 15.4% this year as of the end of September. The US Core Bond Index posted a 7% total return year-to-date.

Equity Markets

Growth stocks outperformed during the drop and the recovery. Growth stocks are trading at multiples near the tech bubble of 2000, or 3.5 times Value stocks. That is a function of delivering three times the return on assets. Mid-cap stocks are cheap in comparison to mega-caps and offer value. However it is important to scan for Quality.

Index Market Barometer Trailing Returns

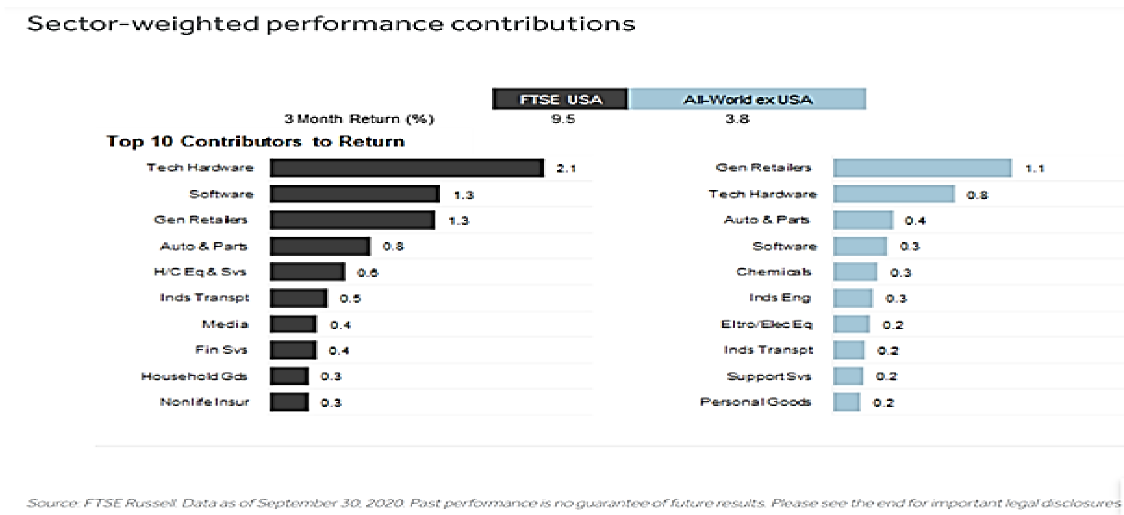
	Q3 2020			1-Year			3-Year		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
Large	2.95	12.08	13.83	-7.14	18.38	40.45	3.00	11.48	23.51
Mid	4.44	9.11	9.56	-15.40	3.03	32.62	-1.79	6.51	19.80
Small	2.99	3.97	7.35	-17.98	-8.93	22.23	-7.64	-0.42	12.35

Source: Morningstar Direct.

The top US Mid-Cap and Small-Cap sectors are Consumer Goods, Services, Technology, and Industrials. Small Caps tend to lag out of a recovery, but there is a lot of cash waiting to be invested which will present opportunities for gains from Mergers and Acquisitions. Mid-Cap stocks have been Growth driven but are shifting toward Value according to Morningstar analytics. From a Style standpoint, Large Cap-Growth led 40%-YTD and 13.8% in 3Q20 whilst shifting toward Blend.

As noted in the table from Morningstar above, Consumer Cyclical stocks rose 20% in the quarter and 37% in 2020. The Tech Sector is leading YTD with 48% while delivering 11.8% 3Q20. Energy stocks led losses at (18.9%) 3Q20 and (44%) YTD.

According to FTSE Russell, there are four industry groups that are trading at discounts relative to the market and also their own long-term averages: Materials, Utilities, Financials, and Health Care. The market is over-rating the 'work-from-home' trend which understates the Real Estate and Energy sectors expectations.



The Technology, Autos, and Housing Sectors are rising while the brick and mortar Retailers, Airlines, Hotels, and Tourism generally are struggling. Groceries, on-line retail, and home delivery services are improving which also benefits auto sales. Strong on-line retail sales in 3Q20 has mometum for 4Q20. Over the long-run, macro trends will benefit Communications, Healthcare, and Financials, due to enhanced digitalization in those sectors. Supply-demand imbalances are pushing asset values for both home prices and rents providing opportunities in Real Esate.

