WINDWARD CAPITAL
Risk Averse Asset Management

2020 Fourth Quarter Review

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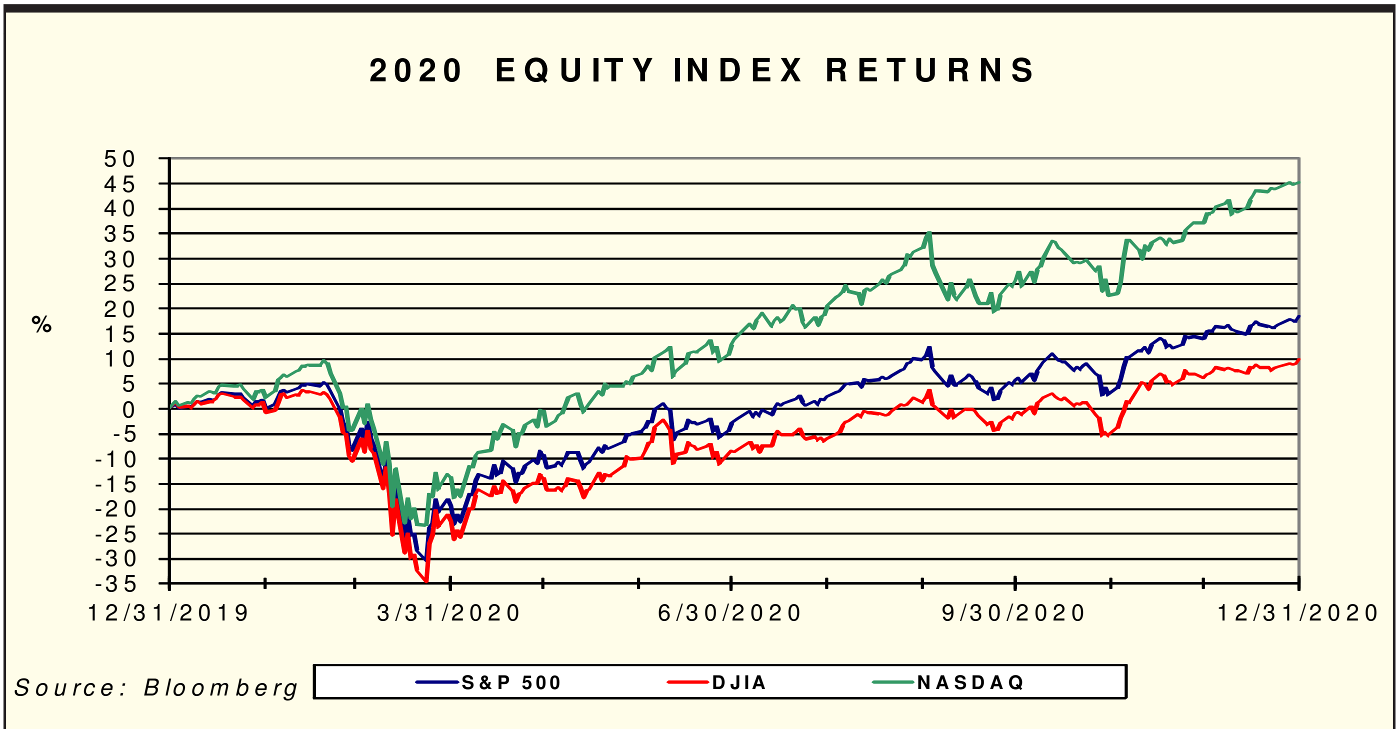

Unprecedented

"We shall nobly save, or meanly lose, the last best hope of earth."

—Abraham Lincoln (1809 - 1865)
Annual Message to Congress
December 1, 1862

The major U.S. equity market indices continued their advance off of the March lows during the Fourth Quarter of 2020, with the Standard & Poor's 500 Index (S&P 500), Dow Jones Industrial Average (DJIA), and NASDAQ Composite Index (NASDAQ) returning +12.14%, +10.73%, and +15.67%, respectively, for the period. As a result, for 2020 Year-to-Date, the S&P 500, DJIA, and NASDAQ have returned +18.39%, +9.72%, and +45.06%, respectively—a dramatic recovery from the approximately 30-36% declines experienced from February's highs to the depth of the March lows. In fact, the major U.S. equity market indices reached new, historic highs during the Fourth Quarter.

