Commentary

Highlights

- Markets rallied in Q2 as investors try to look through near-term uncertainty and hope for better days ahead.
- Unprecedented monetary and fiscal stimulus attempts to provide a backstop to the economy and financial markets.
- Uneven economic recovery and upcoming U.S. presidential election could be sources of volatility over the near term.

Markets Rally in Q2 as Investors Wade Through Uncertainty

Following a historic Q1 selloff in risk assets when the S&P 500 Index declined over 30% in the fastest bear market in history, Q2 saw a significant reversal higher with the S&P 500 Index up roughly 20%.[1] This V-shaped reversal surprised many investors as there appeared to be a big disconnect between the rising stock market and the weakening economy.

Significant uncertainty remains due to the continued spread of COVID-19, the questionable stability of an economic recovery and the pending results of the U.S. presidential election in November. Valuations across risk assets are no longer as attractive as they were in March, so caution is warranted over the short term, in our opinion.

Reasons for Market Rally in Weak Economic Environment

In our opinion, the *magnitude* of the market reversal was a bit surprising but not the reversal itself. We are often asked how the market could rally with weak economic data reaching historic levels.

Investors attempt to predict what will happen in the future based on anticipated new information (better or worse), rather than what is known today or in the past. We believe investors have been trying to look through the *current* bad news and economic weakness for *future* better news and economic data. Over the short term, there can be a number of reasons why financial markets rise or fall, regardless of short-term fundamentals or valuations.

Significant liquidity and support by Fed and U.S. government. The U.S. Federal Reserve provided an unprecedented level of liquidity to the financial markets. This liquidity was meant to help provide a backstop to credit markets and ultimately other risk assets, including equities. The U.S. government also provided a significant amount of fiscal backstop to the economy through business loans, unemployment benefits and direct cash payments to U.S. citizens.

This powerful combination of monetary and fiscal support was meant to put a floor under economic activity. With the U.S. economy potentially saved from a downward spiral, investors could find some comfort and look forward to better days. This moved investors back into the financial markets, pushing risk assets higher.

Valuations across risk assets became more attractive. Investors that had been concerned with market valuations prior to the selloff and were waiting for their chance to add to risk assets had their chance to do so in late March. Following the recent rally though, valuations are no longer as attractive, in our opinion.

Better understanding of COVID-19. Investors faced great uncertainty with the potential global health risk from the spread of COVID-19. As data increasingly showed a potentially higher survival rate, the risk of a prolonged economic shutdown appeared less of a concern. As companies around the world announced positive initial test results on therapeutics and potential vaccines, investors became more positive on surviving the pandemic and avoiding a worst-case scenario. If the global economy could reopen and corporate profits get back to some sort of normalized level over the next year or two, investing now made sense, so investors had another reason to push risk assets higher.

Short sellers taking profits or cutting losses. Short sellers make investment decisions to profit from falling prices. If prices move higher, short sellers lose money. When equity prices were falling in March, short sellers' positions were increasingly profitable. As the market rebounded from March lows, short sellers may have found an opportunity to take profits and buy back stocks to close out their short positions. Short sellers that were still bearish and short their stocks may have also had to buy back stock to cut their losses in a rising market. When markets move significantly higher after a material selloff in a short period of time, short sellers reversing their positions and buying back stock can be a strong contributor to a sharp market rally.

Investors' fear of missing out. When investors were worried about the economic worst-case scenario, many quickly reduced exposure to risk assets. As investors saw markets move quickly higher, there may have been a fear of missing out on the rally, which pushed investors quickly back into the market, even as current fundamentals remained weak.

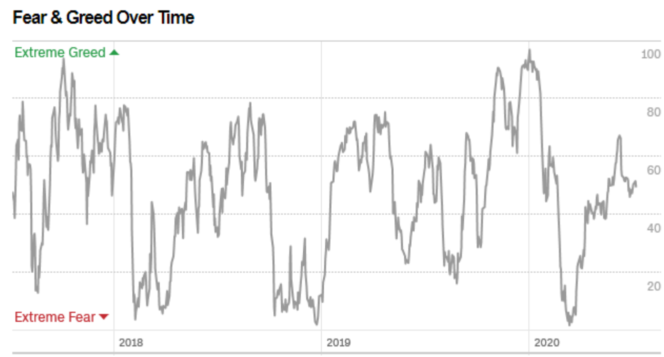
Momentum in technology and "stay-at-home" stocks. As investors assessed the opportunities in equities, they gravitated to higher quality companies that could survive the pandemic and those newer companies that could thrive in a "stay-at-home" economy. This pushed investors into large cap technology-related companies (Microsoft, Amazon, Apple, Netflix, etc.) as well as other more speculative growth companies (Tesla, Zoom, Peloton, etc.).

As investors saw these types of companies' stocks doing well, investors continued to ride the momentum wave higher without many reasons to sell, pushing these companies' stocks even higher. Momentum is a powerful force, especially when the investment thesis appears sound.

Emotions Often Drive Financial Markets

Emotions often drive financial markets over the short term rather than by longer-term economic data or company fundamentals. According to the CNN Fear Greed Index[2], the index reached a low in March, indicating significant pessimism, which correlated to market declines. Oftentimes, when fear is prevalent, longer-term investors can take advantage during a market selloff. As markets started to rebound in April, some of the fear subsided. As the market continued to rally, there may have been an emotional fear of missing out by investors, resulting in a rush back into markets and pushing risk assets higher than would otherwise be justified by fundamentals.

As of July 7, 2020, the CNN Fear Greed Index measured a 49 reading (measured 0-100), indicating a neutral emotional market, which is neither overly bullish nor bearish. This may translate into a cautious market that has already enjoyed a healthy rally, but still trying to assess the remaining uncertainty around COVID-19, the ability of the economy to bounce back strongly and the upcoming U.S. presidential election. A neutral emotional state may result in neither a substantial downturn nor material upside over the near term.

