State of the Market

May 5, 2020

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PLEASE NOTE: As an attendee, your video and audio capabilities are disabled. Please use the "Q&A" function if you have questions during the presentation.

MARKET UPDATE | WHERE WE CAME FROM

- The U.S. economy achieved its longest expansion on record.
- All major asset classes generated positive returns.
- In 2019, the S&P 500 returned over 30%, supported by:
    - Three rate cuts from the Federal Reserve;
    - The strongest January stock market rally since 1987;
    - Lowest unemployment rate in 50 years; and
    - Strong consumer spending.
- Despite markets racing higher, concerns included:
    - An inverted yield curve (short term rates higher than long term)
    - U.S. and China at odds around trade; and
    - Stretched equity valuations.

MARKET UPDATE | WHERE WE ARE NOW

- Black Swan Event
  - COVID-19 sweeps the globe and shocks capital markets
  - **February 19**: S&P 500 sets new all-time high.
  - **March 23**: S&P 500 slips 35% in 23 trading sessions.
  - **April 30**: U.S. stocks retrace about half of the sell-off.
- S&P 500 is now back to 2018 levels.

S&P 500 Index: 3-Years

Performance over the last 12 Months

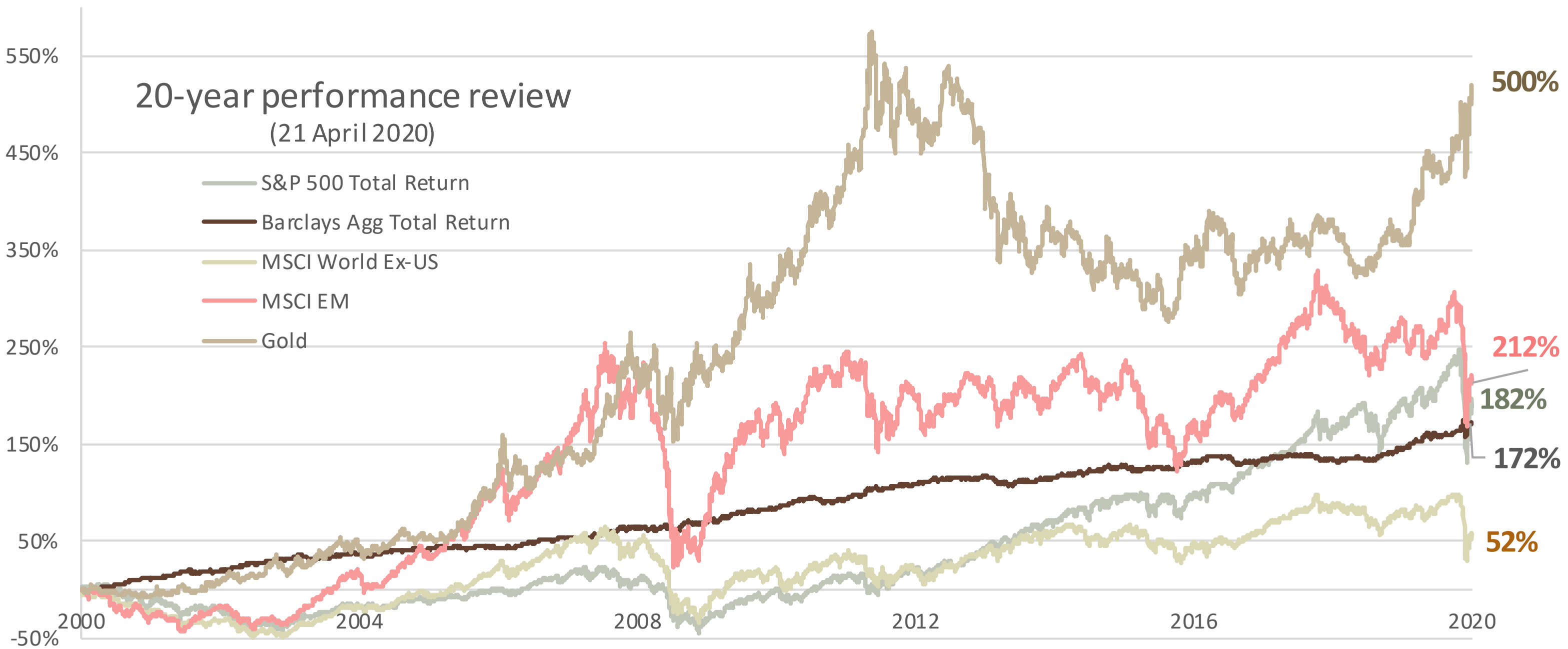
Gold	33%
30 Year U.S. Treasury	46%
S&P 500	-3.2%

