Navigating Through the Storm - A Steady Hand

Our 2020 Intellectual Capital Conference

We are committed to providing counsel that helps families, individuals, and institutions achieve their financial goals.

In a financial world increasingly populated by small boutiques or huge conglomerates, 1919 Investment Counsel is a rare, if not unique, entity.

Firm Facts:

- **Founded in 1919 as Scudder, Stevens & Clark**
- **32 portfolio managers and client advisors who average 33 years of experience**
- **Proprietary research**
- **Independent thinking**
- **More than 120 employees**
- **Offices located in Baltimore, Birmingham, Cincinnati, New York, Philadelphia and San Francisco**
- **$14.2 billion in Assets Under Management with $1.2 billion in Socially Responsible Investments (approximately as of April 30, 2020)**

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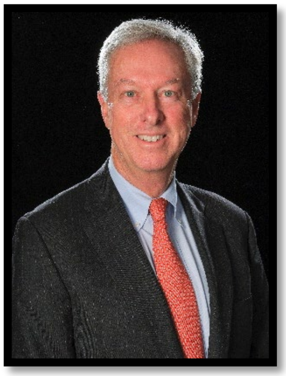
We recently held 1919 Investment Counsel's 15th Annual Intellectual Virtual Conference. Although COVID-19 presented challenges to our normal format of two and a half days of live presentations and vigorous discussions on topics that inform our approach to managing our clients' assets, thanks to the hard work of our investment and technology teams we were able to hold this year's Conference remotely with a strong array of speakers. We certainly missed the camaraderie and idea exchange that spending time together affords, but our wonderful speakers enabled us to continue the twin spirits of challenging accepted wisdom and encouraging intellectual curiosity that have defined our firm for 101 years.

This year we tackled 6 important topics: Women in Investing, China, Russia, the Eurozone, challenges in the fixed income markets, and "What Comes Next? The Long View." As always, our goal was to expand our thinking by listening to thought provoking views whether they agreed with ours or not, and to see around the corner into what's coming. In the pages that follow, we will share some of what we heard from our speakers. Feel free to call any of us if you want to discuss a topic in more detail.

Finally, while we are operating remotely, we continue to take advantage of the resources available to a firm like 1919 Investment Counsel across all disciplines that affect our clients' portfolios. While this has been a challenging time, it has been rewarding to hear from clients and friends that the quality and quantity of our communication has been outstanding. I hope you enjoy the following Summaries from this Conference and that you find the variety of other publications available on our website helpful as well.



Harry O'Mealia
President and CEO

Please stay safe and healthy.

Please note that the opinions expressed by our speakers are their own and do not necessarily reflect the views of our firm.

KATHLEEN MCQUIGGAN, CFP

Wealth Advisor, Artemis Financial Advisors

Investing for Women, Investing in Women

It was with marked interest, that we opened the 1919ic Intellectual Capital Conference with Kathleen McQuiggan, a recognized leader in investing in women. For over a decade, Ms. McQuiggan has been advocating for women, encouraging them to take control of their financial futures and advising financial services organizations on how best to engage and serve women clients. As a wealth advisor at Artemis Financial Advisors, she channels her positivity and enthusiasm for finance to motivate women around money and help them build sustainable financial plans. We welcomed Ms. McQuiggan's comments and insights as we continue to strengthen our own Women and Wealth approach.

During her time with us, Ms. McQuiggan shared her experience and expertise on two key points: 1. Women have unique financial needs. 2. Women are best served by advisors embracing diversity and inclusion.

"Women are the client of the future"

The conversation about women and investing is changing and there is a reason for that. Women are a key growing economic and investing power. For example, $6.4 trillion of spending is controlled by women in the US In 2019, women contributed $26 billion in labor every day to the US GDP. Forty percent of married working women are out-earning their spouses. Sixty percent of high net worth women are creating their own fortunes. At the moment, women control one-third of the world's wealth and are increasing their wealth faster than before. Further, millennial women are taking charge of their wealth: seventy percent say they are taking the lead on all financial decisions, compared to forty percent of women from the baby boomer generation. Add in the trillions of dollars that get transferred due to divorce and death and the picture is clear: women are a growing economic force with momentum that will continue in the coming decades.

