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First Quarter 2021 Market Summary

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First Quarter 2021 Market Summary

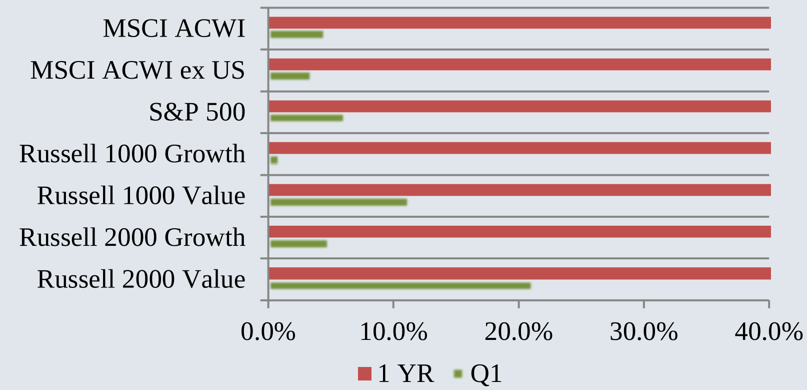
From a big picture perspective, the first quarter of 2021 followed a somewhat expected path. The economy continued to show improvement with significant progress on the vaccine rollout, which has increased the general public's comfort-level of a greater reopening of businesses and social settings. Congress passed another trillion dollar stimulus bill, while a large infrastructure bill is in the works. Equity markets ebbed and flowed during the quarter but ended firmly positive. However, while the broad indices indicate a smooth experience, there was plenty of turbulence beneath the surface during the quarter.

There were significant rotations in the equity and fixed income markets, particularly since the beginning of February. Interest rates climbed higher due to increased growth and inflation expectations, which led to negative returns for many bonds. Higher rates also further accelerated the shift within equities that had started in November when there were multiple positive vaccine efficacy announcements. Since then, investors have been looking forward to stronger economic growth that could potentially occur with public reopenings, and thus have faded the "stay-at-home" trade, which tended to benefit growth stocks. In broad terms, growth stocks weakened during the quarter, while value or cyclically-oriented stocks outperformed. This can be showcased by the performance in the Russell 1000 Growth versus the Russell 1000 Value. From February 2nd through quarter end, the Russell 1000 Growth was down 0.45%, including a 10% drawdown, while the Russell 1000 Value was up 11.06%. Despite pockets of upheaval, the market breadth is strong with a majority of stocks in an upward trend, which generally indicates a healthy market.

U.S. large company stocks, represented by the S&P 500 Index, were up 6.2% during the quarter. All sectors in the S&P 500 were positive, with the Energy and Financial sectors leading the way, up 30.9% and 16.0% respectively. U.S. small company stocks, represented by the Russell 2000 Index, were up 12.7% during the quarter, but were up more than 20% at one point. The Russell 2000 Index has a higher weighting in cyclical sectors compared to the S&P 500, which helped fuel the outperformance as these companies tend to lead in economic rebounds. International stocks, represented by the MSCI ACWI ex US Index, were up 3.5% during the quarter. We have started to see some leadership changes with value outperforming growth and small caps outperforming large caps. The historical relationship between international stocks and U.S. equities is also cyclical. The U.S. equity markets have outperformed international markets for 13 years. Thus, it is reasonable to expect a similar rotation in the future.

The Bloomberg Barclays U.S. Aggregate Bond Index, which represents a broad basket of bonds, was down 3.4% during the quarter as rising interest rates depressed bond prices. High yield and parts of the securitized market were among the few areas of positive returns. Treasuries, especially long-dated maturities, saw larger losses. The Fed has forecasted they are far from raising interest rates as they focus on full employment. Over the next few months, inflation is expected to increase, as the depressed prices at the beginning of 2020 create easy year-over-year growth comparisons. However, inflation data is expected to moderate later in the year. The significant amount of fiscal and monetary stimulus has caused angst in financial media outlets regarding inflation. It is natural to contemplate the destructive power of inflation; however, a permanent regime shift to a high inflationary environment is far from our current reality and will still be challenged by many deflationary forces.

Broad Market Index Returns
First Quarter 2021



Valuations in many asset classes remain elevated, as they are pricing in much of the expected future growth. However, the economic landscape is increasingly supportive. Recent economic activity data in the pandemic-affected services sector has increased significantly from its lows, including restaurant dining, hotel occupancy, and airline traffic. Retailers have been beating earnings expectations in recent weeks as stimulus is fueling spending. The increase in demand has led to many supply chain bottlenecks as the quick rebound was not forecasted by many companies, which has added to inflation concerns.

First Quarter 2021 Market Summary (continued)

The market is currently trying to weigh positives such as high expected earnings against incremental increases in inflation and interest rates and the potential for higher corporate taxes on the horizon.

This quarter was likely a challenging time to keep behavioral biases from revealing themselves, as the headlines ping-ponged between stories of exuberant speculation to fear of impending doom caused by the extrapolation of changes in short-term risks. With such a wide range of volatile opinions, each with their own agenda, it can be a test to maintain level-headedness. Everyone knows that “trees don’t grow to the sky” but that doesn’t stop some investors from believing. Likewise, fears are continually replaced. People have quickly pivoted from worries of a pandemic induced recession to concerns of speculation and bubbles and then on to permanently rising inflation.

