

April 2021

First Quarter Market Update

The recovery trade was alive and well in the first quarter, with value-oriented sectors significantly outperforming their growth counterparts on a relative basis. Small Cap Equity (represented by the Russell 2000 Index) led all major indices, gaining 12.70% during the period, while the S&P 500 gained 6.17%. International equities ended the period in positive territory with Developed International Equity, represented by the MSCI EAFE gaining 3.60%, and Emerging Markets Equities (represented by the MSCI EM Index) gaining 2.34%. Inflation concerns weighed on fixed income markets (represented by the Bloomberg Barclays Aggregate Bond Index) which declined by -3.37% for the period.

The Great Reflation

After facing significant adversity in the opening months of the Covid-19 pandemic, cyclical asset classes began showing signs of life in the fourth quarter of 2020. This trend carried on into Q1 as small cap and value equities continued their run of strong performance on the back of increased optimism surrounding the accelerating vaccine rollout in the United States. We feel that this relative strength still has legs and is supported by reasonable valuations and pent-up consumer demand. The personal savings rate has climbed significantly during the pandemic as lockdowns have limited consumers' ability to spend on traveling, dining out, and other recreational activities. We believe that this pent-up savings and demand will provide a tailwind for cyclical equities through the summer of 2021 as consumers seek to unwind as lockdowns end, and travel restrictions become less prohibitive.

It should be noted that rising growth expectations are often also coupled with rising concerns about runaway inflation. This was evident in the second half of Q1 as medium- and long-term interest rates rose, and fixed income and growth-oriented securities experienced volatility. On the surface, these concerns are worthy of consideration. The US Congress has provided an unprecedented level of fiscal stimulus over the past 12 months, and the Federal Reserve has remained dovish through a policy of low interest rates and asset purchases. Additionally, excess demand for goods and services that were limited by pandemic lockdowns is likely to lead to an increase in prices. While we agree that these factors will lead to inflationary pressure in the near term, we believe the effects are transitory and feel that "reflation" (i.e., a return to pre-pandemic trend) is a better characterization of the forces at work. While optimism and earnings growth expectations are high currently, it is important to remember the context: these growth expectations are based on the low hurdle rate caused by the poor economic conditions of 2020. For example, in 2020, US Real GDP declined 3.5% (trend GDP growth is roughly 2.5% annualized). This means that a Real GDP growth rate of almost 6% is necessary in 2021 to bring in line with the pre-pandemic trend. While a one-time, short-term recovery growth rate of 6% is not out of the question, we do not believe the pandemic has created any structural changes that would enable this level of growth to continue over the long-term. For this reason, we expect GDP growth to moderate over the long term as it returns to its' pre-pandemic trend, and we are not currently anticipating the type of economic "overheating" associated with a sustained spike in inflation.

As we cross the one-year mark since the peak drawdown in 2020, the corresponding recovery in global equities provides a stark reminder on why investors should remain focused on their long-term goals and attempt to limit the impact of emotions on investment decisions. Investors who remained disciplined and invested at the time of "peak fear" in March of 2020 have been rewarded handsomely as major equity indexes have gained an average of 82.09%, with the S&P 500 gaining 75.40% and the Russell 2000 gaining 121.79%. Although the fundamentals of the economic recovery within the United States look strong, other parts of the globe (particularly Europe and developing nations) are facing significant difficulty with securing and administering vaccine doses. While we are constructive on global equities, we acknowledge that we are not out of the woods yet and could see periods of heightened volatility as the recovery continues. We would encourage investors with diversified portfolios and invested in multiple asset classes to focus on their goals and rebalance back to their targeted asset allocation that is designed to match their time horizons and risk tolerances. If your situation has changed, or if you would like to speak to one of our advisors, we would be happy to connect with you at your convenience.

FINITY GROUP, LLC

4380 S Macadam Avenue • Suite 245 • Portland, OR 97239

Index	Closing Price: 3/31/2021	Closing Price: 12/31/2020	Q1 2021 Return	2021 YTD Return	Trailing 12 Months
S&P 500	3,972.89	3,756.07	6.17%	6.17%	56.35%
S&P 500 Value	1,395.62	1,267.18	10.77%	10.77%	50.37%
S&P 500 Growth	2,626.55	2,577.22	2.12%	2.12%	59.43%
Russell 2000	5,518.55	4,908.01	12.70%	12.70%	94.85%
Russell 2000 Value	8,661.25	7,174.97	21.17%	21.17%	97.05%
Russell 2000 Growth	9,259.27	8,836.65	4.88%	4.88%	90.20%
MSCI EAFE	2,208.32	2,147.53	3.60%	3.60%	45.15%
MSCI EM	1,316.43	1,291.26	2.34%	2.34%	58.92%
BBgBarc US Agg Bond	2,311.35	2,392.02	-3.37%	-3.37%	0.71%

Written by Finity Group

Index & other data provided by Bloomberg.com, MSCI.com, S&P Dow Jones, Morningstar, Factset, Goldman Sachs & JP Morgan. You cannot invest directly in an index. This information should not be construed as investment advice regarding specific ETF's, funds or stocks in particular, nor should it be deemed as a recommendation to purchase or sell a security. Past performance is not a guarantee of future investment results. Diversification and asset allocation strategies do not assure profit or protect against loss. This report is written solely for clients of Finity Group LLC, and may not be reproduced or disseminated without the express written permission of Finity Group LLC. Tracking #334795 DOFU 20210428