Despite the burgeoning wealth under women's control, women are still often underserved with financial services across the board, including small business loans, mortgages, insurance, entrepreneurial capital, and adequate financial planning and investment guidance. This gap in services could be viewed as both a risk and an opportunity; a time to focus on women and their financial goals. When financial service firms collaborate with clients to strive to fill that gap, we are likely to see global economic growth and advancements in social well-being.

Ms. McQuiggan reinforced concepts we consider when working with our clients, regardless of their gender. The diversity across our client base and our firm is a benefit; the varying viewpoints help us to better understand each other. In our interactions, we must listen and establish a baseline understanding of each client's position.

As we speak particularly with women clients, we have come to understand the nuances of the question: are women's investment and financial needs different from men's? The answer: quite possibly. Women have a unique set of issues based on demographics and social norms. Women tend to live five to six years longer than men. Women spend more time outside of work caring for children and parents, shouldering the majority of the sandwich generation burden. And, there is a documented wage gap that means women need to work longer and save more than men of the same age. These considerations, and potentially others brought on by the changing structures of today's modern families, need to be understood individually and incorporated when building financial plans.

Ms. McQuiggan shared insights from a recent survey by Boston Consulting Group (BCG)[1] that suggests women's priorities do differ from men's. Women are more likely to link their wealth to their goals, to their values, and to their priorities. Sixty-five percent of women want to invest in causes that matter to them. Eighty-four percent say understanding their finances is their key to greater career flexibility. Seventy-seven percent view money in terms of what it can do for their families; women tend to view wealth as the means to an end such as these, rather than viewing wealth as the goal itself.

[1] "Managing the Next Decade of Women's Wealth" April 9, 2020. By, Anna Zakrewski, Kedra Newsom, Michael Kahlich, Maximillian Klein, Andrea Real Mattar, and Stephan Knobel. Boston Consulting Group. https://www.bcg.com/publications/2020/managing-next-decade-women-wealth.aspx

"Woman and Investing…the myth of meritocracy today"

Another insight offered was that women make financial decisions based on fact, not on gut. Women seek transparency and clarity, and pursue due diligence to really understand the complexities of financial structures. As a trusted advisor for our clients, our commitment is to work with each client to not only understand and meet their specific needs, but to also help further their understanding of investing and the economy.

Equality and equity are now part of the conversation along Wall Street and beyond; 1919ic is committed to advancing our proficiency as an inclusive advisor, alongside the evolving needs of our client base by seeking the expertise and guidance of industry experts such as Ms. McQuiggan. Collaboration and understanding takes ongoing focus. We were reminded by Ms. McQuiggan to periodically pause and reflect internally on our progress towards achieving the necessary knowledge base and best practices to best serve all of our clients, now and in the future.

SCOTT KENNEDY, PHD

Senior Adviser and Trustee Chair in Chinese Business and Economics – Center for Strategic and International Studies (CSIS) - China

Impact of the COVID-19 Pandemic on China's Economy

China has long been a mystery to outsiders, but as countries around the world are reeling from the pandemic, more and more are looking to China for clues on what a potential recovery might look like. We had the honor of hosting Dr. Scott Kennedy, Senior Adviser and Trustee Chair in Chinese business and Economics at CSIS, at our annual 1919 Intellectual Capital Conference. Dr. Kennedy is a leading expert on Chinese economics and was gracious enough to walk us through the economic impacts of covid-19 as well as some of the global tensions that exist in China. While most of the audience was looking for good news, Dr. Kennedy reminded us to be objective rather than hopeful.

