AAII
Los Angeles Chapter
March 20, 2021

Presented By

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Laffer Tengler Investments

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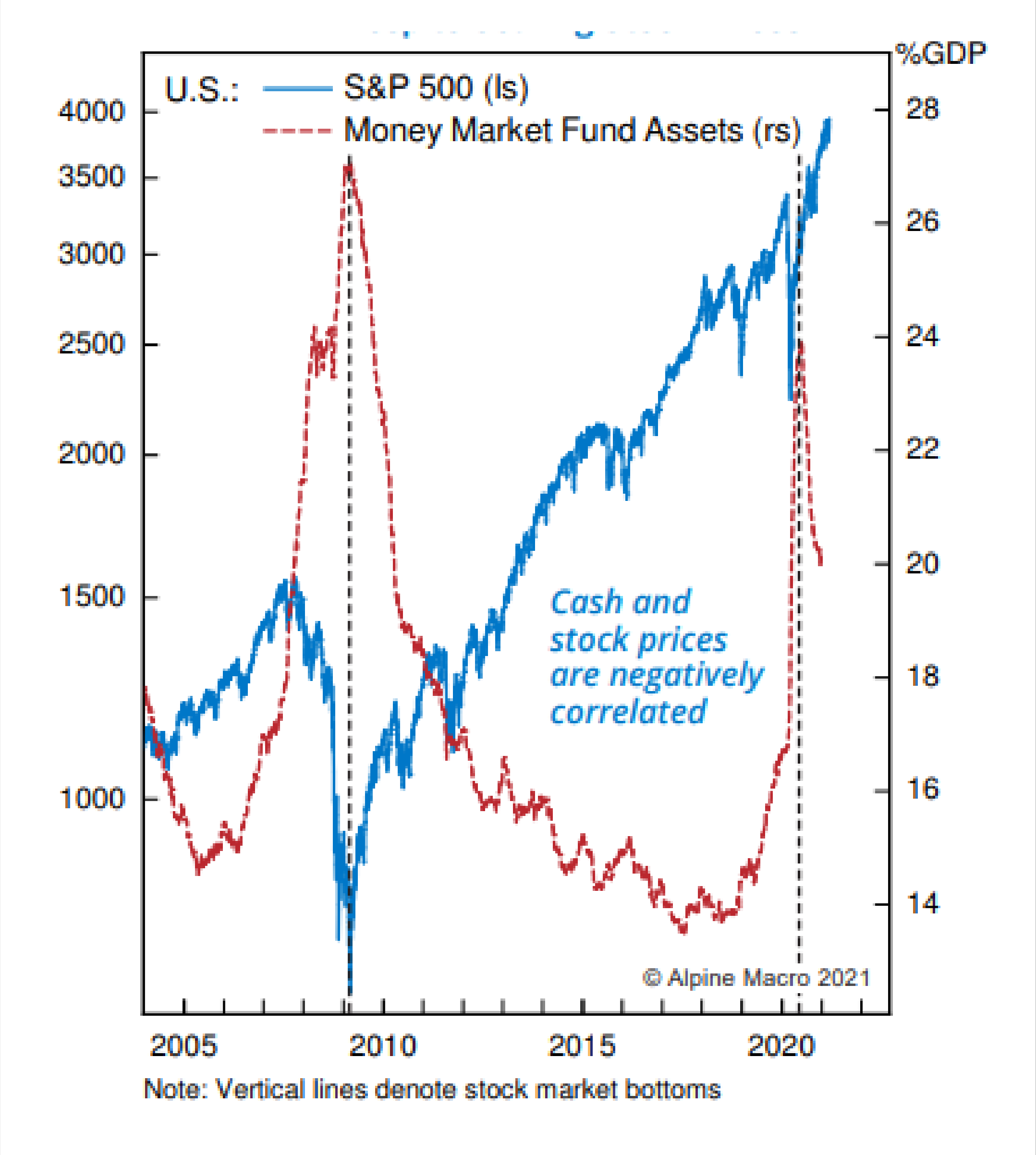
Here we are almost one year to the day after the most violent, rapid bear market in memory

- Stocks, as measured by the SPX, are up 77.98% from the bottom on March 23, 2020 through 3/18/2021.
- The NASDAQ, despite rumors of its imminent demise is up 92.78% over the same period.
- This new bull market officially began on August 17, 2020. Now what?
- With epic levels of liquidity sloshing around the system, how do investors protect their portfolios against volatility, rising interest rates, a potentially strong dollar and inflation?

Let's take a look at the fundamental backdrop first

- The world is awash with liquidity, as stocks soar.
- Money market assets remain elevated despite hefty gains in stocks.
- Cash today is high relative to stock prices imply there is still room to run for stocks.
- No kidding. We think there a few other options (besides equities) where you can invest but bonds are not one of them.
- Since the 10-year yield bottomed in early August the price performance of the 10-year bond is down over 9%.



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Global stimulus= 36% of Global GDP

In the U.S. stimulus spending is now at 57% of GDP.

Stimulus spending takes 12-18 months to work its way into the economy—we still haven't spent the first round ($1T)

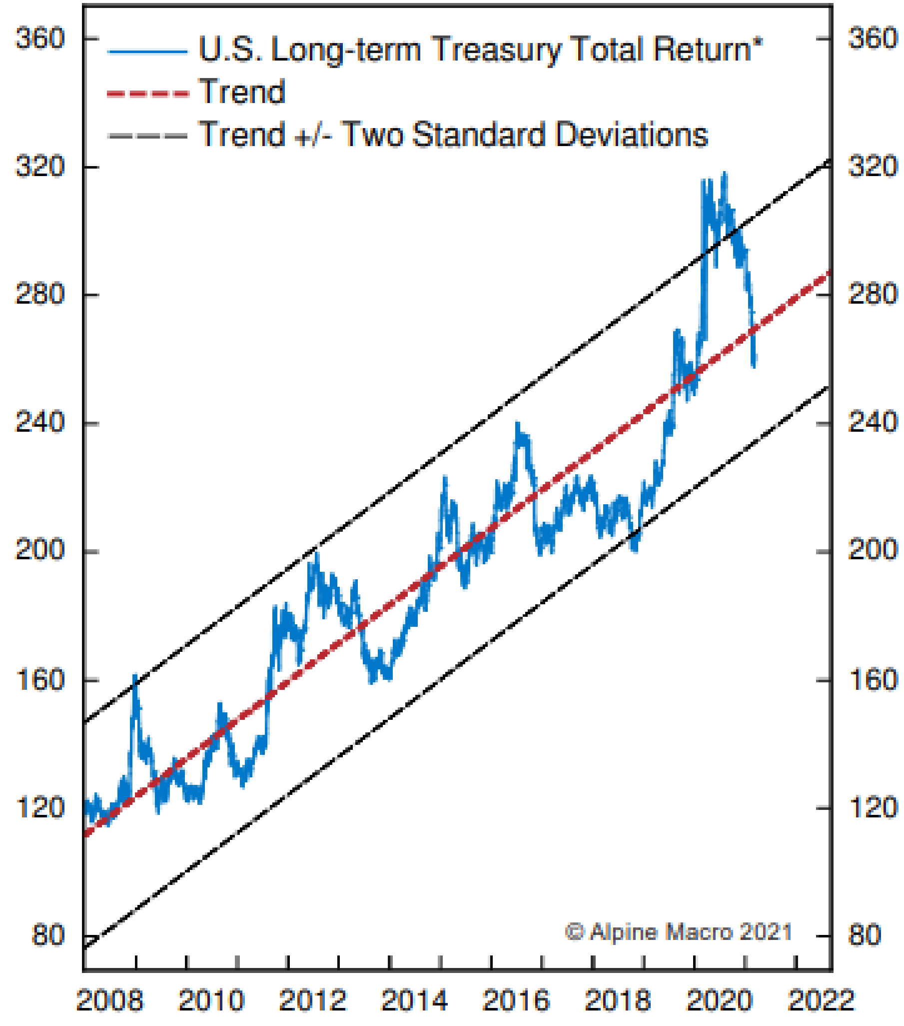
Global Monetary And Fiscal Stimulus To Fight COVID-19 Impact
Feb 2020 to Mar 2021 (CSM)

	Potential Central Bank Liquidity Injection		Potential Fiscal Stimulus		Central Bank Liquidity Injection and Fiscal Stimulus	
	$ Tln	% GDP	$ Tln	% GDP	$ Tln	% GDP
U.S.***	$6.21	29.0%	$6.09	28.4%	$12.30	57.4%
Eurozone	$2.38	17.9%	$4.39	33.0%	$6.78	50.9%
Japan**	$1.03	20.0%	$2.79	54.1%	$3.82	74.1%
U.K.	$0.57	20.7%	$0.69	25.1%	$1.26	45.9%
China****	$1.43	10.0%	$1.22	8.4%	$2.64	18.4%
Others*	$1.05		$2.97		$4.02	
Global	$12.66	14.6%	$18.15	21.0%	$30.82	35.6%

Source: Cornerstone Macro

Bond prices continue to decline and will likely continue to do so.

