Quarterly Investment Perspective

2021 Outlook: Reopening, Recovery, and Growth

BESSEMER TRUST

Holly H. MacDonald
Chief Investment Officer

Executive Summary

- **Our outlook for 2021 is cautiously optimistic, with the understanding that it will be critical to be nimble as the economy gradually recovers.**
- **We expect the majority of people in developed economies to be vaccinated in the first half of 2021, while emerging markets may not reach similar levels until 2022.**
- **While both equities and bonds appear expensive relative to history, we believe they are priced fairly given unprecedented stimulus and strong earnings potential.**
- **Cyclical recoveries and mid-cycle phases have produced the highest inflation readings historically, but we believe inflation is unlikely to rise meaningfully in 2021.**
- **We expect cyclical sectors to rebound, but ultimately economic strength will also boost structural growth, where we have a larger emphasis in portfolios.**

2020 provided a lesson in humility for humanity, and investors were most certainly included. Hope for 2021 springs eternal as vaccine approvals and distribution are proceeding as of this writing. While embracing the optimism, we believe navigating a gradual reopening of the economy will prove just as complicated as maneuvering through the unprecedented economic closures of 2020. It is, therefore, with a similar orientation toward data, what we know and what we do not know, and an acknowledgment of the benefit that Bessemer clients have in being long-term investors that we approach 2021 with the humility to know we will need to adjust course along the way.

In the pages that follow, we present what we believe are the key questions in this new year of investing as well as our current take on each of them. While we could write a white paper on each of these topics, and we will do so for a few of them over the course of the year, our focus here is to get to the heart of each matter and its relevance to our clients' portfolios. We conclude with portfolio positioning and key holdings, and discuss additional themes within Bessemer portfolios.

A brief note on 2020 performance before fully turning the page on the year. A representative Balanced Growth portfolio with a risk profile of 70% in equities and 30% in bonds delivered approximately 14% gains over the course of 2020, with an all-equity portfolio returning over 19% and bonds 5% to 7%.

A more defensive orientation in the start of the year was additive, as was rebalancing in late March to incrementally add equity risk, shifting exposures into higher-conviction parts of the platform, and changing some underlying managers. Rebalancing later in the year to reassert modest defensive positioning detracted given the persistent rally through year-end. While security selection over the year was positive, it dragged in Q4 on a relative basis given the strong rebound in sectors most negatively impacted by economic closures earlier in the year. Similarly, an overweight to the U.S. contributed to equity performance for the calendar year but weighed on relative performance in Q4 with the bounce in non-U.S. markets.

We provide our outlook on these themes in subsequent sections.

Elise Mordos
Investment Strategies Analyst

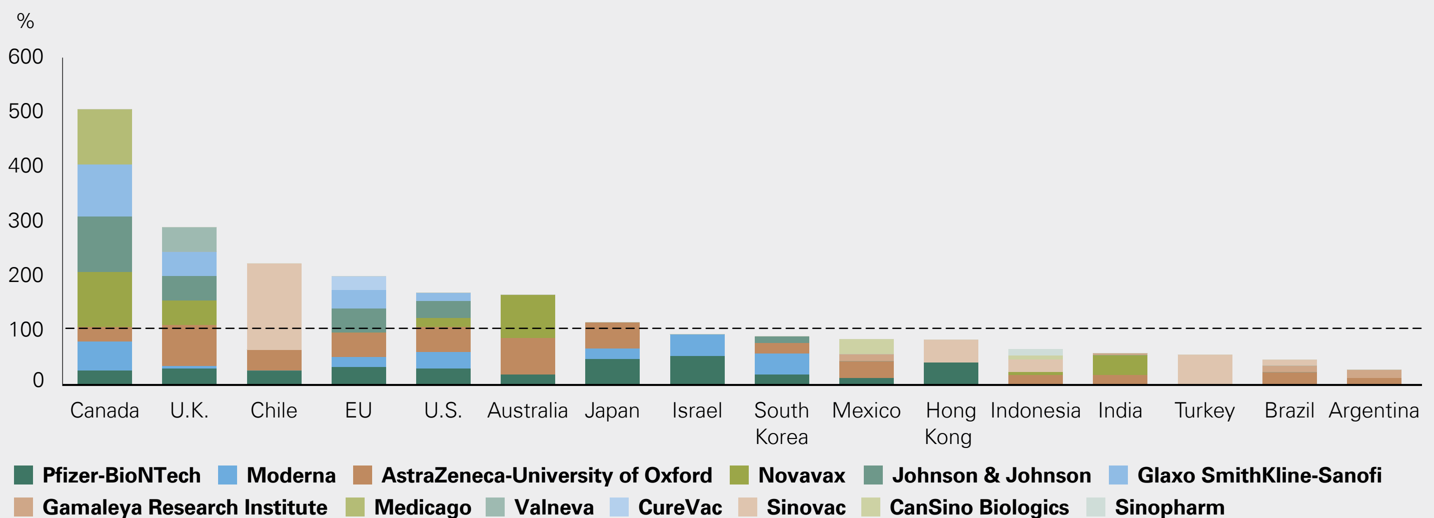
Q: When will the world be vaccinated?

A: Developed economies should have vulnerable segments of their populations vaccinated in the first half of 2021, while many emerging markets will not reach that threshold until 2022.

The EU, the U.K., Japan, Canada, and the U.S. should be able to secure enough supply by the middle of 2021 to vaccinate a large percentage of their populations if the current slate of vaccines continues to be approved under emergency use in the near term. This is in contrast to most emerging markets, which have secured doses with fewer vaccine developers and smaller amounts relative to their population sizes, meaning that it may take these countries longer to achieve herd immunity and begin significant easing of restrictions (Exhibit 1). A silver lining here is that emerging market populations are younger than those in developed markets, so this may allow for all adults ages 65 and over to receive a vaccine this year in some countries. In addition, some vaccines, such as Pfizer-BioNTech's and Moderna's, have storage requirements that will likely pose a problem for emerging markets (see Vaccine Storage Requirements on page 3).

