MIRACLE MILE ADVISORS

MARKET LANDSCAPE

Q3 2020

2020 Q3 OVERVIEW

Q3 Performance Summary

Quarterly Recap

With the positive momentum from the global economy restarting and people adjusting to life with COVID-19, markets have reflected this optimism along with the impact of trillions of dollars in fiscal and monetary stimulus. As a result, equity markets worldwide posted another quarter of stellar returns, the strongest two-quarter rally since 2009. While Q2 GDP showed the largest decline since WWII, current estimates for Q3 point to a rebound of over +35%. The Federal Reserve remains committed to an accommodative policy, stating that interest rates will remain near zero through the end of 2023.

Global equity markets rallied in the quarter with the MSCI ACWI returning +8.1%. In the U.S., the large-cap dominated S&P 500 gained +8.9% outperforming developed international markets (MSCI EAFE +4.8%). However, emerging market equities (MSCI EM +9.6%) outperformed all developed markets. The top performing U.S. sectors were Consumer Discretionary and Materials, while the laggards were Real Estate and Energy.

It was a coupon clipping environment for bonds this quarter with the Bloomberg Barclays Aggregate Index returning +0.6% as credit spreads tightened and interest rates remained rangebound. High quality municipal bonds performed slightly better with the Bloomberg Municipal Index up +1.2%. The credit areas of the bond market drove the bulk of returns with investment grade corporate bonds +1.5% and riskier high yield bonds +4.6%.

Looking Ahead

Monetary and fiscal stimulus measures have fueled a rise in the S&P 500 to new record highs. However, the market advance has been historically narrow, with a small number of mega-cap market leaders accounting for all of the advance in the major market indices while the rest of the market remains down for the year. The largest five stocks in the S&P 500 now account for over 24% of the index.

Looming over the market is the November election. It is perhaps surprising how little volatility this has created thus far. While Biden's tax and regulatory policies would almost certainly be less business friendly than Trump's, equity markets seem to have gotten comfortable with the prospect of a Biden win, with Goldman Sachs projecting a faster recovery under Biden. The prospect of a contested outcome remains a wildcard.

Despite challenging valuations, we remain believers in the secular growth plays, and are more likely to be buyers on dips rather than sellers on rallies.

Q3 ECONOMIC HIGHLIGHTS

- The U.S. contracted sharply in Q2, with quarter-over-quarter real GDP falling at an annualized rate of 31.7%, marking a post-WWII record decline. However, with economies around the world reopening, Q3 quarter-over-quarter GDP is projected to rebound +35.3% (Atlanta Fed's GDPNow).
- The unemployment rate fell to 7.9% in September. While this is down from a peak of 14.7% in April, total unemployment remains at depression-like levels.
- Corporate profitability also saw its second consecutive quarterly decline in Q2 with earnings falling 32% year-over-year. The profit outlook isn't improving dramatically as Q3 estimates for the S&P 500 show another drop of -21% year-over-year.
- The Federal Reserve continues to remain extremely accommodative. At the most recent FOMC meeting, the Fed announced it expects to keep interest rates near zero through the end of 2023 when it projects that employment will have recovered and inflation will have risen to above 2%.

INVESTMENT PERSPECTIVES

- **A Socially Distant Economy**. The goods and housing sectors are showing strength which should continue assuming further fiscal stimulus in the coming months. The larger service sector is improving, but the rate of recovery is slowing as rising COVID case counts prove a hindrance to re-openings. The economy will need to fully reopen, for employment to reach pre-pandemic levels.
- **K-Shaped Market Recovery**. As the economic shutdown prolongs, the recovery is taking on a "K-shape," with certain sectors (e.g., technology, housing) growing nicely, while others (travel, leisure, dining) struggle. Business failures are rising which will hinder the recovery without further stimulus and/or a faster pace of re-opening.
- **A Reduction in Political Uncertainty.** The political contest over stimulus, virus updates, and election uncertainty are driving market direction for now. While the pandemic will probably not end until we have a vaccine sometime in 2021, market volatility should decline in Q4. Historical patterns show that equity markets tend to rise after the presidential election into year-end.

