GW&K INVESTMENT MANAGEMENT

YEAR-END INVESTMENT REVIEW 4Q 2020

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ECONOMIC COMMENTARY

By Harold G. Kotler, CFA

What if interest rates stay at 1% for an extended period of time? What if inflation lies dormant and deficits keep growing and debt as a percent of Gross Domestic Product (GDP) pushes past its present level of 100%?

I have argued for years that in a competitive global environment there will be little to no inflation, as there are enough resources and capacity in the world to maintain equilibrium. With the pandemic, however, a new argument has emerged—that all the money created by the extraordinary government intervention will be the new catalyst for inflation. But why would this be true? What if much of the liquidity is hoarded, dampening the multiplier effect? What if the money stays in banks or just finances government debt?

What if there is too much "money" chasing too few opportunities? Could this excess liquidity drive up values of other assets? There is an important need for predictable and reliable returns among institutions: insurance companies with their underwriting assumptions, colleges and foundations with their base spending requirements, and pension plans with their need to meet contractual obligations. But given the low interest-rate environment, this group may be forced to invest more creatively in a wide array of investments.

The fact is, many institutional investors have been increasing, not decreasing their allocation to bonds. Why? Because they are uncomfortable with volatility and equity valuations. But the reliance on bonds for an important component of portfolio returns almost guarantees that contractual obligations to pensioners, policy holders, and trustees will fall short.

As much as low interest rates hurt bondholder returns, they also allow the government to finance its ever-increasing debt at minimal cost. If those rates were to shoot up, the government's cost of servicing the debt could threaten its ability to meet other discretionary obligations. With a debt load of $21 trillion and rising, a 1% across-the-board increase in rates could drain billions of dollars from the budget that had been allotted for other purposes.

Hopefully one can see the "Catch-22." Higher interest rates would help investors, but devastate the government's budget and increase the overall pressure on the general economy. Low interest rates would hurt those dependent on safe assets as a source of meaningful cash flow. Investors may be forced to revisit their present asset allocation and evaluate different approaches to balance the tension between volatility and opportunity.

The good news is that the global economy will continue to grow. As more citizens of the world pursue a middle class life, they will reap the benefits of better healthcare, lower pollution, and more job opportunities. There is no chance that they will be satisfied with less. Whatever form of government may rule a country, the need to deliver on a better way of life reigns supreme. The pandemic has reinforced the realization that we all share one globe.

In some ways, the COVID-19 pandemic reminds me of the nuclear confrontation fears in the 1950s—they both serve as a reminder that we all inhabit the same planet. We find ways to live together or face mutual destruction. Nations are inherently linked. It is the same now as it was then.

Future investment returns will most likely be earned very differently from the past, as

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INDEX PERFORMANCE *12/31/20*

	QUARTER	YEAR TO DATE
Bloomberg Barclays 10-Year Municipal Bond Index	1.78%	5.62%
Bloomberg Barclays Aggregate Bond Index	0.67%	7.51%
Bloomberg Barclays High Yield Index	6.45%	7.11%
Dow Jones Industrial Average	10.73%	9.72%
S&P 500 Index	12.15%	18.40%
Russell 2000 Index	31.37%	19.96%
MSCI EAFE Index	16.05%	7.82%
MSCI World Small Cap ex USA Index	17.55%	12.78%
MSCI World Index	13.96%	15.90%
MSCI Emerging Markets Index	19.70%	18.31%

GW&K UPDATE *12/31/20*

TOTAL ASSETS UNDER MANAGEMENT	$51.4 billion
TOTAL EMPLOYEES	155
TOTAL INVESTMENT PROFESSIONALS	56

A MILESTONE

GW&K has come a long way from our humble beginnings in 1974 serving local Boston clients. We now proudly serve clients across the globe, offer a diverse range of investment solutions, and the firm recently surpassed $50 billion in total assets under management. We are honored that you have chosen to place your trust in us and we thank you. We will continue to be driven by our mission to serve each client with great care and respect and to help you meet your investment objectives.

