HUGHES FINANCIAL SERVICES, LLC

Q4'20 Economic *update*

There are many years that history could easily forget, but 2020 will certainly not be among them. The past year challenged us in more ways than we were prepared for and the thoughts of a "Happy New Year" seemed to be more prevalent this New Year's Eve than ever before.

In the investment markets, 2020 ended much like it began, with equities in a bull market and making fresh all-time highs. This fact might seem somewhat unsurprising if it was not for the historic events that occurred in the first quarter, namely the worst global pandemic in a century and the almost shockingly brief bear market that accompanied it. The S&P 500 has surged roughly 65% since its March low and finished the year up over 16%.

The economy's nascent recovery gets much of the credit for the market's gains, as does a federal stimulus package, massive amounts of liquidity from the Federal Reserve and the rapid development of multiple COVID-19 vaccines.

For the new year, talks of vaccines defeating the spread of coronavirus and an economic rebound could result in a time of celebration. While the economy suffered in 2020, most U.S. stock indexes ended the year at or near all-time highs and market strategists see the major indexes pushing even higher in 2021. Predictions of a stronger economy, robust profit growth, and more massive stimulus from governments and central banks are expected. These factors, combined with keeping interest rates near zero, have been crucial in leading this year's rebound from the March 2020 lows.

The Dow Jones Industrial Average (DJIA) advanced in the fourth quarter of 2020, eclipsing the 30,000 level while the S&P 500 experienced broad-based gains. The DJIA finished the year higher by more than 7.25%, while the S&P 500 rose over 16% for the year.

Looking at the year's results, analysts remind us that a surge in technology and internet-related shares were fueling the U.S. indexes to record highs. Gains in Apple, Amazon and Microsoft alone accounted for more than half of the S&P 500's 16% total return, according to Howard Silverblatt, Senior Index Analyst at S&P Dow Jones Indices. Analysts also feel that, "valuations near 16-year highs are raising concerns about the sector's vulnerability." While many equities ended the year strong, technology companies were clearly amongst the best performers.

For many other asset classes, 2020 was another strong year. Some of the highlights included:

- Global stocks (as per MSCI World Index) climbed 14%
- Gold (as per NYMEX per troy ounce) soared 28%
- Bonds (as per Barclays Aggregate Bond Index) gained 5%

Outside of some volatile energy prices and a few food costs, other positives for the year were low inflation rates and, in many markets, increased home prices. Gains in equities came despite a backdrop of grim news that overshadowed the year including:

- COVID-19 shutting down the economy and contributing to more than 400,000 deaths in the U.S.
- Almost nonstop attention to politics which caused some to read every movement of the stock market as a referendum on the election
- Social justice unrest and the protests that followed
- Uncertainties in many areas of life and business

While there are always many key points and issues that need to be watched, this report's goal is to focus on a few key themes for investors. Unlike people, equity markets do not have emotions and investors might be best served remembering that. The final quarter of 2020 will be remembered for many reasons, but perhaps none more consequential than the development of at least three viable COVID-19 vaccines. Hopefully, we entered 2021 on a path toward a daily life that is less restrictive and provides a healthy boost to the economy.

DJIA 2020 7.25%

S&P 500 2020 +16%

MONEY RATES (as posted in Barron's 01/04/2021)		
	LATEST WEEK	**YR AGO**
Fed Funds Rate (Avg. weekly auction)[c]	**0.25%**	**1.55%**
Bank Money Market[z]	**0.09%**	**0.21%**
12-month CD[z]	**0.16%**	**0.52%**

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com)

INTEREST RATES ARE STILL ULTRA LOW

What does this mean for investors?

In December, the Federal Reserve announced its decision to continue to support the economy by buying Treasury bonds. At the December press conference, Treasury Secretary Powell said that the Fed would continue to use a variety of monetary tools until officials are confident the U.S. economy is fully recovered. The Federal Reserve has suggested interest rates will remain near zero through 2023.

Since March, interest rates on even the highest-yielding savings accounts have been less than 1% and many times closer to 0%. While savers are generating next to nothing on cash accounts, homeowners can potentially take advantage of these low rates by refinancing their mortgages.

While interest rates are low, a fully diversified portfolio should include interest-sensitive investments such as bonds. In a period when the market rises, diversified portfolios will have lower returns than full equity portfolios. On the flip side, with equities at or near all-time highs, bonds can help protect investors in the case of a downturn. Remember, diversification is a strategy we use to reduce risk by investing in different areas that could each react differently to the same event. A well-diversified portfolio looks for investments in different categories, like stocks, bonds, and cash, whose returns have not historically moved in the same direction and to the same degree.

Interest rates are important for investors to monitor and they will continue to stay near the top of our watchlist. But for now, the consensus appears to be that rates are going to be low for a while.