Exhibit 1: Total Potential Vaccinations as a Percent of Nations' Populations

Key Takeaway: Developed economies will likely be able to vaccinate the majority of their populations in the first half of 2021, but emerging market countries may need more time.



As of December 29, 2020. Reflects current supply agreements only (not potential additional doses) and a two-dose regimen except for the vaccines of Johnson & Johnson and CanSino Biologics, which require one dose.

Source: Bloomberg, Launch & Scale Speedometer (Duke University), World Bank, company press releases

Exhibit 2: U.S. Population Estimates for Groups Recommended to Receive the Vaccine First

Key Takeaway: Vaccinating key groups first should result in a material decline in severe cases and deaths, perhaps encouraging policymakers to allow for a quicker reopening.

Sector	Millions of people	Percent of the U.S. population	Millions of doses required under a two-dose regimen
Residents ages 65+ of long-term care facilities	3	1%	6
Nursing and residential care facilities employees	3	1%	6
Healthcare workers ex nursing and residential care facilities	18	5%	36
Other essential workers	87	27%	174
People ages 65+ ex essential workers	49	15%	98
Adults with high-risk medical conditions under 65 and not essential workers	25	8%	50
Total — First Groups to be Vaccinated	**185**	**56%**	**370**

As of December 8, 2020. Table reflects estimates based on data from the CDC, U.S. Census Bureau, and U.S. Bureau of Labor Statistics, and population estimates on underlying conditions from the Kaiser Family Foundation and medRxiv article titled "Population based estimates of comorbidities affecting risk for complications from COVID-19 in the U.S."

Source: CDC, Kaiser Family Foundation, medRxiv, U.S. BLS, U.S. Census Bureau

While numerous politicians have stated that the goal is to vaccinate every American and citizen of the world, availability, sequencing, and willingness to take the vaccine are only a few of the complications of making this dream a reality. Current estimates from public health experts suggest that about 60% to 80% of the population need to be immune to allow economies to completely reopen without the risk of a large surge in cases and deaths. It is possible, however, that there could be material improvements in the environment well below this threshold as healthcare workers and those at the greatest risk for contracting severe cases of COVID-19 will receive the vaccine first.

We attempt to quantify these various thresholds for the U.S. population in Exhibit 2. We believe the guideposts this analysis provides will be useful as policy priorities are affirmed in the coming months, potentially leading to a sooner-than-expected reopening.

A few additional points are important to this analysis and the metrics we will be tracking throughout the year. First, antibody data suggests that at least 15% of the U.S. population have detectable neutralizing antibodies, which have been shown in some studies to last at least a few months. Second, we are not including children in this analysis. Most of the Phase 3 clinical trials only included adults, and those that were broader had a very small share of children. The trial data suggests vaccines materially reduce the number of symptomatic cases, but there is not much evidence regarding the vaccine's reduction in the number of asymptomatic cases, which are most prevalent in children. Finally, treatments and testing remain crucial to the response to the virus, with much progress being made in both areas.

Vaccine Storage Requirements

Due to the way mRNA vaccines are constructed, they need to be stored at colder temperatures than vaccines using other platforms. Pfizer-BioNTech's vaccine must be stored at minus 70 degrees Celsius for up to six months or at 2 to 8 degrees Celsius, which is the temperature of a normal refrigerator, for up to five days. Pfizer is managing the distribution of its vaccine and shipping doses in dry ice pack boxes, where they can survive for up to 15 days. Moderna's vaccine can be stored at 2 to 8 degrees Celsius for up to 30 days and up to six months at minus 20 degrees Celsius. The U.S. government is handling the distribution side of Moderna's vaccine. Other leading vaccine candidates such as Johnson & Johnson's and AstraZeneca-University of Oxford's can be stored for up to six months at standard refrigerator temperature. The U.S. and other developed nations should have the healthcare infrastructure to meet these storage requirements, but this will likely be a significant obstacle in many emerging markets.

All in all, we remain optimistic that the COVID-19 environment will materially improve by the spring in the U.S. and other developed economies with large supply deals.

All in all, we remain optimistic that the COVID-19 environment will materially improve by the spring in the U.S. and other developed economies with large supply deals. This will allow these economies to reopen and stay open. We expect more of a mixed bag in the emerging markets, and this is one factor in our regional positioning discussed below.

Vaccine Distribution

As the situation currently stands, the U.S. federal government is distributing the vaccines to each state, which in turn, determines who will receive them. Healthcare workers and staff and residents of long-term care facilities are being prioritized first in most states. Note that at least 38% of all COVID-19 deaths have been linked to residents of long-term care facilities, making it a likely policy priority that residents and staff of these facilities be vaccinated. As we detail in Exhibit 2, these two groups comprise just 2% of the U.S. population and can easily be covered by initial supply agreements.

More generally, the U.S. government can cover those most at risk for developing severe cases of COVID-19 (e.g., older adults and people with underlying health conditions such as diabetes, pulmonary disease, and heart disease) and essential workers with just the Pfizer-BioNTech and Moderna vaccines. The addition of either the AstraZeneca-University of Oxford or Johnson & Johnson vaccine, which could potentially be approved in January, to the market would significantly help with future supply constraints. The initial supply deals with Novavax and Sanofi-GlaxoSmithKline are smaller in size, and these vaccines may not be approved until the February to March time frame.

Bree Sterne
Investment Strategist

Q: When should the economy be fully reopened, and what does that tell us about aggregate growth for 2021?

A: We expect the U.S. economy could be more than 90% reopened in the first half of 2021, suggesting some upside to consensus growth forecasts for the second quarter.

