FIRST QUARTER

1Q 2021 INVESTMENT ROUNDTABLE

As 2021 unfolds, we all look forward to emerging from the global pandemic and getting back to what may be a new normal. Our families, businesses, economy, and country have been challenged in a way that none of us ever expected. Working through the impact of this unprecedented period in history continues to be our collective greatest challenge. Yet through it all, new opportunities have emerged.

As you will see from my colleagues' remarks, the pandemic has accelerated the rapid adoption of transformative technologies across industries in what is now an increasingly digital life. From healthcare to banking to retail and energy, the world has been disrupted and reinvented. The increasing global appetite for decarbonization and utilizing an ESG approach has also sparked new opportunities, while the lower-for-longer-interest rate environment has supported investments in this arena, and fueled growth across many sectors.

At 1919 Investment Counsel, we have been examining the catalysts and transformative trends that may influence the markets, the economy, and, most importantly, our clients' portfolios, as we move forward. In this issue of the Investment Roundtable, we highlight some of these considerations with timely insights from our experienced analysts and portfolio managers.

We seek investment opportunities during this transitional period while continuing to provide our clients with expert advice and tailored solutions. As stewards of our clients' assets for over 100 years, we look forward to working with our clients as these exciting new opportunities take hold.

CHARLES KING, CFA
Managing Director, Chief Investment Officer

With the Biden administration forging ahead through its first 100 days, how are the various initiatives impacting client portfolios?

CHARLES KING, CFA
Managing Director, Chief Investment Officer

CK Actions and announcements by the Biden administration are consistent with what we expected pre-election. The primary focus has been on quelling the pandemic, providing additional stimulus, and stabilizing the economy. Overall, the markets have had a positive reaction to what has been clear and consistent communication from the new administration.

The sheer size of the recent stimulus package has been a political conversation, and the potential for a minimum wage increase (although defeated) heightened rhetoric on both sides of the aisle. Also on the administration's agenda is the likelihood of higher tax rates for higher-income individuals (those earning above $400,000 annually) and corporations. In addition, the Biden administration's commitment to a lower-carbon economy and the focus on climate change and renewable energy are developments we are considering as we manage clients' portfolios.

Do you anticipate that continued stimulus will fuel inflationary pressures? How may interest rates be impacted?

BAYLOR LANCASTER-SAMUEL
Vice President, Credit Analyst

BS We don't expect to see inflation rise significantly on a sustained basis due to another stimulus package. From an interest rate perspective, the Federal Reserve (the Fed) has signaled its tolerance for somewhat higher inflation with its new flexible average inflation targeting policy (a 2% target on an average basis over time) and a goal of full employment. The economy is still challenged with substantial unemployment and underemployment as a result of the pandemic.

Therefore, we expect the Fed's lower-for-longer interest rate stance to persist as we move forward in 2021. However, if there were indications that inflationary pressures were significantly increasing for a sustained period, we expect the Fed would react, tighten monetary policy, and raise interest rates accordingly. The speed of such an action remains to be seen.

Climate change, transitioning to a low carbon environment, and diversity and inclusion are focal points for the Biden administration. How do you see these issues developing into greater ESG equity and fixed income opportunities?

ALISON BEVILACQUA
Principal, Head of Social Research

AB There are growing investment opportunities in these areas, and we are carefully watching the actions of the Biden administration. An approach that incorporates environmental, social, and corporate governance considerations—including climate change, a lower-carbon economy, and diversity and inclusion—is rapidly becoming more mainstream. We see this sea change across many industries and sectors of the economy. Climate-aware investing is a critical component of our approach to ESG and Responsible Investing (it's part of the E in ESG). However, it is not the only ESG factor we have on our radar. Diversity and Inclusion (the S in ESG) is also an important theme. More recently, many companies have implemented diversity and inclusion initiatives that we applaud.

For example, in 2020, PepsiCo committed $400 million over five years to address issues of inequality within the company, industry, and communities it serves—including measurable goals for management and supplier diversity. This new initiative complemented a number of programs the company already had implemented. We seek to invest in such companies that continue to take steps forward on these complex social issues.

LAUREN WEBB, CFA
Principal, Portfolio Manager

LW We continue to see an increase in green, social, and sustainable bond issuance, with social and sustainable bonds outpacing green bonds. We also have seen the emergence of diversity and inclusion bond issuance by minority-owned firms. Issuance in all these areas is a growing theme in the fixed income market, and we participate in attractive issues for our client portfolios as they arise.

