Dear Valued Client:

Sayonara 2020. Don't let the door hit you on the way out!

The year 2020 was challenging in so many ways. The pandemic has caused significant hardship. Confounding many has been the reaction of financial markets that bounced off their lows in March and moved on to reach record highs by year-end. We've discussed this phenomenon over the year pointing to massive fiscal stimulus, Federal Reserve intervention, and hopes for a vaccine.

We begin the new year with rays of hope. Covid-19 vaccines are now making their way around the country and around the world. Before 2020, it took an average of 10 years to create a new vaccine, test it for safety and efficacy, and manufacture it for public use. In part, due to the technology of messenger RNA, or mRNA, this was accomplished in a matter of months- an achievement that marked the start of what some are calling "a golden age of vaccinology".

The impact of COVID-19 on our way of life has been game changing. Each of us has felt a loss of some magnitude. Since the media reminds us daily of the negatives we are living, we think it is important to reflect on some positive news. In a piece by Jeff Jacoby of the Boston Globe on December 29th entitled "What was great about 2020?", Jeff noted below some of the bright spots in an otherwise miserable year.

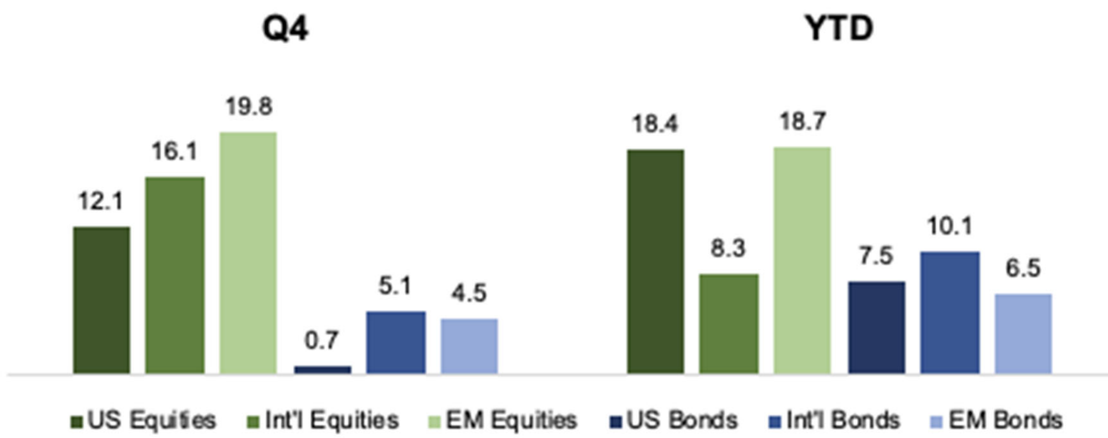
"Charitable giving soared in 2020. America has always been a remarkably philanthropic society, but in this terrible year donors gave even more generously than usual. In the first six months of the pandemic, gifts to charity increased by nearly 7.5 percent over the same period a year earlier. As lockdowns deprived millions of Americans of their regular income, millions of others stepped forward to help — supplying money, food, services, and support of all kinds to people in need.

One response to all the lockdowns and restrictions on socializing was a turbocharged rise in rescues and adoptions of animals. "Shelters, nonprofit rescues, private breeders, pet stores — all reported more consumer demand than there were dogs and puppies to fill it," reported The Washington Post. That was happy news not just for the animals, but for their new humans: Research shows that caring for pets tends to lower blood pressure, increase cardiovascular health, and reduce anxiety."

One other blessing of 2020: a heightened awareness of, and appreciation for, countless workers whom it had been so easy to overlook before — the delivery drivers and supermarket employees, postal clerks and transit operators, sanitation workers and hospital orderlies who kept doing their jobs even as the world went into meltdown. We finally learned to think of them as "essential workers," and to applaud and give thanks for what they do every day.

Fourth Quarter Market Review

The year finished with double-digit returns for the fourth quarter as markets rallied on the positive news surrounding Covid-19 vaccines. This brought all the major equity markets into positive territory for the year, with emerging markets outrunning the US markets in the final inning.