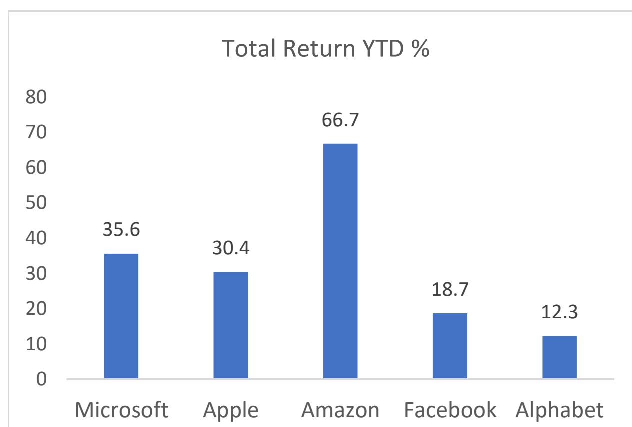


Source: CNN Fear & Greed Index [2]

Understanding Market Index Composition is Important

Market index composition is also very important to understand the drivers of market performance. This is particularly important for the market cap-weighted U.S. equity S&P 500 and Nasdaq-100 indexes.

The S&P 500 Index and Nasdaq-100 Index consist of several U.S.-listed companies, but the concentrations in a select few very large technology-related growth companies are significant. Microsoft, Apple, Amazon, Facebook and Alphabet (Google) account for roughly 20% of the S&P 500 Index and account for roughly 45% of the NASDAQ 100 Index. The strong performance of these companies' stocks this year has driven a large contribution of performance for the broad U.S. equity indices.

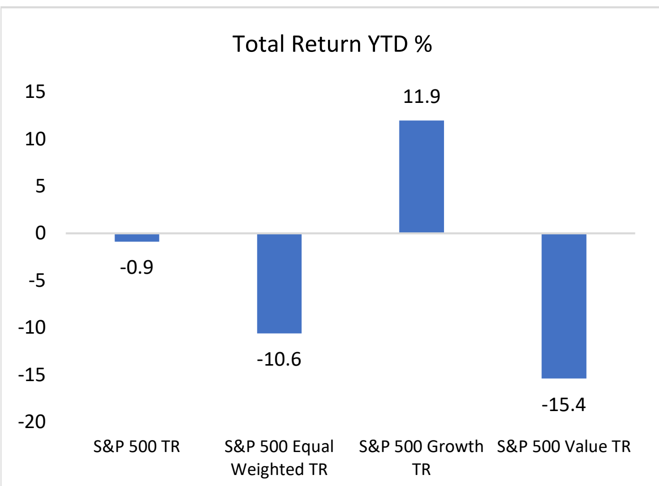


Source: Morningstar Direct[3] Dates: 1/1/20 – 7/9/20

A good comparison of the impact of these companies on equity market index performance is to compare the performance of the traditional S&P 500 Index, a market cap-weighted index, to the equal-weighted S&P 500 Index. The equal-weighted index equally weights each company in the index and significantly reduces the impact of those five companies on its performance.

Year-to-date, the market cap-weighted S&P 500 Index is down roughly 1% for the year, but the equal-weighted S&P 500 Index is down over 10% for the year.[3] The heavy weighting of the five companies in the market cap-weighted index has been a key contributor to the S&P 500 Index's performance and much less of a contributor to the equally-weighted index.

Another way to look at the divergence in performance year-to-date is the performance of growth stocks versus value stocks. The S&P 500 Growth Index has substantially outperformed the S&P 500 Value Index year-to-date. Investors have been willing to pay up for growing companies (maybe too much), relative to slower growing companies trading at lower valuations.



Source: Morningstar Direct[3] Dates: 1/1/20 – 7/9/20

Our FWA-managed portfolios are allocated across business sectors and growth/value companies. Our exposure to growth companies has been beneficial, while our exposure to value companies has dragged on the portfolios a bit. This year has shown that over shorter periods of time, select areas of the market can do very well versus other areas. As longer-term investors, we prefer to take the longer-term view and rebalance portfolios when certain areas of the market hit potential extremes, a period that we may be in right now.

It is uncertain as to how long the strong outperformance of a few large cap technology-related companies and growth stocks in general can persist in driving market cap-weighted U.S. equity indices higher. The question that remains is how the market cap-weighted indexes may perform if these companies' stocks start to underperform or weaken.

For investors invested in market cap-weighted indexes, it is extremely important to understand the composition of those indexes and is particularly helpful when trying to determine the current and future sustainability of market index performance.

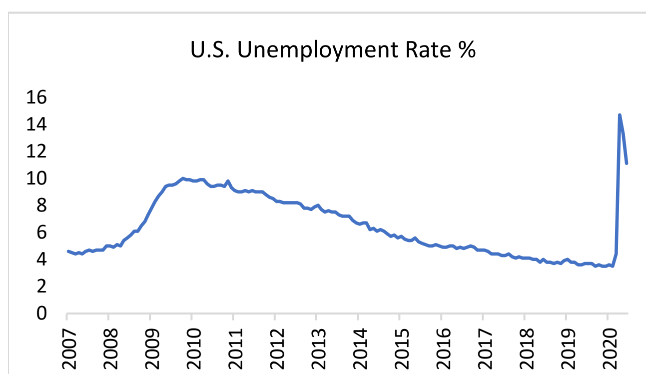
Recent Bright Spots in the Economy

The market rally was not just driven by short-term factors or by a divergence in market performance leadership. There have been recent bright spots in the economy as well.

The June 2020 Non-Manufacturing ISM, which provides an indication of the health of the U.S. services sector, jumped to 57.1, up from 45.4 in May.[4] The June 2020 Manufacturing ISM also jumped to 52.6, up from 43.1 in May.[5] Another U.S. service economic indicator, the IHS Markit U.S. Services Business Activity Index, jumped to 47.9 (still indicating contraction) in June from 37.5 in May.[6] A reading above 50 indicates economic expansion.

Source: IHS Markit[6]

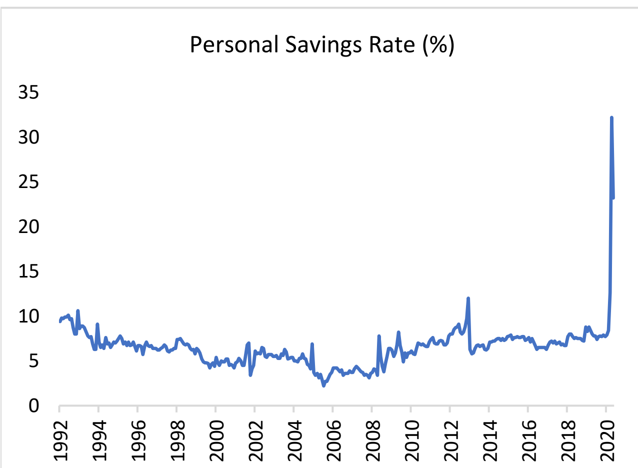
Employment numbers have also improved. Non-farm payroll employment rose by 4.8 million in June, up from 2.7 million in May, and the unemployment rate fell to 11.1%.[7]



Source: Federal Reserve Bank of St. Louis, FRED[7]

It is encouraging to see improving economic data, but these numbers come off a very low base when U.S. citizens were asked to stay home, and companies were holding back spending as uncertainty was rampant. Time will tell how much of the economic bounce was from short-term, unsustainable pent up demand from people and businesses eager to spend after the lockdown period. It is also uncertain as to how many businesses will bring their full workforce back and when. Investors may need to see more sustainable economic activity rather than a short-term spike from very low levels.

