

Observations

A highly accommodative monetary policy, aggressive fiscal packages, and a surprisingly rapid vaccination rate propelled risk assets in the first quarter of 2021. The S&P 500 gained 6.2% over the quarter, while the S&P benchmark has now risen 53.7% over the past four quarters, the highest 4-quarter surge since the 1930s. Value stocks had their best quarter in twenty years and small cap stocks outperformed large and mid-cap stocks by wide margins. In the fixed income market, 10-year Treasury yields moved on an unprecedented upward trajectory.

Economic Overview

The Federal Reserve Bank of Atlanta GDPNow Model projects real GDP growth of 6.0% for the first quarter, up from the 4.3% growth rate experienced during the fourth quarter of 2020.

The U.S. economy gained approximately 1.7 million jobs over the first quarter, while the unemployment rate fell from 6.7% to 6.0%. Weekly jobless claims followed a downward trend but remain elevated relative to historical levels.

The U.S. Consumer

The Conference Board Consumer Confidence Index surged during March to 109.7, up from 90.4 at the end of February. An estimated \$2 trillion of excess savings in the U.S. could promote spending this year as the country continues to reopen, increasing economic momentum even further.

The S&P CoreLogic Case-Schiller Index jumped 11.2% year over year in January. Mortgage rates crept upwards during the quarter, eclipsing 3% in March. Median home prices reached an all-time high of \$370,000, up 15.6% compared to last year. An incoming stream of first-time home buyers this year could contribute to a tighter housing market.

The Federal Reserve

The Federal Reserve has projected the Fed Funds

Rate to remain around 0% in the near term, up until the beginning of 2023. The Fed will aim to achieve inflation moderately above 2%, in order to average 2% over time. While the Federal Reserve expects inflation to rise to well over 2% this year, the central bank believes that the inflation hike will be transitory and remains relaxed toward inflation risk.

Markets Overview

Equity Markets

The S&P 500 posted a solid quarterly return of 6.2%, while the S&P benchmark has surged 53.7% over the past four quarters, the highest four quarter return of the index since the 1930s. Each of the eleven primary sectors of the S&P posted positive returns on the quarter.

Value stocks outpaced Growth stocks across all three market capitalization tiers during the first quarter, while small cap stocks beat intermediate and large-cap stocks by significant margins.

With a 7.7% gain, Developed Markets outpaced both the S&P 500 and Emerging Markets (4.0%) in local currency terms. In U.S. Dollars, Developed Markets and Emerging Markets gained 3.5% and 2.3%, respectively. Value posted significantly higher returns than Growth in international markets.

Fixed Income Markets

Long-term Treasury yields are on an unprecedented upward trajectory, with the 10-year yield increasing by 82 basis points to 1.74% during the first quarter alone. Both the Treasury yield curve and the Municipal yield curve steepened substantially in quarter one.

The Bloomberg Barclays U.S. Aggregate Index dropped by 3.6% and Investment Grade Corporates fell by 4.6%, their lowest performance since the Global Financial Crisis. Leveraged loans generated returns of 178 bp and Bloomberg Barclays High Yield returned 0.9%. Investment grade corporate and EMD sovereign spreads remained unchanged from last

quarter and tighter than long term averages. High yield debt tightened, with spreads on U.S. junk bonds at their lowest point since 2007.

Real Assets

Commodities experienced a strong first quarter. The production-weighted S&P GCSI gained 14.2% and the equal-weighted Reuters/Jefferies CRB Index returned 10.2%. Crude oil soared to a 22.8% gain and industrial metals returned 7.5%. Gold and silver, however, declined 9.8% and 7.2% respectively.

The greenback appreciated during the quarter, with the U.S. Dollar Index (DXY) rising 3.74% despite record twin deficits (trade + fiscal).

Outlook

We expect the pro-risk sentiment of the first quarter to continue over the intermediate term driven by ample stimulus (fiscal + monetary) and widespread vaccine deployment globally. Economic fundamentals remain supportive for risk assets and data releases are justifying the optimism. While investors should expect routine pullbacks (<10%) in response to short-term overbought conditions and extreme market optimism, the intermediate-term trend should remain intact for risk assets globally.