- Stock prices and Treasury bond yields can continue to rise until bond yields exceed 2%.
- Stay invested in stocks because the bull market is unlikely to end until the Fed begins to normalize.
- Until growth slows, the value trade is likely to continue, though we think the rally is cyclical vs. secular.



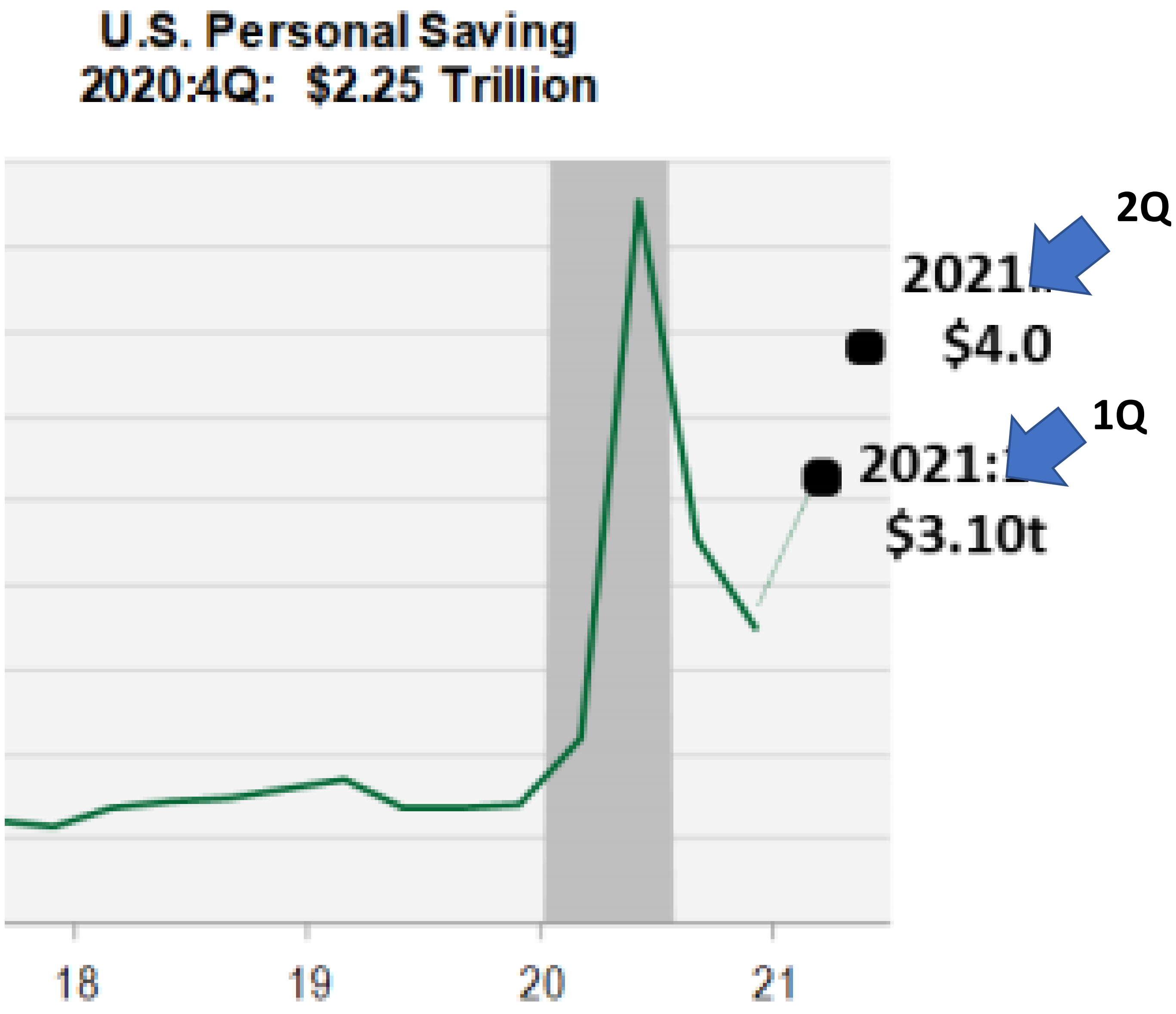
*Based on iShares 20+ Year Treasury Bond ETF

A flush consumer meets digitization

We find three investment themes in this cash-soaked world

- Areas where a flushed consumer meets digitization (this includes the companies that make the pipes and infrastructure of digital platforms and the cloud).
- The metals and miners that will benefit from the renewable/green energy transition—meet our Global Revolution strategy.
- Convertible securities should at least get a look in your portfolio.

The consumer is flush with cash (savings = pent-up demand).



Source: Cornerstone Macro, March 15, 2021

The consumer is flush with cash and likely to spend a good deal in the coming months and years.

In Q3 2020, as the reopening began consumer spending accelerated to 41% q/q according to our friends at Cornerstone Macro.

- Post WWII it took two years to work the pent-up savings through the economy.
- M2 is up over 25% yoy and retail spending has been much stronger than expected.
- If half of savings is spent—consumer spending could rise by 10%.
- And we also know from the survey data that consumers plan to put about half their stimulus check into stocks.
- As the economy reopens and jobs improve this will add more fuel to the consumer spending fire.

This is not March of 2000; the Tech Trade is not Dead

The pundits claim rising interest rates and rising inflation are hitting the tech trade. We disagree.

- We believe tech stocks (among other growth stocks) are suffering from underperformance because growth is expected to be robust in 2021.
- When growth is strong, investors are unwilling to pay up for growth.
- We believe this affects the growth at any price stocks; we are focused on growth at a reasonable price. Our valuation metrics are focused on Relative Price to Sales and Relative Dividend Yield.
- We are finding opportunities just as we did last spring.

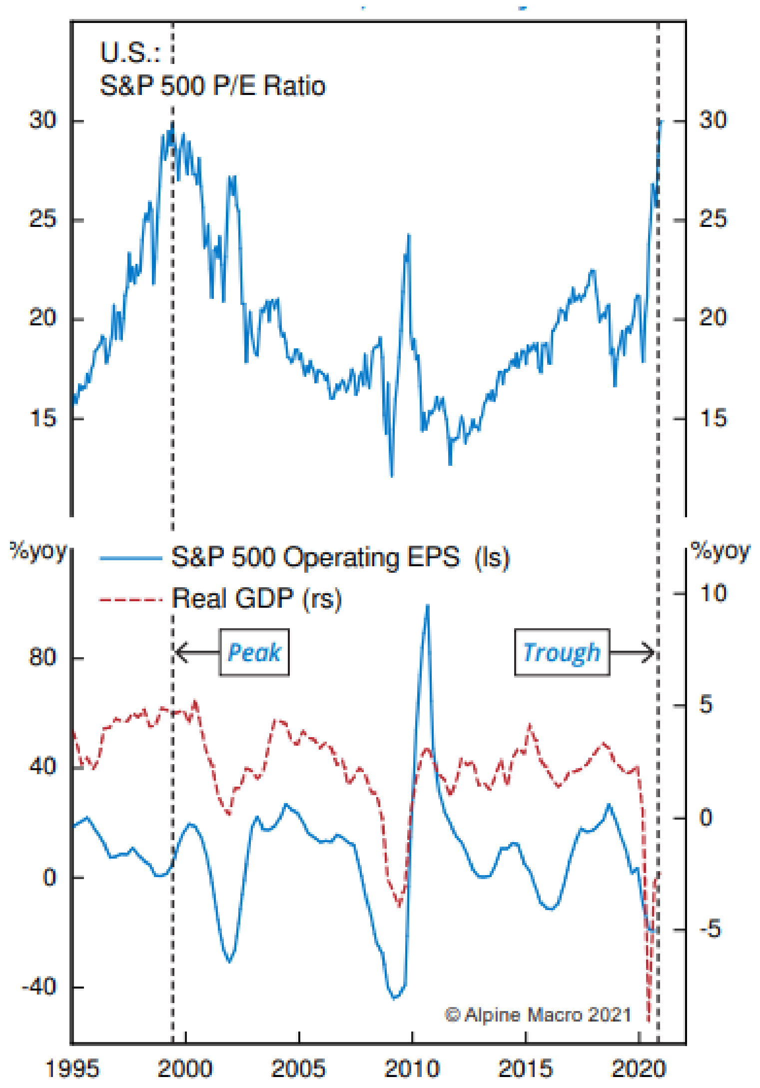
Comparisons to 1999/2000 are just wrong

- By March of 2000 stocks were trading a lofty multiples on peak earnings.

