The Economic Recovery is Gaining Momentum

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In this edition of *Evergreen Chartbook,* we will explore the continued economic recovery that started in Q2 of 2020, examine some key charts illustrating attractive areas we see in both equity and income markets and provide our outlook looking forward.

To read previous posts, visit the blog and find *The Top Charts for 2020* (Q4), *2020 Mid-Year Update* (Q3), and *Navigating a Covid-19 Recession* (Q2).

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Q1 CHARTBOOK - MA

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About This Chartbook

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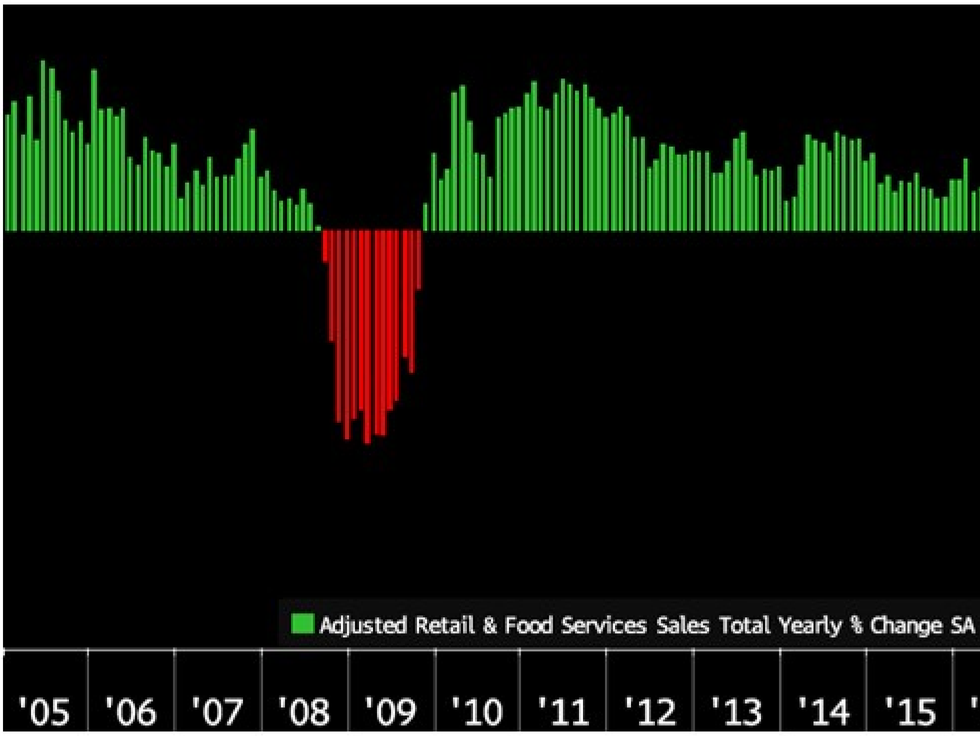
ECONOMY

Economy: US Jobs Market Sharp I

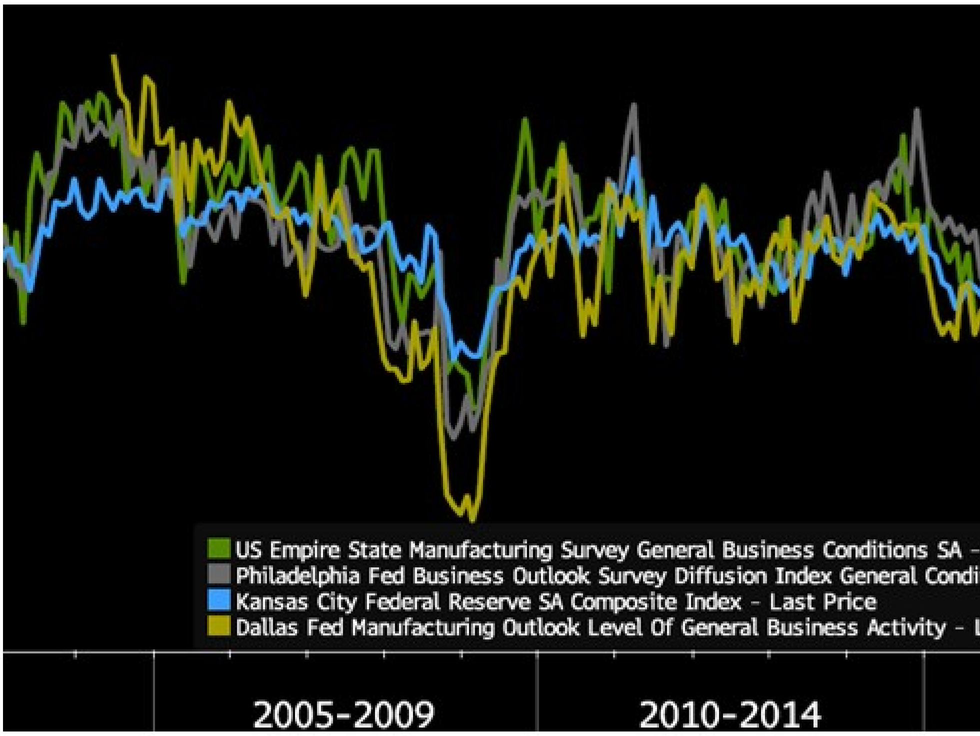
- In the US labor market, the spike in unemployment we witnessed last spring has receded quick
- To put this number into perspective, it took nearly five years during the financial crisis for the u highlighting the speed of the recent recovery.
- Jobless claims have also moved down sharply, though remain elevated with the most recent re
- Our outlook is that the unemployment rate continues to improve and likely moves down closer

