WILMINGTON TRUST

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February | 2021

Capital Perspectives

Monthly investment analysis and insights from Wilmington Trust Investment Advisors

ON THE RECORD

As the Virus (Trajectory) Turns:
A depressed economy and anxious stock market

In this issue:

Tony Roth
Chief Investment Officer

It would appear, at least from the perspective of investors, that 2021 is intent on being as memorable as its predecessor. In the first month alone, unprecedented events in the political, health, and market spheres have contributed to equity volatility. We expect this volatility could continue in the near term, particularly as many assets are trading at elevated (in some cases excessive) valuations and the short-term economic outlook remains challenged. Looking out over the next 9–12 months, however, we remain optimistic on both the economic and market fronts. Over this longer investment horizon, we expect the U.S. to benefit from further fiscal relief and ultimately to move beyond the pandemic as a durable economic recovery takes shape. It is important to note that we do not expect the market stresses resulting from concentrated speculation in lower-quality stocks to spill over to the broader market.

Virus, vaccines, and policy

The economy is still hostage to the virus, but we can see the light at the end of the tunnel. As vaccine supply and distribution continue to ramp up, the biggest threat to the recovery timeline is the mutation of COVID-19, with the South African strain presenting the latest risk to an optimistic outlook. Fortunately, recent clinical data have been encouraging even against this viral mutation.

Last week, Novavax and Johnson & Johnson revealed their Phase 3 data. While the headline numbers suggested these vaccines had lower efficacy rates than the Pfizer and Moderna vaccines (for which late-stage studies showed 90%–95% efficacy against the original virus), it is vitally significant that both recent vaccine candidates

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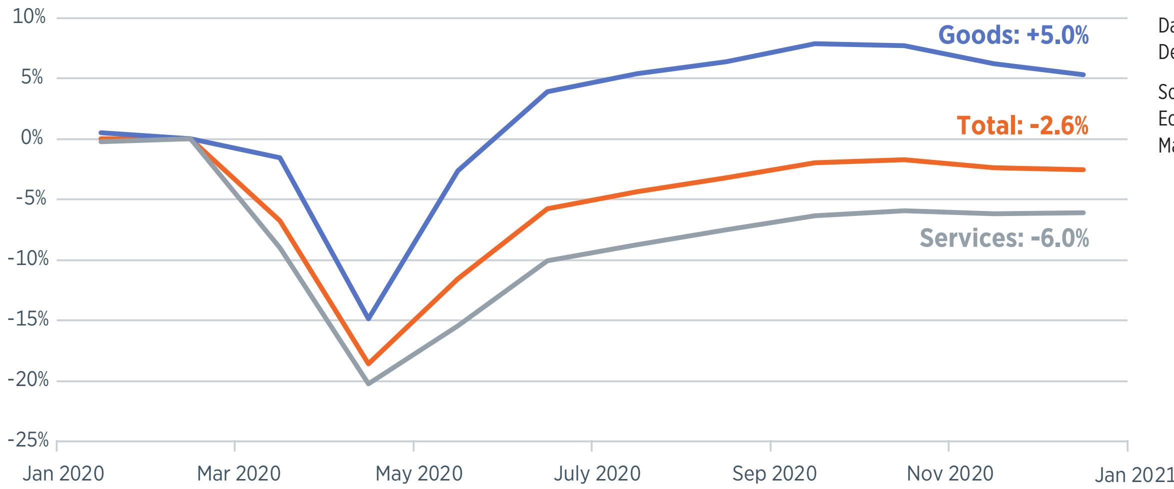
Figure 1

Consumer spending by category

Cumulative % change since February 2020



Data as of December 31, 2020.

Sources: Bureau of Economic Analysis, Macrobond.

If Democrats in the Senate cannot remain united and also garner support from at least 10 Republicans, they will be forced to go the route of budget reconciliation.

proved highly effective at preventing severe illness or death against all known strains. In addition, in the case of the J&J product, much higher shipping temperatures, easier large-scale production and the requirement of only a single inoculation, mean that the U.S. should enjoy sufficient, high-quality vaccine availability for all adults in the first half of the year. Given these considerations, we are expecting a dramatic drop in virus prevalence and a broad-based economic reopening in the U.S. in the second half of 2021. If this optimistic picture indeed plays out, and with the Federal Reserve committed to its current zero-rate policy for the foreseeable future, domestic equities have further to run, in our view.

In the interim, we expect continued near-term economic weakness in the U.S.—as evidenced by the second consecutive month of declining retail sales and a material increase in jobless claims. Yet another round of fiscal stimulus—that we believe will most likely come in north of an additional $1 trillion—will help bridge the gap until the virus wanes. Importantly for investors, the market reaction to additional stimulus may be a function of the legislative path taken. Specifically, if Democrats in the Senate cannot remain united and also garner support from at least 10 Republicans, they will be forced to go the route of budget reconciliation. As many of you may recall, this was the means by which Republicans passed tax cuts in 2017, as it requires only a simple majority in the Senate. The catch is that this process is more limiting in the items that can be included (they must be budget related) and any spending must be offset somehow to create budget neutrality over the 10-year budget window. That means higher taxes as early as 2021, likely sooner than many market participants anticipated.

