

“Only Thing We Have to Fear Is Fear Itself”

We celebrate Pearl Harbor and the “Greatest Generation” this month recalling the historic speech by President Franklin Roosevelt and “a date which will live in infamy.” He also said that “the only thing we have to fear is fear itself”. People think this second phrase relates to World War II. In fact, he was referencing the Great Depression in his first inauguration in 1933. By then, the Depression had reached its peak and he wanted to send a strong message to uplift the country.

Today, we face a health crisis that has led to an economic collapse not seen since the Depression. We have endured unemployment this year at 14.7%, and the largest quarterly GDP decline ever at -31.4%. When we get to the other side of the virus, we expect incredible economic expansion led by record consumer confidence, higher wages, continued fiscal stimulus and massive monetary expansion. In fact, we expect the type of euphoria the world hasn’t seen since the GI’s returned from Europe and the Pacific.

Any lasting economic expansion begins with getting on the other side of the virus. Interestingly, several nations have contained the virus with their economies returning near pre-virus levels without a vaccine. China, where the pandemic began, has reported only 93,886 cases and 4,747 deaths, most by May. This is roughly 6 cases per 100,000 people in China compared to our 4,538 cases per 100,000 people. Furthermore, South Korea, Thailand, Taiwan, Vietnam and Japan have had success containing the virus while Finland, Norway, Saudi Arabia, Australia, and India have done a good job as well. Whether it’s from aggressive lockdowns, social distancing, self-isolation, masks, herd immunity or a vaccine, we expect to get on the other side of the virus and the economy to return to pre-virus strength much faster than others expect.

The vaccines from Pfizer/BioNTech and Moderna have received Emergency Use Authorization in the U.S. Several other countries such as China, Canada, the U.K., Russia, and the United Arab Emirates have begun vaccinating their populations as well. Now, there are over 200 vaccine candidates with 10 in final Phase III trials. According to a 2018 *Biostatistics* study, the success rate of an infectious disease vaccine in a Phase III trial is 85%. We expect other approvals in the U.S. soon.

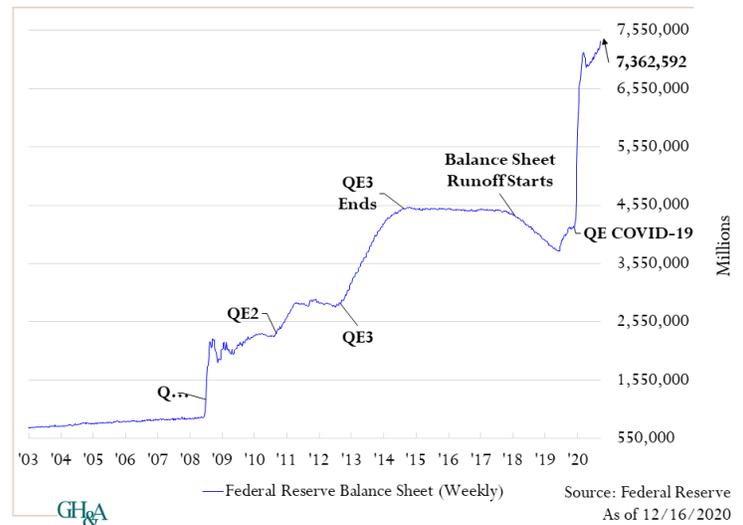


GARCIA HAMILTON & ASSOCIATES, L.P.

Like the medical community, the government responded quickly. Policy makers learned from past mistakes during the Depression when taxes were raised during the slowdown and money supply was restrained. They also learned from the Global Financial Crisis (“GFC”) that monetary policy cannot do it alone.

This crisis required significant fiscal stimulus, substantial money supply growth and rapid stabilization of credit markets. We’ve had four rounds of fiscal stimulus totaling almost \$2.9 trillion (a fifth is on the way with \$900 billion more). This surpasses the \$2.26 trillion in lost GDP for the first two quarters of the year. This stimulus has been financed by the Fed causing their balance sheet to explode by over \$3 trillion to almost \$7.4 trillion. You can see this in the chart below.

