MARKET INSIGHTS
QUARTERLY

Q1 2021 REVIEW

A division of Zions Bancorporation, N.A.

NSB
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WEALTH & FIDUCIARY SERVICES

ECONOMY

The economy continued to recover from one of the worst economic contractions ever. Economic growth as measured by GDP expanded by a historic 33.4 percent in the third quarter and is on track to produce mid-single-digit-growth in the fourth quarter. However, the economy falls short of its pre-crisis levels, with GDP still 3.5 percent below where it ended in 2019. The labor market remains depressed because of the pandemic, with nearly 10 million more people out of work than at the beginning of 2020.

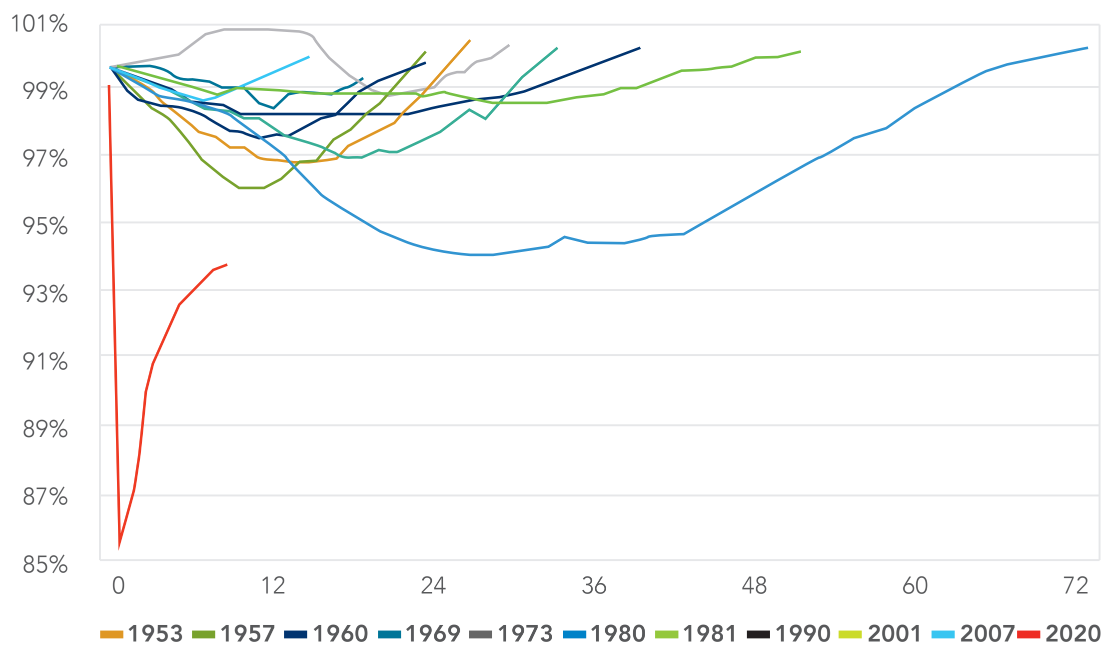
In November, payroll growth slowed to 245,000 from over 600,000 at the start of the quarter and may slow more in early 2021 as widespread virus-related restrictions continue to weigh on the economy. Retail sales decelerated in October and November, providing further evidence of a slowdown. On a positive note, manufacturing continues to exhibit strength as goods, not service, related spending proceeds as companies operate under less severe restrictions than in March – April 2020. Business investment continues to expand and is above pre-pandemic levels. Residential housing has been the bright star of the recovery.

In 2021, the economy is expected to continue its rebound, but we're not out of the woods yet. The historically fast development of a vaccine is boosting confidence that society can return to normal soon. But uncertainty about vaccine distribution and new strains of the virus continue to hold back a full recovery. The ultimate health of the economy will remain driven by the virus. In the meantime, the recently passed $900 billion stimulus bill will provide important support until a vaccine is widely distributed.