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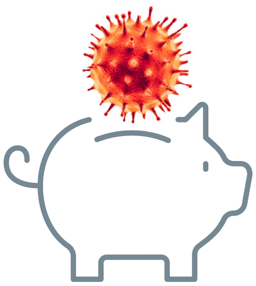
$1.5 trillion in savings

since the onset of the pandemic. This savings is by no means equally distributed, nor will it be deployed all at once.



Awash in liquidity

One key reason we are optimistic on the economy despite near-term challenges is the tremendous amount of pent-up consumer demand in the economy, which we expect to unleash a swift transition in spending to goods versus services. U.S. consumers have accumulated roughly $1.5 trillion in savings since the onset of the pandemic.* This savings is by no means equally distributed, nor will it be deployed all at once. However, the consumer has been so severely limited in spending on services—areas like leisure and hospitality, travel, entertainment, and dining—that we expect a good chunk of this excess liquidity to be deployed once consumers receive the "all clear," ushering in a rebound in service-related spending and inflation. The services component of the U.S. economy exceeds that of manufacturing and goods consumption by roughly a 2:1 ratio yet, since the onset of the pandemic, goods spending has grown by approximately 5% while services has fallen by a comparable percentage (Figure 1). We have taken steps in recent months to reposition portfolios for such a scenario, including adding cyclical exposure to U.S. and international equity holdings.

Corporations are also sitting on approximately $2 trillion of cash, due to record debt issuance in 2020, according to Citi Research. We anticipate that this liquidity will be utilized for a combination of mergers and acquisitions (discussed at length in our Capital Markets Forecast), dividends, buybacks, and hopefully hiring and capital expenditures, all of which would be supportive for equities.

Speculation on steroids

A definite risk to our positive outlook is valuations. The broader stock market is certainly not cheap, but we don't see it as being a bubble about to burst. In addition, we are witnessing a growing list of assets subject to speculative excess, including the IPO (initial public offering) market, SPACs (special purpose acquisition companies), Bitcoin, certain tech-related stocks, and—most recently—heavily shorted stocks like GameStop. In recent weeks, it has been simultaneously fascinating yet troubling to witness the democratization of investing (through zero-commission trading platforms) combine with the power of social media to catapult certain stocks on upward paths that are contrary to fundamentals. While our base case is that these incidents will affect only a relatively small number of securities and should not destabilize the overall market, we continue to monitor the rapid progression of these events.

Overweight to equities

We currently hold a tactical overweight to equities, funded by an underweight to investment-grade fixed income, including municipal bonds for taxable investors. Within equities, we favor U.S. small cap and emerging markets equities. U.S. small cap stands to benefit from early economic cycle dynamics and a strong rebound in mergers and acquisitions. Small cap also tends to have more cyclical exposure than U.S. large cap, which has a higher representation of growth-oriented, tech-related companies. Emerging markets equities trade at more attractive valuations than their

* Sources: Z.1, Financial Accounts of the United States report: https://www.federalreserve.gov/releases/z1/; WTIA.

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Current tactical asset allocation

	−			N			+
Equities U.S. Large Cap	○	○	○	● N	○	○	○
Equities U.S. Small Cap	○	○	○	N	●	○	○
Equities International Developed	○	○	○	● N	○	○	○
Equities Emerging Markets	○	○	○	N	○	●	○
Tax-Exempt Fixed Income Investment Grade	○	○	●	N	○	○	○
Tax-Exempt Fixed Income High Yield	○	○	○	● N	○	○	○
Real Assets	○	○	●	N	○	○	○
Alternatives	○	○	○	● N	○	○	○
Cash	○	○	○	● N	○	○	○

A definite risk to our positive outlook is valuations. The broader stock market is certainly not cheap, but we don't see it as being a bubble about to burst.

U.S. counterparts and could benefit from a weaker U.S. dollar and the structural acceleration of digital adoption across the economy.

Given our long-term optimism, we would likely look for any correction in the equity market of 5%–10% as a buying opportunity. This would certainly be the case for clients sitting on excess cash, and also potentially for fully invested portfolios—means by which we could strategically increase our overall equities overweight (as you can see in the tactical asset allocation table above).

Until next month,

Tony

Tony

IN FOCUS

Minimum Wage Hikes: Who gains, and who pays?

Rhea Thomas
Senior Economist

At a glance:

- **Research suggests minimum wage hikes could be a multi-edged sword for workers and businesses**
- **The timing of President Biden's minimum wage hike proposal could risk exacerbating the uneven economic recovery**
- **Current minimum wage in inflation-adjusted terms has declined by nearly 40% relative to its peak in 1968**
- **Upside risks for higher economy-wide inflation could impact risk assets, especially if potential Fed rate hikes come earlier than expected**
- **While bipartisan support in the Senate may be an uphill battle, budget reconciliation could also prove challenging**

Raising the minimum wage has been a hot button issue for years and President Biden's proposal to roughly double it from $7.25 to $15 per hour is rekindling that heated debate. Businesses have long argued such a move would hamper profitability, and force them to cut jobs or raise prices to offset higher labor costs. Supporters note that higher income for low-wage workers would help reduce income inequality, boost aggregate consumer spending, and be a boon for all.

Unsurprisingly, research on the topic is mixed, as both arguments have merit since the policy is a multi-edged sword. Figuring out which way the blade will swing depends on the size of the hike, the speed of implementation, and unpredictable factors including economic growth, technological developments, and the actions of individual states and firms. Large hikes implemented swiftly will likely lead to job cuts and a noticeable hit to the economy. Smaller hikes implemented slowly are more manageable.

