Dear Valued Client:

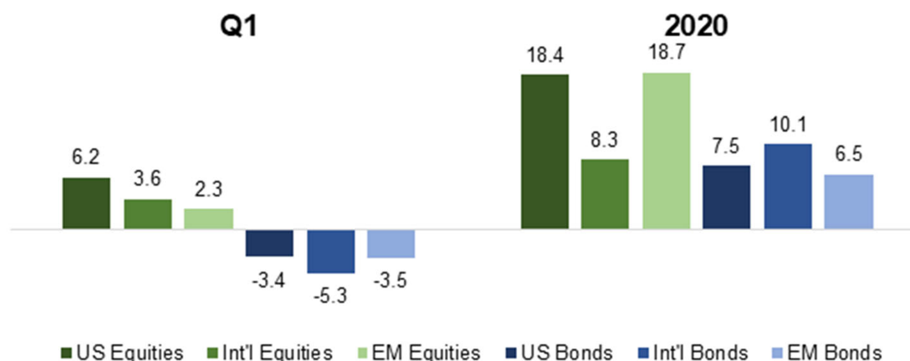
Ok, now rotate! Volleyball players recognize these instructions as those in front move to the back and vice versa. So it is in the investing world that leaders will eventually move to the back and laggards move to the front. Picking up where we left off in Q4, financial markets embraced the "reflation" trade, rewarding energy, financial, and industrial companies and leaving behind utilities, staples, and the beloved technology stocks.

The quarter was marked by the rise of the small investor whose social media driven frenzy made quite the impression on the old guard on Wall Street. In fact, as of mid-February, retail stock traders represented 23% of all U.S. equity trading (by dollar volume), more than double the 10.1% they account for in 2010 (Bloomberg Intelligence). The trend seems in place to grow as an increase in new money in investor pockets seems poised to add fuel to an increasingly hot market.

Other trends we are seeing include major supply chain disruptions that are impacting production at car factories, the rollout of routers in the broadband market, and delays in shipments of many common popular home products. For the golfers out there, the pandemic proved to be a major boost. The rounds of golf played in Massachusetts alone surged 40% last year over 2019-Hit 'em straight!

First Quarter Market Review

- **The sentiment at the end of 2020 continued into the start of 2021 as the equity markets saw positive returns for the quarter.** U.S. markets led the way with dollar strength weakening the results seen from international markets as only two developed markets saw negative returns in local currency during the quarter.



Source: AssetMark Quarterly Market Review dtd March 2021 FactSet *financial data and analytics*

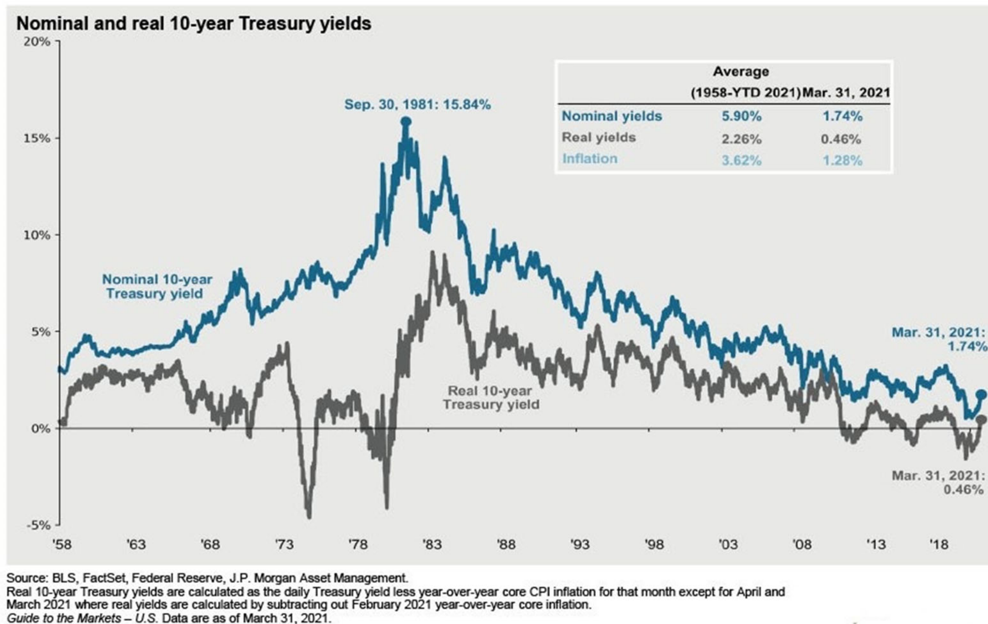
- **Looking at the past 12 months following the bottom of the market crash on March 23, the**

S&P 500 saw a return of 56.4%, ranking it in the top 5 occurrences since 1925.[i] Coming back from an oversold position the market was supported by extensive support from the Fed and fiscal stimulus along with the economy reopening with vaccine development.