Economy: Retail Sales Highlight Consu



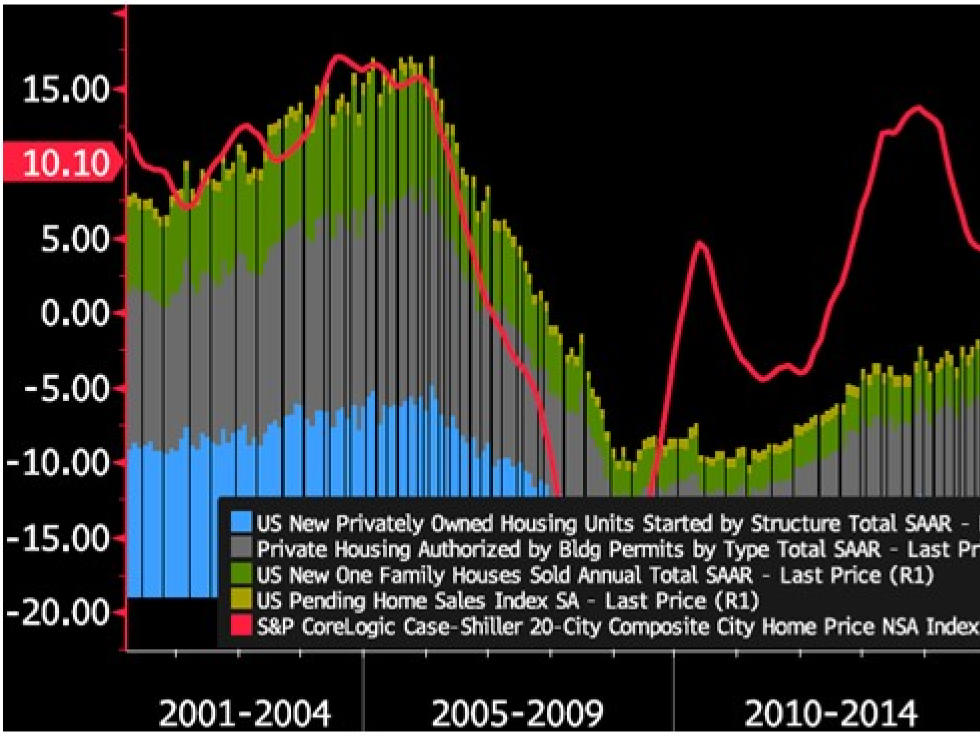
- Retail sales have followed suit, rebounding impressively with January showing a 7.4% YoY adva
February's 6.3% reading was a bit softer due to inclement weather across the country).
- These figures are likely to explode to the upside in the coming months, largely due to the base
- Still, retail sales should remain strong due to both stimulus measures and pent-up demand as c