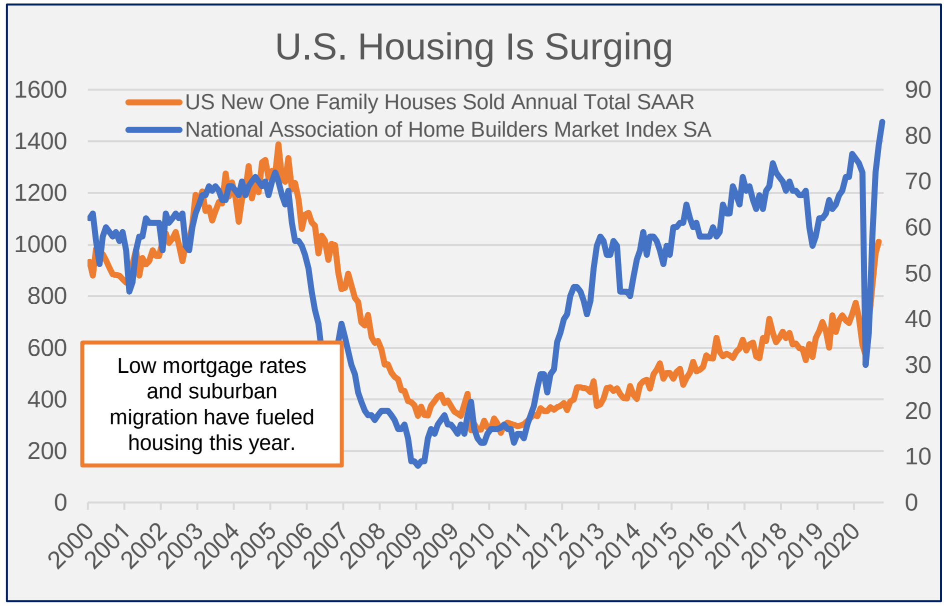
Sources: SPDR Indices, MSCI, Bloomberg Barclays, Institute for Supply Management, US Federal Reserve of Economic Data, ycharts.com

