ClearBridge Investments

Economic and Market Outlook

First Quarter 2021

Past performance is no guarantee of future results. Financial term and index definitions are available in the appendix.

U.S. Recession Recovery Dashboard

- 9 variables have historically foreshadowed a durable recovery
- The overall signal suggests the economy has started a new economic expansion

		Dec. 2020	Sept. 2020	June 2020	March 2020
Confidence	Consumer Confidence	⬆	⬆	⬆	✖
	Business Confidence (ISM)	⬆	⬆	⬆	✖
	Investor Sentiment	✖	✖	✖	●
Economics	Housing Starts	⬆	⬆	✖	✖
	Initial Jobless Claims	●	●	●	✖
	Philly Fed	⬆	⬆	⬆	●
Financial	Credit Spreads	⬆	⬆	●	✖
	Fed Policy	⬆	⬆	⬆	⬆
	Financial Conditions	⬆	⬆	●	✖
	Overall Signal	⬆	⬆	⬆	✖

⬆ Expansion ● Improvement ✖ Recession

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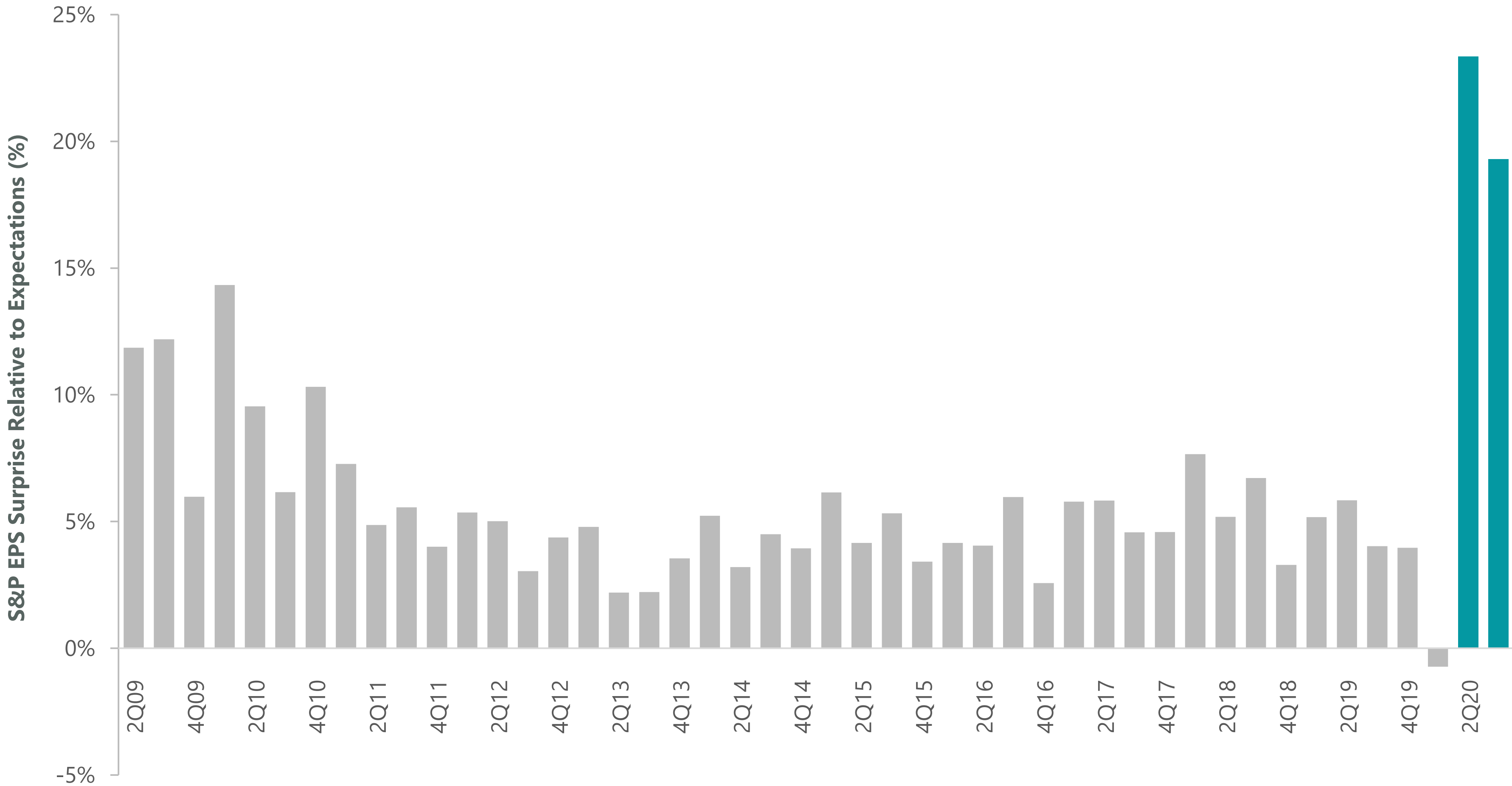
Data as of Dec. 31, 2020. Source: FactSet, Bloomberg, Conference Board, Census Bureau, Federal Reserve, FRBPA, Chicago Fed, ISM, Dept. of Labor, Bloomberg/Barclays, AAII, Investors Intelligence, and Moody's.

Historic Earnings Surprise

Earnings Beats in 2Q20 & 3Q20 Were Much Stronger than the Last Recovery



Earnings have handily beat expectations and helped power the market's rally.

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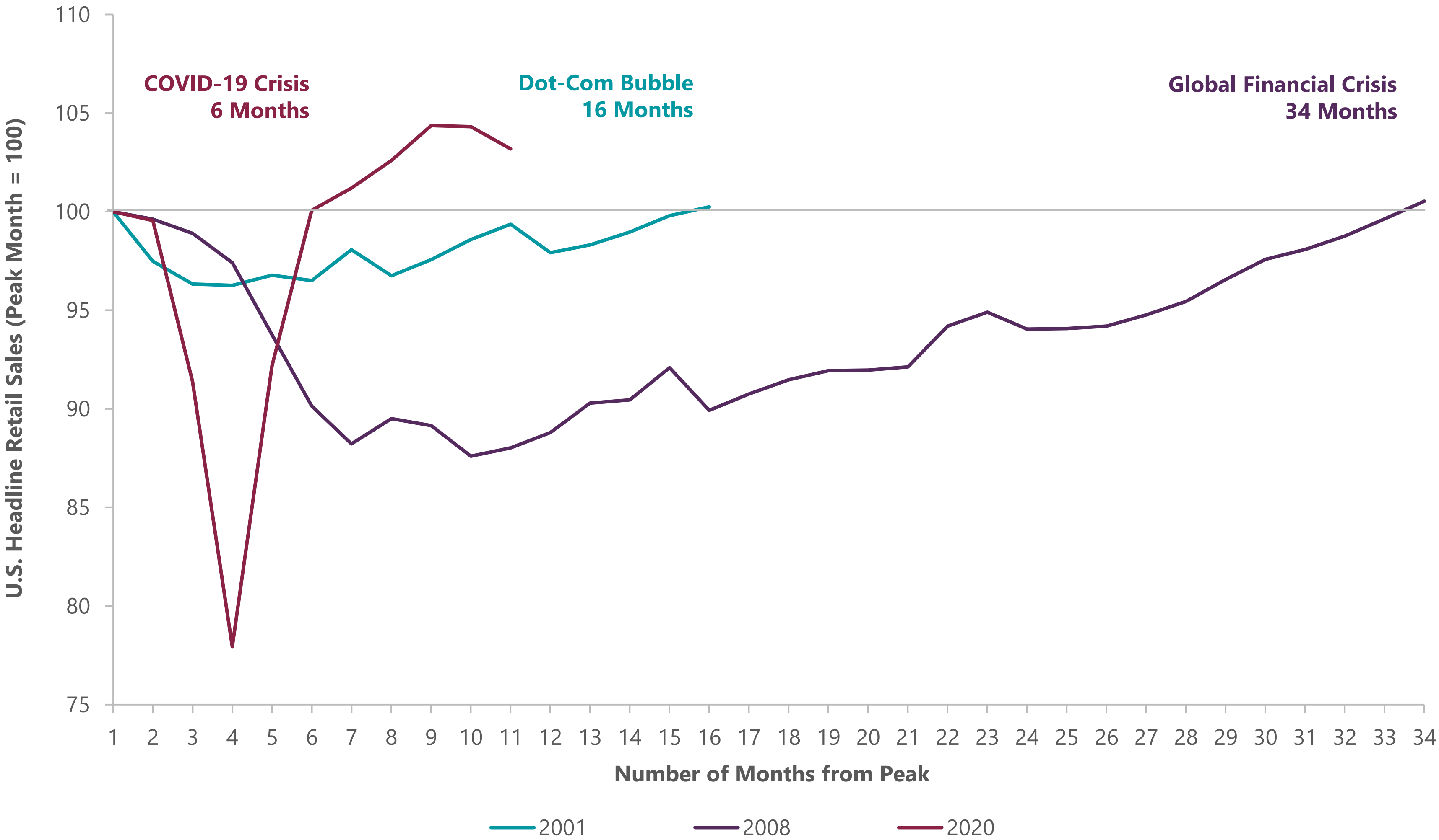
Data as of Sept. 30, 2020, latest available as of Dec. 31, 2020. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Retail Sales Suggest V-Shaped Recovery



- **Strong stimulus measures have supported a robust recovery in consumer spending.**

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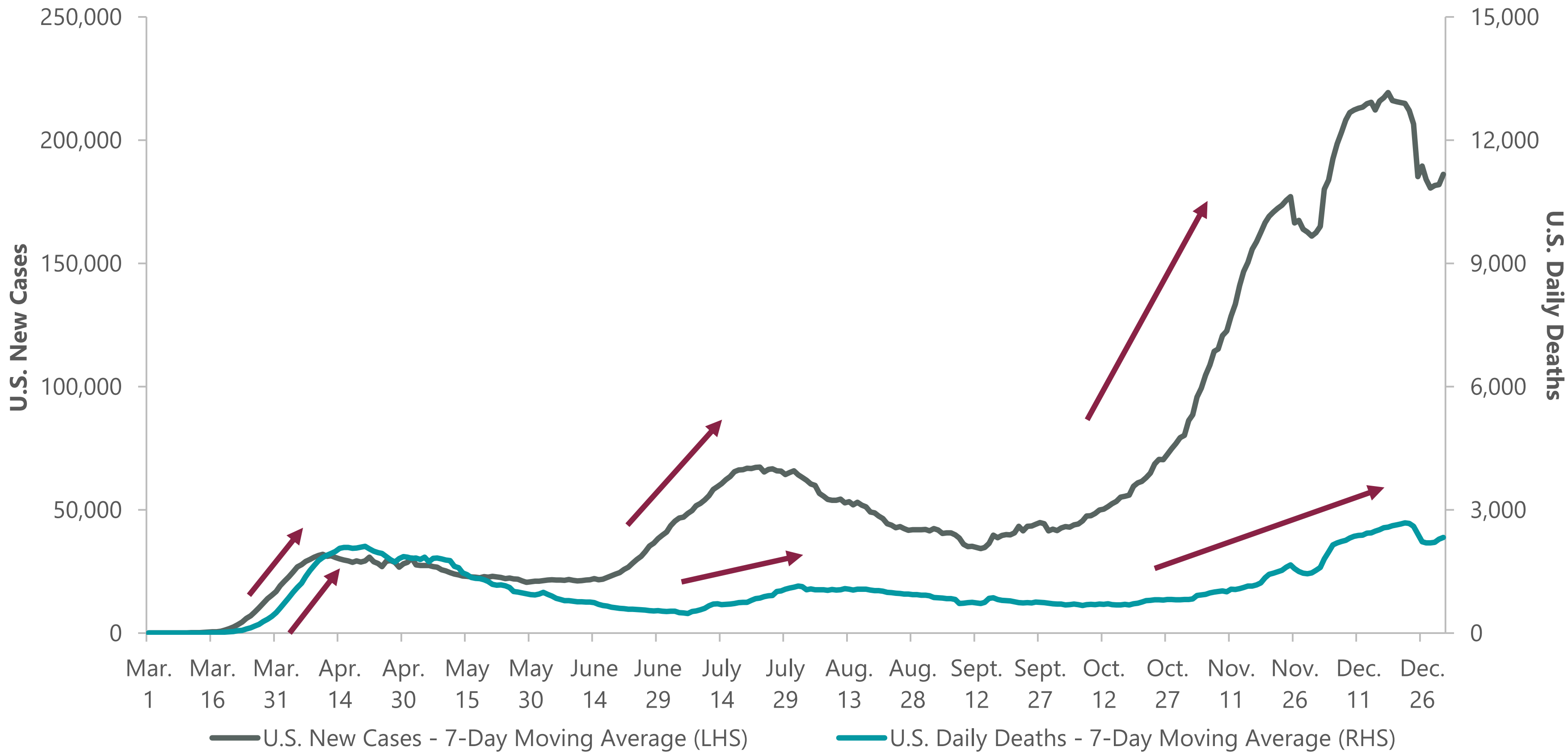
Data as of Nov. 30, 2020, latest available as of Dec. 31, 2020. Source: U.S. Census Bureau, FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Winter is Coming

U.S. COVID-19 Cases and Deaths



- **The virus remains a key concern for investors, particularly as the Northern Hemisphere enters colder months.**
- **Better awareness and protocols have significantly reduced mortality rates, making full lockdowns less likely.**