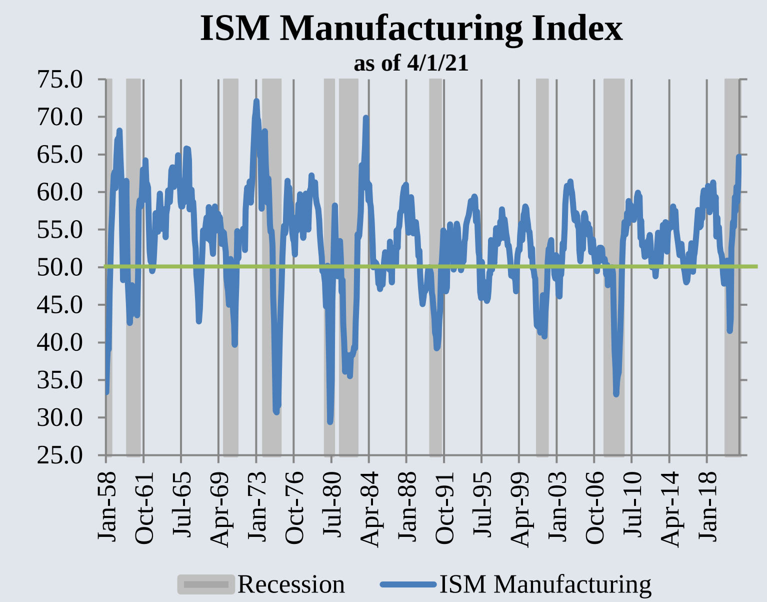
As always, it is important to focus on big picture goals and the process rather than short-term happenings. Steve Jobs was quoted saying “You can’t connect the dots looking forward; you can only connect them looking backwards. So you have to trust that the dots will somehow connect in your future”. The process cannot be sped up, no matter how attractive the proposition might seem. Exciting deals and opportunities can certainly capture the imagination. But trying to reach end goals earlier with shortcuts or the next “sure thing” can lead to less effective results. A long-term plan based on time tested strategies, including rebalancing to a strategic asset allocation, is not the most riveting narrative; however, it is often the most effective. To achieve goals, it is imperative to trust the process.

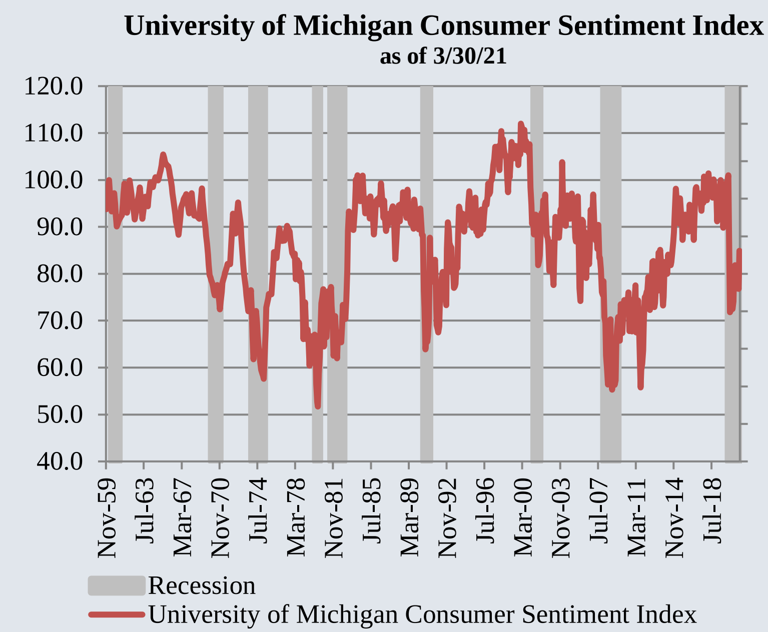
MACROECONOMICS

- The Bureau of Economic Analysis released the advanced estimate of first quarter 2021 real GDP, an annual rate increase of 6.4% from the preceding quarter. The increase in GDP was due to strong growth of personal consumption expenditures and government spending.
- GDP in 2021 is expected to continue to expand due to the vaccine rollout as the year progresses, economic restrictions are lifted and the influx of fiscal stimulus payments.
- The ISM Manufacturing Index accelerated higher during the quarter, finishing at 64.7 versus 60.7 in December. Typically, when the ISM Index is above 55 it is bullish and when it is below 45 it is bearish. The ISM Non-Manufacturing Index improved during the quarter and finished at 63.7 in March.
- In March, the Conference Board Leading Economic Index increased 1.3% month-over-month to 111.6. The index, which is a composite of leading employment, housing, manufacturing, and market indicators, has increased since April 2020 after falling significantly from January 2020 highs.
- The price of WTI Crude Oil was $59.19 at the end of March, which is 22.4% higher than $48.35 at the end of December. The price of Brent Crude Oil ended the quarter at $63.52, which is 24.0% higher than at the end of December. Many other commodities saw higher prices in the quarter as well.
- Inflation has increased over the past few months as the data reflects the weak prices from early 2020. Long-term inflation remains below the Fed's target. In March, headline CPI increased 2.6% year-over-year. Core CPI, which does not include food and energy, had a 1.6% increase.

