WEAVER C. BARKSDALE & ASSOCIATES, INC.

Bond Market Summary for the 4th Quarter 2020

Treasury Yields	9/30/2020	12/31/2020	Qtr Chg
3 mo	0.10	0.07	-0.03
6 mo	0.10	0.09	-0.02
1 yr	0.12	0.11	-0.01
2 yr	0.13	0.12	-0.01
3 yr	0.16	0.17	0.01
5 yr	0.28	0.36	0.08
7 yr	0.47	0.65	0.17
10 yr	0.69	0.92	0.23
30 yr	1.46	1.65	0.19

Q4 2020 Index Returns

	Core		Intermediate	
	Total Rtn	Excess Rtn	Total Rtn	Excess Rtn
Aggregate	0.67		0.42	
Govt/Credit	0.82		0.48	
US Govts	(0.79)		(0.22)	
Treasuries	(0.83)		(0.23)	
Agencies	0.04		0.13	
Credit	2.79	3.80	1.55	1.85
Industrials	3.27	4.45	1.68	2.02
Utilities	2.73	4.22	1.30	1.71
Financials	2.69	3.38	1.94	2.22
Non-Corp	1.26	1.99	0.48	0.67
MBS	0.24	0.34		
ABS	0.36	0.34		
CMBS	1.05	1.50		
AAA	(0.31)	0.20		
Aa	1.39	2.38		
A	2.14	3.18		
Baa	4.03	5.08		
B-BB	4.72	4.74		

1-3 yr	Total Rtn
ICE Treas 1-3	0.05
ICE Corp 1-3	0.74

Sources: Bloomberg and ICE

Fidelity Pension

Average Allocations for Quarter

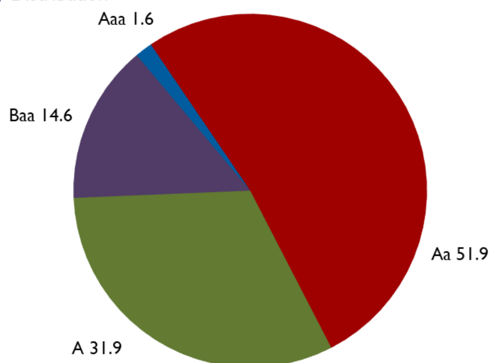
Sector	FIDELITY PENSION	INTERM G/C	Diff
Cash	0.2	0.0	0.2
Treasury	40.4	57.4	-17.0
Agency	0.0	4.7	-4.7
Corporate	48.3	33.2	15.1
Finance	14.5	12.7	1.7
Industrial	32.5	18.6	13.9
Utility	1.4	1.9	-0.5
ABS Fixed	0.0	0.0	0.0
ABS Floating	0.0	0.0	0.0
CMBS	1.6	0.0	1.6
MBS Pass Thru	9.4	0.0	9.4
CMO	0.0	0.0	0.0
ARM	0.0	0.0	0.0
Sovereign	0.0	4.7	-4.7
Municipals	0.0	0.0	0.0

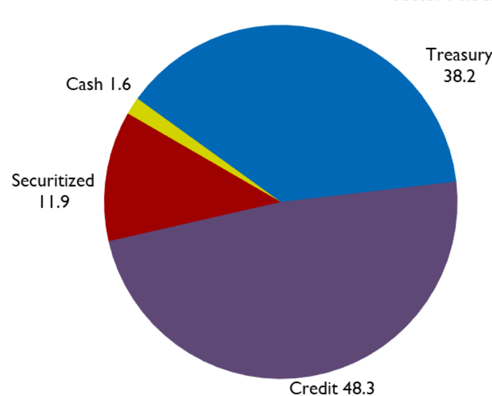
Attribution of Gross Total Return

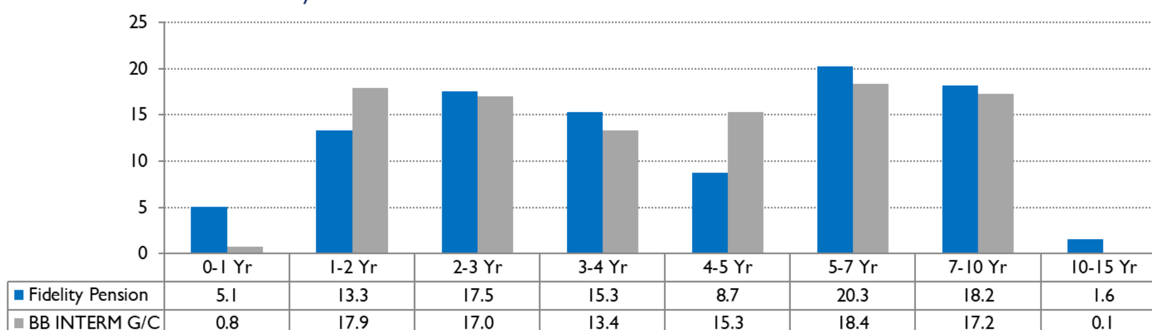
	Income	Duration	Sector/ Quality	Security Selection	Total
FIDELITY PENSION	0.16	-1.25	1.14	0.39	0.44
BB INTERM G/C	0.16	-1.23	0.71	0.84	0.48
DIFFERENCE	0.00	-0.02	0.43	-0.45	-0.04

