

Q1 2021 Market Commentary

April 2021

The first quarter witnessed the rollout of mass vaccination programs, with varying success, continued political upheaval, and the rise of stock market populism in the short squeeze of GameStop and AMC. Unemployment continued to improve, going from 6.7% in December to 6.0% in March. International equities were positive, up 3.49% with US equities up 6.17%. We saw the return of the Small Cap and Value premia, as Value outpaced Growth by more than 1000 basis points, and Small Cap outpaced Large Cap by over 600.

- The U.S. economy is estimated to have grown by 6% during the 1st quarter of 2021 accelerating from the 4.3% growth of the prior quarter.
- The unemployment rate continued to fall from 6.7% in December to 6.0% in March.
- Inflation pressures remained modest. CPI was 1.7% as of February year over year.
- The Fed kept the Federal Funds rate at 0.0% - 0.25% and the Fed's move to target average inflation means interest rates will remain low for the foreseeable future.
- An additional \$1.9 trillion stimulus, with proposals for a \$2 trillion infrastructure bill, send debt levels to historic highs.
- Value rallied strongly in the 1st quarter as inflation fears weakened prospects for Growth.
- U.S. equities ended the quarter up 6.17%, as measured by the S&P 500 Index
 - » The Energy, Financials, and Industrials sectors were the best performers, up 30.85%, 15.99%, and 11.41% respectively.
 - » The worst performing sectors were Consumer Staples, Information Technology, Utilities, and Consumer Discretionary, up 1.15%, 1.97%, 2.80%, and 3.11% respectively.
 - » Brent crude oil prices rose in the 1st Quarter, ending at \$63.52/barrel after starting at \$51.22/barrel.
 - » Value outperformed growth during the quarter, with the Russell 1000 Value posting a return of 11.26%, versus the Russell 1000 Growth's return of 0.94%.
 - » Mid cap and small cap stocks led large cap during the quarter, with the Russell Mid Cap up 8.14%, the Russell 2000 up 12.70%, and the Russell 1000 up 5.91%.
- Interest rates rose during the quarter, with the 10-year U.S. Treasury yield ending the first quarter at 1.74%, up from 0.93% at the end of the fourth quarter.
- The Bloomberg Barclays Aggregate Index fell -3.37% with treasuries declining -4.14% and mortgage backed securities down -1.15%. High yield corporates strongly led investment grade, with the Bloomberg Barclays U.S. Corporate High Yield Index up 0.85% versus the U.S. Corporate Index down -4.65% for the quarter.
- Economic data shows the global economy building up speed, with some variations depending on vaccination progress.
 - » China is expected to post GDP growth in the 8-10% range for the first quarter, while the Eurozone economy contracted.
 - » Eurozone countries went back into lockdown, as vaccination efforts on the continent badly stalled.
 - » The UK had vaccinated 47% of the population, the US 32%, but France, Germany and Italy were below 15%.
 - » The U.S. dollar strengthened throughout the quarter, the Fed's index rising from 111 to 114 over the quarter.
 - » Initial jobless claims declined for most of the quarter, peaking in early January at 904,000 before falling again, ending at 728,000. Still elevated compared to 200,000 pre-COVID.
 - » ISM manufacturing index rose to 64.7 in March from 60.7 in December, with new orders also rising to 68.
 - » Inflation rose slightly in the first quarter with the CPI figure at 1.7% year-over-year as of February 2020

Returns are total return, computed from Morningstar Direct and include the S&P 500, Barclays Capital Aggregate Bond Indexes, Barclays Capital High Yield Index, various MSCI and Russell Indexes. Economic data is taken from The Federal Reserve, Bureau of Labor Statistics, Bureau of Economic Analysis, Federal Housing Finance Agency and BMO. **DISCLAIMER:** Advisory services offered through Cardea Capital Advisors, LLC (CCA), Registered Investment Advisors. Investments and SubAdvisors presented herein are not affiliated with CCA. The information contained in this document has been compiled from sources deemed reliable and it is accurate to the best of our knowledge and belief. However, CCA can not guarantee its accuracy, completeness, and validity and cannot be held liable for any errors or omissions. There is no guarantee investment strategies will be successful. Past performance is no guarantee of future results.

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- » MSCI EAFE USD 3.48% with the Japan up 1.57%, United Kingdom up 6.19%, and Australia up 3.41%
- » MSCI Europe USD 4.08%, with Italy, France, and Germany up 6.28%, 4.42%, and 4.23% respectively.
- Emerging market equities trailed developed markets, with the MSCI EM USD up 2.29% for the quarter.
 - » EM Leaders included Taiwan, India, and Russia up 10.91%, 5.11% and 4.93% respectively.
 - » EM Laggards included China, Brazil, and Turkey down -0.43%, -9.98%, and -20.43% respectively.
- In non-U.S. equity markets, value outperformed growth over the quarter though growth still lead narrowly for the year..
 - » MSCI ACWI ex USA Value USD 7.06%, versus the MSCI ACWI ex USA Growth USD -0.08% for the quarter.
- Interest rate increases could threaten the recovery.
- Higher proposed taxes threaten corporate earnings.
- Trade and political questions over Honk Kong & Taiwan continue between the US and China.
- Razor thin Democratic majorities promise further political uncertainty.

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