Continuum Global Asset Mgt., LLC

April 2021

Our January 2021 Market Update concluded with the following inference:

"After scratching my head for the last few weeks, I have concluded that it is better to err on the upside. Based on all the empirical evidence, I believe that certain areas of technology and healthcare have moved up into overbought territory. Therefore, I believe that it would be prudent to take profits in these areas of the market and raise up to 20% in cash. The endeavor is to wait for better opportunity in the market. This can and will only be realized as markets evolve."

The S&P 500 index has gained approximately 8% since our January 2021 Newsletter. In retrospect, we were early in our bearish prediction. Having said that, our overall stance hasn't changed.

The S&P 500 index has gained approximately 230% since October 2000. It is also important to realize that the markets have experienced a number of corrections in addition to two major recessions, which include the dot.com 2000-2003 recession and 2008-2009 financial meltdown during this bull run (see Chart 1[1]).

We at CGAM believe that the steep market gains, especially over the last year can not continue unabated and should be analyzed seriously.

US broad based market index (S&P 500) has gained an average of 100% per decade since 2000…

Chart 1

…despite many significant corrections along the way

S&P 500 Index	High Value	Low Value	Gain/Loss (%)
June 2000-Oct 2003	1,565	753	**-51.88%**
Oct 2008-March 2009	1,277	794	**-37.82%**
Oct 2018-Dec 2018	2,931	2,464	**-15.93%**
Jan 2020-March 2020	3,389	2,500	**-26.23%**
Oct 2002-April 2021	**1,277**	**4,193**	**228.35%**

1 *Source: www.streetsmartpro.com*

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ECONOMY: An illustration of the US economy using 20 fundamental variables...

The adjacent table is an illustration of various critical US economic variables.

This is an attempt to develop an index based on a relevant array of economic indicators that describe the direction of the US economy.

This index combines parameters from the Consumer, Services, Manafacturing and the Financial sectors. It can be observed in columns with 3-Month and 1-Year % change that the economy is doing fairly well.

Table 1

Percent from Baseline

Indicators	Apr. 23 '21	Jan. '21	3-Month % Change	Apr. '20	1-Year % Change	Sector
Consumer sentiment	8.1%	-9.3%	+	-0.1%	+	Consumer
Existing home sales	37.7%	58.3%	-	55.7%	-	Consumer
Real retail sales per capita	24.2%	4.4%	+	-11.6%	+	Consumer
Total vehicle sales	17.5%	-4.8%	+	-20.0%	+	Consumer
ISM nonmanufacturing	65.2%	36.6%	+	27.7%	+	Services
Private building permits	44.9%	48.0%	-	32.2%	+	Mfg
ISM manufacturing	64.5%	52.2%	+	7.7%	+	Mfg
Industrial capacity utilization	-10.7%	-9.6%	-	-11.9%	+	Mfg
Industrial production	-13.0%	-12.3%	-	-7.9%	-	Mfg
Small business optimism	4.7%	-4.3%	+	12.7%	-	Services/Mfg
Chicago Fed National Activity Index	82.6%	35.0%	+	-12.3%	+	Services/Mfg
Nonfarm hires per 100 workers	-7.2%	10.5%	-	28.6%	-	Services/Mfg
Nonfarm job openings/100 workers	14.8%	-0.4%	+	6.5%	+	Services/Mfg
Real nonfinancial corporate profits[1]	47.6%	62.4%	-	39.3%	+	Services/Mfg
Temporary employment	-5.9%	-10.7%	+	7.9%	-	Services/Mfg
Unemployment claims[2]	-89.0%	-100.0%	+	-100.0%	+	Services/Mfg
Credit Managers' Index	41.4%	34.1%	+	3.2%	+	Financial
St. Louis Fed Financial Stress Index[3]	37.3%	34.8%	+	-21.1%	+	Financial
Yield curve spread	8.9%	5.1%	+	6.4%	+	Financial
Mean of Coordinates[4]	19.7%	12.1%	+	2.3%	+	All
Leading indicators	3.3%	-5.2%	+	-10.3%	+	All

% MoC From Baseline Prior to Typical Recessions	1 Mo. Prior	3 Mo. Prior	6 Mo. Prior	9 Mo. Prior	12 Mo. Prior
2001 Recession	2.4%	1.8%	10.6%	10.8%	12.7%
2007 - 2009 Recession	4.9%	9.0%	14.9%	18.1%	20.3%
Average	3.7%	5.4%	12.8%	14.5%	16.5%

1 After tax with IVA and CCAdj

2 Inverted (postive number is decline in claims)

3 Inverted

4 Column average

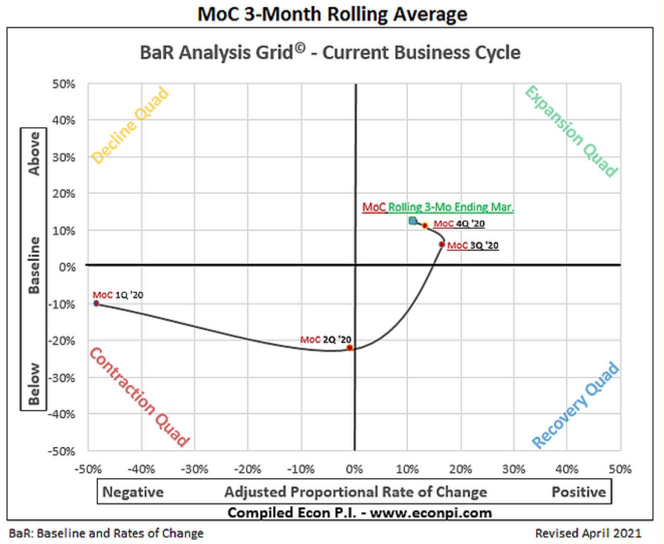
Compiled by Econ P.I. (www. econpi.com)

...indicates growth and expansion in the US economy.

