March 31, 2021

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Quarterly

2021 First Quarter Investment Market Report

What a difference a year makes! Unlike the first quarter of 2020, U.S. stocks posted healthy gains since the start of the year, and there is optimism that the ongoing vaccination program along with fiscal and monetary stimulus will give the economy a shot in the arm. Other countries are looking at the U.S. bull market with envy, and the American economy seems to have weathered its biggest challenge since at least 2008.

Just about every investment saw gains in the first quarter. The widely-quoted S&P 500 index of large company stocks has gained 6.17% so far this year.

	Quarter	YTD	1 Year	3 Years
S&P 500 Index (TR)	6.17	6.17	56.35	16.78
Russell 2000 (TR)	12.70	12.70	94.85	14.76
Wilshire U.S. REIT (TR)	8.81	8.81	34.74	9.04

Source: Morningstar Direct; See disclosures for imporant benchmark information

Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT index, posted an 8.81% gain during the year's first quarter. The S&P GSCI index, which measures commodities returns, gained 15.77% in the 1st quarter.

International investors saw far more modest gains. The broad-based EAFE index of companies in developed foreign economies gained 3.48% in the first quarter. Emerging market stocks of less developed countries, as represented by the EAFE EM index, gained 2.29% in dollar terms in the first quarter.

	Quarter	YTD	1 Year	3 Years
MSCI EAFE (NR)	3.48	3.48	44.57	6.02
MSCI EM (NR)	2.29	2.29	58.39	6.48

Source: Morningstar Direct; See disclosures for imporant benchmark information

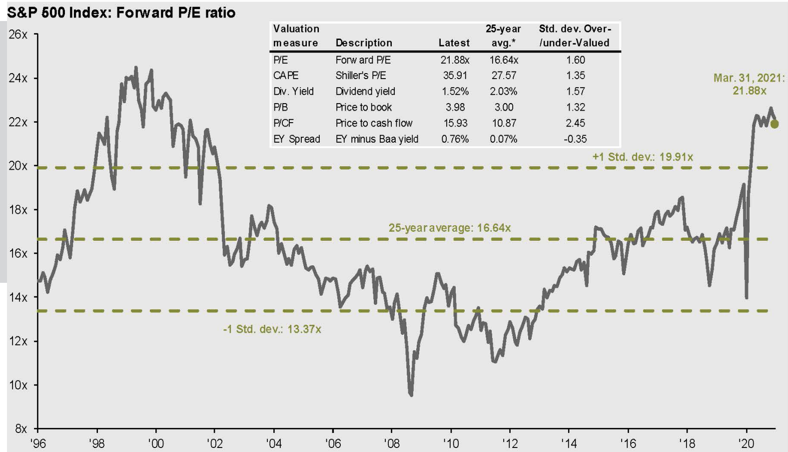
In the bond markets, the rates on longer-term securities jumped from historically low rates to simply low rates. Coupon rates on 10-year Treasury bonds rose to a 1.67% yield, while 3 month, 6 month and 12 month bonds are now sporting barely positive yields for the first time since this time last year.

	Quarter	YTD	1 Year	3 Years
Barclays US Aggregate Bond (TR)	-3.37	-3.37	0.71	4.65

Source: Morningstar Direct; See disclosures for imporant benchmark information

This is obviously a big change from this time last year, when stock markets in the U.S. and abroad were reeling from a historically rapid downturn. Today, most analysts believe that the market is overvalued and many professional investors are cautious.

But any move to get out of the markets when this overvaluation became evident would have meant missing huge gains in the markets, proving once again the folly of trying to time the market.



Source: JP Morgan, Guide to the Markets 2Q2021

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But any move to get out of the markets when this overvaluation became evident would have meant missing huge gains in the markets, proving once again the folly of trying to time the market. And we are looking at a multi-trillion dollar fiscal stimulus package which would inject additional life into the U.S. economy.

