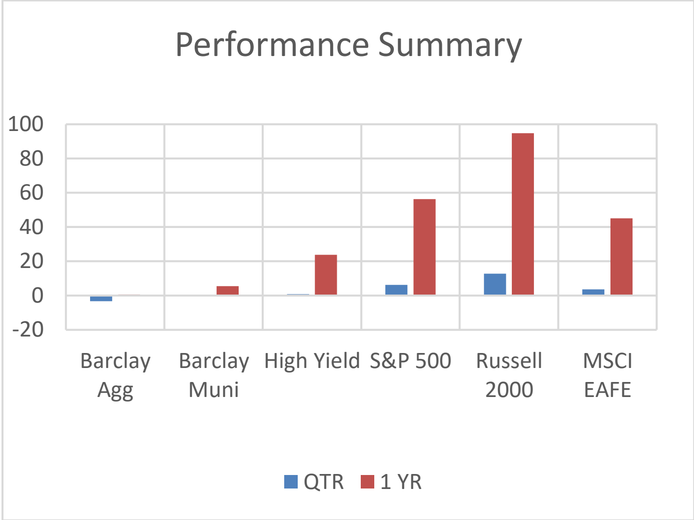


Despite periodic bouts of volatility, global stocks rallied in March, capping off a strong first quarter. Improving economic outlooks, largely due to the expanding availability of vaccines, provided a supportive backdrop for global equities. Developed markets in the US and abroad generally outperformed emerging market stocks.

- The S&P 500 rallied to record highs amid improving economic and earnings data and a slowdown in US coronavirus cases. Additionally, a $1.9 trillion federal aid and spending package contributed to market optimism.
- US economic data released in March showed business and consumer confidence improved, unemployment inched lower, and home prices increased at their fastest pace in seven years. Following a January surge, retail spending fell in February.
- The US manufacturing sector expanded in March, recording the second-highest growth in factory activity on record.
- US Treasury yields rose amid mounting longer-term inflation concerns, even as current inflation remained below the key 2% threshold. The broad US bond market declined in the first quarter, although US bonds modestly outperformed global bonds.

Below we touch on several topics relevant to investors: the economy is running hot; inflation's impact on financial assets; the relationship between inequality and inflation; and when is the right time for planning.

It's Getting Hot in Here!

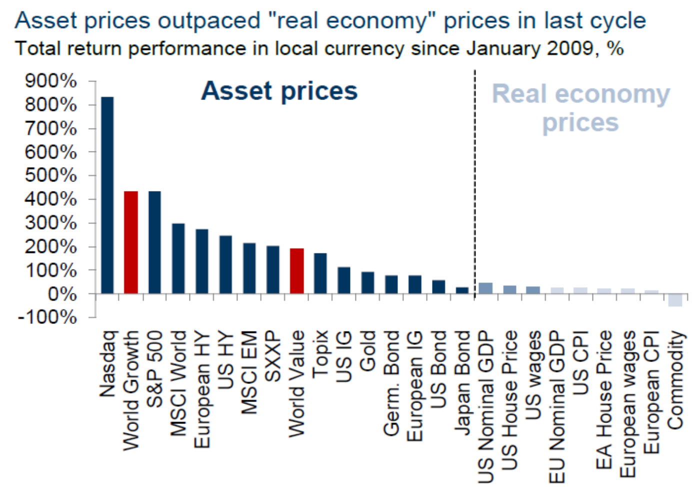
Monetary and fiscal authorities are revving the global economic engine with multiple policy levers to get it to speed up. Aggressive and synchronized policy combined with, unprecedented high savings rates, substantial pent-up demand, a post-pandemic reopening, and a record-low inventory/GDP ratio will lead to a hot economy in 2021. The chart to the right combines monetary and fiscal policy to serve as a proxy for total US economic policy and shows hyper-aggressive nature of current policy. In fact, WWII is the last period that comes close to having monetary and fiscal economic policy as aggressive as we have today.