- **All sectors remained in positive territory for the quarter with results ranging from a positive 30.9% for energy to a down 1.2% for consumer staples.[ii]** Energy saw broad based strength leading to its second-best quarter since 1972, while re-openings across the country led to a shift in sentiment away from the stay-at-home trade. The rising interest rate environment helped lift financials to second spot with a return of 16.0%. Negative returns from some of the 2020 markets leaders, like Amazon, Apple, and Netflix led to weaker returns for technology (2.0%).
- **Value and small cap saw another quarter of strong double-digit returns.** Value outperformed growth by over 800 basis points across large, mid and small caps while small caps outperformed large caps by over 1200 basis points. Over the last six months, small cap has outperformed large cap by 36.2% points, which is the most on record since 1994. [iii]
- **Currency shifts impacted international returns as many developed countries outperformed the U.S. in local currency terms**. Emerging markets saw the greatest weakness with Latin America returning -5.3% while five of the nine counties in Emerging Asia experienced negative returns, including China which returned -0.4%.[iv]
- **The rise in bond yields, especially in longer durations, led to negative returns across most bond sectors.** The U.S. Aggregate index returned -3.4% for the quarter led lower by longer maturity Treasuries which fell 13.5% for the quarter. The first quarter marked the worst first quarter for both the U.S. Aggregate and long-term Treasuries since 1980. The bright spots in the fixed income markets were leveraged loans and high yield which returned 1.8% and 0.9% for the quarter, respectively.[v]
- **REITs made a comeback in the first quarter, returning 8.3% having trailed the broad markets for 2020 and commodities continued to rally, up 6.9%**. All REIT sectors saw positive returns with malls up over 30% for the quarter, benefiting from the re-openings across the country. The rally in commodities was also relatively broad based with only precious metals being down 9.3%, led by a fall in gold as investors moved out of the safe haven with no yield.[vi]

Interest Rates

Interest rates matter. They matter a great deal to consumers, businesses, and the markets. Deciphering the projected path of interest rates is key to making good financial decisions. The consumer consults the level of rates when deciding to buy a new home or refinancing an existing one. Businesses refer to the current level of interest rates for debt and equity financing decisions. Market valuations hinge on interest rates to determine the risk premium investors are willing to pay for common stocks. The level of interest rates also helps determine the asset allocation of individual and institutional portfolios. When rates rise by a small amount, those small higher payments can entice investors to make small shifts out of stocks and into bonds. When rates rise by a larger amount, larger allocation shifts can occur. When large asset allocation shifts occur, they do so by buying and selling large amounts of stock, bonds and other asset classes. Substantial amounts of buying and selling can, and usually do, mean large price dislocations. So... rates matter.



As illustrated in the chart above, interest rates have been in a long and steady downtrend since the 1980's and that is a long time! Way back in the 80's, the Fed helped to engineer a break in the very high levels of inflation that the economy (and consumers) were suffering from. Relief from ever increasing prices of goods and services was quite welcome at that time and we have enjoyed low levels of inflation since. Typically, interest rates track inflation rates. Interest rates are, after all, the price of money. The aforementioned long and steady downtrend in interest rates seems to have finally ended. At best, we can hope for a lower for longer rate environment where interest rates trade in a constrained band into the future. This lower band would be the best of all worlds. Many would like to see the bellwether U.S. Treasury 10 Year yield (rate) stay in a limited range of 2% on the upside and perhaps 1% on the downside. However, right now, and over the last several months, the market is a bit worried that rates might rise above a comfortable lower band.

Currently, we have a tug of war as it relates to interest rates. On one side, pulling hard, is the U.S. Federal Reserve. The Fed has reiterated its intention to keep interest rates at ultra-low levels until it sees what it deems as maximum employment and inflation steadily above 2%. This Fed policy calls for near zero short term interest rates and a $120 billion a month debt securities buying program to help orchestrate low interest rates. Some have labeled this "financial repression" where the Fed is gaming the system to achieve their end goals. The Fed has been at this game since 2008 and these policies have largely been successful in helping to stabilize markets and increase investor confidence. On the other side of this tug of war are market participants who feel the Fed's game will have increasingly less ability to hold rates lower. While the Fed can control the short end of the yield curve by buying short-term bonds and other debt securities, it cannot control the longer end of the yield curve unless it starts to buy longer dated bonds.