- Same multiple today but on trough-ish earnings.

- Then the equity bubble was formed at the end of a business cycle—we are at the beginning of an immersion from the bottom.

- Finally, despite all the handwringing over the 10-year at 1.75%, in 2000 the 10-year was trading at 6.5% and the Fed was tightening.



Source: Alpine Macro, February 1, 2021

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This table from Strategas measures sector performance during periods of rising interest rates.

Sector Performance During Periods of Rising Interest Rates (Annualized)

Index	9/30/1993 11/30/1994	12/31/1995 8/31/1996	9/30/1998 1/31/2000	5/31/2003 6/30/2006	12/31/2008 12/31/2009	7/31/2012 12/31/2013	6/30/2016 10/31/2018	Average (Sorted)
Technology	20.3%	21.3%	83.8%	6.6%	61.7%	19.6%	27.4%	34.4%
Discretionary	-1.2%	12.8%	34.5%	8.6%	41.3%	37.8%	15.0%	21.3%
Materials	10.9%	11.8%	10.4%	18.0%	48.6%	25.0%	7.5%	18.9%
S&P 500	1.8%	11.3%	28.3%	11.3%	26.4%	25.7%	13.8%	17.0%
Industrials	-1.2%	15.9%	22.1%	16.0%	20.9%	33.4%	10.5%	16.8%
Financials	-9.9%	17.5%	17.0%	12.1%	17.2%	35.2%	18.1%	15.3%
Health Care	20.5%	10.6%	6.3%	3.8%	19.7%	32.3%	11.4%	15.0%
Energy	-0.4%	13.0%	13.0%	30.4%	13.8%	19.4%	1.5%	13.0%
Staples	14.5%	15.7%	-2.4%	8.7%	14.9%	17.2%	3.0%	10.2%
Real Estate	NA	NA	NA	17.7%	20.8%	-0.7%	1.3%	9.8%
Communication Services	-10.6%	-17.1%	33.8%	10.8%	8.9%	4.4%	-3.2%	3.9%
Utilities	-15.3%	-2.4%	2.4%	17.6%	11.9%	4.7%	4.4%	3.3%

Source: Strategas, March 2021

This table from Strategas measures sector performance after periods of rising interest rates.

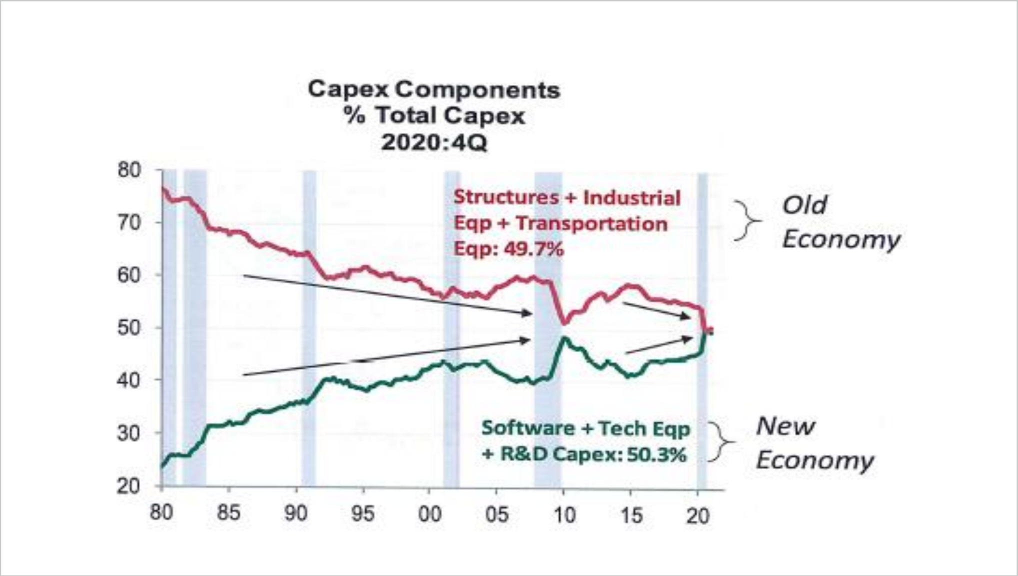
Performance In The 12-Months Following Periods of Rising Interest Rates

Index	11/30/1994 11/30/1995	8/31/1996 8/31/1997	1/31/2000 1/31/2001	6/30/2006 6/30/2007	12/31/2009 12/31/2010	12/31/2013 12/31/2014	10/31/2018 10/31/2019	Average
Financials	54.2%	55.3%	29.5%	14.7%	12.1%	15.2%	11.7%	27.5%
Technology	50.5%	80.7%	-24.5%	25.9%	10.2%	20.1%	22.6%	26.5%
Health Care	51.4%	39.8%	18.8%	18.6%	2.9%	25.3%	8.6%	23.6%
Industrials	42.0%	36.9%	15.3%	17.4%	26.7%	9.8%	14.9%	23.3%
Real Estate				11.7%	28.0%	26.1%	26.7%	23.2%
Staples	39.9%	32.2%	17.6%	14.8%	14.1%	16.0%	14.0%	21.2%
Utilities	26.2%	9.9%	28.1%	26.1%	5.5%	29.0%	23.7%	21.2%
S&P 500	37.0%	40.6%	-0.9%	20.6%	15.1%	13.7%	14.3%	20.0%
Materials	25.4%	26.4%	-6.9%	29.1%	22.2%	6.9%	13.5%	16.7%
Discretionary	19.1%	26.2%	-0.9%	19.1%	27.7%	9.7%	15.8%	16.7%
Communications	37.9%	22.7%	-27.3%	38.8%	19.0%	3.0%	15.5%	15.7%
Energy	21.6%	42.7%	14.0%	28.0%	20.4%	-7.8%	-11.0%	15.4%

Source: Strategas, March 17, 2020

We expect capex to grow 8-12% in 2021

- Software and Tech capex is greater than 50%of total capex spending for the first time ever. We expect that trend to continue.
- Digital, cloud, semi's and semi equipment plus cyber security are still growth engines. Use weakness to buy great companies at cheaper prices.