Consumers have held back spending over the last few months as the economy was on lockdown, but there may be ample spending power going forward to help sustain economic activity. According to the U.S. Bureau of Economic Analysis Personal Income and Outlays data, the Personal Savings Rate jumped to a record-shattering high of 32%, more three times the normal savings rate.[8] If we get to some sort of normalcy in the coming months/quarters, consumers may have a lot of spending power from savings to put to work.



Source: Federal Reserve Bank of St. Louis, FRED[8]

Unresolved Issues Remain

Although the market rebounded strongly in Q2, uncertainty remains around the containment of COVID-19, economic reacceleration, the U.S. presidential election and the sustainability of monetary and fiscal stimulus.

COVID-19 Continues to Spread

There has been a sharp increase in COVID-19 cases the last few weeks as quarantine restrictions are lifted, and local economies try to reopen. If cases continue to increase, there may be renewed hesitation for people to congregate and spend, with questions as to how quickly local economies can get back to a higher level of activity. We do not anticipate another costly national shutdown, but there could be localized efforts to try to stop an outbreak of the virus, resulting in an uneven economic recovery.

The uncertainty of schools reopening may also be a drag on the economy. If parents need to adjust work schedules to stay at home and resume teaching responsibilities, productivity could decline and negatively impact economic growth potential.

Proven therapeutics and a vaccine may be needed for a sustained level of comfort to try to get back to stronger, sustainable economic activity. Several health companies around the world are attempting to find solutions, and we are hopeful that a positive outcome will be achievable sooner rather than later.

Sustainability of Economic Rebound and at What Level

Unemployment levels remain high, and if companies find they can remain productive with less workers, the unemployment rate could remain stubbornly higher for longer. Several industries may be impacted for much longer (airlines, retail, dining), resulting in business closures and additional layoffs yet to occur.

Although unemployment could remain higher for some time, there are millions of U.S. citizens employed by profitable companies willing to spend and keep the U.S. economy moving forward.

U.S. Presidential Election

The U.S. presidential election in November is another uncertainty that could cause near-term volatility in the markets. Recent poll numbers show that former Vice President Joe Biden (Democrat) is leading President Donald Trump (Republican).

Under the Republican leadership the last few years, corporate tax cuts provided a boost to corporate profitability, providing support for stock buybacks, dividend payments and higher stock prices. One of the biggest investment concerns with a potential Joe Biden presidential win is a rollback of these taxes and the impact on corporate profitability.

Offsetting the tax rollback concern of a Joe Biden win may be an increased preference for infrastructure spending and potentially less political volatility with trade partners. These are potential factors that investors may consider positives for risk assets.

Pushing through political priorities will also depend on any change in control in the U.S. Senate, with Republicans currently holding the majority. It may not be known until election night how much policy change could be implemented, and this may keep financial markets volatile until then.

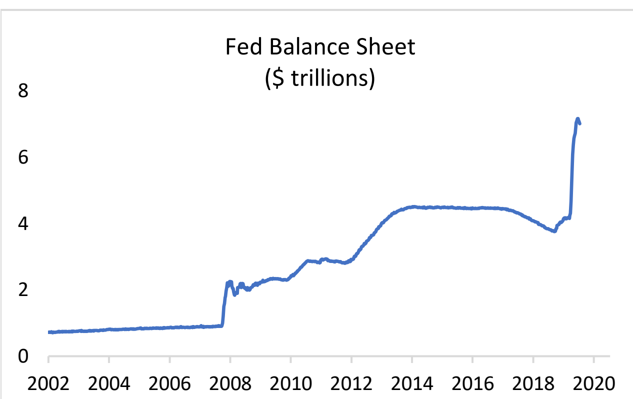
Sustainability of Monetary and Fiscal Stimulus

With the unprecedented amount of monetary and fiscal stimulus needed to support the economy and financial markets, investors should be concerned when this support could be taken away. Investors may be over reliant on stimulus.

We know that politics are polarizing and finding continued political support to provide economic stimulus remains uncertain. We saw the impact of the Federal Reserve try to raise interest rates in 2018, only to see a sharp selloff in risk assets in Q4 of that year.

State and local governments appear to be under stress as many have requirements to maintain balanced budgets. If these local economies cannot support their budgets, cuts in services and government spending may be forthcoming. This could further reduce economic activity. Support from the federal government may be needed to help.

We are concerned that financial markets have been subsidized by ongoing monetary and fiscal support that may not be sustainable. The U.S. Federal Reserve has continued to provide monetary stimulus for over a decade, which may have pushed risk assets to higher levels than they should be. Although a material reduction in stimulus may not be an issue in the short term, we are concerned over the longer term.



Source: Federal Reserve Bank of St. Louis, FRED[9]

Investment Strategy

Market Rebound May Be Pulling Forward Returns

The Q2 rally in risk assets was welcome following the steep selloff in Q1. We are increasingly cautious and believe markets could be volatile in an uneven economic recovery over the coming quarters as we wait for a COVID-19 vaccine and get closer to the U.S. presidential election. Due to the significant rally in risk assets in a weak economic and corporate environment, returns may be muted going forward.

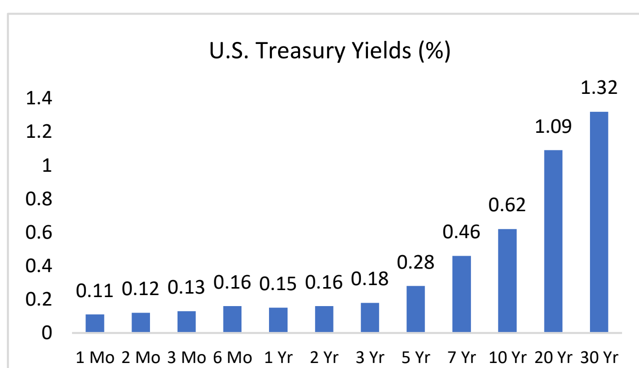
In our opinion, a healthy market environment would be for a multi-month/quarter price consolidation and investors slowly embracing economically-sensitive areas of the market. This would give the market time to digest recent gains in some of the strong balance sheet technology-related growth companies, get us through the U.S. presidential election, provide more time for COVID-19 medical developments, and show some evidence of anticipated economic reacceleration into 2021.