Despite an increase in the recent global intensity of the coronavirus (SARS-CoV-2 or COVID-19) pandemic, these positive financial market trends appear to be primarily related to recognition of a bottoming of the U.S. economy and optimism regarding the future outlook—especially given the discovery of several effective coronavirus vaccines. The bullish sentiment among investors continues to be predicated upon strong monetary and fiscal policy support amid significant uncertainties regarding the extent and speed of the economic recovery. As a result, despite the dramatic recovery in the equity markets, we anticipate ongoing volatility as financial market participants wrestle with what we believe will be an uneven global macroeconomic recovery due to the lingering effects of the coronavirus pandemic and a potentially uncoordinated political, societal, and logistical response to its mitigation.

As we have discussed previously, the economic effect of the coronavirus pandemic is different from that of previous financial crises: this is, at its essence, a health crisis, not a credit crisis or burst asset bubble. The recent global macroeconomic downturn is not due to an endogenous event: this is an exogenous shock that has resulted in a conscious effort on the part of governmental authorities to artificially freeze parts of the economy as a medical intervention in order to slow down the spread of the coronavirus. That strategy should be viewed positively because responsive and appropriate monetary and fiscal policies can alleviate the negative economic side effects of this "treatment" until health authorities are successful in their coronavirus mitigation efforts.

Although the depth and duration of the pandemic's impact on the world economy remains unknowable and may differ on a country-by-country basis, we remain confident that global health authorities will eventually succeed in controlling the spread of the coronavirus—especially now that effective vaccines have been developed. Despite these best efforts, however, we expect that the tragic loss of life will continue for some time, and businesses—from small to large—will be disrupted to varying degrees over both the short and the long term: corporate bankruptcies, restructurings, and consolidation appear inevitable for some. In the interim, monetary and fiscal policy measures will mitigate a significant amount of the economic impact.

It should be remembered, however, that financial markets are "discounting mechanisms" and, as such, will continue to look ahead toward an economic recovery—the shape of which remains indeterminate at this time but is, in our opinion, currently in progress. Relieving the disruptions in the credit markets and restoring the flow of credit to households and businesses are essential to the resumption of sustainable economic growth. In addition, it is important for the government to help fill the gap created by the drop in consumer spending and temporary business shutdowns. Finally, and most importantly, the negative health impacts of the coronavirus must be mitigated. These policies—monetary, fiscal, and health—represent the three legs of a stool that is necessary for supporting the U.S. economy's return to prosperity reasonably quickly.

We believe that the risk associated with any hiccups in the recovery and any resultant financial market volatility is mitigated in *Windward* portfolios—especially over the long run—to a large degree by the fact that we are invested in "high quality," dominant, financially-strong, leading companies with best-in-class managements, high incremental returns on invested capital, and business models with sustainable competitive advantages. As a result, we believe that, on the whole, the businesses in our portfolios will survive this crisis and continue to prosper. Consequently, during this period we have not raised cash nor made any significant changes to the investments held in *Windward*'s portfolio strategies.

Despite the seriously disturbing and despicable nature of recent U.S. political events—including the social unrest that led to the deadly insurrectionist domestic terror attack on the Capitol of the United States on January 06, 2021—the uncertainty associated with the outcome of the U.S. Presidential and Congressional elections has now been definitively resolved. However, because the underlying issues associated with this political turmoil may persist for some time, we are unable to confidently make any authoritative assertions regarding the impact of these events on the geopolitical and global macroeconomic outlook, much less the financial markets. As you know, as investors, we remain politically agnostic in evaluating the economic and corporate impacts of public policy. That is the reason why we would prefer to analyze the actual legislative mandates and policies that are enacted by the Biden Administration and determine their long-term implications before considering whether any changes to the current investments in *Windward*'s portfolio strategies are warranted. We will continue to monitor domestic and international political and economic developments as they unfold.

Miracle Drugs

As we noted during the onset of the coronavirus pandemic, science remains the most powerful tool that we possess to contain it. The "scientific method" (by definition) requires discipline, rigor, and intellectual honesty. As a result, it is critical to rely on scientific experts—not politically-motivated commentators, "snake oil" salesmen, or people who masquerade as scientists. We are neither epidemiologists nor virologists—and we do not profess any expertise in those areas. We defer to and are reliant upon the research of scientists and healthcare professionals to guide this discussion. We always remained optimistic that—given the unprecedented and extraordinary global scientific talent and financial resources being devoted to combating this coronavirus—their efforts would ultimately prove successful via the development of vaccines and/or therapeutics.