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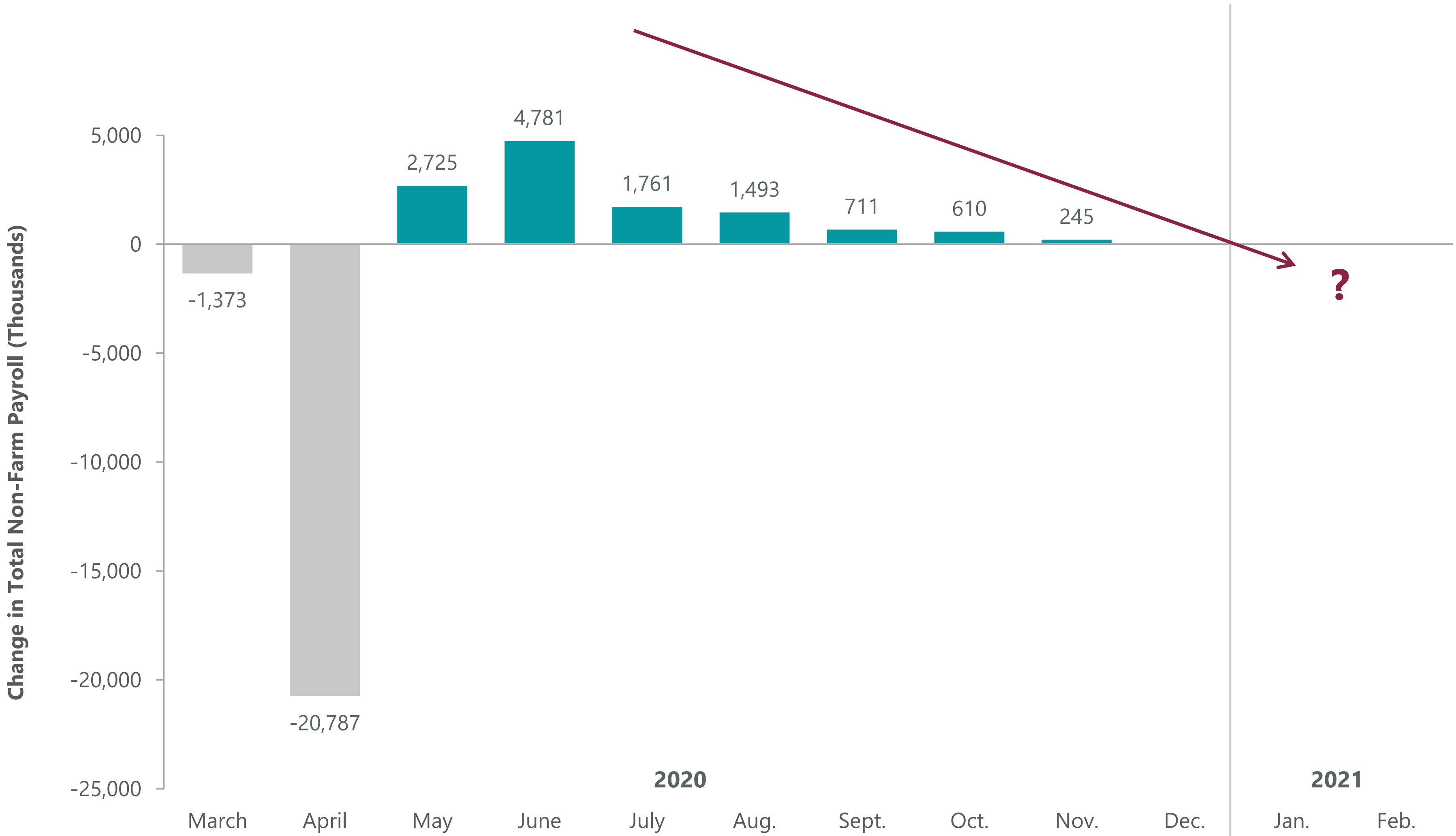
Data as of March 1 – Dec. 31, 2020. Source: Our World in Data, European Centre for Disease Control (ECDC), Covid Tracking Project. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Labor Market Losing Steam



- **The pace of the labor recovery has recently cooled as the U.S. economy combats the fall/winter surge of COVID-19.**

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Data as of Nov, 30, 2020. Source: Department of Labor, FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

U.S. Recession Risk Indicators

- 12 variables have historically foreshadowed a looming recession
- Job sentiment, jobless claims, wage growth, profit margins and truck shipments signal risk right now

		December 31, 2020	November 30, 2020	October 30, 2020
Consumer	Housing Permits	⬆	⬆	⬆
	Job Sentiment	✖	✖	✖
	Jobless Claims	●	●	●
	Retail Sales	⬆	⬆	⬆
	Wage Growth	✖	✖	✖
Business Activity	Commodities	⬆	⬆	⬆
	ISM New Orders	⬆	⬆	⬆
	Profit Margins	●	✖	✖
	Truck Shipments	●	●	●
Financial	Credit Spreads	⬆	⬆	⬆
	Money Supply	⬆	⬆	⬆
	Yield Curve	⬆	⬆	⬆
	Overall Signal	⬆	⬆	⬆

⬆ Expansion ● Caution ✖ Recession

ClearBridge Investments

Data as of December 31, 2020. Source: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg. The ClearBridge Recession Risk Dashboard was created in January 2016. References to the signals it would have sent in the years prior to January 2016 are based on how the underlying data was reflected in the component indicators at the time.

U.S. Recession Risk Indicators

- 12 variables have historically foreshadowed a looming recession
- Job sentiment, jobless claims, wage growth, profit margins and truck shipments signal risk right now

		Current	2020	2007-2009	2001	1990-1991	1981-1982	1980	1973-1975	1969-1970
Consumer	Housing Permits	⬆	⬆	✖	●	✖	✖	✖	✖	✖
	Job Sentiment	✖	●	✖	✖	✖	✖	●	●	●
	Jobless Claims	●	⬆	●	✖	✖	✖	✖	⬆	✖
	Retail Sales	⬆	⬆	✖	✖	✖	✖	✖	●	✖
	Wage Growth	✖	✖	✖	✖	✖	✖	✖	✖	✖
Business Activity	Commodities	⬆	⬆	✖	✖	✖	✖	●	●	●
	ISM New Orders	⬆	●	✖	✖	✖	✖	✖	✖	✖
	Profit Margins	●	✖	✖	✖	✖	✖	✖	●	✖
	Truck Shipments	●	⬆	●	✖	✖	✖	✖	n/a	n/a
Financial	Credit Spreads	⬆	⬆	✖	✖	✖	✖	✖	⬆	●
	Money Supply	⬆	⬆	✖	✖	✖	✖	✖	✖	✖
	Yield Curve	⬆	✖	✖	✖	✖	✖	✖	✖	✖
	Overall Signal	⬆	●	✖	✖	✖	✖	✖	●	✖

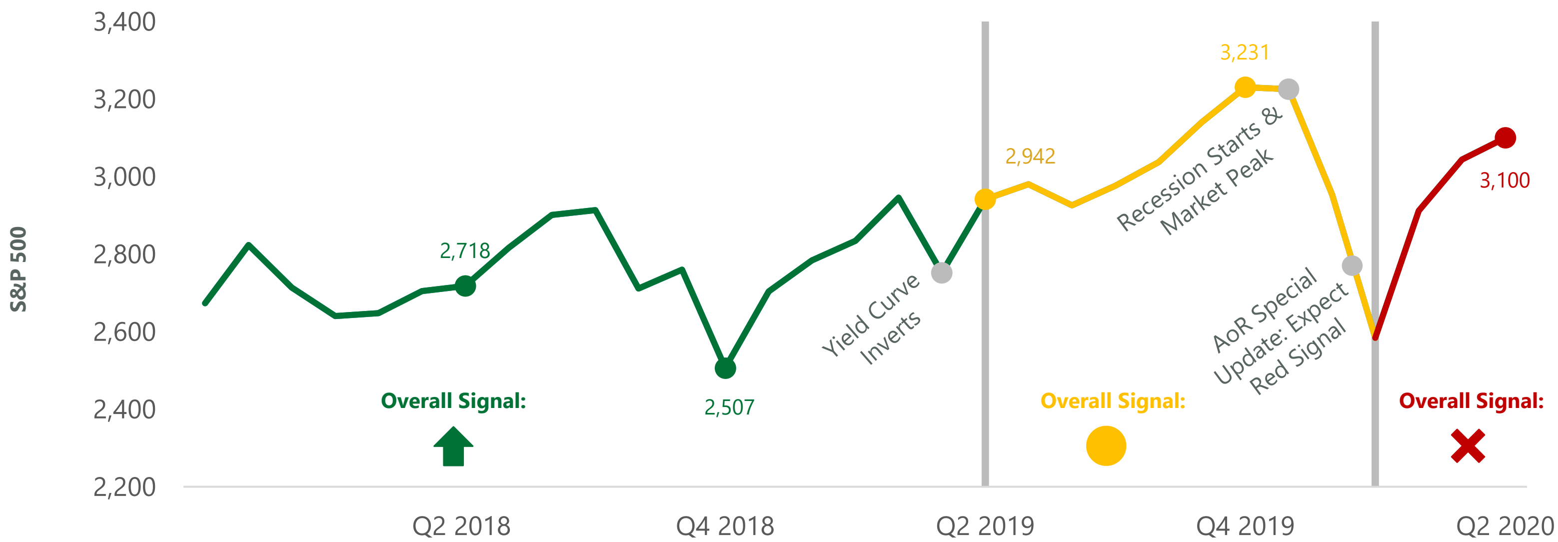
⬆ Expansion ● Caution ✖ Recession

ClearBridge Investments

Data as of Dec. 31, 2020. Source: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg. The ClearBridge Recession Risk Dashboard was created in January 2016. References to the signals it would have sent in the years prior to January 2016 are based on how the underlying data was reflected in the component indicators at the time.

U.S. Recession Risk Dashboard

Case Study: 2018-2020

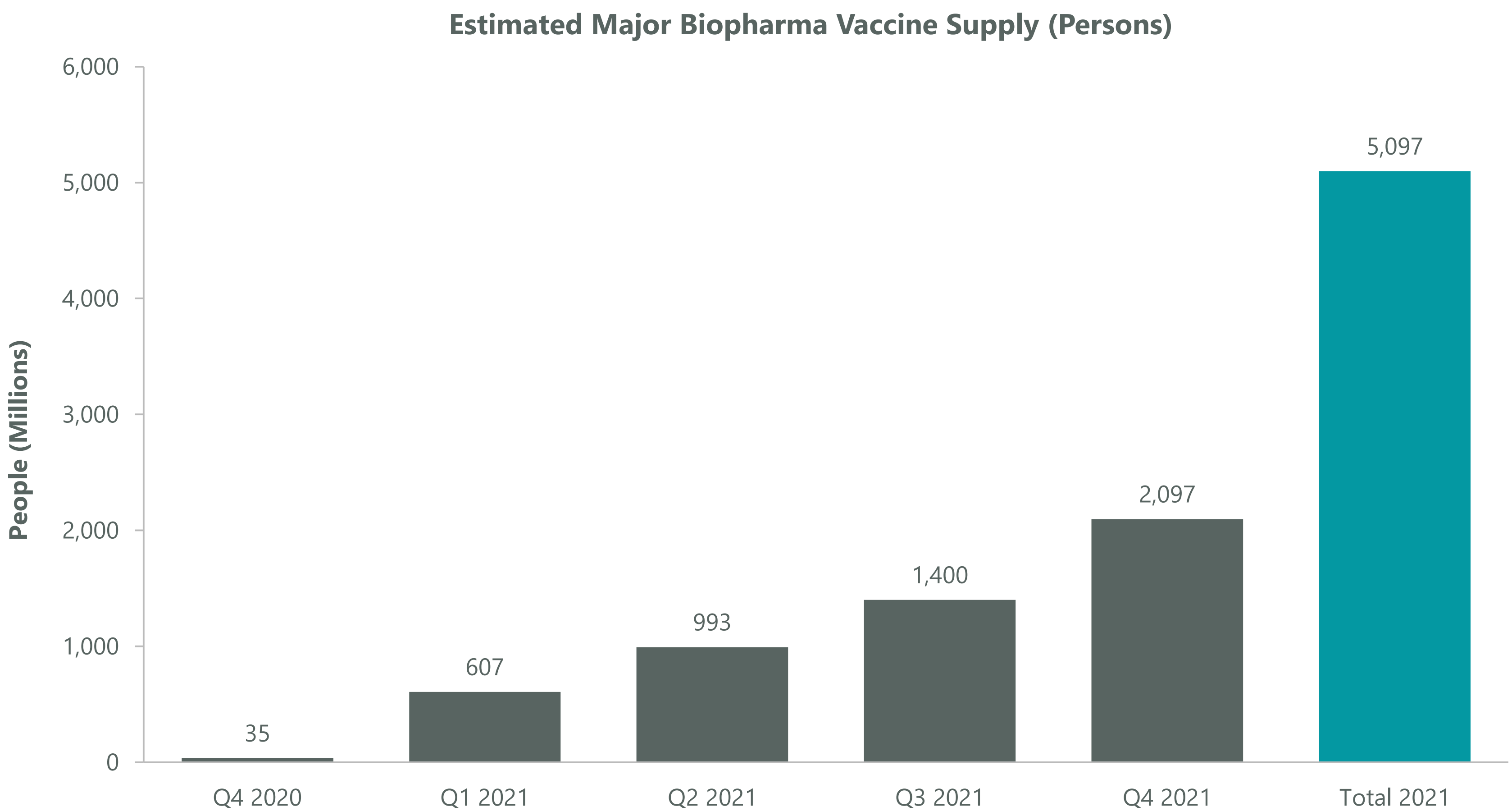


		Q2 2018	Q4 2018	Q2 2019	Q4 2019	Q2 2020
Consumer	Housing Permits	⬆	⬆	⬆	⬆	●
	Job Sentiment	⬆	⬆	●	⬆	✖
	Jobless Claims	⬆	⬆	⬆	⬆	✖
	Retail Sales	⬆	⬆	⬆	⬆	✖
	Wage Growth	⬆	⬆	●	✖	✖
Business Activity	Commodities	⬆	●	✖	●	✖
	ISM New Orders	⬆	⬆	●	✖	✖
	Profit Margins	●	⬆	⬆	●	✖
	Truck Shipments	⬆	⬆	⬆	⬆	✖
Financial	Credit Spreads	⬆	●	⬆	⬆	✖
	Money Supply	⬆	●	●	●	⬆
	Yield Curve	⬆	●	✖	✖	✖

ClearBridge Investments

Source: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg. The ClearBridge Recession Risk Dashboard was created in January 2016. References to the signals it would have sent in the years prior to January 2016 are based on how the underlying data was reflected in the component indicators at the time.

Vaccines to Accelerate Herd Immunity



- **Herd immunity could be reached by late 2Q or early 3Q in the U.S. with several vaccines already approved and more coming in 2021.**
- **By focusing on the most vulnerable, economic activity could begin to improve well ahead of herd immunity being achieved.**

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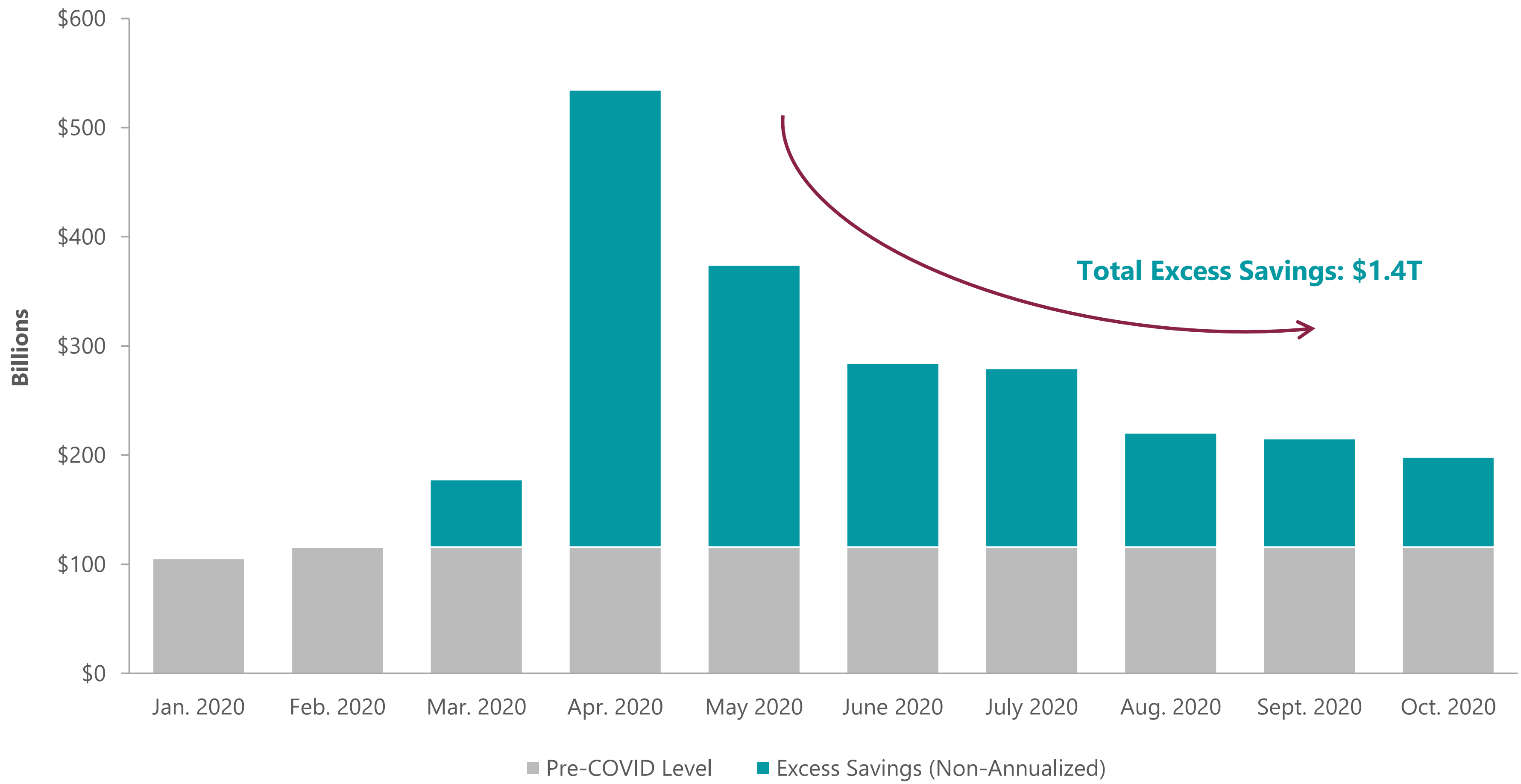
Data as of Dec. 31, 2020. Source: Jefferies Research. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Consumer Balance Sheets Flush