HUGHES FINANCIAL SERVICES, LLC

Hughes Financial Services, LLC, is an independent Registered Investment Advisor (RIA) working closely with individuals and families to provide direction and strategies on how to financially achieve their personal goals and dreams.

We adhere to the highest fiduciary standards when providing advice that is truly unbiased and has only our clients' best interests in mind.

We offer our clients a wealth of comprehensive financial planning expertise in the following areas:

- retirement planning
- investment management
- estate planning
- risk/protection management
- education planning

The financial advisors at Hughes Financial Services hold a variety of professional designations and certifications and are well-versed in several financial disciplines. We specialize in helping employees and retirees of local government, school systems and U.S. military with their retirement options.

Our combined education and experience allow us to offer you independent financial advice and solutions we are proud to provide.

Located in Herndon, Virginia (Fairfax County), Hughes Financial Services works with clients across the country.

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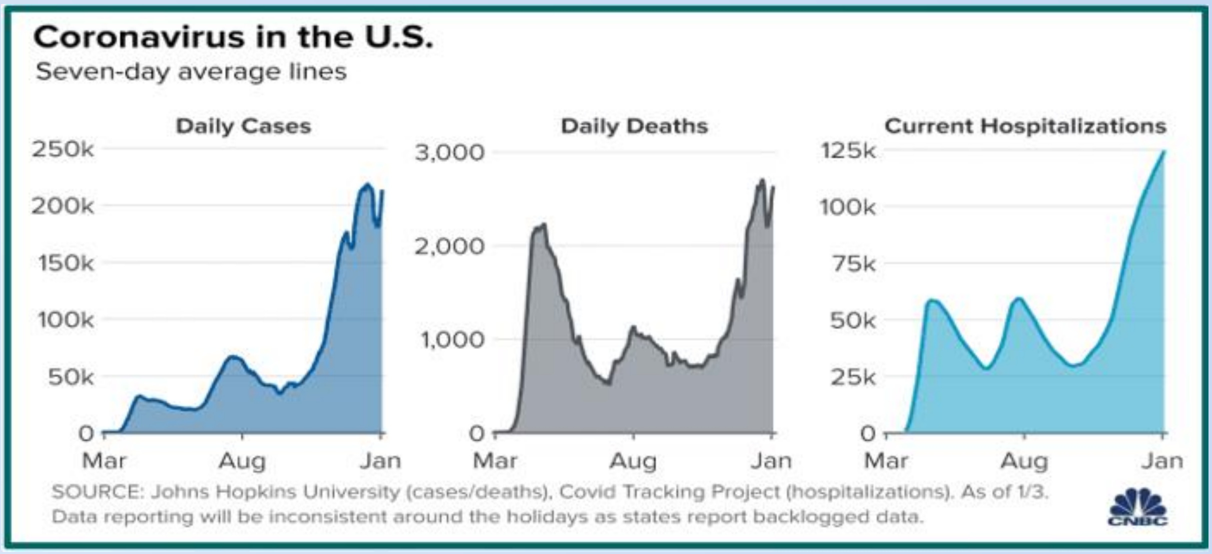
2021 THEMES:

COVID, The Economy & Consumer Confidence

Some thoughts for investors …

With 2020 in the rear-view mirror, investors are facing a new year featuring many of the same old problems: surging COVID-19 infections and deaths across the country and around the world, millions of Americans unemployed, lingering concerns about the pace of the economic recovery, political gridlock, and a vaccine rollout that has been slower than anticipated. In the current race between virus cases and the vaccine, the vaccine still needs to catch up. Many analysts agree that the future of the economic recovery may be determined by the virus, so investors need to prepare.



We are encouraging clients to use early 2021 as an opportunity to review their long-term plans

With the prospect of volatility in 2021 and especially in the months ahead, this can be a strategic time to focus on what you can control within your planning. This includes:

- Checking if any of your time horizons have changed
- Reconfirming your risk tolerance
- Verifying your investments are compatible with both your time horizon and risk tolerance
- Maintaining liquidity for all short- and near-term needs

Our primary objective is to continually understand our client's goals and to match those goals with the best possible solutions. If your situation has changed, please let us know.

We focus on YOUR personal goals and strategies!

NEW ADMINISTRATION IN 2021

Our job as financial professionals include analyzing and reporting political activity in relation to how a new administration's policies may impact the investment world. After one of the most contentious elections ever, with the largest voting numbers ever recorded, a new administration has taken over this month.

According to CNBC, Democratic control of Congress should help keep the bull market in stocks going with a big boost of fiscal spending, but it could also throw new hurdles into its path in the form of higher taxes and interest rates. They feel economic stimulus, combined with tax hikes on the wealthy and corporations, are all on the table for the new administration.