All year, we have been utilizing novel data sources to monitor the trajectory of economic reopening. In order to be able to assess the environment both at the individual component level as well as at a higher level, we have created the proprietary Bessemer Reopening Index (BRI). The index is comprised of several high-frequency macro variables within the mobility, consumption, employment, housing, and industrial categories of the United States. In March and April of 2020, the Bessemer Reopening Index plummeted 50% as the spread of COVID-19 resulted in a sharp decline in activity (Exhibit 3). It has since increased to 70% from the weakest April levels, climbing steadily in the late spring and summer, though activity flattened in the fall as cases rose across the U.S.

Evaluating our expectations for 2021, we believe the BRI will surpass 90% of pre-COVID activity over the first half of the year. While we expect many of the mobility, consumer, housing, and industrial components of the index to have recovered substantially by mid-2021, we expect improving but still elevated jobless claims, a heightened level of small businesses struggling to reopen immediately, and a slowly recuperating travel industry to weigh slightly on the index's immediate trajectory.

More broadly, structural shifts prompted by COVID-19 may result in the index being unable to reach or exceed pre-COVID levels in 2021. For example, increased adoption of remote work will likely remain in a post-COVID world, impacting commuting-related mobility metrics. Additionally, it may take several years for air traffic and TSA passengers to reach the levels seen in early 2020. Still, the economic recovery should be robust even amid enduring COVID trends.

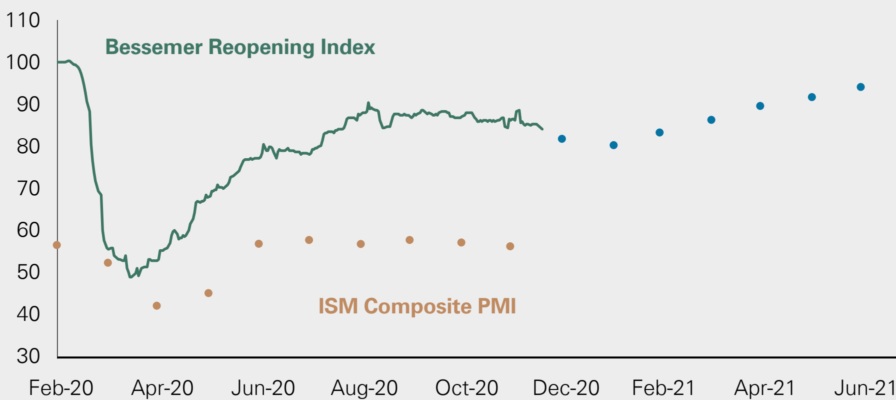
Our work on reopening suggests that there is some upside to consensus growth forecasts of a 3.6% increase in Q2 2021 (quarter over quarter %, seasonally adjusted annual rate). The ISM U.S. Services & Manufacturing Composite Purchasing Manufacturing Index (PMI) has a correlation of 0.62 to quarterly changes in U.S. real GDP growth over the past 20 years and tends to lag the BRI given the high-frequency nature of the BRI inputs. Should we expect to see a full reopening in Q2 2021, the BRI is likely to signal this before the PMI does.

Evaluating our expectations for 2021, we believe the BRI will surpass 90% of pre-COVID activity over the first half of the year.

Exhibit 3: Bessemer Reopening Index (BRI)

Key Takeaway: The reopening trend is expected to decline in the near term and then rebound this spring.

Indexed to 100 on March 1, 2020



As of December 18, 2020.

Source: Apple, Bank of America, Bessemer Trust, Bloomberg, Flightradar24, Foursquare, OpenTable, STR, TSA, Womply

JP Coviello
Senior Investment Strategist

Q: Both equities and bonds appear expensive relative to history. How can I invest here?

A: Many parts of the equity and bond markets are not expensive in light of unprecedented stimulus and strong earnings potential. Overall, we remain constructive on equities and recommend complementing higher-quality bonds with higher-yielding bonds.

Historical comparisons of equity and bond valuations need to be taken within the context of today's environment with unprecedented monetary and fiscal stimulus. More than $3 trillion of expansion of the Federal Reserve's balance sheet and a commitment to maintaining accommodation until inflation is sustainably higher and employment conditions have materially improved suggest interest rates will remain low for several years. This has supported the appreciation of many financial assets as well as some real assets, from gold to Bitcoin, to classic cars.

In our view, equity markets in aggregate remain attractive in light of low interest rates when considered in the context of earnings yield, future dividends to equity holders, and earnings growth potential (Exhibit 4). And while equity markets are often referred to as securities themselves (e.g., the "stock market"), it's important to consider that the stock market is a market of individual stocks. Bessemer portfolio managers invest in these individual companies, not equity indexes, and therefore place a tremendous emphasis on the fundamental characteristics of the companies in question. Most specifically, our managers seek companies with durable competitive advantages, attractive unit economics, and sustainable growth drivers. These ingredients combine to yield businesses with the potential for compounded growth in revenues, profits, and free cash flow over many years. Given our long-term focus, we believe these fundamental variables are the primary determinants of excess returns. To wit, historical performance data

Exhibit 4: S&P 500 Current Earnings Yield Minus U.S. Government Nominal 10-Year Bond Yield

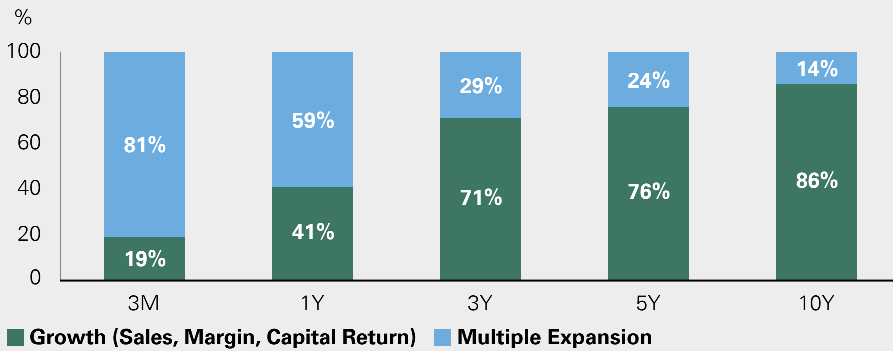
Key Takeaway: Earnings yield is very attractive relative to U.S. government bond yields.