Economy: Manufacturing Also Show



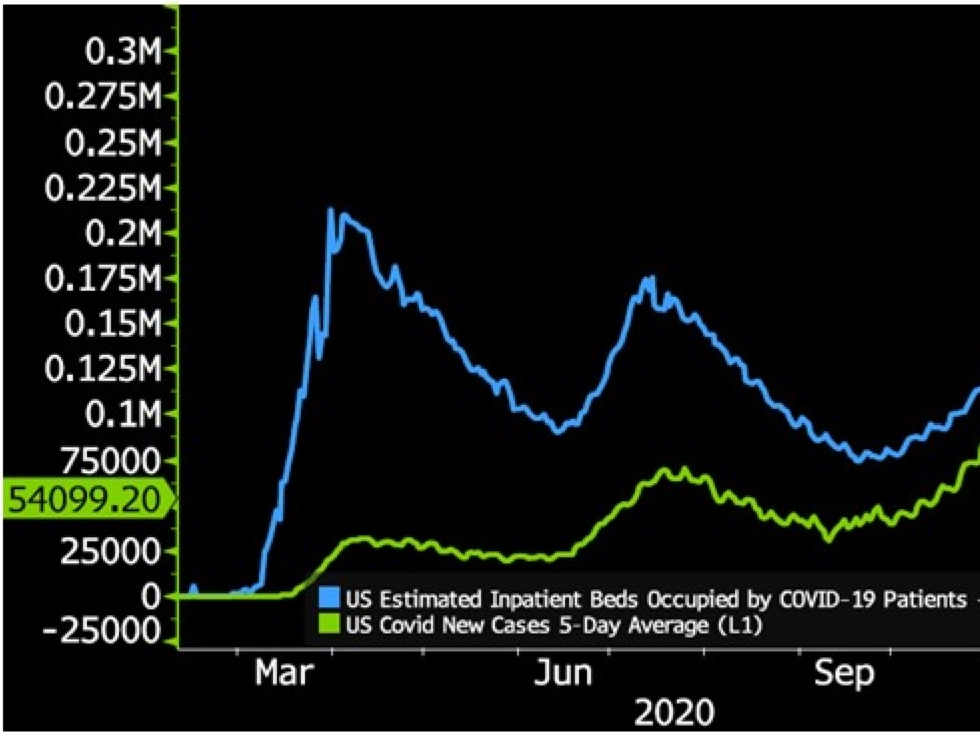
- Regional manufacturing data has also snapped back from the 2020 recessionary lows.
- The ISM new orders index – a barometer of forward-looking activity – is firmly in expansion ter
- In addition, we have seen the backlog of orders outpace production in many segments. This da and could lead to some inflationary pressure across the manufacturing sector.

Economy: Housing Market Contin



- Perhaps the strongest area of the US economy has been the red-hot US single-family housing
- After years of underinvestment following the financial crisis, US housing activity is the stronges
- Housing prices also continue to rise, as we saw the Case-Shiller Home Price Index jump 10% ye expansion since 2014.
- This strong move in prices is due not only to slim inventories and low mortgage rates, but also housing demand shift from urban apartments to suburban single-family homes.

Covid: Cases and Hospitalizations H



- We are optimistic the economic recovery will continue to rebound given that both the case cur are near a one-year low.
- We expect this trend to continue into the back half of the year as more and more of the popul

Economy: Gross Domestic Product Est

Indicator	2014	2015	2016	2017	2018
Economic Activity					
Real GDP (YoY%)	2.5	3.1	1.7	2.3	3.0

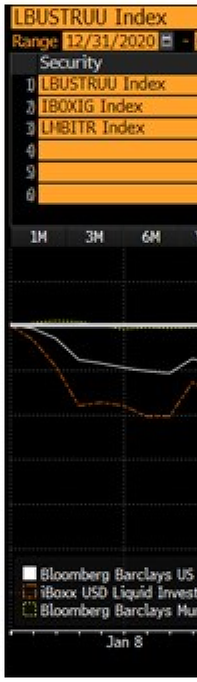
- The improved Covid-19 data has led to a sharp uptick to both 2-21 and 2022 US GDP estimate
- Since March of last year, both figures are up an impressive 3%.

Economy: Inflation Expectations and Act

- Forward-looking inflation expectations – as measured by breakeven rates – have bounced cons
- Interestingly, the five-year breakeven (at 2.5%) has moved up ahead of the 10-year breakeven (stable prices long-term. (Note: breakeven rates are a market measure of inflation expectations.
- Consumer prices will almost certainly spike higher due to the base effects of 2020, but later in t slack in our economy.
- Longer-term inflation remains a key risk to monitor with the unprecedented amount of govern we have seen over the last 18 months.

INCOME MARKETS

Income Markets: Interest Rates an



- Interest rates have followed inflation expectations, as the 10-year Treasury has moved from .50
- The uptick in yield has led to a challenging start to 2021 for traditional high-quality interest rat
- US government bonds and investment grade corporate bonds are down -3.4% and -6.0%, resp
- Municipal bonds have also struggled with a -.30% return, but less so relative to taxable bonds taxes for high earners.