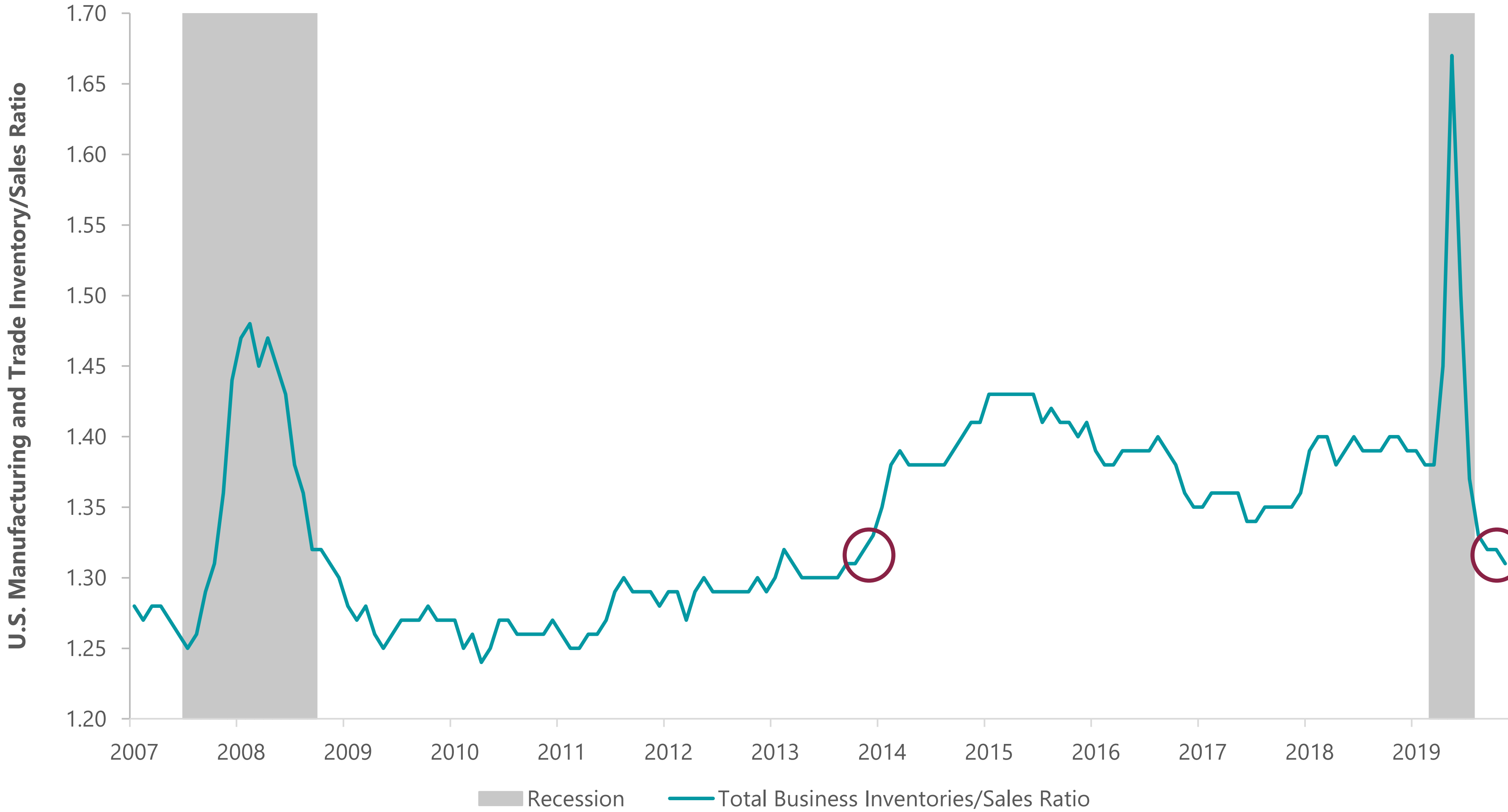


- **The inability to spend and government transfer payments have resulted in an abundance of consumer savings.**
- **As the economy renormalizes, some of these reserves will be drawn which should further fuel the recovery.**

ClearBridge Investments

Data as of Oct. 30. 2020, latest available as of Dec. 31, 2020. Source: Bureau of Economic Analysis. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fee s, expenses or sales charges.

Inventory Rebuild, Economic Tailwind?

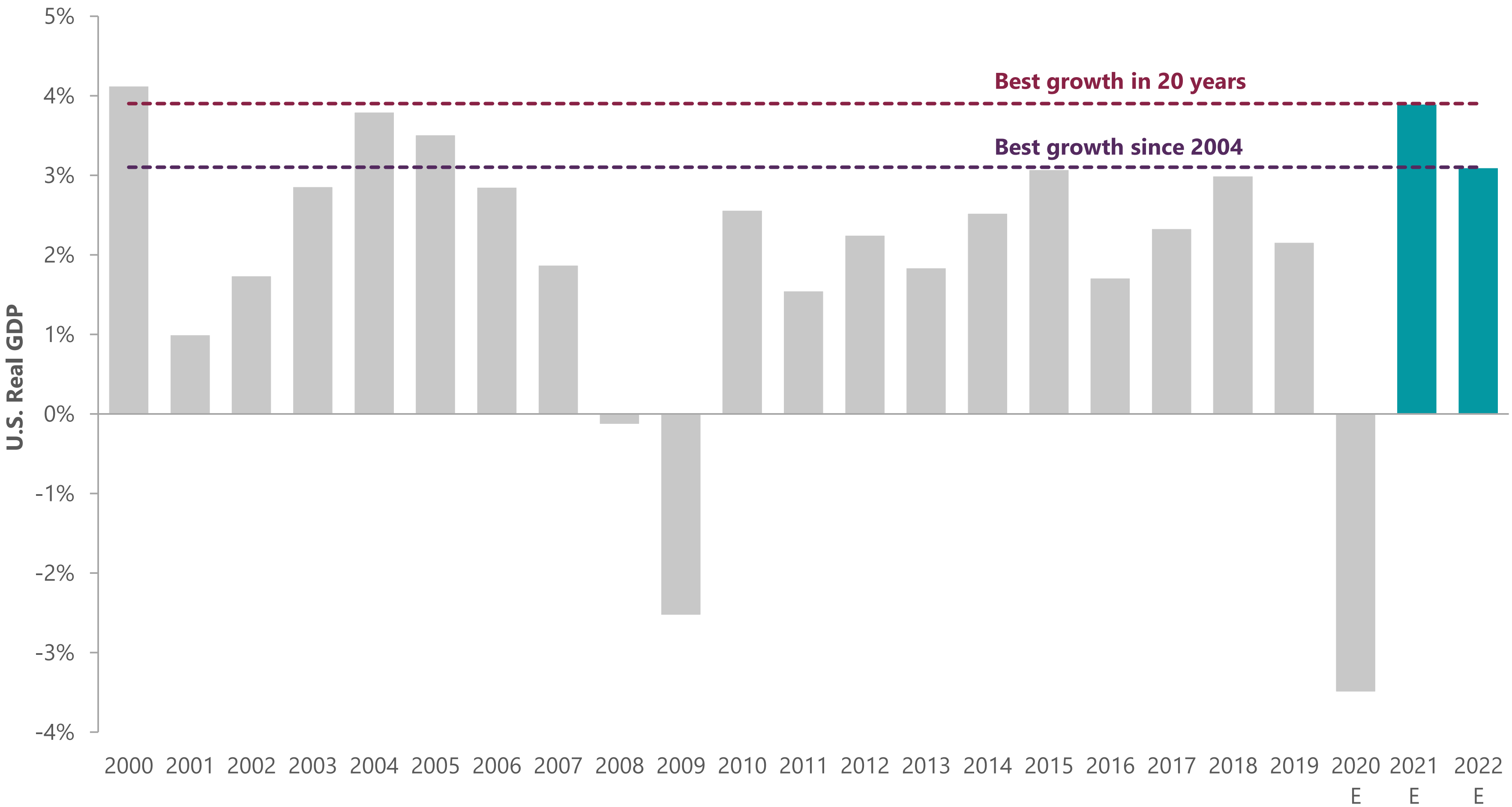


- **Inventory levels relative to sales have not been this depleted since 2014.**
- **Businesses will likely re-stock inventories in anticipation of growing demand, providing further economic upside in 2021.**

ClearBridge Investments

Data as of Oct. 30, 2020. Source: U.S. Census Bureau, FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

The New (Old) Normal?

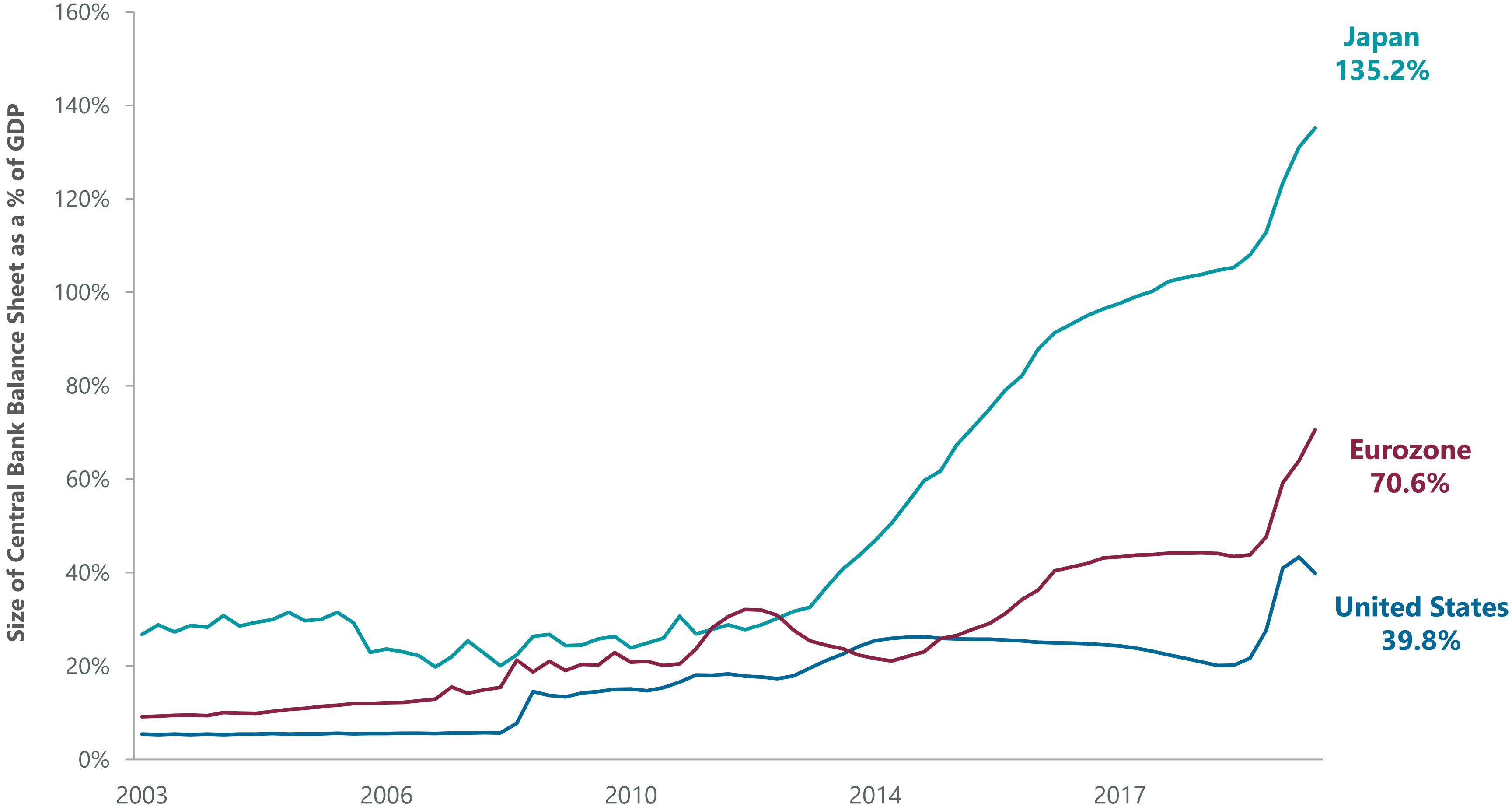


- **Following the COVID-19 GDP collapse, 2021 is expected to see the strongest growth in 20 years.**
- **This strength is currently expected to persist into 2022 with the best GDP growth since 2004.**

ClearBridge Investments

Data as of Nov, 30, 2020, latest available as of Dec. 30, 2020. Source: BEA, FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

QE Forever?