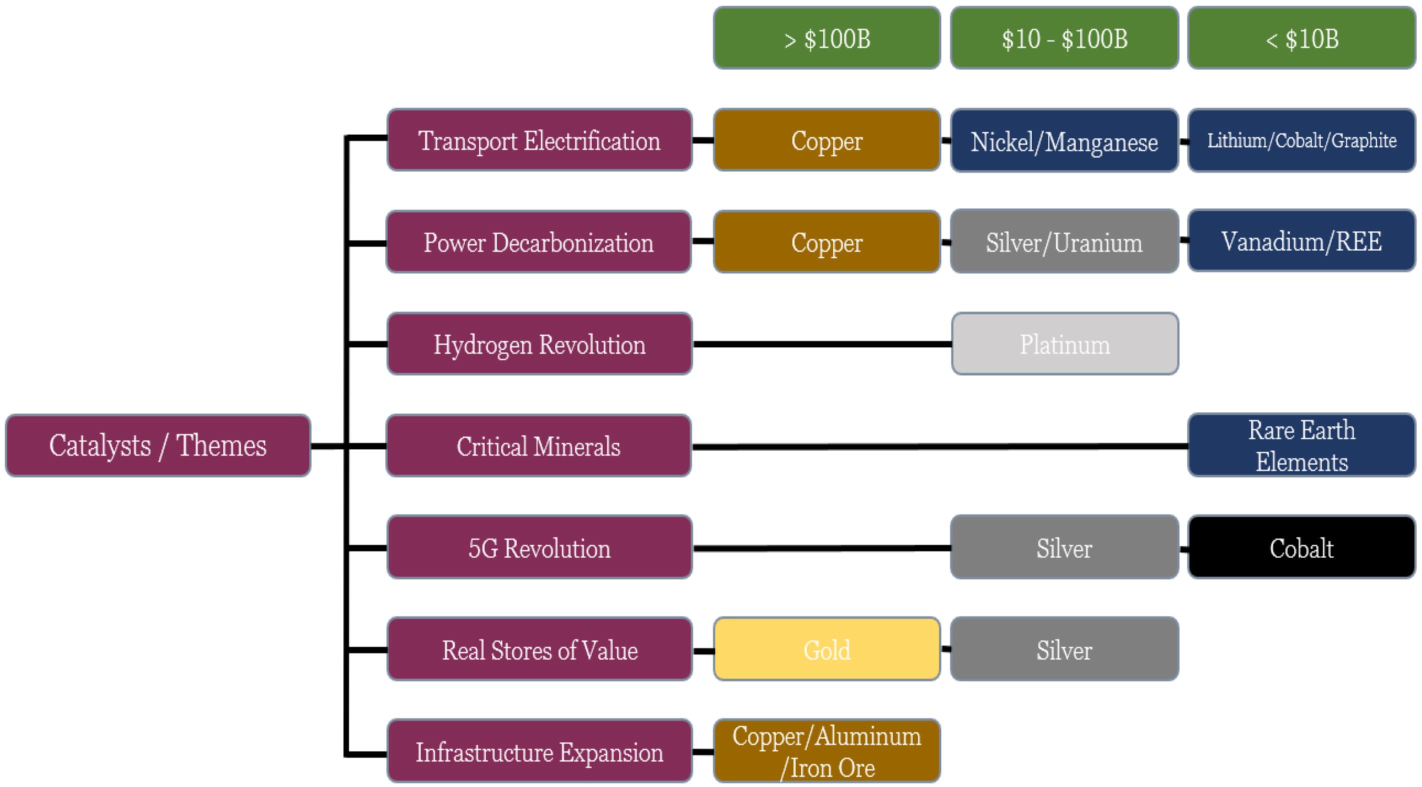
Source: Cornerstone Macro

There is a global energy revolution brewing

LTI's Global Revolution Strategy is focused on the great global energy rotation

- Offers global diversification of green infrastructure and clean energy with an emphasis on metal and mineral miners that produce the products necessary to achieve planetary decarbonization.

Global Revolution



* Source: Bernstein: Global Metals & Mining – Bob Brackett, Ph.D.

The Future of Commodities

- The reasons to be bullish on commodities are ample:
  - There are supply constraints and new demand drivers for industrial metals from the electrification of the world.
  - The mining industry is better managed than ever, and balance sheets are strong. There is a new focus on environmental issues, as miners seek to minimize carbon emissions and waste.
  - Copper:
    - There is no good substitute for copper wiring.
      - EV's require 4x as much copper compared to vehicles with internal combustion engines.
      - Wind farms are 4x as copper intensive per megawatt as traditional power plants
  - Silver:
    - Silver is getting a boost from usage in electronics and solar panels.

* Source: Hot Commodities: Barron's – 01FEB2021 – by Andrew Barry

Commodity Momentum is Strong

- Energy and metals show strong price momentum but are still well below their 5-year highs.

Metals	Last Price	% Above 200 DMA	% From 5-Year High	5-Year High	5-Year Low
Aluminum (USD/MT)	1969.00	9.6%	-22.4%	2537.00	1462.00
Copper (USD/MT)	7798.50	15.1%	-4.7%	8179.00	4444.00
Gold ($/oz.)	1833.39	-1.0%	-11.2%	2063.54	1128.38
Iron Ore (CNY/MT)	1261.00	28.7%	5.9%	1191.00	329.50
Nickle (USD/MT)	17860.00	17.3%	-2.9%	18395.00	7595.00
Silver ($/oz.)	26.76	14.5%	-8.1%	29.13	11.98
Steel (CNY/MT)	4001.00	4.7%	-16.3%	4780.00	1732.00

*Prices as of February 2nd, 2021

* Source: Strategas Investment Strategy Report Tue. Feb 2, 2021 – Jason DeSena Trennert / Ryan Grabinski

Converting to Converts is a smart fixed income, equity light strategy

CONVERTIBLE SECURITIES

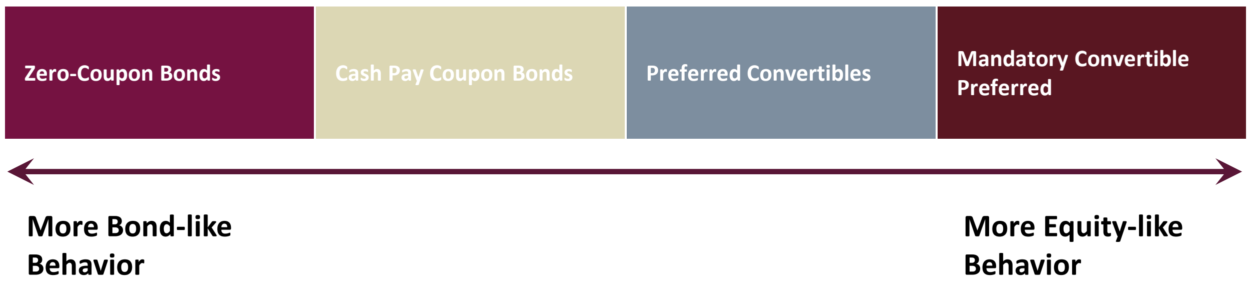
- **What Are Convertibles?**
  - Convertibles are securities (corporate bonds or preferred stocks) that combine features of both stocks and bonds
  - Convertibles have an option to convert into a company's common stock at a specific price and number of shares

- **Why Convertibles belong in your portfolio as part of your overall asset allocation strategy**
  - Hybrid strategy that diversifies exposure to fixed income while introducing limited exposure to the equity markets
  - Generate higher current income from either the bond interest or dividend payments, than most common stocks
  - Provide upside potential when the underlying common stock increases in value
  - Convertibles are typically less volatile when compared to common stocks
  - Offer downside protection, in most cases, versus common stocks due to bond like features (i.e., maturity value of bond/stated maturity date)
  - Convertibles offer risk-controlled equity exposure.
  - Convertibles can fit into an "equity" bucket due to the equity option, or they can fit in the "bond" bucket due to the bond-like characteristics and enhanced income opportunities.

CONVERTIBLE SECURITIES

- **Basic types of convertible securities:**
  - Zero-coupon bonds – The most bond-like security and typically the most correlated with traditional fixed-income securities
  - Cash pay coupon bonds – Provide characteristics and benefits of bonds and stocks
  - Convertible preferred stocks – Provide characteristics and benefits of bonds and stocks
  - Mandatory convertible preferred stocks – Tend to be the most equity sensitive and generate the highest-income stream

MAJOR TYPES OF CONVERTIBLE SECURITIES



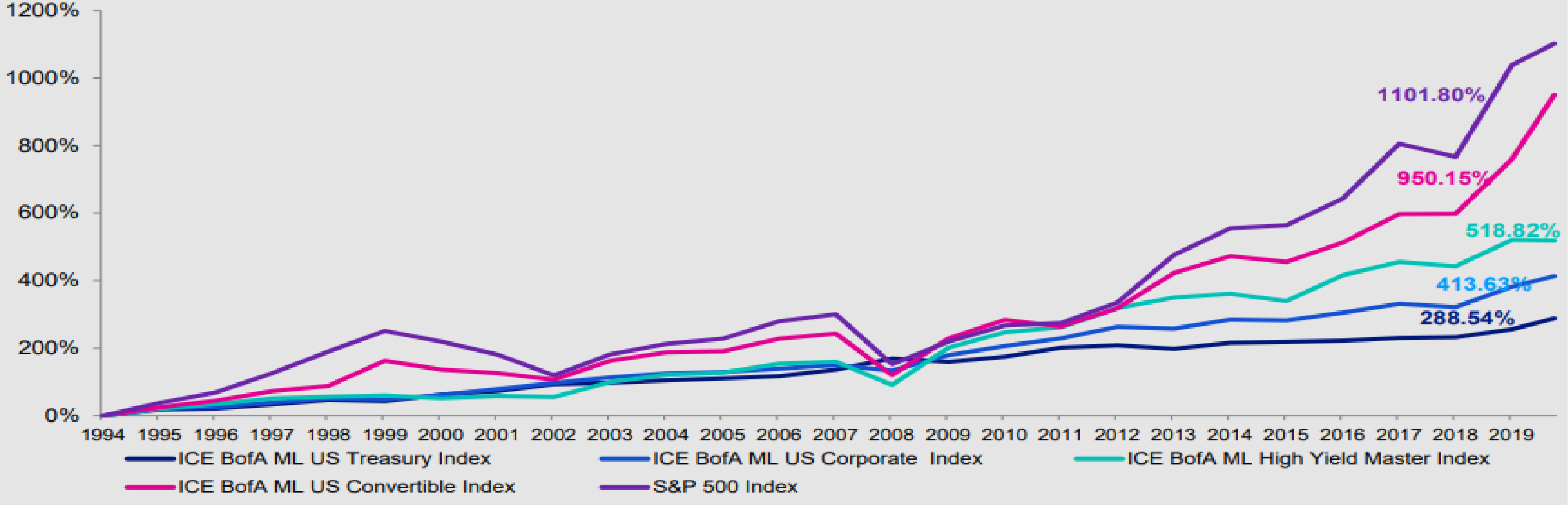
As with all convertible securities, equity sensitivity can change over time depending on the price movements of the underlying common stock