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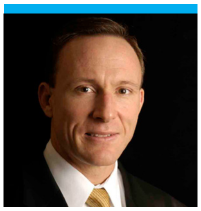
The pandemic truly has accelerated the pace of change in the Healthcare sector. Where specifically have you seen or expect to see game-changing developments?

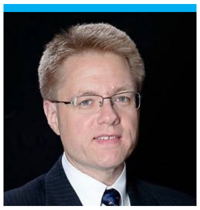


CHRISTOPHER DELPI, CFA
Principal, Equity Research Analyst

CD Rapid and game-changing innovation continues to drive the Healthcare sector. The speed of development on approved COVID-19 vaccines has been nothing short of incredible. For perspective, it typically takes about a decade for the development and launch of a vaccine. The timeframe for developing a COVID-19 vaccine was compressed into less than nine months.

The focus on solving the global pandemic through mass vaccinations has resulted in innovative technologies, including gene-based messenger, mRNA, and viral vector vaccines that have leapfrogged over older vaccine methodology. The technology involved in developing these vaccines is unprecedented. On the other hand, vaccine distribution and access have been challenging for the US and other countries. Hopefully, as we move into April, there will be ample vaccination access available in the US as states, counties, and the private sector–for example, CVS and Walgreens–provide vaccinations to the public. While COVID-19 and vaccination progress capture the headlines, we are closely following other Healthcare sector issues, including revisions to the Affordable Care Act and the expansion of Medicare.

Innovative technologies have offered creative solutions and propelled growth in this pandemic-ridden economy. Where do you see the greatest opportunities as we move forward?



THOMAS KRYGOWSKI, PhD, CFA
Managing Director, Analyst & Portfolio Manager

TK The concept of a more digitally-based life has come to the forefront in the pandemic with rapid technology adoption across a broad demographic. Before the pandemic, technology was viewed as an additive, an object in one's life used to accomplish a task. During the pandemic, social distance parameters resulted in significant behavioral changes. For millions of Americans, working, shopping, healthcare, education, and socializing became more of a digital experience.

As we emerge from the pandemic, it will be interesting to see if we go back to pre-pandemic analog ways. Have we been permanently ushered into a new, more digital mode of living? Will we continue to use technology solutions for work, shopping, and healthcare that we have found to be more efficient?

We expect other in-person experiences, such as going out to restaurants, travel, and social interaction, will reengage at full force and be taken less for granted—at least for a little while.

A useful analogy for the digital shift we have experienced is the following cell phone example. Imagine replacing a person's flip phone with a smartphone, then giving the flip phone back after some time. Would the user want to revert to using what had been perfectly adequate before (the flip phone), or would they prefer to permanently adopt the digitally-advanced smartphone alternative? We believe technological leapfrogging will continue to disrupt industries—driving many companies forward with consumers readily adopting a more digital life.

Where do you see opportunities in the Financial Sector?

CHRISTOPHER PERRY, CFA
Principal, Equity Research Analyst & Fund Portfolio Manager

CP Valuations remain very attractive for Financials across all subsectors relative to the S&P 500. We expect to see an increase in bank loan growth this year and resulting revenue growth acceleration as the distribution of the COVID-19 vaccine spurs economic progress and consumer confidence.

This year should be interesting for mergers and acquisitions (M&A) across all financial subsectors. Low interest rates will fuel this M&A activity, and the need to invest in technology remains relevant in an increasingly competitive marketplace. We expect to see more innovative ways to bank, make payments, and invest emerge from innovators within and outside the financial services sector.

In addition, market exchanges' earnings should benefit from periodic market volatility and increased trading. We also anticipate growing revenues in fee-based businesses, such as mortgages, wealth management, and insurance brokerage, all business lines that have benefited from robust activity. Smaller banks continue to be valuable partners in distributing government stimulus and have benefited from the fee revenue generated from processing PPP loans. We anticipate an earnings boost from positive operating leverage across financial subsectors, including larger banks where significant reserves for loan losses may be released. From a regulatory perspective, we expect an increasing focus by the Biden administration on how services are provided to low-to-moderate-income neighborhoods and the underbanked.

