The Quarter in Review

March 31, 2021

1Q Returns

March 2021 was the best month for stocks since last November, capping off a decent 1Q to start the year. Despite ongoing concerns surrounding election results and dysfunction in our nation's capitol, the pro-cyclical reopening trade continued with financial markets focusing their attention on more and massive fiscal policy stimulus, easy monetary policy, positive vaccine developments, and better than expected 4Q earnings. It was the fourth quarter in a row of positive returns for stocks. Value outperformed Growth, and the DJIA returned an impressive +8.29% for the three-month period. The S&P 500 Index had a solid quarter delivering a +6.17% return, while the tech-heavy NASDAQ was up "only" +2.95% by comparison due to profit taking in some high-momentum and higher-valuation corners of the market. Non-U.S. equities delivered positive results as the MSCI EAFE and Emerging Markets indexes gained +3.60% and +2.34%, respectively. With yields starting to move higher, and bond prices exhibiting their inverse relationship with yields, investment grade fixed income was under pressure. The Barclays Intermediate Government/Credit Bond Index and the Barclays 5-Year Municipal Bond Index posted negative returns of -1.86% and -0.31%, respectively.

Covid-Era Fiscal Stimulus

When	What	Amount	% GDP
06-Mar-20	Coronavirus & Vaccine R&D	$8 Billion	0.0%
18-Mar-20	Paid Sick Leave & Un. Claims	$192 Billion	0.9%
27-Mar-20	CARES ACT	$1.7 Trillion	7.9%
21-Apr-20	Payroll Protection Plan	$483 Billion	2.2%
27-Dec-20	Phase 4	$900 Billion	4.2%
11-Mar-21	American Rescue Plan	$1.9 Trillion	8.8%
Proposed	*American Jobs Plan*	*$2.29 Trillion*	*10.7%*

Source: Strategas Research Partners

Massive 1-Year Rally…Now What?

March 23rd of last year marked the bottom of the stock market in this current cycle. The one-year return off that bear market low was an incredible +74.9% According to analysis by Strategas Research Group, the only historical comparisons that even come close are the first twelve months off the 1982 low (+58%), and the first twelve months off the 2009 low (+69%). What do stocks typically do after such huge runs? We would certainly expect the next twelve months to be different, perhaps more challenging, and more in-line with historical averages. Based on the last ten similar episodes in market history dating back to 1957, the average gain in the year following the bear market low was +42.2%. In the second year, the average gain was an additional +12.7%, with an average drawdown during that second year of -9.8%. With the seasonally weak period for stocks on the horizon, "sell in May and go away", we are mindful to not be too optimistic in the near term despite many positive fundamental underpinnings.

Economy – Build Back Better

On the last day of the quarter, President Biden announced his American Jobs Plan. It is a roughly $2.29 trillion package to invest in traditional projects such as roads and bridges alongside tackling climate change and boosting human services like elder care. The plan includes $621 billion to rebuild our country's traditional infrastructure, as well as an historic $174 billion investment in the electric vehicle market that sets a goal of a nationwide charging network by 2030. There is $213 billion provided to build and retrofit affordable and sustainable homes along with hundreds of billions to support U.S. manufacturing, bolster the nation's electric grid, enact nationwide high-speed broadband and revamp the nation's water systems to ensure clean drinking water. Biden's infrastructure initiative would give the federal government a bigger role in the U.S. economy than it has had in generations, accounting for more than 20% or more of annual output. If the American Jobs Act is passed as proposed, the total amount of Covid-Era fiscal stimulus passed in the past thirteen months would total a whopping $7.47 trillion, more than one third of our country's $20.93 trillion GDP in 2020. The plan is projected to create 2.7 million jobs over the next ten years, and much of what is proposed should have bipartisan support. Still, many pundits are arguing that the amount of deficit spending is perilous, especially with much of the COVID-Era bills not focusing on actual coronavirus relief or building roads and bridges. We, too, are concerned with the pace of spending as a percentage of GDP. It means there will be a lot of U.S. Treasury Bonds to sell in the coming years.

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All this stimulus, coupled with reopening hopes, is contributing to some enthusiastic assumptions for GDP growth in 2021. The International Monetary Fund (IMF) recently raised its forecast for the growth rate of GDP in the U.S. to +6.4% in 2021, after a decline of -3.5% in 2020. Wall Street Economists are equally optimistic. According to FactSet the current mean estimates for U.S. GDP from this group is +5.9%, and rising. for 2021. Based on recently released data, we believe the actual number will be higher, notwithstanding potential headwinds from rising interest rates and proposed tax increases. This boom is not just within our borders. Partly in response to U.S. fiscal stimulus and vaccinations, the (IMF) is predicting global GDP growth of +6% in 2021, the highest in forty years.