Yields shown are for the listed index. These yields are gross of fees. Please see important disclosure following the presentation.

Income Markets: Equity Income

- On the flip side, those invested in equity income securities like the mortgage REITs, midstream vehicles) have done quite well.
- We still think there is room to run for these three sectors, but lately we have been lightening up less appealing relative to early last year.
- With that said, all three of these areas should outperform bonds in an improving growth enviro 8-10% range, you don't need price appreciation to provide solid forward-looking returns.

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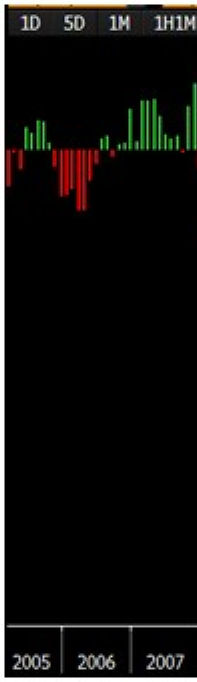
Income Markets: Ut



- We have also begun adding to utilities within our income portfolios. These pay an attractive 3.6
- Utilities also trade the cheapest relative to the S&P since the 2008 financial crisis and are enteri renewable and clean energy, making them a stealthy ESG play (i.e. sustainable investing)
- Finally, while utilities will display more volatility, a 3.6% yield with mid-single digit growth looks bond yields.

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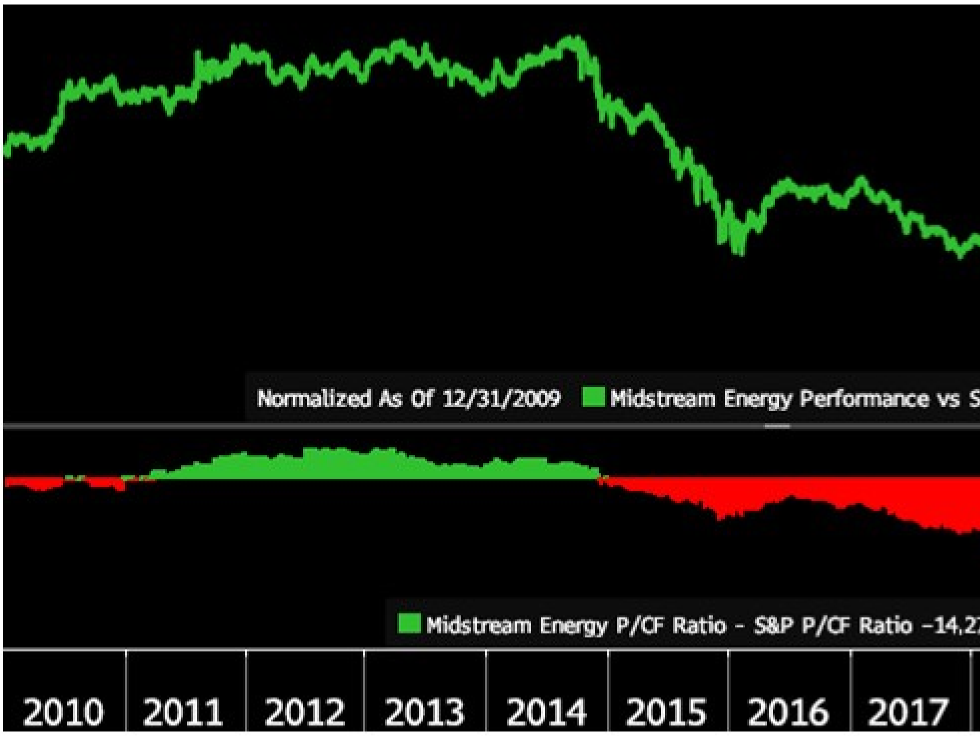
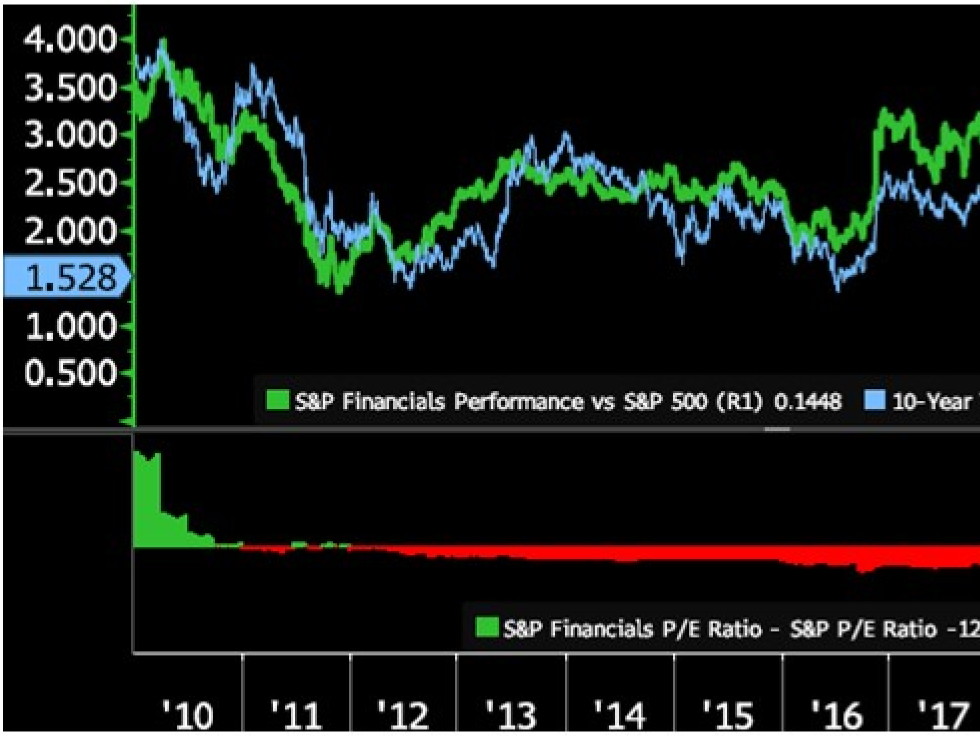
Income Markets: Midstream Energy Perking Up