The adjacent Chart 2 visually illustrates the movement of the average of the 20 leading economic indicators used from Table 1 above. These variables are used to develop the Mean of Coordinates (MOC), portrayed in Chart 2.

The trend of the MOC is an indication of the current state of the US economy. According to this index, the US economy has moved into an expansionary state currently.

Chart 2



This is particularly important as the COVID-19 pandemic severely started impacting the US and global economy at the end of Q1, 2020. ***<u>Since, the MoC is showing progress from being in the contraction area to now being in the expansionary phase.</u>***

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Corporate earnings are the backbone of capital markets

S&P 500 y/y earnings by sector										
Sector	**1Q21**	**2Q21**	**3Q21**	**4Q21**	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**FY21**	**FY22**
Consumer Discretionary	99.3%	235.3%	14.4%	29.3%	57.4%	48.4%	37.0%	26.3%	57.9%	36.7%
Consumer Staples	2.4%	8.7%	5.6%	6.2%	8.7%	9.3%	8.3%	8.8%	5.5%	8.9%
Energy	-11.2%	203.8%	967.3%	2176.2%	112.6%	33.7%	19.6%	13.3%	829.3%	35.6%
Financials	116.5%	96.1%	13.5%	-4.8%	-14.4%	5.9%	10.5%	12.5%	37.4%	3.2%
Health Care	19.4%	11.1%	9.1%	12.4%	4.2%	5.4%	7.7%	6.2%	14.2%	6.6%
Industrials	-16.3%	500.4%	79.5%	69.0%	84.1%	50.5%	29.6%	19.8%	74.3%	38.2%
Materials	47.1%	90.0%	43.8%	17.4%	8.5%	-2.5%	0.2%	5.0%	45.1%	5.5%
Real Estate	1.0%	13.6%	8.2%	7.8%	5.4%	8.5%	11.0%	11.2%	8.0%	8.9%
Technology	24.5%	20.6%	16.7%	7.7%	11.3%	15.1%	14.2%	11.9%	16.4%	13.1%
Communication Services	13.4%	28.9%	11.7%	5.7%	17.0%	16.3%	15.4%	15.4%	13.8%	17.4%
Utilities	-0.8%	2.8%	4.0%	12.7%	10.0%	6.3%	3.5%	7.2%	4.6%	6.5%
S&P 500	**30.9%**	**56.5%**	**21.1%**	**14.8%**	**12.0%**	**15.7%**	**14.5%**	**12.8%**	**28.3%**	**14.0%**

Source: Charles Schwab, I/B/E/S data from Refinitiv, as of 4/19/2021. Forecasts contained herein are for illustrative purposes only, may be based upon proprietary research and are developed through analysis of historical public data. Past performance is no guarantee of future results.

The table above shows the expected growth in the various US economic sectors over the next two fiscal years. Earnings are expected to grow at 28% and 14% respectively for 2021 and 2022. We have used these variables in our proprietary model to gauge the direction of the major market indexes.

CGAM's proprietary market direction model

As mentioned in our previous newsletters, CGAM has developed a proprietary market model, intended to understand the direction of the broader markets. The model was developed on our belief that investor behavior repeats itself based on a combination of economic fundamentals and investor psychology.

We have been liberal with our estimations, especially with US corporate earnings (table above)and market sentiment. We all know that models are based on historical data and hence backward looking. Also, models are only as good as the assumptions used. **Despite our liberal stance with major variables, our market model indicates that we are currently in an overbought territory.**

In addition to our market model, we have listed below critical factors that we believe will influence capital markets moving forward:

Current state of critical factors influencing the US capital markets

1. Economy: Expected Growth — **Positive**
2. Inflation: Controlled but may deteriorate — **Nuetral**
3. Federal Government's stance: Keep interest rates low — **Positive**
4. US Corporate Earnings: Growing — **Positive**
5. Unemployment: Improving — **Positive**
6. Disposable Income: Stable due to stimulus package — **Positive**
7. Real Estate Markets: High Valuation — **Negative**
8. Market Valuation: High Valuation — **Negative**
9. **Tax Policy by the New Administration:???** — **Negative**

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Projections indicate overbought market conditions

Even though the variables listed above show a reasonably strong economic direction, we at CGAM are concerned with the TAX POLICIES proposed by the Biden administration.

It is our belief that the current administration will continue to lobby towards higher corporate and capital gains tax rates. In a way, higher capital gains tax would influence infrastructure spending by incentivizing investors to gravitate towards tax free municiple bond investments. Even though this is a positive for employment and capital spending, it will put pressure on capital markets due to the perceived and real ramifications on tax management for ultra high networth investors.

This fundamental change by the administration in our view is a serious factor to consider and preemptively prepare for.

Conclusion…

As mentioned earlier, major fundamental variables show that the US economy is in its growth phase and improving. The aggregate of US leading economic indicators are gravitating towards an expansionary phase. On the other hand, the US major market indexes seem to be in an overbought region based on empirical evidence. In addition, the new administration led by President Biden seems to be favoring a high corporate and income tax posture.

We reiterate our cautious stance towards the US capital markets. We are gravitating towards raising 20-25% cash and reducing exposure in high technology and some parts of overbought healthcare sectors. We believe that intermittent corrections in the near future will provide better opportunities that we should prepare ourselves for.

PLEASE REMEMBER: Each investor is unique and should invest to complement their respective financial conditions and objectives.

Please review the following disclaimer

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