In March, U.S. private employers added the most monthly jobs since last summer, signaling that a pickup in Covid-19 vaccinations and business re-openings are encouraging hiring. Non-farm payrolls surged by 916,000 during the month, way more than the expected figure of 660,000. In addition, according to U.S. Labor Department, February data was revised up to a 468,000 gain, from the original estimate of 312,000.

Other bellwether economic indicators we monitor have also recently ticked higher in March. The Conference Board's Consumer Confidence Index rose to 109.7, its highest level in a year, beating expectations by nearly 14 points. Also,

Economic Growth vs. The Stock Market

Real GDP growth and S&P 500 returns since 1930

Real GDP Growth	S&P 500 Average Annual Returns
ABOVE 8%	15.5%
ABOVE 7%	16.1%
ABOVE 6%	12.7%
ABOVE 5%	10.0%
ABOVE 4%	11.5%

TABLE: BEN CARLSON • SOURCE: BEA FORTUNE

Source: Bureau of Economic Analysis (BEA), Fortune

the widely-followed Institute for Supply Management (ISM)'s Non-Manufacturing Index, which measures service sector activity, registered an all-time high of 63.7 in March, 8 points higher than February's reading. Not to be outdone, the ISM Manufacturing Index, specific to factory activity, hit a 37-year high of 64.7. These data are not only proof that our economy is in the midst of a resuscitation, but also that current optimistic forecasts may be too low.

Outlook

Based on quarter-end data from FactSet, the current forward 12-month P/E ratio for the S&P 500 is 21.9x. Still not as high as the record 24.1x level set in 4Q 1999, but well above its five-year average of 17.8x. 1Q 2021 earnings season is upon us, and the estimates are robust. According to FactSet, the expected earnings growth rate for 1Q 2021 is +23.8%. If that number is realized, it would mark the highest year-over-year growth rate reported by the S&P 500 Index since 3Q 2018.

96% of stocks in the S&P 500 Index are above their 200-day moving average. In layman's terms this means that market breadth is broad. This is one of the best readings since late 2009. While it suggests the market could be overbought and that stocks are fully valued, we do not believe it suggests we are near a top. Major market tops rarely develop from this condition. Importantly, there are no signs of stress in the credit markets. You can get corrections from here, which we would expect, but major tops are rare when participation is this broad.

Due to valuations and other obvious headwinds, we would not be surprised if stocks were range bound for periods in 2021, but deliver positive returns for the full year. This is precisely what happened after big market bounces off the aforementioned lows in both August 1982 and March 2009. We have been optimistic regarding corporate earnings, vaccination rollouts, and re-opening prospects for months. The recent economic data bolsters our confidence despite the amount of fiscal spending, potential tax increases, and the threat of rising interest rates and inflation on the horizon. We will be paying close attention to messaging from Fed Chair Powell and Treasury Secretary Yellen for clues on potential stresses to the economy and markets.

At the risk of being repetitive, we continue to have faith in the power of accommodative policy, and the old mantra "don't fight the Fed", cannot be underestimated. Based on this alone, we continue to favor equities over fixed income. We remain committed to being a capable steward of our clients' assets, diligent in our pursuit of competitive risk-adjusted returns, and in constant pursuit of identifying quality growth opportunities while carefully constructing portfolios.