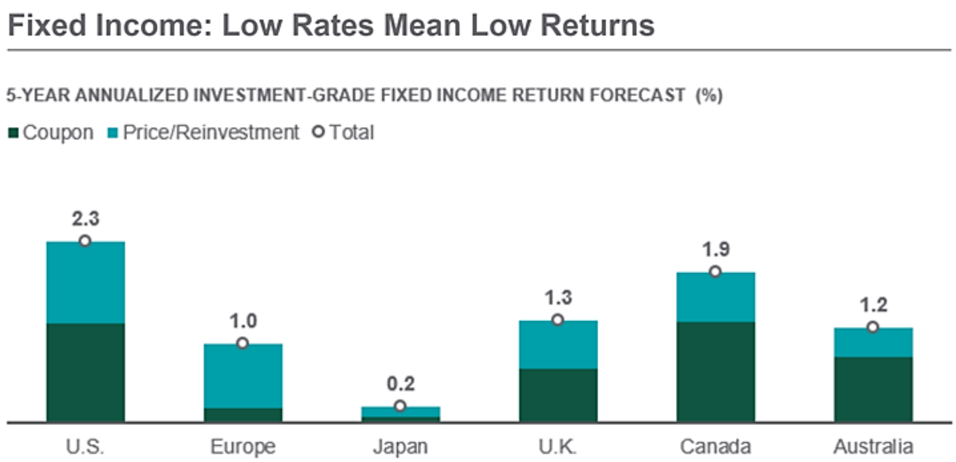
Quality, Growth, and Momentum are Factors have been leading returns last quarter. Overtime, Low Volatilty, and Profitabilty Factors are stronger Factors. The Growth Factor has been deriving value from 'intangible assets' or intellectual property that have low basis on Balance Sheets, and distorts the evaluation of the Value Factor when companies hold more hard assets.

Fixed Income Market

The Fixed Income securities are more nuansed and not as well-suited for passive management according to Nuveen. The Smart Beta ETFs that SSL utilizes have an active overlay. Markets expect interest rates to slide to zero and remain low for atleast five years. The Market is actually expecting a potentially negative Fed Funds Rate in coming quarters. This creates challenges to the traditional role of bonds as being safe investments and able to provide income and/or capital preservation.

The yield spread between Corporate Investment Grade bonds and US Treasuries are near a record low, as investors bid more for Corporates thereby reducing the yield from the higher prices. In addition, the US 10-yr Treasury Bond has a current interest rate that is a whole 1% lower than last year. Now, Government Bonds are 'return-free risks' vs 'risk-free returns'.

Insurance companies and financial institutions have regulatory requirements to hold US Treasury Bonds. Global Central Banks also rely on US Treasuries for solvency requirements. The best application for Treasuries in portfolios is hedging against the risk if the pandemic will worsen.



Source: Northern Trust Asset Management, Bloomberg. Coupon return calculated as yield to worst on 6/30/2020.

U.S. Investment-Grade (IG) corporate bond exposure should be limited until bond yields rise, signaling economic improvement. European Corporate Bonds are favored, including European High Yield. Emerging Market Bonds can add value if approached cautiously. The region and sector are important considerations.

Longer termed bonds are not priced for the inherent risk if interest rates rise. Low interest rates have been used to leverage corporate balance sheets. This has changed the composition of the corporate bond market. Only only two firms, Johnson & Johnson and Microsoft, are rated AAA. Whereas, BBB-rated debt now comprises half of Investment Grade corporate bonds, which are more economically sensitive for the possibilities of a default. If they are downgraded to BB, institutions may have to sell those bonds, creating a liquidity crunch since fewer investment banks are making markets for Corporate Bonds. Half of the $5trn of Corporate Investment Grade bonds outstanding are to be repaid or refinanced before 2022. This will result in significant volatility.