As of December 3, 2020.

Source: Bloomberg

Exhibit 5: Sources of Total Shareholder Return for Top Quartile Performers (2004–2018)

Key Takeaway: Growth in fundamentals is the key in the long run as a source of total shareholder return for top performers, while multiple expansion is more important in the short run.



Source: Boston Consulting Group, Factset

Bessemer portfolio managers seek companies with durable competitive advantages, attractive unit economics, and sustainable growth drivers.

for top-quartile performers reveals that short-term returns are mainly driven by changes in the valuation multiple, while long-term returns are driven mostly by growth in fundamentals (Exhibit 5).

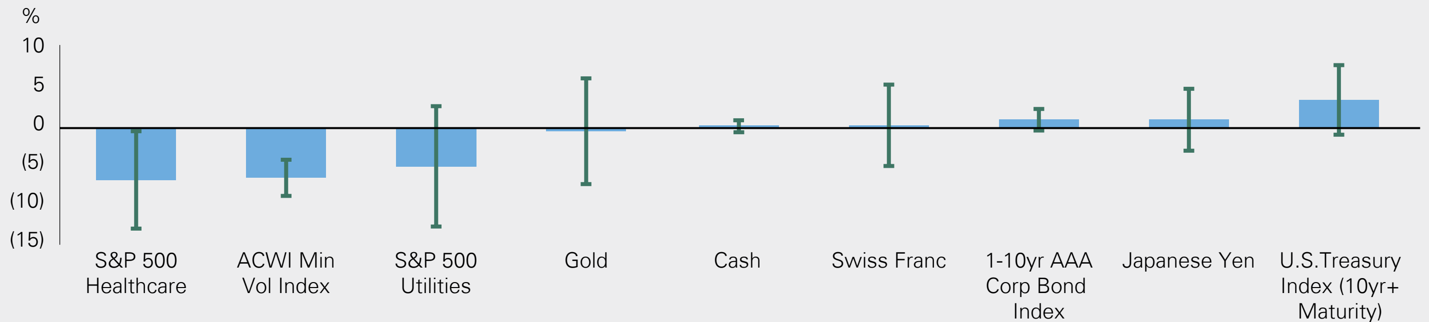
This raises the question of bonds. In our view, high-quality fixed income assets are held within portfolios for four main reasons: stability, downside protection, income, and tax benefits. When looking at past equity sell-offs of at least 10% over the past 30 years, high-quality fixed income has outperformed other defensive assets by a large margin and has done so with lower volatility than most. As shown in Exhibit 6, high-quality corporate bonds also exhibit resilient returns during equity market drawdowns and with lower volatility than all assets aside from cash. Gold has been in focus this year, but we believe it is not as reliable as a defensive asset.

Recently, the Fed said that it would not push policy rates into negative territory to mitigate the effects of the COVID-induced recession. However, should future financial conditions warrant a move to negative policy rates, the absence of fixed income would represent a risk to portfolios. Even in a normal year, experiencing every drawdown of the equity market can be problematic for an investor's financial goals. High-quality bonds can serve to offset some of the equity-related risk and provide a more stable cash flow stream over the long term as well as for spending in the interim. Even at low yield levels, high-quality bonds continue to serve as a defensive and stabilizing part of a portfolio.

Lastly, municipal bonds maintain their favorable tax treatment, and we continue to advocate for allocations to high-quality munis within client portfolios. Moreover, given that recent monetary policy developments have lowered income returns in fixed income securities, the Credit Income

Exhibit 6: Performance of Select Asset Classes During Equity Drawdowns of at Least 10%

Key Takeaway: Long-duration U.S. Treasury bonds outperform consistently with lower volatility than gold during equity drawdowns.



As of December 10, 2020. Performance of select asset classes during equity drawdowns of at least 10% over a 30-year time period. Bands represent one Standard Deviation of Returns (in both directions) around the Mean, n=42.

Source: Bloomberg

Fund was created to capture an efficient balance between income, potential price appreciation, and risk. The fund's mandate allows for allocation across global credit markets, where higher yields can be found, while its high-quality and long-duration bias serves as an offset to some of the higher-yielding credits with shorter maturities. Please see the portfolio positioning section on page 13 for more details.

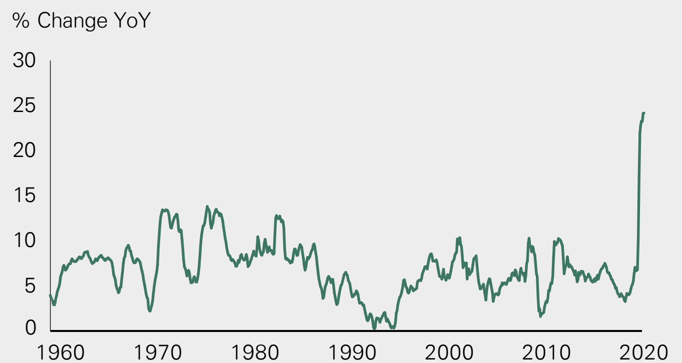
Q: Central bank balance sheets were bloated going into the downturn, and now they have grown further. Doesn't inflation have to increase as a result?

