EDGEMOOR
INVESTMENT ADVISORS

Edgemoor's Quarterly Report

Suite 315
7250 Woodmont Avenue
Bethesda, MD 20814
(301) 543-8881
www.edgemoorinv.com
www.edgemoorblog.com

January 2021

Goodbye to 2020

We have finally left 2020 behind, and what a year it was. A global pandemic, the ensuing economic fallout, social unrest across the United States, and a contentious election combined to make a year that we will always remember. Economic trends were better in many ways at year end than in the spring, but the pandemic continues to rage at record levels and other issues remain unresolved as we enter 2021.

One of the most perplexing elements of the year was the seeming disconnect between the strong performance of the stock market and the sputtering economy. The resilience of the stock market in the face of so many challenges has been quite remarkable. Investors clearly have been looking ahead to the promise of widespread vaccination and resurgent economic growth expected in the latter half of 2021. We are still concerned about the impact of COVID-19 and intense political strife on the well-being of our nation and economy, but we also expect better conditions later this year and beyond.

Fourth Quarter Review

The S&P 500 index marched upward throughout the fourth quarter, continuing the surge since the market bottomed in March 2020. The index gained 12.1% in the quarter to finish the year up 18.3%, including dividends, despite its sharp decline in March. Bonds rose slightly in the fourth quarter, with the Bloomberg Barclays U.S. Aggregate Bond Index gaining 0.7% and ending the year up 7.5%.

COVID-19 and its impact on the global population and economy dominated the news, and new cases surged to a rate exceeding 200,000 per day in the United States. As predicted, the return of college students to campuses across the country and holiday gatherings fueled the disease's spread. Good news came on the vaccine front, as the FDA and other health agencies worldwide approved several newly developed vaccines for use. The combined public and private sector efforts to develop effective vaccines succeeded in a fraction of the time typically needed, and vaccinations began in late December.

Uncertainly regarding the U.S. presidential election weighed heavily leading up to election day on November 3rd, and it took several days for Joe Biden to emerge as the clear winner. Investors seemed pleased with the combination of a Democratic president and Democratic control of the House of Representatives, balanced by an apparent Republican majority in the Senate, subject to two runoffs in January 2021 for the Georgia Senate seats. This division of power appeared likely to result in greater support for government relief and spending on infrastructure, with lower odds of sweeping increases in taxes and regulations.

Support from Congress, the Federal Reserve, Treasury, and other government agencies remained critical to millions of people and businesses. After much drama and delay, on December 21st Congress agreed to an additional relief package totaling $900 billion that includes payments of $600 to qualifying individuals but provides no aid to state and local governments.

We expect gross domestic product increased about 5% in the fourth quarter of 2020, following the large swings down and up in the second and third quarters, respectively. But hiring slowed in the fourth quarter, continuing the monthly trend since June, as employers became more cautious about bringing back more of the approximately 10 million workers still out of work after being laid off or furloughed in the spring. The labor picture weakened at year end as the United States lost jobs in December, the first decline since the spring. The unemployment rate dropped to 6.7%, a big improvement from the 14.7% peak in April; however, this rate is still nearly double the level in February, and there are many who have left the workforce and are no longer counted among the unemployed.

Welcome to 2021

As we put 2020 behind us and begin a new year, we are optimistic that 2021 will bring much needed improvement to the global health situation and economy. However, many challenges remain, and the storming of the Capitol on January 6th by an angry mob trying to prevent certification of the election results put a spotlight on the deep political divisions in the United States. This event and the current rhetoric are dismaying, to say the least, but we believe our nation will recover and endure, as it has so many times throughout its history.

The economy is on much better footing now than it was earlier in the pandemic, and we expect recovery to continue. As a result of the recently completed Georgia runoff elections, Democrats will control the Senate, in addition to the White House and House of Representatives, a change we expect to lead to more financial relief for families and businesses after the inauguration. Democratic control also increases the likelihood of significant spending on infrastructure and other programs favored by the Democrats, such as relief for cash-strapped state and local governments. Investors have pushed stocks higher in anticipation of this spending to boost the economy, combined with a belief that the Democrats' narrow advantage in the Senate will moderate efforts to raise taxes.

Progress with vaccinations will be important to the economy, not to mention human health. The approval and production of several vaccines brings hope for an end to the global COVID-19 pandemic, but the monumental logistical challenges of widespread vaccination have resulted in a slow start. The medical community will learn from early mistakes, and we expect governments to coordinate better as they identify and resolve issues that arise. We believe that a significant portion of the U.S. population will receive a vaccine by this summer, hopefully bringing the disease largely under control by the end of the year.