Longer dated bonds, which the Fed currently is not buying, have seen quite a move up in their yields (rates). The rate on the 10 Year U.S. Treasury Note has increased from 50 basis points (.5%) in August to over 160 basis points (1.65%) currently. This year alone, the rate has doubled as the 10 Year started the year at 80 basis points (.8%). When rates double, or triple, people get concerned, even if these moves do come off a low base. It is important to note that home mortgage rates are often set off the 10 Year note.

Some question the wisdom of holding bonds at this time. Many of these observers are citing the recent mega stimulus packages passed by Congress which could end up being quite inflationary. Some strategists are taking a middle ground view in this tug of war. Scott Minerd, global chief investment officer at Guggenheim Investments, penned in a recent note that the recent run up in yields is typical of what happens in an economic recovery. Historically, rates run up and then are later reversed. History may rhyme again, Minerd says. There might be an initial surge in inflation from a burst of demand related to the reopening of the economy and from stimulus checks. However, supply bottlenecks emerge and eventually supply catches up with demand. Minerd concedes that nobody can pick a top and he would not be surprised to see the 10 Year note climb to a rate of 2-2.5% in the near term.

What does that mean for PRW bond allocations? We have taken, and will continue to take, a cautious approach. We feel that our client's bond allocation should act as ballast in their portfolio and this part of the portfolio should be conservatively managed. We have shortened the overall duration (interest rate sensitivity) of our portfolios. Should we see interest rates continue to lift, we may look to extend duration. Until that time, we remain cautiously prudent.

Outlook

There is little argument that the U.S. economy is headed for robust growth this year. Federal Reserve Chairman Jerome Powell recently told "60 Minutes" that the economy is at an "inflection point" and that growth and job creation is poised to accelerate. The abundance of new cash injected into consumer pockets, accommodative monetary policy, and significant pent-up demand set the stage for potentially gaudy growth numbers. The influx of cash to consumers boosts what is already a double-digit savings rate, well above the historical average. In theory, the consumer (at about 67% of GDP) should be well positioned to keep the spending rolling for some time.

Of course, there are many things that could curtail the emerging animal spirits. The emergence of variants has already caused a spike in new Covid-19 cases in the U.S. and harder hit areas in Europe and the emerging markets. Supply chain bottlenecks are also rising as a risk. These could prove temporary or could have more lasting impact. As noted above, rising interest rates can have a negative impact on higher growth companies as their earnings are discounted using a higher rate. So, while the vaccine makes its way into arms around the world, the path to normalization could prove more difficult than expected although hopes are high that "the new normal' will be good enough.

The new administration is making its mark on the global landscape in several ways. The focus on vaccinations seems to be working and that has correlated to a pickup in dining, expected summer travel, and general optimism for economic recovery. The passage of $2.1 trillion (about $6,500 per person in the U.S.) in stimulus and the proposal for additional infrastructure stimulus is certainly 'goosing" the equity markets. Reengagement with many sidelined trading partners is also a potential positive. The next battle lines being drawn surround how the country will pay for all the newly created money (hint- taxes) and we expect more clarity on this topic later this year.

Below we have updated some of our Headwinds/Tailwinds thoughts at present.

Headwinds

- Newly discovered variants continue to pose a threat to recovery.
- Equity and Fixed Income valuations are high on an historical basis.
- Elevated corporate and government debt levels
- Market bullishness is often a contrarian sign, with speculators causing us some concern.
- Higher tax rates are expected in coming year(s) as are more regulations that could crimp growth.
- Inflationary pressures mounting as are supply chain issues.

Tailwinds

- More fiscal support approved and moving into the economy.
- Accommodative monetary policy
- Healthy consumer and corporate balance sheets
- Vaccinations have been rolled out with most American able to be vaccinated this month.
- Potential for improving trade globally under new U.S. administration.

Equity markets have been in a steady bull-phase since the middle of last year. The fastest decline followed by the fastest recovery in history. When allocating capital, we consider the data above when considering over or underweights to risk assets within the context of pre-defined ranges associated with our clients' risk tolerance and time horizon. Currently, we remain more constructive on equities vs fixed income.

We have a neutral stance between value and growth now that value stocks have rallied nicely and the spike in rates has settled down. Value still has a way to go to "catch up" but may take a breather near-term. We continue to favor the U.S. as we see that the country has pulled ahead of many other nations in the fight against Covid and has backed that up with enormous stimulus. The rise in rates has also pushed the dollar higher, a headwind for international stocks.

While we see many reasons for optimism, we acknowledge that bull markets are susceptible to pullbacks. We can and do expect them. Near term, we are seeing a pickup in leverage that, when unwound, could accelerate a decline as we witnessed with hedge fund Archegos. The housing market frenzy that has sent prices to the roof is seen in many commodity prices as well. In addition, the popularity of Special Purpose Acquisition Companies (SPACs) could be a sign of speculation that bears watching.