Indeed, on December 11, 2020, the U.S. Food and Drug Administration (FDA) issued an emergency use authorization (EUA) for a COVID-19 vaccine developed by Pfizer and its German partner, BioNTech. This was followed exactly one week later by an EUA for another vaccine developed by Moderna. Both vaccines have approximately 95% efficacy and are made using similar approaches: injecting messenger RNA (mRNA) encased in lipid nanoparticles into an arm muscle in two doses. The mRNA is, in effect, a recipe that instructs cells how to make the SARS-CoV-2 virus' spike protein—its presence teaching the immune system to recognize the virus as an invader. These vaccines were developed at breakneck speed supported through incentives provided by President Trump's Operation Warp Speed initiative. A number of other COVID-19 vaccine candidates are still in clinical trials, including those being developed by Johnson & Johnson (which is developing the only single-dose vaccine), AstraZeneca, and Novavax.

The speed at which these vaccines have been developed is remarkable, both in absolute terms and compared to the multiyear time frame it normally takes to create and approve new vaccines. Great credit is due to the pharmaceutical industry and the university and government scientists who have worked directly and diligently on COVID-19 vaccine programs in the U.S., Europe, and elsewhere. They deserve accolades for their skillful hard work. But the COVID-19 vaccines did not come from out of nowhere. Decades of research by tens of thousands of scientists worldwide, along with technological advances in immunological techniques, combined to provide the essential knowledge and methods that underpinned their rapid development.

FDA officials have indicated that, while the vaccines reduce the risk of developing symptomatic infection, it is not yet clear whether it also reduces transmission of the virus that causes the disease. The FDA will not have data on how the vaccines impact viral shedding and transmission for several months, when further clinical and observational studies are expected to be completed. As a result, health experts stress that, even with vaccines, this is a time for people to redouble their commitment to the public health measures that have been shown to keep people safe (i.e., wearing face masks, hand washing, physical distancing, and avoiding crowds in enclosed spaces) as we push through to the end of the pandemic—essentially, that we need to try to keep as many people healthy and alive as possible as the vaccine rollout progresses. Officials also say that, in many places, the virus is so widespread that it is prudent to enact policy changes limiting certain businesses and gatherings. Cases had already been soaring in the U.S. during the Fall, but now healthcare systems are facing an additional surge from the holidays combined with a more easily transmissible variant of the virus. This has resulted in daily records in positive cases, hospitalizations, and deaths.

It is a strange moment in the pandemic, particularly in the U.S. The vials of vaccine rolling through supply chains embody real promise: a glimpse of a future that resembles life before masks, distancing, and holidays spent apart. But it will be months before enough people have been vaccinated to make a dent in the U.S. outbreak, let alone to wind down the pandemic. Meanwhile, millions of people will continue to contract the SARS-CoV-2 virus, a portion of whom will get so sick that they will eventually be hospitalized and potentially die.

While vaccines alone will not immediately change those statistics, this is clearly a seminal moment in the effort to curb the coronavirus pandemic and return to a semblance of normalcy. Although there will be initial issues associated with limited vaccine supplies, logistical distribution, administration, and inoculation—as well as issues dealing with behavioral reluctance on the part of some to take the vaccine—we believe that these challenges will be met successfully in the coming months and that prevalence of the virus should decline sharply in the Spring and Summer.

For all of the uncertainties that remain ahead for COVID-19, many experts agree that the virus will never be completely eradicated. Vaccines and therapeutics will mitigate severe cases and make the coronavirus easier to live with. Nevertheless, although the virus itself is likely here to stay, the end of the pandemic appears at hand.

A Penny Saved

The challenge for financial market participants in 2021 will be whether to get caught up in the near-term pessimism stemming from the recent exponential surge in COVID-19 or to maintain a focus on the optimistic outlook surrounding the medium and long terms. As you know, our investment approach focuses on the long term.