	YTW	Coupon	Maturity Years	Quality	Eff Dur	Conv
FIDELITY PENSION	0.675	2.057	4.539	Aa3	4.125	0.037
BB INTERM G/C	0.592	2.213	4.450	Aa2	4.128	0.109
DIFFERENCE	0.083	-0.156	0.089		-0.003	-0.072

During the 4th quarter 2020, the Fidelity Pension portfolio was overweight corporates (+15%), MBS (+9%), and CMBS (+2%). Underweighted sectors included US Governments (-17%), sovereign corporates (-4%), and agencies (-1%). As a result, the portfolio posted a 0.44% gross versus 0.48% for the Bloomberg Barclays Intermediate Government Credit Index. Sector/Quality added 43 basis points in excess returns as credit and MBS outperformed Treasuries significantly. Security selection cost 45 basis points due to an underweight in BBB corporates as they added over 500bps in excess returns for the index. Income was neutral to the benchmark and duration cost 2 basis points due to the slightly longer treasuries in the portfolio. The portfolio maintains a high average rating of Aa3.







4th Quarter 2020 Economic and Market Review

It has now been almost ten months since U.S. authorities adopted draconian measures to combat the effects of the emerging coronavirus pandemic, which ultimately resulted in the deepest recession since WW2. Both monetary and fiscal policy have featured full throttle measures to counteract the accompanying economic lockdown. While the overall extent of that lockdown has ebbed and flowed following the surges in COVID-19 infections, the intensity of government stimulus has remained consistent.

On the monetary policy side, the U.S. joined Japan and the EU in effectively seizing control of its domestic yield curve. After the Great Recession, now over a decade in the past, the Federal Reserve took control of the long end of the curve through repeated rounds of Quantitative Easing, thereby suppressing the yields on longer term Treasury bonds to save the banks and stimulate the economy. Last August, in concert with an overall effort to flood the system with liquidity, the Fed announced a policy change toward targeting average inflation rather than the previous longstanding policy of adjusting the level of Fed Funds in anticipation of a minimum level of inflation. This allows the central bank to likewise suppress short term rates for a much longer period beyond that of the previous policy. With the federal debt more than doubling over the past decade and having reached a staggering $27 trillion, rates have to stay structurally lower than normal to keep interest expense from overwhelming the budget.

Fiscal policy has been similarly stimulative with wave after wave of direct payments to businesses and individuals, bailouts, loan guarantees, etc. from thirty-eight different government agencies and is now approaching $3 trillion. Such is the extent of government payments to individuals that the personal savings rate rose to 12.9% versus 7.5% a year ago. This has occurred despite the unemployment rate (adjusted for claims and individuals receiving some sort of government payments) being nearly 15%.

This extraordinary government intervention has resulted in economic dislocations and misallocations as evidenced by the following factors that are at or very near all-time record high or low levels: large Federal Reserve purchases of bonds; low U.S. Treasury yields, TIPS yields and mortgage rates; soaring home prices; rapid money supply growth; enormous Federal spending levels and budget deficits; exploding national debt and national debt as a percent of GDP; the high income share of the top 10% of the population; high gold and bitcoin prices; narrow high-yield bond spreads; record S&P 500 level; poor stock market breadth; the high percentage of S&P 500 in the five largest stocks; stock market volatility; the performance of growth stocks over value stocks; the shortest bull to bear to bull market cycle; high stock market valuation; the low ratio of commodity values versus stocks, the high percentage of world economies in recession; and the entire combined value of the S&P energy sector being less than half that of Apple's market cap. You get the idea.

The double-barreled stimuli encouraged risk taking in the financial markets in the second half of the year. In the fixed income markets, high-yield spreads reached record lows and in the investment grade sector, the lower the quality the better the performance. Credit did best during the quarter with a return of 2.79%, led by the Industrials. Mortgage-backeds had a slightly positive return of 0.24%, which was significantly behind the Commercial Mortgage-backed counterpart that returned 1.05%. U.S Agencies were barely positive during the quarter and Treasuries lost 0.83% as the ten-year note yield climbed 23 basis points and closed the year at 0.92%.