- **The Fed's smaller balance sheet as a % of GDP affords policymakers greater flexibility to continue to support the recovery.**
- **The Fed's current QE program ($120B/month) is much greater than any post-GFC QE program.**

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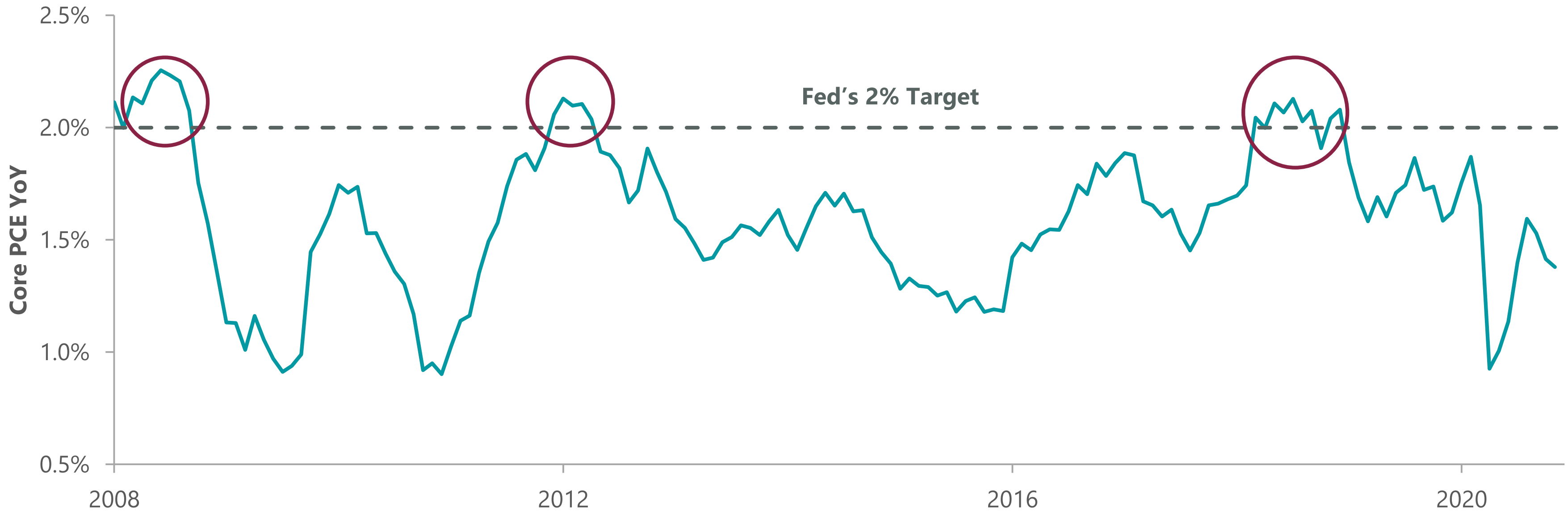
Data as of Dec. 31, 2020. Source: FactSet., FRED, Bloomberg, Bank of Japan. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

The Fed's New Framework



	Avg. Inflation Target		
Fed's Starting Point Cumulative Shortfall	**2008** 6.9%	**2012** 4.1%	**2016** 1.6%
3-Year Horizon	4.3%	3.4%	2.5%
5-Year Horizon	3.4%	2.8%	2.3%
10-Year Horizon	2.7%	2.4%	2.2%

- **Inflation has consistently undershot the Fed's 2% target, prompting a change of their framework to average 2% inflation over the medium term.**
- **Should the economy normalize faster than anticipated, the Fed could find itself behind the curve.**

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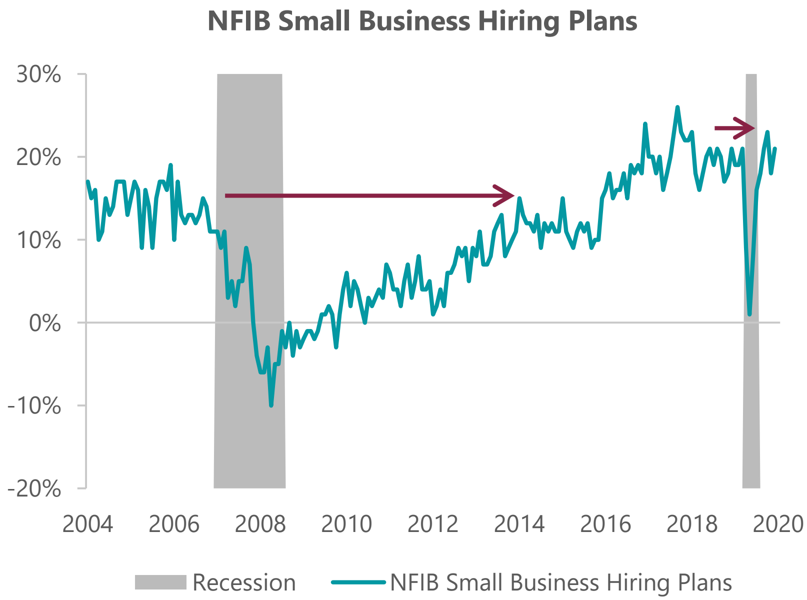
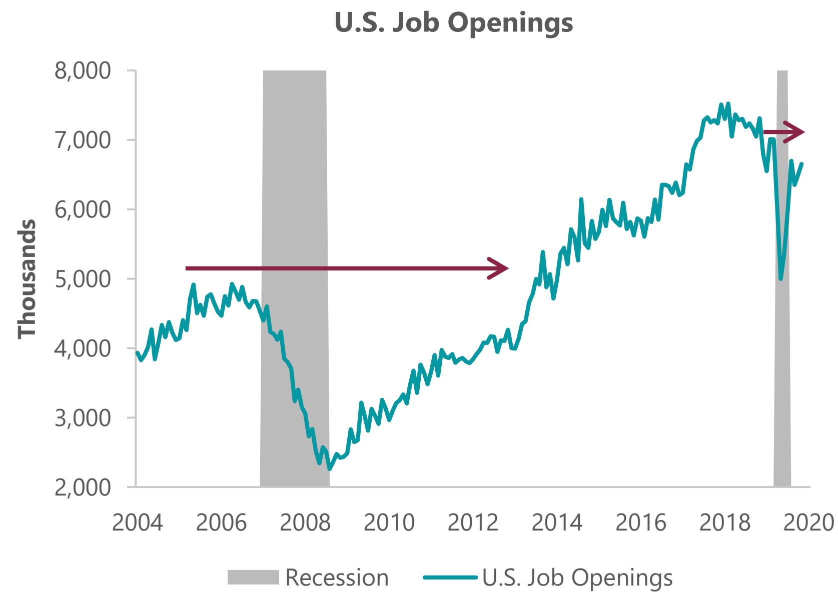
Data as of Nov. 30, 2020, latest available as of Dec. 31, 2020. Source: Federal Reserve Bank of St. Louis, BEA, Bloomberg. Personal Consumption Expenditures (PCE) excluding food and energy. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Not The Global Financial Crisis: Labor



Source: FactSet, NFIB.



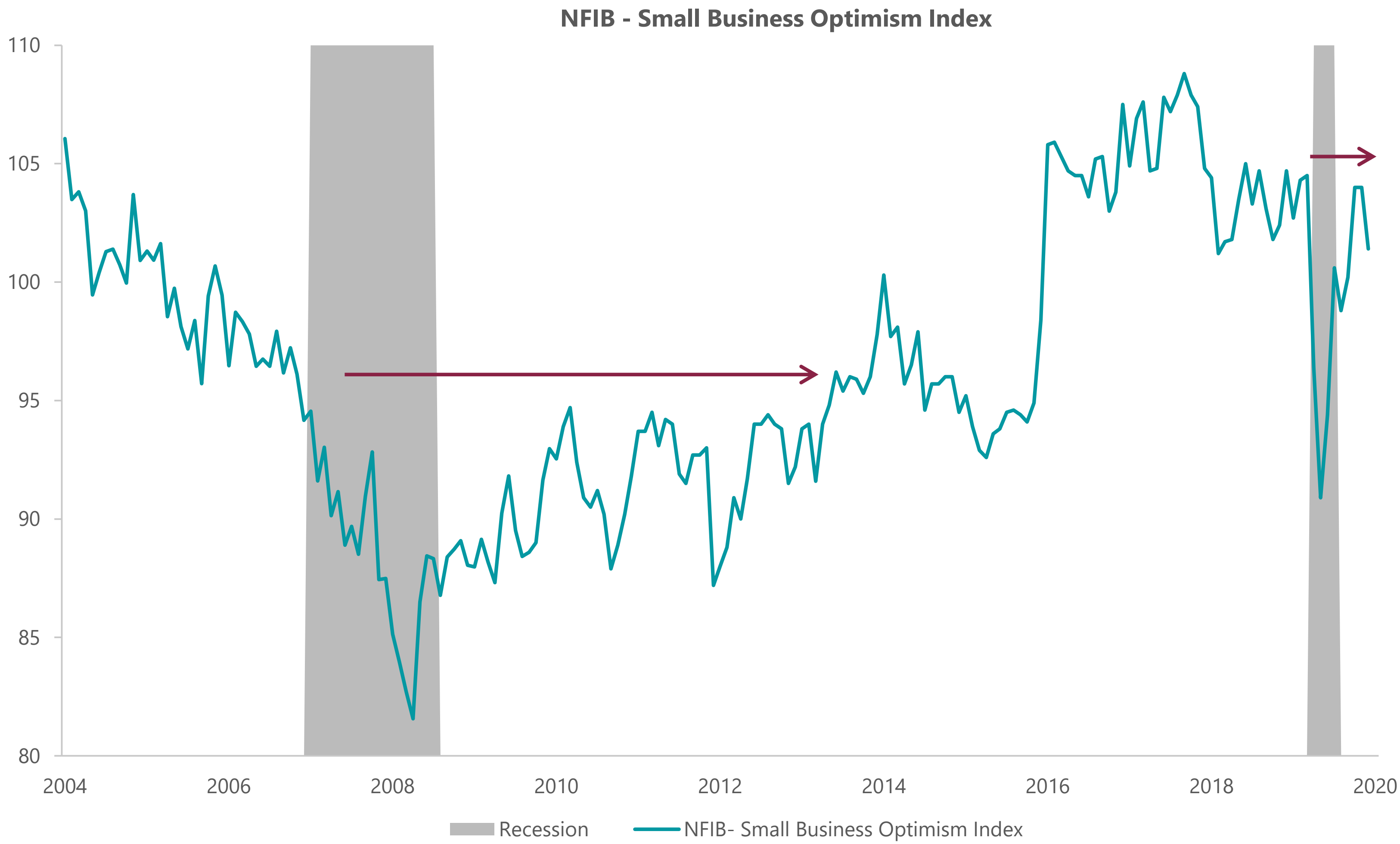
Source: DOL, FactSet.

- **Post-GFC, it took until 2014 for the labor market to recover to pre-crisis levels.**
- **The recovery from the COVID-19 recession has been much quicker.**

ClearBridge Investments

Data as of Nov. 30, 2020. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Not The Global Financial Crisis: Confidence

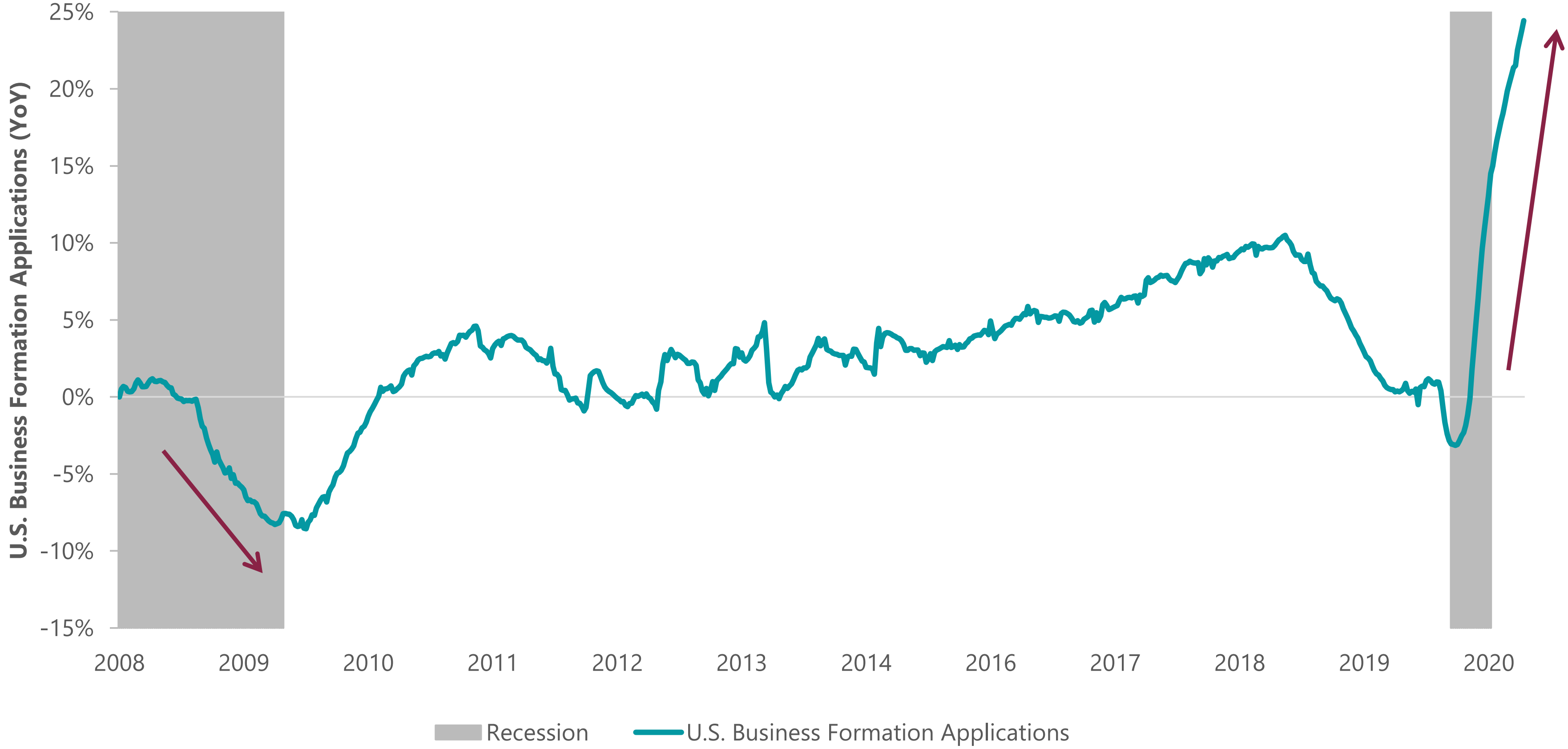


- **Similar to the labor market, small business optimism has recovered much quicker relative to the post-GFC recovery.**

ClearBridge Investments

Data as of Nov. 30, 2020. Source: FactSet, NFIB. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Business Formation Anomaly



- The number of applications to form new businesses has skyrocketed despite the recession.
- This could be an important driver of job creation and GDP growth as the expansion unfolds.