In the near term, there will likely be continued downward pressure on Consumer Services spending (particularly in the leisure and hospitality industries) as behavior changes and State and local restrictions on activity intensify in response to the rising number of coronavirus cases, hospitalizations, and deaths. Still, there are four important points to remember when considering the near-term outlook. The first is that the downward pressure will be less severe than the indiscriminate shutdowns of this past Spring. The second is that, like it or not, now that we are well beyond the possibility of suppression, there is a tradeoff between the pandemic and the economy. This means that, when the current pandemic surge levels off and starts reversing, behavior and restrictions will shift again, and activity in currently-impacted sectors will pick back up. The third point is that, once the downside of the current surge is reached, vaccines should ensure that there will not be another large upward surge lurking in the future. As a result, this should (hopefully) be the last period of the worst of the pandemic. The fourth and most important point is that, as we discussed with you in detail in our *Windward Capital 2020 Third Quarter Review*, the U.S. economy is on a better economic footing than the consensus commonly believes: this should lead to a stronger-than-expected post-pandemic recovery.

Data from the National Income and Product Accounts of the U.S. Bureau of Economic Analysis captures how Americans earn and spend money, two activities that the coronavirus drastically altered in 2020. By combining the numbers from March through November (the latest data available), and comparing them with the same period in 2019, we can see more clearly the pandemic's economic effects.

On the earnings side of the equation: Salaries and wages fell less, in the aggregate, than expected. Total employee compensation was down only –0.5% year-over-year for those nine months—which is more similar to the impact of a mild recession than an economic catastrophe. That result might seem counterintuitive given that significant portions of the U.S. economy have been shut down, and millions of people remain out of work. However, the millions of people unemployed because of the pandemic are disproportionately in lower-paying service jobs. Higher-paying professional jobs have been less affected, and a handful of other sectors have been booming, such as warehousing, delivery, and grocery stores, leading to higher incomes for those workers. As a result of this employment mix issue, wages, salaries and other forms of workers' compensation dropped only minimally during the pandemic despite significant aggregate mass unemployment.

In addition, the CARES Act that Congress passed in late March (which we discussed with you in detail in our *Windward Capital 2020 First Quarter Review*), provided extraordinary income support, especially to the unemployed. Americans' income from unemployment insurance benefits was 25 times higher from March through November 2020 than in the same period of 2019. Obviously, this reflects the fact that millions more people were seeking jobless benefits, but it also reflects a $600 weekly supplement to those jobless benefits that the Act included through late July—along with a program to support freelance and contract workers who lost jobs and who otherwise would have been ineligible for benefits. In total, unemployment insurance programs pumped $499 billion more into Americans' pockets from March to November than the previous year—$365 billion of it a result of the expansion in the CARES Act.

The $1,200 checks to most American households that were also included in that legislation contributed a further $276 billion to personal income—much of which accrued to families that did not experience a drop in earnings.

And the law's signature program to encourage businesses to keep people on their payrolls, the Paycheck Protection Program (PPP), prevented a collapse in "proprietor's income"—profits that accrued to owners of businesses and farms. Although this income rose narrowly (by $29 billion), it would have fallen by $143 billion if not for the PPP and a coronavirus food assistance program.

In addition, on December 27, 2020, President Donald Trump signed into law a $2.3 trillion year-end spending bill, which included an additional $900 billion coronavirus rescue package. The bill directs $286 billion to workers and households ($120 billion in unemployment insurance and $166 billion in economic impact payments), sends one-time $600 payments to adults and children in January 2021, and provides an extra $300 in benefits per week to the unemployed, in addition to other support items. (For details regarding the Coronavirus Response and Relief Supplemental Appropriations Act of 2021, please see the description at the end of this *Quarterly Review*.) It remains to be seen how successful the incoming Biden Administration will be in pursuing additional fiscal stimulus measures.

The amount of fiscal support provided in response to the coronavirus is truly unprecedented in U.S. history. As a result—not including the most recent fiscal aid package—Americans' cumulative after-tax personal income was $1.03 trillion *higher* from March to November of 2020 than in 2019, an increase of more than +8%. (Much of the misplaced financial market pessimism during the Spring 2020 downturn reflected a failure to understand just how large and influential those stimulus payments would turn out to be.)

But income is only part of the equation: significant changes in 2020 also occurred in terms of household spending. Obviously, there was a decline in spending on Services: all of those restaurant reservations never made, flights not taken, sports and concert tickets not bought, hotels not stayed at, etc. As a result, Services spending fell by $575 billion, or nearly –8% year-over-year, from March through November. A portion of the monies not spent on Services were instead spent on Goods: durable goods spending was up by $60 billion, while nondurable goods spending rose by $39 billion during the period. In addition, because of lower rates, households' personal interest payments and other miscellaneous outlays dropped by $59 billion during the period. Overall, total outlays fell by $535 billion from March through November 2020 compared to the same period of the previous year.

