MarketView

Fourth Quarter 2020

GS INVESTMENTS

Betting on a Cure

Some find it remarkable that in the midst of a deep Covid19 induced recession, with millions newly unemployed, the markets are at near record highs. Almost all market experts have been caught off guard at the strength and speed of the market recovery. While a bit surprising, the rebound should not be totally unexpected. First of all, the fed has poured $3 trillion of liquidity into the financial system with another $3 trillion in reserve. Second, Congress has provided another $3 trillion of direct payments into the economy including stimulus checks, supplemental unemployment insurance, and forgivable loans to businesses. Congress is currently considering additional stimulus of up to $2 trillion. Finally, the market is forward looking, so while the economy is bad right now, it has recovered considerably since this spring and is expected to continue to improve next year. Of course, much of this optimism is based on the expectation of an effective vaccine. While we are not scientists, we can tell you that there appears to be progress on this front.

Typically, vaccines and the plants that manufacture them take years to develop and obtain FDA approval. The previous record for creating a new vaccine from scratch was 4-years and it took a quarter of a century to deploy a malaria vaccine. Not only do vaccines take a while to develop, but the payoff is typically not that great even when a company markets a successful candidate. However, as it relates to Covid19, there is some justification for optimism. Moncef Slaovi, Chief Advisor to Operation Warp Speed, publicly discussed why he is confident that we can dramatically improve this process. First, the technological platforms for drug discovery have rapidly advanced over the last few years. Second, we are working on parallel versus sequential development paths. For example, companies are planning for and manufacturing large quantities of promising vaccine candidates while these drugs are still in clinical trials. Finally, the government is taking away the financial risks to biotech and pharmaceutical firms by funding their research and guaranteeing payment for millions of doses, even if they don’t work and have to be thrown away. What this means is that when a successful candidate is approved, we should have significant quantities ready to go fairly soon, instead of the typical 2-year production ramp up cycle.

All this effort seems to be paying off. There are currently 44 vaccines in clinical trials with another 92 in preclinical trials. Not bad for an area of the drug market that until recently was virtually ignored. Not everyone of these is expected to be successful, but with this many opportunities, most health scientists are confident that we will have one or more effective drugs available, in significant volume, sometime next

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GS Investments, Inc.

Largest Stock Holdings

9/30/2020

Securities	Pct.
Apple Incorporated	3.47%
PayPal Holding Incorporated	2.65%
Microsoft Incorporated	2.62%
Amazon.com Incorporated	2.42%
VISA Incorporated	2.40%
Home Depot Incorporated	2.38%
Facebook Inc	2.37%
Thermo Fisher Corporation	2.75%
Adobe Systems Incorporated	2.68%
Walt Disney Co	2.65%

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year. If that happens, economists expect the economy to be back to 2019 levels by early 2022. If the economy fully recovers, coupled with the Federal Reserve Board communicating it will hold interest rates at historically low levels into 2023, all the pieces are in place for the strong market we are currently seeing, to continue.

We, along with many others, are trying to look through this economic valley and pick stocks that will weather the storm now, and take advantage of the recovery down the road. In contrast, some airline, restaurant, hotel, and shopping mall REITs may not weather the storm. Even if they do, they may be financially constrained coming out of this crisis to the point that they may not be able to take advantage of the recovery.

Post-Election Crash?

Entrepreneur Mark Cuban, a regular on Shark Tank and frequent guest on CNBC, predicted in September of 2016 that if Donald Trump won the presidency, the markets would tank. In fact, prominent economists from Dartmouth and the University of Michigan agreed, going even further, predicting a global market crash if he were elected. In the wee hours of the morning after Trump's victory, their predictions looked like they would come true as the futures were down 5%. However, by the end of the day the market finished with strong gains.

Here again, we have prognosticators on both sides predicting a crash if the other side wins. Generally speaking, the markets don't like uncertainty and tend to be volatile prior to an election. This year is no exception as evidenced by the market gyrations we have seen the last couple months. When the election is over, that uncertainty is taken away, and markets often rally. The market went up not only after the Trump victory, but also after the George Bush and Bill Clinton victories. On the flip side, there have been market sell-offs that occurred after the G.W. Bush and Obama elections, but in these instances the markets were already plummeting prior to the election due to the bursting of the .com bubble in 2000 and housing bubble in 2008.