"Every Democratic president since Woodrow Wilson served their first year in office with the support of a Democratic House and Senate," said Sam Stovall, CFRA Chief Investment Strategist. He added that during those first years, "The market did very well."

Dan Clifton, head of policy research at Strategas, expects the first stimulus package to come early and could include payments for individuals, funds for state and local governments, and extensions for unemployment benefits. He anticipates that package to amount to $1 trillion with a second infrastructure package to be introduced later that focuses on things like climate change, clean energy, health care and education. "There's a really big debate among investors now about how much you can do with an already divided House and a narrowly divided Senate."

Could a Democratic Congress push through stimulus programs to boost the economy that could also help the stock market? Would this outweigh a tax increase? How will the new administration handle trade talks with China? All these questions and many more like them mean that investors need to carefully watch the movements of the new administration. **We will be monitoring public policy and the new administration very carefully.**

THE ECONOMY & THE STOCK MARKET

As the year ended, investors were left with the reality that there is still a wide divergence between financial markets and economic performance. Equity indexes ended the year at or near all-time highs, while Main Street still suffered from lockdowns, high unemployment, and general uncertainty. In March, the coronavirus pandemic ended a decade-long economic expansion and bull market, but a powerful monetary and fiscal response from the U.S. government and Treasury led to a roaring recovery in the stock market. The economy was not as fortunate, as its recovery has been uneven at best, and the rate of improvement slowed dramatically as we approached the end of the year.

Equity valuations are at or near historic highs based on numerous metrics but perhaps the most disconnected statistic of all is the value of the stock market relative to the value of the economy. Secretary of the Treasury and former Fed Chair, Janet Yellen, is remembered for famously stating that, "the stock market isn't the economy," but the two still inevitably reconnect over time.

Hopefully, the new year will bring a robust recovery in the rate of economic growth. That will help the monetary and fiscal stimulus already in the system and what is likely to be proposed by the new Congress this year. However, this can lead to an increase in the rate of inflation and the potential rising of long-term interest rates. At year end, the consensus is expecting a modest increase in both. A more rapid increase than expected could bring a more significant risk to stock and bond valuations because future earnings are worth less today under a higher discount rate. Today's low interest rates are a foundation of the bullish narrative because they force investors to consider higher risk stocks and bonds. A change in this could also disrupt equity prices.

Another major concern is the potential damage that can be done if the massive vaccination campaign in the U.S. does not run as smoothly or as quickly as investors or the markets are expecting. There is still a major risk to the economic outlook if the recovery is delayed and corporate revenues and profits fall short of expectations.

As no one can predict the future with complete accuracy, it's important for investors need to diversify and balance their portfolios. **For 2021, the economy and its ability to recover are near the top of our watchlist.**

> "
> **Although it's easy to forget sometimes, a share is not a lottery ticket...it's part ownership of a business.**
>
> PETER LYNCH

HELP US HELP OTHERS

A theme you will hear from us this year is our **"HFS Growth Initiative"** in which we look to you to help us grow.

When we look back at the growth of HFS, we find that many of our new client relationships often started with introductions from our best clients and we are so honored by your trust in us.

In 2021, we're asking for your continued support by:

ADDING family/friends' names to our mailing list to receive our timely reports and updates

INVITING a guest (or two or three!) to any of our educational webinars that feature timely financial planning topics

REFERRING someone to us for a complimentary, no obligation consultation

THANK YOU FOR YOUR CONTINUED SUPPORT!

INVESTOR OUTLOOK

The stock market enters 2021 with favorable outlooks. Vaccines should help prevent the spread of COVID-19. S&P 500 earnings are expected to keep rebounding. The Federal Reserve has assured markets that it will not raise interest rates and there have already been some new rounds of fiscal stimulus signed into law. Please remember that the stock market is forward-looking, and many prominent analysts feel that it has already priced in a stronger economy and the curbing of the coronavirus pandemic. That raises the risk that any disappointment in the recovery will rattle investors, especially with the P/E (price-to-earnings) ratio of the S&P 500 tagged at a high level. This has caused some leading market followers to argue that the stock market is overvalued.

Most analysts are optimistic for 2021. *Barron's* recently surveyed 10 market strategists and chief investment officers at large banks and money-management firms on the outlook for 2021. Averaging their year-end S&P 500 forecasts, which range from 3800 to 4400, the group expects the index to rise 9% in 2021 to about 4040. Add a dividend yield of around 2% and U.S. stocks could return a total of 10% to 11%. Their panel predicts the U.S. economy will grow by 5% in 2021, its fastest rate since 1984. That would be healthy following a year in which gross domestic product plummeted by 31.4% in the second quarter as the pandemic gripped the country and soared by 33.1% in the third quarter as the Fed and the government injected stability and stimulus into the system.