CONFIDENCE METRICS

- Consumer confidence has shown improvement with the vaccine rollout and the reopening of parts of the economy.
- The University of Michigan Consumer Sentiment Index final reading for March was 84.9, which is higher than 80.7 in December.
- The Conference Board's Consumer Confidence Index March reading was 109.0, up meaningfully from 87.1 in December.



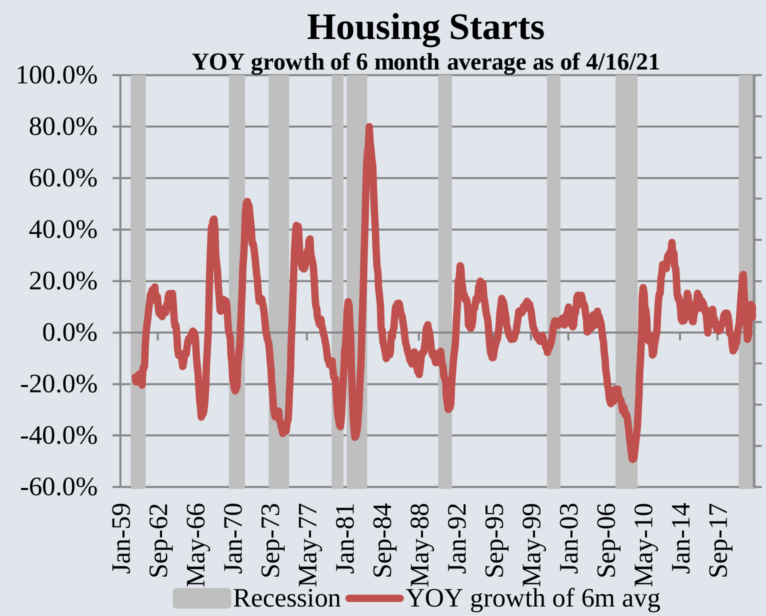


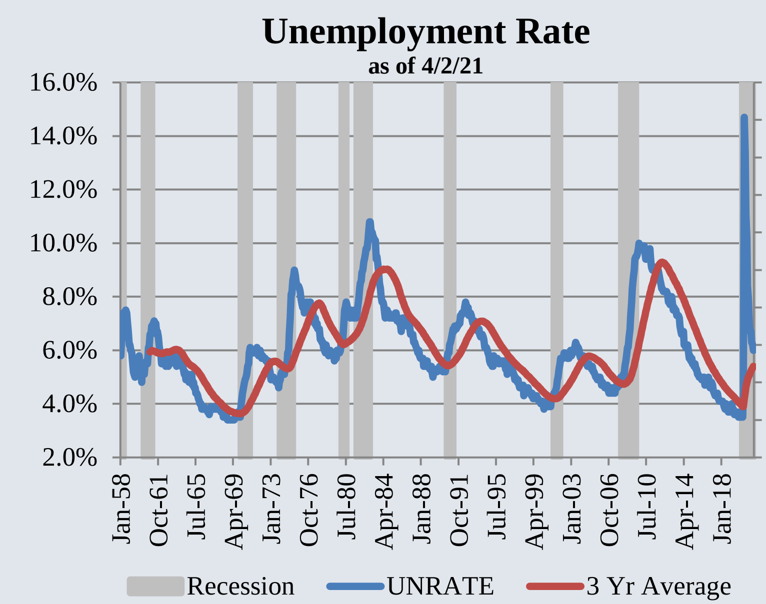
HOUSING

- The housing sector has been very strong over the past year with pent-up demand fueled by low interest rates and low inventory levels. Low mortgage rates should continue to support the sector.
- Preliminary existing home sales decreased slightly in the quarter, with a monthly average annualized rate of 6.30 million units, down from 6.66 million units in the fourth quarter. Unsold home supply remains at historic low levels.
- The preliminary existing home sale prices for the quarter were 16.3% higher than the levels of one year ago. Prices have been trending up since the beginning of 2012 and are currently at all-time highs, as constrained supply has boosted prices.
- New home sales were up significantly during the quarter on a year-over-year basis. Median new home prices were also higher during the quarter on a year-over-year basis.
- S&P Case-Shiller 20-City Home Price Index (seasonally adjusted) showed home prices rose over 11.9% year-over-year in February. Of the locations in the Index, home prices in many major cities in western states have risen the most over the past five years, while many major cities in eastern states have seen weaker growth. Housing trends will continue to shift as workforces become more mobile and millennials start buying homes.
- Housing starts continued their rebound. The March reading was the strongest since 2006. Housing development will have to continue to meet the enormous demand.

EMPLOYMENT

- The labor market has seen mixed data. While some jobs have come back in some areas, many temporary layoffs have turned into permanent losses. The unemployment rate continues to decline; however, there are still many people outside of the labor market that are not being counted. Nevertheless, employment trends continue to be positive.
- During the quarter, nonfarm payrolls averaged 539,000 jobs added per month.
- The unemployment rate decreased during the quarter to 6.0% in March from 6.7% in December.
- Initial Jobless Claims have been declining but remain at very high levels. Many of the jobless claims are in the restaurant, leisure, retail and education sectors.