This combination of soaring personal income and falling spending pushed Americans' savings rate dramatically higher. Normally, the savings rate fluctuates within a narrow range and was around 7% just before the pandemic. It spiked to 33.7% in April 2020, its highest level on record dating to 1959. As a result, from March through November, personal savings was $1.56 trillion higher than in 2019, a rise of +173%—and this amount should go even higher after the recent fiscal aid package is disbursed.

Under the right set of circumstances, the current $1.5+ trillion in household savings could serve as kindling to fuel an advance in U.S. GDP over the next few years that may reach new, all-time highs.

With COVID-19 cases surging again, it is understandably hard to look optimistically to the other side of this

Winter. Although it is possible that we could see some economic softness over the next few months, it is important to not let the near-term challenges distract from the economic opportunities that should play out over the next several years.

'flation?

With a new fiscal package to support the U.S. economy through the Winter and the prospect of households unleashing substantial pent-up demand in 2021, the possibility of increased inflationary dynamics is a potential market risk. However, we do not expect the U.S. Federal Reserve (Fed) to tighten monetary policy this year in response—even if select inflation data come in higher than central bankers are forecasting—because of the change to the Fed's operating framework that we discussed in detail in our *Windward Capital 2020 Third Quarter Review*.

As we have discussed with you over the years, the last decade has challenged the Fed's operating framework with issues such as: a falling natural rate of inflation, policy rates near the zero lower bound, a weakened relationship between unemployment and inflation, questionable estimates of the natural rate of unemployment, and a heightened awareness of the cost of unemployment. On August 27, 2020, after a more than year-long review of its monetary policy strategy, the Fed announced changes to the framework used for its policy actions.

As a result, for all intents and purposes, the Fed essentially decided that it will throw away the rule book and let inflation run higher and unemployment run lower before seeking to tighten financial conditions. To be clear, this change leaves the central bank pursuing an almost completely discretionary monetary policy.

At its September 15-16, 2020 Federal Open Market Committee (FOMC) meeting and through subsequent Fed member speeches, U.S. central bank policymakers have reiterated their pledge to maintain a near-zero interest rate policy despite recent economic gains. In addition, the Fed enhanced its forward guidance to be consistent with the updated framework for its monetary policy strategy, committing to holding rates at near-zero until the economy is both at maximum employment and inflation is at 2%. As a result, the FOMC currently projects that it will maintain its short-term Federal Funds rate at 0.00-0.25% until 2023. This extended period of very low (and negative real) interest rates should persist even as economic activity accelerates.

The U.S. economy should benefit from a variety of substantial tailwinds in 2021 that will leverage off of the rollout of coronavirus vaccines. Effective widespread vaccination should spark consumer spending this year, fueled by pent-up demand and a massive surplus of savings. (The newly-announced $900 billion fiscal aid package provides an additional benefit that will leave the economy on an even firmer footing from which to launch in the Spring.)

It is not hard to imagine that, at some point during the year, reports will show the rate of inflation rising above the Fed's 2% target. Considering the lost travel and dining opportunities last year, the greatest pent-up demand is likely in the leisure and hospitality sector. Yet that same sector has also suffered some of the greatest supply disruptions due to closures and laid-off workers. It is reasonable, therefore, to expect that, at some point, the surviving companies will have stronger pricing power when demand returns.

While faster inflation might rattle some financial market participants, the Fed will likely remain calm, in our view. During the press conference that followed the December FOMC meeting, Fed Chairman Jerome Powell said that the central bank would tend to view such inflation as the result of one-time price changes rather than the beginning of a sustained inflationary process that forces monetary policymakers to take action. (In the past, the Fed has viewed these kinds of price shocks as having transitory impacts on inflation.)

At the moment, it is difficult to envision extraordinarily disconcerting inflation data given the excess capacity in the U.S. economy. The output gap, or the difference between where the economy is and where it should be, was likely around 5% of Gross Domestic Product (GDP) entering the 2020 Fourth Quarter. The unemployment gap, or the difference between unemployment and the natural rate of unemployment, was 2.6 percentage points in November. Neither of these statistics foreshadow an acceleration in inflation.

Even so, how fast those gaps disappear will influence the Fed's reaction to any inflation numbers that do arise this year. That means the inflation question is not about inflation alone, but inflation combined with how quickly the economy recovers. The risk for the interest rate outlook (i.e., the risk of higher rates) is that the economy recovers to full capacity operating levels faster than policymakers or financial market participants expect.