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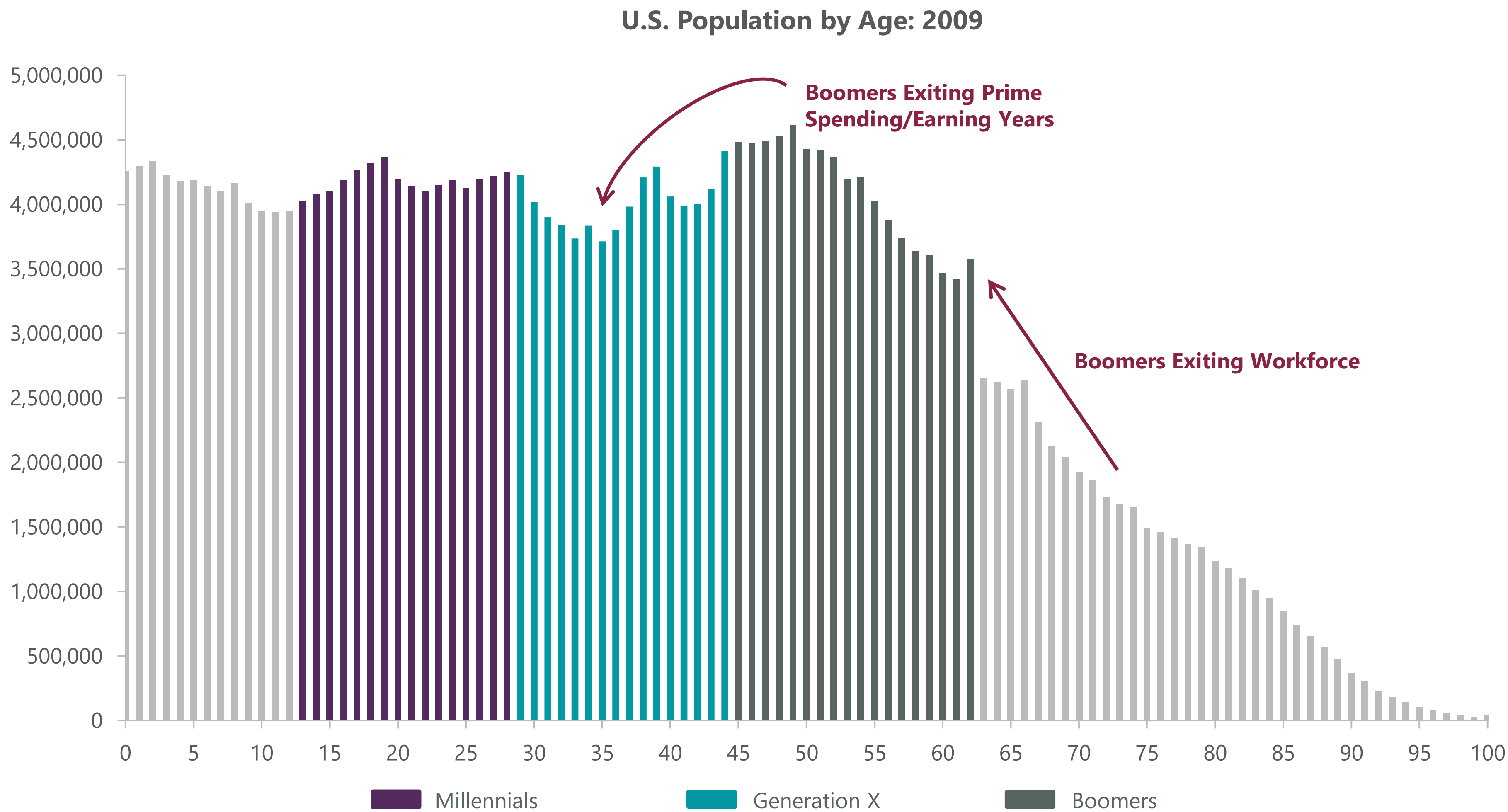
Data as of Dec. 31, 2020. Source: U.S. Census. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

2009 Demographic Headwind

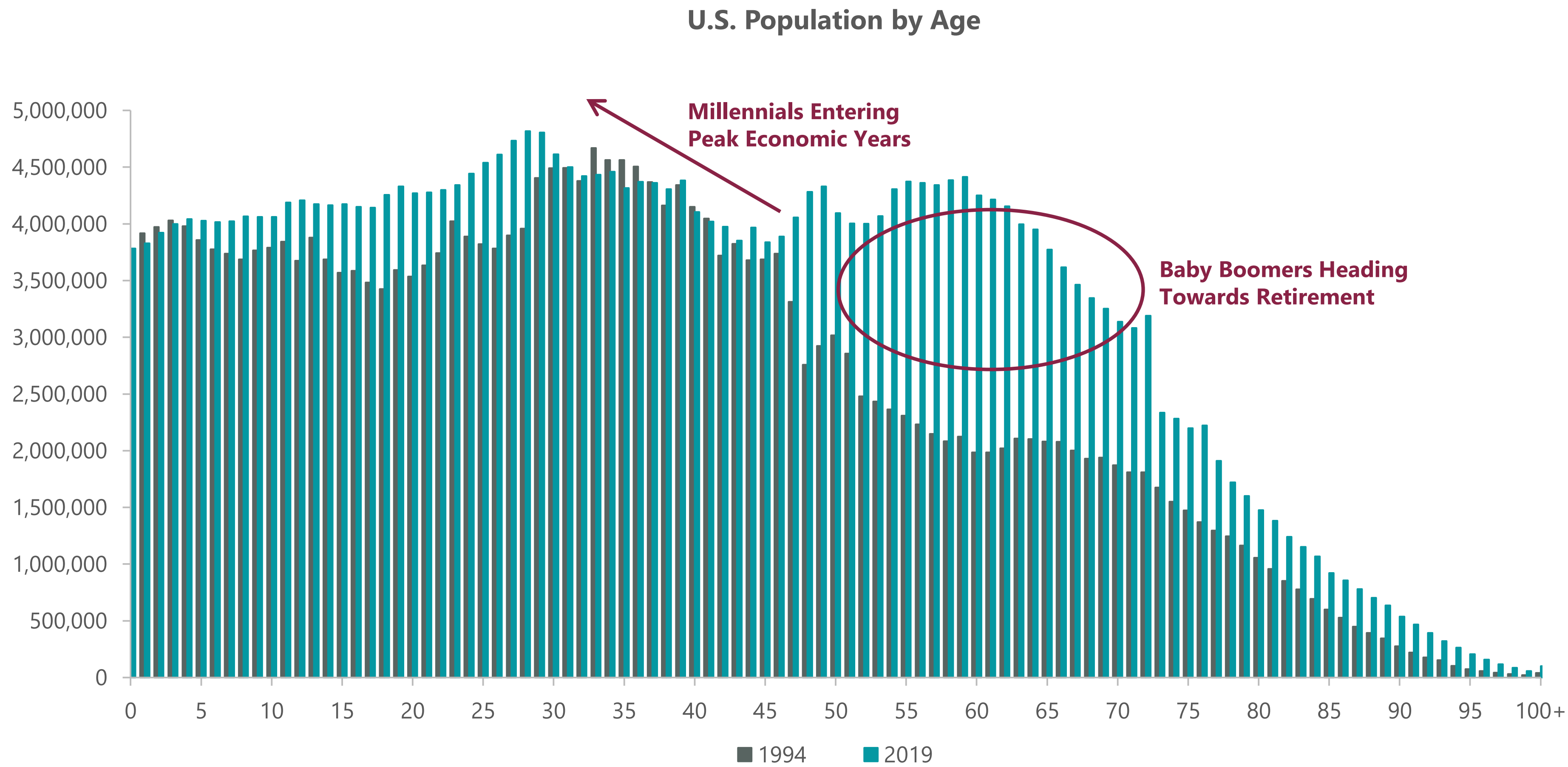


- **In the wake of the GFC, poor demographic trends were a headwind to economic growth as the Baby Boomers aged out of the workforce.**
- **The smaller size of Gen X meant fewer individuals in their prime spending and earning years.**

ClearBridge Investments

Source: U.S. Census Bureau. Past performance is not a guarantee of future results. Investors cannot invest directly in an ind ex, and unmanaged index returns do not reflect any fees, expenses or sales charges.

2019 Demographic Tailwind Similar to 1994



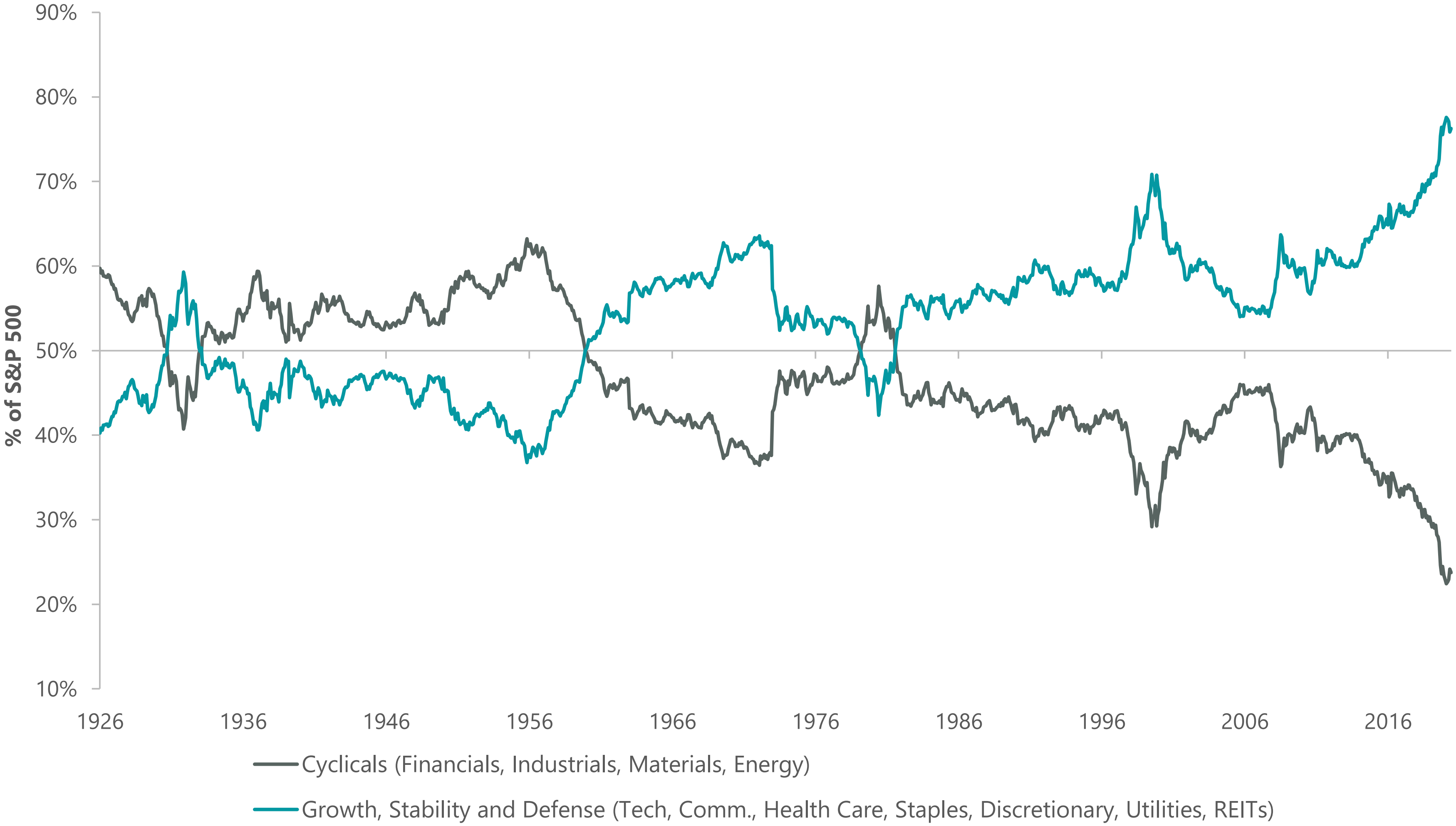
- **Similar to the mid-1990s, demographics should be a tailwind for economic growth as the Millennials enter their prime earning and spending years.**
- **This impulse should be somewhat dampened compared to 1994 due to the larger cohort of retirees today.**

ClearBridge Investments

Source: U.S. Census Bureau. Past performance is not a guarantee of future results. Investors cannot invest directly in an ind ex, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Index Composition Supports Higher P/Es

Cyclical Sector Representation is at 100-Year Low



- **Less-volatile sectors are typically rewarded with higher multiples. These groups make up a near-record share of the S&P 500 today.**

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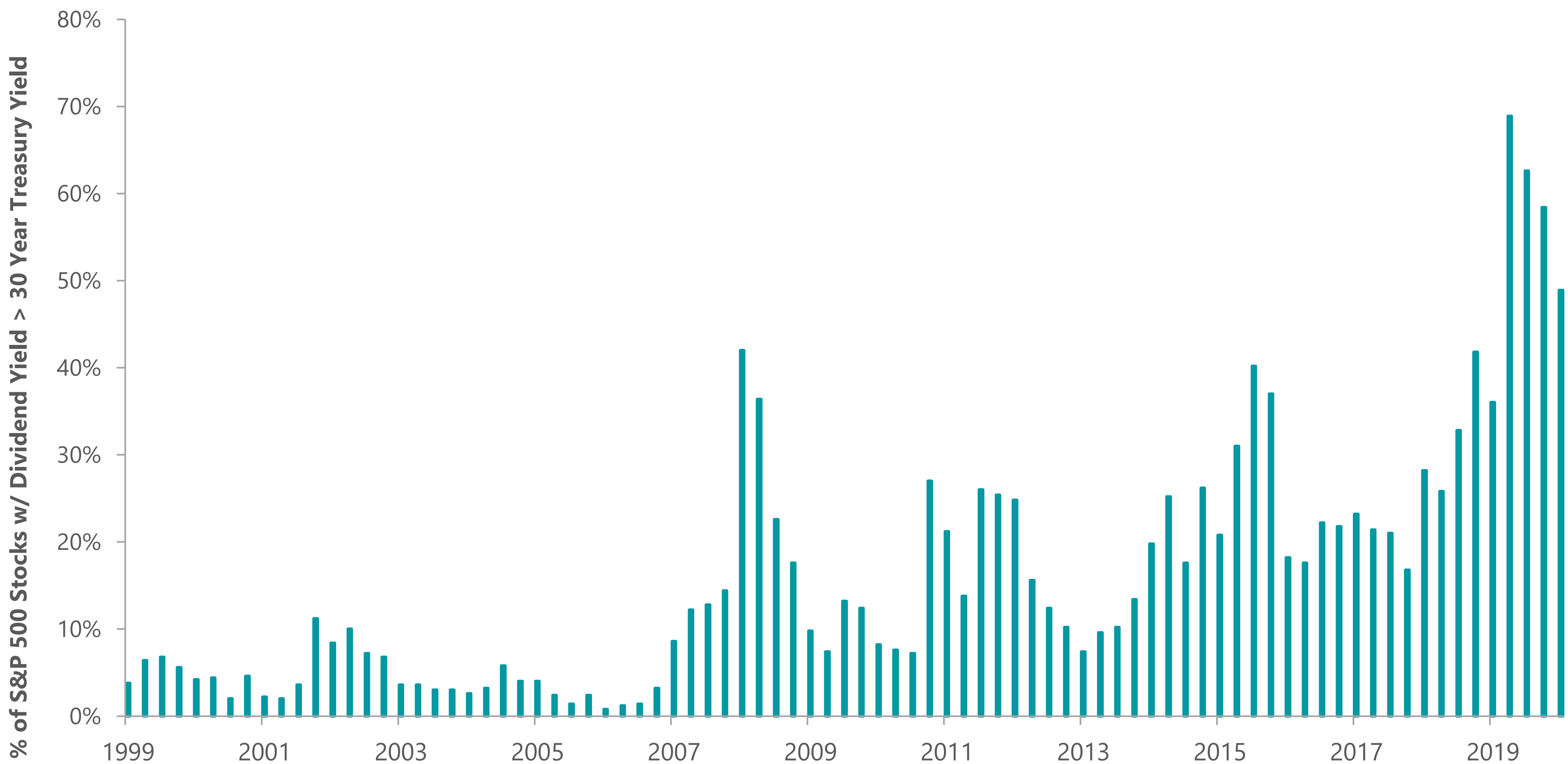
As of Dec. 31, 2020. Source: Cornerstone Macro. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Dividend-Paying Equities Attractive