On our radar, potential targeted inflation hedges as well as ways to find yield in a challenged fixed income

market. We are also reviewing other non-correlated asset classes for the diversification benefits they could bring to our portfolios.

PRW News

We are very pleased to announce the promotion of Jared Sweeney to Senior Wealth Advisor. Jared has become an integral part of our team during his three years at the firm. He has become a trusted resource to many clients and a leader on our investment and operations initiatives. We salute him for this accomplishment.

On another staff related note, Rob Reilly recently left the firm to join a start-up as chief operations officer, and we wish him well. We will soon be announcing and introducing our newest team member in this Senior Wealth Advisor role.

Elliot helped kick off the 2021 New England Private Wealth Management conference held virtually last month. He moderated a panel discussion with several East Coast based wealth advisors and market specialists on the topic of alternative investments. Lively discussions ensued around private debt, royalty programs, cryptocurrencies, and other non-correlated asset classes.

Life Insurance Strategies Group featured Janice Forgays, Esq., AEP, ® CLU, ® our Estate and Wealth Management Counsel, in an interview highlighting her lengthy career working with affluent clients and advisors on comprehensive, complex, and effective wealth accumulation, conservation and transfer planning using life insurance and other financial products.

Janice also spoke to The Planned Giving Group of New England. Her presentation, Breathing New Life into Planned Giving, explored the significant role life insurance can play in charitable giving including funding major gifts, building endowments, and replacing family wealth after substantial gifts.

Hope springs eternal as we put winter behind us and seek to usher in better days ahead. The following quote caught our attention, and we think it is great advice. "Surround yourselves with the dreamers and doers, the believers and thinkers, but most of all, surround yourself with those who see greatness within you, even when you don't see it yourself. Happy Spring!

Sincerely,

William A. Payne Richard A. Renwick Elliot B. Herman

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[i] Source: AssetMark, Quarterly Market Review dtd March 2021
[ii] Ibid p.1
[iii] Ibid p.1
[iv] Ibid p.2
[v] Ibid p.2
[vi] Ibid p.2

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Index Definitions

Bloomberg Commodity – measures the price of physical commodities futures contracts traded on U.S. exchanges, except aluminum, zinc and nickel, which trade on the London Metal Exchange. Weightings are determined by rules designed to insure diversified commodity exposure.

Bloomberg Barclays Emerging Markets USD Aggregate - The index is a flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate U.S dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. Country eligibility and classification as Emerging Markets is rules-based and reviewed annually using World Bank income group and International Monetary Fund (IMF) country classification.

Bloomberg Barclays Global Aggregate - An index of global investme.nt grade debt from twenty-four local currency markets including treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. The index also includes Eurodollar, Euro-Yen, and 144A index-eligible securities, and debt from five local currency markets.

Bloomberg Barclays Global Aggregate ex USD - The index is a flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate U.S. dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. Country eligibility and classification as Emerging Markets is rules-based and reviewed annually using World Bank income group and International Monetary Fund (IMF) country classification.

Bloomberg Sub Gold- measures the price of gold futures contracts, reflecting the return of underlying commodity futures contract price movements quoted in USD.

Bloomberg Barclays U.S. Aggregate- measures the performance of USD-denominated, investment-grade, fixed-rate taxable bond market of SEC-registered securities. The index includes Treasury bonds, Government-related corporate, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS sectors.

Bloomberg Barclays U.S. Corporate High Yield - The index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt.

Bloomberg Barclays U.S. Treasury Long - The index measures the performance of long-term government bonds issued by the U.S. Treasury. It includes all publicly issued, U.S. Treasury securities that have a remaining maturity of 10 or more years, are non-convertible, are denominated in U.S. dollars, are rated investment grade, are fixed rate, and have $250 million or more of outstanding face value.

FTSE U.S. NARIET all Equity REITs – measures the performance of publicly traded U.S. real estate securities, such as real estate investment trusts (REITS) and real estate operating companies.

MSCI ACWI - A free float-adjusted capitalization weighted index that is designed to measure the equity performance of countries considered to represent both developed and emerging markets.

MSCI EAFE - A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of countries considered to represent developed markets, excluding the U.S. and Canada.

MSCI Emerging Markets - A free float-adjusted, market capitalization index that is designed to measure the equity market performance of countries considered to represent emerging markets.

S&P 500 - An unmanaged index that is generally considered representative of the U.S. equity market, consisting of 500 leading companies in leading industries of the U.S. economy (typically large-cap companies) representing approximately 75% of the investable U.S. equity market.