Although the first quarter of 2021 may see limited growth as virus threats persist, widespread deployment of vaccines by the middle of 2021 suggests good growth in the second half of 2021 as impacted industries could return to normal. Consensus forecasts for U.S. economic growth call for a 4.0 percent increase in 2021 overall, which is above the 2.5 percent trend growth rate of the past 10 years.

WHEN WILL THE ECONOMY RECOVER?

NUMBER OF MONTHS TO REACH THE PREVIOUS EMPLOYMENT PEAK AFTER RECESSIONS



Source: Zions Bank Analysis of Bureau of Labor Statistics Data

GLOBAL EQUITIES

U.S. stocks, measured by the S&P 500 Index, generated a 12.1 percent total return during the fourth quarter. The equal-weighted S&P 500 (+18.5 percent) gained significant ground on the market cap-weighted S&P 500 (+12.1 percent) during the quarter, a positive development of broadening market participation. Vaccine news in early November spurred a rotation within the stock market. U.S. small-cap stocks rose by over 31 percent as measured by the Russell 2000 Index. More cyclically sensitive sectors, such as energy and financials, bounced back after lagging much of the rebound since March.

Third-quarter earnings, released during the fourth quarter, exceeded expectations. Stronger-than-expected profit growth has been a key driver of the rebound in stock prices. Estimates for small-cap companies have risen sharply over the past several months. Corporate profits may reach their pre-pandemic peak by the end of 3Q21, far quicker than initially anticipated.

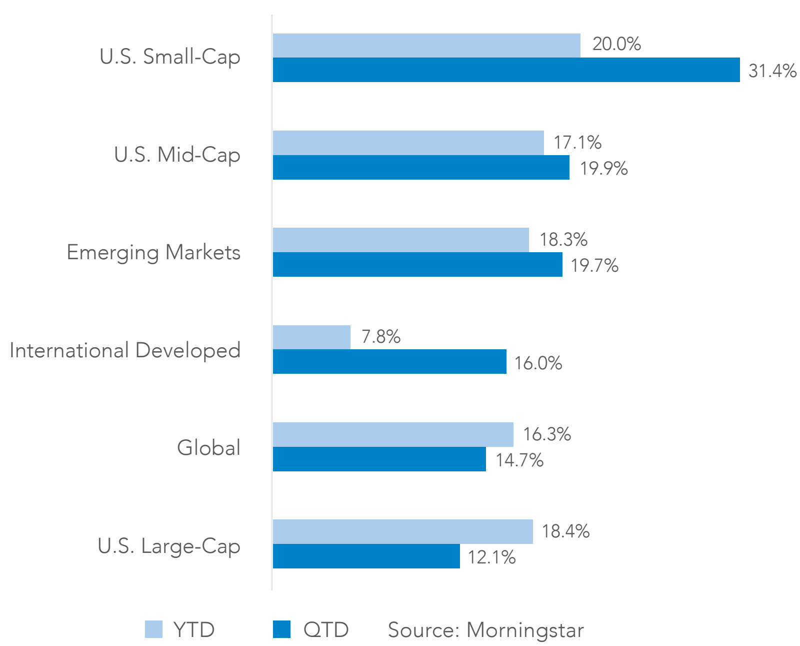
The quarter was not without volatility. Stocks fell a second straight month in October ahead of Election Day, which has historically sparked short-term volatility. Post-election, investors refocused on fundamentals. Stocks continued their powerful run into December, as optimism about the positive impact of vaccines grew.

Emerging markets (EM), fueled by China's continued economic rebound,gained over 19 percent as measured by the MSCI Emerging Markets Index for the fourth quarter and led global equity market returns. EM equities are more sensitive to improving global growth that may result from widespread vaccine implementation. With lower valuations, stronger earnings expectations, and the potential for a weaker dollar, EM stocks remain attractive. Developed international stocks increased 16 percent for the quarter as measured by the MSCI EAFE Index but trailed the U.S. and emerging market equities for the full year.