There is also down-side risk when government stimulous is unwound, with nominal and real yields (after inflation) at all time lows. Low yields signal there is significant slack in the economy. When rates rise, there is Duration Risk for longer-term low-yielding assets, meaning market values can actually decline. Credit quality is also a growing concern. Floating Rate bonds will help to offset Duration Risk and to some extent Credit Risk, but they do not help generate yield. Leveraged Loans and Collateralized Loan Obligations (CLOs) offer an attractive yield for non-investment grade investors but they have few protective convenants for the investors. CLO for Auto Loans pay high coupons and benefit from tailwinds in the personal mobility and delivery trends.

		Return %		
		Q3 2020	1-Year	3-Year
Broad Market	Core Bond	0.63	6.97	5.24
	High-Yield	4.75	3.24	4.11
Sector	U.S. Government	0.34	7.97	5.51
	Corporate	1.62	7.72	6.30
	Mortgage	0.10	4.42	3.78
Maturity	Short-Term Core	0.35	4.57	3.42
	Intermediate Core	0.73	7.49	5.32
	Long-Term Core	1.30	13.33	10.49
Inflation Prot. Secs	TIPS	3.04	9.90	5.63
Global Sovereign	Global Govt USD	2.51	4.29	2.29
	Global Govt ex-US USD	3.76	3.23	1.71

Moringstar Direct

U.S. High-Yield bonds and Emerging-Markets bonds led returns last quarter as investors seek yield. International Global Government bonds were a bright spot and TIPS picked up points. Emerging Market (EM) bonds are vulnerable to further economic problems from Covid dislocations. Valuations are attractive as compared to history. High Yielding USD EM Bonds do not have currency risk and offer a yield more commensorate with their default risk.

Emerging Sovereign Debt has a lower credit rating than EM Corporate Bonds. Restructing Sovereign country debt visa vi the Paris Club can be a stop-gap to large scale write-offs. Target specific regions, companies, and sectors to reduce default risk. After ETFs entered the market, there are more funds available than bonds to purchase, possibly creating an illiquidity crisis if investors panic-sell. EMD experienced a strong rebound so a slight deterioration or leveling off is anticipated.

Emerging Markets

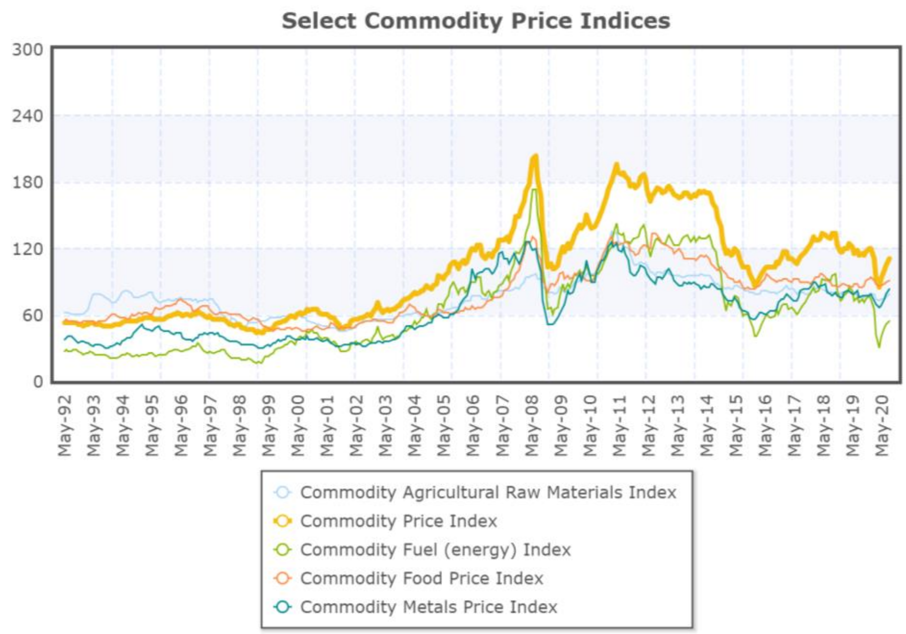
The MSCI EM Index was at a 31% discount to the S&P 500 in the quarter, near levels last reached in 2005. Emerging Market risk premiums are low for the possible risk. There is a shake up in the countries benefiting from manufacturing and regionalization.