- Since November, midstream energy securities have perked up significantly because of the impr
cash flow, which is the widest discount relative to the S&P we have ever seen.
- This area's also a very cheap way to provide not only an inflation hedge, but lofty cashflow, as w
- It's worth noting that we have been slowing trimming back exposure since the AMZ index is up

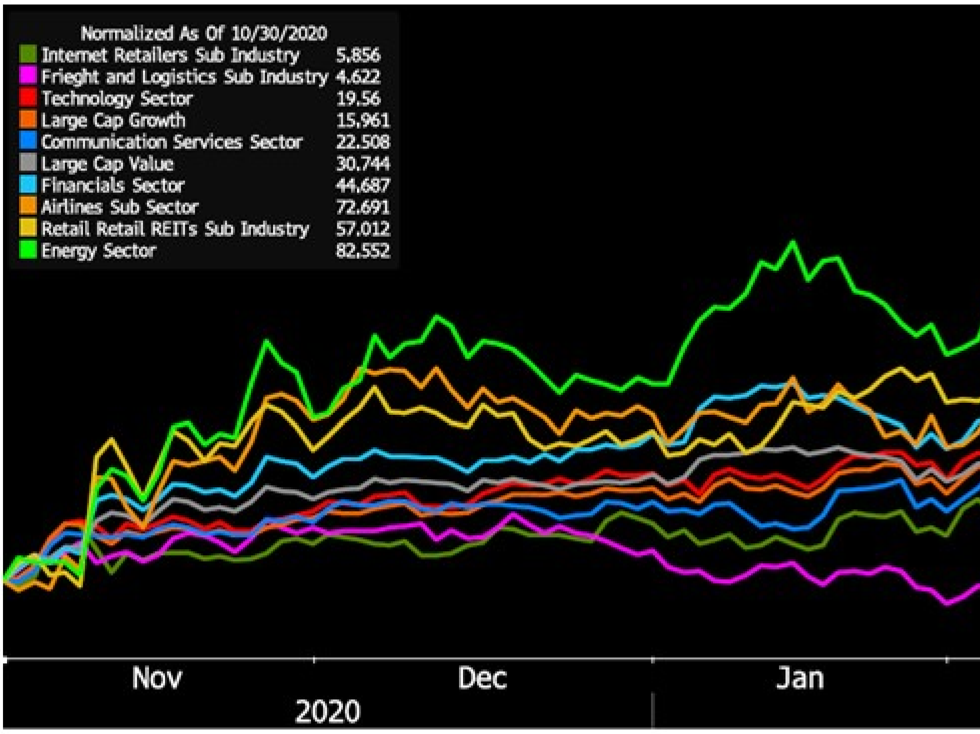
Income Markets: US Financials as a Hedge