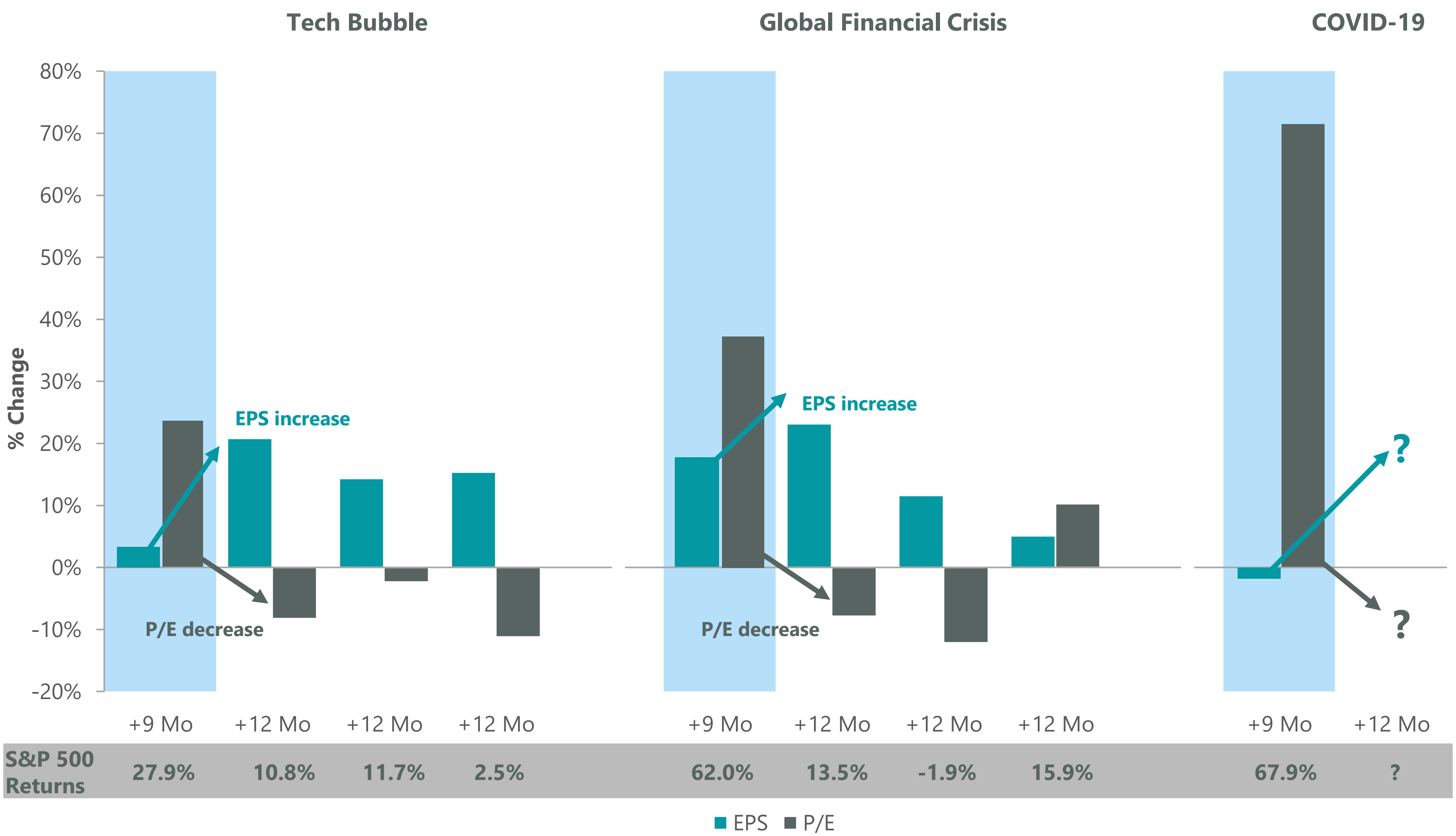


- **49% of S&P 500 stocks now have a dividend yield greater than the 30-year Treasury.**

ClearBridge Investments

As of Dec. 31, 2020. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Earnings to Take the Baton



- **In the nine months following recessionary troughs, multiple expansion has been an outsized contributor to returns.**
- **As the recovery matures, earnings typically drive stock upside as multiples contract.**

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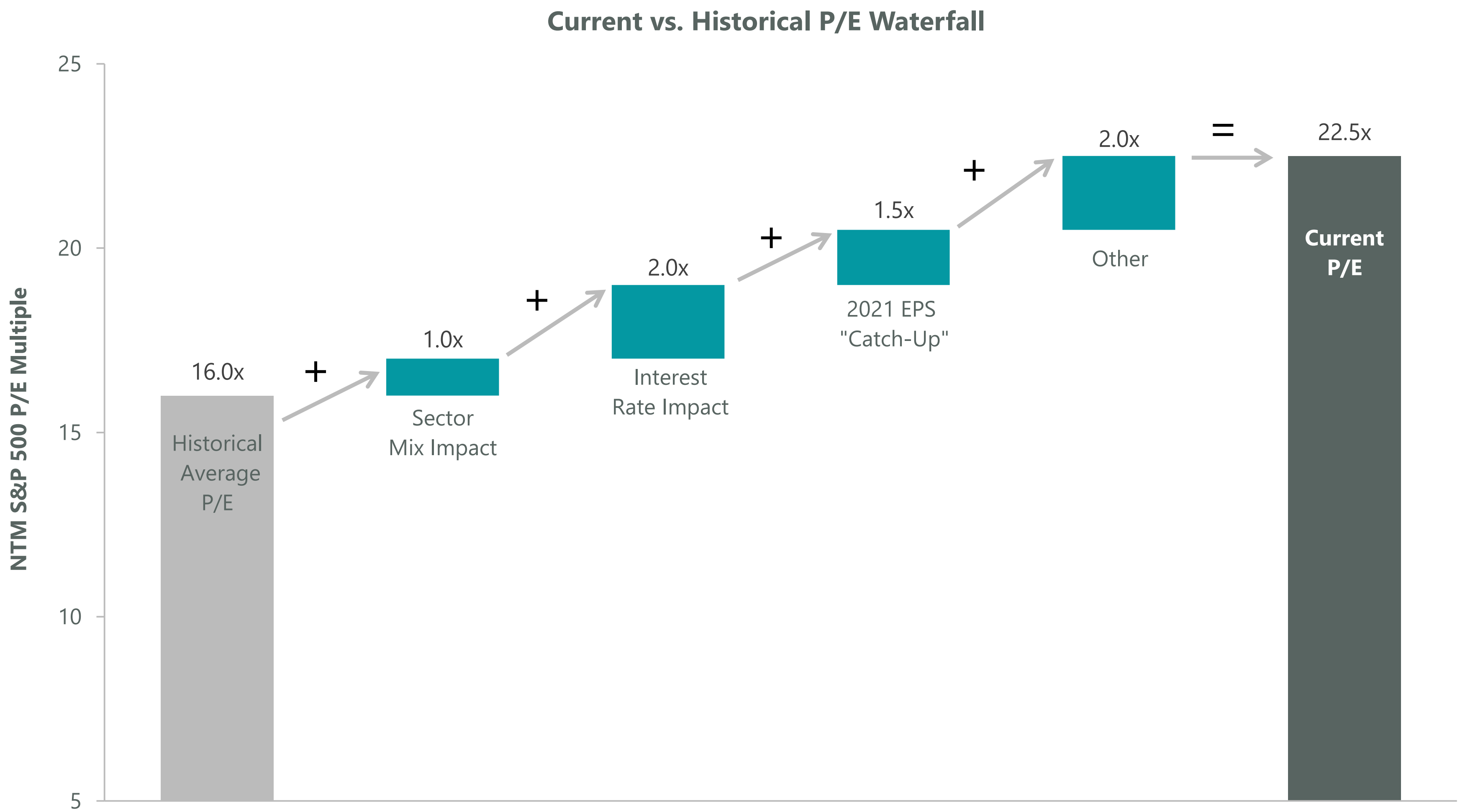
Data as of Dec. 31, 2020. Source: FactSet, S&P. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Just How Stretched are Valuations?



- **Current valuations appear rich relative to history. Much of this can be explained by sector mix differences, lower interest rates, and an expected earnings "catch-up" in 2021.**

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Source: Bloomberg, FactSet, Federal Reserve, Moody's, and S&P. Note: NTM = next twelve months; Historical Average P/E represents 1995-present. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Can Year-End 2020 Strength Continue?

Date	S&P 500 November-December Price Return	S&P 500 Price Return 3 Month	 6 Month	 12 Month
1954	13.6%	1.7%	14.0%	26.4%
1962	11.6%	5.5%	9.9%	18.9%
1970	10.5%	9.0%	8.4%	10.8%
1985	11.3%	13.1%	18.7%	14.6%
1998	11.9%	4.6%	11.7%	19.5%
2020	14.9%	?	?	?
	Average	**6.8%**	**12.5%**	**18.1%**
	% Positive	**100%**	**100%**	**100%**

- **Following 10%+ rallies in November and December, stocks have typically continued to deliver strong gains in the subsequent year.**

ClearBridge Investments

Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Market Returns During Economic Expansions

Following the End of Recessions, Equities Typically Do Quite Well

S&P 500 Returns During Economic Expansions

Trough Month	S&P 500 Level	Peak Month	S&P 500 Level	Duration (Months)	Change	Secular Trend
Nov. 30, 1970	87.2	Nov. 30, 1973	95.9	36	10.0%	Secular Bear
Mar. 31, 1975	83.4	Jan. 31, 1980	115.1	58	38.1%	Secular Bear
July 31, 1980	121.7	Jul. 31, 1981	130.9	12	7.6%	Secular Bull
Nov. 30, 1982	138.5	Jul. 31, 1990	356.2	92	157.1%	Secular Bull
Mar. 28, 1991	375.2	Mar. 30, 2001	1160.3	120	209.2%	Secular Bull
Nov. 30, 2001	1139.5	Dec. 31, 2007	1468.4	73	28.9%	Secular Bear
Jun. 30, 2009	919.3	Feb. 28, 2020	2954.2	128	221.3%	Secular Bull
Average:				**74**	**96.0%**	
Secular Bull Average:				**88**	**148.8%**	
Secular Bear Average:				**56**	**25.7%**	

- **We continue to believe stocks are in the midst of a secular bull market. If correct, this would bode well for equity investors in the coming years.**

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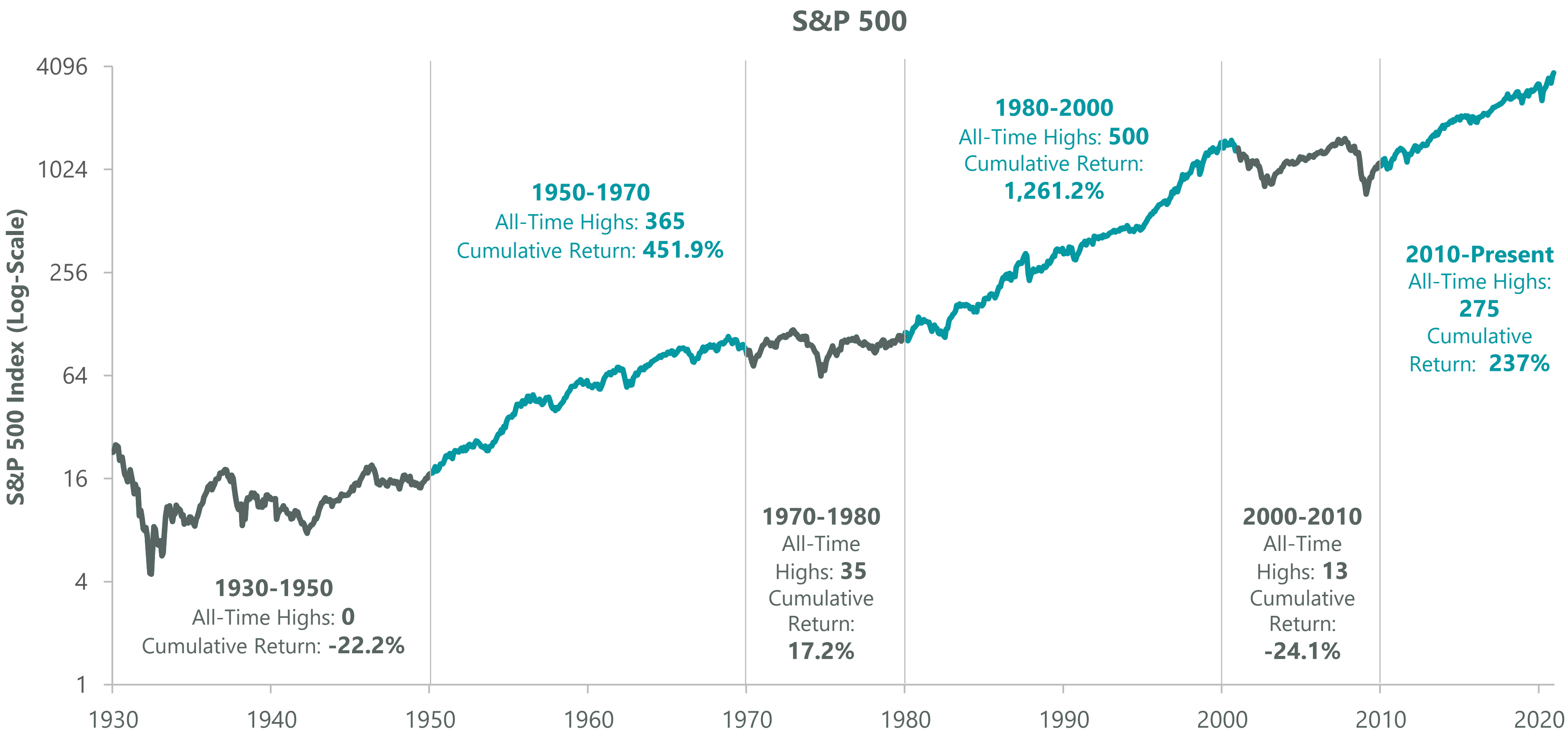
Source: FactSet, NBER. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

New Secular Bull Market?