Apparel is moving from China to Vietnam, as well as to Bangladesh. Long shipping times from the Far East makes Central American production more attractive to the West. Mid-range manufacturing is moving to Eastern Europe, including Hungry, Poland, and Romania which still have competitive labour costs. Heavy manufacturing is setting up in Morocco for auto and airplane parts. The US Blue Dot Network (BDN) is challenging the Chinese New Belt Initiative (NBI) for realignment of supply chains and for reglobalization. China will require several hundred billions in foreign investment or positive trade flows to fund its transition to a consumer based economy.

Yet expect for China to remain the dominant force, generating 1/3rd of global growth. Some 56% of Chinese companies are state-owned which tend to be less responsive. When including their affiliate EM countries China represents 3/4rds of global growth. The focus on internal consumption has resulted in exports declining to 17% of GDP. A large middle class will support their economy, with 5G, AI and IOT revolutionizing every industry. All global technology firms rely on the Chinese market for growth. Pick-up of construction in China is being felt in global commodity markets. The boost in demand for global metals is causing metals prices to rise.

Other Assets

Gold ran up 26% this year in response to the decline in 'Real' Interest Rates, ie rates after subtracting inflation. Expected returns from Real Assets are moderate, led by Real Estate. Gold prices reached a new high at $2,063 an ounce, supported in part by a decline of 2.7% in U.S. dollar from the start of the quarter. U.S. dollar assets overall are likely to decline on a relative basis. The Euro is expected to increase to at least 1.25 relative to the dollar, according to KKR. The GPB upside will be limited from the no-deal Brexit after hitting 1.30 GBP. Continued dollar weakness will improve global economics, especially in the commodity led Emerging Market economies. Thereby, EM currencies will gain ground versus the USD.



Source: IndexMundi.com

Continued Covid problems will be negative for global demand for Commodities, especially Energy. Industrial agricultural commodities such as sugar and cotton can improve, along with grains, coffee, cocoa, and palm oil. Industrial and Precious Metals are positioned to continue to rise.

The lockdowns meant that most hotels and restaurants were vacant. There was a historic plunge in revenue per available room (REVPAR). Hotel property prices declined 25%, with many highly leveraged, which forbodes a waive of foreclosures.The concentration of hotel loans in Collaterialized Mortgage Backed Securities (CMBS), along with the sector's rising delinquencies, will bring losses to CMBS bonds, which had been a source of yield for the fixed income portion of portfolios.

Asset Allocation

The traditional 60/40 Equity/Fixed Income allocation is challenged on many fronts as earlier discussed. An alternative is a 40/40/20 Equity/Fixed Income/Other assets allocation. A more aggressive portfolios is a 70%/30% Equity/Fixed Income with equity proxies for Fixed Income.

A reduced allocation to US equities is recommended in favor of xUS and Emerging Market equities, especially with a possible further decline in the USD. European equities have lower risk premiums and are attracting more investments. From the Fixed Income side, a shift from High Yield to Emerging Markets Bonds is suggested as well as a precautionary allocation to Treasuries and TIPS.

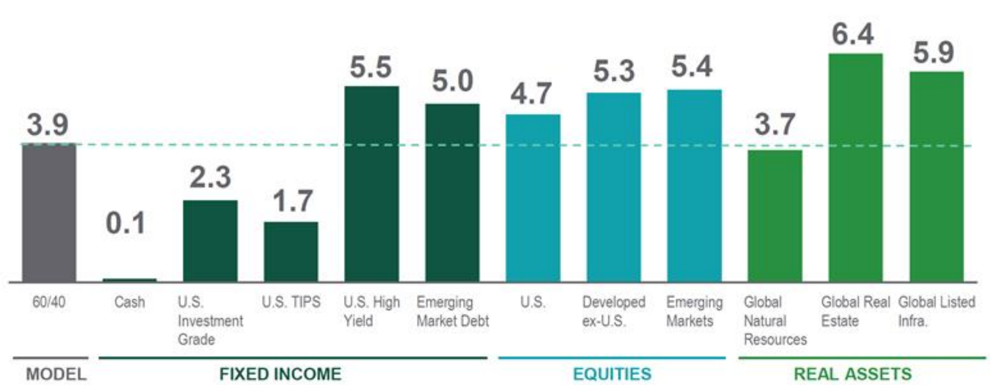
Tactical Positioning: Moderately Underweight Risk