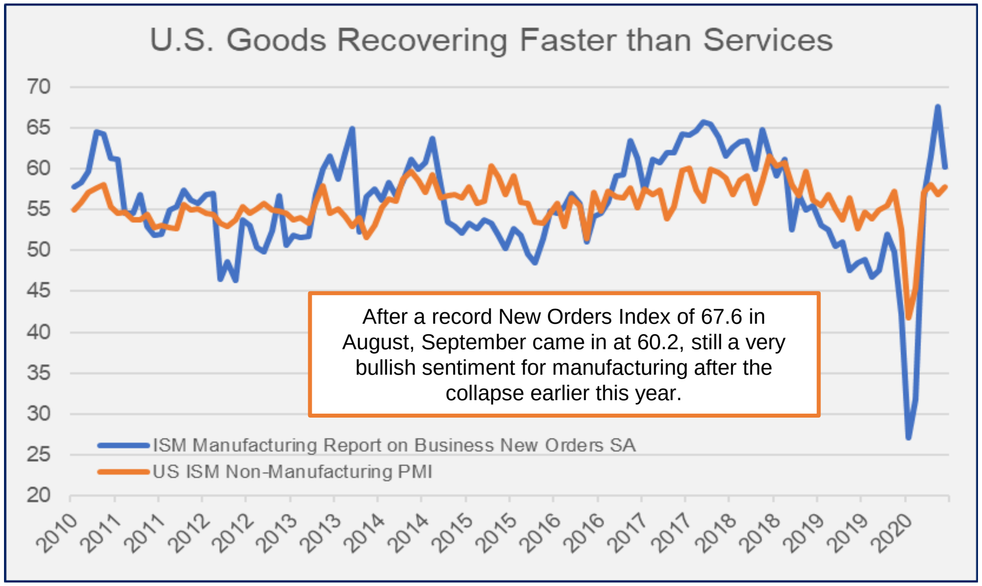
INVESTMENT PERSPECTIVES

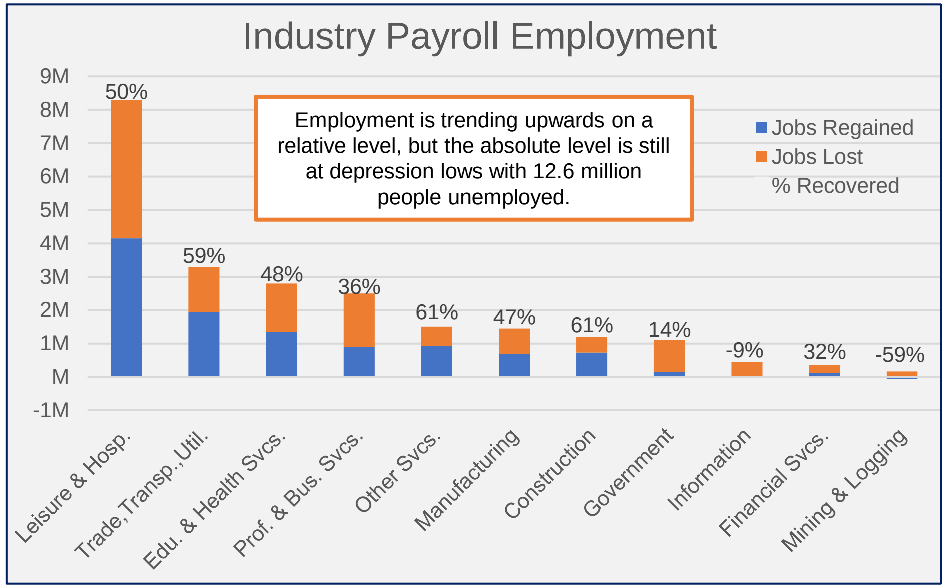
A Socially Distant Economy

- **U.S. Goods Recovering Faster than Services.** The Manufacturing New Orders Index slowed from its record 67.6 in August, but still showed a solid performance of 60.2 in September. The Services portion of the economy continues to improve, but at a slower rate than it did in Q2.
- **U.S. Housing is Surging.** Record low mortgages rates and COVID induced preferences for more space to accommodate working from home and an exodus from dense cities have created booming demand for new homes, especially in suburban areas. The average time on the market for a new home is 3.3 months, and the imbalance between supply and demand is fueling rising home prices. The housing boom has extended to home improvement-related goods and services.
- **Industry Payroll Employment.** Close to half of the jobs lost during the pandemic have been regained through the end of Q3. However, more stimulus will be needed to support companies in the various industries whose business remains well below pre-COVID levels.

Investment Outlook: **With the economy improving and further fiscal stimulus likely, we remain optimistic on the outlook for equity markets.**