Secular Bear: Average Drawdown -46.1%
Secular Bull: Average Drawdown -26.1%

- **In the 12 months following an all-time high, stocks have historically been up 8.6% on average with positive returns 71% of the time.**

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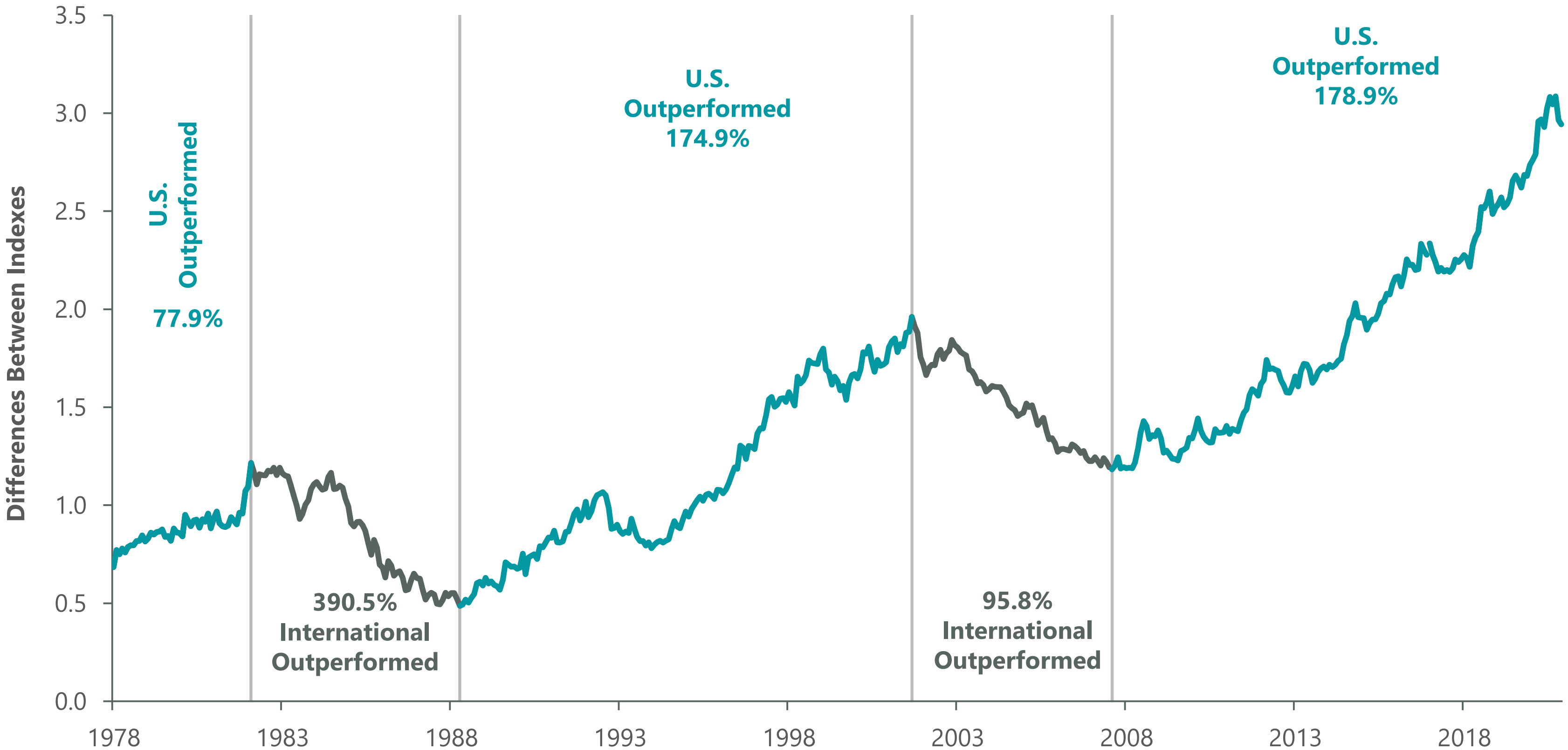
Secular bear market average drawdown includes selloff beginning September 1929. Data as of Dec. 31, 2020. Source: Bloomberg, FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

International Outlook

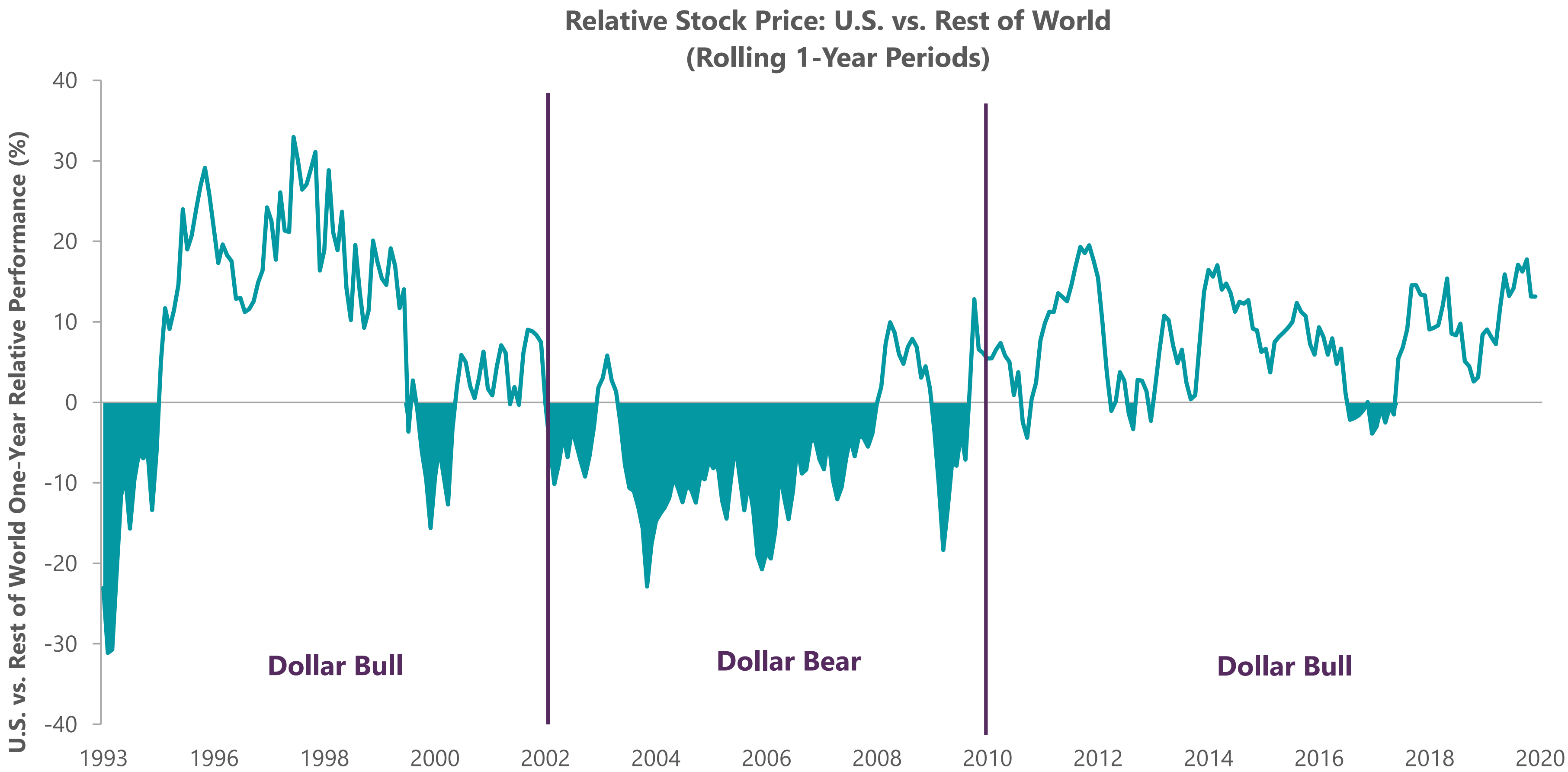
U.S. vs. International Equity Performance



Geographic leadership tends to persist for multiple years.

S&P 500 vs. MSCI EAFE. Data as of Dec. 31, 2020. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Dollar Regimes Coincide With Global Equity Leadership



- **Periods of sustained dollar strength have aligned with U.S. equity outperformance.**
- **Dollar weakness could lead to a shift in global equity market leadership.**

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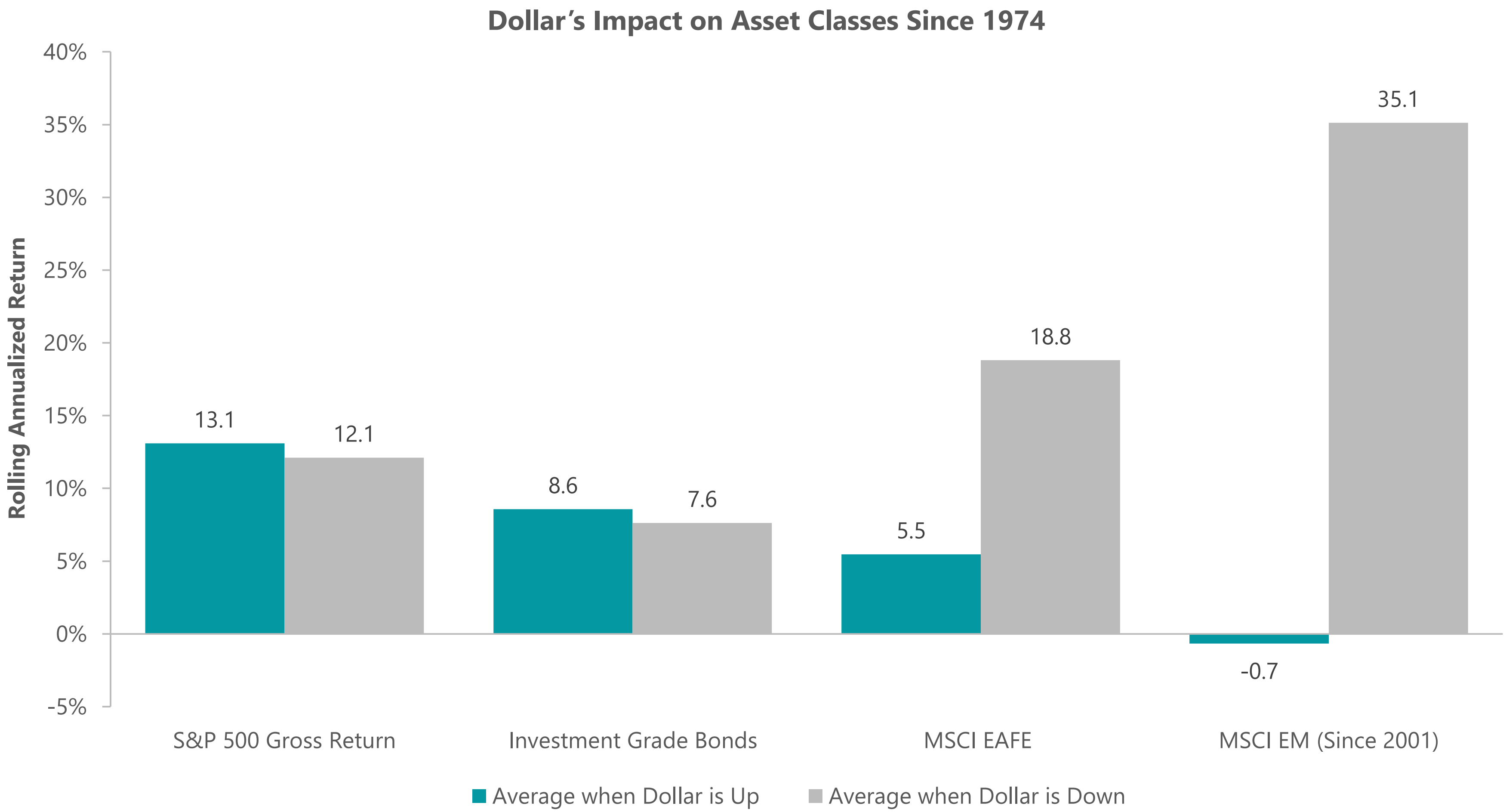
Data as of Dec. 31, 2020. MSCI U.S. Index vs. MSCI All Country World ex.-U.S. Index in U.S. dollar terms. One year rolling periods. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Weaker Dollar Supercharges Non-U.S. Stocks



▶ **International equities tend to outperform during periods of dollar weakness.**

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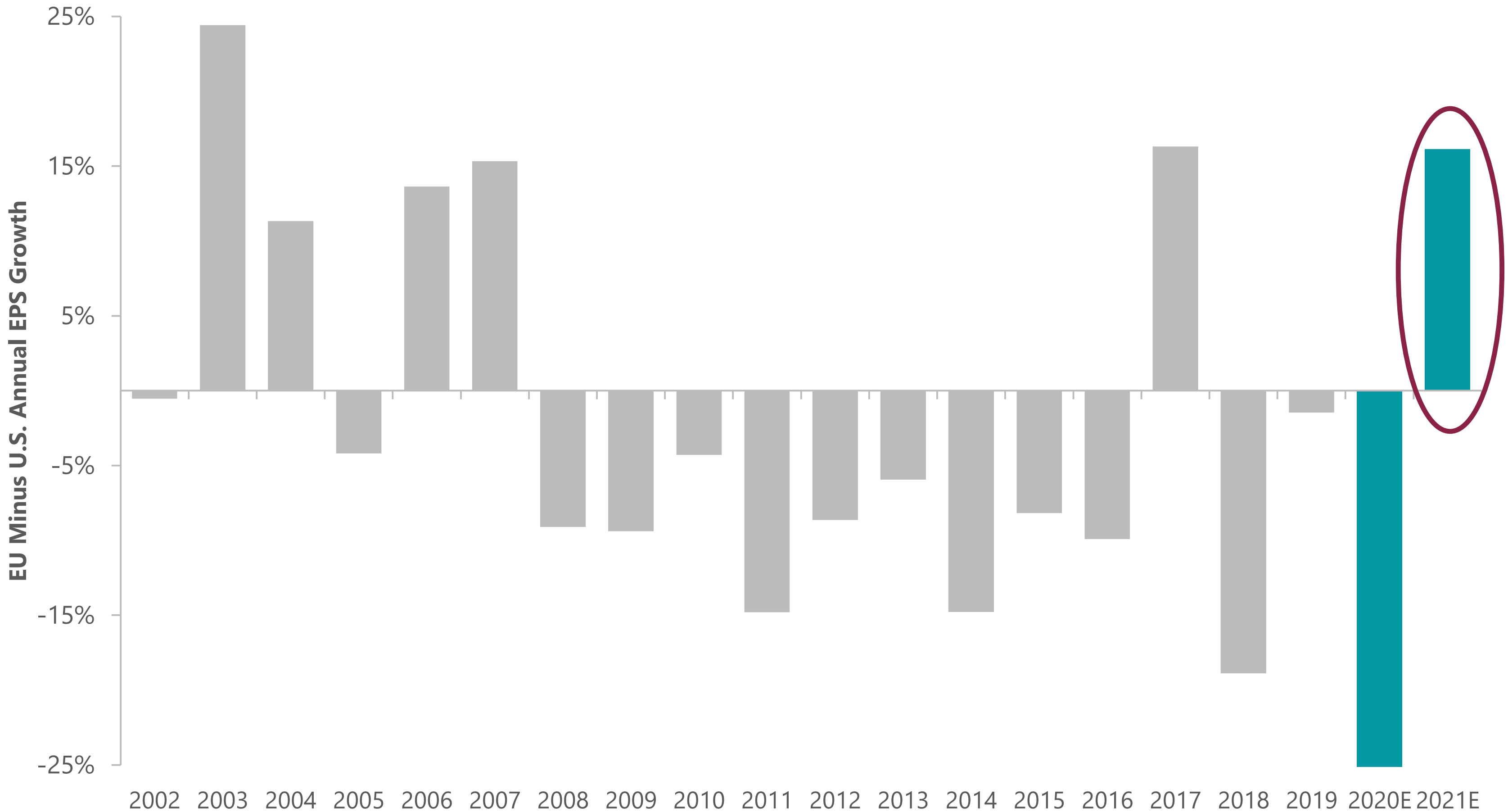
Data as of Dec. 31, 2020. MSCI EAFE and MSCI EM are net returns; MSCI EM data starts in 2001. Investment Grade Bonds refers to the Bloomberg Barclays U.S. Corporate Investment Grade Bond Index. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