The impressive bounce-back of global equity markets since the March 23, 2020 low is one of the strongest on record. But that does not preclude additional gains. Since 1960, equity rallies following a 25 percent or more stock market decline have typically continued into a second year. These periods were subject to corrections of almost 10 percent on average, reminding investors that volatility is normal.

A key investing lesson reiterated in 2020: stay invested! Staying invested and re-balancing your investment portfolio during periods of volatility remains a recipe for long-term success. Diversification was another key lesson. While technology and stay-at-home beneficiaries led the stock rebound, November witnessed a notable rotation to more cyclical (economically sensitive) sectors, such as financials and energy and small-cap stocks. Such rotations are almost impossible to time and reiterate the need to maintain diversification.

EQUITY PERFORMANCE



FIXED INCOME

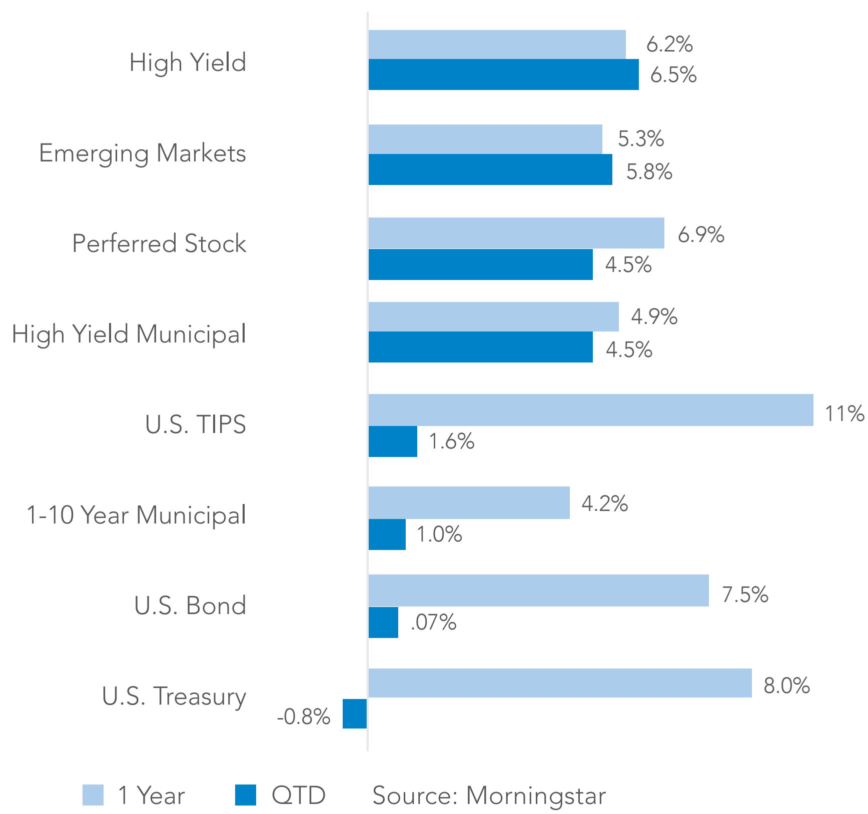
During the fourth quarter, the 10-year U.S. Treasury yield broke out from its six-month trading range and approached 1 percent, its highest level since the onset of the COVID-19 crisis. Bond markets are ignoring the near-term impact of restrictions on the economy and setting pricing for stronger growth for the second half of 2021. The yield curve, measured by the yield differential between the 10- and 2-year Treasury yields, has continued to increase and further reflects the bond market pricing in better growth.

More economically sensitive sectors, such as high-yield and emerging-market bonds, outperformed Treasuries over the past few months over the fourth quarter—another sign that investors anticipate stronger growth in 2021. Average yield advantages, or spreads, for each sector to comparable Treasuries, narrowed but remain above pre-pandemic levels.