"Recovery will be slow"

Dr. Kennedy's first message was that maybe we shouldn't be looking at China as an example of recovery. China is still dealing with the crisis within their own borders even as numbers have come down. There are still outbreaks in the country and measures of travel are coming in at historic lows. The recovery of weekday traffic which counts more workers and commuters significantly outpaces weekend traffic which correlates more strongly with voluntary and leisure travel. China has been hit harder from restrictions due to their overexposure to manufacturing and the requirement of a physical presence for that to happen. Looking at the numbers – China's reported first quarter GDP was down 6.8% versus the same period the year before, a dramatic decline in one of the highest growth economics in the world. For the rest of 2020, China has not issued any guidance but instead have referenced the IMF estimates of a 1.0% to 1.5% growth which appear to be somewhat optimistic, but reasonable. Dr. Kennedy's projection for a recovery in the Chinese economy is more gradual and hockey stick shaped versus others calling for a rapid V shaped recovery.

"Protectionism being placed on global economy across the board"

Dr. Kennedy explains that China has thrown the literal kitchen sink at the problem and are not holding back in their effort to stem further economic damage from the virus. These aggressive measures include an increase in access to funding, forcing companies to pay their employees if even they can't operate, cutting taxes across the board, increased government procurement, and leniency on debt payments. Even though the speed at which China was able to roll out support initiatives was impressive, Dr. Kennedy expects there to be some long term casualties. The efforts by the Chinese were not enough to prevent job losses in many of the small and medium sized private businesses. Many of these businesses went belly up with little to no support and are unlikely to come back any time soon. Dr. Kennedy cites real estate as another long term casualty and expects there to be a permanent drop in demand for commercial properties. While the Chinese economy has become less and less dependent on rapid export growth, they still have a high exposure to manufacturing which will suffer as other countries slow down imports of Chinese goods.

As the Chinese economy takes its initial steps towards recovery, the geopolitical tensions that have been building up are materializing and generating real uncertainty in future economic growth. For starters, Dr. Kennedy refers to the state of US/China relationship as a "total free fall". He likens the current political tension between the two countries to 1989 but notes that our economies are now so intertwined that completely backing off is no longer an option. The competition in technology and intellectual property theft has taken a turn for the worse as the US means to block access to key semiconductor resources to China. There will likely be a tit for tat retaliation and lots of finger pointing and shifting blame which will cause the situation to rapidly deteriorate. Dr. Kennedy believes that the outcome of the new presidential election will be a determining moment in our relationship with China. As political rhetoric picks up Trump is already holding out China as the scapegoat for all of America's problems – something that the Chinese government will not tolerate. Conditions can improve with Biden, but the road to recovery will be long. Regardless, Dr. Kennedy does not see the US being able to decouple from the Chinese economy. It is simply too expensive to onshore Chinese manufacturing which requires training and personnel that the country is simply not equipped to provide. If anything, Dr. Kennedy's expectation is for the administration to distance themselves from China as the rest of the country continues to work with the Chinese.

In times like these, it is essential to have experts like Dr. Kennedy remind us to look at the reality of the situation rather than to be caught up in wishful thinking. During our hour-long discussion, he painted a sobering picture of what the economic situation is in China and what our relationship with them might entail. He reminds us that instead of simply seeking out good news, we must be prepared for a potential deterioration in the relationship between the two countries and the economic troubles that might come to pass.

HEATHER A. CONLEY

Senior Vice President for Europe, Eurasia, and the Arctic; and Director, Europe Program

Impact of the COVID-19 Pandemic on the EU and Russia

Heather A. Conley is senior vice president for Europe, Eurasia, and the Arctic and director of the Europe Program at CSIS. Ms. Conley is frequently featured as a foreign policy analyst and Europe expert on CNN, MSNBC, BBC, NPR, and PBS, among other prominent media outlets. She received her B.A. in international studies from West Virginia Wesleyan College and her M.A. in international relations from the Johns Hopkins University School of Advanced International Studies (SAIS). Below is a summary of her remarks at our Intellectual Capital Conference.

To understand the impact of the COVID-19 pandemic on the EU, we must first recognize that the EU enters this challenge on the back of a decade of cumulative crisis. In many ways, the issues surfaced by this pandemic feel like 'Groundhog Day' as the divisions between North and South are once again laid bare. The first half of the past decade was consumed with the Greek and Italian debt crises and the annexation of Crimea. The second half of the decade was focused mainly on the UK's Brexit outcome and the election of Trump in the US and his hostility towards the EU. While much time has passed, many of the underlying issues that prompted these crises have not been satisfactorily resolved.