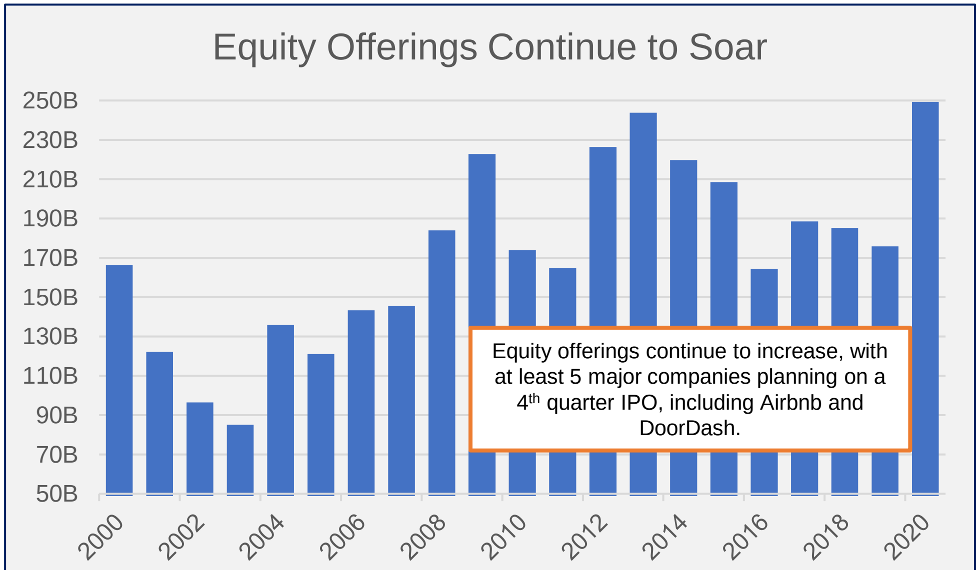


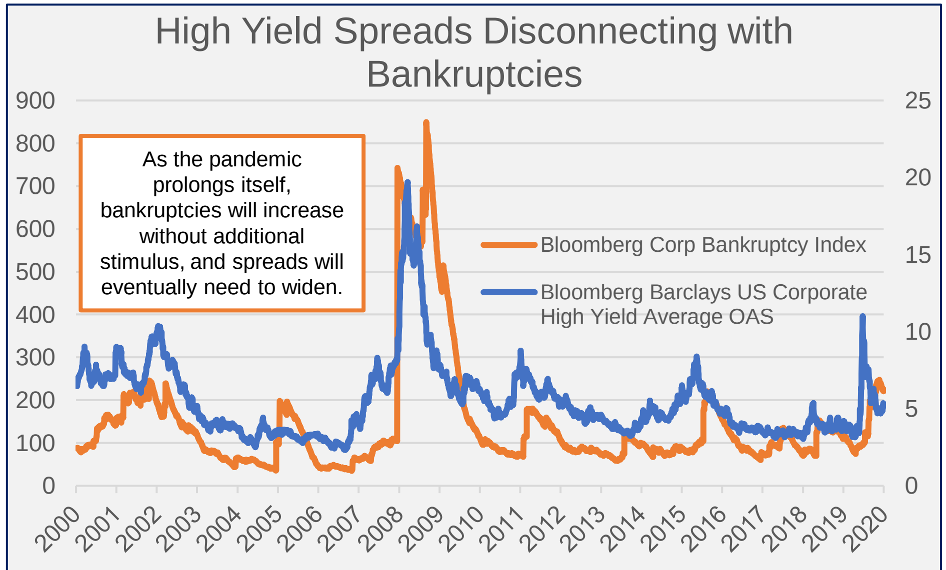
INVESTMENT PERSPECTIVES

K-Shaped Market Recovery

- **Equity Offerings Continue to Soar.** With three months still to go, equity offerings this year outpace every year since 1999. Even in this challenging economy, innovative companies are raising capital to pursue growth opportunities.
- **Growth vs. Value at All-Time High.** Growth has continued to outperform value, and market concentration is at concerning levels. An improved economy and rising rates may be needed before the relative performance reverses. In the meantime, growth company earnings are far stronger than during the tech bubble of 1999.
- **High-Yield Spreads Disconnecting with Bankruptcies.** Over the past 20 years, high yield spreads have been highly correlated with bankruptcies. With the pandemic, we expect bankruptcies to increase, but Federal Reserve backstopping of credit markets and strong equity valuations have kept high yield spreads constrained.

Investment Outlook: **Valuations that are elevated based on multiple metrics translate to challenging entry points. However, we continue to find stocks that are attractive, especially if the economy continues to improves as we expect..**



