W A I N W R I G H T   I N V E S T M E N T   C O U N S E L , L L C

FINANCIAL MARKETS HIGHLIGHTS

First Quarter 2021

President Biden hit the ground running with an eventful first quarter of his presidency. Congress passed his $1.9 trillion "American Rescue" Covid-19 relief bill in March. Highlights of the massive stimulus plan include extending unemployment benefits, $1,400 direct payments to most Americans, $20 billion allotted for Covid-19 vaccine manufacturing and distribution, $350 billion in relief to state and local governments, $120 billion to K-12 schools, and $30 billion in aid to restaurants. On the medical front, the CDC reports that the 7-day average of daily doses administered topped 3 million at the end of March, and more than 15% of the U.S. population is now fully vaccinated, with close to 30% having received at least one dose. President Biden announced that 90% of adults would be eligible for the vaccine by April 19.

The stock market crash of February and March of 2020 seems like a distant memory as global markets subsequently surged. The Russell 2000 index of small-cap stocks is +95% for the twelve-months ended March 31, and the S&P 500 index of large and mega-cap holdings is +56%. The S&P 500 opened 2021 with muted performance, -1.0% during January, but then rallied +7.3% during February and March for a +6.2% Q1 return. Gains were led by Energy (+30.9%), Financials (+16.0%), Industrials (+11.4%) and Materials (+9.1%). Old-school *value* sectors continued to exhibit market leadership, while the *growth*-oriented Technology and Communications sectors were relative laggards during the quarter, gaining +2.0% and +8.1%, respectively.

After posting strong 2020 performance, the tech-heavy NASDAQ 100 began 2021 returning +1.8%. Most notably, performance was weighed down by three tech-related behemoths: Apple (-7.8%), Amazon (-5.0%), and Tesla (-5.3%). The FAANG stocks, as a group, returned +1.9% during the quarter.

The recent trend of value stocks outperforming their growth counterparts continued in the first quarter, across large-sized, mid-sized, and in particular small-sized stocks where the Russell 2000 Value index trounced the Russell 2000 Growth index, +21.2% to +4.9%. Growth stocks exhibited historical outperformance relative to value stocks over the last five plus years, but value stocks are presently staging a valiant comeback.

Equities the world over were up nicely, with the MSCI EAFE Index of international developed market stocks +3.5% and the MSCI Emerging Market Index +2.3% during the quarter, for dollar denominated investors. Those markets were up more in local currency terms, but U.S. dollar strength hindered returns a bit for domestic investors. It is notable that the Chinese markets were off nominally during the quarter. President Biden has thus far maintained President Trump's trade restrictions with China and has taken a similarly hard stance on intellectual property rights, though his administration is likely more keen to involve other trade partners in negotiations with the Chinese, as opposed to President Trump's bilateral polices.

The Fed's Open Market Committee ("FOMC") met in March and left the short-term Fed Funds rate at a range of 0.00 – 0.25% while indicating little likelihood of any interest rate hikes through 2023. Although the majority of the Committee expected rates to remain unchanged, the "dot plot" indicated four members (up from one in December) believed a 2022 rate hike was likely. The Committee's median economic growth forecast for 2021 was +6.5%, outpacing the +4.2% gain anticipated in the prior December projections. GDP projections from the meeting revealed that growth is expected to continue through 2022 and 2023 (+3.3% and +2.2% expected, respectively) before settling closer to a long-term average of +2.3% in 2024. The Committee further reduced its unemployment forecast from 6.5% in December to 4.5%.

The capital markets do not wait for a memo from the FOMC. They anticipate, and the anticipation of growth (and a *little* inflation) has driven the 10 Year Treasury Bond yield to 1.74% at quarter-end, up 81 basis points from year-end, which in turn put pressure on bond returns. The Barclays Agg. Bond index returned -3.4%

Selected Index Returns (%) as of March 31, 2021 (Source: Morningstar Direct). 3, 5, 10 year returns are annualized.

	Jan.	Feb.	Mar.	QTR	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	-1.01	2.76	4.38	6.17	6.17	56.35	16.78	16.29	13.91
S&P 400	1.50	6.80	4.67	13.47	13.47	83.46	13.40	14.37	11.92
Russell 2000	5.03	6.23	1.00	12.70	12.70	94.85	14.76	13.62	11.68
Wilshire U.S. REIT Index	0.53	3.25	4.83	8.81	8.81	34.74	9.04	4.96	8.48
MSCI EAFE	-1.07	2.24	2.30	3.48	3.48	44.57	6.02	8.85	5.52
MSCI Emerging Markets	3.07	0.76	-1.51	2.29	2.29	58.39	6.48	12.07	3.65
Barclays Aggregate Bond	-0.72	-1.44	-1.25	-3.37	-3.37	0.71	4.65	3.10	3.44
Barclays High Yield	0.33	0.37	0.15	0.85	0.85	23.72	6.84	8.06	6.48

during the quarter, while the credit-oriented high yield index returned +0.2%.

Bitcoin surged +103% during the quarter, driven by growing support and integration from high profile businesses such as Elon Musk, PayPal, Fidelity, and so forth. The growth and recognition of Bitcoin has been fascinating, and its redheaded stepchild the Non-Fungible Token "NFT" has taken the world by storm. According to Wikipedia, an NFT is a "unit of data on a digital ledger called a block chain, where each NFT can represent a unique digital item, and thus is not interchangeable. NFTs can represent digital files such as art, audio, videos, items in video games and other forms of creative work." NFTs collectively valued at hundreds of millions of dollars traded hands during the quarter, from seemingly nowhere, and they are all the rage. A reminder from this unenlightened observer - be greedy when others are fearful, and fearful when others are greedy.

At the tail end of the quarter, President Biden unveiled the "American Jobs Plan," a $2 trillion infrastructure proposal that includes $621 billion for transportation infrastructure (*i.e.,* bridges, roads, public transport, airports, and electric vehicle development), $400 billion to care for elderly and disabled Americans, $300 billion for improving potable water infrastructure, $580 billion for American manufacturing, amongst other things. There will be a great deal of political debate in the coming weeks, much of it on the source of funds, which is proposed to largely come from raising the corporate tax rate from 21% to 28%. That, of course, will have an impact on corporate earnings and stock prices, so stay tuned.

In sum, it was a good quarter. The Wainwright team wishes you good health, and is available to answer any questions.

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