A: Cyclical recoveries and mid-cycle phases have produced the highest inflation readings historically due to central bank support and a rebounding economy. However, structural factors — such as increasing technological innovation, a credible central bank that engenders stable inflation expectations, and the small percentage of trade in U.S. GDP — suggest that inflation is unlikely to run away to the upside.

Money supply growth is running at its fastest pace in history (Exhibit 7), businesses are noting wage pressure during earnings calls, and regional Fed manufacturing surveys are showing expectations for higher input prices in six months' time. These developments are typical during cyclical economic recoveries. Following the Great Financial Crisis (GFC), money supply growth quintupled, businesses flagged wages increasing from low levels, and regional Fed surveys on input price expectations reached similar heights. Nonetheless, inflation pressure never materialized in subsequent years, and businesses adapted to wage pressure even as the economy touched its lowest unemployment levels in 50 years.

Exhibit 7: Money Supply Growth (1960–Present)

Key Takeaway: The U.S. is currently experiencing the fastest money supply growth (M2) in history at a rate of 24% year-over-year.



As of November 30, 2020.

Source: Federal Reserve Board

Similar to the post-GFC experience, several structural factors suggest price pressures will remain contained in the U.S. For instance, technological innovation is likely to continue exerting downward pressure on unit costs and upward pressure on productivity. Importantly, the Fed is viewed as the most credible central bank in the world, and inflation expectations remain stable over long periods of time. Lastly, the trade-weighted U.S. dollar's valuation has never been a tremendously useful input for the overall level of inflation; the relatively small percentage of goods that the U.S. imports from abroad reduces its inflationary impact during episodes of depreciation.

We believe cyclical inflationary factors will increase in the near term and cause consumer price inflation (CPI) to lift from its current 1.2% level and settle in the 2%–3% range during 2021. Since 1928, when the CPI is running between 2% and 3% year-over-year, the S&P 500 has produced 13% median and average returns with an 84% probability of positive returns.

Historically, higher inflation has catalyzed interest-rate hikes from the Fed in an effort to slow the economy, which ultimately led to equity price depreciation and recessions. However, in sharp contrast to history, the Fed has been very clear via its flexible average inflation targeting regime that it will not react to inflation running above 2% for quite some time. As a result, we would not be surprised to see inflation increase modestly, though the mix of cyclical and structural factors present should keep the overall level of inflation in check and not deter risk markets in 2021.

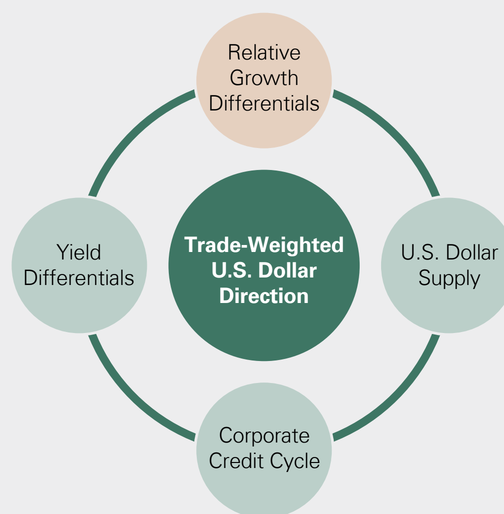
Q: Has the dollar entered a structural downtrend?

A: We believe the dollar is experiencing cyclical downward pressure and should fall 5% to 10% in the coming year.

In our view, the U.S. dollar has likely entered a cyclical downtrend as a result of the tremendous stimulus efforts, both monetary and fiscal, executed by the Fed and U.S. Treasury. We expect moderate trade-weighted depreciation from current levels, similar to what ensued in the recovery that followed the GFC. As such, we would expect a roughly 5% to 10% depreciation over the course of this year.

Exhibit 8: Key Factors That Affect the U.S. Dollar

Key Takeaway: Relative growth differentials are likely to be the main driver of movement in the U.S. dollar in the near term.



Source: Bessemer Trust

We monitor four main factors that impact the relative price of the U.S. dollar: global growth differentials, global yield differentials, U.S. dollar supply, and the corporate credit cycle (Exhibit 8). Of these four factors, global growth differentials have the most room to move on a forward-looking basis while the other three have moved already. Specifically, global yield differentials have already seen a tremendous relative adjustment, U.S. dollar supply was set by the Fed last March and increased substantially during the year, and corporations issued record amounts of debt in 2020.

Focusing on growth differentials, the U.S. dollar tends to outperform global peers on both extremes of the relative growth distribution; the dollar tends to strengthen when U.S. growth is expected to be stronger than that of global peers (recall the 2016 election and the expectation of tax cuts) and when global growth is weakening (as was the COVID-19 related growth decline in the second quarter of 2020). On the other hand, when U.S. growth is expected to be weaker than that of global peers in an overall benign environment, the U.S. dollar tends to weaken on a trade-weighted basis.

Given that this recession has had a disproportionate impact on global services sectors, the heavy weighting of services in the U.S. economy could catalyze a very strong growth rebound following vaccine deployment. As a result, we are paying close attention to the speed and shape of the relative global recovery. In particular, we have seen China recover very quickly, which has led to a sharp strengthening of the Chinese renminbi versus the U.S. dollar. On the other hand, Europe, Canada, and emerging markets excluding China generally continue to lag the U.S. in terms of recovery. Should vaccine distribution unlock higher growth potential outside of the U.S., then we could see the dollar continue to depreciate, though at a slower pace than we have seen since the second quarter of last year, in our view, given that much of this dynamic is priced.

Bessemer client portfolios hold an overweight allocation to the U.S. relative to global markets as our portfolio managers continue to seek the best structural growth potential and quality attributes in companies located domestically. As we view the narrative around the U.S. dollar being one of gradual depreciation, we continue to seek opportunities with external managers with emerging markets and, particularly, China expertise. Nonetheless, we note that the increased international exposure of U.S. companies is a mitigating factor when it comes to returns and dollar depreciation. In other words, many U.S. companies benefit from U.S. dollar depreciation, with about 40% of S&P 500 companies' revenues coming from overseas.