What happens this time? As we stated before, the market does not like uncertainty. A clear victor probably matters. Also, most market watchers are not expecting dramatic or unexpected changes in U.S. economic policy. This may or may not prove to be true. We could end up with a second term for President Trump who becomes even more unpredictable in policy decisions given he's not running for re-election. On the other hand, a President Biden may actually follow through on proposals to raise both corporate tax rates (to 28%) and capital gains rates (to 43.4%). Combined, this would amount to a tax on capital of nearly 70% (including state taxes). Right now the expectations are that a Trump victory or a divided government will lead to little change. Even under a blue wave, most expect a more modest tax increase than the ones proposed, partially offset by more fiscal spending. We believe it is important to stay calm, but stay tuned.

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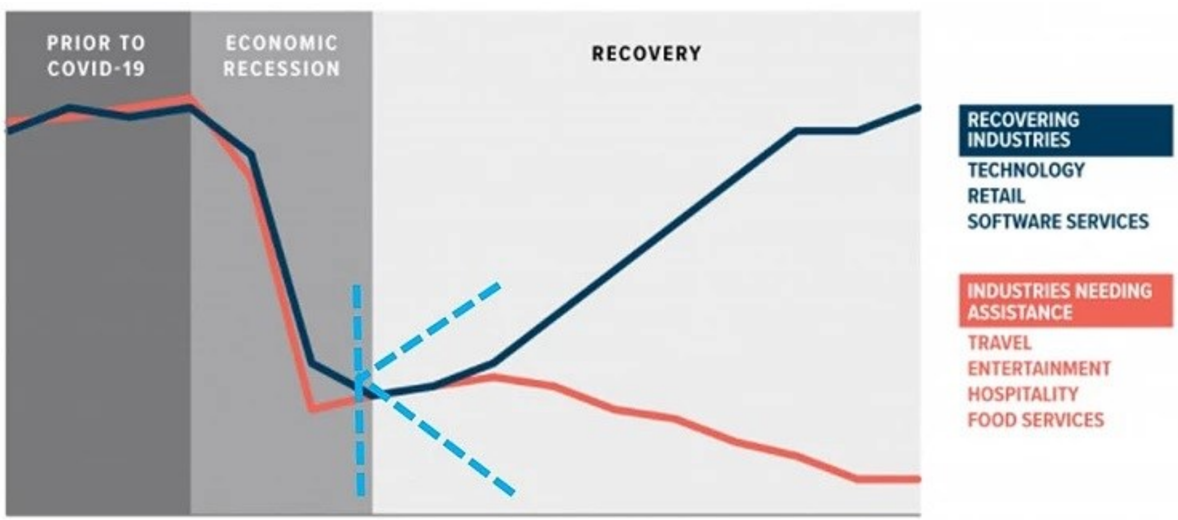
A Return to Inflation

Other than the occasional price increase on items such as toilet paper and hand sanitizer, there has barely been a hint of inflation in this country for quite some time. It is hard to believe that the average inflation rate in the U.S. from 1913 – 2020 has been 3.2%, as it has been steadily below that rate for the past 12 years. The Fed has kept interest rates historically low for many years to prevent deflation and attempt to achieve a low inflation rate of 2%. This could all be about to change. In the face of trillions of stimulus spending and The Fed effectively printing trillions more, Fed Chairman Powell, introduced a new policy term called "average inflation targeting". This means that inflation can run above 2% for a period of time. Given that the inflation rate average has held below 2% for the last several years, this means we could run well above that rate in the future. We do view this as a bit problematic as there is no longer a well-defined inflation target. The new target is more susceptible to interpretation or misinterpretation as well as political pressure from both sides of the aisle. This could make the independent Fed much more of a political operative in a world that is already politicizing everything.



The "K" Economic Recovery

In 2019, Americans spent more of their wallet on dinning out than they did in the grocery store. What a difference a year makes. This year, grocery stores sales are booming, and most restaurants are either closed or are only open for outside, takeout, or low capacity dinning. The Covid19 outbreak has not only led to increased trips to Target, but has driven record sales of bikes, boats, RVs, and camping gear. Meanwhile, spending on dinning out, hotels, airlines, and mom-and-pop shops have dropped dramatically.