Predicting short-term changes in the equity markets is still near impossible. Equities are primarily for long-term investors. With interest rates at or near zero, investors who need returns need to consider equities. With 10-year Treasuries yielding around 1%, equities become even more noticeable on an investor's choice list. Equity markets will continue to move up and down. Even if your time horizons are long, you could see some short-term downward movements in your portfolios. Peaks and valleys have always been a part of financial markets and it is highly likely that trend will continue.

Our goal is to make sure your investing plan is centered on your personal goals, risk tolerance and timelines.

REMEMBER THE 3C's

Make sure you are CONFIDENT in your plan
Peaks and valleys have always been a part of the financial markets and it's likely this pattern will continue. Being confident in the decisions you've made after careful planning can help prevent you from making any emotionally charged decisions when the markets fluctuate.

Make sure you are COMFORTABLE with your plan
It's a fact that equity markets will continue to move up and down. Even if your time horizons are long, you could see short-term downward movements in your portfolios. Each type of investment poses a certain level of risk and offers a level of potential reward. A wise move is to regularly evaluate your portfolio and what level of risk exposure you're comfortable with.

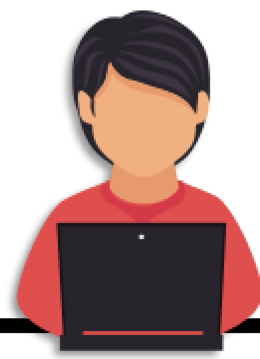
Make sure you are CONSISTENT with your plan
You've carefully created a realistic plan designed to meet your financial goals. Don't let media magnification, cousin Joe's latest market speculation, or emotional decisions cause you to sway from it.

Remember the words of The Vanguard Group's Jack Bogle: "Stay the course, no matter what happens, stick to your program. I've said 'stay the course' a thousand times and I meant it every time. It is the most important single piece of investment wisdom I can give to you."

A financial plan is only as good as your ability to consistently follow it.

CHECK OUT OUR WEBSITE @ www.h4fs.com

- Secure, 24/7 client account and personal vault access
- Educational resources
- Newsletters, reports and articles
- On demand webinars
- Online registration for educational sessions
- Recommend/refer family and friends
- And much, much more!



What's your through-line?

What's *YOUR* through-line? What does that mean? A through-line is essentially your purpose, your objective and should be the primary focus of your financial plan with strategies that work towards achieving your financial goals. In 2021, here are 3 important considerations that can have an impact on your through-line.

Are there any changes in your financial goals or objectives?
Investors should always place their primary focus on their own personal goals and objectives when it comes to forming a sound financial plan. We know that life is not stagnant and changes in your own circumstances may lead us to review and update your plan, as necessary. We're here to help you understand your situation and your financial plan and not make any emotional decisions or listen to the Chicken Little-like media magnification when making these changes. Letting your emotions drive your decisions can be costly and sometimes irrevocable.

Has your risk tolerance changed?
You should always attempt to match your investment plan with your risk tolerance. Equity markets will continue to move up and down. Even if your time horizons are long, you could see short-term downward movements in your portfolios. Each type of investment poses a certain level of risk and offers a level of potential reward. It's always very important to share with us what level of risk exposure you are comfortable with.

Are any of your time frames different?
If you have a change in your time frames, contact us and we will be happy to discuss this with you.

WHAT'S HFS' THROUGH-LINE?

As financial advisors, our purpose is to focus on your goals and objectives, timeframes, and risk tolerances and using this information, provide you with strategies and suggestions to help achieve your financial dreams. Our advice is not one-size-fits-all because people are not one-size-fits-all. Our recommendations are customized to your specific goals and preferences. We will always consider your feelings about risk and the markets and review the entirety of your financial situation when making recommendations to you. And, we take strategic precautions to minimize volatility and more importantly, keep you on track toward your financial goals.

If you answered "Yes" to any of the three above questions, would like to revisit your specific holdings or risk tolerance or you have experienced one of life's major changes, please call our office or bring it up at your next scheduled meeting.

We pride ourselves in offering:

- Over 80 years of combined financial planning advice with 30 years of expertise in pensions, DROP and TSPs
- A regular schedule of client meetings, communications, and educational sessions to keep you informed and updated
- Continuing education for every member of our team on the issues that affect our clients so we can provide you with the most up to date advice

A skilled financial advisor can help make your investment journey easier. We are here for you and your family and are humbled and honored by your support.

We hope you found this review to be helpful and educational. We have addressed various issues with you, but if you have questions or concerns, let's have a conversation. We are here for you. Be safe, be well.