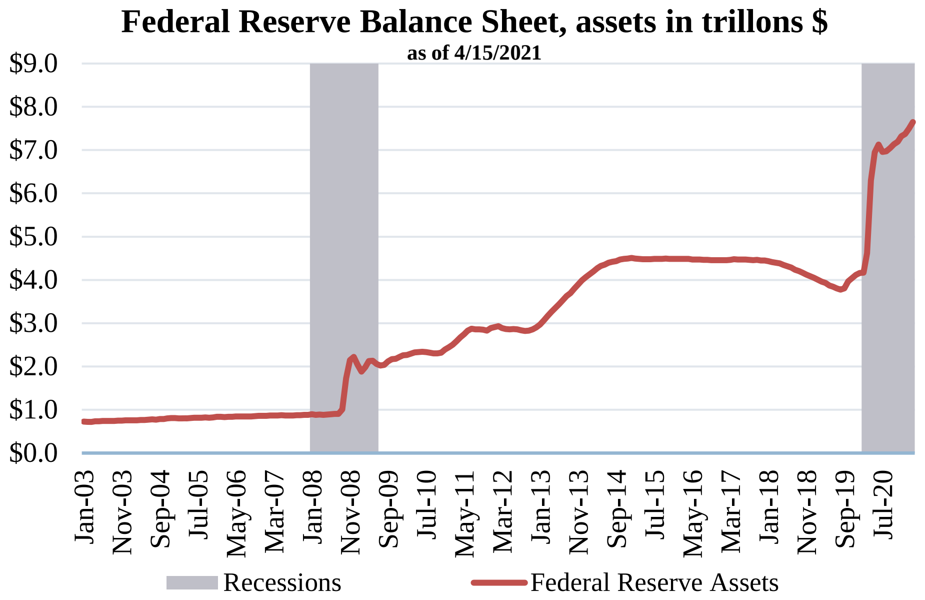


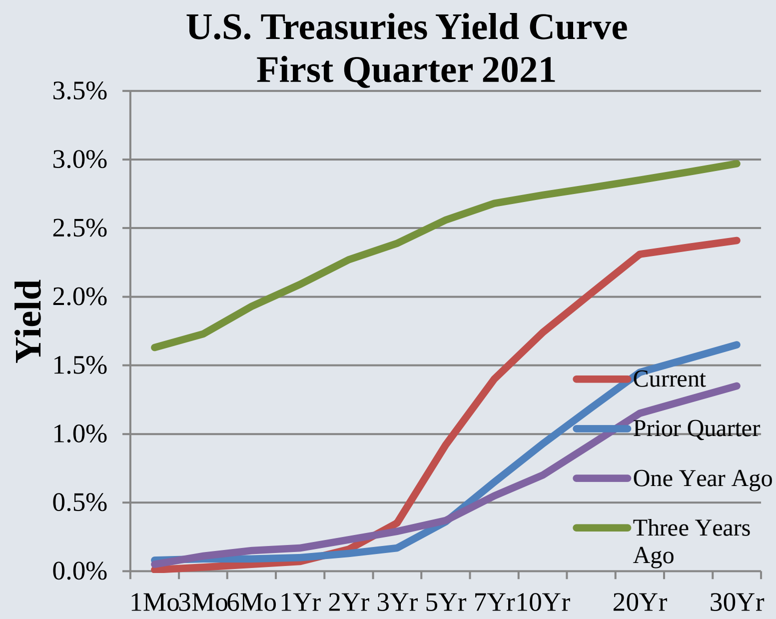
FED POLICY

- The Federal Open Market Committee (FOMC) kept the federal funds rate at a target range of 0.00% - 0.25% in March. The Fed will keep the fed funds rate low for an extended period of time.
- The Fed will continue with their asset purchases "until substantial further progress has been made toward the Committee's maximum employment and price stability goals". This guidance indicates that the Fed will remain accommodative for years before they increase interest rates.

FIXED INCOME

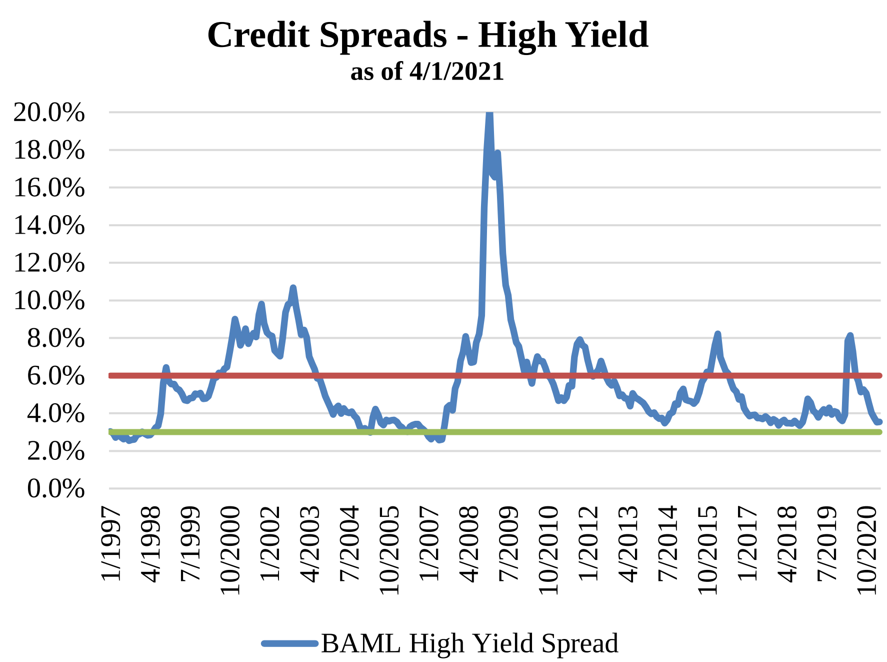
- During the first quarter, U.S. Treasury yields increased significantly across the intermediate and long-term parts of the curve as positive economic data has been released, rising concerns of inflation and technical factors.
- Short-term interest rates are controlled or heavily influenced by central banks, whereas long term interest rates are controlled by market forces and economic growth.