In our view, the timing of the minimum wage hike proposal in the current environment could risk exacerbating the uneven economic recovery. We would expect it to most strongly impact small businesses and the leisure and hospitality industry, which have already been hard-hit by the pandemic. In the absence of mitigating tax cuts or direct aid, the policy could lead to further job cuts or curtailment of hiring plans for low-wage workers, who have seen disproportionate job losses due to the pandemic. But it could also lift incomes for a significant number of low-income workers, whose additional spending could provide some offsetting revenues for businesses.

From a market perspective, small-cap equities would be more vulnerable relative to large cap given their higher weighting to the leisure and hospitality industry. A hike in the minimum wage also adds to potential upside risks for inflation that could weigh on equity markets if it were to bring forward future Fed rate hikes. We would not adjust our overall view of economic growth but would expect a shift toward further adoption of technology and automation by firms as they try to reduce higher labor costs, a trend that has already been accelerated by the pandemic. Prospects for a minimum wage increase are far from certain, in light of the political challenges of getting support for legislation. The magnitude and timing of any potential hike, as well as the combination of fiscal measures that may be passed in conjunction, will also play a part in determining the ultimate impacts on the economy.

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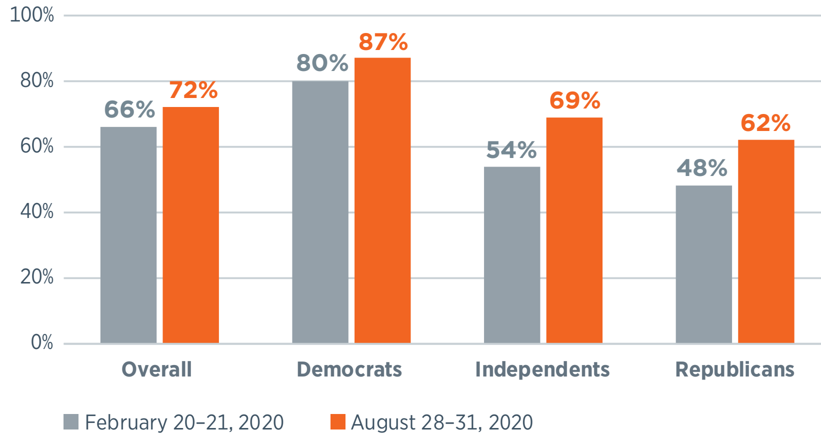
What is being proposed?

House and Senate Democrats recently put more flesh on President Biden's minimum wage proposal with the Raise the Wage Act of 2021,[3] which includes the following:

- Federal minimum wage increased from current $7.25 to $15 per hour between 2021 and 2025
- Indexed to median wage growth starting in 2026, to keep pace with middle-income workers
- End subminimum wages by guaranteeing the federal minimum wage to workers with disabilities (by 2026) and tipped and teenage workers (2027)

Figure 1

Polls suggest rising support for minimum wage hike on both sides of the political aisle



Data as of: February 20–21, 2020 and August 28–31, 2020.

Source: USA Today/Public Agenda Hidden Common Ground Survey/Ipsos.

State of play

President Biden proposes to raise the federal minimum wage over several years and then index it to inflation (see box "What is being proposed?"). This comes in an environment where public support for the policy is high and some states and private companies already have higher minimums. More than two-thirds of Americans favor lifting the minimum wage, and the pandemic appears to have boosted public support on both sides of the political aisle (Figure 1).[1] While the federal government last hiked the minimum wage over a decade ago in 2009, 29 states already have higher mandates.[2] Florida was the latest state to make a splash, when the electorate voted via ballot initiative in November 2020 to raise the state's minimum wage to $15 per hour by 2026, in spite of its red leanings (with a Republican governor, two Republican senators, and electoral votes that went to former President Trump). Some large employers have taken matters into their own hands as well, including Amazon, Target, Costco, and Bank of America, which all raised minimum wages to $15 per hour or more in recent years.

The federal minimum wage has been raised 22 times since it was first established in 1938 by the Fair Labor Standards Act of 1938 (FLSA). This Act covers most low-wage workers, with some exceptions, and allows for a subminimum wage for teenage and tipped workers, as well as those with disabilities.[4] Though various attempts to raise the minimum wage have been made since it was last increased in 2009 (most recently with Raise the Wage Act of 2019), none have been successful. As a result, the annual salary of a worker earning the federal minimum wage has been unchanged in nominal terms at $15,080 for the past 12 years.