Source: Zephyr Style Advisor 12/31/2020

The fourth quarter saw some major reversals with small-caps outpacing large-caps and the strong six FANAMA (Facebook, Amazon, Netflix, Apple, Microsoft, Alphabet (Google)) trailed the remaining stocks in the S&P 500 as market leadership broadened. Small-caps returned 31.3% for the final quarter of the year, besting large-caps by almost 23 percentage points.[i] Looking at the S&P 500 for the quarter, FANAMA saw a return of 9.9% for the quarter, while the other 494 stocks returned 46.6% contributing over 80% to the return of the S&P 500.[ii]

All sectors were in positive territory for the quarter with Energy and Financials leading the pack with returns above 20%. However, the fourth quarter return was still not enough to lift the year-to-date returns for these two sectors into positive territory for the year. For the quarter, the bond proxy sectors of utilities and US real estate, along with consumer staples saw the weakest returns, all below 7%.[iii]

With the stronger returns from energy and financials, US value and dividend-focused indices saw some improvement in returns and outperformed the growth indices across all market capitalizations. Similar to the small-cap index, the reversal lifted value returns for the full year into positive territory but they still trailed growth indices by 17-30 percentage points in 2020.[iv]

Dollar weakness helped lift returns internationally for the quarter with greatest strength seen in energy rich countries. Brazil and Russia saw returns of 37.1% and 22% respectively for the quarter. For the full year of 2020, China remained the standout with a return of 29.7% being among one of the first countries to emerge from the pandemic.[v]

As investors sought to add risk to their portfolios on brighter news and a post-pandemic outlook, the credit sectors led the US bond markets in the final quarter of the year. High-yield corporates returned 6.5% lifting year-to-date returns to 7.1%, while investment-grade corporates returned 3.0% for the quarter and 9.9% for the year. While long-term Treasuries had the strongest returns for the year at 17.7%, they were the weakest-performing sector in the final quarter with a return of -3.0%.[vi]

Commodities continued to rally into the final quarter with a return of 10.2%, but trailed equities, as did US REITS at 8.2%. Within commodities, grains and industrial metals saw strength as investors looked to an economic recovery while gold was the only sector that saw a negative return. There were also large reversals within REIT sectors as hotels and malls rallied strongly after suffering for most of 2020. [vii]

The disparity between growth and value stocks grew significantly during the year with the spread reaching over 3000 basis points at year-end. The small vs large company return gap did decrease in Q4 as small cap stocks rallied (value in particular) strongly.

Outlook

A year ago, nobody could have predicted the course of events that has gotten us to where we are today. The idea of levitating the economy through monetary and fiscal stimulus until a vaccine was available was a novel experiment that has had some success. While the virus numbers continue to go in the wrong direction, the economic recovery has shown surprising strength. Both service and manufacturing sector readings are pointing to expansion but much work remains to be done to get back to pre-pandemic levels.

The US economy may not be back to full employment for years. With a vaccine in the initial stages of distribution, the first steps toward a return to a less restrictive way of life can start. The International Monetary Fund (IMF) estimates global growth for 2021 to be 5.2%. The US economy is forecast to grow at 3.1%[viii]. According to FactSet, year-over-year earnings growth for the S&P 500 in 2021 is expected to be 22.1% vs. the 10-year average annual earnings growth rate of 10%. The ability to meet these lofty expectations will be a function of the pace at which we can distribute the vaccine, the efficacy of the various vaccines in use, and the timing of the unlocking of the economy. Below we have identified some of the headwinds and tailwinds we are tracking. Of note, the S&P 500 has averaged 6.7%/year (total return) during the 1st year of a 4-year presidential term (BTN Research).

<u>Headwinds</u>

- Increasing Covid-19 cases keeping economies operating below capacity
- Geopolitical risks
- Equity and Fixed Income valuations are high on an historical basis

- Elevated corporate and government debt levels
- Less ability of government to further stimulate growth
- Higher tax rates expected in coming year(s)

Tailwinds

- More fiscal support approved and moving into the economy
- Accommodative monetary policy
- Healthy consumer and corporate balance sheets
- Vaccines from several companies now being distributed
- Potential for improving trade globally under new US administration

Fixed income markets offer limited upside outside of some pockets of opportunity in some credit-focused taxable and high yield municipal bonds. While the Federal Reserve has maintained that they will keep rates low on the short end of the curve, longer-term rates could certainly continue the climb they have been making over the past month. Eventually, higher rates will be a positive for savers (although a headwind for stocks). At this point, we expect muted fixed income returns as price decreases are modestly offset by higher earned rates in what may be a range bound market.

We continue to favor innovative growth companies whose growth trajectories have accelerated as a result of the pandemic. We view innovation as a longer-term asset class with staying power. An opening of the economy could continue to boost cyclical and other value stocks while a decline in the dollar could be the tailwind needed for international and emerging markets stocks to perform well. We have added to these positions heading into 2021.