INTRODUCING THE NEW GW&K WEBSITE

As we begin 2021, we are pleased to unveil GW&K's newly refreshed website.

Our new site reflects the many investment options we offer and also the breadth of talent that we are so proud of at GW&K. We invite you to get better acquainted with how we can serve you and to read the latest news and perspectives from our investment professionals. We are dedicated to meeting your needs with exceptional people, innovative thinking, a collaborative approach to investment management and meticulous service.

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fixed-rate bonds may no longer provide returns consistent with prior assumptions. Bonds will still represent a store of value and a hedge against dire outcomes, but the need for an acceptable return warrants a more diversified portfolio. To achieve this one needs to consider adding illiquid assets to liquid assets and adding foreign securities to domestic securities—the willingness to leave the accustomed safety of our shores. The fear of investing in foreign assets and the belief that the U.S. is the only place for safe and predictable returns will prove to be a mistake.

One positive impact of this pandemic is that it has pushed us all to reflect on how we live our lives and operate our businesses. Companies that have adjusted quickly and moved in a more tech-savvy direction have been able to grow. The ability to recognize the winners coming out of this period may need an expanded logic. If interest rates do stay at or near zero, investors will likely give new companies more runway to develop products. After all, nothing inspires patience like an alternative return of 1%, even if it is "risk free." Time will tell, but it is hardly inconceivable that current equity valuations are more than fair, and the combination of technology and low interest rates push asset prices higher both here and abroad.

With the prospect of low inflation, investors and individuals need to understand the new paradigm of risk/volatility/return. There is little doubt that volatility will generate anxiety, but diversification, patience and steadfastness will be a successful formula.

With a new year, brings new hope. We have a vaccine, a new government, and a world at peace. Stay well.

Harold G. Kotler, CFA
CEO, Chief Investment Officer

FOURTH QUARTER 2020

ECONOMY

- The end of 2020 was imbued with both hope and concern. Hope that the administration of vaccines would eventually bring a close to the pandemic, and concern as virus conditions escalated to some of the worst of the year and that a resurgence in lockdowns would put the economy back on shaky ground.
- GDP finished Q3 up 33.4%, the best on record. The Atlanta Fed estimates 8.7% GDP for Q4, which would be the next largest quarterly expansion since 1983.
- Manufacturing was robust, and finished at its highest level since August 2018. Services were healthy too, and spent the last half of the year in growth territory. The labor market continued to improve, albeit slowly. The economy added 850k jobs in Q4, while the unemployment rate fell from 7.9% to 6.7%. Still, through December there have been a net 9.4 million job losses.

FED ACTION

- The Fed remained exceptionally accommodative, with the fed funds rate projected to stay at its 0.00%–0.25% range through at least 2023.
- Asset purchases were kept at $120b/month and the program will persist until the central bank sees "substantial further progress" in inflation and employment.
- The Fed needed to make notable forecast changes. GDP estimates were adjusted higher for 2020 and 2021, while estimates for unemployment were adjusted down. The Fed's call for additional fiscal stimulus was answered by the government at year end.

BOND MARKETS

- Taxable fixed income returns were restrained in Q4, as the sustained compression in spreads was offset by higher yields in five-year and longer maturities.
- Treasuries posted their first quarterly loss of 2020. Rates at the front end remained pinned at record-low levels by the Fed. Farther out, favorable technicals were less pronounced, given the FOMC abstained from extending the duration of its holdings.
- Corporates capped an extraordinary rebound from March by closing with all-time low yields. Along with the recovery narrative, they benefited from improving credit conditions and a constructive outlook for profitability.
- Municipal bonds continued to outperform Treasuries, fueled by still-elevated demand and a scarcity of supply.