- For this reason, sometimes zero-coupon bonds can become very equity sensitive and convertible preferreds may become very bond-like

Historically attractive risk-adjusted returns

Invesco

Over the Past 20+ Years, Convertibles Have Outperformed Bonds While Participating in the Equity Market's Upside
Cumulative total returns since Dec. 1994

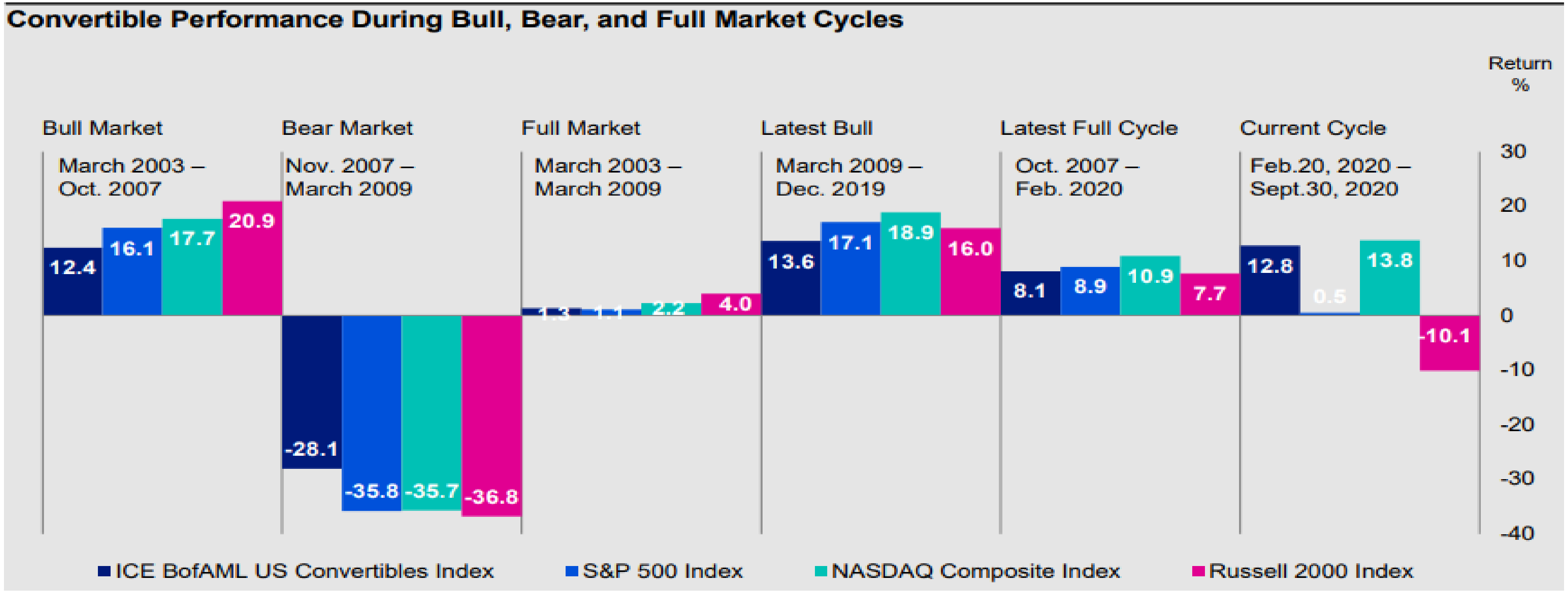


Source: Bank of America/Merrill Lynch Global Research, ICE Data Indices, Bloomberg, as of as of September 30, 2020. Past performance cannot guarantee future results. The S&P 500® Index is generally representative of the US stock market. The ICE BofA US Convertible Index is a market-capitalization weighted index of domestic corporate convertible securities. In order to be included in the index, bonds and preferred stocks must be convertible only to common stock and have a market value or original par value of at least $50 million. The BofA Merrill Lynch Corporate/Government Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market, including US Treasury, US agency, foreign government, supranational and corporate securities. The BofA Merrill Lynch High Yield Master index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market. An investment cannot be made in an index. BofA = Bank of America.

Convertible Universe Snapshot

- US convertible universe currently comprised of 609 issues with a market value of $414 billion
- Diversity across all economic sectors
- Strong new issuance in 2020, and continuing in 2021, brings more legitimacy to the asset class, and attracting crossover investors.

Historically more exposure to market gains than losses



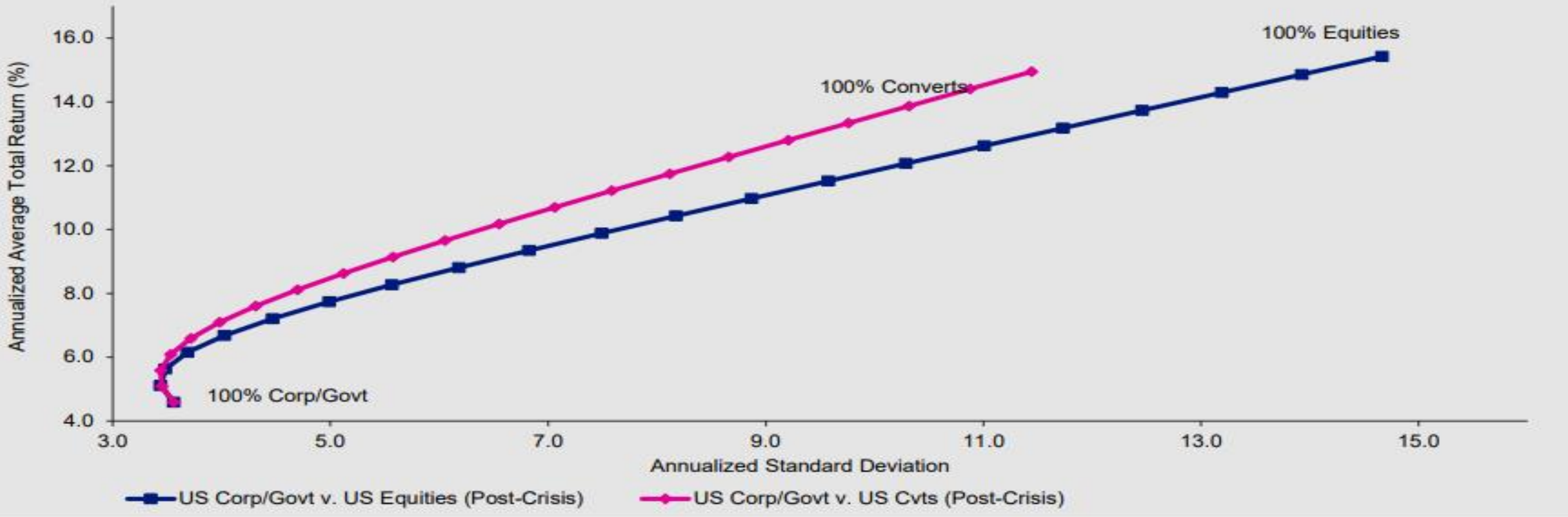
Source: StyleADVISOR, as of Sept. 30, 2020. Past performance is not a guarantee of future results. The ICE BofAML US Convertible Index is a market-capitalization weighted index of domestic corporate convertible securities. In order to be included in the index, bonds and preferred stocks must be convertible only to common stock and have a market value or original par value of at least $50 million. The S&P 500® Index is generally representative of the US stock market. The NASDAQ Composite Index is a broad-based capitalization-weighted index of all NASDAQ National Market & Small Cap stocks. The Russell 2000® Index is an unmanaged index considered representative of small-cap stocks. The Russell 2000 Index is a trade-mark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co. An investment cannot be made directly in an index.

Improved risk return profile

Including converts in a bond portfolio can potentially provide more return for the same amount of risk[1]

Multi Asset Class Portfolio, Including and Excluding Convertibles

Post Crisis, January 2009- September 2020



[1] When compared to a stock and bond portfolio.