		ASSET CLASS	STRATEGIC (%)	TACTICAL OVER/UNDERWEIGHT (%)	TACTICAL (%)
RISK CONTROL	Fixed Income	Cash	2	0	2
		U.S. investment grade	30	2	32
		Inflation-linked bonds	5	-3	2
RISK ASSETS		U.S. high yield	4	3	7
	Equities	U.S. equity	19	-2	17
		Dev. ex-U.S. equity	10	0	10
		Emerging market equity	4	-2	2
	Real Assets	Global natural resources	1	0	1
		Global real estate	1	0	1
		Global listed infrastructure	1	2	3
	ALTS	Hedge funds*	10	0	10
		Private equity*	13	0	13

For Financial Professional-Use Only. Source: Northern Trust Investment Strategy. Allocations above reflect Northern Trust's Perpetual Capital Model (Moderate risk profile).Tactical recommendations (in the form of over/under/equal weights) are displayed in the bar chart. Allocations as of 8/13/2020. SAA = Strategic Asset Allocation. TAA =

For Other Assets, allocate to Real Assets including Gold and Infrastructure, as well as select industrial or residential Real Estate. Increase focus on growth companies, yield, and collateralized loans. Inflation-based protection in the portfolio comes from Real Assets and TIPs. Add to Short-Term Floating Rate Bonds to offset duration risk.

FIVE-YEAR ASSET CLASS TOTAL RETURN FORECASTS (%)



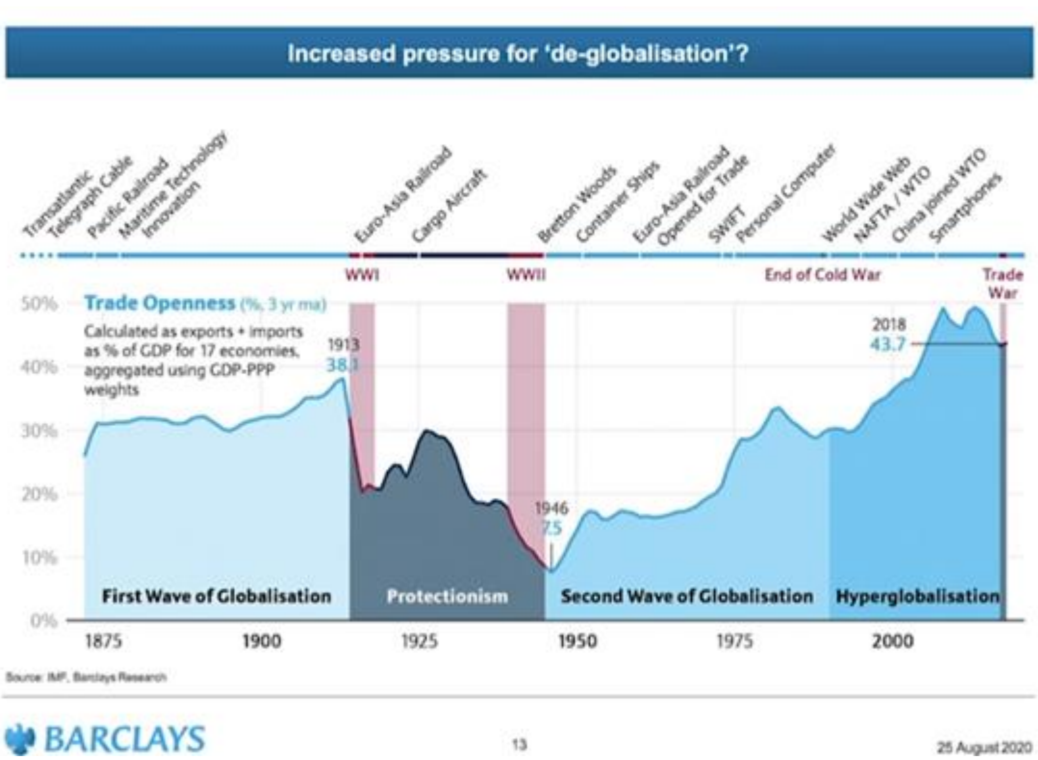
Source: Northern Trust. Data as of June 26, 2020. Pre-tax strategic, growth and income investor portfolio model. All figures in percentage terms. 60% MSCI ACWI Gross Total Return Local Index / 40% Bloomberg Barclays U.S. aggregate index. Past performance does not guarantee future results. Forward-looking statements could differ from actual results. For illustrative purposes only. CMA model expected returns do not show actual performance.