DOMESTIC EQUITY MARKETS

- U.S. equity markets soared higher in Q4, with the S&P 500 Index gaining +12.2%, driven by the approval and rollout of two COVID-19 vaccines, massive monetary and fiscal stimulus, and better-than-expected corporate earnings results.
- Small cap stocks staged a remarkable comeback from early March, notching their best quarter ever (Russell 2000, +31.4%) and outpacing large caps by an eye-popping 19.2% during the period.
- All large cap sectors delivered positive returns with value/cyclical groups including Energy, Financials, Industrials, and Materials performing best amidst a sharp rotation of market leadership. Interest-rate sensitive and defensive groups such as Real Estate, Consumer Staples, Utilities, and Health Care lagged on a relative basis.
- Value stocks outperformed Growth in Q4, but it was not nearly enough to diminish Growth's dominance for the year. Investors also demonstrated a strong preference for low quality factors.

GLOBAL EQUITY MARKETS

- The swift development of two efficacious COVID-19 vaccines saw non-U.S. equities end 2020 on a strong note. Investors also welcomed a late December UK-EU post Brexit trade deal. Currency strength remained a positive factor—the U.S. Dollar Index shed –4.2%.
- The MSCI World ex USA Index returned +15.9% in Q4, while the MSCI World Small Cap ex USA Index was up +17.6%.
- Market rotation was a key theme in emerging markets (EM) this quarter. Latin America (+34.8%), was the top performing region, thanks to currency gains and surging commodity prices. Asia (+18.9%), delivered comparatively modest results, though performed exceptionally this year, +28.3%. The MSCI Emerging Markets Index gained +19.7% in Q4.
- In EM, Information Technology was a standout performer. In developed markets, Energy rallied with oil prices, and Financials advanced globally.

MUNICIPAL BOND STRATEGIES

INVESTMENT TEAM

Nancy G. Angell, CFA	Partner, Co-Director of Fixed Income
John B. Fox, CFA	Partner, Co-Director of Fixed Income
Brian T. Moreland, CFA	Partner, Portfolio Manager
Martin R. Tourigny, CFA	Partner, Portfolio Manager
14 Municipal Investment Professionals	**22** Average Years Experience

GW&K MUNICIPAL BOND STRATEGIES

SHORT-TERM MUNICIPAL BOND

2–8 YEAR ACTIVE MUNICIPAL BOND ESG

2–8 YEAR ACTIVE MUNICIPAL BOND

MUNICIPAL BOND ESG

MUNICIPAL BOND

MUNICIPAL ENHANCED YIELD

Municipal bonds posted solid gains in the fourth quarter, driven by strong technical tailwinds. Coming into October, municipal bonds were out-yielding Treasuries on an absolute basis across most of the curve, a dynamic that reflected heavy issuance in the third quarter and lingering concerns over the financial shape of state and local governments. But it had already become clear that tax revenues across the country were recovering much faster than feared, meaning credit fundamentals were improving even before factoring in any federal relief. And after October, when municipalities floated a record volume of deals to get ahead of any federal election chaos, issuance fell off a cliff, leaving a market that was starving for yield chasing a fast-dwindling supply of bonds. As we approached year end, heavy seasonal reinvestment demand and accelerating fund flows only added to the imbalance, as did the urgency of knowing that the supply drought would likely extend well into February. And so municipal yields continued to grind lower.

While all this was going on, Treasury yields were moving higher, as a number of positive developments reduced the need for safe-haven assets. The November U.S. election proved decisive, removing the chance that a contested result could destabilize markets. Federal stimulus talks proceeded in starts and stops, ultimately culminating with a deal in late December. And perhaps most importantly, multiple highly effective COVID-19 vaccines were approved for emergency use, providing confidence that the end of the crisis was finally in sight. All these factors put upward pressure on rates, though any runaway selloff in Treasuries was kept in check by a still-vigilant Fed and a worrisome surge in coronavirus cases, which led to another series of widespread lockdowns. With municipal bonds and Treasuries heading in opposite directions, relative value ratios plunged, and by the end of the year had moved back to pre-virus levels. In fact, the 10-year municipal bond/Treasury ratio began the quarter at 127% and ended it at 78%.