Return expectations for 2021 should be tempered. Following the strength of 2019 and 2020, we would not be surprised to see a pause in the high double-digit growth achieved the last 2 years. That said, we do believe that the set up for positive returns is there given the impending stimulus, hopes for the vaccine, and low rates to support continued growth. All-time highs are not a reason to sell, but as optimism grows, the possibility of pullbacks and frequent bouts of volatility could increase.

Tax Planning in the New Year

The seemingly endless election of 2020 is finally over, with Democrats winning both Senate seats in Georgia. Every President since 1993 has begun his first year in the White House with total control of Congress

As a result, President Biden will have slender majorities in the House and Senate. These small majorities limit many dramatic policies, which require 60 votes, but tax policy is likely to change in some significant ways. It is possible that we will see changes in 2021, although we think they may be targeted for 2022 so as not to disrupt the recovery.

The Biden tax proposals include raising individual income tax rates, with the highest bracket returning to 39.6%. Brackets would also drop, meaning more income will be taxed at higher rates. If you are not already maximizing your contributions to tax-qualified retirement plans (401ks, IRAs, pensions), now is a good time to consider doing so. Non-qualified deferred compensation (NQDC) plans and other tax-preference vehicles may be worth considering as another way to push income into later years where your tax bracket might be lower. NQDC plans permit you to defer your current compensation, thereby lowering your current income tax liability. Because they are not guided by the same rules as tax-qualified retirement plans, there are no limits on how much compensation you can defer, and you choose when to receive the income in the future. There are trade-offs for this flexibility that should be considered before adoption.

Everyone has a lifetime gift and estate tax exemption from transfer tax. The 2021 lifetime exemption is $11.7 million per individual. This amount is scheduled to be reduced to the 2017 exemption level, scheduled for inflation, at the end of 2025. This will lower the lifetime exemption to approximately $7 million per individual. Although Biden has not proposed any changes in the current lifetime exemption and the reduction at the end of 2025, many Democrats in Congress have. The proposals include reductions to as low as $3 million. If you can and want to make gifts this year to maximize the availability of the current exemption, you may want to consider doing so. This does not mean you have to make immediate gifts to family members or others. If you have an existing irrevocable trust or choose to create one, a cash gift can be made to it for future distributions per the trust terms.

Finally, Biden's team has proposed treating capital gains and dividends as regular income for those earning $1 million plus. It is possible that this might lead some to accelerate capital gain transactions into 2021. On the plus side, the limit on state and local tax deductions is likely to double from its current $10,000 to at least $20,000.

Your PRW team looks forward to helping you plan for the potential tax law changes, both in 2021 and into the future.

PRW News

Elliot participated on a panel discussion for a 2020 Private Wealth Summit discussing Asset Allocation and Risk Management. As one of 3 panelists, Elliot focused some of his comments on the emergence of innovative technology as an asset class as well as the use of hedging within portfolios.

Janice Forgays, Esq., AEP®, CLU®, Estate and Wealth Management Counsel for PRW Wealth Management, LLC, has been awarded the **Accredited Estate Planner (AEP®)** designation by the National Association of Estate Planners and Councils in recognition of her extensive knowledge and expertise. The Accredited Estate Planner® (AEP®) designation is a graduate-level specialization in estate planning, obtained in addition to already recognized professional credentials within the various disciplines of estate planning. It is awarded by the National Association of Estate Planners & Councils (NAEPC) to recognize estate planning professionals who meet stringent requirements of experience, knowledge, education, professional reputation, and character, and who commit to the team concept of estate planning.

Our Chief Compliance Officer and Director of Wealth Management Services, Cathy Dolphyn, has availed herself of many virtual training and learning opportunities afforded by our remote working environment with the goal to enhance PRW's compliance program.

Cybersecurity and managing third-party risk have been her primary focus, taking in content from sources like NSCP, NRS, Compliance Week, Steele Global, Schwab, Exterro, and Regulatory Compliance Watch. She participated in this year's virtual Compliance Week 2020, which covered a wide range of compliance topics. Communication being one of our values, she also took advantage of a webinar hosted by The Wagner Law Group on the subject. And with our goal to provide Raving Fan client service, she attended several offerings from firms like Lion Street, Better Health Advisors, FCS, SS&C, and USAA Financial on subjects such as Reg BI (Regulation Best Interest) and data privacy.