Charts of the Quarter

Asset Class Performance MTD, QTD, YTD - Total Return (%) as of 03/31/2021

Domestic					Global				
ETF	Description	MTD	QTD	YTD	ETF	Description	MTD	QTD	YTD
Equity					Intl				
SPY	S&P 500	4.54	6.35	6.35	EFA	MSCI EAFE	2.51	3.99	3.99
DIA	DJIA	6.92	8.45	8.45	EEM	MSCI EM	-0.73	3.23	3.23
QQQ	Nasdaq 100	1.71	1.84	1.84	BKF	BRIC	-3.45	0.94	0.94
IJH	S&P 400	4.71	13.54	13.54	FM	Frontier	2.18	4.02	4.02
IWR	Russell Mid Cap	2.72	8.13	8.13	EFG	MSCI EAFE Growth	1.04	-0.45	-0.45
IJR	S&P 600	3.53	18.39	18.39	EFV	MSCI EAFE Value	3.51	7.99	7.99
IWM	Russell 2000	1.39	12.90	12.90	GWX	Intl Small Cap	3.06	5.54	5.54
Style					Country				
IWD	Large Value	6.00	11.29	11.29	ASHR	China	-6.49	-3.59	-3.59
IWF	Large Growth	1.77	0.94	0.94	EWJ	Japan	0.44	1.42	1.42
IWS	Mid Value	5.33	13.13	13.13	EWQ	France	2.83	4.72	4.72
IWP	Mid Growth	-1.82	-0.52	-0.52	EWG	Germany	4.47	5.26	5.26
IWN	Small Value	5.45	21.34	21.34	EWZ	Brazil	4.86	-9.77	-9.77
IWO	Small Growth	-2.84	4.98	4.98	PIN	India	4.06	6.12	6.12
RSP	S&P 500 Equalweight	6.05	11.58	11.58	EWU	UK	3.10	6.90	6.90
Sectors					Fixed Income				
XLY	Cons Disc	4.46	4.70	4.70	SHY	1-3 Yr Treasuries	-0.06	-0.09	-0.09
XLP	Cons Staples	8.49	1.82	1.82	IEF	7-10 Yr Treasuries	-2.39	-5.73	-5.73
XLE	Energy	2.98	30.83	30.83	TLT	20+ Yr Treasuries	-5.24	-13.92	-13.92
XLF	Financials	5.86	16.02	16.02	AGG	Aggregate Bond	-1.15	-3.37	-3.37
XLV	Health Care	4.02	3.26	3.26	TIP	TIPS	-0.26	-1.68	-1.68
XLI	Industrials	8.99	11.52	11.52	HYG	High Yield	1.21	0.58	0.58
XLB	Materials	7.59	9.31	9.31	BKLN	Bank Loans	-0.04	0.17	0.17
XLK	Technology	1.83	2.36	2.36	FLTR	IG Floating Rate	0.18	0.49	0.49
XLC	Communications	2.62	8.84	8.84	EMB	EM Debt \$	-0.73	-5.47	-5.47
XLRE	Real Estate	6.80	9.08	9.08	EBND	EM Debt Local	-2.73	-6.73	-6.73
XLU	Utilities	10.55	2.90	2.90	Currency				
Factor					FXB	Pound	-1.11	0.70	0.70
SPMO	Momentum	1.65	0.36	0.36	FXE	Euro	-2.89	-4.24	-4.24
SPLV	Low Volatility	7.03	3.86	3.86	FXJ	Yen	-3.77	-6.89	-6.89
SPHQ	Quality	4.16	5.62	5.62	Commodity				
SPHB	High Beta	4.28	22.74	22.74	DBC	Commodities	-0.72	12.99	12.99
VIG	Dividend Growth	6.03	4.56	4.56	DBA	Agriculture	-2.08	4.96	4.96
Volatility					USO	Oil	-1.89	22.78	22.78
VXX	Short-term Vol	-28.88	-32.10	-32.10	UNG	Natural Gas	-7.17	4.13	4.13
VIXM	Mid-term Vol	-15.11	-4.47	-4.47	GLD	Gold	-1.14	-10.32	-10.32
ZIVZF	Inverse Vol	0.00	0.00	0.00	GDX	Gold Miners	4.40	-9.77	-9.77
Specialty					JJC	Copper	-2.76	12.70	12.70
PBP	S&P BuyWrite	4.53	5.83	5.83	COPX	Copper Miners	-3.84	17.13	17.13
PUTW	S&P PutWrite	4.17	5.82	5.82					

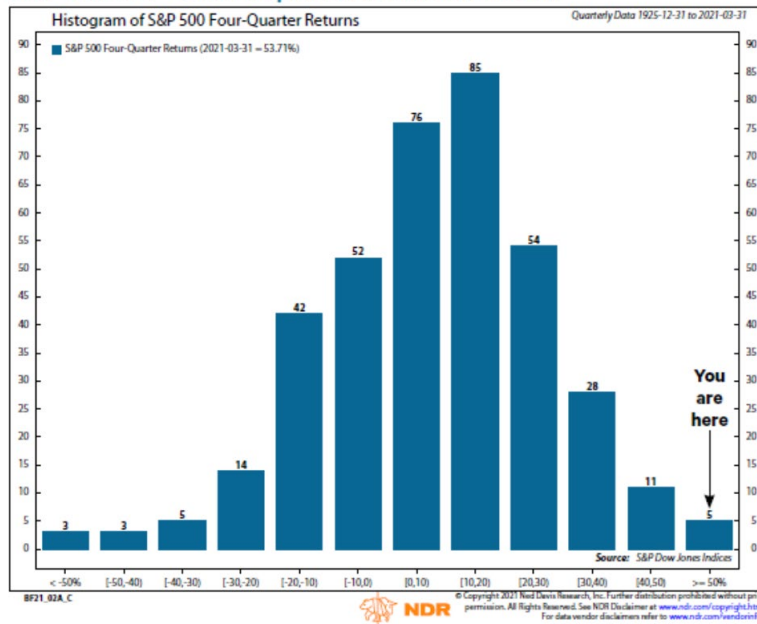
Charts of the Quarter

Increasing Bond Yields Don't Necessarily Cause Equities to Drop

TROUGH	PEAK	US 10-Year Treasury Yield (%)			S&P 500		
		At Trough	At Peak	Change (ppt)	At Trough	At Peak	Change
Oct 15, 1993	Nov 07, 1994	5.19	8.05	2.86	470	463	-1.4%
Jan 18, 1996	Jul 05, 1996	5.53	7.06	1.53	608	657	8.1%
Oct 05, 1998	Jan 20, 2000	4.16	6.79	2.63	989	1446	46.2%
Jun 13, 2003	Jun 12, 2007	3.13	5.26	2.13	989	1493	51.0%
Dec 18, 2008	Apr 05, 2010	2.08	4.01	1.93	885	1187	34.1%
Jul 25, 2012	Dec 31, 2013	1.43	3.04	1.61	1338	1848	38.2%
Jul 05, 2016	Nov 08, 2018	1.37	3.24	1.87	2089	2807	34.4%
Aug 04, 2020	Mar 19, 2021	0.52	1.74	1.22	3307	3913	18.3%

S&P 500: One of the Best 4-Quarter Rallies in History

S&P 500's 4th-best 4-quarter return on record





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