Some argue that automatic increases are more important than raising the level. Because the federal minimum wage is not adjusted for inflation, the purchasing power of minimum-wage workers has stagnated for decades. The current minimum

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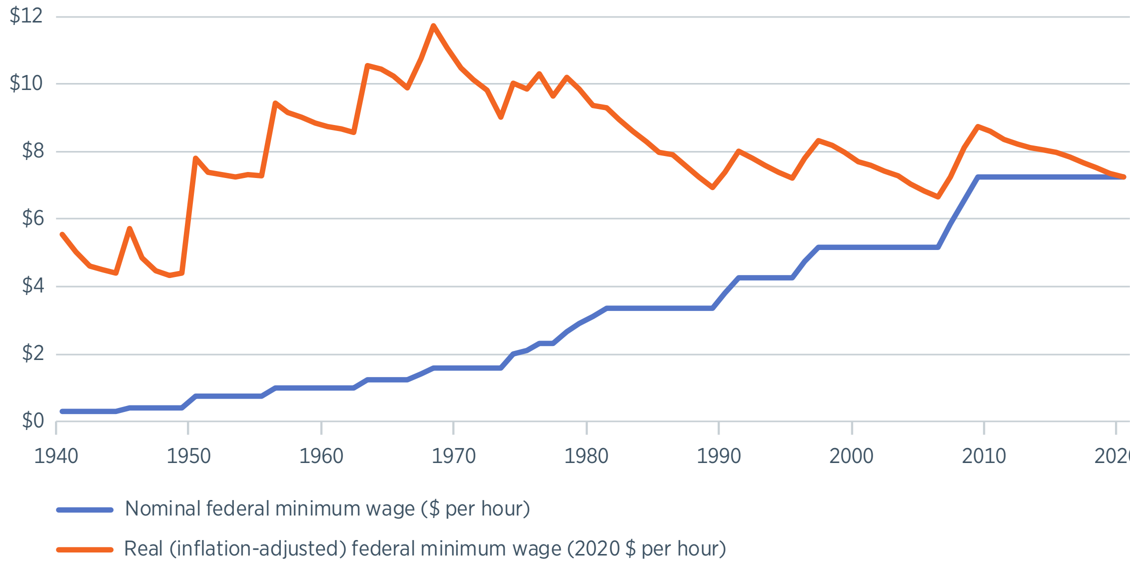
Figure 2

Purchasing power for minimum-wage workers is roughly the same today as it was in the early 1990s



Data as of December 31, 2020.

Sources: Macrobond, Department of Labor, Bureau of Labor Statistics, WTIA.

More than two-thirds of Americans favor lifting the minimum wage, and the pandemic appears to have boosted public support on both sides of the political aisle

wage in real (inflation-adjusted terms) has been roughly unchanged since the early 1990s but has declined by nearly 40% relative to its peak in 1968 (Figure 2). It comes as no big surprise that support for an increase in the minimum wage has been gaining traction with the public and attention from lawmakers.

Multi-edged sword for the economy

Academic studies on economic impacts are inconclusive with findings that vary widely, particularly on the employment effects. Some studies find minimal impacts[5] on jobs while others find clear negative impacts. Figure 3 summarizes a number of potential economic impacts suggested by the literature. We note one impact that perhaps does not get sufficient airtime in the trenches of the debate: the possible impact on inflation. Businesses frequently say they expect to raise their own prices, adding to upside risks for higher economy-wide inflation, which we think are more heightened in the recovery from this recession relative to the last (see our 2021 Capital Markets Forecast for more details). This could have an impact on risk assets in general, especially if potential Fed rate hikes come earlier than expected.

One study of note is the frequently cited 2019 report from the nonpartisan Congressional Budget Office (CBO),[6] which analyzed the potential impact of a federal minimum wage rate hike to $15 per hour by 2025, similar to that put forward in the current proposal. Like many other studies, results were mixed:

- **17 million:** estimated number of directly impacted workers expected to see higher wages
- **10 million:** estimated number of indirectly impacted workers with wages of slightly more than $15 per hour who could also see wages lifted in a ripple effect as firms may try to preserve wage differentials

Continued

Figure 3

Potential costs and benefits of a higher federal minimum wage for workers and firms

	Potential benefits	Potential costs
Workers	• **Higher incomes for minimum-wage workers** • **Potential boost to income for workers slightly above minimum wage** • **Reduced number of households below the poverty line**	• **Lower employment for low-income workers**, particularly those at lower skill levels, if firms cut jobs to reduce labor costs, or substitute with higher-skill workers or automation given lower relative costs for these alternatives • **Fewer hours or reduced benefits** if firms try to offset higher labor costs • **Higher consumer prices for goods and services** if firms pass on higher labor costs • **May not be targeted enough to address poverty**; according to the CBO, nearly 40% of workers impacted by a $15 per hour minimum wage policy in 2025 would be part of families that have incomes triple that of the federal poverty threshold
Businesses	• **Increased consumer demand** as lower-income households tend to spend a larger proportion of each new dollar of income earned relative to higher-income households • **Increased worker productivity**, as employees work harder to retain better-paying jobs • **Lower rates of worker turnover** (reduced retraining costs) and absenteeism	• **Lower profitability, particularly for smaller businesses**, as a result of higher labor costs • **Lower consumer demand** if firms pass on higher labor costs via higher sales prices • **Ignores local variations in cost of living**, with a one-size-fit-all approach, particularly burdensome for businesses in areas with a low cost of living

Businesses frequently say they expect to raise their own prices, adding to upside risks for higher economy-wide inflation, which we think are more heightened in the recovery from this recession relative to the last.