Economic growth should continue at a moderate pace through 2021, partly due to government support to those most impacted by the pandemic. As it becomes safer to be exposed to others and gather in groups, consumers should resume travel, dining, and entertainment activities that they have shunned for fear of contagion. There is great pent up demand for these and other services, and the spending should boost economic growth.

A major concern is the pace of rehiring furloughed and laid off employees who are still on the sidelines. Many of these work in industries such as hospitality and retail that have been among the hardest hit and may be slower than others to recover. The longer these workers stay unemployed, the more difficult it will be for them to return to the workforce. Getting them back to work will be critical to the health of our economy.

We will learn fourth quarter corporate earnings results over the coming weeks and expect to see a drop of about 9% in S&P 500 earnings compared to the fourth quarter of 2019. A decline of this amount would be slightly worse than the roughly 6% decline in the third quarter, due to the resurgence in the fourth quarter of COVID-19 cases and restrictions on activity. Earnings in 2021 should increase sharply over 2020 levels as vaccinations facilitate renewed economic activity, particularly during the second half of the year, and comparisons to weakened 2020 results become more favorable.

The combination of the stock market's rise and a decline in earnings has led to an increase in the S&P 500 index's forward price/earnings ratio to about 22.6, higher than historical averages. We believe stocks may take a breather as earnings catch up. In anticipation of greater government spending and potential inflation, bond yields have risen recently but are still low enough to support relatively high stock valuations. Low yields encourage investors to pursue greater returns though investing in stocks, and they also support lending and corporate investments that should boost economic activity.

Trends elsewhere in the world are similar to what we see here at home, though some countries have managed to control the pandemic better. Trade tensions with China will likely continue under the Biden administration, but we expect more predictability and consistency in our relationships with China and other important trade partners. Foreign stocks generally trade for lower multiples of earnings than U.S. stocks, and we believe their relative performance will improve in the coming quarters.

We do not anticipate major changes to our portfolios as a result of current trends, but we are looking for investments that might benefit from infrastructure spending and broader economic recovery, which have the potential to boost value stocks, in particular. Rising yields do not concern us now, but we will be keeping a close eye on yields and any signs of an uptick in inflation.

Welcome to Two New Team Members

We look forward to the arrival soon of Philipp Bentley and Zach Shirilla, each of whom will be joining us as an Analyst and Assistant Trader. Welcome, Philipp and Zach!

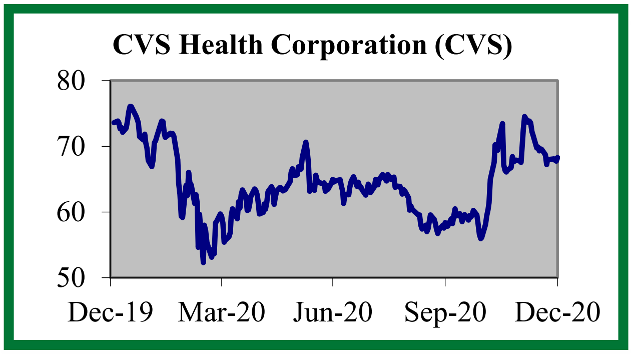
Remote Office Operations

We continue to work remotely, have been able to fully carry on our work, and are readily available by phone or email. We will work remotely until being together is clearly safe for all of us. If you need to send anything to us by mail, FedEx, or UPS, please contact Anne at 301-543-8881 or abaker@edgemoorinv.com for instructions. Stay safe and healthy.

Analysis of Selected Securities

Following is a discussion of three securities we own and have bought recently. Due to factors specific to each company, these stocks are, in our opinion, priced attractively in the markets today.

CVS Health Corporation (CVS)



Source for chart and financials: Yahoo Finance and Morningstar. Past performance is not indicative of future results. Please see disclosures on page 8.

Price (12/31/2020)	$ 68.30	Forward P/E	9.6
Market Cap ($B)	$ 96.6	Price/Book	1.4
Dividend Yield	2.8%	Price/Sales	0.4
Return on Equity	12.1%		

CVS Health (CVS) is the nation's foremost integrated healthcare services provider, combining the largest retail pharmacy chain with one of the largest pharmacy benefits managers and a top five managed-care franchise under one company. CVS currently has more than 9,900 retail locations and 1,100 walk-in medical clinics, and the company serves more than 105 million members of its pharmacy benefits plans. Total revenues likely topped $267 billion for 2020, equating to 12% annualized top-line growth for the last five years.

After acquiring insurance giant Aetna in November 2018, CVS operates in three main lines of business. The Pharmacy Services unit (approximately 50% of sales and 30% of estimated 2020 profits) provides a full range of pharmacy benefit management solutions and processes more than 2 billion pharmacy claims annually. The Retail/Long-Term Care unit (30% of sales, 30% of profits) operates retail stores and clinics and filled 1.3 billion prescriptions last year. The Health Care Benefits unit (20% of sales, 40% of profits) offers health insurance and related products and services to an estimated 37 million people across the United States.