European Earnings Reign Supreme

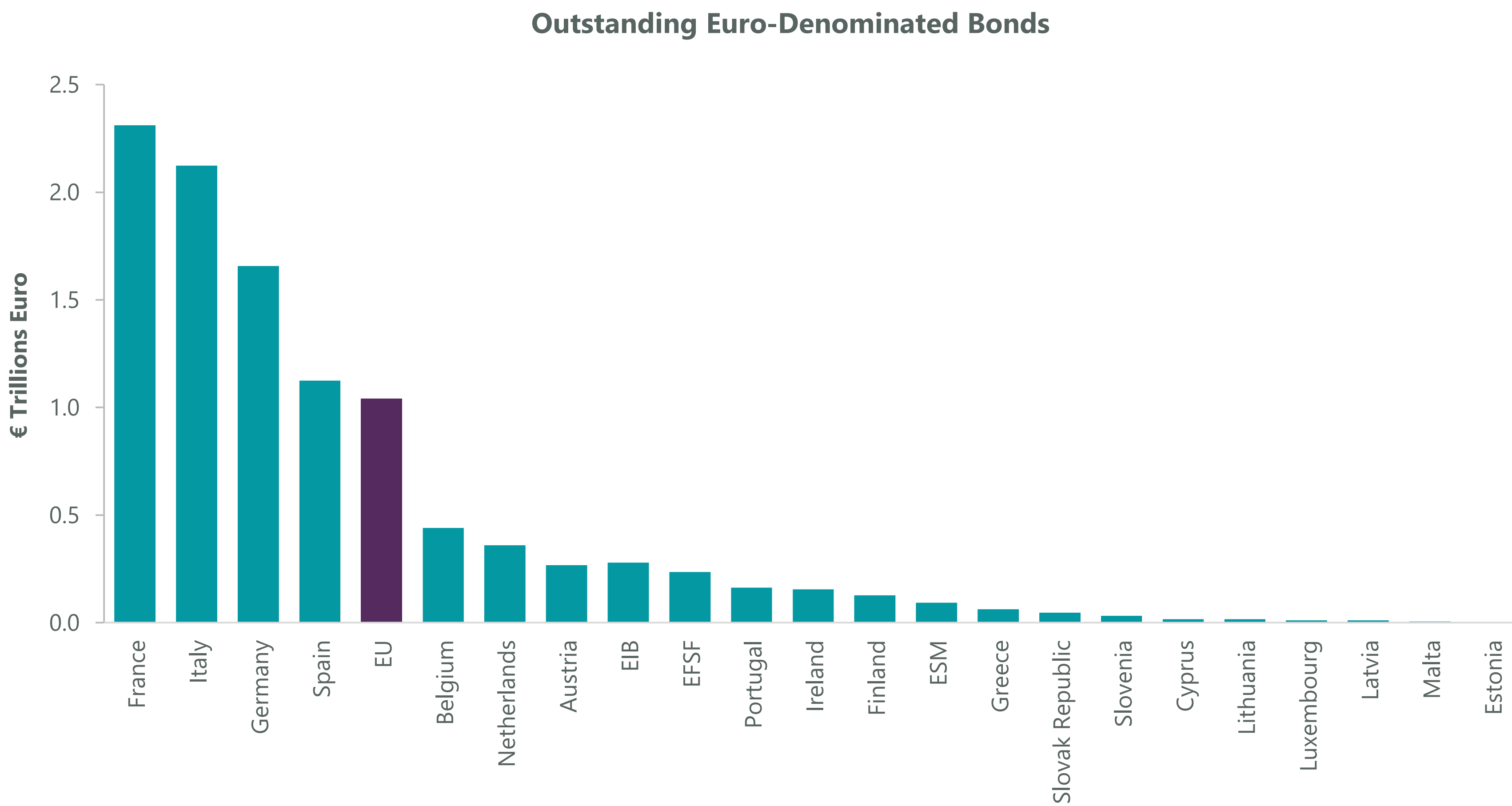


- **European EPS growth has only outpaced the U.S. once since 2007.**
- **2021 is expected to be the second time which could mark a shift in leadership.**

ClearBridge Investments

Data as of Dec. 31, 2020. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

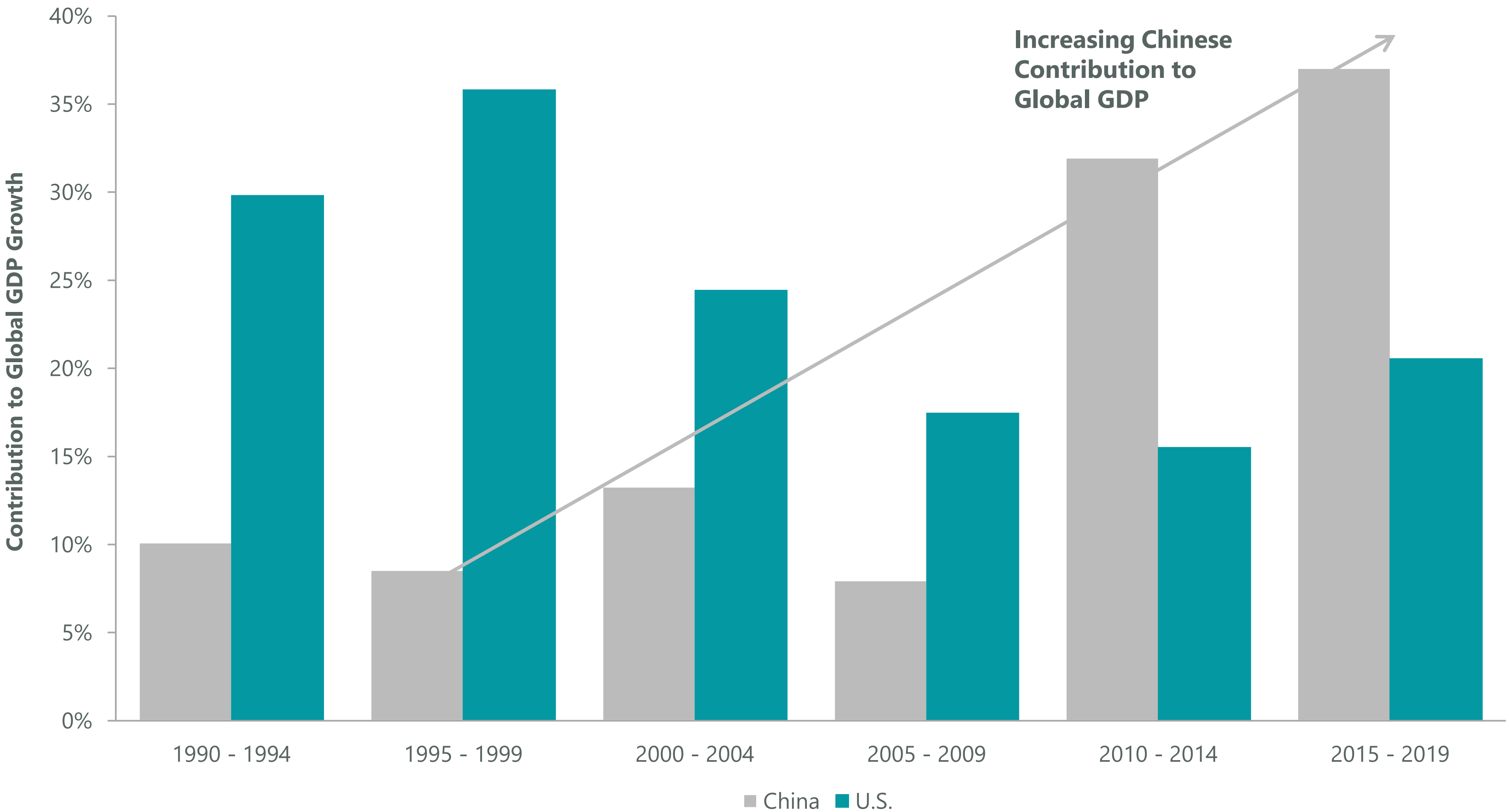
Tighter Fiscal Union, Less Risk



- **Joint issuance of Eurozone debt creates a more integrated fiscal union which bodes well for the Euro's long-term prospects.**
- **This milestone could act as a catalyst for European assets to embed lower risk premiums going forward.**

EIB = European Investment Bank,; EFSF = European Financial Stability Facility; ESM = European Stability Mechanism. Data as of June 30, 2020., latest available as of Dec. 31, 2020. Source: FactSet, Eurostat. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

The Rise of China

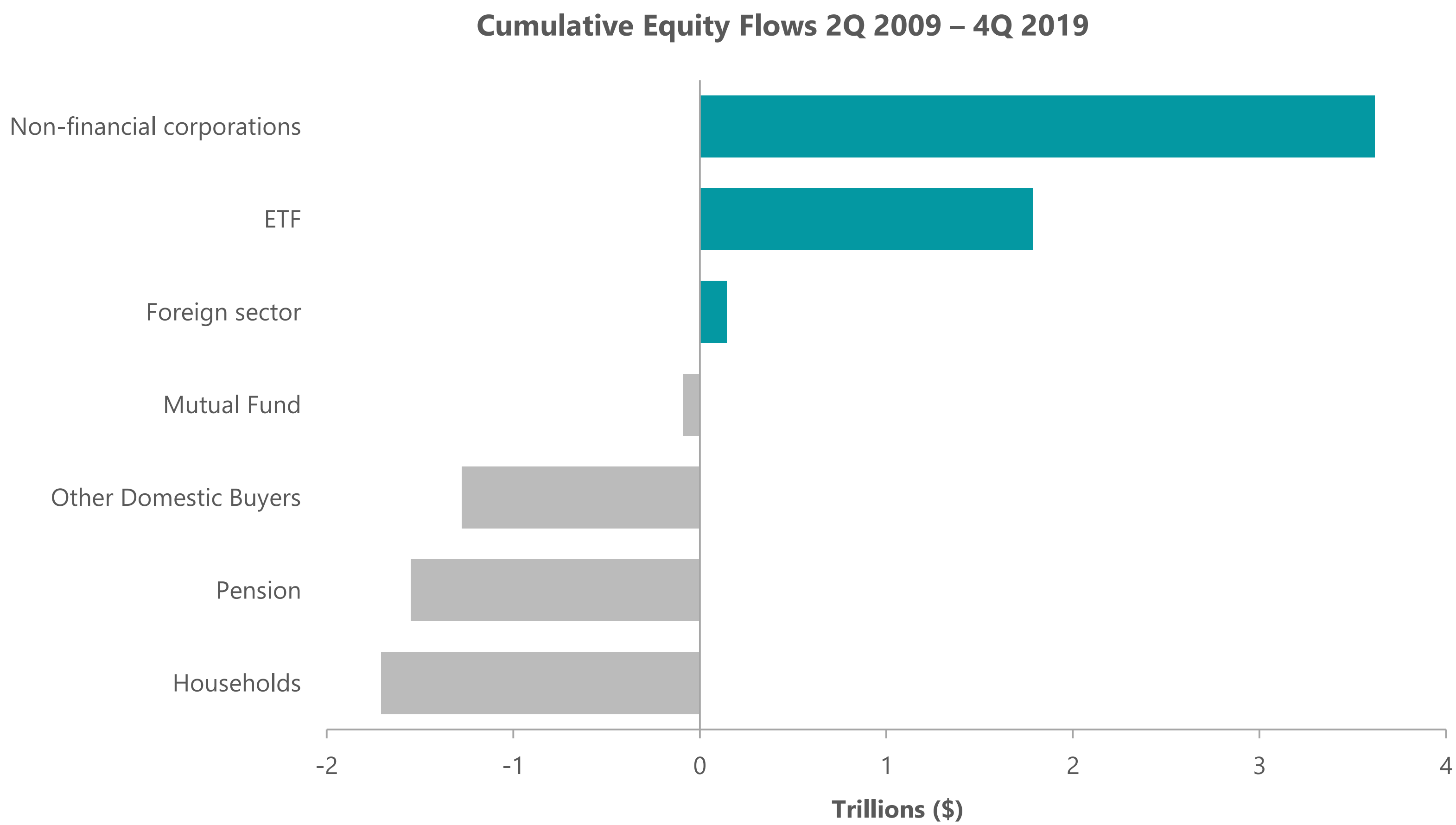


- **Over the last 25 years, China has become an increasingly important driver of global growth while the U.S. has become less integral.**
- **In 1995, China had two Fortune 500 companies compared to the U.S.'s 148. Today, China is home to 124 versus 121 for the U.S.**

ClearBridge Investments

Data as of Dec. 31, 2019, latest available as of Dec. 31, 2020. Source: World Bank. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Corporations Have Been the Largest Buyers of Equities



- **One of the key drivers over the last cycle was corporate buybacks.**
- **Buybacks could slow as corporations prioritize capex and future growth initiatives over shareholder return of capital early in the new business cycle.**

ClearBridge Investments

Data as of Dec. 31, 2019. Source: Federal Reserve Bank, Deutsche Bank. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Glossary of Terms

BEA: Bureau of Economic Analysis

Bloomberg Barclays US Corporate Investment Grade Bond Index: an unmanaged index of U.S. investment-grade corporate bond securities

Capex (Capital expenditures): corporate spending on productive assets (such as buildings, machinery and equipment, vehicles) intended to increase capacity or efficiency for more than one accounting period.

EPS (Earnings per Share): the portion of a company's profit allocated to each outstanding share of common stock.

GDP: Gross Domestic Product

GFC (Great Financial Crisis): the severe economic and market downturn experienced in 2007-2008.

DAX: Blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

IFO: The Ifo Institute for Economic Research is a Munich-based research institution.

MSCI All Country World Index: unmanaged index of large- and mid-cap stocks in developed and emerging markets.

MSCI EM Index: unmanaged index of large- and mid-cap stocks in 27 emerging market countries.

MSCI EAFE Index: unmanaged index of equity securities from developed countries in Western Europe, the Far East, and Australasia.

MSCI USA Index: unmanaged index of US large- and mid-cap equity securities.

NFIB (National Federation of Independent Business): a U.S. small business advocacy association, representing over 350,000 small and independent business owners.

NFIB Small Business Optimism Index: measure of small business sentiment produced by the National Federation of Independent Business based on its monthly survey of small business owners.

P/E Ratio: Price/Earnings ratio

PMI: Purchasing Manager's Index

Quantitative easing (QE): Monetary policy implemented by a central bank in which it increases the excess reserves of the banking system through the direct purchase of debt securities.

Shibor: Shanghai Interbank Offered Rate

S&P 500 Index: Unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S.

VIX: VIX is the ticker symbol and the popular name for the Chicago Board Options Exchange's CBOE Volatility Index, a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

Yield Curve: Comparison of interest rates at a point in time of bonds with equal credit quality but different maturity dates.

YoY: Year Over Year

U.S. Treasurys: Direct debt obligations issued and backed by the "full faith and credit" of the U.S. government. The U.S. government guarantees the principal and interest payments on U.S. Treasuries when the securities are held to maturity. Unlike U.S. Treasury securities, debt securities issued by the federal agencies and instrumentalities and related investments may or may not be backed by the full faith and credit of the U.S. government. Even when the U.S. government guarantees principal and interest payments on securities, this guarantee does not apply to losses resulting from declines in the market value of these securities.

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