For an example of how the economy might recover faster than expected, consider that the consensus estimate for 2020 Fourth Quarter annualized GDP growth is just under +3%, while the Atlanta Fed's GDPNow current estimate is +8.7%. Although Fourth Quarter GDP might not turn out to be quite as robust as the Atlanta Fed predicts given rising COVID-19 cases, the higher frequency data series used in nowcasts like the Atlanta Fed's GDPNow still illustrate the possibility of some very good potential outcomes for the economy. For another example, consider that the recently-enacted $900 billion fiscal aid package is about 4.5% of GDP, or just about the size of the current output gap: imagine the economic implications of being on the edge of full capacity when the vaccine has been sufficiently distributed so as to allow the resumption of normal activities.

To be sure, any estimates of the output or unemployment gaps are just that—estimates. Although actual economic reports showing higher rates of inflation may raise some worries, we believe that the Fed will be hesitant to change the expected path of rate increases. If wage growth, on the other hand, accelerates meaningfully beyond the +3.5% rate seen in July 2019 (the high of the last cycle), then the Fed may believe that the economy is operating closer to full capacity and could consider raising short term interest rates (or may adjust its $120 billion per month asset purchase program). Any Fed action will be data dependent.

Our view is that perfectly aligning these economic stars appears unlikely in 2021. At this juncture, it seems more likely that the U.S. economy could experience a transitory inflation "scare" rather than a sustained period of "real" inflation. And with its new discretionary interest rate policy framework, the Fed will not scare easily, allowing short-term interest rates to remain low for the foreseeable future.

Indeed, from a long-term investment perspective, the more important development is the secular deflationary trend that we have discussed in detail over the past several years. Namely, from a global macroeconomic perspective, there remains a surfeit of supply and dearth of demand which is serving as an overall constraint on any secular inflationary dynamic. We believe that the same structural forces that have driven this dynamic over recent decades (e.g., the global savings glut, demographic aging, etc.) should continue after the pandemic wanes.

Remember, excess savings relative to intended investment has driven the global equilibrium rate of interest (the real rate of return required to keep the economy's output equal to potential output) well below zero. In response, global monetary policymakers have responded appropriately by maintaining nominal short-term interest rates near the zero lower bound for an extended period. At the moment, we do not foresee any change in this dynamic.

The Fed's new policy framework—combined with the commitment to the zero lower bound—should prove positive for risk assets over the longer term because it means the Fed will be much less inclined to prematurely get in the way of economic gains relative to past recoveries. As long as inflation remains below 2%, the Fed will push back on any ideas that they will imminently tighten policy. And even inflation above 2% would not guarantee tighter policy if the Fed concluded that the overshoot was transitory. The implication for financial markets is that the Fed expects to hold monetary policy very easy for a very long time. In other words, do not doubt the Fed's resolve to keep policy accommodative.

The End of the Beginning

As detailed in our *2020 First Quarter Review*, on an overall basis, our investment strategy during the current pandemic crisis remains consistent with the investment strategy that we have followed in the past—essentially: to invest in high-quality businesses at the right valuations and hold them for as long as they remain high-quality businesses. In fact, the competitive strengths of these businesses could, perversely, *increase* as a result of this pandemic as lower-quality businesses fail to survive. As a result, this dynamic may drive the valuations of companies held in *Windward*'s portfolios dramatically higher than previously seen.

Similarly, crises usually accelerate real, pre-existing trends in society and technology—they do not create or destroy them. Subject to constraints, therefore, we believe that there is a deep underlying propensity for human habits to persist over time, and that, human nature being what it is, individuals will have a strong inclination to return to their former way of life as soon as reasonably practicable. As a result, we have not made changes in *Windward*'s strategies to invest in those companies that may be deriving benefits from near-term coronavirus trends (e.g., telecommuting, media streaming, etc.) because we believe that those trends will not persist. In addition, we did not invest in any speculative Healthcare companies involved in the discovery of a therapeutic or vaccine because we believe that the benefit to be derived from this discovery will primarily accrue to the existing businesses held in *Windward*'s portfolios. We believe that the long-term secular investment themes that we have previously identified remain intact.