Performance over the Last 20 Years

Gold	9.6%
30 Year U.S Treasury Bond	8.3%
S&P 500	5.4%

MARKET UPDATE | WHERE WE ARE NOW

2000 - April 21, 2020



MARKET UPDATE | WHERE WE ARE NOW

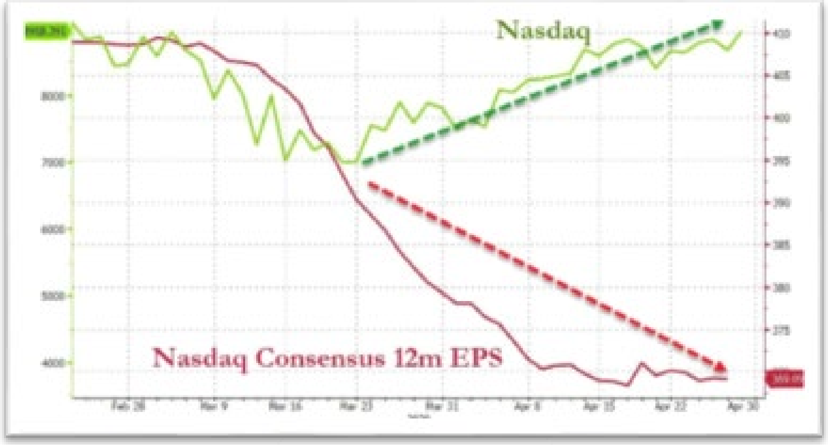
Even with the recent market bounce, the economy has been closed for the better part of a month.

- Approximately 30 million Americans have lost their jobs (erasing the amount of jobs created since the Financial Crisis)
  - Unemployment and underemployment (U-6 rate) will remain above pre-CV-19 levels for a sustained period
  - "I think everyone is suffering here but I think those who are least able to bear it are the ones who are losing their jobs," William Powell said. "It is heartbreaking to see all that threatened right now."
- U.S. GDP shrank 4.8% in Q1; Q2 will be much worse. (-25%+?)
- Pending home sales fell 20%+ in March
- Auto Sales -46% YOY

MARKET UPDATE | WHERE WE ARE NOW

- Unemployment 20%+
- Manufacturing and services sectors have collapsed (PMIs well below 50 in U.S. and abroad)
- May futures contracts for Crude Oil went negative
- Bankruptcies rising and small businesses shutting down permanently (estimated at 15%)
- Global gross domestic product (GDP) growth expected to be negative for 2020 (Bloomberg Estimates -4% v. -.01 in 2008-09)
- Year-over-year corporate earnings expectations for 1Q 2020 revised to decline by more than 10%

Stock valuations are still considered "rich" given earnings expectations. 20x S&P estimated future earnings (2 decade high).



But… the market is pricing in the future. And, the stock market is not the economy.

- "Not bad or good but better or worse" – Jeff Mortimer with BYN Mellon.
- The waning sense of immediate threat from CV-19 has driven gains. New cases peaked about a month ago.
- Oil Prices Higher
- Human vaccine Trials

"The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term," the committee said (Federal Reserve, April 29th).

The 2nd quarter could be the "low" in economic activity in the U.S. and Global economic activity may have hit its trough. But, output is likely to remain below CV-19 levels for an extended period.

MARKET OUTLOOK | WHERE DO WE GO?

Markets are likely in a "grind it out" phase.

- Expect the economy to follow a U- or W-shaped recovery. Perhaps a Nike swoosh?

History would tell us that market bottoming is a process – not a point in time.

- The sharp market drop and reflexive rebound is consistent with previous bear markets.
- Markets have a tendency to revisit and retest their lows typically a month or two after the initial bottom.
- With massive fiscal and monetary response, is this time different? The market is forecasting a "V" shaped recovery.

Isolation guidelines will be relaxed in the coming days/weeks, however:

- Our expectation is for COVID-19 to continue to impact business and consumer behavior in the short to mid term.
- Even as the economy reopens, return to consumption will have limitations and likely be gradual.
- Negative implications and impact greatly increased if a "second wave" hits later in the fall.

President Trump and Joe Biden appear to be the candidates for 2020.

- Race is very tight, within the margin of error. Electoral college map appears problematic for Trump.

MARKET OUTLOOK | WHERE DO WE GO?