Federal Reserve Balance Sheet



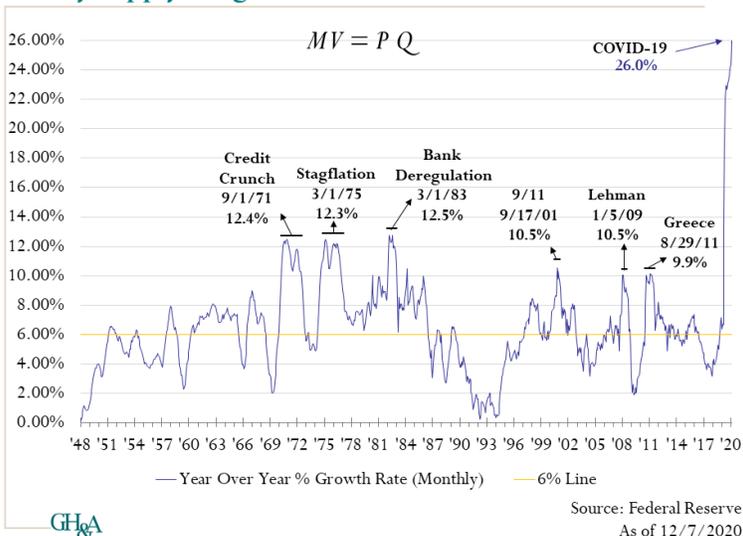
This balance sheet increase flooded the system with money as money supply growth has reached uncharted levels. Since 1948, prolonged year-over-year (“y-o-y”) increases in money supply above 6% have been stimulative for the economy and money growth above 10% have been extremely rare. Even during the GFC, money supply growth peaked at 10.5% after Lehman Brothers failed. Now, money supply is growing y-o-y at an annual rate of 26.0%! You can see this on the next chart. With money growing at such an exceptional rate, stronger economic activity and increasing inflation are inevitable. Thus, we expect the economy to return to pre-virus levels sooner than most expect. We also see inflation reaching and surpassing the Fed’s 2% target. In preparation

A copy of our Form ADV, Part II is available upon request.

FIVE HOUSTON CENTER 1401 MCKINNEY ST., SUITE 1600 HOUSTON, TEXAS 77010 PHONE: (713) 853-2322 FAX: (713) 853-2308

for the next cycle, we are maintaining a defensive duration posture and yield curve steepening bias.

Money Supply Long Term Growth



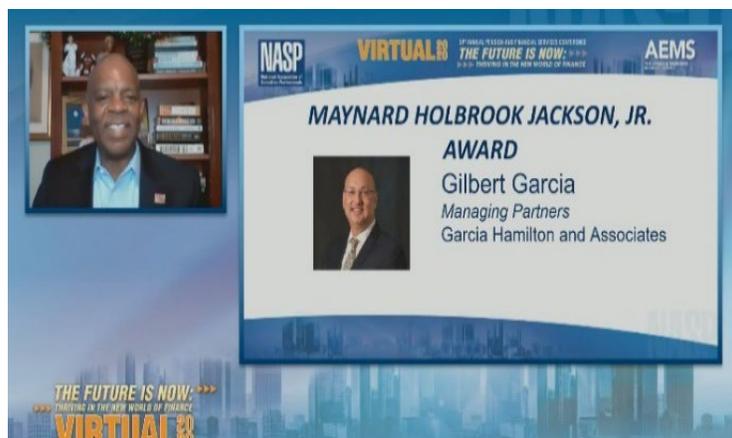
As for firm news, we have a few updates. First, I'm thrilled to receive the Maynard Holbrook Jackson, Jr. Award from NASP during their 31st Annual Pension and Financial Services Conference. NASP is the premier national minority organization for financial service professionals with chapters all over the country. This award is one of the pinnacles of my career and is named after Mayor

Jackson. Mayor Jackson was a NASP founder in the early 80's and made Atlanta an international destination. The award was established to honor the financial service professional that best exemplifies entrepreneurial achievement, community service and high moral standards. And how amazing to be introduced by both the SEC Chairman Jay Clayton and SEO President & CEO, William Goodloe.



My wife Dee Dee and kids Andrew, Daniel, Ben and JuJu; my parents; and my partners and colleagues at Garcia Hamilton, have earned it with me. Our firm is just under \$17 billion in assets under management with over \$800 million in new commitments scheduled over the next 60 days.