The tax-exempt municipal bond sector improved over the final two months of 2020. Record issuance ahead of the Presidential election pressured the sector as investors struggled to absorb the supply. Although higher taxes (and a potential catalyst for municipal valuations) associated with a Biden presidency failed to materialize due to a divided government, municipals still managed to outperform Treasuries over the final two months of 2020. A sharp, post-election drop-off in supply was the primary driver. The improvement in state and local revenues also alleviated credit quality fears and was a tailwind for high-yield municipal bonds.

Overall, high-quality bond yields remain near historic lows and suggest future returns lower than what investors experienced in 2020. Nonetheless, bonds still play a key diversification role in investment portfolios as a buffer against stock market declines.

FIXED INCOME PERFORMANCE



ALTERNATIVE INVESTMENTS

For the second consecutive quarter, all four HFRX sub-indices generated positive returns with Equity Long/Short managers lead with a 7.8 percent total return according to HFRI Index data. Equity Long/Short managers are positioning for more growth with equity exposure levels near historical highs. Among hedge funds, average views on equities, both developed and emerging, turned more positive while the outlook for fixed income more cautious.

MASTER LIMITED PARTNERSHIPS (MLPS)

Extreme valuations, corporate cost-savings actions (operating cost and capital expenditure reductions) and the potential for midstream companies to begin repurchasing their equity served to support strong returns for MLPs during the fourth quarter. The potential "Blue Wave" from the U.S. Presidential election and the stagnation of worldwide crude oil demand did not materialize, though both had the potential to serve as near-term headwinds. The combination of positive earnings results, balance sheet improvements and buyback announcements coupled with an improving 2021 economic outlook further buoyed the sector.

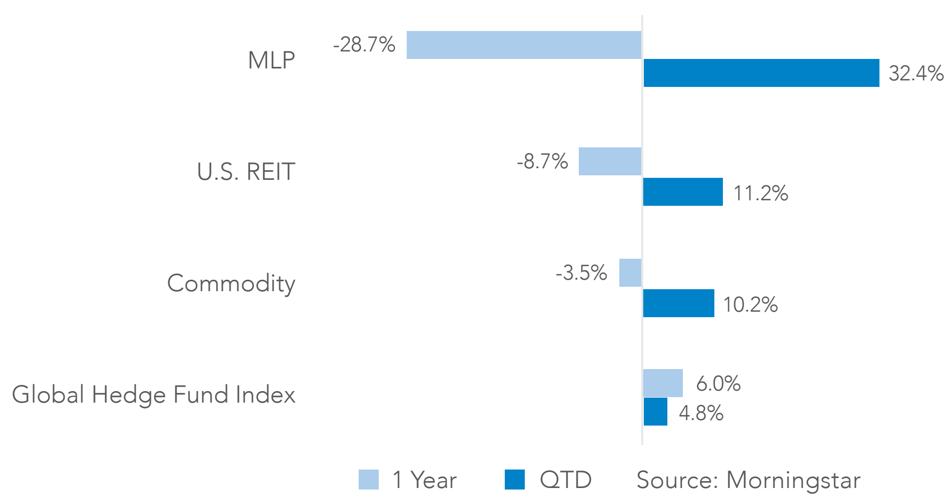
REAL ESTATE (REITs)

U.S. REITs began the fourth quarter down but rebounded strongly in November because of positive vaccine news that continued into December. Some of the most hard-hit sectors affected by virus restrictions, hotels,shopping centers,malls and office properties led the rebound during November and into December. Despite the rebound, these four sectors were still down meaningfully for the full year.

COMMODITIES

Commodities likewise benefited from positive vaccine news, as better economic growth expectations appear to boost demand. Oil prices increased while base metals outperformed precious metals reflecting investors' preference for assets that benefit from a cyclical recovery. The U.S. dollar declined an additional 4.2 percent during the fourth quarter because the passage of more fiscal stimulus increases the budget deficit. For the full year, the U.S. dollar declined 6.7percent. The price of gold was roughly unchanged over the fourth quarter but still finished the year with its strongest performance since 2010.

REAL ASSETS AND ALTERNATIVE INVESTMENTS PERFORMANCE



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