The current pandemic puts serious limitations on the four core freedoms of the EU, free movement of People, Goods, Services and Capital. It also opens up the old North/South wounds and the divisions of the past decade are still evident. The fiscally conservative countries like Germany, The Netherlands, Austria and Sweden have contrasting views of the collective responsibility from southern countries like Greece, Italy, Spain, etc. The pandemic has caused Germany to actually use some of its prized surplus to support itself during this period. But how to rescue some of the weaker southern economies, particularly those heavily reliant on tourism? Debt Mutualization has been suggested as an option, but there seems little appetite in the northern countries to support what they see as less responsible and industrious neighbors. A further wrinkle has been caused by the recent German Constitutional Court ruling against the ECB's 2015 public sector purchase program. The court argued that the ECB had failed to apply a proportionality analysis when assessing the impact of its policies. At the very least, this would appear to curb the ECB's efforts to promote investor confidence. What this affront of the ECB also highlights is that the EU as an entity is running out of legal road and needs a new treaty to broaden its mandate to deal with emerging crisis. The chances of getting a treaty through popular referenda is slim to nil. Even in better times, the Lisbon and Nice treaties required a couple of votes to get done.

"The strong will get stronger and the weak will get weaker"

The UK left the EU formally in January of 2020, although it remains a passive member of the institutions until the end of this year. Given the length of time it takes to negotiate a comprehensive trade agreement, rational observers have been waiting for the UK to request an extension to the current transition period. However, the UK government sees the situation very differently. The landslide election victory for the Conservatives last December eliminated any need for Johnson to make any compromises regarding Brexit. The 80-seat majority in parliament gives him ample flexibility to leave the EU on any terms he sees fit. While one might assume the COVID-19 pandemic would be a good reason to extend the timeline, the UK government is taking the opposite approach. While a bare bones trade deal with the EU may be possible before year end, it is clear that Johnson prioritizes 'Getting Brexit Done' over the precise details. It is logical, given the economic mayhem currently caused by the pandemic, that Johnson's team will see this as a perfect opportunity to make a clean break from the EU rules and regulations. A UK economy operating under WTO rules whilst dealing with the fallout from a pandemic induced shutdown does not bode well. The variable to watch is whether Johnson suffers politically from his slow response to the pandemic as a change in Conservative Party leader is more likely than a change in government in the next 4 years.

Many are left wondering what the future holds for the EU. Does it eventually divide into Europe North and Europe South? Do countries like Italy or Greece look to follow the UK out of the bloc? The EU's problems stem from the sole focus further integration. Close integration of incompatible economies and cultures has led to many of these issues, but the impulse to integrate remains and there is almost a fear of acknowledging that walking back in some areas may benefit the overall union. As things currently stand, we are likely to see the strong continue to get stronger while the weak continue to get weaker.

"Putin would like to pull down the West from the Inside"

Putin's grip on Russia shows no sign of loosening as Putin has been successful in changing the constitution to allow himself to remain in power until 2036. For the foreseeable future, we can expect the recent themes to continue. Russia's dual aims appear to be re-establishing equal status with the USA on the world stage, whilst working to decouple from the West. Since 2014, the narrative in Russia has been that anything western is untouchable and undesirable. We've seen this in conservative legislation as well as in the international tensions. One of Putin's objectives is to end US-led regime changes and his involvement in places like Syria is a key element of this strategy.

Domestically, the ambitions are far smaller. Putin has very little interest in running the country. He sees himself as a global dealmaker and his focus is almost exclusively on external affairs. The current pandemic has not been handled at all well by the Russian government but their response appears to be centered around blaming external factors and spreading disinformation. The relations with the US have centered around Energy prices and Arms Controls. Arms Controls are of particular interest to Putin as this topic puts Russia and the US on equal footing. Trump's insistence on bringing China into the equation creates a triumvirate of powers which Putin is less excited about. The Putin worldview is shaped strongly by the Russia World War II narrative. This narrative sees Russia as a major world power shaping global affairs and playing a key role in winning that conflict. The post Berlin Wall era interrupted that narrative and Putin is focused on restoring it fully.