CVS has spent most of the last decade pursuing its strategy to make high quality healthcare more affordable, accessible, simple, and seamless. CVS's expansive retail locations are located within three miles of 70% of the U.S. population, making it easier for an aging population to access medical care, treatments, and advice in a convenient and cost-effective manner. The company is also rolling out 1,500 new HealthHubs to provide expanded health clinic operations in its retail stores. We believe this one-stop healthcare strategy sets CVS apart from its peers and positions it well to compete in the rapidly consolidating healthcare services sector for many years to come.

CVS's financial position is solid, with all three segments posting better than expected revenues and profits in the third quarter of 2020, despite the negative impacts of the coronavirus pandemic on costs. The continued integration of Aetna should boost revenues and lower costs through 2022. Management is committed to maintaining CVS's investment-grade debt rating and has pledged to use the majority of the company's $10 billion of annual free cash flow to pay down long-term debt.

CVS shares are attractively valued at 9.6 times 2021 earnings, which is significantly below their 5-year historical average of 11.1 times forward earnings, and currently yield 2.8%. Although CVS shares underperformed the S&P 500 in 2020, we believe they represent an attractive, long-term holding with good growth prospects, a rising dividend, and above-average total return potential.

Johnson Controls International plc (JCI)

Source for chart and financials: Yahoo Finance and Morningstar. Past performance is not indicative of future results. Please see disclosures on page 8.

Price (12/31/2020)	$ 46.59	Forward P/E	19.9
Market Cap ($B)	$ 36.8	Price/Book	2.1
Dividend Yield	2.1%	Price/Sales	1.7
Return on Equity	3.4%		

Johnson Controls International (JCI) is a global industrial conglomerate that creates intelligent building systems, efficient energy solutions, integrated infrastructure, and transportation systems. The company began in 1885 as the inventor of the first electric thermostat and today is an innovator of products ranging from thermal detection devices to security systems and integrated energy control systems. JCI organizes its operations into four business segments: Building Solutions (North America) - 38% of sales; Building Solutions (EMEA) - 15%; Building Solutions (Asia Pacific) - 11%; and Global Products – 36%.

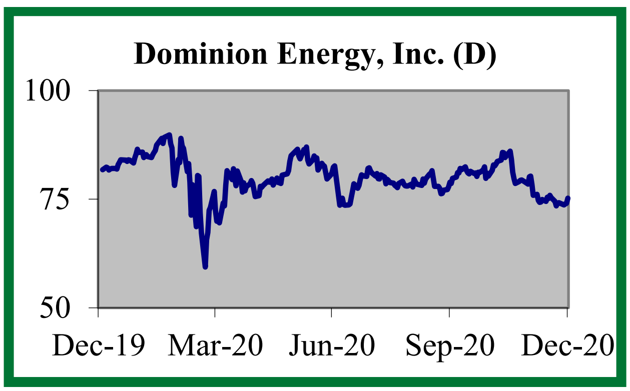
Johnson Controls has gone through a transformation over the last five years, during which it refocused its business on new, high-growth industrial technologies and moved away from several low-growth, legacy businesses. The most significant of these portfolio changes included the spin-off of its $17 billion automotive seating and interiors business in 2016, followed by its merger with Tyco International later that year in a $16.5 billion deal. The Tyco merger made JCI the global leader in smart building technologies, integrated infrastructure, and energy solutions. These strategic changes have also led to more consistent sales growth for JCI, as well as improved margins, cash flow, and profitability.

The company has experienced some near-term impacts of the coronavirus pandemic on sales, which were down 3% in the fourth quarter of 2020. Management has acted decisively, cutting costs by nearly $100 million and launching a new digital platform called OpenBlue, which allows customers to manage building operations using data analytics, artificial intelligence, and energy efficiency tools.

JCI's financial position is strong, characterized by robust free cash flow, rising earnings, and manageable debt. Total cash at the end of 2020 was $2 billion, compared to long-term debt of $7.8 billion. Free cash flow conversion was 115% for the year, which surpassed management's stated goal of converting 100% of earnings to cash flow.

Management has also shown itself to be shareholder friendly, committing to pay out at least 30% of earnings in dividends and buying back 6% of company shares last year. The shares currently yield 2.1% and are attractively valued at 19.9 times forward earnings, a discount to the broad market. Overall, we believe JCI will continue to benefit from the cyclical recovery of the global economy.

Dominion Energy, Inc. (D)



Source for chart and financials: Yahoo Finance and Morningstar. Past performance is not indicative of future results. Please see disclosures on page 8.