This award reminded me of my path into the financial industry. My first big break was attending Yale University. From there, I was accepted into SEO, a non-profit placing minority undergraduates in the summer on Wall Street. I was one of the earliest SEO interns in 1983 at Salomon Brothers and it changed my life! It has been awesome to serve on the SEO Board since 1987 and to work with William Goodloe these past 18 years, SEO Chairman Henry Kravis these past seven years and with SEO Founder Michael Osheowitz for almost 40 years.



Most recently, I've worked closely with Chairman Clayton on improving diversity in the financial services industry. I have led several hearings before the Commission which have already had positive results.



Second, our firm welcomes our 14th partner, Yvette Duenas. Yvette has been with us five years and has quickly become an integral part of the investment team. In addition to her regular duties, she leads our new municipal bond

A copy of our Form ADV, Part II is available upon request.

FIVE HOUSTON CENTER 1401 MCKINNEY ST., SUITE 1600 HOUSTON, TEXAS 77010 PHONE: (713) 853-2322 FAX: (713) 853-2308

Garcia Hamilton & Associates is an investment advisor registered with the Securities and Exchange Commission offering investment management services for individual and non-taxable accounts. This material is for your use only and is based upon information which we consider reliable, but we do not represent that it is accurate or complete and should not be relied upon as such. The opinions are our opinions only. We welcome your inquiry.

management effort. We did make a few other minor ownership tweaks and are now 65% minority-owned; and 90% minority and women-owned.

Third, they say that five times's a charm. It certainly is for us. We have applied for Pension & Investments Magazine's Best Places to Work in Money Management the past five years and was recently notified that we were awarded it for the fifth straight year in 2020. The award is special because it starts with an anonymous survey to employees. We clearly are doing something right as our employees are happy, leading to virtually no turnover in our bond business-ever. This stability is the bedrock of our success.



Finally, we wish everybody a Merry Christmas and Happy New Year. In our efforts to stay connected while our team works remotely, we hosted several virtual competitions to get employees and their children together to make memories. In October, we hosted a pumpkin contest.



In December, we hosted a stocking decorating contest. The creativity was wonderful, especially the stockings made by the GH&A kids.



For the less artistically inclined, we tried another holiday favorite. We hosted a create-your-own ugly sweater contest. Talk about ugly!



This has certainly been a historic year. It has been unusual, volatile, difficult, unpredictable, challenging and scary. Through it all, our team has handled the adversity with grace and dignity. In many ways, 2020 has brought us closer together and brought us all a greater appreciation for the many blessings we enjoy. Our firm and its 35 employees answered the call and have bought and distributed 30,000 masks to those most in need. We have also donated hundreds of turkeys, gallons of hand sanitizer, wipes and over \$20,000 to our fellow Houstonians. Like the Greatest Generation, I truly believe we will look back at 2020 and say it "was our finest hour."

(continue next page)

A copy of our Form ADV, Part II is available upon request.

FIVE HOUSTON CENTER 1401 MCKINNEY ST., SUITE 1600 HOUSTON, TEXAS 77010 PHONE: (713) 853-2322 FAX: (713) 853-2308

Garcia Hamilton & Associates is an investment advisor registered with the Securities and Exchange Commission offering investment management services for individual and non-taxable accounts. This material is for your use only and is based upon information which we consider reliable, but we do not represent that it is accurate or complete and should not be relied upon as such. The opinions are our opinions only. We welcome your inquiry.



Gilbert Andrew Garcia, CFA

Managing Partner

GGarcia@GarciaHamiltonAssociates.com

Jeffrey D. Detwiler, CFA, AAMS

Partner, Portfolio Manager

JDetwiler@GarciaHamiltonAssociates.com

Happy Holidays from your friends at GH&A



A copy of our Form ADV, Part II is available upon request.

FIVE HOUSTON CENTER 1401 MCKINNEY ST., SUITE 1600 HOUSTON, TEXAS 77010 PHONE: (713) 853-2322 FAX: (713) 853-2308

Garcia Hamilton & Associates is an investment advisor registered with the Securities and Exchange Commission offering investment management services for individual and non-taxable accounts. This material is for your use only and is based upon information which we consider reliable, but we do not represent that it is accurate or complete and should not be relied upon as such. The opinions are our opinions only. We welcome your inquiry.