Investment Update

April, 2021

2021 First Quarter Update

Review: The S&P has continued its rally so far in 2021, returning 6.2% in the first quarter. A relatively successful vaccine rollout along with fiscal stimulus has boosted expectations for US growth and US corporate earnings in 2021. Higher growth expectations coupled with higher inflation expectations have driven bond yields back up pre-pandemic levels, resulting in negative year-to-date returns for major bond indices.

Period	1Q21	4Q20	2020
S&P 500	6.2%	12.1%	18.4%
MSCI EAFE[1,2]	3.6%	16.1%	8.3%
MSCI Emerging Markets[2]	2.3%	19.8%	18.7%
Barclays U.S. Aggregate Bond	-3.4%	0.7%	7.5%
Barclays Municipal Bond	-0.4%	1.8%	5.2%

[1]Europe, Australia, Far East

[2]MSCI returns are in U.S. Dollars

How much optimism is already priced into equities?

This time last year, the market was in the early stages of a rebound despite uncertainty regarding the COVID-19 pandemic. The combination of monetary stimulus, fiscal stimulus, and investor optimism that the pandemic would not result in permanent demand destruction served as the initial catalyst for the rebound. However, since then, the rally has also been supported by improving earnings estimates, first by companies that thrived in the lockdown/work-from-home environment and then, more recently, by cyclical companies more sensitive to the economic recovery.

It is reasonable to assume that earnings estimates could continue to go higher if US growth exceeds expectations this year. However, with the S&P now up 24% versus the pre-COVID level of January 2020, it is also reasonable to ask how much optimism is already priced into equities at this point. The chart on the next page shows the price return of the S&P 500 and its sectors since January 2020 versus estimated earnings growth from 2019 to 2021. Almost all sectors are now above January 2020 price levels, but 4 of the 11 sectors still have 2021 EPS estimates that are below 2019 levels. Discretionary and Industrials, in particular, stand out as two sectors that appear to be more dependent on upside to earnings than others in the near term.

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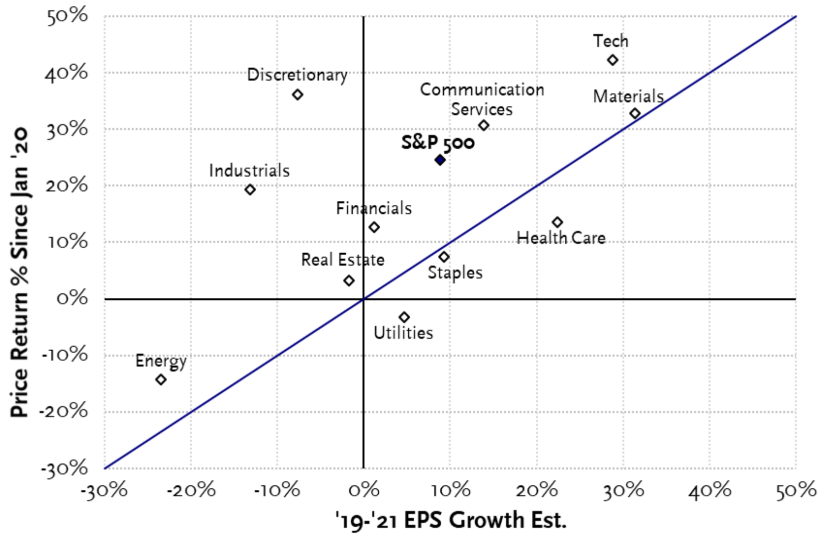
S&P 500 Price Return Since Jan '20 vs. '19-'21 EPS Growth



Source: FactSet, as of 4/5/2021

Outlook: 2021 real GDP growth in the United States is expected to be the highest growth rate since 1984. The current consensus estimate is almost 6%, aided by a relatively successful vaccination program and a decline in hospitalizations since the peak in January. The strong economic growth is expected to support a significant rebound in this year's S&P 500 earnings, currently estimated (by Standard and Poor's) to grow 41% year-over-year versus 2020's 22% decline. International growth continues to be the bigger question mark, as slower than expected vaccination programs (e.g. Europe) or limited access to vaccines could delay economic recovery more than expected.

Inflation has received a fair amount of attention lately as economic growth reaccelerates and the government continues to provide fiscal stimulus, with more proposed in the form of the recent $2.2 trillion infrastructure plan. The debate over inflation will likely continue in the near term as headline inflation readings are distorted by year-over-year comparisons with periods when much of the US was in lockdown. However, we agree with the Federal Reserve's view that near-term inflation (slightly over 2%) is unlikely to accelerate beyond 2021. Also, it is important to remember that some amount of inflation reflects a healthy and growing economy.

The biggest potential risk to our outlook in the near term continues to be management of the pandemic. States have been easing restrictions on various indoor activities, so continued success with the vaccination program will be critical to minimize the chances of another wave.

Strategy: There may be increased market volatility in the near term, driven by the outlook for government spending plans and inflation concerns. We continue to prefer the risk-reward in equities versus fixed income given the robust outlook for US economic growth. We will continue to closely monitor earnings trends and macroeconomic data to ensure our strategy is consistent with our outlook.