- Financials also offer a reasonable hedge for bond portfolios in terms of interest rate risk reduct
- The upper pane shows the 10-year Treasury yield and relative performance of financials versus
- As you can see, during periods of rising interest rates (when bond prices are falling), financials
- They also trade cheaply, currently near the 10-year low in terms of valuation relative to the S&

EQUITY MARKETS

Equity Markets: Covid Laggards Co



- On the equity side, our preference is to maintain an overweight for companies that were hurt m
- As you can see in the chart above, the industries most negatively-impacted by Covid-19 (energ who've been thriving over the last year (internet retailers, logistics, tech, growth, etc.).

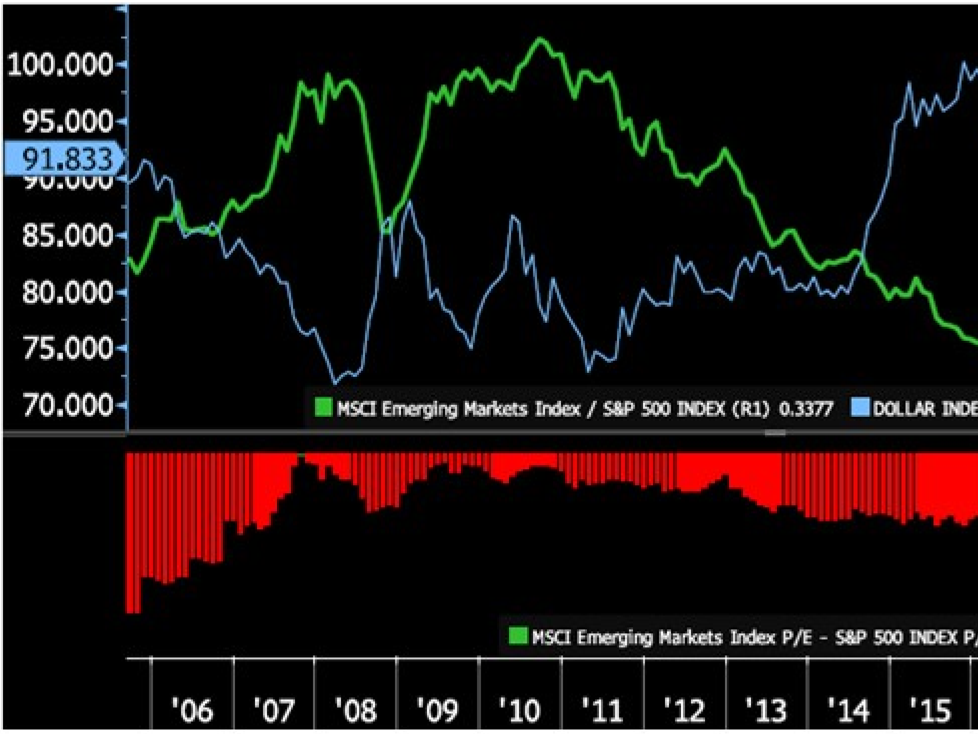
Equity Markets: Value Still Looks Att

- On a style basis, we think it makes sense to continue to overweight value stocks. Just like financ growth and rising interest rates.
- Value also trades at a cheaper discount compared to history versus growth.
- Because of our optimistic outlook on economic growth, we have been populating our clients' p