Global Infrastructure is attractive due to secular trends including an aging population. Other trends are business services, logistics, digitalization, payments, and automation. Technology-oriented sectors are in a secular business cycle, like the industrial revolution. High growth companies that deliver high earnings-per-share growth (EPS) will justify the the higher Price/EPS multiples. Watch out for value traps where equities are overpriced as compared to their growth prospects.

The Quality factor is very different than the Value factor in stocks selection. The Value factor looks at low pricing multiples, not the variety of considerations in Quality stocks. Value investing remains challenged, as it has been for the last decade. Structural changes in corporate balance sheets magnifies the return on assets due to intangible assets such as intellectual property (IP) with a low cost basis. Quality, Momentum, and Low Vol are a good combination. These are Factor overlay considerations in the SSL portfolio design.

Conclusion - *October has the first Full Moon Halloween since the 1940's*

The World will continue to be a strange place, with places and people very different than pre-covid. It is likely that economies will move away from the Hyperglobilization that we have witnessed this millieum so far. The waves of innovation and of creative distruction will continue at a faster pace. Where manufacturing takes place and the changes in the supply chain will impact the economies of smaller and perphiereal countries. The financial markets will continue to adapt. Invest carefully.



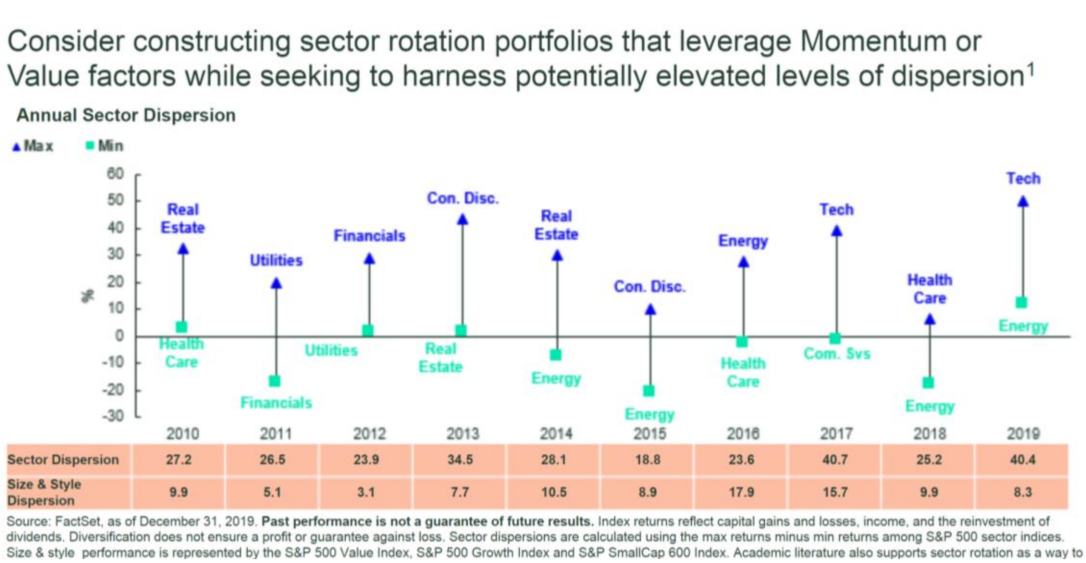
Please contact us to arrange a review of your portfolio holdings.

