MARCH 31, 2020
ECONOMIC UPDATE

FINANCIAL MARKET UPDATE

Global Markets continued the positive rotation that began late in the 4th quarter. Economically sensitive areas such as US Mid/Small-Cap and Real Estate outperformed their larger counterparts with the expectation that economic growth will accelerate into the year. Small and Mid-sized US stocks returned 18.2% and 13.5%, respectively. Real Estate also posted strong gains of 8.5%. Concerns about economic overheating and higher inflation led to a sharp increase in bond yields. The ten-year treasury yield rose from 0.93% to start the year to 1.74% at quarter-end. With the sharp rise in yields, bonds experienced an unusually negative quarter, with the bond index falling 3.4%.

US COVID-19 case levels fell rapidly in February and early-March with rising vaccination campaigns. Combined with continued accommodative monetary policy and Fiscal support, there is a positive backdrop for economic growth.

Asset Class	Q1 2021 Returns
US Small Cap	18.2%
US Mid Cap	13.5%
Real Estate	8.5%
US Large Cap	6.2%
Developed International	3.5%
Infrastructure	2.8%
Emerging Markets	2.3%
Non-Core Bonds	-0.2%
Core Bonds	-3.4%

ECONOMIC STIMULUS RESPONSE

Despite concerns of higher inflation the Federal Reserve remains committed to its current asset purchase program and keeping short-term interest rates at zero. They have publically reassured the markets that the potential for higher inflation will likely be transitory over the next few months and reaffirmed their commitment to economic support for the foreseeable future.

Following up on the recently passed aid package in late-December, Congress passed the $1.9T American Recovery Act of 2021 in March. This new fiscal aid package shares many similar programs with its predecessors. It will provide additional direct aid payments to individuals, extends supplemental unemployment benefits through early-September, and provides several tax credits and breaks for lower-income individuals.

EMPLOYMENT

The US labor market has continued to improve, with the unemployment rate falling most recently to 6.0% in March, reflecting the economic recovery. Job gains exceeded expectations with 916,000 new jobs created and there were upward revisions to the gains seen in both January and February. The service industry saw the largest increase in employment as restrictions on businesses and large gatherings began to ease.

US ECONOMY

For the full year in 2020, the US economy contracted by 3.5%. This represented a lower than expected annual contraction, with strong growth in the third and fourth quarters of 2020 helping to offset the historically poor figures in the first half of the year. US growth in 2021 is expected to come in strong at 6.4% by some estimates. With rising vaccination levels and consumer mobility increasing, there is positive sentiment about the strength of the recovery as we continue into the year.

LOOKING OUT

- After passing the most recent stimulus bill, the legislative agenda turns next to the proposed infrastructure plan. The plan's positive economic benefits will be weighed against the potential for higher taxes on corporations and higher earners.
- The US leads the world in total vaccines administered. It is on pace to vaccinate a large majority of its population by the end of June and has raised its vaccination pace to over 3 million per day. Globally the effort has been more uneven, with the highest income countries being vaccinated 25x faster than the lowest income countries.

In this dynamic environment, our team is closely evaluating implications for our client's portfolios. The economic stimulus package, increased vaccinations, and strong consumer balance sheets must be weighed against higher stock valuations levels and potential for higher corporate taxes. Overall, we remain optimistic and focused on the long-term.