In looking to the future, one cannot rule out further military action like we saw in Crimea in 2014. It is however, worth noting that the surge in popularity Putin enjoyed domestically in the wake of the annexation did not last long. He's more likely to see benefit in utilizing other means; either cyberattacks and foreign election interference, or military action through proxies like his private Wagner Group. Social unrest arising from economic or pandemic related issues is unlikely to lead to a Coup D'état as his larger strategy of promoting traditional Russian orthodoxy and his swift dispatching of political rivals curbs any meaningful effort at revolt. Putin knows that taking on his larger enemies in the west directly will lead to defeat, so he is likely for now to continue a long term campaign of trying to pull down the west from the inside.

JOSEPH KALISH

Chief Global Macro Strategist, Ned Davis Research

What comes next? The Long View

Joseph Kalish is the Chief Global Macro Strategist for Ned Davis Research Group. He has been following and studying financial and economic trends for over 30 years. He and his team are responsible for all of the firm's bond and economic analysis. Joe authors several publications. He writes on global and US fixed income strategy and trends twice a week. Joe is a regular contributor to other macro publications, including Featured Reports, the US Economic Focus, and the US Daily Economic Perspectives.

"Path to Recovery"

As the Ned Davis team worked to understand the market impact of the healthcare crisis, they looked for historical analogs to the current conditions. Potential candidates included: 9/11 attacks, Japanese Tsunami in March of 2011, Pearl Harbor, and the 1929 Market Crash. Each of these offer quite different paths and durations to recovery which were influenced heavily by different policy responses. Contemplating alternatives for recovery paths from the current crisis, the impact of shutdowns and reduced consumer demand will be significant, but the strong monetary and fiscal policy response minimizes the risk of a prolonged 1930s like depression. There is a high probability of a slow job recovery rather than a rapid rebound to previous levels of activity. Consistent with this view, investors maintain extremely low inflation expectations well below the Fed target of 2%, which will keep interest rate low and monetary policy accommodative for the foreseeable future.

The increase in US Government debt is warranted given the risk of depression and should not be an immediate cause for concern. As we approach the debt to GDP levels reached in WWII, it is important to acknowledge that the country's wellbeing is threatened today as it was then, and it is the Federal Government's responsibility to support the economy during crises when the private sector cannot. The historic low interest rates, Fed's ability to buy US debt, and the US Dollar's role as the global reserve currency should help to alleviate concerns. Joe argues that insufficient policy stimulus in 2009 and 2010 suppressed a robust recovery following the Great Financial Crisis. He worries today that political infighting may hamper further fiscal stimulus.

"Invest with the wind at your back...and where the money is being spent"

Joe is optimistic about the prospects for US equities, while still respectful of the prospective volatility, as equity markets bottom, on average, five months prior to the end of a recession. US large cap stocks have outperformed international markets by a wide margin since the beginning of the bull market that began in March of 2009. Among stocks, growth has outperformed value stocks by a wide margin which is justified given the underlying fundamentals. This return differential also explains the significant outperformance of US markets as non-US markets have greater exposure to cyclical businesses and less to the growing areas of health care, technology, and communications services. While not always apparent, geographic diversification can lead to implicit allocations to slower growth businesses that compete on price and away from companies that grow through innovation in expanding markets.

"Japanification Risk"

Investors should study Japan's economic and market challenges arising from secular stagnation since the late 1980s in order better understand the headwinds and implications faced by the US and Europe. Japan's rapidly aging and shrinking population combined with limited immigration led to low growth, low inflation and low returns that monetary policy has not fixed. Since the end of 1984, Japan's equity market returned 2.8% annually while Japanese bonds returned 3.8%; during the same period, the S&P 500 returned 10.9% and US bonds returned 4.9%. Given the challenges the US economy faces today with slow expected growth, an increasing retired population and a heavy debt load, we cannot dismiss Japan's experience, but Joe and his team are optimistic that the US economy and markets can do better given the more dynamic nature of our economy and the positive impact of immigration.