Equity Markets: A Case for He

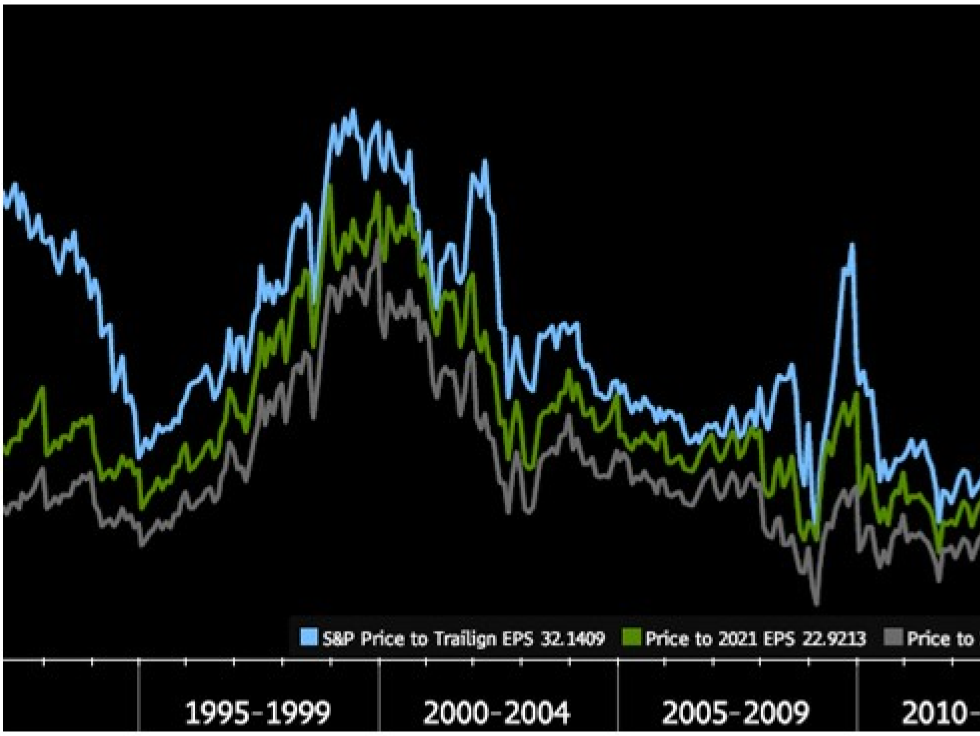
- In terms of sectors, healthcare looks to offer a reasonable entry point, as these stocks offer a hi
- Over the past 15 years when this has been the case, forward returns on health care stocks have
- Valuation is also quite attractive with the sector trading at 16x 2021 earnings – or a 6-point dis
- Healthcare stocks are also a stealth re-opening play because of postponed treatments during C due to reduced capacity.
    - Additionally, the sector should benefit from the Covid-19 vaccine rollout that's already

Equity Markets: Emerging M



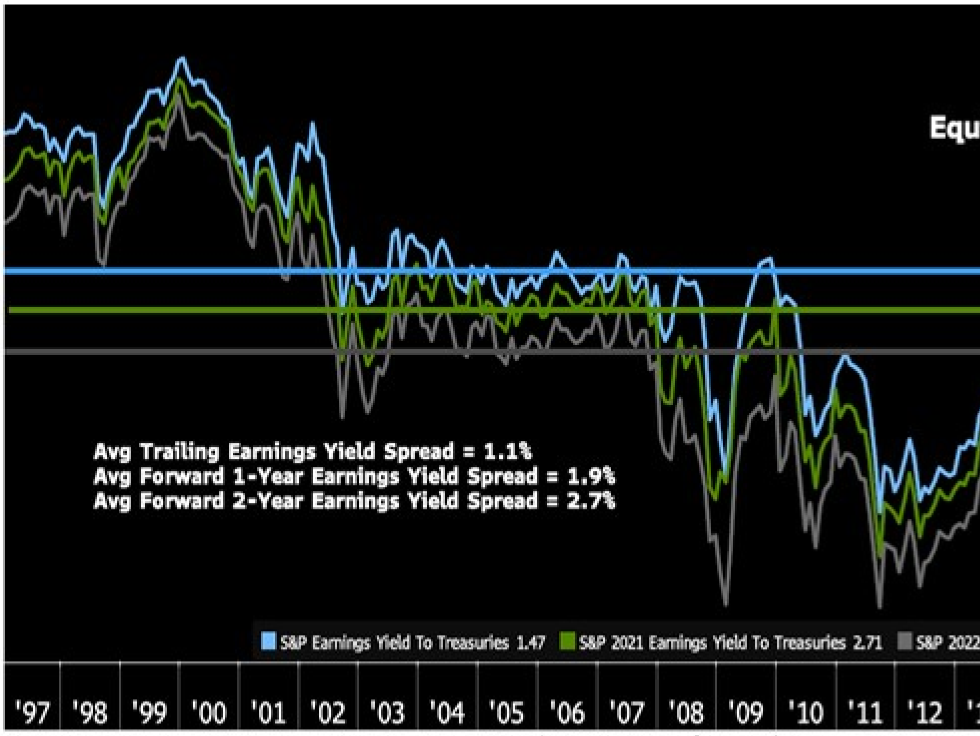
- We also think emerging market stocks are worth accumulating.
- We have been in a long-term dollar bull market but current policy points to a potentially weak
- EM stocks trade cheap relative to history and generally outperform during periods of high glob

Equity Markets: Valu



- In terms of equity valuation, the S&P is the priciest the index has ever been at 32x trailing earni
- That said, on a forward-looking basis, the index is less punchy at 23x, or 20x 2021 and 2022 ear
- Generally, it can be a fool's game to use forward earnings to measure valuation, but given the r in 2020, it's prudent to use more normalized earning estimates.