The key debate for investors is whether today's aggressive economic policy will lead to a 1970s like era that runs too hot, resulting in high inflation and a premature end to this expansion. Or will it be similar to the 1950's when economic policy stayed hot, but inflation remained cool, leading to a Golden Era of economic growth.

The Federal Reserve has taken the position that although inflation may surge this year, it will be transitory. We expect the Fed to let economic policy to run hot and economic growth in the US should exceed 7% this year, its highest level in decades. The Fed has been clear they are moving towards an average inflation targeting (AIT) approach, which simply means they will allow inflation to run above their 2% target as long as they believe it's transitory and the long-term average will settle back in at 2%. We are watching inflation signals closely and expect them to heat up along with the economy this year but will not spin out of control. For the time being, we are more in the 1950s camp then the 1970's camp, but that could change. We recommend investors look thru the short-term noise and watch for the long-term inflation signals. Below we take a closer look at the impact inflation can have on financial assets.

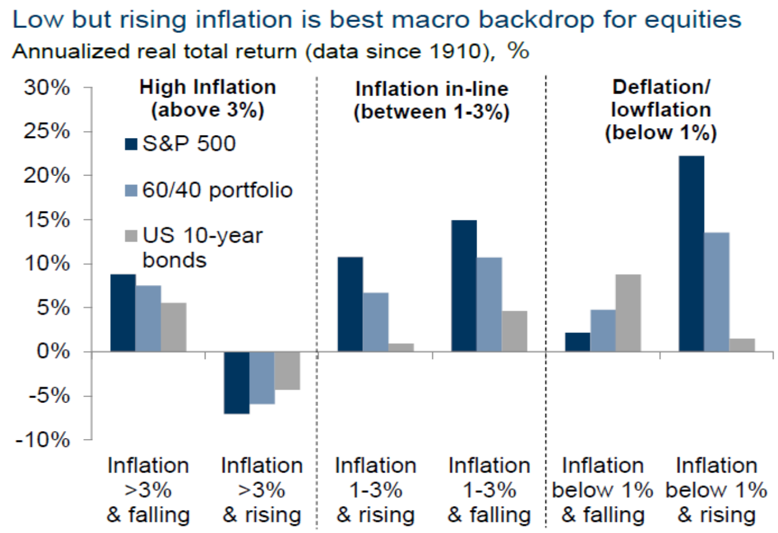
Inflation Holds the Key

Opinions on inflation are split, with some strategists warning of a 1970s breakout of inflation and others expecting any breakout to be temporary and then a resumption of subdued inflation, similar to the experience since the Great Financial Crisis (GFC). In our opinion, the current economic cycle is likely to be distinct from the cycle that prevailed after the GFC (2009-2020) in several ways.



Source: Datastream, Haver Analytics, FRED, STOXX, Goldman Sachs GIR.

Peter Oppenheimer of Goldman Sachs summed it up as follows: The 2020 bear market was "event-driven," triggered by the pandemic and associated government policies that abruptly closed-down large parts of economies to slow its spread. The recession it produced was therefore unusual in that it was not the result of economic or financial triggers, such as unwinding financial imbalances or rising interest rates. The absence of a financial trigger suggests less likelihood of structural overhangs in coming years, particularly in light of the aggressive monetary and fiscal policy response. In comparison, the bull market cycle that emerged out of the financial crisis came in the wake of a "structural" bear market plagued by major imbalances and a banking crisis that took time to unwind. This led to a deflationary environment of declining inflation expectations and slow growth in the real economy, however lower interest rates and massive credit growth led to a boom in financial assets. The chart to the right highlights the returns on financial assets and the "real economy" since 2009, the disparity is striking, with most of the gains going to financial assets.



Source: Robert Shiller, Goldman Sachs GIR.