Source: BofA Merrill Lynch, as of September 30, 2020. Past performance cannot guarantee future results. Risk is measured by standard deviation. Standard deviation measures a portfolio's range of total returns and identifies the spread of a portfolio's short-term fluctuations. Stocks are represented by the S&P 500 Index. Bonds are represented by the BofA Merrill Lynch Corporate/Government Master Index. The BofA Merrill Lynch Corporate/Government Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market, including US Treasury, US agency, foreign government, supranational and corporate securities. Convertibles are represented by the ICE BofA US Convertible Index. An investment cannot be made directly in an index.

Low correlation with other asset classes

Invesco

	ICE BofAML US Convertibles Index	Russell 2000 Index	NASDAQ Composite Index	S&P 500 (TR)	Bloomberg Barclays US Credit Index	Bloomberg Barclays US Corporate High Yield Index	S&P LSTA Leveraged Loan Index
ICE BofAML US Convertibles Index	1.00						
Russell 2000 Index	0.86	1.00					
NASDAQ Composite Index	0.87	0.85	1.00				
S&P 500 (TR)	0.85	0.84	0.86	1.00			
Bloomberg Barclays US Credit Index	0.41	0.21	0.17	0.24	1.00		
Bloomberg Barclays US Corporate High Yield Index	0.79	0.67	0.59	0.67	0.55	1.00	
S&P LSTA Leveraged Loan Index	0.66	0.54	0.43	0.52	0.39	0.81	1.00

Source: StyleADVISOR. Period covers January 2000 to September 2020.
Correlation indicates the degree to which two investments have historically moved in the same direction and magnitude. Investments cannot be made directly into an index and past performance is not a guarantee of future results. Bloomberg Barclays US Corporate High Yield Index is an unmanaged index that covers the US dollar-denominated, non investment grade, fixed-rate, taxable corporate bond market. Bloomberg Barclays US Credit Index includes Treasuries and agencies that represent the government portion of the index, and it includes publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity and quality requirements to represent the credit interests.

Historical outperformance in rising rate environments

Invesco

Convertible Returns in Rising Interest Rate Environments

	12/21/89-5/2/90	10/16/93-11/7/94	1/18/96-7/05/96	10/5/98-1/20/00	11/7/01-4/1/02	6/13/03-6/14/04	6/2/05-6/26/06	12/18/08-6/10/09	10/6/10-2/8/11	7/25/12–12/31/13	7/8/16–12/15/16	9/7/17-10/5/18
Yield increase (bps)[1]	132	286	153	263	122	176	136	190	134	161	124	118
ICE BofAML US Convertible Index (%)	-0.93	-2.64	8.75	48.62	2.00	12.07	8.49	24.92	11.63	24.03	6.23	6.85
S&P 500 Index (%)	-1.85	1.54	9.24	35.98	3.32	15.76	5.52	7.56	14.89	28.13	7.20	11.99
Bloomberg Barclays US Government Credit Index (%)	-2.64	-6.17	-3.81	-3.19	-3.56	-3.94	-1.94	-1.89	-3.94	-1.45	-4.98	-2.04
Bloomberg Barclays US Corporate High Yield	N/A	N/A	N/A	2.83	4.73	9.45	4.41	41.87	5.33	10.07	5.36	3.04
S&P LSTA Leveraged Loan Index	N/A	N/A	N/A	4.87	3.52	7.12	6.26	34.00	5.29	6.49	4.66	3.54

- Convertibles have historically outperformed straight fixed income in rising interest rate environments due to their equity component
- The convertibles market has also historically tended to be short duration (2-3 years), therefore the impact from interest rate movements may be less than longer duration bonds.

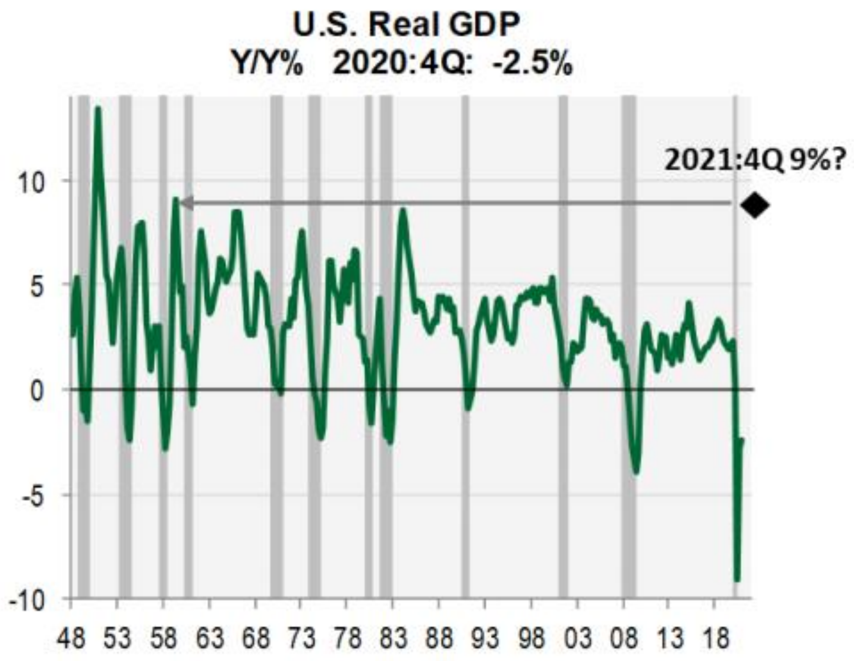
1 10-year Treasury yield

Source: Invesco, Bloomberg L.P. Basis point is the smallest measure used for quoting yields on bonds and notes. One basis point is one one-hundredth of a percentage point, or 0.01%. If the US Federal Reserve increases its short-term interest rate target by 50 basis points, or a bond's yield rises by 50 basis points, the change would be 0.50% or one-half of one percent. Rising interest rate environments are generally considered to be moves of approximately 120 basis points or more. The S&P 500® Index is generally representative of the US stock market. The Bloomberg Barclays US Government Credit Index includes Treasuries and agencies that represent the government portion of the index, and it includes publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity and quality requirements to represent the credit interests. The ICE BofAML US Convertible Index is an unmanaged index that measures performance of US dollar-denominated convertible securities not currently in bankruptcy with a total market value greater than $50 million at issuance. Bloomberg Barclays US Corporate High Yield Index is an unmanaged index that covers the US dollar-denominated, non investment grade, fixed-rate, taxable corporate bond market. The S&P LSTA Leveraged Loan Index is designed to reflect the performance of the largest facilities in the leveraged loan market. Past performance cannot guarantee future results. Returns less than one year are cumulative; all other performance figures are annualized. Does not reflect or imply the performance of any Invesco Fund. An investment cannot be made directly in an index.

Why Am I So Bullish?

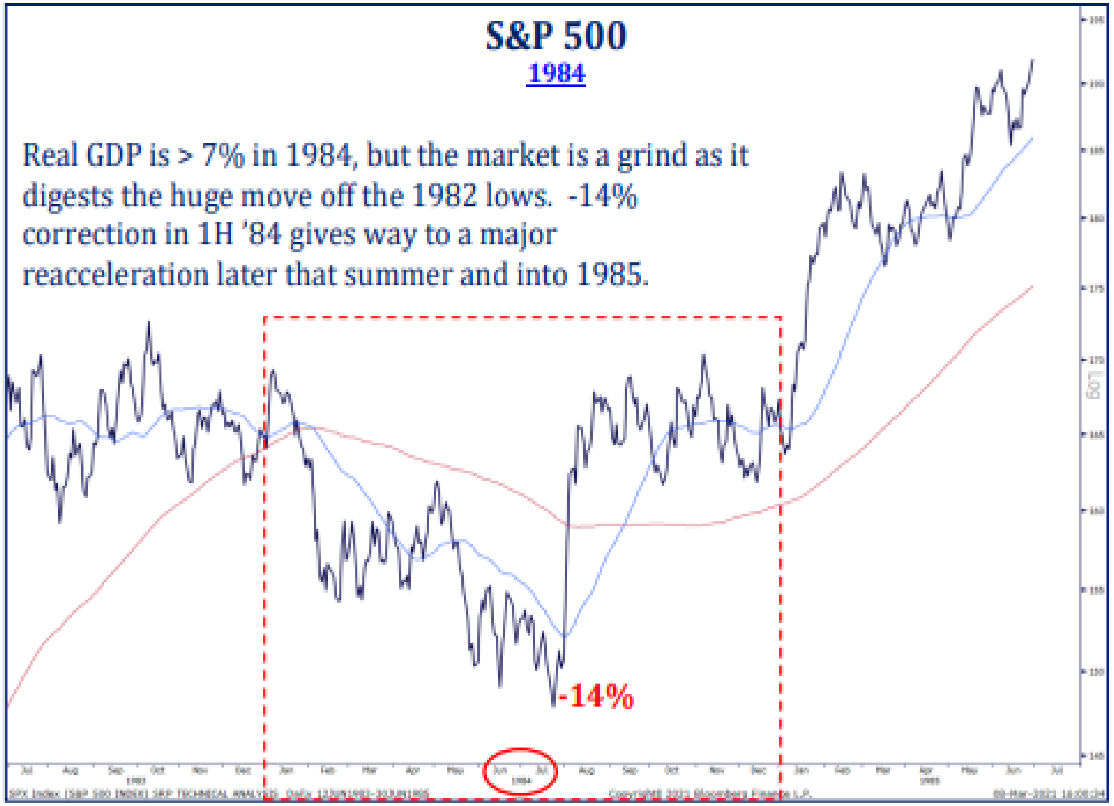
More than one Wall Street strategist has raised real GDP to 10% for 2021—highest level since 1959.