If the U.S. economy has reached its nadir, then the most important issue for investors is not whether the stock market has "bottomed," but whether the recent equity market rally is sustainable. In other words, has the equity market correctly forecasted the timing of an economic recovery? If so, then the market could continue to advance. If not, then the market could re-test its previous lows.

Although the market is often prescient, its forecasting ability will be challenged due to the unusual nature of this downturn and the characteristics of financial market participants. It is obvious and well understood that there is tremendous uncertainty regarding the corporate earnings outlook, and that the variance in forecasts is much greater than normal. This is due, in part, to the extremely high degree of uncertainty about the economic recovery because of the unusual nature of the drivers of this downturn.

Compounding this uncertainty is the variability associated with the recent U.S. political turmoil and its aftermath as well as the near-term logistical challenges related to the coronavirus vaccine rollout.

Offsetting these risks is the positive impact of unprecedented and extraordinary fiscal and monetary policy measures, combined with $1.5+ trillion in U.S. household savings.

We believe that, at the March 2020 lows, the oversold nature of the markets served to highlight an extremely compelling risk-reward tradeoff, and helped to neutralize the overwhelming sense of negativity that prevailed with respect to the economic and earnings outlook. This sentiment shift should continue to drive the accumulation of stocks and help slow the magnitude, and speed, of future declines—and lend weight to rally efforts.

Indeed, the financial markets should continue to be supported by an ongoing U.S. economic rebound driven by the following factors:

- ✓ There is nothing fundamentally "broken" in the economy that needs to heal. Unlike the last two cycles, there was no obvious financial bubble driving excessive activity in any one economic sector when the pandemic hit. There is no excessive investment that needs to be unwound, and the financial sector has escaped largely unharmed.

- ✓ The indiscriminate nature of the shutdowns last Spring provides the economy with a solid base from which to grow. The economy collapsed in the Spring because, in an effort to get ahead of the virus, approximately one-third of the economy (on an annualized basis) was shut down. That created a lot of opportunity to rebound when the unnecessary casualties of the shutdown came back online and began to grow despite the virus. That process should continue.

- ✓ Household balance sheets were not crushed like they were in the last recession. Instead, the opposite occurred. Reduced spending, fiscal stimulus, rising home prices, and a buoyant equity market have all helped push household net wealth past its pre-pandemic peak.

- ✓ The demographics are incredibly supportive of growth. During the last recovery, the U.S. economy was still adapting to the Baby Boomers aging out of the workforce with a much smaller cohort of Generation Xers behind them. At the time, the larger Millennial generation was just entering college. Now, the Millennials are entering their prime homebuyer years in force and will be moving into their peak earning years soon. The resulting strength in housing is fueling higher home prices and durable goods spending, and that trend is just beginning. Housing activity should remain strong for the next several years.

- ✓ As discussed above, household savings have grown by more than $1.5 trillion, providing the fuel for a robust economy on the other side of the pandemic. Sooner or later, that money is going to come out of savings and into the economy, and it seems logical to expect it to flow into the sectors like leisure and hospitality where there is considerable pent-up demand.

- ✓ Most importantly, coronavirus vaccines are here. To be sure, it may take some time for vaccines to be widely available and distributed, but, once they are, the sectors of the economy most encumbered by the virus (the same as those for which consumers have pent-up demand) will be the primary beneficiaries of its demise. Moreover, schools and day care centers can reopen, allowing working parents to return to the labor force, thereby providing additional support to the economy.

Although the long-term societal and economic implications of the pandemic, if any, remain unclear, specific companies are taking advantage of the changes in their operating environment to create long-run opportunities for their businesses. Those leading companies whose superior business models are best positioned to withstand the current shocks to the system will emerge even stronger as the economy continues to recover.

Our goal, as always, is to identify those companies and invest in them for your *Windward* portfolio. Our risk averse approach to managing your investments causes us to take a more measured and unemotional view of extremes in bullish or bearish sentiment and find ways to outperform the market with less volatility by focusing on specific companies' fundamentals. Our results over the course of various market cycles demonstrate our success.

We appreciate your support as we continue to navigate through this challenging period and invite you to call us should you have any questions or concerns.

Sources:
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U.S. Department of the Treasury
U.S. Federal Reserve
World Health Organization

Coronavirus Response and Relief Supplemental Appropriations Act of 2021

Highlights of the relief package include the following:

Direct aid to individuals and families: The package provides an additional $300 per week to unemployed workers for 11 weeks. The legislation also includes $600 in direct payments to individuals who earn up to $75,000 per year or $1,200 for married couples filing jointly making up to $150,000 per year, as well as a $600 payment for each dependent child. All of these measures imply that a family of four can receive up to $2,400 in direct one-time payments.