When the economy is rebounding from a downturn, we often explain it with a letter. A "V" recovery is a steep downturn followed by a sharp turnaround. A "U" recovery is one where we stay at a low point for a period of time. There is also the "W" recovery, where we double dip into recession before recovering. The split nature of this recovery is leading economist to call this the "K" recovery where some economic groups and industries are sharply rebounding, while others continue to remain in steep decline. Many in professional careers (legal, finance, software services, etc.) have been able to work from home and earn a living. These people are not spending money on travel and dinning out, so the money is going into the

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items listed above as well as the stock market as it moves up. Conversely, those employed in a service industry like hotel, airline, restaurant, are much more likely to be unemployed or significantly underemployed. This group of people is earning little to no income other than what government stimulus and unemployment insurance provide. Unfortunately, this dichotomy has almost instantaneously undone the progress that had been made in closing the income inequality gap over the past few years. Incomes of those in the bottom 20% had been growing at a much faster clip than they had in any other quintile. That came to a sudden end with the Covid19 shutdown leading to a much wider income gap.

The impact of this can be seen in the stock market. Companies that cater to higher income earners have better relative performance this year. For example, Costco has outperformed Walmart despite both having crowded stores this year. Apple, with its premium priced phones, has outperformed Samsung by a wide margin. We expect this trend to continue for some time.

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20 Years & Growing

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GSI Tenets

GS Investments

GS Investments, Inc. is an investment management company specializing in individual and institutional asset management. Privately owned and operated, GS Investments, Inc. is run by its owners, Glenn H. Steinke, C.F.A., John G. Steinke, M.B.A. and Greg Cunningham.

Glenn Steinke, CFA brings over 50 years of investment management experience to the business. Previous capacities include Vice President and Senior Investment Officer with a major pension fund ($1.8 billion under management) and Senior Vice President with a major Minneapolis-based financial institution ($3 billion under management). Glenn is a graduate of the University of Minnesota.

John Steinke MBA offers a broad financial services background with 27 years of portfolio management experience and 7 years of banking experience including capacities as a Vice President of a $50 million bank and as a private banking office for a large, Minneapolis-based financial institution. John received his BA from Concordia College (Moorhead) and his MBA from the University of Minnesota.

Greg Cunningham Prior to joining GS Investments, Greg spent 18 years at Minneapolis-based Ameriprise Financial, a national leader in financial planning with over 2 million retail clients and $300 billion in assets. Here he worked with the Chief Investment Officer in support of the international and domestic hedge funds and with the President and General Manager of RiverSource mutual funds. Greg is a graduate of Gustavus Adolphus College in St. Peter, MN.

Sheri Ritchie brings over 28 years of financial services experience to the business. Previous capacities include client service and support positions with Dean Witter and Kemper brokerage firms and a Minneapolis-based investment management firm. Sheri is a graduate of the University of St. Thomas.

GSI Investment Philosophy

GS Investments, Inc. utilizes a balanced approach for the majority of its accounts although each account is tailored to the individual needs of each client. Taxable or tax-exempt bonds are used along with a common stock component. The division between bonds and stocks is determined by the personal objectives of each client. A need for income and a willingness to assume risk are also determinants of an account's bond/stock mix.

GS Investments, Inc. emphasizes the purchase of quality securities and employs a long-term investment style, as market timing, frequent shifts in asset allocation and interest rate forecasting are not consistent with the firm's philosophy. In-depth market analysis and many years of experience support this approach.

GSI Fixed Income Strategy

GS Investments, Inc. emphasizes a staggered maturity approach when purchasing bonds. Individual security investment grades and call protection are considered when making these investments. Quality grades of "A" or higher are favored with tax-exempt issues. Government bonds are dominant among taxable securities.

GSI Equity Strategy

GS Investments, Inc. favors stocks emphasizing quality and growth. Appropriate cyclical growth stocks and small capitalization growth stocks are used periodically as well. Additionally, GS Investments, Inc. believes that a growth oriented philosophy tends to result in less frequent trading and lower tax payments (for taxable accounts) on realized capital gains. This provides a lower cost approach for the client.

GSI Client Communication

GS Investments, Inc. emphasizes client communication. Written investment objectives as well as periodic oral and written reports are used to heighten the understanding between the client and investment manager. In addition, easy to read, detailed reporting is provided by state-of-the-art investment software in order to inform the client of portfolio progress.