Economic and Market Outlook

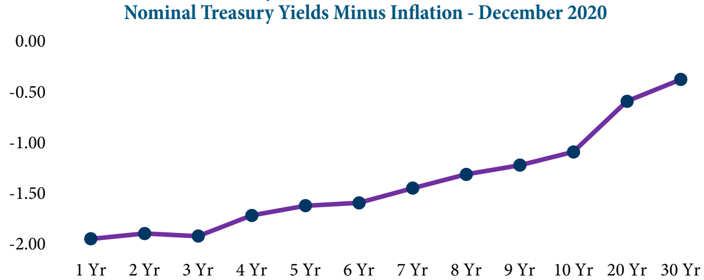
First Quarter 2021

A tumultuous year has drawn to a close. Good riddance to 2020 – a year in which most everyone experienced social, personal, and economic upheaval at a previously unimaginable level. In contrast, since March, the stock market has been a sea of tranquility with steadily rising prices. The dichotomy between the pandemic-induced economic collapse and stock prices is wider than the typical divergence. It reflects investors' reliance on central bank and government responses at the onset of the pandemic and anticipates a robust 2021 recovery. The sanguine view is largely dependent on the salutary effects of low interest rates and stimulative government actions propping up the economy as it transitions to more traditional growth drivers.

The actions by the Federal Reserve (Fed) since March have been multifaceted with the explicit intent of keeping interest rates low and by extension enticing investors to accept stock market like risk. Jawboning has been important also. Promises to keep short rates unchanged until inflation is consistently over 2% send a strong message that the Fed is willing to let the economy run hotter and for a longer period than it has in the past. The cumulative effect of these actions is positive for risky assets as record low interest rates resulted in negative real yields.

U.S. Treasury Inflation Indexed Yield Curve

Nominal Treasury Yields Minus Inflation - December 2020



Source: Bloomberg

By most measures, the Fed's response to the pandemic must be viewed as successful. Liquidity, as measured by the supply of money has ballooned providing funding for lenders and borrowers. Corporate bond issuance shattered all records ensuring liquidity for issuers and assuaging bond investors. The interest burden for newly issued bonds is far lower than it was just a year ago. Proceeds have been used to retire higher cost debt, replenish inventory depleted during the pandemic, or kept dry for investment in the forthcoming year.

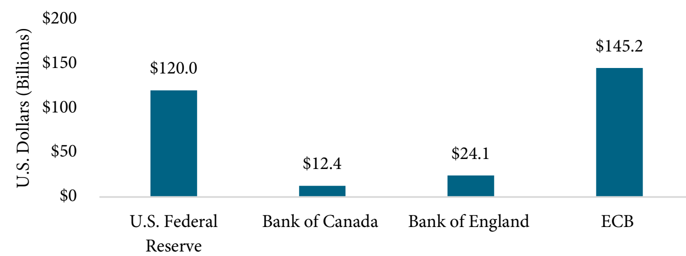
Annual U.S. Investment Grade Corporate Bond Issuance

2017	2018	2019	2020
1,355,453	1,180,687	1,155,514	1,861,494

Source: Bloomberg

Central bank stimulus is a global phenomenon and is anticipated to last through 2021. The Fed's QE largess is joined by the central banks of some of our major trading partners and is anticipated to total over $300 billion monthly. For now, these actions are keeping the embers aglow. Whether the central banks can control the flames in a post-pandemic economy remains to be seen.

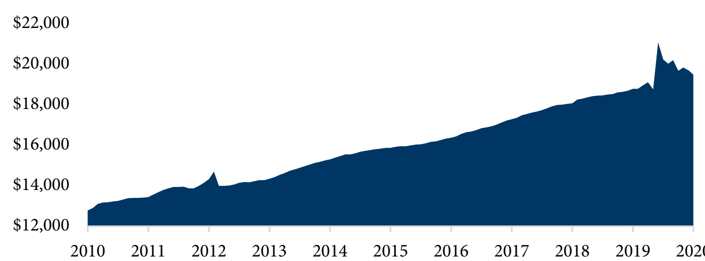
Select Central Banks' Expected Average Monthly QE Pace 2021



Sources: Congress Asset Management, Bloomberg

In the U.S. fiscal stimulus has helped but the recovery since March has been uneven. Small business, lower income earners, and those that cannot work remotely are struggling. The Covid 19 recession is the first recession in which aggregate incomes and savings increased. The recently passed $900 billion stimulus is partially intended to assist the strugglers. All told the U.S. is spending the equivalent of 15% of GDP on fiscal relief programs.

U.S. Personal Income 2010 - 2020

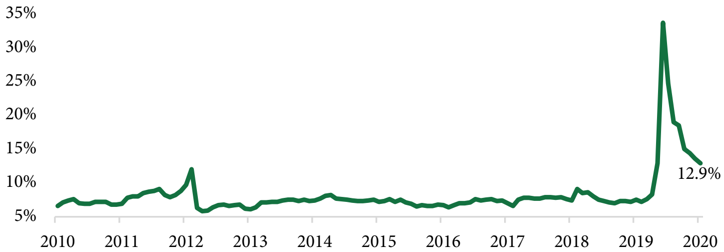


Source: U.S. Bureau of Economic Analysis

There are concerns that the winter months and renewed lock downs will cause a double dip recession. This is unlikely. Consumers and businesses have altered spending habits; bolstering housing and home improvement, technology including software and devices, and health care. Also, manufacturing has begun to recover as inventory needs to be replenished and supply chains re-built. The leisure, entertainment and travel sectors continue to face existential threats and likely will not recover until well into 2021. The strengths however outweigh the negatives.

More likely, as 2021 progresses and vaccine distribution increases, the economy will experience a profound snap back. Savings have accumulated and are up 12.9% from last year and stand at a high level. Pent up demand for experiential activities should supplement spending on housing and autos, not replace it. In addition, the job market continues to heal, supporting growth into 2022.

U.S. Personal Saving Rate 2010 - 2020



Source: U.S. Bureau of Economic Analysis

Europe's recovery should roughly coincide with the U.S. Much of Asia is already recovering, presenting the prospect of a synchronized global expansion later this year.

Post the pandemic, attention may focus on some meaningful macro issues. Trade policy is in flux worldwide. In the U.S., the focus is on job restoration and domestic manufacturing. In Europe, the U.K. has left the European Union necessitating new U.K agreements. Worldwide, countries are increasingly questioning China's motives. Cyber security provisions are likely to become increasingly important in this realm.

Regulators are also lurking in the background, mostly focused on big tech. In December alone Alphabet, Google's owner was hit with two distinct state level lawsuits and the Federal Trade Commission filed suit against Facebook. Europe has numerous initiatives ongoing with a similar focus. Not to be outdone, China has moved against both Alipay Group and Ant Group, two massive internet companies. Regulatory actions generally focus on a company or industry group and have less macro-economic or market effect. Sustained regulatory pressure could, however, threaten technology's stock leadership in the future.

The global economies are healing. Monetary and fiscal support have created a path to renewed growth. The U.S. is proving its resilience and is poised for above trend growth later in 2021. Stock returns are likely to be more pedestrian in the near term as earnings, which were depressed in 2020, need to catch up with prices. Still, with interest rates at record lows, stocks present the best intermediate and longer-term option for capital growth.

Best wishes for a safe and Happy New Year.

Investment Oversight Committee

Daniel A. Lagan, CFA

President & Chief Investment Officer

CONGRESS ASSET MANAGEMENT COMPANY

2 Seaport Lane Boston MA 02210 800.234.4516 www.congressasset.com