The legislation increases the maximum number of weeks an individual can claim benefits through regular State unemployment or through the Pandemic Unemployment Assistance program to 50 weeks, and it increases Pandemic Emergency Unemployment Compensation to 24 weeks. Both programs are extended until March 14, 2021, and allow individuals receiving benefits as of March 14 to continue through April 5, 2021. The bill provides an extra benefit of $100 per week for certain workers who have both wage and self-employment income but whose base unemployment insurance benefit calculation does not take their self-employment into account.

Small businesses: The legislation provides $325 billion in aid to small firms, including $284 billion for initial and second-draw forgivable Paycheck Protection Program (PPP) loans, as well as dedicated set-asides for very small firms and lending through community-based lenders. Also included is $20 billion for new Economic Injury Disaster Loans (EIDL) grants for business in low-income communities, $3.5 billion for continued Small Business Administration (SBA) debt relief payments, $2 billion for enhanced SBA lending, and $15 billion in dedicated funding for entertainment and cultural institutions.

Community Development Financial Institutions (CDFI) and Minority Depository Institutions (MDI): The bill offers $15 billion in funding for CDFIs and the creation of a new Neighborhood Capital Investment Program to support CDFIs and MDIs.

Transportation: The bill includes $45 billion in funding for transportation, of which there is $15 billion for airline payroll support; $1 billion for airline contractors; $14 billion for transit; $10 billion for State highways; $2 billion for airports and airport concessionaries; $2 billion for private motor coach, school buses, and ferry industries; and $1 billion for Amtrak.

Public health and vaccines: There is $69 billion in funding directed at public health and vaccine procurement and distribution. Twenty billion Dollars will go toward procurement and distribution of vaccines, $9 billion to the Centers for Disease Control (CDC) and States for vaccine distribution, and $3 billion to create a national stockpile. More than $22 billion will be sent directly to States for testing, tracing, and COVID-19 mitigation programs.

Education: The bill offers $82 billion in direct funding for States, K-12 schools, and institutions of higher education that have been significantly impacted by the pandemic.

Rental assistance: The legislation has targeted $25 billion in rental assistance for families impacted by the pandemic that are struggling to make rent and may have past-due rent compounding. These families will be able to use this assistance for past-due rent, future rent payments, and utilities and energy bills. This first-of-its-kind Federal assistance includes an extension of the existing CDC eviction moratorium through January 31, 2021.

Nutrition and agriculture: The legislation targets $26 billion toward nutrition and agriculture: $13 billion goes to families using the Supplemental Nutrition Assistance Program (SNAP) and $13 billion is for direct payments, purchases, and loans to farmers and ranchers who have suffered losses due to the pandemic.

Child care: There is $10 billion in aid directed toward child care that includes $250 million for Head Start providers.

Broadband: There is $7 billion in dedicated funding for the extension of broadband service, including $3.2 billion in emergency funding for low-income families.

HAS YOUR FINANCIAL CONDITION CHANGED?

Portfolio decisions are based on an individual's income requirements, tax bracket, time to retirement, risk tolerance, and other characteristics. If your financial condition has changed, or is about to change, please call us. We strive to prepare a portfolio that meets each investor's objectives, and the more information we have, the better the job we can do. If you have any questions regarding your portfolio, your asset allocation, or any investment within your portfolio, please let us know.

THE FUTURE IS NOW

As you may know, we post a weekly commentary on our website every Friday afternoon. We only mail some of these comments out when markets are particularly unsettled. Please be aware that these notes will continue to be available on-line, and we want to encourage you to sign up to receive a password for access to our secure web-site.

Our website provides the capability for clients to review their portfolios, their year-to-date realized capital gains, and income and expenses. Clients also have access to our weekend market comments. These reports are updated after 8:00pm each Friday, and are available to clients who have requested access. Clients may also request that their accountants and/or attorneys have access to the same information. We hope you will visit us at www.windwardcapital.com.

If you have interest in these capabilities, or if you would like to receive a copy of our Form ADV Part II or Form CRS free of charge, please email Steve Pene at: spene@windwardcapital.com, or call Mr. Pene at our main number: (310) 893-3000.

NOTES

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