Equity Markets: Lofty Valuations but Sp

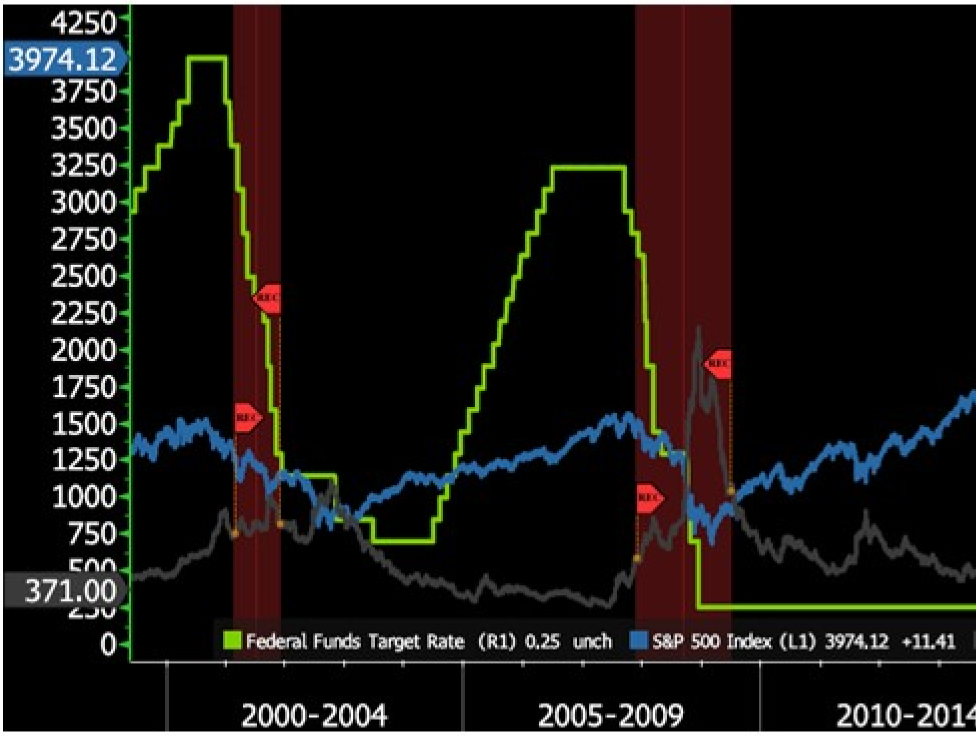


Note: The Earnings Yield Spread is Earnings Yield (1 Divided by P/E Ratio) Minus 10-Year Tre

- While absolute valuations are indeed pricey, valuations relative to interest rates are below the 2
- This is especially true on a forward-looking basis where the earnings yield spread on stocks, ba is 2.7% compared to the 25-year average of 1.9%.

OUTLOOK

Outlook: The S&P, Fed Funds Rate,



- Deep bear markets tend to occur after periods of Fed tightening and widening credit spreads (
- Today, the Fed has interest rates at zero and credit spreads are near the cycle-low, indicating a
- However, we've seen a rally of nearly 80% since the recessionary lows, which means a near-term
- If a pullback were to occur, we think that would provide a buying opportunity as we still believe particularly with a solid earnings trajectory over the next few years.
- As we have shown, there are still many pockets of value that will provide above market returns, the next several years.

Index Definitions

- The S&P 500 Utilities comprises those companies included in the S&P 500 tha
- The Alerian MLP Index is the leading gauge of energy infrastructure Master
- The FTSE Nareit Mortgage REITs Index is a free-float adjusted, market capit
- The S&P BDC Index measures the performance of Business Development C
- The Russell 1000 Value Index® measures the performance of those Russell and lower forecasted growth values.
- S&P Healthcare Index measures the performance of the health care sector
- MSCI Emerging Markets Index: The MSCI Emerging Markets Index is a free f designed to measure equity market performance in the global emerging m
- The Dollar Index Spot measures the value of the United States dollar relativ as a basket of U.S. trade partners' currencies.

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