Early in the quarter, an attractive trading opportunity emerged from a combination of technical dynamics, including heavy primary supply, a steepening yield curve and a mismatch in relative value ratios. Coming out of the summer, retail's preference for shorter paper helped anchor five-year rates, a development that led to relatively rich municipal bond/Treasury ratios (75–85% range) at that spot on the curve. Meanwhile, out longer, a surge of municipal bond supply pushed absolute yields higher, cheapening those ratios well into the triple digits. With demand clustered short and supply weighted out longer, we reduced exposure to the five-year area and reinvested the proceeds out further. Specifically, we targeted 2024 and early-2025 maturities in favor of maturities in the 8–13 year range. The steeper curve allowed us to pick up additional yield as well as improve our expected return from roll. We resisted selling even shorter bonds to fund the trade, preferring to keep those as a better defense against any further rise in rates. The repositioning proved well-timed as rates tumbled and the yield curve flattened over the final two months of the quarter.

As we enter 2021, it is important to revisit the lessons of last year. As we saw in March and April, the municipal bond market tends to be one-directional. With no effective way to short municipal bonds, price discovery is at the mercy of long-only investors, and when demand dries up, air pockets of volatility can emerge. But underneath the trading dynamics, which were ultimately cured by aggressive Fed liquidity, municipal credits once again demonstrated their resilience in the face of adversity and their importance as a hedge against riskier asset types. State tax receipts, expected to collapse amid the shutdown, held in remarkably well, buoyed by federal stimulus and the rebound in financial markets. Revenue sectors like toll roads, health care and higher education rebounded quickly after early setbacks. Water systems and electric utilities were barely affected, showing how airtight essential service industries can be. Even areas most plagued by the crisis, like airports, showed only modest pressure, as large cash cushions and flexible airline agreement contracts provide a crucial bridge to recovery. So, while yields are once again back near absolute lows, municipal bonds remain a stable, sleep-at-night component of a successful asset allocation strategy.

> "…municipal credits once again demonstrated their resilience in the face of adversity and their importance as a hedge against riskier asset types.… So, while yields are once again back near absolute lows, municipal bonds remain a stable, sleep-at-night component of a successful asset allocation strategy."

TAXABLE BOND STRATEGIES

INVESTMENT TEAM

Mary F. Kane, CFA	Partner, Portfolio Manager
Stephen J. Repoff, CFA	Principal, Portfolio Manager
Nancy G. Angell, CFA	Partner, Co-Director of Fixed Income
John B. Fox, CFA	Partner, Co-Director of Fixed Income
13 Taxable Investment Professionals	**20** Average Years Experience

GW&K TAXABLE BOND STRATEGIES

- SHORT-TERM TAXABLE BOND
- INTERMEDIATE TAXABLE BOND
- CORE BOND ESG
- CORE BOND
- ENHANCED CORE BOND ESG
- ENHANCED CORE BOND
- TOTAL RETURN BOND
- CORPORATE BOND OPPORTUNITIES
- SHORT-TERM FOCUSED HIGH INCOME

The fourth quarter represented a major inflection point for fixed income markets, as the most dominant trading narratives of 2020 were either resolved or significantly advanced. The closely contested U.S. election was decided, another round of fiscal stimulus was passed, and, most importantly, several COVID-19 vaccines were approved for worldwide distribution. But while some of 2020's most salient overhangs have been removed, the year ahead promises challenges of its own. On the political front, the incoming administration certainly has its work cut out for themselves at advancing meaningful legislation, with implications ranging from additional stimulus to changes in the regulatory landscape. The speed at which vaccines are distributed is likewise a point of uncertainty, to say nothing of how effective it will ultimately be at slowing the spread of the virus. Meanwhile, the economy continues its slow climb out of the recent downturn, as businesses and consumers adapt to a post-COVID-19 world. Importantly for the bond market, the possibility of adverse outcomes is likely to be mitigated by the Federal Reserve. The central bank continues to exert massive influence over capital markets, and policymakers remain clear in their intentions to ensure their smooth functioning.