Equity Valuations Increasingly a Concern

Following the recent rally in broad equity markets, valuations are increasingly a concern. We have seen some recent bright spots in the economy, but we are uncertain about the sustainability of recent economic gains over the coming months. Investors have flocked to growth companies pushing valuations higher, but some metrics are reaching what we believe to be unsustainably high price multiples going forward.

We believe the denominator (earnings, sales, book value) of price multiples (P/E, P/S, P/B) may be only temporarily depressed, resulting in higher price multiples, but investors may be overly optimistic on the ability for the denominator to move substantially higher over the short term. This may keep a lid on price appreciation for equities over the short term as earnings, sales and book value try to catch up to elevated equity prices.

With U.S. Treasury yields remaining at extremely low levels (0.62% on the 10-year Treasury[10]), investors may feel that there are limited alternatives to generate returns. This may be pushing long-term investors heavier into equities, resulting in higher equity valuations relative to longer-term averages. Investors can only take or leave what financial markets give them. It appears investors are currently willing to accept higher equity valuations for potentially higher longer-term returns relative to lower yielding longer-term bonds.



Source: U.S. Department of the Treasury. July 9, 2020[10]

Credit Markets Remain Attractive

Credit markets have also rallied in Q2, but credit-sensitive bonds continue to provide better yields than U.S. Treasuries, and spreads remain higher than they have been in years. The U.S. Federal Reserve has indicated its continued support to bond markets, which may provide a solid backstop to credit. Although valuations are not as attractive as they were in March, we believe credit markets continue to offer some value in this market environment.

Take Advantage of Volatility and Invest for the Long Term

Investors often forget than when investing in stocks and bonds, they are investing in actual companies and bonds that are expected to generate sales, earnings and cash flow. Over the short term, stock and bond prices can move wildly based on news headlines and other factors as mentioned earlier in this quarterly commentary.

Company fundamentals do not generally change that quickly in a normal market environment. When market prices move significantly and quickly in any one direction, it can be due to short-term traders, leveraged players and computer trading algorithms that drive these market movements. In these volatile environments, longer-term investors with simple rebalancing strategies can take advantage.

If investors are prepared for periods of significant bouts of market volatility, they will be less surprised when it happens. If investors remain diversified, invest for the long term and rebalance when markets move to extreme highs or lows, investors may have a better chance to achieve their longer-term financial objectives.

FWA Portfolios Rebalancing and Risk Adjustments

With the significant market volatility in Q1 and Q2, we found several opportunities to rebalance client accounts in the FWA-managed portfolios. Rebalancing opportunities are generally made when portfolio positions in an account are out of their target tolerance ranges. This often occurs after market selloffs and rallies, which we saw both over the last six months. The timing of rebalancing occurs on an account by account basis and is dependent on the portfolio holdings and target weightings.

Rebalancing and portfolio risk adjustments in Q1 and Q2 resulted in much higher trade activity than otherwise would be anticipated in the FWA-managed portfolios. Assuming market volatility is much more subdued going forward, we anticipate less trade activity for client accounts.

For most of our portfolios, we allocate to active equity and bond managers that are positioning their portfolios according to their investment strategies. Although these managers are actively trading their portfolios, this is not experienced as trading activity in client accounts.

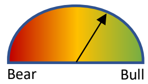
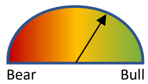
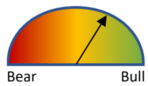
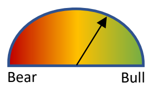
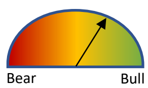
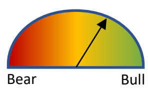
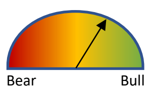
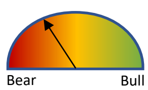
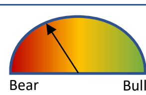
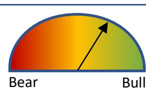
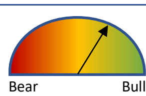
In our last quarterly commentary, we mentioned the de-risking of our FWA-managed portfolios in March and an intention of re-risking portfolios back to longer-term risk targets when we had better clarity around COVID-19 and the global economic slowdown. When we did have some clarity on the environment in Q2, we incrementally increased risk across portfolios back to longer-term risk targets.

In hindsight, it may have been better to not reduce risk exposures across our portfolios in March. At the time, the significant uncertainty and unprecedented global economic slowdown led us to the risk reduction in March to attempt to protect clients from a potentially much worse situation. We are excited to get back to our structural risk targets across the FWA-managed portfolios and to manage the portfolios to their full potential going forward.

The COVID-19 pandemic was evidence that a black (or grey) swan event can happen without much warning. Many investors have now lived through multiple recessions, wars and now a pandemic and global economic shutdown. These events serve as reminders that significant market moving events can happen at any time, and that investors should stay aligned with their investment objectives and financial goals over the long term.

It is important to understand one's risk tolerance and investment style to make sure investment strategies can be maintained through any type of market environment. If you have any questions, please contact your dedicated FWA financial advisor for additional support. We are here to help.