- **1.3 million:** estimated decline in number of people with annual incomes below the poverty line
- **0 to 3.7 million:** the wide range of projected job losses

Industry impact

- Industries most vulnerable to a wage hike are likely to be those that employ a significant number of workers at wage rates at or below the current federal minimum wage. The leisure and hospitality space stands out on this front (Figure 4).
- Restaurants in particular have a high reliance on low-wage workers, but have been battered by the pandemic, leaving little room to absorb additional costs. The National Restaurant Association announced its opposition to the Raise the Wage Act of 2021, noting that the industry's pretax profit margins of "3%–5% in a good year" would make the proposed increase in the federal minimum wage especially difficult in the current environment. The Raise the Wage Act of 2021

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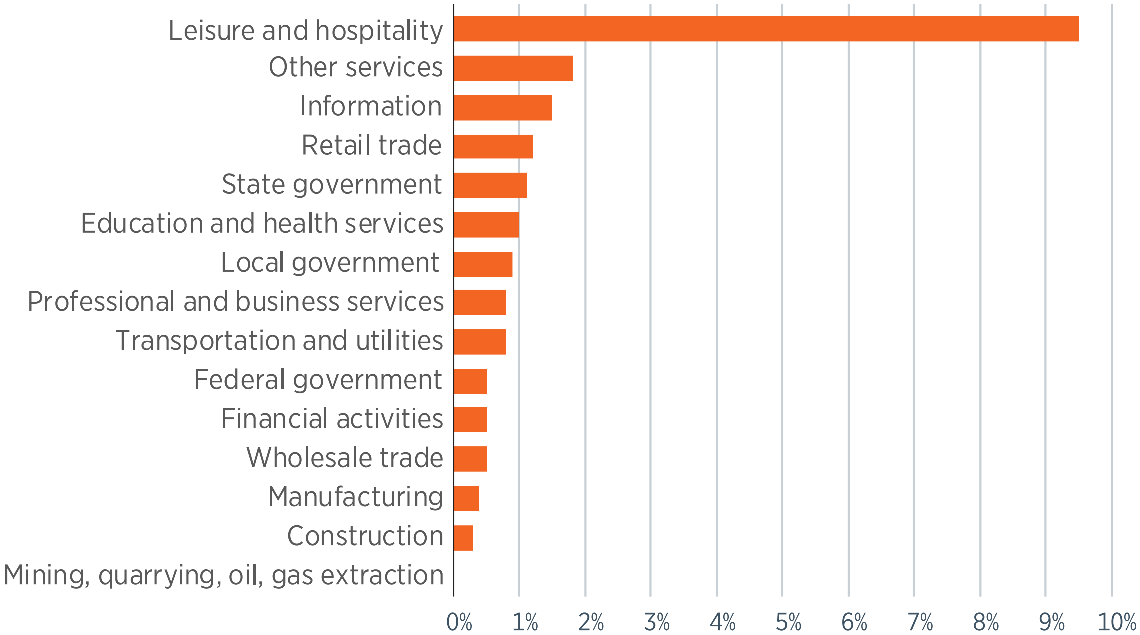
Figure 4

Percent of hourly minimum-wage workers at or below the federal minimum, by industry



Data as of December 2020.

Source: Bureau of Labor Statistics.

Restaurants in particular have a high reliance on low-wage workers, but have been battered by the pandemic, leaving little room to absorb additional costs.

proposes a +132% increase in 2021 from the current minimum of $2.13 to $4.95 per hour, an additional 40% increase in 2022, and further increases to $15 by 2027. Restaurant chain TGI Friday's CEO Ray Blanchette recently noted that a potential end to the tipped minimum wage would likely force restaurants to reduce hours for existing workers or raise prices for consumers.[7] To the extent that firms invest in technology to lower these higher labor costs (think of restaurants making more widespread use of menu ordering tablets like those used at restaurant chain Chili's in order to cut back on hiring servers[8]), this could boost firm and economy-wide productivity. However, it may also lead to fewer employment opportunities for the nearly four million workers in the industry who have lost their jobs since the pandemic.

- Small-cap equities would be more exposed, as they have a higher weighting to companies in the leisure and hospitality industry relative to large cap (hotels, restaurants, and leisure have a 3.7% weight in the Russell 2000 Index vs. 1.7% for the Russell 1000 Index).

- We would expect two groups of companies to be better positioned to weather a minimum wage hike: first, those with exposure to low-income consumers (whose spending is likely to increase with a minimum wage hike); and second, those that are currently paying wages above the federal minimum, whether due to company initiatives or geographic exposure to the 29 states that already have minimum wage rates exceeding the federal minimum.

Continued

The ongoing pandemic-induced stress may also push lawmakers to provide additional support for small businesses, such as tax cuts, to ease the burden of increased labor costs. This was a strategy used in 2007 to push through the last minimum wage hike.

Prospects for passage

Getting bipartisan support for a $15 per hour minimum wage in the Senate may be an uphill battle, given that Democrats would need support from 10 Republicans. Democrats could alternatively try to pass minimum-wage legislation with just 51 votes using budget reconciliation (with Vice President Harris casting the tie-breaking vote). This would be significantly more difficult given the constraints on the types of legislation that can typically be addressed using this tool (for more detail, see "Biden's Stimulus & Agenda: Predicting the Unpredictable"). However, some Democrats have suggested pushing the limits of these restrictions to get a $15 minimum wage passed.[9]

Using budget reconciliation would also require unanimous support from 50 Senate Democrats, and that may prove to be a challenge as well. While most Senate Democrats favor raising the minimum wage, as of late January, 12 of them had not yet cosponsored the Raise the Wage Act of 2021. A number of these senators (including Joe Manchin, Krysten Sinema, and Chris Coons) have expressed support for more modest increases in the past. A smaller increase in the minimum wage could also make a hike more palatable for businesses. The CBO's 2019 report noted more mitigated impacts on both workers and businesses when comparing a potential $10 or $12 minimum wage to the $15 option. The U.S. Chamber of Commerce, for example, opposed a $15 minimum wage proposed by the 2019 Raise the Wage Act, but was open to a smaller increase. The ongoing pandemic-induced stress may also push lawmakers to provide additional support for small businesses, such as tax cuts, to ease the burden of increased labor costs. This was a strategy used in 2007 to push through the last minimum wage hike.