The Treasury sector posted its first quarterly loss of 2020 as the yield curve extended its post-pandemic steepening. Rates at the front end remained pinned at record-low levels by the Fed's ongoing asset-purchasing program and expectations that the FOMC won't raise rates until 2023. Farther out the curve, these favorable technicals were less pronounced, given the committee's decision to abstain from extending the duration of its Treasury holdings. The sector's weakness was almost entirely concentrated at the long end, as recovery hopes and the possibility of additional stimulus contributed to a slight uptick in inflation expectations. Even after the recent backup in yields, however, rates still sit substantially below where they started the year and real rates remain mired at an anemic –1.00%, suggesting a still-cautious outlook for growth. The mortgage-backed securities sector outperformed rates, as slower prepayment speeds led to a decline in mortgage origination, while the Fed continued taking out 40% of supply.

The corporate bond market capped its extraordinary rebound from the March bottom by closing the quarter at all-time low yields across the quality spectrum. In addition to the broader economic recovery narrative, the asset class benefited from improving credit conditions and a constructive outlook for profitability. Companies also improved their financial strength by taking advantage of low borrowing costs, pushing new issuance volume further into record territory as they continued to extend maturities and reduce interest expense. This deluge of supply did little to slow the momentum of the rally, as investors seeking an alternative to $18 trillion of negative-yielding debt around the world funneled capital into the sector. Signs of financial distress continued to abate and the pipeline of potential default candidates shrunk, helping to further narrow the premium for corporate credit risk. The segments of the market that outperformed were those most levered to the post-vaccine world, namely Energy, Transports, and Basics, while recent havens like Telecom and Tech lagged.

Yields across the curve have struggled to break decisively out of their recent range, even as investors gained increasing confidence that a durable recovery is underway. Among the reasons for this apparent reticence is a lack of conviction that the Fed will be able to reach and sustain a long-term inflation target of 2%. Furthermore, even in the event that they do, investors are skeptical that the still-fragile recovery could sustain meaningfully higher rates.

We believe corporate credit remains the most compelling segment of the fixed income market as both a beneficiary of the ongoing recovery and a defense against rising interest rates. Yields available in the Treasury market sit close to historic lows at the same time as the sector's sensitivity to interest rates is near historic highs, providing a particularly asymmetrical risk profile. Credit, meanwhile, is poised to benefit not only from an improving fundamental picture, but also a notable drop-off in issuance next year that is likely to fuel a constructive supply/demand imbalance in a world where positive yields are increasingly scarce.

"Importantly for the bond market, the possibility of adverse outcomes is likely to be mitigated by the Federal Reserve. The central bank continues to exert massive influence over capital markets, and policymakers remain clear in their intentions to ensure their smooth functioning."

DOMESTIC EQUITY STRATEGIES

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director of Equities
Joseph C. Craigen, CFA	Partner, Portfolio Manager
Jeffrey W. Thibault, CFA	Partner, Portfolio Manager
Jeffrey O. Whitney, CFA	Partner, Portfolio Manager
Aaron C. Clark, CFA	Principal, Portfolio Manager
12 Equity Investment Professionals	**22** Average Years Experience

GW&K DOMESTIC EQUITY STRATEGIES

EQUITY DIVIDEND PLUS

DIVERSIFIED EQUITY

SMALL/MID CAP CORE

SMALL CAP VALUE

SMALL CAP CORE

SMALL CAP GROWTH

> "Our confidence is high that the economy will return to solid footing as the pandemic comes to an end, hopefully around mid-year."

The expression, or some would say the curse, "May You Live in Interesting Times" certainly applied to 2020. The COVID-19 pandemic surely wreaked havoc with economies around the world, but thanks to an aggressive monetary response, several rounds of fiscal stimulus, and heroic work on vaccine development, stock markets have generally looked through the pandemic in anticipation of a return to growth in 2021 and beyond. While the recent surge in COVID-19 cases has surely slowed progress this winter, especially in the U.S. and Europe, it has not been enough to diminish the optimism.

