

Index Name	QTD Return	YTD Return
Dow Jones Industrial Average	8.29%	8.29%
Barclays U.S. Aggregate Bond	-3.37%	-3.37%
S&P 500 (Large Co. index)	6.17%	6.17%
MSCI EAFE (Int'l Equity index)	3.48%	3.48%
Russell 2000 (Small Co. index)	12.70%	12.70%

Market Commentary

Nearly all equity markets in the U.S. and across the globe were positive in Q1 of 2021. The recovery was in full force thanks to better than expected vaccine distribution, stronger than expected economic data, and strong corporate earnings. Therefore, small cap stocks and value stocks extended their relative outperformance. All asset classes continued their positive returns in Q1, signaling a broad recovery.

Additional Fiscal stimulus was another shot in the arm in Q1, with the passing of the \$1.9 Trillion “American Rescue Plan”. The Federal Reserve continued to stimulate the economy by leaving short-term interest rates low, and continuing their bond purchasing program (quantitative easing). These combined stimulative forces provided massive support to the economy and markets.

Many economists have adjusted their U.S. GDP estimates up for 2021 in light of the strong economic data. In contrast to Equity markets, the bond market took notice of the strong data, and 5 to 30 year interest rates rose resulting in a steeper yield curve. This move in the interest rate market caused the Barclays Aggregate bond index to be down 3.37% for the quarter, as bond values declined. Inflation expectations have risen, and will likely spike a bit in mid 2021. However, the spike may be a temporary condition due to transitory factors. Therefore, inflation should remain in check for the intermediate term, limiting interest rates from rising much higher.

While we expect the pace of the recovery to slow at some point, we believe it will remain positive and provide a solid environment for continued equity appreciation. However, with higher than average valuations we may be due for a short-term correction or pause in the current trend. Furthermore, the current equity valuation environment presents opportunities for active management to add value to portfolios. We believe through active investment management and strategic asset allocation, we can continue to manage risk while producing equity-like returns for our clients.

Market Highlights

- For YTD 2021, equity markets continued to rally while fixed income was down.
- In Q1 2021, U.S. small capitalization stocks were the leading sub-asset class, with the Russell 2000 up 12.7%.
- Positive economic growth through 2021 will enable continued equity appreciation.

Market commentary provided in partnership with Cornerstone Management, Inc.