Q: Will cyclical strength overpower structural growth stories in 2021?

A: We expect cyclical sectors to rebound, but ultimately economic strength will also boost structural growth, where we have a larger emphasis in portfolios.

Bessemer equity portfolio construction relies on exposure to both structural and cyclical trends with a much heavier weight on the former than the latter. We find durable value in businesses with competitive advantages that last through economic cycles and exhibit structural strength. On a sector basis, Bessemer portfolios remain overweight sectors with the highest structural growth components over the long term.

As seen in Exhibit 9, the consumer discretionary, healthcare, and technology sectors have outperformed the S&P 500 index through many economic cycles over the past 20 years. Many companies within these sectors exhibit tremendous structural growth over long periods of time and, as a result of their business models, are able to navigate through exogenous shocks that tend to affect economic growth more intensely.

Companies in more cyclical sectors, meanwhile, see trends that are typically short-lived, are highly sensitive to economic growth, and tend to lack the ability to compound revenues, earnings, and free cash flow over long periods of time. For example, the energy and financial sectors have seen booms and busts historically that have led to lower compounding of investment returns for underlying companies over the long term. The Credit Income Fund is a vehicle through which clients can gain exposure to cyclical sectors with a higher margin of safety and lower volatility than equity markets, whether through emerging markets sovereign debt or high yield energy credits.

Exhibit 9: Annualized Return by Sector (January 2, 2001–December 3, 2020)

Key Takeaway: Sectors with structural growth trends have exhibited the greatest returns over the past 20 years.

Sector	Annualized Return
Consumer Discretionary	10.95%
Healthcare	9.21%
Tech	8.90%
Materials	8.67%
Industrials	7.63%
S&P 500	**7.53%**
Utilities	7.11%
Consumer Staples	6.93%
Energy	3.15%
Financials	3.13%

As of December 3, 2020.
Source: Bloomberg

Exhibit 10: Annualized Return by Country (in USD) (December 3, 2010–December 3, 2020)

Key Takeaway: Emerging markets that are tech heavy have outperformed those that are commodity dependent or have more volatile exchange rates.

Country/Index	Annualized Return
S&P 500	**14.1%**
Taiwan	11.0%
China	7.5%
South Korea	6.9%
India	3.1%
Russia	2.0%
Mexico	(1.1%)
Brazil	(3.4%)
Turkey	(8.6%)

As of December 3, 2020.

Source: Bloomberg

We also note that cyclical growth rebounds tend to benefit structural stories through capital expenditures. Core capital goods orders, which exclude aircraft and defense orders, reached an all-time high last October. Companies have drawn forward expenditures on technology due to the COVID-induced work-from-home environment, which positively impacts structural growth stories.

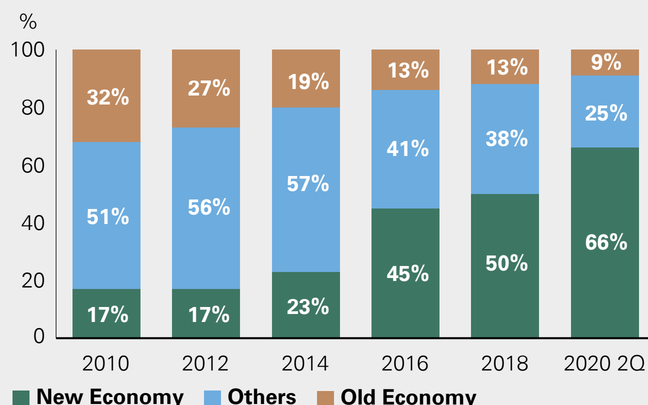
These cyclical versus structural considerations factor into our regional equity positioning as well. We see continued structural upside for companies in the U.S. and China over the long term, which has resulted in a larger concentration of stock positions in these two economies. Excluding China, Taiwan, and South Korea, opportunities in emerging markets tend to exhibit more cyclical than structural characteristics. For example, while Taiwan's equity market holds a 60% weighting to information technology, Brazil's holds a 60% weighting to cyclicals (27% financials, 19% materials, and 13% energy).

The only country to outperform the S&P 500 over the past five years was Taiwan, which is a clear nod to the strong structural trends in place around semiconductors, electronics, and the internet of things (Exhibit 10). Since 2010, Taiwan, China, and South Korea have been the best-performing markets in the emerging markets opportunity set while many of the commodity-heavy countries (e.g., Brazil) and those with volatile exchange rates (e.g., Turkey) suffered on a relative basis. While there are likely some near-term opportunities for these more cyclical countries to play catch-up on reopening hopes, we do not expect them to sustainably outperform over longer time periods.

We note that as China's technology companies become more advanced in exhibiting structural growth trends, cyclical trends tend to emerge. After all, many of these companies have incorporated banking into their platforms following impressive developments in artificial intelligence. Additionally, as these companies have grown in size and importance, their presence within the MSCI China Index has grown as well (Exhibit 11). We should expect the "new economy" weights to continue to increase within MSCI China over time and provide an ample opportunity set from which to select top-tier companies. We expect to increase portfolio weights to China over time while remaining cognizant of the fact that increased government oversight has the potential to impact businesses that take on the greatest scale.

Exhibit 11: MSCI China Composition Transformation

Key Takeaway: China's stock market is now predominantly composed of new economy companies.



As of June 30, 2020.

Source: Bloomberg, MSCI

We do expect income and corporate tax rates to go up, although actual increases may not match those spelled out in Joe Biden's campaign.

Q: Do politics matter in 2021?