The U.S. stock market, as measured by the S&P 500 Index, reflected this optimism, hitting an all-time high on the last day of the year. The fourth quarter gain of +12.2% capped off a stunning recovery from the March lows, resulting in a full-year gain of +18.4%. All market sectors posted gains for the quarter, especially the more economically sensitive sectors, led by Energy's +28% recovery and only slightly less robust gains by Financials, Industrials and Materials. More defensive Real Estate, Consumer Staples and Utilities sectors lagged, while still posting reasonable mid single-digit returns. For the full year, however, the biggest gains were still registered by the mega-cap heavy Information Technology, Consumer Discretionary and Communication Services sectors. And despite Energy's fourth quarter rally, it was still down by over –33% for the year. With interest rates at record lows, the interest-rate sensitive Real Estate and Financials sectors also posted losses for the year.

The Russell 2000 Index of U.S. small cap stocks, had an even more schizophrenic ride. After the first quarter's record –33% decline, the Index rallied strongly to post a record advance of +31.4% for the fourth quarter, and end the year with a gain of +20.0%. While the same economically sensitive sectors were among the quarter's leaders in small cap, they were joined by Information Technology. All five sectors reported gains of +32% or more. For the year, the winning sectors also mirrored large caps, with one important addition, the leading performance by the biotech-heavy Health Care sector, up +42%.

Small cap's record-setting fourth quarter performance also capped a stunning reversal of fortune versus large caps. The quarter's +19% difference was more than sufficient to push small cap performance ahead of large by about +1.5% for the full year. While the more economically sensitive Value style was clearly in favor in the fourth quarter, it was by no means sufficient to close the performance gap versus Growth for the full year.

In reviewing our comments from prior quarters, we are struck by the number of concerns raised during this unprecedented year, spanning all categories: social, economic and (geo)political. While there is no need to repeat them here, ultimately none impacted the upward trajectory of the market. But per usual, things are not all rosy. Once the new administration is in place, we suspect markets may refocus on some of the issues at hand: global trade, relations between China and the developed world's democracies, Iran, domestic strife, large fiscal deficits, etc.

Nonetheless, fiscal stimulus plus dovish monetary policy are successfully getting us across the current COVID-19 induced economic chasm. Indeed, the Democratic control of Congress makes it likely that even more fiscal stimulus is just around the corner. The successful vaccination program greatly increases the likelihood of solid economic growth in 2021 and beyond once the pandemic is behind us.

Our confidence is high that the economy will return to solid footing as the pandemic comes to an end, hopefully around mid-year. Pent-up demand should drive solid consumer spending, especially in areas related to travel and leisure. And industrial demand should improve as well, as supply chain issues are resolved and inventories are restocked.

Lastly, our hearts go out to all who have struggled or lost loved ones in this pandemic. While we turn our knowledge and analysis into numbers and ratios and buys and sells, we acknowledge that the real world is measured in very different and personal terms. We sincerely wish for a return to normalcy for us all in 2021.

GLOBAL EQUITY STRATEGIES

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director of Equities
Reid T. Galas, CFA	Partner, Portfolio Manager
Karl M. Kyriss, CFA	Principal, Portfolio Manager
8 Equity Investment Professionals	**23** Average Years Experience

GW&K GLOBAL EQUITY STRATEGIES

GLOBAL SMALL CAP

INTERNATIONAL SMALL CAP

"We believe the year marks a significant change, a regime shift, where the drivers of the last decade give way to a new set of variables. Some of these were initiated or accelerated by COVID-19, but will continue to drive markets long after the virus has passed."