Low US inflation will continue due to forces of technology, aging population, debt load, and well anchored inflation expectations from global investors. The recent employment disruption and technological innovation will limit significant wage inflation. Low yields will accompany low inflation, and persistent low yields will naturally drive up asset valuations especially for growing businesses. This combination should support the continuation of the secular bull market that began in 2009.

ANNE N. MATHIAS

Global Rates & Foreign Currency Strategist, Vanguard – Fixed Income

Navigating Credit Markets during the COVID-19 Crisis

On May 14, 2020, we welcomed Ms. Anne Mathias of Vanguard to our 15th annual Intellectual Capital Conference, held virtually for the first time. Ms. Mathias is the Global Rates & FX Strategist for Vanguard's Fixed Income Group, responsible for analyzing interest rates, currency valuations, economic developments, and political risks. Ms. Mathias, who is also a member of Vanguard's investment committee for active taxable fixed income funds, spoke on the topic of Navigating Credit Markets during the COVID-19 Crisis.

"The levels of everything were just wrong"

Ms. Mathias kicked off with a short review of the first phase of credit crisis which began in March 2020. This phase was marked by extreme illiquidity and difficult trading conditions. She noted the stress first showed up in money markets, where the difference between 3-month LIBOR and 3-month T-bills gapped out, indicating dysfunctional market conditions. Stress then spread rapidly to corporate credit markets. Yields on corporate bonds rose quickly, with March 2020 being the worst month for corporate credit returns on record. As well, there were indications of unusual market conditions as the credit spreads on short-term corporate bonds inverted and rose higher than the spreads on long-term corporate bonds. This is the opposite of the usual relationship, because typically investors demand higher spreads for taking exposure to longer dated bonds.

Ms. Mathias explained that the inverted spread relationship occurred because asset managers were facing redemption requests, and were scrambling to raise liquidity quickly. Therefore, they were selling shorter dated corporate bonds which were more liquid, driving the prices on these bonds lower than longer maturity corporates. Corporate credit spreads ratcheted higher, reacting negatively in a very short period of time compared to the financial crisis. Similar breakdowns were seen in mortgage trading, and even in Treasuries, which is normally the deepest, most liquid trading market in the world. In short, "the levels of everything were just wrong."

"Policy response has been enormous"

In response to the fast-moving breakdown in market conditions, the US policy response has been "enormous." Ms. Mathias highlighted the US government fiscal stimulus packages, including the initial national emergency funding followed quickly by the passage of the $2 trillion CARES Act. The Fed also reacted quickly, using both monetary policy tools and various lending programs. The Fed lowered its target fed funds rate to zero, and the yields on Treasuries quickly fell in tandem, easing monetary policy. As well, the Fed expanded its balance sheet rapidly, adding more assets in a few weeks than it did through the financial crisis. The Fed also rolled out numerous market stabilization programs and liquidity facilities, such as the Commercial Paper Funding Facility, the Money Market Mutual Fund Liquidity Facility, the Municipal Liquidity Facility, and the Primary and Secondary Corporate Credit Facilities. All of these programs are aimed at supporting various pockets of the credit market to ensure smooth functioning.

Vanguard estimates the Fed balance sheet may grow to $9 trillion by 2021 as a result of its various asset purchases and lending facilities. As a result of this aggressive policy response, the US government actions have successfully stabilized market conditions. The Financial Conditions index, which fell to recessionary levels in March, has now eased materially. Overall, Vanguard believes that the Fed has, for the most part, successfully addressed the market "plumbing" issues that were evident in late March.