Previous performance is not a guarantee of future returns. All investments contain risk. Your particular portfolio should be designed to your level of risk and to target your financial goals. Review regularly. *Senior Solutions Ltd (SSL) provides financial planning guidance for a fee. The client receives guidance to implement at their own discretion. SSL does not guarantee any returns from such guidance. SSL is not an investment manager, does not sell investment or insurance products, nor receives any commission or third-party compensation. SSL does not directly manage or custody assets on behalf of clients. SSL is a financial planning firm for select clients.*

The types of businesses described above do not have a liquidity problem. They have a solvency problem. restaurants, bars and night clubs; Brick and mortar retail; Theme parks, live entertainment events, conventions; not to mention hotels. –'Stimulous Will Not Stop Next Leg Down' Seeking Alpha. These businesses are a major part of the economy and employ huge numbers of people. reasury and Fed programs will certainly mitigate many problems it will not come close to compensating for all of the losses of income, production and wealth that will occur. when economists, investors and the general public finally come to understand this, the current bear market rally will become aborted and the next leg down in US equities will begin. It's important that you devise and quickly implement a portfolio strategy that is designed to deal with this forthcoming collapse in US equity prices and its aftermath.

Fidelity-owned fintech eMoney Advisor showcased its overhauled financial planning and wellness mobile app, called Incentive, on Monday, Oct 19th. A large majority of Millennial and Gen Z users said they'd give their adviser more business if they covered topics on physical health (80%), mental health (77%) and relational health (61%), according to a recent eMoney survey, which queried more than 800 advisers and end clients in August.

The third quarter S&P 500 EPS is five dollars above the second quarter: Half from lower loan loss provisions and higher oil



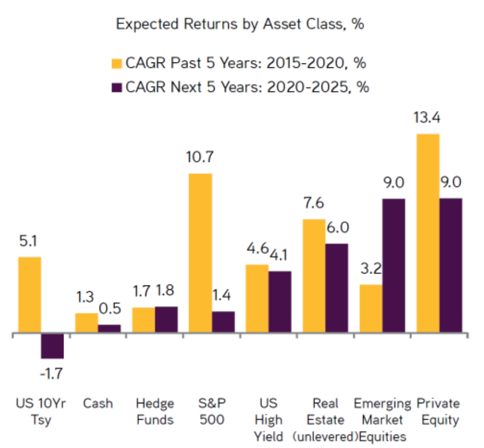
Equities / Stretched valuations

	Current*	Sep 2021F Forecast	Total return (expected)[1]	Expected earnings growth	P/E impact	Dividend yield
United States (S&P 500)	3,386	3,300	−0.8%	13%	−16%	1.7%
Europe (Stoxx Europe 600)	366	370	4.1%	6%	−4%	2.9%
Eurozone (Euro Stoxx 50)	3,274	3,300	3.8%	6%	−5%	3.0%
Germany (Dax)[2]	12,830	12,700	−1.0%	14%	−18%	2.7%
United Kingdom (FTSE 100)	6,013	6,150	6.4%	2%	0%	4.1%
Switzerland (Swiss Market Index)	10,230	10,500	5.6%	5%	−2%	3.0%
Japan (MSCI Japan Index)	973	950	−0.5%	-8%	6%	1.9%
MSCI Emerging Markets Index (USD)	1,081	1,100	4.2%	13%	−11%	2.4%
MSCI AC Asia ex Japan Index (USD)	706	740	6.9%	11%	−6%	2.2%

* Sources: Bloomberg Finance L.P., FactSet Research Systems Inc. as of 8/20/20   F refers to our forecasts as of 8/20/20
[1] Expected total return includes interest, dividends and capital gains where applicable
[2] Total-return index (includes dividends)

Federal spending approaching 20.8% of GDP. There is the growing mandatory entitlement programs including Social Security and Medicare. The US Federal government can print money and deflate the currency to meet fiscal obligations. With the Covid costs, State governments are facing huge deficits. States can tax its citizens, but lose tax-base as people move to lower tax States. The have been issuing attractive Municipal Bonds with tax offsets, which may have future credit risk.

We Generally Look for Lower Forward Returns Across Many of the Asset Classes We Forecast



Data as at June 30, 2020. Source: Bloomberg, Haver Analytics, Cambridge Associates, KKR Global Macro & Asset Allocation analysis.