Ultimately, policymakers will have to balance the potential costs and benefits for workers and firms as they consider the details of a minimum wage increase. It is challenging to predict exactly what combination of measures could be passed, but we will continue to monitor portfolios to be positioned for any potential changes on this front.

ENDNOTES

[1] USA Today/Public Agenda Hidden Common Ground Survey/Ipsos, August 2020, https://www.usatoday.com/story/money/2020/09/24/2020-election-republicans-democrats-less-divided-worker-support/5865607002/; Pew Research Center, July 31, 2019, https://www.pewresearch.org/fact-tank/2019/07/30/two-thirds-of-americans-favor-raising-federal-minimum-wage-to-15-an-hour/

[2] Virginia is scheduled to raise its minimum wage in May 2021, which would raise the total number of states with minimum wages higher than the federal rate to 30. Congressional Research Service, State Minimum Wages: An Overview, December 22, 2020. https://fas.org/sgp/crs/misc/R43792.pdf; Department of Labor, Consolidated Minimum Wage Table, as of 1/1/2021. https://www.dol.gov/agencies/whd/mw-consolidated

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[3] Raise the Wage Act https://edlabor.house.gov/imo/media/doc/2021-01-26%20Raise%20the%20Wage%20Act%20Fact%20Sheet.pdf

[4] The FLSA does not cover the self-employed, employees of small businesses with less than $500,000 in sales, and workers who are paid based on projects completed rather than time worked. Tipped workers (roughly three million workers as of 2019, such as restaurant servers, bar tenders, beauty salon attendants), are required to receive an ex-tip minimum wage of $2.13 per hour from employers, and a tip inclusive minimum wage with of $7.25. Employers are also allowed to pay teenage workers $4.25 per hour for their first 90 days of work. Employers certified by the Department of Labor are allowed to pay disabled workers wages below the federal minimum (roughly 125,000 workers in 2019). Congressional Budget Office, "The Effects on Employment and Family Income of Increasing the Federal Minimum Wage," July 8, 2019. https://www.cbo.gov/publication/55410

[5] Neumark, David and Shirley, Peter; Myth or Measurement: What Does the New Minimum Wage Research Say about Minimum Wages and Job Loss in the United States? (January 2021) NBER #28388, https://www.nber.org/papers/w28388; Wolfson, Paul J. and Belman, Dale, 15 Years of Research on U.S. Employment and the Minimum Wage (December 10, 2016). Tuck School of Business Working Paper No. 2705499, http://dx.doi.org/10.2139/ssrn.2705499

[6] Congressional Budget Office, "The Effects on Employment and Family Income of Increasing the Minimum Wage," July 2019; https://www.cbo.gov/system/files/2019-07/CBO-55410-MinimumWage2019.pdf

[7] CNBC, "TGI Fridays CEO says ending the tipped minimum wage would result in higher prices, fewer hours for waitstaff," January 22, 2020. https://www.cnbc.com/2021/01/22/tgi-fridays-ceo-says-ending-the-tipped-minimum-wage-would-boost-prices.html

[8] The Atlantic, "Chili's Has Installed More Than 45,000 Tablets in Its Restaurants, June 16, 2014" https://www.theatlantic.com/technology/archive/2014/06/chilis-is-installing-tablet-ordering-at-all-its-restaurants/372836/

[9] Roll Call, "Top budget expert makes case for minimum wage in reconciliation," January 22, 2021. https://www.rollcall.com/2021/01/22/top-budget-expert-makes-case-for-minimum-wage-in-reconciliation/

ASSET CLASS OVERVIEW

Municipal Fixed Income

Jason Hannon, CFA
Head of Municipal Strategy and Senior Fixed Income Portfolio Manager

AS OF JANUARY 31, 2021	Month	YTD	Trailing 12-month return
S&P Municipal Bond Index	0.6%	0.6%	3.9%
S&P Municipal Bond New York Index	0.7%	0.7%	3.4%
S&P Municipal Bond California Index	0.4%	0.4%	3.6%

Sources: FactSet, Bloomberg. Investing involves risks and you may incur a profit or a loss. Past performance cannot guarantee future results. Indices are not available for direct investment.