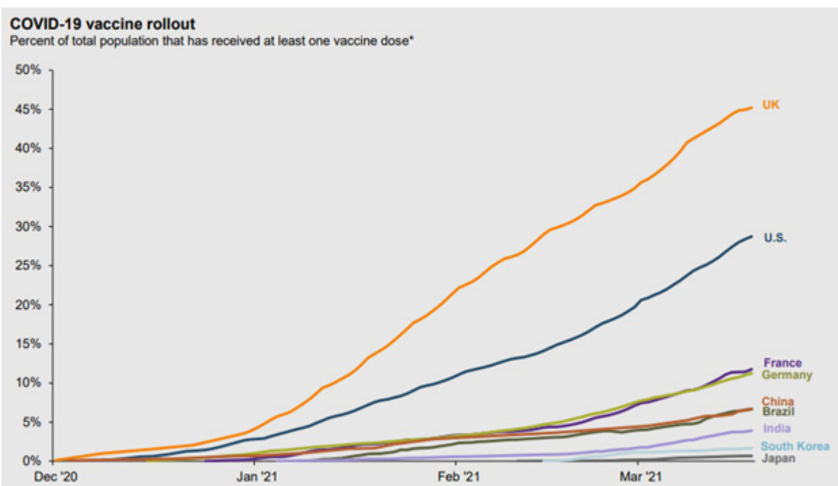
Better news: analysts have increased their earnings estimates for S&P 500 companies by 6.0%—which is a record—and unemployment rates have been trending lower since the start of the year.

Finally, the progress of vaccination against COVID appears to be picking up, with some estimating that all adult Americans will be vaccinated in the next couple of months. A return to normalcy could be viewed as another positive sign.

The only dark clouds on the horizon—and these are really gray, not black—is the rise in longer-term interest rates.

The U.S. Federal Reserve Board continues to hold down short-term rates to essentially zero, which leads to two key outcomes. First, we have a steepening yield curve, which is often an indicator of economic health. Second, people who invest in longer term bonds are finally getting paid something for their trouble. That is good for bond holders, but higher long-term interest rates also make bonds more competitive with stocks for investors' dollars, which could trigger a shift in investment flows away from stocks which, in turn, could lead to lower stock prices.

All of this is a long-winded way of saying that it is impossible to predict whether the markets will continue the long bullish run or take a break. It is not impossible that stocks will eventually return to more normal valuations but that could happen gradually, as companies boost their earnings while market returns go back down to single digits. The sudden, unpredicted appearance of the pandemic shows us how challenging it is to forecast short term returns.



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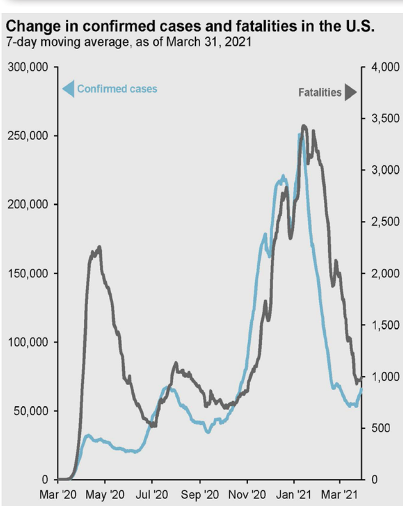

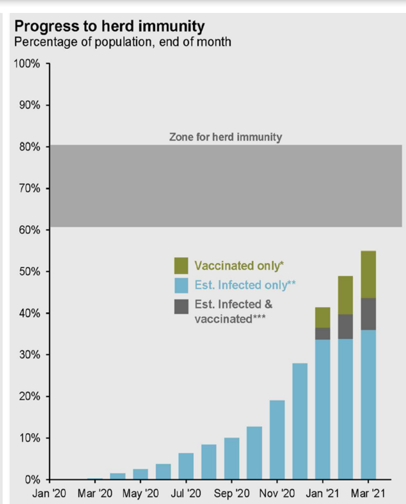

Source: JP Morgan, Guide to the Markets 2Q2021

Financial Planning News:

Mark your calendars as Tax Day for individuals has been extended to May 17 to file and pay income taxes for the 2020 tax year. This extension does not apply to estimated payments that are still due April 15.

This quarter, The American Rescue Plan of 2021 was passed in Washington. Here are some relevant points to be aware of:

- Many individuals (not all) will receive $1,400 stimulus checks.

- Unemployment benefits were extended — weekly federal benefits of $300 are extended through September 6, 2021.

- There will be no RMD relief for 2021— distributions from retirement accounts must still be made for 2021.

- The Child Tax credit has been increased and expanded for many, but will be phased out for those deemed to be high-earners.

The changes go on and on, surely keeping accountants, lawyers and financial advisors busy for a long time.

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