Global developed markets continued their rally all through the fourth quarter and into year end. The MSCI World ex USA and the MSCI World ex USA Small Cap Indexes finished the quarter up +15.9% and +17.6%, respectively. Both indexes followed remarkable paths during the year; for example, the MSCI World ex USA Small Cap Index fell almost 30% in the first quarter only to rally by nearly 60% to end the year at all-time highs. Meanwhile, the U.S. dollar continued its decline in the quarter, falling another –4.2% on a trade weighted basis.

Markets were again up across every region and sector. In fact, not a single country was down. Geographically, Asia was the laggard (+11.6%), while North America (+20.6%), Europe (+21.7%), and the Middle East (+26.6%) had exceptional returns. Ireland (+47.4%) and Norway (+32.7%) had the best returns, while Japan (+8.0%) and Singapore (+10.1%) had the worst. On a sector basis, Energy (+33.8%) rebounded sharply as the top performer, followed by Industrials (+21.4%) and Materials (+21.3%). Consumer Staples (+5.1%), Health Care (+7.2%) and Communication Services (+14.7%) all lagged. These sector returns highlight the sharp leadership change that occurred in early November with the U.S. election, and vaccine approvals changing the market focus to the post COVID-19 recovery.

Global stocks endured at least four distinct markets in 2020. The year started with markets stretched and global growth starting to slow. We were expecting a difficult year, but the global pandemic was a surprise, which started to impact non-U.S. markets in February, leading to a sharp, but brief selloff that reached a nadir in late March. Unprecedented financial and fiscal stimulus ignited a relief rally that began to peter out in October only to receive another boost from positive vaccine results in early November. With the end of the virus within sight (if still a ways off), and the stimulus continuing, the markets ended 2020 at all-time highs.

We believe the year marks a significant change, a regime shift, where the drivers of the last decade give way to a new set of variables. Some of these were initiated or accelerated by COVID-19, but will continue to drive markets long after the virus has passed. Japan's equity market is poised on the cusp of breaking out of a 30-year trading range. The European Union (EU) took a major step in mutualizing debt with its COVID-19 stimulus package, providing a precedent for a common fiscal policy. The UK completed Brexit, which will end up being a coda to the previous phase of the EU, and allowing closer integration among the remaining nations. The size of government stimulus and, more importantly, the switch from a decade of central bank driven monetary stimulus to directly distributed and politically controlled fiscal spending may mark the end of the 40-year inflation moderation. The weakness in the U.S. dollar and strength in commodity indexes are potentially early signs that something has already changed. Finally, the demographic trends that have been approaching for decades are almost here.

This year has also seen some amazing successes and positive trends in key technologies that could unlock long moribund productivity growth. The fastest vaccine development in history highlights the changes within life sciences that will likely be applied to other diseases. The commercialization of space has begun. Advances in non-carbon energy (renewables, fusion, and hydrogen) may make solutions to previous intractable problems possible. In addition, applications of new computer technology, such as quantum computing, will potentially disrupt many stagnant industries providing investors both opportunities and risk.

Near term, there is a risk that the market has high expectations for a return to normal in the second half of 2021. Any disappointment in vaccine efficacy, tightening of central bank policy (or premature ending of fiscal stimulus), or just a disappointment in the strength of a post COVID-19 economic recovery would lead to a negative repricing of market risk. But, as 2020 has clearly reminded us, forecasting the future is difficult. We were able to successfully navigate a treacherous year by sticking to our time-honored process and do not see any reason for that to change. Our approach to global equity remains: own attractively priced, quality businesses with robust balance sheets, run by capable and trustworthy managers, and the future will take care of itself.