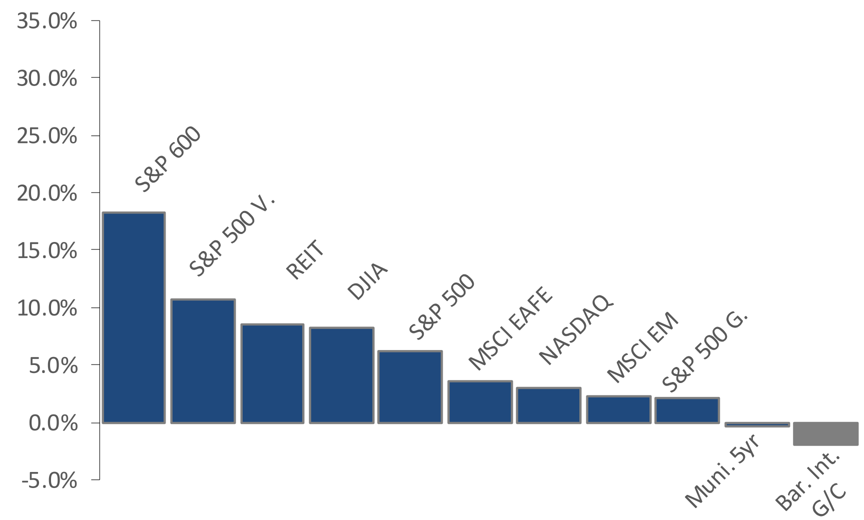
Market Review

March 31, 2021

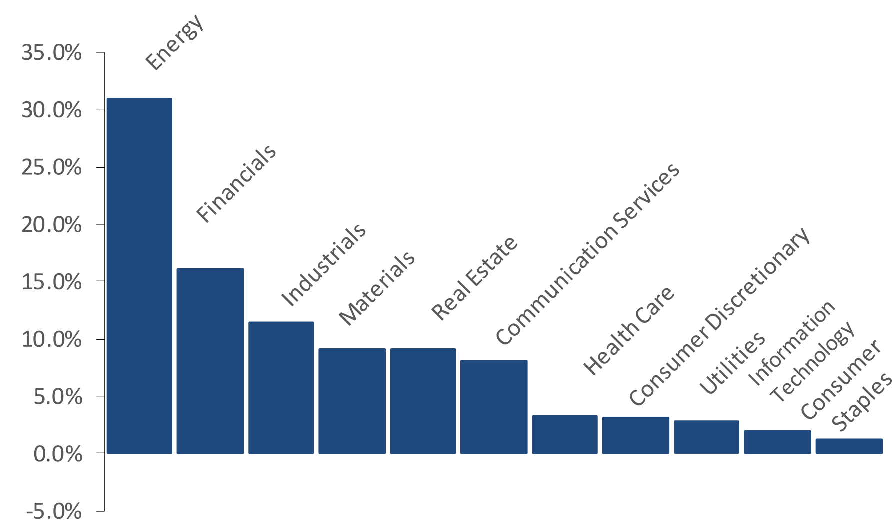
Ranked by 1st Qtr Returns	Jan	Feb	Mar	Qtr	YTD
S&P 600 (Small Cap)	6.29%	7.65%	3.33%	18.24%	18.24%
S&P 500 Value	-1.58%	5.92%	6.26%	10.77%	10.77%
NAREIT All REIT	-0.16%	3.06%	5.43%	8.48%	8.48%
DJIA	-1.95%	3.43%	6.78%	8.29%	8.29%
S & P 500	-1.01%	2.76%	4.38%	6.17%	6.17%
MSCI EAFE (International)	-1.06%	2.26%	2.40%	3.60%	3.60%
NASDAQ Composite	1.44%	1.01%	0.48%	2.95%	2.95%
MSCI Emerging Markets (EM)	3.09%	0.77%	-1.49%	2.34%	2.34%
S&P 500 Growth	-0.51%	0.00%	2.64%	2.12%	2.12%
Barclays Cap Muni Bond - 5 Year	0.33%	-1.08%	0.45%	-0.31%	-0.31%
Barclays Int G/C (Bond Ind)	-0.28%	-0.82%	-0.78%	-1.86%	-1.86%

U.S. Industry Groups	Jan	Feb	Mar	Qtr	YTD
Energy	3.79%	22.66%	2.79%	30.85%	30.85%
Financials	-1.67%	11.49%	5.80%	15.99%	15.99%
Industrials	-4.30%	6.89%	8.91%	11.41%	11.41%
Materials	-2.38%	3.87%	7.58%	9.08%	9.08%
Real Estate	0.53%	1.54%	6.81%	9.02%	9.02%
Communication Services	-1.29%	6.18%	3.13%	8.08%	8.08%
Health Care	1.42%	-2.11%	3.92%	3.18%	3.18%
Consumer Discretionary	0.41%	-0.93%	3.65%	3.11%	3.11%
Utilities	-0.92%	-6.12%	10.51%	2.80%	2.80%
Information Technology	-0.92%	1.21%	1.69%	1.97%	1.97%
Consumer Staples	-5.17%	-1.41%	8.19%	1.15%	1.15%

First Quarter Index Returns



First Quarter Industry Group Returns



Source: FactSet