Quarterly Outlook

JANUARY 2021

Tandem ETF Portfolios®
Tandem Collective Funds®

Fourth Quarter 2020

There was nothing normal about 2020, and the final quarter was no exception. Investment markets closed the year with their best quarterly performance, fueled by the arrival of multiple vaccines, the Fed's continued and substantial support, and a fresh round of fiscal stimulus. Despite a splintered economy, political dysfunction, social unrest, and virus surges, capital markets exhibited great resilience by brushing off near-term challenges and looking forward to a more robust and vibrant economy in 2021.

The economic collapse was not only remarkable for its sharp decline but for its uneven impact.

Index/Instrument	Category	Q4 Total Return	2020 Total Return
S&P 500	Large-capitalization stocks	12.14%	18.39%
S&P 400 Midcap	Mid-capitalization stocks	24.36%	13.65%
S&P 600 Small Cap	Small-capitalization stocks	31.27%	11.24%
NASDAQ 100	Large-capitalization stocks	13.09%	48.88%
Russell 2000 Index	Small-capitalization stocks	31.36%	19.93%
MSCI World ex USA	Developed markets international stocks	15.91%	8.19%
MSCI Emerging Market	Emerging markets international stocks	19.61%	18.50%
Bloomberg Barclays US Aggregate Bond Index	Investment-grade US bonds	0.67%	7.51%
Bloomberg Barclays US Treasuries	US government bonds	-0.83%	8.00%
Bloomberg Barclays US Investment Grade Corps	US investment-grade corporate bonds	3.05%	9.89%
Bloomberg Barclays US Corporate High-Yield Bond Index	US corporate high-yield bonds	6.45%	7.11%
Bloomberg Barclays US MBS Index	US mortgage-backed securities	0.25%	3.87%
Bloomberg Barclays Global Aggregate Bond Index	Global investment-grade bonds	3.28%	9.20%
Bloomberg Barclays Global High-Yield Bond Index	Global high-yield bonds	7.66%	7.03%

All major stock indices produced double-digit returns in the fourth quarter, led by small and medium-sized companies and the Energy and Financial sectors. For the year, the Nasdaq 100 led the way with strength in the Technology and Consumer Discretionary sectors. Unsurprisingly, due to the drastic decrease in economic activity across the globe, the Energy sector suffered double-digit losses for the year. Emerging markets outperformed their developed counterparts in 2020 due to the continued weakness of the dollar. Bonds performed very well, with investment-grade corporate bonds returning nearly 10% in 2020.

Investment themes prevalent during the year will continue to evolve and shape our investment decisions going forward - digitization, e-commerce, cybersecurity, 5G,

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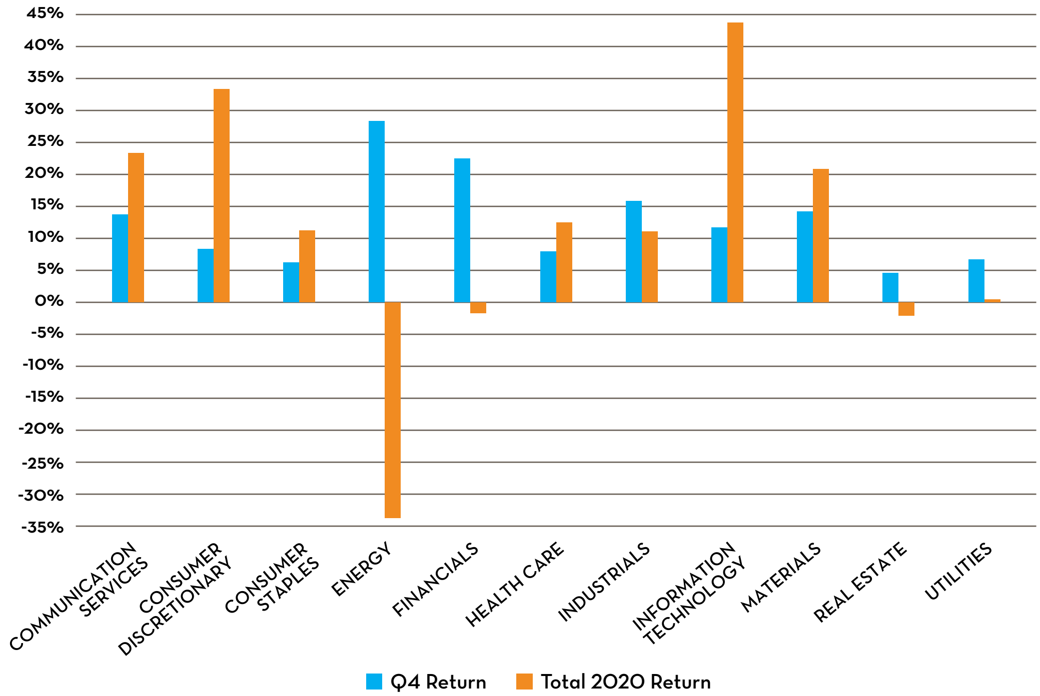
S&P 500 Sector Returns



remote work, remote health care, education delivery, and creative destruction within the energy, real estate, travel, leisure, and entertainment segments.

While scientists and essential workers were the heroes of 2020, there is no doubt that market returns achieved last year would not have been possible without the extraordinary intervention from the Federal Reserve and other central banks around the world. Central bank action healed credit markets and provided ample access to liquidity. At the Fed's December meeting, Chairman Powell pledged continued support and is expected to keep short-term interest rates near zero for the foreseeable future.

The economic collapse was not only remarkable for its sharp decline but for its uneven impact. Some industries thrived while others fell. Some people flourished while others floundered. Large companies with the best balance sheets became stronger while small businesses struggled to stay solvent. More companies filed for bankruptcy in 2020 than in any year since 2009. Lower-income Americans bore the brunt of job losses and became more economically vulnerable. In sum, the pandemic accelerated existing trends, both good and bad.

In the near term the economy remains somewhat fragile, and for various reasons, the US lags the rest of the world in our economic rebound. We ended the year with fewer jobs than when we began. During the last decade and expansion, the economy created over 22 million jobs. They were destroyed in about 8 weeks. While over half have since been regained, it will likely take some time to recover the rest.

Given the current forecast for coronavirus cases in the US and a slow vaccine rollout, we expect a weak start for the economy in 2021, followed by a stronger showing in the second half. Other risks include higher-than-expected inflation and higher long-term interest rates given the huge increase in the money supply due to the trillions of stimulus dollars infused into the economy. Also, many stock valuations reflect very optimistic earnings expectations over the next year. Due to an extreme focus on cost cutting, corporate earnings are expected to soar. Corporations must now execute to earn their lofty valuations.

With Democrats in control of both the US Senate and the presidency, we do expect incremental changes to both tax and regulation policy. Yet the markets continue to remain buoyant. A lack of sellers has contributed to market resilience but is also a reflection of the mountain of stimulus in the system and its lagged effect.

Going forward, our 2021 outlook is bolstered by less market volatility, low interest rates, continued monetary and fiscal support, a strong manufacturing economy, improved productivity, a potential infrastructure bill, and better trade relations with China. Additionally, those Americans with jobs have saved more than in the past. Pent up demand for goods, travel and entertainment combined with dry powder is expected to lead to the best annual GDP growth the US has seen in nearly two decades.