EMERGING MARKETS EQUITY STRATEGIES

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director of Equities
Pablo Salas	Partner, Portfolio Manager
Nuno Fernandes, CFA	Vice President, Portfolio Manager
Thomas A. Masi, CFA	Vice President, Portfolio Manager
Bradley J. Miller, CFA	Vice President, Portfolio Manager
William P. Sterling, Ph.D.	Global Strategist
18 Equity Investment Professionals	**27** Average Years Experience

GW&K EMERGING MARKETS EQUITY STRATEGIES

EMERGING MARKETS EQUITY

EMERGING MARKETS EQUITY ADR

EMERGING WEALTH EQUITY

EMERGING WEALTH EQUITY ADR

Emerging market (EM) equities posted a stellar return of +19.7% in the fourth quarter, reflecting growing confidence that the global economy would experience a robust economic recovery in 2021. The fourth-quarter surge left the MSCI Emerging Markets Index with a gain of +18.3% for 2020 compared to a +15.9% gain for the MSCI World Index of developed market (DM) equities. A basket of EM currencies gained nearly 4% against the U.S. dollar in the fourth quarter, led by Latin American currencies which advanced +11% for the quarter. The slide in the U.S. dollar also helped boost commodity prices, with the CRB U.S. Spot Raw Industrials Index gaining +11% in the fourth quarter, while the WTI Crude Oil price gained +21% over the same period.

The most significant news event in the quarter was the announcement in early November of several highly effective vaccines with the potential to end the pandemic. That helped market participants shrug off concerns about near-term economic risks associated with accelerating coronavirus infections in Europe, Japan, South Korea and the U.S. The U.S. election result also raised hopes that the incoming Biden administration would help reduce global trade tensions, as did a last-minute deal over Brexit between the European Union and the U.K.

The vaccine news and political developments came against a backdrop of highly expansive monetary and fiscal policies adopted by many leading DM and EM nations. According to Bank of America Global Research, a cumulative total of $22 trillion of stimulus measures were announced in 2020, including $14 trillion of fiscal stimulus and 190 rate cuts. Key fiscal policy developments in the quarter included America's newly enacted $900 billion stimulus package along with the European Union's $900 billion pandemic relief package that will be financed with jointly issued debt.

The combination of economies emerging from lockdowns and strong economic stimulus measures has delivered a global recovery that appears set to continue in 2021. According to an estimate by economists at J.P. Morgan, the global economy grew at a remarkable +39% annual rate in the third quarter after having contracted at an –18% rate in the previous quarter. On a calendar-year basis, they project global growth of +5.4% in 2021 following a decline of –3.9% in 2020.

EM nations are expected to lead, with growth of +7.1% in 2021 after a modest decline of –1.9% in 2020. The most dynamic growth in 2021 is expected to come from EM Asia, with China projected to grow by +9.2% and India by +12.2%. EM Asia overall is expected to grow +8.5% in 2021 compared to growth of only +3.8% and +3.4%, respectively in the EM regions of Latin America and Europe, the Middle East, and Africa (EMEA).

Asia's expected growth advantage was reflected in equity market performance in 2020, with EM Asia posting a gain of +28.4% compared to losses of –13.8% and –7.6%, respectively for the EM Latin America and EMEA regions. That said, EM Latin America was a standout performer in the fourth quarter, gaining +34.8%, compared to +18.9% in EM Asia and +14.3% in EMEA. This reflected a general pattern in global markets in the wake of the vaccine news for certain industries, countries, and currencies that had been hit hardest by the pandemic to gain the most on prospects for the pandemic to end.

All EM equity sectors posted gains in the fourth quarter, with some sectors that had lagged earlier like Materials, Financials, Industrials, and Utilities leading with robust gains in the +20% to +30% range. The strongest sector in the fourth quarter was Information Technology, with a +34.2% gain for the quarter and an impressive +60.1% gain for the year. Two of the weakest sectors in the fourth quarter, Energy and Real Estate, were also weakest for the year based on structural headwinds. However, two of the other weakest sectors in the fourth quarter, Communication Services and Consumer Discretionary, were among the top performers for the year, but were buffeted by a shifting regulatory climate in China.

We continue to believe that global economic recovery is the most likely scenario for the next several years, along with a secular decline in the dollar as the U.S. tries to finance massive deficits at near-zero interest rates. If history is any guide, EM equities are well positioned to benefit from both economic recovery and potential dollar weakness.

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