- Implications: very strong corporate profits to begin with. This will come from revenue growth plus rising productivity.
- 10-year Treasury yields will continue to rise. At the beginning of the year the consensus was at 1.5%; we were outliers at 2.0%. We now think we may have been too low.
- It would follow that the dollar will strengthen further. We are not convinced. Yet.
- Cyclical inflation will emerge (due to low base effects of negative inflation last year). Beware: a controlled burn can sometimes turns into a wildfire.



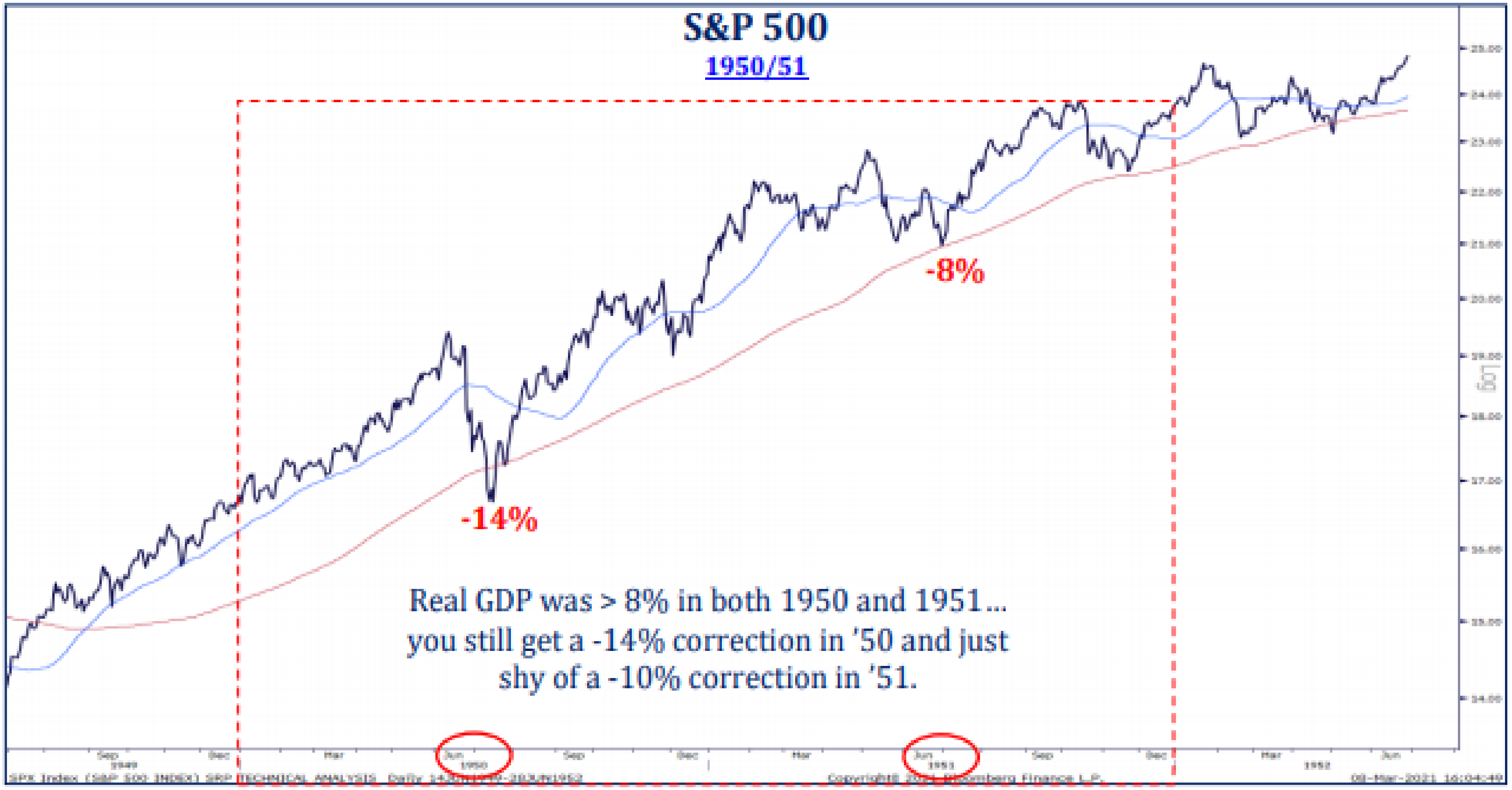
Source: Cornerstone Macro

Very strong GDP growth is good for stocks over the long-term



Source: Strategas

Strong GDP growth is good for stocks long-term

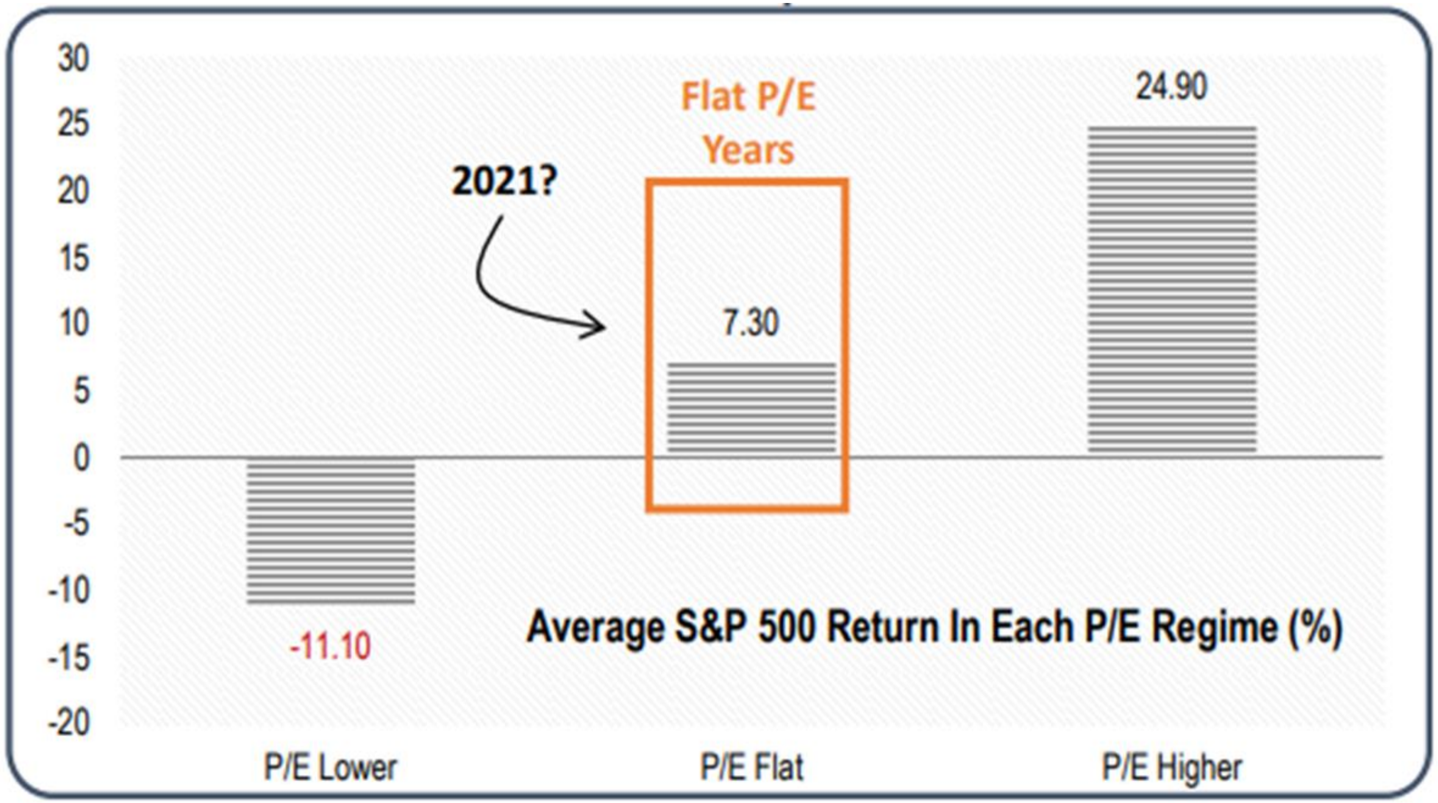


Source: Strategas

Labor and economic slack provide opportunities for growth as we reopen

- Employment always lags GDP growth after recession
- Labor slack along with expected productivity will allow Unit Labor Costs to remain near zero driving profits.
- Economic slack (think reopening and lagged effects of stimulus) will fuel growth in GDP and corporate profits.