FWA INVESTMENT COMMITTEE VIEWPOINTS

Asset Class	Bear Bull	Viewpoints
Risk Assets		Risk assets may continue to be supported by an anticipated global economic recovery, increasing potential for a vaccine and therapeutics to fight COVID-19, monetary stimulus from global central banks and fiscal spending from governments. Following the significant rally in risk assets and higher valuations amidst remaining uncertainty, we reduced our bullishness one level.
U.S. Equities		Investors continue to gravitate to high-quality growth stocks and more speculative disruptive growth companies, while remaining wary on economically-sensitive areas of the market. Valuations appear a bit stretched relative to history in a weaker economic environment but may be attractive enough for longer-term investors relative to the low return potential of high-quality bonds. Investors should be prepared for potential volatility if the economic recovery is not as strong as hoped and the upcoming U.S. presidential election drives fiscal policy uncertainty.
Foreign Developed Equities		European and Asian markets continue to fight the negative economic impact from COVID-19 with monetary and fiscal support. Foreign developed markets lack some of the stronger growth companies that U.S. equity markets have resulting in underperformance over the years, but valuations appear attractive for those seeking diversification into foreign equity markets.
Emerging Market Equities		China continues to show signs of an economic recovery, which may support Chinese and other emerging markets' equities. Longer-term secular growth drivers remain, and valuations appear attractive. A stable U.S. dollar could reduce the headwinds emerging markets experienced the last few years, a potential positive going forward.
High Yield Bonds		Credit spreads remain wider than average, with room to tighten. A supportive Federal Reserve could keep spreads from significant widening in an uncertain economic environment. This may keep income investors attracted to high yield corporates relative to low yielding government bonds and broader equity markets trading at above average valuations.
Emerging Markets Debt		Yields across emerging markets debt appear attractive relative to developed market bonds. Volatility could persist if the global economic recovery is weaker than anticipated. Prefer to allocate to an active manager that can take advantage of currency dislocations in this space.
Commodities		Oil prices currently trade around $40/bbl but may need stronger catalysts to move sustainably higher. Gold prices have yet to break above a multi-year trading range, but if it does, it could continue to move higher. Economically-sensitive industrial metals and agriculture may need sustained evidence of an economic reacceleration to move higher.
Conservative Assets		Interest rates remain low and global central banks appear willing to keep rates low until an economic recovery is well underway. If a sustained economic recovery materializes, interest rates may move higher pushing bond prices lower. Prefer to remain underweight interest rate risk due to an anticipated economic recovery and interest rates moving higher from low levels.
U.S. Government Bonds		Low yields on U.S. Treasuries across the yield curve remain unattractive at these levels. Prefer shorter-dated, less interest rate-sensitive corporate bonds over government bonds.
U.S. Corporate Bonds		Investors continue to gravitate to investment grade corporate bonds as the Federal Reserve provides liquidity support to the bond markets. Spreads remain wider than the last few years, with room to tighten. Prefer less interest rate-sensitive corporate bond exposure.
Other		Anticipate increased volatility due to an uneven economic recovery and upcoming U.S. presidential election. Investors could consider some hedges on U.S. equities and interest rates in this environment.

FWA INVESTMENT COMMITTEE

Eric Kulwicki, CFA
Senior Portfolio Manager
As the Senior Portfolio Manager, Eric leads the Freedom Wealth Alliance Investment Committee to determine investment strategy, drive research and construct multi-asset portfolios with a focus on managing risk for clients.

Kurt Rozman
President
Kurt is the President of Freedom Wealth Alliance, a full service and fast growing financial services firm founded in the Midwest. Kurt has spent over 25 years of his professional career managing a variety of tactical investment strategies for clients.

Shawn Hittman
Advisor
Shawn has been conducting in-depth analysis of the financial markets and building model portfolios for nearly 20 years. Shawn advises on macroeconomic trends and assesses where potential values and risks exist in the markets.

FREEDOM WEALTH ALLIANCE MANAGED PORTFOLIOS

U.S. CORE PORTFOLIOS

The FWA U.S. Core portfolios provide long-term exposure to core U.S. equity and bond markets. The portfolios may have some exposure to non-core markets, including foreign assets and lower quality fixed income. The portfolios are structured to participate in the upside of bullish U.S. equity and credit markets. The portfolios' risk exposure is not tactically managed by Freedom Wealth Alliance and can result in poor performance in weak U.S. market environments.

The U.S. Core portfolios' exposure to equities and credit significantly contributed to the portfolios in Q2 as risk assets rallied. The portfolios exposure to managers that invest in growth companies added value as investors preferred exposure to growth in a growth-challenged world. Exposure to large and small cap enhanced-index strategies also positively contributed to the portfolios in the quarter. On the fixed income side, exposure to credit-sensitive bond managers added value as credit markets outperformed government bonds.

In late March, due to the significant uncertainty around COVID-19 and the historic economic slowdown, we reduced exposure to equities and credit markets in the U.S. Core portfolios. As we became more comfortable with the environment, we incrementally increased equity and credit risk back into the portfolios in early April, May and June. The underweight to risk assets throughout the quarter dragged on the portfolios.

Although we believe markets may have moved a bit too far too fast, the unprecedented uncertainty around the impact of COVID-19 has been reduced, thus our comfort moving back to long-term risk targets for the portfolios. The risk reduction and subsequent re-risking of the portfolios was not something that we anticipated executing for the U.S. Core portfolios, but due to the significant uncertainty in March, we believed it was prudent at the time. We do not anticipate any major risk adjustments for the portfolios going forward.

Risk Assets

- The portfolios maintain dedicated exposure to U.S. equities through all-cap index exposure, enhanced-index exposure and an index strategy that focuses on strong company fundamentals.
- We maintain some exposure to active global equity managers that can invest throughout the world, to attempt to find opportunities that may not be available in the U.S.

Conservative Assets

- We maintain exposure to core and tactical bond managers to attempt to add both stability and opportunistic exposure to bond markets.
- In our opinion, credit markets continue to offer compelling opportunities relative to low yielding government bonds. For this reason, we believe our exposure to tactical bond managers may continue to add value going forward.

GLOBAL CORE PORTFOLIOS

The FWA Global Core portfolios provide long-term exposure to core U.S. and international equity and bond markets. The portfolios are structured to participate in the upside of bullish global equity and credit markets. The portfolios' risk exposure is not tactically managed by Freedom Wealth Alliance and can result in poor performance in weak global market environments.

The Global Core portfolios' exposure to global equity and credit markets positively contributed to the portfolios in Q2 as global risk assets rallied. Exposure to U.S. and international large cap enhanced-index managers positively contributed to the portfolios. Exposure to active global equity managers also added value, led by strong contribution by managers that overweight growth companies. Exposure to emerging market equities was also a strong contributor to the portfolios in the quarter. On the fixed income side, an overweight to credit-sensitive managers added value as credit markets outperformed government bonds.

In late March, due to the significant uncertainty around COVID-19 and the historic economic slowdown, we reduced exposure to equities and credit markets in the Global Core portfolios. As we became more comfortable with the environment, we incrementally increased equity and credit risk back into the portfolios in early April, May and June. The underweight to risk assets throughout the quarter dragged on the portfolios.

In June, in our Ultra-Aggressive portfolio, we sold out of an international small cap and an emerging markets equity manager and reallocated to new international small cap and emerging market equity managers that we believe may be better positioned for the market environment going forward.