What we are seeing now

In 2020 the municipal market was historical in terms of record setting low yields, experienced first in March and then again in August, and high volatility experienced during the March and April selloff. As of December month end, the municipal bond market delivered a one-year return of 4.95% compared to 7.26% return in 2019. Investor fears about the effects of COVID-19 on the fiscal health of municipal sectors led to over $50 billion in fund outflows between March and April alone. The market subsequently stabilized in the middle of 2Q 2020 as positive cash flows came back into the municipal market. The market continues to take in strong levels of cash flow and issuers have been placing deals at record low yields to meet investor demand. In 2020, the municipal market issued approximately $500 billion of debt—$180 billion (~36%) of that debt was taxable municipal debt, near record levels. The increase in taxable municipal issuance as a percentage of total issuance has reduced the availability of tax-exempt debt for traditional municipal buyers who benefit from the tax exemption. This lack of supply was a dominating theme during the last year and will continue to be one for the foreseeable future as relative demand for tax-exempt municipals regularly outstrips supply. This has kept municipals yields within tight ranges.

What's changing

Credit spread compression started in the middle of 2Q 2020, after the historic selloff experienced in March and April. AAA-rated bonds were the first to tighten, as they are considered the highest-grade bonds, followed by AA bonds as the market continued to take in positive cash flow and needed to get cash invested. We are currently seeing A-rated and BBB-rated bonds compress, returning to near historical averages as the relative value in AAA and AA bonds is no longer attractive. Positive cash flows and the lack of tax-exempt supply are continuing to keep tax-exempt levels range bound while credit spreads in the A-rated and BBB sectors continued to be compressed.

What we expect

We anticipate a continuation of spread tightening in the municipal market, especially in the lower-rated areas of the investment-grade space (A and BBB) as well as high-yield municipals. Some of the credit sectors that were more affected by COVID such as health care/hospitals, transportation, airports, and Higher Education continue to exhibit relative value. President Biden's proposed $1.9 trillion stimulus plan would provide $350 billion for states and localities that have been hardest hit by COVID. Even lower-rated bonds in the transportation sector exhibited spread tightening in the days leading up to the President's inauguration. For example, the New York Metropolitan Transportation Agency (MTA) in the fall said it would need up to $12 billion to run the subway system and stay on pace with the capital improvement plan. The MTA has been one of the more stressed and hardest hit issuers in municipal market since COVID. The MTA bonds have gained in the recent days with the expectation of receiving some sort of aid package. The MTA even delayed a planned fare hike earlier this month in anticipation of a federal aid package. In addition to President Biden's stimulus plan, we also expect economic improvement as more vaccines are distributed and the economy is able to safely reopen. Lastly, total municipal issuance for 2021 is expected to be approximately $550 billion (10% higher than 2020) with approximately $190 billion coming via taxable debt (35%). The strong cash flow coming into the market continues to outweigh the demand for tax-exempt debt, so we believe credit spreads will continue to compress as these factors work in tandem in 2021.

Investment Positioning

Portfolio targets effective February 1, 2021, for high-net-worth clients with Hedge Funds

Growth & Income

	Strategic Asset Allocation (long term)	Tactical Asset Allocation (short term)
Equities		
U.S. Large-Cap	31.5%	Neutral
U.S. Small-Cap	5.5%	Overweight
International Developed	16.0%	Neutral
Emerging Markets	5.5%	Overweight
Fixed Income		
U.S. Investment Grade–Tax-Exempt	28.5%	Underweight
High-Yield–Tax-Exempt	2.0%	Neutral
Real Assets		
U.S. Inflation-Linked Bonds	1.0%	Underweight
Global REITs	1.5%	Neutral
Other	1.5%	Neutral
Nontraditional Hedge	5.0%	Neutral
Cash & Equivalents	2.0%	Neutral
Total	100.0%	

Note: Totals may differ slightly from the allocation building blocks due to rounding.

TAA, or Tactical Asset Allocation, represents our *current recommendation* for each model strategy.

SAA, or Strategic Asset Allocation, represents our *current benchmark* allocation for each model strategy.

This material is for informational purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or a recommendation or determination that any investment strategy is suitable for a specific investor. Opinions, estimates, and projections constitute the judgment of Wilmington Trust and are subject to change without notice. Allocations presume a long-term investment horizon. Wilmington Trust's 2021 Capital Markets Forecast is available on www.WilmingtonTrust.com/cmf or upon request from your Investment Advisor. There is no assurance that any investment strategy will be successful. Investing involves risks and you may incur a profit or a loss.

For an overview of our asset allocation strategies, please see the disclosures.

Source: WTIA.

Investment Positioning

Portfolio targets effective February 1, 2021, for high-net-worth clients with Private Markets*

Growth & Income

	Strategic Asset Allocation (long term)	Tactical Asset Allocation (short term)
Equities		
U.S. Large-Cap	24.3%	Neutral
U.S. Small-Cap	4.3%	Overweight
International Developed	11.6%	Neutral
Emerging Markets	4.1%	Overweight
Fixed Income		
U.S. Investment Grade–Tax-Exempt	24.7%	Underweight
High-Yield–Tax-Exempt	2.0%	Neutral
Real Assets		
U.S. Inflation-Linked Bonds	0.9%	Underweight
Global REITs	1.3%	Neutral
Other	1.3%	Neutral
Nontraditional Hedge	6.0%	Neutral
Private Markets	17.5%	Neutral
Cash & Equivalents	2.0%	Underweight
Total	100.0%	

Note: Totals may differ slightly from the allocation building blocks due to rounding.

TAA, or Tactical Asset Allocation, represents our *current recommendation* for each model strategy.

SAA, or Strategic Asset Allocation, represents our *current benchmark* allocation for each model strategy.

* Private markets are only available to investors that meet Securities and Exchange Commission standards and are qualified and accredited.