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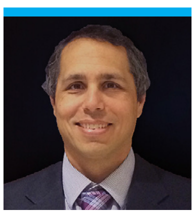
Improving aging infrastructure has been a recurrent theme waiting in the wings for implementation. Do you expect to see noteworthy progress over the next four years?

LAUREN WEBB, CFA
Principal, Portfolio Manager

LW Infrastructure improvement is a focus within the Biden administration, but the timing of an infrastructure spending package is uncertain. President Biden plans to make infrastructure investments in transportation, energy, water, and increased broadband access in rural areas, which may fuel municipal bond issuance opportunities across the country. In our current supply-constrained environment, increased levels of municipal bond issuance would be welcome, particularly if tax rate increases drive higher-income individuals to seek shelter with tax-free investment income.



ERIC THOMPSON, CFA
Principal, Equity Research Analyst

ET It's important to acknowledge the need for traditional road and bridge investment and as a candidate, President Biden's infrastructure plan sought to maintain continuity with prevailing spending levels.

However, the scope of President Biden's plan appears broad, with a heavy focus on energy transition and decarbonization both in terms of generation and consumption. The Biden administration has already extended onshore wind tax credits, and for the first time has established offshore wind tax credits. These actions may be an indication of the direction of infrastructure policy. Hopefully this takes the form of a multi-year bill.

The Energy sector has been rapidly transitioning to renewables, with approximately 75% of global new power capacity invested in renewable energy in 2020 per BloombergNEF. What is your perspective on this developing trend?

SHAYA BERZON
Principal, Equity Research Analyst

SB An increasing number of oil and gas companies have developed strategies to prepare for and participate in the energy transition toward renewables. While renewable energy has already shown impressive growth in the past few years, the new administration and Congress are expected to drive harder on incentives for renewables, energy storage, and efficiency. Investors also are interested in the potential growth renewable energy offers as the costs associated with wind and solar power production continue to fall. In the near term, the impacted markets are primarily the power markets, as renewables displace coal and some natural gas. The impact from electric vehicles on oil demand is also a factor. We seek to invest in companies with more defensible technology or a systems approach that allows them to expand their scope in the renewable energy space over time while avoiding commoditization.

Carbon capture technologies and green hydrogen are also areas garnering much attention from investors. These technologies are still in early stages of development and deployment and will take some time and additional government incentives to become mainstream. They are important components of any plan to more fully displace greenhouse gas emissions from energy and heavy industry.

The pandemic and work-from-home migration has redefined work, home, and travel for many Americans. How does this continue to impact the consumer discretionary market?

SEAN HUNG, CFA
Vice President, Equity Research Analyst

SH Housing sales have been robust, which may create some volatility in the short term around inflation figures. The current state of the housing market causes some concern and requires ongoing monitoring. The question is whether consumers are making smart financial decisions with their home purchases, or is the housing frenzy solely a function of emotional buying during the pandemic?

In terms of many large retailers, consumer demand has been strong, and those with an online presence have benefited the most. In the travel sector there is a lot of pent-up demand by consumers. However, the future of large hotels with significant exposure to business travel is uncertain, especially if business travel does not recover at the same level as leisure travel.

In the food industry, food delivery has come to the forefront during the pandemic, with platforms such as Uber Eats, DoorDash, et al., taking a healthy percentage of a restaurant's profitability. Once restaurants can re-open more fully and in-person dining resumes, there may be some pushback on delivery charges, which may force those platforms to reconsider their pricing models.

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How will 1919 Investment Counsel work with clients as we move forward in 2021?

CHARLES KING, CFA
Managing Director, Chief Investment Officer

CK As always, our team will continue to work closely with each of our clients to determine the appropriate allocation of cash, fixed income, and equities for their portfolios, based on their unique goals and circumstances. Weathering any short-term volatility while remaining focused on long-term opportunities is the cornerstone of our investment process at 1919 Investment Counsel.

We hope you have found this issue of the Investment Roundtable informative, and we look forward to continuing to share our thematic insights in our upcoming Investment Review and Outlook, available in early April. ■

1919 INVESTMENT COUNSEL
Complexity to Clarity

ABOUT 1919

1919 Investment Counsel, LLC, an investment management firm, provides discretionary separate account management services for affluent individuals, families, trusts, foundations, endowments, and institutions. As of December 31, 2020 the firm managed approximately $17.5 billion of assets.

The cornerstone of 1919's investment process is proprietary, fundamental research with an emphasis on quality, risk management and diversification.

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