"There are very few analogs for this situation"

The second phase of the crisis is what happens in the real economy, and is just now unfolding. In the near term, Vanguard noted that there are still major headwinds for the economy. The change in unemployment rate and US GDP amount to a 20 standard deviation event. It is hard to adequately express how unlikely a 20 standard deviation event should be, but suffice it to say that it is extremely rare. On an optimistic note, Ms. Mathias noted that indicators of economic activity in China show that the economy there is gradually moving back to normal. For example, close to 90% of travelers have now returned to their home following the Lunar New Year holiday in late January.

For the US, Vanguard expects to see a "U-shaped" economic recovery. This means that the absolute level of GDP should return to its 2019 level by 2021. However, the US economy may not return to "trend" GDP until 2023. In short, we can get back to our prior levels of economic output sometime next year. However, getting back to the same pace of growth and fully making up the lost GDP output from the COVID-19 crisis will take several more years after.

"New normal could be inflationary"

Vanguard also noted that lasting changes in the economy could ultimately lead to an inflationary impact, due to a combination of factors. First off, the US is issuing trillions of dollars in new Treasuries, which means that there is a lot of money supply being created. This increase in the money supply is currently needed to offset the destruction in demand brought about by the pandemic. However, once the economy starts to firm up and recover, the higher monetary base could lead to higher inflation.

Second, the productivity of labor will likely be lower going forward in light of the need for additional precautionary measures taken to minimize the impact of the pandemic. Ms. Mathias used the example of a plane with all of its middle seats empty. The plane still needs the same number of crew members to fly to its destination, but now has one-third fewer passengers, which is a reduction in the productivity of labor. If you extrapolate this reduction in labor productivity across many sectors of the economy, the price for production of many goods and services should go up. With this in mind, Vanguard is recommending a tactical allocation to Treasury Inflation Protected Securities, or TIPS. Vanguard feels that the market is currently underpricing the level of likely inflation, as it expects inflation to rise towards the Fed's stated policy goal of 2% over the longer term. However, breakeven inflation rates are currently below this target, indicating that purchasing inflation protection is relatively cheap right now.

"Attractive opportunities in investment grade credit and municipals"

Overall, Vanguard remains constructive on fixed income investing, despite the relatively low yield environment. That said, Ms. Mathias highlighted that Vanguard sees certain area of fixed income as more attractive compared to others. For instance, Vanguard is tactically underweight allocation to Treasuries, given their very low yields. Vanguard is also relatively cautious on higher risk segments of fixed income, such as emerging markets and high yield, where the manager is advocating a very selective approach to adding risk.

Vanguard's view is that the best opportunities within fixed income are in investment grade credit and higher quality municipals, along with a tactical allocation to TIPS as described above. Within investment grade, Vanguard favors stronger, more recession-resistant companies in sectors it feels are best-positioned for this environment such as telecom, media, and technology (TMT), consumer products, and pharma/health care companies. Within municipals, Ms. Mathias noted Vanguard's view that the current market offers long-term municipal investors a chance to obtain higher tax-free yields, but also cautioned that security selection was key within this universe. In conclusion, Vanguard favors a tactical allocation to TIPS, along with overweight exposures to investment grade and higher quality municipal credit, in light of its expectation for a low interest rate environment, a somewhat slow pace of recovery, a supportive Fed, and potentially rising inflation over the intermediate term.

1919 Investment Counsel Contributors

ALISON BEVILACQUA

MEL CASEY

SEAN HUNG

CHARLES KING

BAYLOR LANCASTER-SAMUEL

We hope you enjoyed reading a condensed version of the remarks made by our speakers who addressed our virtual Intellectual Capital Conference. In order to have a solid understanding of a problem and feel confident in making decisions, we have to hear all facts and opinions concerning the issue we are studying. In our attempt to accomplish this goal, we invite speakers with varied opinions concerning the subjects we are examining. We encourage our speakers to be candid and express their opinions to the fullest. It is clear then that the opinions expressed by the speakers are not necessarily ours but we need to hear them in order to make the best decisions possible.

A great debt of gratitude is owed to the five bright people who acted as reporters.

To all our clients and friends thank you and we hope you have gained knowledge and enjoyment from this effort.

- Michael O. Clark, Senior Advisor
1919 Investment Counsel