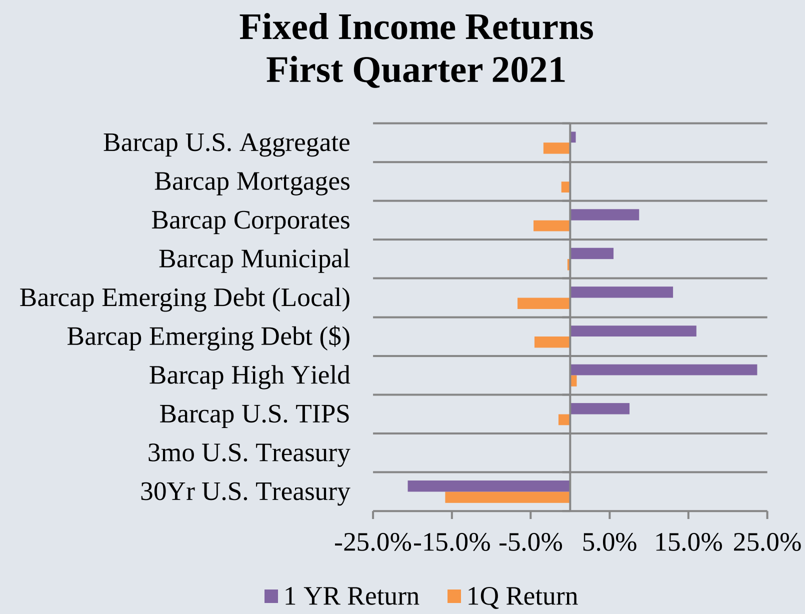


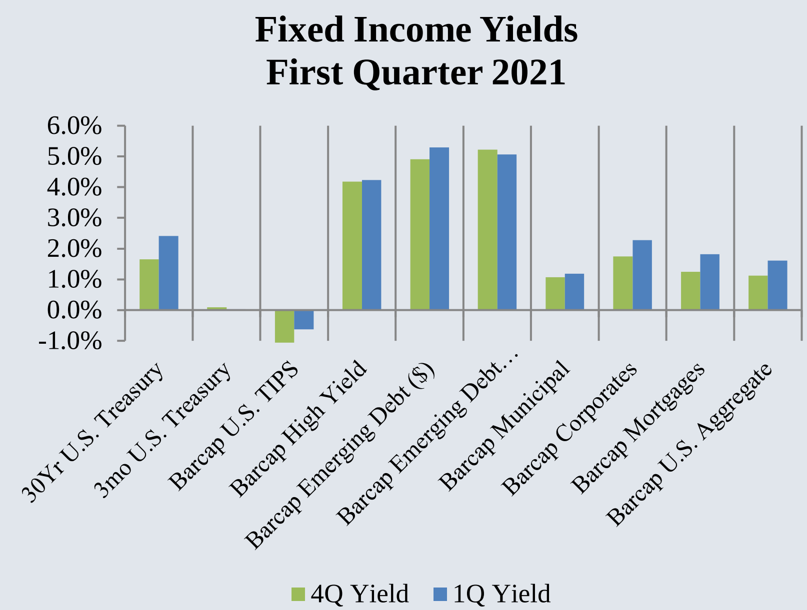


FIXED INCOME (continued)

- During the quarter, the Bloomberg Barclays U.S. Aggregate was down 3.37%, as the increase in interest rates caused negative returns. Sectors that are less influenced by interest rate risk, such as high yield, ABS, and floating rate bonds saw positive returns during the quarter as credit spreads tightened.
- Municipals performed better on a relative basis versus taxable bonds, due to high demand, low supply, federal support of municipalities and attractive tax-equivalent yield.
- Emerging market debt is one of the few sectors in which the yield is above 4% and valuations are near long-term averages.
- Fixed income will likely see lower returns in 2021 than in prior years as interest rates have risen from very low levels causing bond price declines. There is still more room for credit spread compression in certain areas of the bond market; however, sector and issue selection will play a bigger role in return differentials.