Although we believe markets may have moved a bit too far too fast, the unprecedented uncertainty around the impact of COVID-19 appears to have been reduced, thus our comfort moving back to long-term risk targets for the portfolios. The risk reduction and subsequent re-risking of the portfolios was not something that we anticipated executing for the Global Core portfolios, but due to the significant uncertainty in March, we believed it was prudent at the time. We do not anticipate any major risk adjustments for the portfolios going forward.

Risk Assets

- The portfolios are invested across enhanced-index, global equity, international developed and emerging market equities.
- Our exposure to both growth and value equity managers may be an appropriate balanced approach if growth companies continue to find investor support or if the global economy reaccelerates and value managers' patience starts to pay off.

Conservative Assets

- The portfolios' fixed income exposure is allocated across core and credit-sensitive tactical core bond managers.
- Credit spreads remain wider than they had been in prior years and we believe our positions in credit-sensitive managers could add value in this environment.

ETF CORE PORTFOLIOS

The FWA ETF Core portfolios provide exposure to broad equity and fixed income markets through lower-cost, ETF investments. The portfolios have dedicated exposure to U.S. and international equities, high yield bonds and core, higher quality U.S. bonds. Portfolios are not tactically managed and are fully invested to the target allocation.

The ETF Core portfolios' exposure to U.S., international developed and emerging market equities positively contributed to the portfolios as global equities rallied in Q2. Exposure to high yield bonds also positively contributed to the portfolios as credit markets rallied. Exposure to high-quality core bonds also positively contributed to the portfolios as investment grade credit markets rallied in Q2.

In late March, due to the significant uncertainty around COVID-19 and the historic economic slowdown, we reduced exposure to equities in the ETF Core portfolios. As we became more comfortable with the environment, we incrementally increased equity and credit risk back into the portfolios in early April, May and June. The underweight to risk assets throughout the quarter dragged on the portfolios.

In select client accounts in June, we made adjustments across our larger U.S. equity and U.S. bond ETF positions to attempt to diversify larger equity and bond positions, effectively splitting the allocations across two ETFs rather than just one. This was done to try to reduce the potential impact of ETF pricing dislocations of a single ETF that was experienced during the severe market volatility in March. We also adjusted positions in our high yield bond exposure in select accounts to reduce exposure to the lower quality bonds within the high yield space. In addition, in select accounts we reallocated our emerging markets equity position to an ETF that has a slightly lower expense ratio and higher trading volume. For those client accounts not impacted with these reallocations, the positions were already in place or those positions are not part of the portfolio strategy.

Although we believe markets may have moved a bit too far too fast, the unprecedented uncertainty around the impact of COVID-19 appears to have been reduced, thus our comfort moving back to long-term risk targets for the portfolios. The risk reduction and subsequent re-risking of the portfolios was not something that we anticipated executing for the ETF Core portfolios, but due to the significant uncertainty in March, we believed it was prudent at the time. We do not anticipate any major risk adjustments for the portfolios going forward.

INCOME PORTFOLIOS

The FWA Income portfolios primarily invest in high income-generating assets. This can include investment grade bonds, high yield bonds, dividend-paying stocks, emerging markets debt, and real estate securities.

The Income portfolios' exposure to dividend-paying companies, global real estate, multi-asset income and credit positively contributed to the portfolios in Q2. The portfolios' structural exposure to dividend-paying companies and global real estate, while positive contributors, dragged on the portfolios relative to broader equity indices as investors remained cautious on the ability of companies being able to pay dividends at prior levels. A number of these higher dividend-paying companies are in currently challenged sectors closely tied to the economy including financials and energy or are stable lower growth companies in utilities and consumer staples sectors. With bond yields around the world historically low, there few alternatives for investors to find income. We believe this is a reason investors may gravitate back to dividend-paying companies and global real estate when near-term headwinds subside.

In late March, due to the significant uncertainty around COVID-19 and the historic economic slowdown, we reduced exposure to equities and credit in the Income portfolios. As we became more comfortable with the environment, we incrementally increased equity and credit risk back into the portfolios in early April, May and June. The underweight to risk assets throughout the quarter dragged on the portfolios.

Although we believe markets may have moved a bit too far too fast, the unprecedented uncertainty around the impact of COVID-19 appears to have been reduced, thus our comfort moving back to long-term risk targets for the portfolios. The risk reduction and subsequent re-risking of the portfolios was not something that we anticipated executing for the Income portfolios, but due to the significant uncertainty in March, we believed it was prudent at the time.

Risk Assets

- The portfolios remain allocated to dividend-paying equities, global real estate and multi-asset income strategies.
- Although investors are concerned with dividend-paying companies and global real estate at the moment, we continue to believe income-oriented investors will gravitate back to these areas as near-term headwinds subside.

Conservative Assets

- The portfolios are allocated across higher quality core fixed income and credit-sensitive tactical core bond managers.
- In the current market environment, we believe investors will continue to support credit markets with what appears to be a solid backstop from the U.S. Federal Reserve. In our opinion, our positioning in credit-sensitive bond managers could add value relative to lower yielding government bonds going forward.

FLEXTREND PORTFOLIOS

The FWA FlexTrend portfolios are structured to attempt to participate in the upside of persistent positive trending U.S. equity and credit markets and to protect value in persistent negative trending markets. The portfolios can significantly reduce risk and raise cash and/or conservative fixed income exposure in large market drawdowns. The portfolios may underperform in trendless or choppy market environments.

The FlexTrend portfolios' allocation to equity and credit markets positively contributed to the portfolios in Q2 as risk assets rallied. The FlexTrend portfolios began the quarter very defensively positioned as equity and credit markets declined significantly in Q1. As markets found some stability and eventually rallied, the FlexTrend portfolios exposure to equities and credit markets incrementally increased throughout the quarter. The significant V-shaped reversal in equity and credit markets was a significant headwind for the FlexTrend portfolios. The FlexTrend strategy is intended to work well in gradual, persistent market trends to incrementally increase and decrease risk exposure. V-shaped significant market selloffs followed by sharp market rallies are tough environments for the FlexTrend portfolios as evidenced thus far in 2020.

The FlexTrend portfolios exposure to equity and credit markets increased throughout the quarter but remain partially defensive. We entered Q2 with a bullish trading signal on U.S. equities and incrementally increased exposure to start the quarter. If the U.S. equity market persists at these higher levels, we anticipate incrementally increasing U.S. equity exposure again in August. Tactical equity managers' exposure is mixed, with some fully invested and others only partially invested. Tactical credit manages' exposure started the quarter with defensive credit positioning, but they can quickly add risk if market trends indicate to do so.