Just this past quarter, she attended NSCP's "Forward Thinking: Senior Investor Protections, Regulatory Considerations and Best Practices"; Finlocity's Reg BI Summit; and the Securities and Exchange Commission's compliance outreach program's national seminar for investment companies and investment advisers. This program is intended to help Chief Compliance Officers (CCOs) and other senior personnel at investment companies and investment advisory firms enhance their compliance programs for the protection of investors

We hope that you and your loved ones are staying well during these challenging times. As always, we are here for you and welcome your feedback. We have tried to provide timely commentary and thoughts on the ever-changing environment and will continue to seek ways to help you with your planning. Our very best wishes from our family to yours for an enjoyable and safe Winter season.

Sincerely,

William A. Payne   Richard A. Renwick   Elliot B. Herman

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· Have an active practice for a minimum of five (5) years within the following disciplines: accounting; insurance and financial planning; law; philanthropy; and trust services;

· Devote at least 1/3 of one's time to estate planning;

· Have one or more of the following professional credentials: JD (active law license required if this is the only credential with which you are applying), CPA, CLU®, CFP®, ChFC®, CPWA®, CFA, CAP®, CSPG, CTFA, MSFS, and MST;

· Have three (3) professional references from individuals with whom you have worked with on estate planning cases and assignments, or be nominated by an NAEPC board member; and

· Have a current membership in an affiliated local estate planning council

For additional information, please visit our website at www.prwwealthmanagement.com.

For current PRW Wealth Management, LLC information, please visit the Investment Adviser Public Disclosure website at www.adviserinfo.sec.gov by searching with PRW's CRD #284669.

Index Definitions

Bloomberg Commodity – measures the price of physical commodities futures contracts traded on US exchanges, except aluminum, zinc and nickel, which trade on the London Metal Exchange. Weightings are determined by rules designed to insure diversified commodity exposure.

Bloomberg Barclays Emerging Markets USD Aggregate - The index is a flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. Country eligibility and classification as Emerging Markets is rules-based and reviewed annually using World Bank income group and International Monetary Fund (IMF) country classification.

Bloomberg Barclays Global Aggregate - An index of global investment grade debt from twenty-four local currency markets including treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. The index also includes Eurodollar, Euro-Yen, and 144A index-eligible securities, and debt from five local currency markets.

Bloomberg Barclays Global Aggregate ex USD - The index is a flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. Country eligibility and classification as Emerging Markets is rules-based and reviewed annually using World Bank income group and International Monetary Fund (IMF) country classification.

Bloomberg Sub Gold- measures the price of gold futures contracts, reflecting the return of underlying commodity futures contract price movements quoted in USD.

Bloomberg Barclays US Aggregate- measures the performance of USD-denominated, investment-grade, fixed-rate taxable bond market of SEC-registered securities. The index includes Treasury bonds, Government-related corporate, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS sectors.

Bloomberg Barclays US Corporate High Yield - The index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt.

Bloomberg Barclays US Treasury Long - The index measures the performance of long-term government bonds issued by the US Treasury. It includes all publicly issued, US Treasury securities that have a remaining maturity of 10 or more years, are non-convertible, are denominated in US dollars, are rated investment grade, are fixed rate, and have $250 million or more of outstanding face value.

FTSE US NARIET all Equity REITs – measures the performance of publicly traded US real estate securities, such as real estate investment trusts (REITS) and real estate operating companies.

MSCI ACWI - A free float-adjusted capitalization weighted index that is designed to measure the equity performance of countries considered to represent both developed and emerging markets.

MSCI EAFE - A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of countries considered to represent developed markets, excluding the U.S. and Canada.

MSCI Emerging Markets - A free float-adjusted, market capitalization index that is designed to measure the equity market performance of countries considered to represent emerging markets.

S&P 500 - An unmanaged index that is generally considered representative of the US equity market, consisting of 500 leading companies in leading industries of the US economy (typically large-cap companies) representing approximately 75% of the investable US equity market.

[i] Source: Zephyr StyleAdvisor

[ii] Source: FactSet

[iii] Source: Zephyr StyleAdvisor

[iv] Ibid

[v] Source: FactSet, MSCI Indices

[vi] Source: FactSet, Bloomberg Indices

[vii] Source: Zephyr StyleAdvisor

[viii] Source: Bloomberg Economic GDP Growth (PPP Weighted) Quarter-over-quarter seasonally adjusted annualized rate