A: Despite Democratic control of the White House and Congress, tight margins and ongoing stress related to COVID lessen the probability of sweeping change; the economic effect of higher taxes may be offset with additional spending on stimulus and infrastructure.

The elections held on November 3, 2020, are winding down, although emotions remain high on both sides. As of this writing, the AP has just called the second Senate runoff race in Georgia in favor of the Democrats, giving them both seats in Georgia and narrow control (with 50 Democratic Senators plus the tiebreaker, Vice President Kamala Harris) of the Senate.

Even though the Democrats also control the House and presidency, we believe their razor-thin margins in a country politically divided and the continuing economic crisis related to COVID-19 will hamper the Democrats' ability to enact sweeping changes.

President-elect Biden's immediate focus is COVID-19 and the economy. We do expect income and corporate tax rates to go up, although actual increases may not match those spelled out in Joe Biden's campaign. Further, a Democratic Senate increases the likelihood of another big stimulus bill passing soon, which could offset much of the fiscal drag on the economy from higher taxes.

Dramatic healthcare reform and other massive policy changes still seem unlikely. A number of Democratic Senators are centrists and from states which supported President Trump in the last election and may not vote along party lines.

What President Biden can't do legislatively, he may seek to do with executive actions. We would expect President Biden and his leadership team to try to reverse President Trump's deregulatory trend.

With a Democratic Senate, President-elect Biden now has more leeway with his nominations for high-ranking positions in the Cabinet, agencies, and regulatory bodies. Arguably the most important post from a financial market perspective is the Treasury secretary, and former Fed Chair Janet Yellen is a highly credible candidate with bipartisan support.

Q: How are Bessemer's portfolios positioned for 2021?

A: We have ample exposure to equities, with a concentration in the U.S., and have added high-yielding credit. We maintain a heavy emphasis on active security selection across markets.

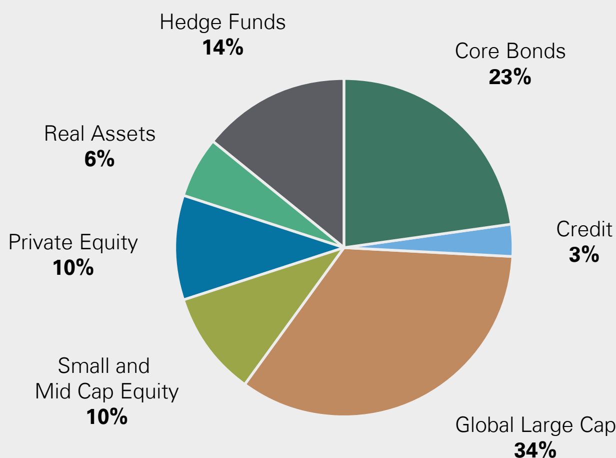
Peter J. Langas
Chief Portfolio Strategist

We strive to build portfolios that are tilted toward areas where we see opportunity. With that said, we are humble enough to recognize that we cannot predict the future with precision, so we remain steadfast in our philosophy of diversification across asset classes (Exhibit 12). We marry diversification with active management — doing fundamental research to invest in securities that represent the best opportunities.

Sticking With High-Quality Bonds

A key pillar of diversification is fixed income, which serves as the solid foundation of a diversified portfolio. Our core fixed income portfolios have a slightly longer duration than their benchmarks as we believe interest rates will remain low in the coming months. Although spreads have narrowed, the excess yield over Treasuries is still meaningful in high-grade corporate and municipal bonds. We are constructive on the outlook, but there are wide fundamental disparities among many issuers, particularly in the municipal market. Therefore, diligent research by our fixed income analysts on each individual issuer is critical to maintain high quality and avoid

Exhibit 12: Balanced Growth 70/30 Asset Allocation



Positioning as of December 31, 2020. This model displays Bessemer's Balanced Growth with Hedge Funds and Private Assets target portfolio allocation guidelines. Each client situation is unique and may be subject to special circumstances, including but not limited to greater or less risk tolerance, classes, and concentrations of assets not managed by Bessemer, and investment limitations imposed under applicable governing documents and other limitations that may require adjustments to the suggested allocations. Model asset allocation guidelines may be adjusted from time to time on the basis of the foregoing or other factors. Alternative investments, including Bessemer private equity, real assets, and hedge funds of funds, are not suitable for all clients and are available only to qualified investors.

Source: Bessemer Trust

those issuers at risk. To complement our core bond strategies, we added a small allocation to a new Credit Income mandate with exposure to high yield credit, non-agency mortgage backed securities, and other higher-yielding instruments, which helps to enhance the yield of core bonds with modest incremental risk.

Focus on Equities With Durable Growth

Our equities are focused on growth and quality strategies with almost two-thirds concentrated in the technology, healthcare, and consumer discretionary sectors (Exhibit 13). Our portfolio teams have increased exposure on the margin to companies that are more cyclically sensitive, such as JP Morgan, Union Pacific, and Air Products. But the preponderance of our equity investments is in leading companies with strong structural growth tailwinds in industries such as cloud computing, semiconductors, healthcare, consumer, online retail, and payment processing (Exhibit 14). Fundamentals of these companies are strong, and we believe that focusing on companies that can deliver solid earnings growth through the ebb and flow of reopening and beyond is the best way to be positioned.

Selective Non-U.S. Exposure

Geographically, our equity portfolios are overweight the U.S., but we believe in global diversification (Exhibit 15). Using bottom-up research, our external manager teams are finding select growth opportunities around the world. Global large-cap and emerging markets manager Sands Capital is finding attractive growth companies in Asia, such as Chinese biologics services company Wuxi Biologics and consumer finance company Bajaj Finance, based in India. Global small- and mid-cap manager Baillie Gifford holds U.K. online grocer Ocado Group, and non-U.S. small- and mid-cap manager Artisan Partners is invested in I-MAB, a Chinese clinical stage biopharmaceutical company.