Stocks are unlikely to experience multiple expansion this year



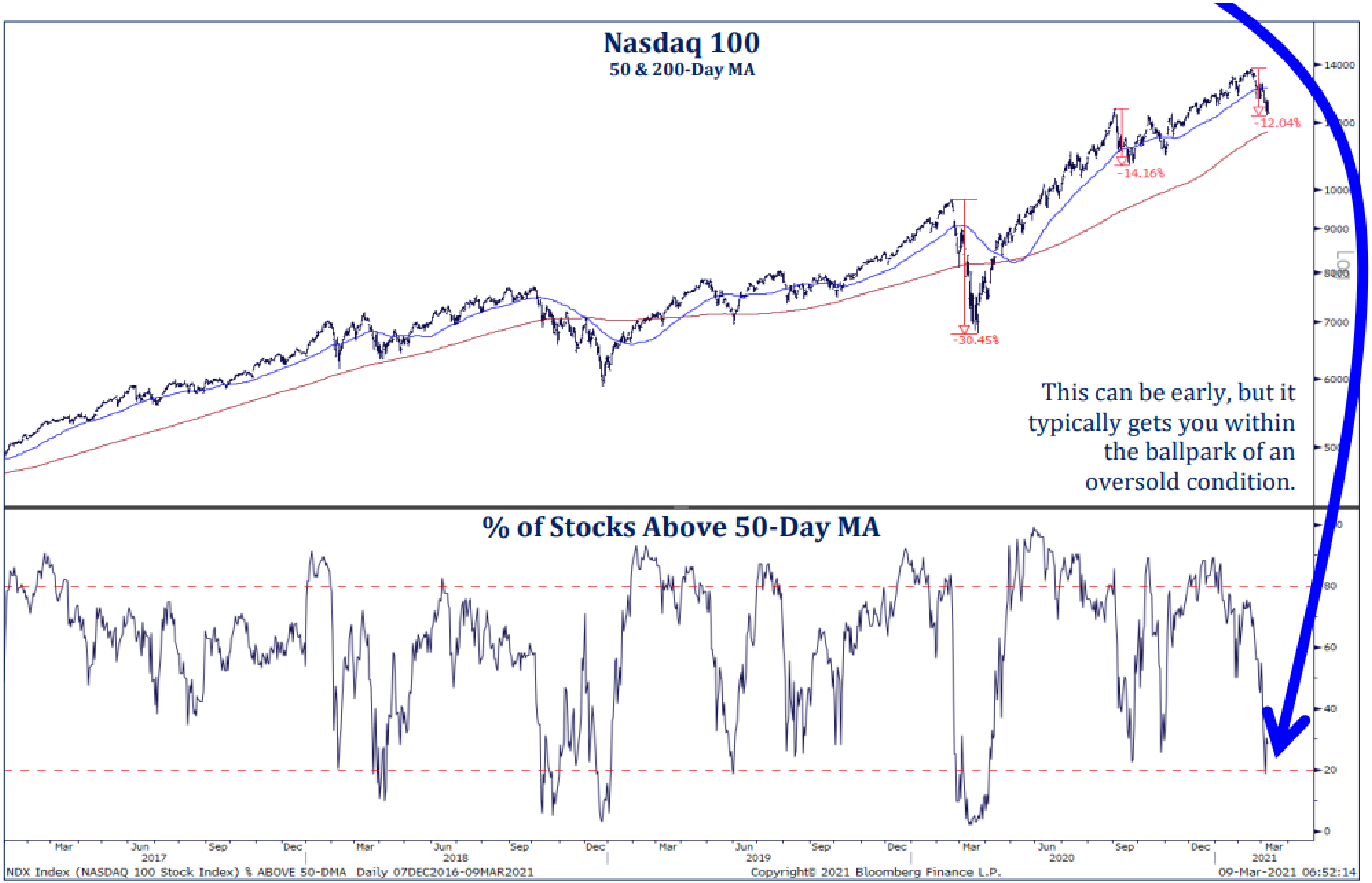
Source: Cornerstone Macro March 2021

Stocks are likely to trade on earnings growth

- The value trade is not over but deep value works best when:
  - P/Es are expanding—that already happened
  - Financial conditions begin to improve—that already happened
  - The surge in low quality stocks has happened—done!
  - When high beta is screaming higher—that already happened

As the market anticipates moderating growth look for the growth trade to resume leadership.

Source: Strategas March 9, 2021

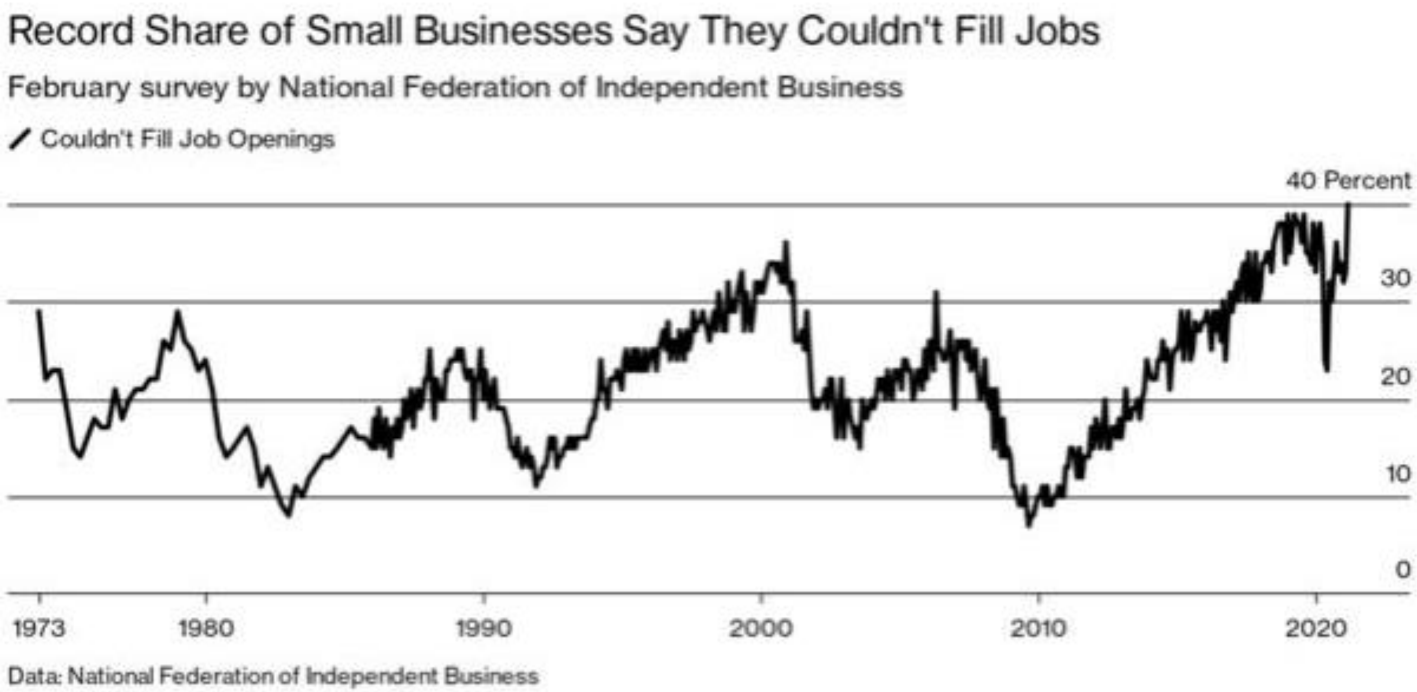


Source: Strategas March 9, 2021

Headwinds

1MM more jobs than seekers

- Are unemployment payments too attractive?
- Transfer payments too high?
- Multiple surveys show recipients intend to put half of the current stimulus into stocks.



General Disclosures

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Definitions and Indices

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