The primary risk to our market outlook is the timing and availability of a vaccine and/or herd immunity.

- Upside Risk: A vaccine is available and mass produced soon.
  - Consumers may look to spend instead of save – which could be inflationary.
- Downside Risk: A vaccine is not available soon (if ever) and cases surge as the economy reopens. Second wave.
  - Isolation orders are put in place and businesses are forced to close – again.
  - May 1 Bloomberg article discusses this being a 2 year event needing 2/3 world herd immunity and/or vaccine before subsiding.

Another risk to consider is unprecedented stimulus by Central Banks.

- The Federal Funds rate is already 0% to 0.25%.
- The Federal Reserve is already buying Treasuries and agency mortgage-backed securities. Lending facilities are also being established for municipalities and corporations.

PORTFOLIO CHANGES | PRE COVID-19

We have written and talked about our expectation for a dip in the stock market since 2019.

After the stock market rally in January 2019, we made the following changes to our portfolios:

- Reduced stock exposure from overweight to strategic targets;
- Established allocations to hedge equity strategies;
- Increased quality within the bond space, with an emphasis on shorted term bonds; and
- Increased exposure to gold and silver.

Ultimately, we positioned portfolios more defensively than our strategic, long-term targets.

PORTFOLIO CHANGES | CURRENT

We have made several changes during the coronavirus crisis.

3/12/2020: Reduced stocks by 1%, Increased gold & silver by 1%

- Titled away from international and small/mid cap stocks in favor of U.S. large cap stocks
- Halved allocation to floating rate bonds in favor of investment grade bonds

4/14/2020: Reduced stocks by 4%, Increased money market cash by 4%

- Titled further away from international stocks in favor of U.S. large cap stocks

4/21/2020: Rebalanced fixed income portfolio

- Eliminated floating rate bonds in favor of investment grade bonds

5/4/2020: Reduced cash position from 7% to 3%

- Added short term bonds for additional yield noting that the current environment is deflationary and interest rates likely continue to fall

S&P 500 Index: Year-to-date

PORTFOLIO CHANGES | POST COVID-19

Potential portfolio repositioning will be market performance dependent.

IF stocks move lower, which is our base case, we may:

- Move back toward strategic equity weights and/or reduce hedged equity.

IF money market rates stay low, which is our base case, we may:

- Allocate some cash to high quality dividend stocks, U.S. treasuries, investment grade corporate bonds, municipal bonds, etc.

Given the low interest rate environment, we expect to:

- Maintain exposure to gold and silver as a hedge against equity sell off, inflation, and/or a falling U.S. dollar.

FINAL THOUGHTS

- We did a lot of work last year to prepare for a downturn such as the one caused by COVID-19.
- We are flying blind right now. The economy has never come to a halt in this fashion.
- Uncertainty is tremendously high, which leads us to be more defensive.
- Long-term investors should not make substantial changes to their asset allocation at this time. Consider rebalancing if market retests the prior low or gets close thereto
- Market timing is more or less impossible. Stay in the market if you can.
- To miss the beginning stages (or first 25%) of a stock market recovery can mean one misses out on 37% of the entire performance during the recovery. Meaning, more than 1/3 of performance happens in the first quarter of the rally.
- The COVID-19 crisis will end; the market will bottom; and resume its historical upward trajectory.

FINAL THOUGHTS | TRENDS

Near and Long-Term Trends:

- Rising savings rate (less spending/lower business profits)
- Higher tax implications (income tax, capital gains, carried interest, estate and gift tax)
- Default rates of leveraged companies (high yield default estimates 8% to 15%)
- Mall/Retail/Movies permanent closures
- Remote worker evolution impact on commercial office real estate
- Travel (personal and business) and Leisure – airlines, hotels, car rentals, AirBnB, etc.
- Online purchases continue to increase
- Acceleration of automation - robots don't get sick or afraid

FINAL THOUGHTS | ESTATE PLANNING & TAX

- Record low interest rates coupled with high estate and gift tax exemptions afford significant estate planning opportunities.
- Grantor retained annuity trusts.
- Intra-family loans.
- Gifts to trusts (part loan/part gift).
- Outright gifts that reduce the estate size (and estate tax) and moves appreciated assets to future generations.
- Taxes (income, estate, gift, capital gains) almost certain to increase in the future given massive debt of the U.S. government. The timing may be even quicker depending upon the outcome of the November election.

Q&A

"Kites rise highest against the wind, not with it" –Winston S. Churchill

"Don't bet against America" –Warren Buffett

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