Price (12/31/2020)	$ 75.20	Forward P/E	18.7
Market Cap ($B)	$ 60.0	Price/Book	2.5
Dividend Yield	3.5%	Price/Sales	3.7

Dominion Energy, which we currently buy for our income portfolios, is one of the nation's largest regulated utility companies, serving more than seven million utility and retail energy customers primarily in Virginia, North Carolina, and South Carolina. The company's portfolio of assets includes 30,700 megawatts of electricity generation capacity and 10,400 miles of electric transmission lines.

In July 2020, Dominion announced that it would sell its gas transmission and storage business to Berkshire Hathaway Energy for $9.7 billion, furthering Dominion's shift to a higher-growth business model focused on regulated utilities and renewable energy. The deal closed late in the fourth quarter and yielded $4 billion of cash to the company and the assumption of $5.7 billion of debt by the buyer.

Dominion is now focused on investing in core projects like distribution and transmission lines and natural gas-fired power plants, as well as in transformational projects like solar and wind installations to support future growth. The company projects total growth capital expenditures of $26 billion through 2023. These projects should support average earnings growth of 5%-6% for the next several years. Analysts expect these wide-moat projects, defined as those with sustainable competitive advantages, to generate half of Dominion's earnings by 2025, with the balance coming from steady, regulated gas and electric utility operations in attractive growth and regulatory environments.

Dominion is financially stable. Management is committed to maintaining its investment grade credit rating by continuing to pay down long-term debt, which stood at approximately $27 billion at the end of 2020. Its debt-to-capital ratio is now 56% after the divestiture, which is in line with industry peers. In conjunction with the sale of its midstream gas assets, representing nearly 40% of its revenues and 20% of earnings, management announced a 33% cut in its dividend in December 2020, a move we believe to be prudent. The shares still yield a healthy 3.5%, and management expects the current $2.52 annualized dividend to grow at a 6% annual rate going forward.

Edgemoor Investment Advisors is an independent wealth management firm providing investment and financial planning advice to individuals, retirement plans, trusts, family foundations, and an equity mutual fund. We manage approximately $1.1 billion as of December 31, 2020 for our clients and focus on long-term capital appreciation, preservation of capital, and income generation through disciplined management of value-oriented equity and income portfolios. Please contact us if you would like more information.

Anne B. Baker
Senior Executive Administrator
(301) 543-8366
abaker@edgemoorinv.com

Philipp B. Bentley
Analyst and Assistant Trader
(301) 543-8369
pbentley@edgemoorinv.com

Timothy C. Coughlin, CFP®
Managing Director
(301) 543-8371
tcoughlin@edgemoorinv.com

Paul P. Meehan, CFA
Managing Director
(301) 543-8373
pmeehan@edgemoorinv.com

Thomas P. Meehan
President
(301) 543-8881
tmeehan@edgemoorinv.com

Sara R. Parker
Vice President
(301) 543-8881
sparker@edgemoorinv.com

Christine J. Potts
Senior Vice President
(301) 543-8881
cpotts@edgemoorinv.com

Zachary J. Shirilla
Analyst and Assistant Trader
(301) 543-8374
zshirilla@edgemoorinv.com

R. Jordan Smyth, Jr., CFA
Managing Director
(301) 543-8370
jsmyth@edgemoorinv.com

Gay S. Truscott, CFP®
Director
(301) 543-8375
gtruscott@edgemoorinv.com

Christine S. Xu
Assistant Relationship Manager
(301) 543-8361
cxu@edgemoorinv.com

7250 Woodmont Avenue, Suite 315
Bethesda, MD 20814
(301) 543-8881, (301) 543-8358 fax
www.edgemoorinv.com, www.edgemoorblog.com

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The S&P 500 index is an unmanaged market-capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. The MSCI ACWI ex USA Investable Market Index (IMI) is an unmanaged market-capitalized-weighted index of 6,472 large, mid, and small cap stocks from 22 developed and 24 emerging markets outside the United States. The index covers approximately 99% of equities outside the United States. The Bloomberg Barclays U.S. Aggregate Bond index is a broad-based, market-value-weighted index that measures the performance of the U.S. dollar denominated, investment-grade, fixed-rate, taxable bond market. Sectors in the index include Treasurys, government-related and corporate securities, mortgage-backed securities (MBS), agency fixed rate and hybrid ARM pass-through asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS). The S&P 500 index, MSCI ACWI Ex USA IMI index, and Bloomberg Barclays U.S. Aggregate Bond index are discussed for comparative purposes only. The comparisons have limitations because the indexes have volatility, investment, and other characteristics that differ from the investment strategies of Edgemoor. Further, it is not possible to invest directly in the indexes.

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