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For an overview of our asset allocation strategies, please see the disclosures.

Source: WTIA.

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Any positioning information provided does not include all positions that were taken in client accounts and may not be representative of current positioning. It should not be assumed that the positions described are or will be profitable or that positions taken in the future will be profitable or will equal the performance of those described.

Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses, such as management fees and transaction costs that will reduce returns.

An overview of our asset allocation strategies:
Wilmington Trust offers seven asset allocation models for taxable (high-net-worth) and tax-exempt (institutional) investors across five strategies reflecting a range of investment objectives and risk tolerances: Aggressive, Growth, Growth & Income, Income & Growth, and Conservative. The seven models are High-Net-Worth (HNW), HNW with Liquid Alternatives, HNW with Private Markets, HNW Tax Advantaged, Institutional, Institutional with Hedge LP, and Institutional with Private Markets. As the names imply, the strategies vary with the type and degree of exposure to hedge strategies and private market exposure, as well as with the focus on taxable or tax-exempt income.

Model Strategies may include exposure to the following asset classes: U.S. large-capitalization stocks, U.S. small-cap stocks, developed international stocks, emerging market stocks, U.S. and international real asset securities (including inflation-linked bonds and commodity-related and real estate-related securities), U.S. and international investment-grade bonds (corporate for Institutional or Tax Advantaged, municipal for other HNW), U.S. and international speculative grade (high-yield) corporate bonds and floating-rate notes, emerging markets debt, and cash equivalents. Model Strategies employing nontraditional hedge and private market investments will, naturally, carry those exposures as well. **Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.**

Allocations:
Each strategy is constructed with target weights for each asset class. Wilmington Trust periodically adjusts the target allocations and may shift away from the target allocations within certain ranges. Such tactical adjustments to allocations typically are considered on a monthly basis in response to market conditions. The asset classes and their current proxies are: large–cap U.S. stocks: Russell 1000® Index; small–cap U.S. stocks: Russell 2000® Index; developed international stocks: MSCI EAFE® (Net) Index; emerging market stocks: MSCI Emerging Markets Index; U.S. inflation-linked bonds: Bloomberg/Barclays US Government ILB Index; international inflation-linked bonds: Bloomberg/Barclays World exUS ILB (Hedged) Index; commodity-related securities: Bloomberg Commodity Index; U.S. REITs: S&P US REIT Index; international REITs: Dow Jones Global exUS Select RESI Index; private markets: S&P Listed Private Equity Index; hedge funds: HFRI Fund of Funds Composite Index; U.S. taxable, investment-grade bonds: Bloomberg/Barclays U.S. Aggregate Index; U.S. high-yield corporate bonds: Bloomberg/Barclays U.S. Corporate High Yield Index; U.S. municipal, investment-grade bonds: S&P Municipal Bond Index; U.S. municipal high-yield bonds: Bloomberg/Barclays 60% High Yield Municipal Bond Index / 40% Municipal Bond Index; international taxable, investment-grade bonds: Bloomberg/Barclays Global Aggregate exUS; emerging bond markets: Bloomberg/Barclays EM USD Aggregate; and cash equivalents: 30-day U.S. Treasury bill rate.

Continued

Disclosures Continued

All investments carry some degree of risk. Return volatility, as measured by standard deviation, of asset classes is often used as a proxy for illustrating risk. Volatility serves as a collective, quantitative estimate of risks present to varying degrees in the respective asset classes (e.g., liquidity, credit, and default risks). Certain types of risk may be underrepresented by this measure. **Investors should develop a thorough understanding of the risks of any investment prior to committing funds.**

Quality ratings are used to evaluate the likelihood of default by a bond issuer. Independent rating agencies, such as Moody's Investors Service and Standard & Poors, analyze the financial strength of each bond's issuer. Ratings range from Aaa or AAA (highest quality) to C or D (lowest quality). Bonds rated Baa3 or BBB and better are considered **Investment Grade.** Bonds rated Ba1 or BB and below are **Speculative Grade** (also **High Yield**.)

Definitions:

Alpha is a measure of performance on a risk-adjusted basis. The excess return of the fund relative to the return of the benchmark index is a fund's alpha.

Equity risk premium is the extra return that's available to equity investors above the return they could get by investing in a riskless investment like T-Bills or T-Bonds or cash.

Event-driven hedge fund strategies attempt to take advantage of temporary stock mispricing before or after a corporate event takes place. An event-driven strategy exploits the tendency of a company's stock price to suffer during a period of change.

HFR® (HedgeFundResearch) Indices are the established global leader in the indexation, analysis and research of the hedge fund industry.

LIBOR is the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another.

Macro hedge fund strategies generally focus on financial instruments that are broad in scope and move based on systemic or market risk (not security specific). In general, portfolio managers who trade within the context of macro strategies focus on currency strategies, interest rates strategies, and stock index strategies.

Relative value hedge fund strategies cover a variety of low-volatility trading strategies with the consistent theme of attempting to reduce market risk, i.e., the manager seeks to generate a profit regardless of which direction the markets are moving. All relative value strategies minimize market risk by taking offsetting long and short positions in related stocks, bonds, and other types of securities.

S&P 500 index measures the stock performance of 500 large companies listed on stock exchanges in the U.S. and is one of the most commonly followed equity indices.

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