Risk Assets

- The FWA FlexTrend trading signal started Q2 with a bullish trading signal on U.S. equities. For this reason, we incrementally increased our exposure to U.S. equities in early July.
- The portfolios remain partially hedged to start Q2. If markets continue to persistently trend higher, we anticipate trend-following equity strategies to increase equity exposure throughout the quarter. If equity markets become more volatile, we would anticipate equity exposure to be adjusted accordingly.
- We remain diversified across tactical equity managers, including trend-following, hedged equity and long/short equity managers.
- We anticipate markets could continue to experience quick deep selloffs and subsequent sharp rallies due to the evolution of the types of market participants in financial markets. To try to reduce some of the negative impacts from market whipsaws inherent in trend-following strategies, we anticipate reducing exposure to trend-following strategies across the portfolios in Q2.

Conservative Assets

- We remain positioned across credit-sensitive fundamentally-driven core bond managers and credit-sensitive trend-following credit managers. We believe this mix of bond managers can provide diversification for upside market participation with potential downside protection in persistently weak credit markets.
- The core bond managers are maintaining exposure across multiple bond sectors and continue to offer a yield advantage relative to core high-quality bond markets.
- The trend-following credit managers have been actively adjusting risk in their portfolios throughout the recent credit market volatility and we anticipate them continuing to do so if volatility persists.

GLOBAL OPPORTUNITIES PORTFOLIOS

The FWA Global Opportunities portfolios are diversified, multi-asset portfolios. Tactical adjustments are driven by forward-looking, value-oriented, fundamental analysis. The investment style tends to be contrarian in nature, becoming more defensive in what we believe to be overvalued markets, and more aggressive in undervalued fear-driven markets. Portfolios will generally remain fully invested, with minimal cash balances. May underperform in overvalued, momentum-driven markets.

The Global Opportunities portfolios' exposure to global equities and credit positively contributed to the portfolios in Q2 as global risk assets rallied. Exposure to U.S. large and small cap enhanced-index managers added value in the quarter. Exposure to equity managers that focus on faster growing companies positively contributed to the portfolios as investors preferred growth companies in a challenged growth environment. Exposure to international small caps, emerging markets and multi-asset income also positively contributed to the portfolios in the quarter. We remain concerned with valuations in the U.S. equity markets but continue to find value in emerging market equities and credit markets.

In late March, due to the significant uncertainty around COVID-19 and the historic economic slowdown, we reduced exposure to equities and credit in the Global Opportunities portfolios. As we became more comfortable with the environment, we incrementally increased equity and credit risk back into the portfolios in early April, May and June. The underweight to risk assets throughout the quarter dragged on the portfolios.

In June, we sold out of an international small cap and an emerging markets equity manager and reallocated to new international small cap and emerging market equity managers that we believe may be better positioned for the market environment going forward. We also added exposure to a hedged equity manager that we believe can add balance to the portfolio if markets decline sharply over the shorter term.

Although we believe markets may have moved a bit too far too fast, the unprecedented uncertainty around the impact of COVID-19 appears to have been reduced, thus our comfort moving back to long-term risk targets for the portfolios. The risk reduction and subsequent re-risking of the portfolios was not something that we anticipated executing for the Global Opportunities portfolios, but due to the significant uncertainty in March, we believed it was prudent at the time.

Risk Assets

- We remain overweight active equity managers across geographies, market cap and growth/value strategies.
- Our position in a multi-asset income manager provides additional income generation should markets enter a flat or choppy market environment.
- We maintain a slight tilt to growth managers as global growth remains challenged. Our exposure to growth companies is currently overweight to international markets, where valuations appear less stretched than in U.S. markets.
- Our position in a valuation-conscious global equity manager provides some exposure to economically-sensitive areas that have yet to significantly rally as broader equity markets have done. If global economic growth accelerates, we believe this manager could add value in that environment.

Conservative Assets

- We are currently overweight credit-sensitive managers across the portfolios as higher-quality government bonds appear expensive and do not offer attractive estimated future returns. We are willing to hold through increased volatility for the longer-term potential return of these credit-sensitive managers going forward.

SOURCES

1. S&P Dow Jones Indices, LLC. S&P 500 Index Total Return data. Retrieved July 6, 2020 from https://us.spindices.com/indices/equity/sp-500
2. CNN. "Fear & Greed Over Time". Retrieved July 7, 2020 from https://money.cnn.com/data/fear-and-greed/
3. Morningstar Direct. Performance provided as total returns.
4. Institute for Supply Management. "June 2020 Non-Manufacturing ISM Report on Business". Released July 6, 2020. Retrieved July 8, 2020 from https://www.instituteforsupplymanagement.org/ISMReport/NonMfgROB.cfm?SSO=1
5. Institute for Supply Management. "June 2020 Manufacturing ISM Report on Business". Released July 1, 2020. Retrieved July 8, 2020 from https://www.instituteforsupplymanagement.org/ISMReport/MfgROB.cfm?SSO=1
6. IHS Markit. IHS Markit U.S. Services PMI. July 6, 2020
7. U.S. Bureau of Labor Statistics, Unemployment Rate [UNRATE], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UNRATE, July 7, 2020.
8. U.S. Bureau of Economic Analysis, Personal Saving Rate [PSAVERT], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PSAVERT, July 7, 2020.
9. Board of Governors of the Federal Reserve System (US), Assets: Total Assets: Total Assets (Less Eliminations from Consolidation): Wednesday Level [WALCL], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WALCL, July 9, 2020.
10. U.S. Department of the Treasury. Daily Treasury Yield Curve Rates dated July 9, 2020. Retrieved July 10, 2020 from https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield

DEFINITIONS

S&P 500® Index: The S&P 500® Index is a market cap-weighted stock market index of 500 companies across a number of industries. The index is often used as a broad representation of the common stocks of the largest publicly-traded companies in the United States.

S&P 500® Growth Index: The S&P 500® Growth Index is a subset of the S&P 500® Index, consisting of companies that exhibit above average growth based on sales, earnings and momentum.

S&P 500® Value Index: The S&P 500® Growth Index is a subset of the S&P 500® Index, consisting of companies that exhibit value, based on book value, earnings and sales to price.

MSCI EAFE Index: The MSCI EAFE (Europe, Australasia and Far East) Index is a stock market index constructed to measure the performance of large cap and mid cap stocks across developed countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index: The MSCI Emerging Markets Index is a stock market index constructed to measure the performance of large and mid cap stocks across emerging countries around the world.