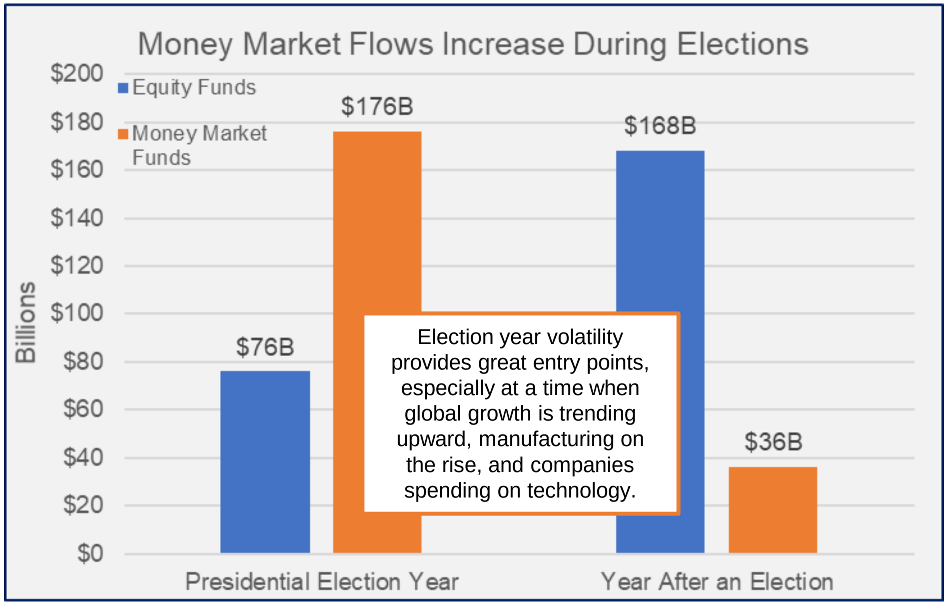


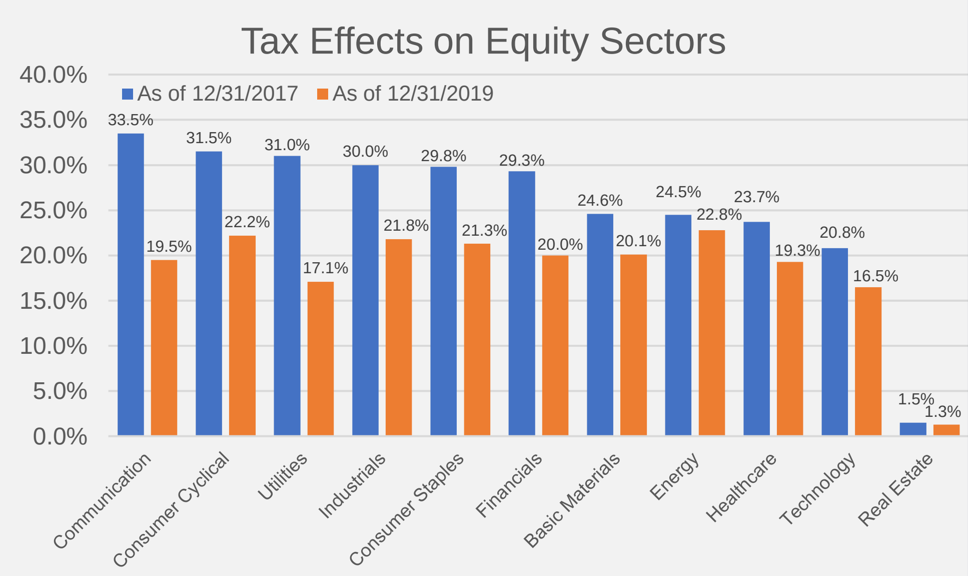
INVESTMENT PERSPECTIVES

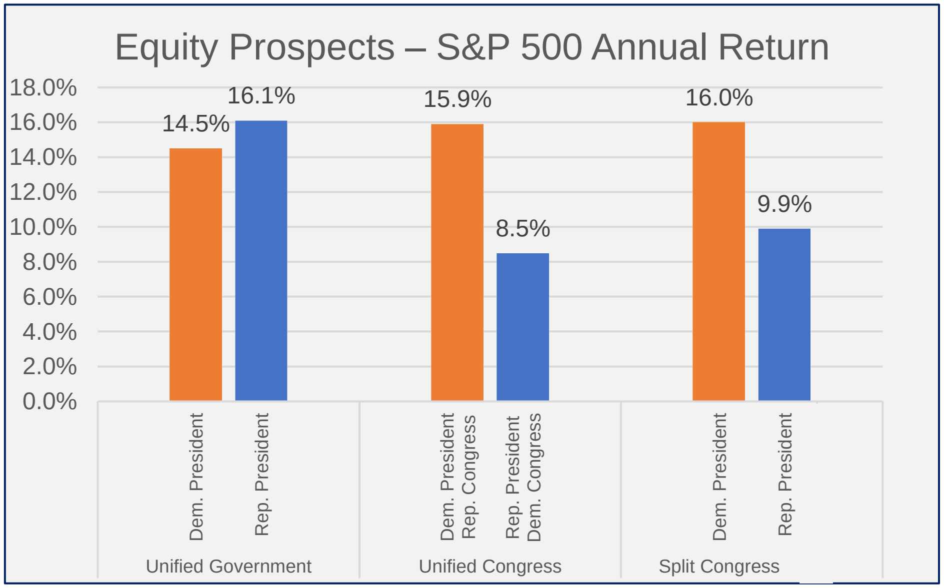
A Reduction in Political Uncertainty

- **Tax Effects on Equity Sectors.** Corporates taxes are likely to rise under a Democratic administration. However, the impact will vary significantly among sectors.
- **Money Market Flows Increase During Elections.** Due to election-related uncertainties, investors typically hold more cash on the sideline in election years. With record low interest rates, and an ongoing pandemic, finding safe yield now is difficult. With the election completed and uncertainty lowered, the sideline cash could provide more fuel for equity markets in Q4 than in most election years..
- **Equity Prospects.** Although Democrats are often thought to be bad for investors, historical patterns show otherwise. The ongoing global recovery and the prospect of bringing the pandemic under control in 2021 will likely prove more important drivers of equity markets than the business unfriendly policies included in the Democrats policy proposals.

Investment Outlook: Equity performance will be driven more by continued economic recovery and pandemic control than potential tax policy changes. Over the long run, staying invested results in better performance than attempts to trade around changes in political control.







Market Risks and Opportunities

KEY RISKS

NEAR TERM

Delay in Another Round of Fiscal Stimulus

- While negotiations on another fiscal stimulus package continue, the two sides haven't reached agreement. This impasse comes at a critical time as income support programs have largely ended. While an agreement is likely to be reached by no later than early 2021, the recovery will falter until further stimulus arrives.

Contested Election

- Market want a clear-cut winner in the presidential election. A delayed or contested outcome would likely see a spike up in market volatility.