Despite massive purchases of bonds by the Federal Reserve, the modest increase in yields at the long end of the Treasury curve reflected the rebounding U.S. economy during the last half of the year as well as encouraging growth prospects for 2021. Normally this would result in a flattening of the yield curve in anticipation of the Federal Reserve initiating a tightening cycle by raising the Fed funds rates. However, with the Fed's new operating procedure described above, the short end of the yield curve is anchored near zero for the foreseeable future (or at least until inflation becomes significant) thereby resulting in a steepening curve during the quarter.

For the fourth quarter stocks registered double-digit gains as well as somewhat balanced returns for a change as investors reacted positively to the prospects for an improving economy, the anticipation of a new stimulus bill and the announcement of the availability of COVID vaccines before year end. During the quarter, the Dow Jones

Industrials and S&P 500 rose 10.73% and 12.14%, respectively. For seemingly the first time in memory, value stocks outperformed growth stocks 16.24% vs 11.39%. Small stock enjoyed an outstanding quarter with the Russell 2000 returning 31.36%. However, the stock dislocations noted above and poor market breadth have left equity performance results with bizarre comparisons for the full year. The S&P 500 outperformed the Dow Jones Industrials 16.26% versus 7.25%; however, the makeup of the S&P 500's returns were remarkable. The five largest mega-cap technology stocks (the so called FAANG) represent 25% of the entire S&P 500 index and averaged a 53%+ return for the year, dramatically skewing the returns for the entire index. The remaining stocks in the index returned 6.83% on average, almost eight times less.

Just as extreme, large cap growth stocks (also dominated by the FAANG stocks), as represented by the Russell 1000 Growth Index, returned 38.49% versus their Value counterpart's 2.78%, a record difference. Despite this discrepancy in 2020, over long periods of time value stocks have consistently outperformed growth. It remains to be seen if the fourth quarter's rebound is temporary or a reversion to the mean. The Russell 2000 Small Cap index returned 19.87% as small stocks doubled from their March lows.

During 2020 fifteen percent of the stocks among the Dividend Champions list (companies with at least 25 years of consecutive dividend distributions) were eliminated from the list because of reduced or eliminated dividends. As a result, dividend investors were disappointed and those stocks overall had an unusually difficult year. Of the seventeen performance factors measured by S&P Global Market Intelligence, High Dividend placed last for all of 2020. Like value investing, dividend and dividend growth strategies have superior long-term performance and should prosper if and when normalcy returns.

The post-holiday surge in COVID cases that experts warned about appears to be happening. As a result, there has been a pause in the pace of the economic recovery. In the third quarter of 2020 GDP grew at a 33.4% annual rate with estimates for fourth quarter 2020 and first quarter 2021 at 8.9% and breakeven, respectively. Based on the most recent data it appears likely that the peak in the pandemic is approaching. In early December all 50 states had transmission rates (the R number signifies the average number of people that one infected person will pass the virus to) above 1.0. Currently nine states have transmission rates below 1.0. With the anticipated distribution of the vaccine over the coming months the COVID situation should begin to look brighter by the one-year anniversary of the lockdowns. Economists have debated the ultimate outcome of the concept of "pent up demand", but they will soon observe it real-time. Aside from what should be an improving virus situation, consumers are very weary of the past year's quarantines, masks and lockdowns and are anxious just to get out. Just as important, with the sharp increase in savings and the growth in total disposable personal income up over $1 trillion, consumers appear to have the means to spend once they have been released into society. Thus far the government has shown no signs of letting up on the stimulus. At its most recent meeting the Fed's FOMC changed the language regarding reducing asset purchases from "over the coming months" to "until significant progress is made." In addition, Congress and the Administration have been competing over which can give away the most money in the stimulus bill.

There is no question that financial markets are significantly overvalued on an historical basis. The current percentage difference of the S&P 500's level relative to the long-term trend level is a remarkable 54% higher. Furthermore, inflation-adjusted U.S. investment-grade bond yields keep moving deeper into negative territory. There is some concern that as COVID subsides and the economy improves the eventual cessation or reduction of government stimulus will have a counter effect on what has been the force driving the financial markets higher. That would be a nice concern to have in some respects but might very well turn out to be the case. For the time being, however, getting the virus behind us and returning to normalcy are things we desperately yearn for, and worries about the possible effects of stimulus withdrawal are for another day.

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