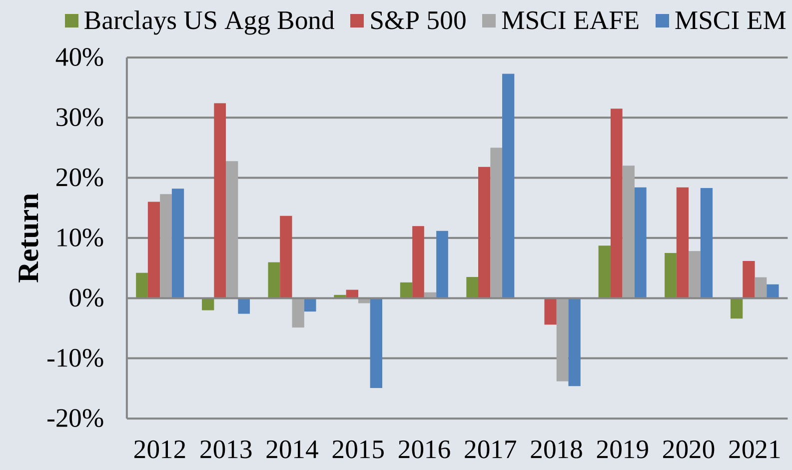




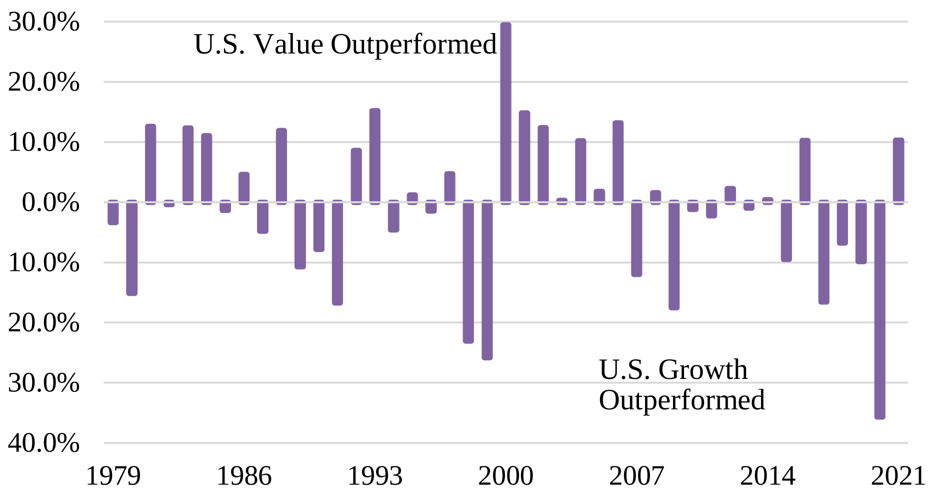
EQUITIES

- Equity markets had a very strong quarter as there is higher visibility in the economic rebound. There are many positives that are supporting the markets, including more fiscal stimulus coming, accommodative monetary policy, healthy consumer balance sheets and resilient consumer and business spending.
- The equity market continued its rotation that started in late 2020, with value and small caps outperforming relative to growth and large caps. Typically, value and small caps are more cyclical and thus have benefitted as investors focus on the reopening of the economy.
- Interest rates rose, which hurt high growth companies as their future cash flows are discounted at the higher rates. However, the cyclical rotation has expanded the market's breadth, which is healthy.
- Fiscal and monetary policy will likely continue to be drivers of asset returns in 2021. In addition, the headwinds from the pandemic will transition, in an unpredictable fashion, to the tailwinds of a vaccine roll-out.

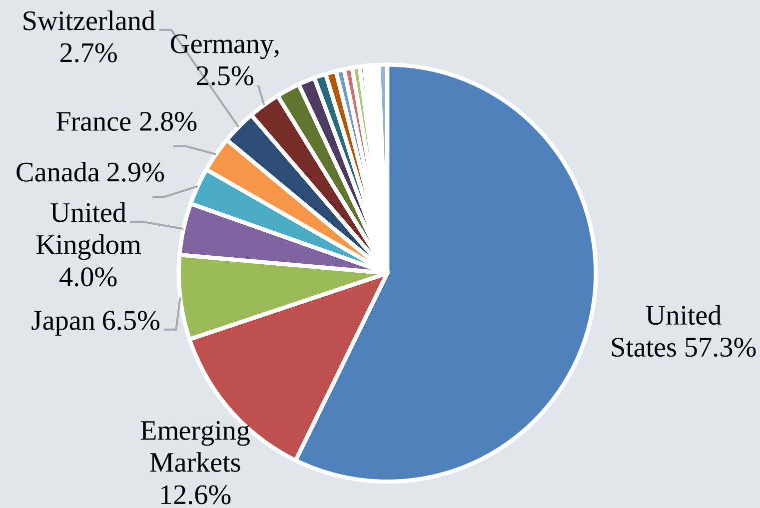
Equity & Fixed Income Market Annual Returns
(as of 3/31/2021)