LONGER TERM

Fiscal Health

- Due to the economic impact of COVID-19, the Federal deficit is expected to spike to 16% of GDP this year and 9% in 2021.
- The federal debt limit will need to be raised in July 2021, which work to constrain fiscal support to the economy.

Global Trade

- While markets are hoping for a reduction in trade tensions after the election, that outcome is far from assured irrespective of the outcome.
- Brexit negotiations continue to be contentious and will have a direct impact to global economic activity and trade.

KEY OPPORTUNITIES

NEAR TERM

Cyclical Sectors Tied to Global Recovery

- Manufacturing has quickly rebounded with fundamental data in that sector continuing to improve.
- With accommodative policies worldwide and the reacceleration of economic activity from extremely depressed levels, 2021 should see synchronized global growth.

Search for Higher Yields

- The Fed's commitment to lower for longer has made yield-seeking investors more receptive to income vehicles with higher embedded risk.
- Higher yielding areas, such as bank loans, preferreds, and high yield bonds remain attractive as inflows continue to support these areas of the market.

LONGER TERM

Value Stocks Offer Upside with Modest Downside

- With a stronger economy and the prospect of higher rates, investor preferences could begin to shift more towards value. For example, while out of favor this year. current valuations for financials with strong balance sheets have historically marked excellent entry points.

Technology Sector Strength to Continue

- Working from home, e-commerce, and other secular trends will continue to benefit cloud computing, Artificial Intelligence, enterprise software, and other related areas of technology. Although valuations are elevated in comparison to past norms, growth and profitability should support continued appreciation.

Q3 2020 ASSET CLASS PERFORMANCE

Quarterly Performance Summary

Asset Class	**Asset Class Performance**			
Growth	**Q3 2020**	**YTD***	**2019**	**2018**
MSCI All Country World Index	+8.1%	+1.4%	+26.4%	-10.1%
US Large Cap Equities (S&P 500)	+8.9%	+5.6%	+31.5%	-4.4%
US Mid Cap Equities (Russell Midcap)	+7.5%	-2.3%	+30.6%	-9.1%
US Small Cap Equities (Russell 2000)	+4.9%	-8.7%	+25.5%	-11.0%
International Developed Equities (EAFE)	+4.8%	-7.1%	+22.0%	-13.8%
Emerging Markets Equities (MSCI EM)	+9.6%	-1.2%	+18.4%	-14.6%
Opportunistic Yield				
High Yield (Bloomberg Barclays US High Yield Corporate)	+4.6%	+0.6%	+14.3%	-2.1%
Income & Stability				
US Tax Exempt Fixed Income (Bloomberg Barclays US Municipal)	+1.2%	+3.3%	+7.5%	+1.3%
US Taxable Fixed Income (Bloomberg Barclays US Aggregate)	+0.6%	+6.8%	+8.7%	+0.1%

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Sources: SPDR Indices, MSCI, Bloomberg, ycharts.com

*As of 9/30/2020. Performance values are the returns of the respective indices and are not inclusive of management fees: US Large Cap = S&P 500 Composite, US Mid Cap = Russell Midcap, US Small Cap = Russell 2000, International = MSCI EAFE Net, Emerging Markets = MSCI EM (Emerging Markets) Net, US Tax Exempt (Municipals) = Bloomberg Barclays US Municipal Index, US Taxable (Corporates) = Bloomberg Barclays US Aggregate Index, Cash = ICE Bank of America/Merrill Lynch US T-Bill 3 Month, Opportunistic Yield = Bloomberg Barclays US High Yield Corporate Index. Past performance is no guarantee of future results.

DISCLOSURES

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Investing in securities involves risk and the possibility of loss of principal. Investing should be based on an individual's own goals, time horizon, and tolerance for risk

Page 3:
U.S. Goods Recovering Faster than Services: The Institute for Supply Management, Ycharts
U.S. Housing is Surging: National Association of Homebuilders, Ycharts
Industry Payroll Employment: Bureau of Labor Statistics

Page 4:
Equity Offerings Continue to Soar: Strategas, Bloomberg Terminal
Growth vs. Value at All-Time High: Bloomberg, Ycharts
High-Yield Spreads Disconnecting with Bankruptcies: Bloomberg Barclays Index

Page 5:
Tax Effects on Equity Sectors: Bloomberg Terminal
Money Market Flows Increase During Elections: Morningstar
Equity Prospects: S&P Dow Jones Indices, Bloomberg Terminal