Emerging Markets: Emerging markets, also known as developing markets or developing countries, refers to countries, nations, and/or regions that are transitioning to more advanced economies. Relative to developed economies, emerging markets often have higher economic growth rates, lower per-capita incomes, higher sociopolitical instability, and less sophisticated financial markets. Investments in emerging markets can often be more volatile than in developed markets due to the potential for greater uncertainty in these markets.

Bloomberg Barclays U.S. Aggregate Bond Index: The Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index that measures investment grade, U.S. dollar-denominated, fixed rate taxable bonds.

Bloomberg Barclays U.S. Corporate Bond Index: The Bloomberg Barclays U.S. Corporate Bond Index is an unmanaged index that measures investment grade, U.S. dollar-denominated, fixed rate taxable corporate bonds.

High Yield Bonds: High yield bonds refer to securities that are rated below investment grade by one of the established credit agencies (Standard & Poor's, Fitch, Moody's). These securities are often perceived as having greater risk of default.

ICE BofAML High Yield Master II Option-Adjusted Spread: The ICE BofAML High Yield Master II Option-Adjusted Spread (OAS) is the calculated spreads between the computed OAS of the constituents of the ICE BofAML High Yield Master II Index weighted by market capitalization and a spot Treasury curve. The ICE BofAML High Yield Master II OAS uses an index of bonds that are below investment grade (those rated BB or below).

Bloomberg Commodity Index: The Bloomberg Commodity Index is an index that is designed to provide diversified exposure to physical commodities via futures contracts.

Bloomberg Sub Gold Index: The Bloomberg Sub Gold Index is a commodity group sub index that is composed of futures contracts on gold. It reflects the return of the gold futures price movements only and is quoted in U.S. dollars.

Mutual Funds: Mutual funds are generally constructed as a pooled investment vehicle, managed by an investment firm. Mutual funds can be invested across stocks, bonds and other types of investments. Mutual funds are priced at net asset value (NAV) at the end of each trading day.

Exchange Traded Funds: Exchange traded funds (ETFs) are generally constructed to attempt to track the performance of an underlying index. ETFs can be invested across stocks, bonds and other types of investments. ETFs can trade intra-day, similarly to common stocks.

Closed End Funds: Closed end funds (CEFs) are generally constructed as a pooled investment fund, actively managed by an investment management firm. Closed end funds can be invested across stocks, bonds and other types of investments. Closed end funds trade at a market price, which may be at a premium or discount to the net asset value of the underlying fund assets. Closed end funds may utilize leverage, which can potentially increase returns and volatility relative to non-leveraged funds. Closed end funds can trade intra-day, similarly to common stocks.

Risk Assets: Risk assets generally refer to assets that carry a perceived high degree of risk and price volatility. Risk assets can include stocks, lower quality bonds, highly interest rate-sensitive bonds, commodities, currencies and certain alternative strategies.

Conservative Assets: Conservative assets generally refer to assets that carry a perceived low degree of risk and price volatility. Conservative assets can include cash securities and higher quality, less interest rate-sensitive bonds.

Tactical Investing: Tactical or active investing is an investment strategy where investment decisions are driven by opinions based on gathered information. There are a number of different tactical investment styles, including, but not limited to, valuation-sensitive and momentum-driven styles. Tactical investing styles may also differ based on investment time horizons from days, weeks, months or years.

Passive Investing: Passive investing is an investment strategy that generally refers to buy and hold investing. This investment style does not attempt to make changes to portfolio allocations or investments based on opinions and information gathering.

Alternative Strategies: Alternative strategies refer to investments or investment styles that often incorporate non-traditional tactical investing methods, including, but not limited to, technical analysis, shorting, arbitrage, utilizing leverage and short-term tactical trading. Alternative strategies may also be referred to by their investment style categories, including, but not limited to, long/short equity, hedged equity, managed futures, unconstrained, and global macro. Alternative strategies may perform very differently from traditional asset classes, thus investors must be aware of the potential for widely differentiated performance relative to traditional stock and bond markets over shorter periods of time.

Fundamental Analysis: Fundamental analysis refers to making investment decisions based on gathered information, including, but not limited to, economic, sector, industry, company and security research to attempt to forecast future investment performance.

Technical Analysis: Technical analysis generally refers to analyzing an investment's price performance over a specified time period to attempt to predict future potential performance of that investment. Technical analysis is often utilized in momentum-driven investment styles and may not incorporate fundamental analysis when making investment decisions.

Drawdown: A market drawdown refers to the investment performance from peak-to-trough over a specified time period.

Price-to-Earnings Ratio: The price-to-earnings ratio (P/E ratio) is the ratio of a company's stock price to the company's earnings per share. The P/E ratio is often utilized as a metric in valuing a company.

Price-to-Book Ratio: The price-to-book ratio (P/B ratio) is the ratio of a company's stock price to the company's book value. A company's book value refers to the company's total assets minus its intangible assets and liabilities. A company's book value is listed on its balance sheet and is the total value of the company that shareholders would theoretically receive if the company was liquidated and liabilities were paid. The P/B ratio is often utilized as a metric in valuing a company.

Duration: Duration is a measure of the sensitivity of a bond's price to a change in interest rates. Generally, the higher the duration of a bond or portfolio, the higher the sensitivity of that bond or portfolio to changes in interest rates.

Credit Risk: Credit risk refers to the risk of default on debt, where the borrower fails to pay, and the lender may lose a portion or all of the principal lent to the borrower. Generally, the higher the credit risk, the higher the yield and volatility of the security relative to other securities that are believed to have lower credit risk.

Currency Risk: Currency risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged. Exposure to foreign currencies can come from direct investing in foreign currencies or from investing in foreign assets (stocks, bonds, real estate, etc.).

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for any individual security.

Any economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

The term "portfolios" used in this piece is in reference to the Freedom Wealth Alliance model portfolios. Any reference to performance is based on estimated, unaudited, gross of fee performance of the model portfolios. Model portfolio performance is calculated through Morningstar Direct based on model portfolio holdings. Client accounts assigned a Freedom Wealth Alliance model portfolio may have positioning and performance that differs from the firm's model portfolios at any given time.

There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to affect some of the strategies. Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond and bond mutual fund values and yields will decline as interest rates rise and bonds are subject to availability and change in price. Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential illiquidity of the investment in a falling market.

Asset management does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Freedom Wealth Alliance, a registered investment advisor and separate entity from LPL Financial.

This research material has been prepared by Freedom Wealth Alliance.