U.S. Value vs. Growth Relative Equity Performance **(as of 3/31/21)**



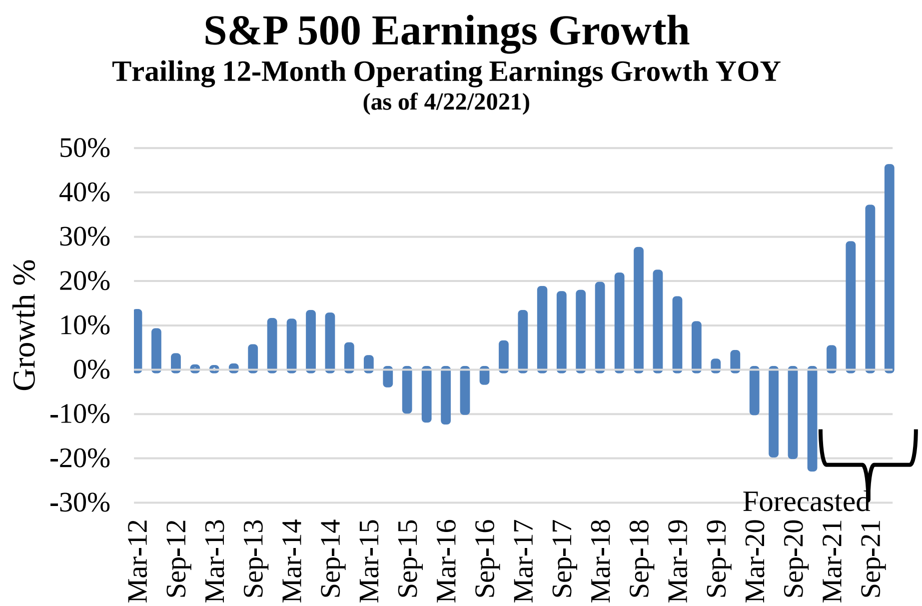
Country Weighting in MSCI ACWI
(as of 3/31/2021)

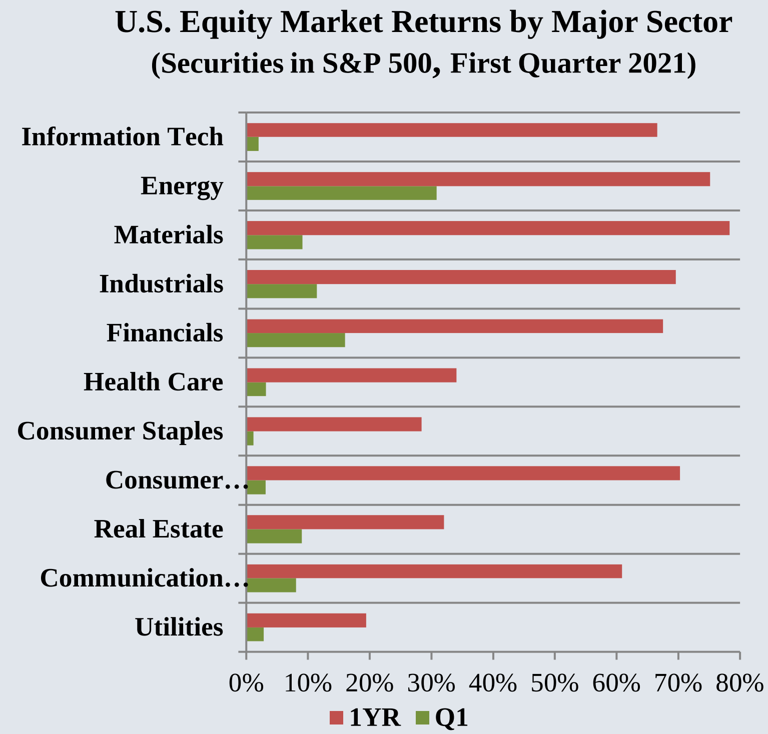


DOMESTIC EQUITIES

- The Russell 1000 Index, comprised of large and mid-capitalization stocks, posted a total return of 5.9% during the first quarter. All sectors were up during the quarter led by Energy and Financials. On a year-over-year basis, the Russell 1000 Index has increased 60.6%.
- Small capitalization stocks, as represented by the Russell 2000 Index, increased 12.7% during the first quarter. On a year-over-year basis, the index has increased 94.9%. Historically, small caps have led coming out of recessions.
- Commodity related equities had strong returns during the quarter with rising commodity prices.
- Earnings expectations continue to be revised higher. A headwind on the horizon is the likelihood of higher corporate taxes.
- Broad market valuations based on P/E have risen to highs last seen in the late 1990s, as markets have rebounded despite falling earnings. However, valuations across sectors and market caps are not uniform. Over the short-term, valuations tend to have little influence on returns, but over longer periods they tend to be more correlated.