Capturing Early-Stage Growth

One of the best ways to capture strong growth trends is to invest in innovative companies in their early stages as private companies. Initial public offerings and direct listings over the last year have showcased the success of our venture capital managers' investments in companies such as Airbnb, Asana, BigCommerce, Palantir, Relay Therapeutics, Revolution Medicines, Unity Software, and Wish.

Exhibit 13: All Equity Sector Weights

	All Equity 100/0	Equity Benchmark	Difference
Communication Services	11%	9%	2%
Consumer Discretionary	15%	13%	2%
Consumer Staples	5%	8%	(3%)
Energy	2%	3%	(1%)
Financials	10%	13%	(2%)
Healthcare	13%	12%	1%
Industrials	11%	11%	0.5%
Information Technology	25%	21%	5%
Materials	3%	5%	(2%)
Utilities	2%	3%	(2%)
Real Estate	1%	4%	(2%)
Cash & Equivalents	2%	–	2%

Reflects positioning based on current weights as of November 30, 2020. Figures may not sum to 100% due to rounding. The Equity Benchmark represents the MSCI All Country World IMI. Sector colors indicate: green (overweight), blue (underweight), black (neutral or under 1% difference in Bessemer allocation and benchmark weights).

Source: Bessemer Trust, FactSet, MSCI

Exhibit 14: Top Equity Holdings*

Sector	Holdings
Technology	Apple CMC Materials Microsoft NICE Synopsys Texas Instruments Visa
Communication Services	Alphabet Charter Communications Facebook Tencent
Consumer Discretionary	Alibaba Amazon Dollarama Ocado Group Tesla
Healthcare	Cooper Companies Steris Teleflex Thermo Fisher
Energy/Financials/Industrials	Bank of America Chevron IAA JP Morgan Union Pacific

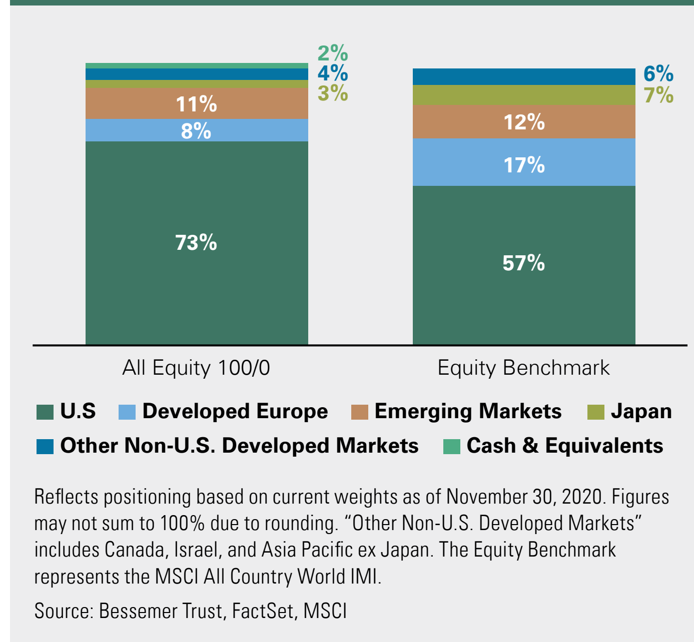
*Top 10 holdings in Large Cap Core, Large Cap Strategies, and Small and Mid-Cap Strategies excluding ETF's. Total number of holdings is less than 30 as certain equities are held in more than one of these strategies.

Data and holdings are as of November 30, 2020.

Source: Bessemer Trust Company, N.A., a member of the Bessemer Trust group of companies; FactSet; MSCI; S&P

In our private equity program, we continue to invest the majority of capital in technology and healthcare via our managers, favoring enduring trends that COVID-19 has only accelerated. Enterprise software, financial technology, online education, e-commerce, gaming, and automation are all technology themes where we continue to see opportunity. In healthcare, we're focused on novel therapeutics, where the pace of breakthroughs has been remarkable with more to come. We're also investing in advanced diagnostics, digital health, health insurance, and businesses supplying drug research, manufacturing, and distribution efforts.

Exhibit 15: All Equity Regional Weights



Reflects positioning based on current weights as of November 30, 2020. Figures may not sum to 100% due to rounding. "Other Non-U.S. Developed Markets" includes Canada, Israel, and Asia Pacific ex Japan. The Equity Benchmark represents the MSCI All Country World IMI.

Source: Bessemer Trust, FactSet, MSCI

We feel confident that a balanced portfolio with diversified exposure to high-quality businesses with solid long-term growth characteristics is well positioned for the coming year and the long term.

Conclusion

Overall, we are cautiously optimistic as we begin 2021. With potential wide vaccine distribution, continued economic recovery, and a boost to structural growth, we are confident in our positioning and ability to be nimble in a dynamic market environment.

We hope that you and your loved ones are safe and healthy, and encourage you to reach out to your advisor for any support you need, in these areas and others. Thank you for your trust in us.

With special thanks to Senior Investment Strategist Patrick S. Boyle and Portfolio Strategist Stone Y. Cao for their contributions.

Our Recent Insights

2020 Election Update: Additional Implications — Investment Insights (December 2020)

In Pursuit of Return and Income — Quarterly Investment Perspective (Fourth Quarter 2020)

Elections, Taxes, and Markets — A Closer Look (August 2020)

Elections and Markets Q&A — A Closer Look (July 2020)

Investing in the Age of Digital Transformation — Quarterly Investment Perspective (Third Quarter 2020)

Active Management: Fixed Income Through the Crisis — Investment Insights (June 2020)

Debt Dynamics and Modern Monetary Theory in a Post COVID-19 World — A Closer Look (June 2020)

The Economy/Stock Market Disconnect — Investment Insights (May 2020)

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About Bessemer Trust

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