First Quarter 2021 Returns			
	Value	Core	Growth
Mega Cap		6.4%	
Large Cap	11.3%	5.9%	0.9%
Mid Cap	13.1%	8.1%	-0.6%
Small Cap	21.2%	12.7%	4.9%
Micro Cap	29.4%	23.9%	16.9%

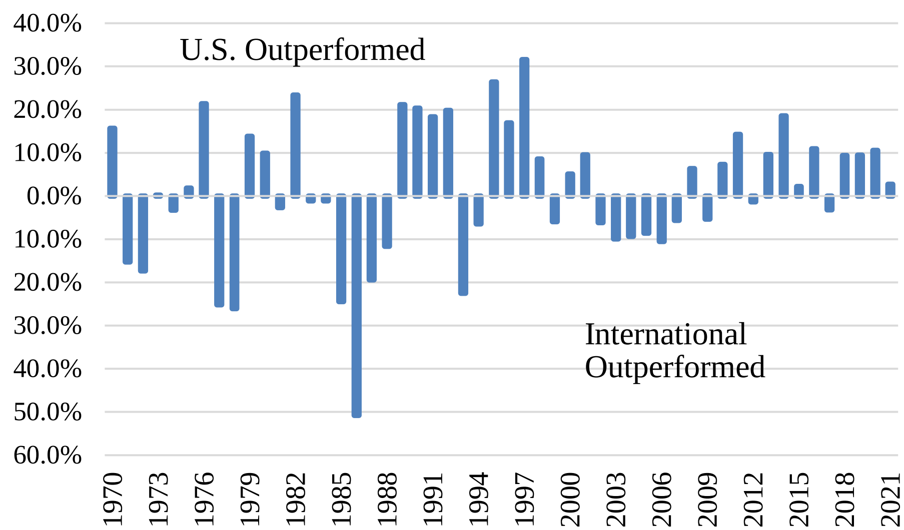




INTERNATIONAL EQUITIES

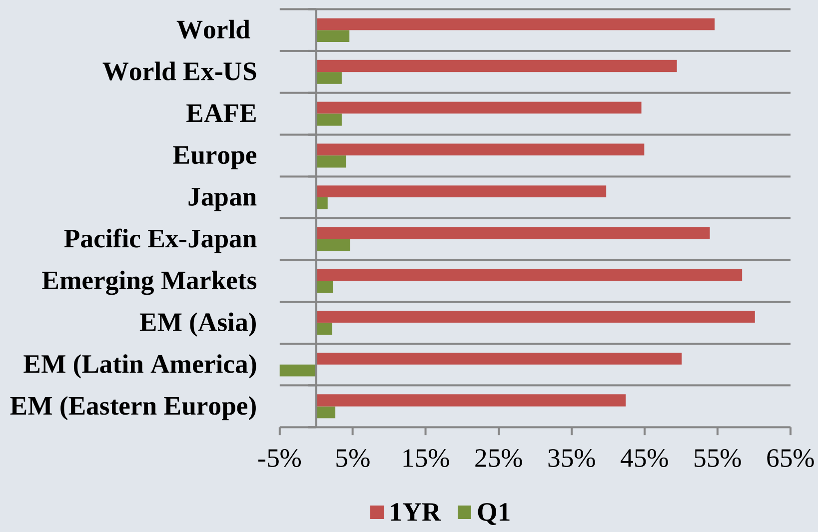
- Developed international stocks, as represented by the MSCI EAFE, were up 3.5% during the quarter. On a year-over-year basis, the EAFE is up 44.6%, performing worse than U.S. domestic equities.
- Emerging market stocks underperformed developed markets during the first quarter as the MSCI Emerging Markets Index rose 2.3%. On a year-over-year basis, emerging market stocks performed better than developed markets with a return of 58.4%.
- Global monetary policy remains highly accommodative and most major countries will likely see economic recovery later this year despite recent lockdowns due to rising COVID cases.
- The past few years have seen the rise of populism and de-globalization pressures. Going forward, global asset diversification may provide more benefit than it has over the previous decade. International equities may experience tailwinds as the global economy rebounds due to a weaker U.S. dollar and a higher weighting in cyclical companies than the U.S.

U.S. vs. International Equity Performance
(as of 3/31/21)

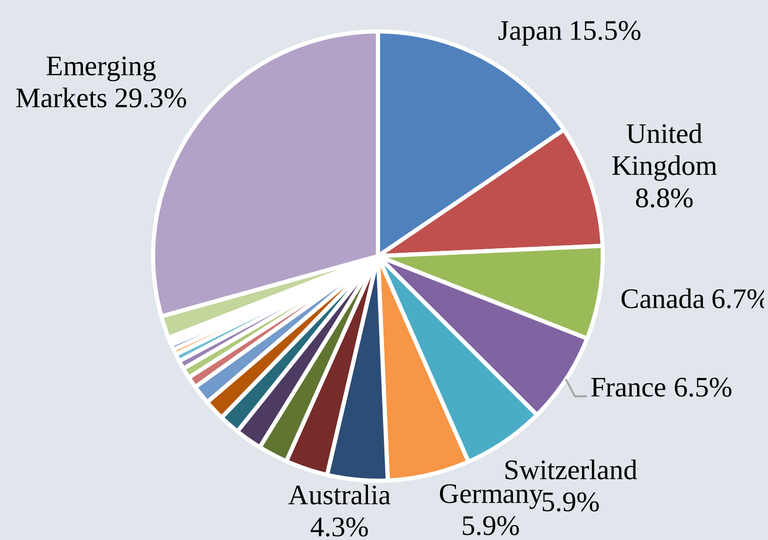


S&P 500 TR vs. MSCI EAFE NR

Non-U.S. Equity Market Returns
First Quarter 2021



Country Weighting in MSCI ACWI ex US
(as of 3/31/2021)



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