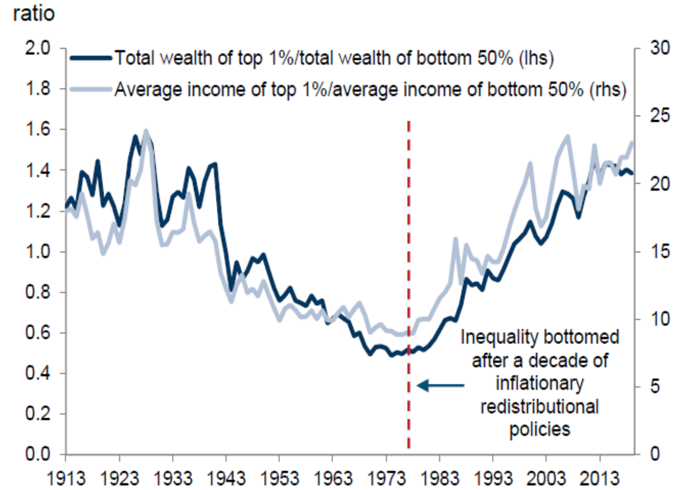
Looking ahead, the different drivers and changing mix of policy support in the current cycle suggest greater risk of a reflationary cycle, that could lead to higher inflation, interest rates and a 'slow-down' in asset price inflation, while the real economy prices improve. **Stocks are likely to continue performing relatively well, as long as the level and speed of the inflation increase does not get too high or too fast.** The chart to the right illustrates the ideal environment for stocks is when inflation is low and rising, however inflation above 3% (and rising) can be a headwind.

Other implications of reflationary cycle change may include: continued outperformance of cyclical and value stocks; a decline in the US dollar and foreign stock market outperformance; commodity outperformance and rising bond yields.

The Relationship Between Inflation and Inequality

Investment strategist Jeffrey Currie has done some interesting research on the topic of income inequality and commodity inflation. His conclusion is that all major commodity bull markets and inflationary periods have been achieved by increasing the incomes of as many households as possible, and especially those households that are the most likely to spend it. It is a well-known fact that the propensity to consume is higher among lower-income households that are inherently consumption-constrained (low income). As an example, his research suggests the rampant inflation of the 1970s was caused by Lyndon Johnson's "War on Poverty" that led to populist policies to redistribute wealth from high to low-income households. As income increased for lower income households with a propensity to spend, so did demand for physical commodities, leading to higher inflation and a commodity bull market. **Oppenheimer's thesis is essentially that solving inequality requires an overheating economy. The chart to the right lends credence to his conclusions and shows that inequality only bottomed after a decade of inflationary re-distributional policies.**

Inequality bottomed after the War on Poverty drove the 1970's commodity supercycle



Source: Distributional National Accounts, Goldman Sachs GIR.

As we look at the current environment and unprecedented inequality in wealth and income in the US, the likelihood of populist policies to redistribute wealth and income have increased. As we evaluate President Biden's infrastructure and tax policies, we believe the inequality gap may start to narrow as income and wealth is redistributed to lower income households. This may give a boost to the real economy and lead to a potential commodity bull market, but it may also lead to higher interest rates and a reduction in demand for highly valued growth stocks. **The ultimate tax and economic policies enacted may have significant impacts on the financial markets, we will be watching the signals closely and trying to filter out the noise!**

Closing Thoughts

We are firmly in the camp that no one can consistently predict short-term time financial market returns or "time the markets", mainly because investor psychology (sentiment) can vary so widely and is unknowable in the short-term. However, as you look longer-term the swings in investor sentiment tend to even out, and calculations for expected returns become more "math-like." If you know starting valuations, dividend/yields and long-term expected economic growth, you can arrive at reasonable expectations for long-term future returns. The unfortunate reality is, starting valuations are high, dividends/yields are low and long-term economic growth is likely to be moderate, resulting in returns that are below historical norms. If you have any questions on how future returns may impact your financial situation or would like to create or update your financial plan, please let us know. The best time to plan… is now!

We wish everyone the very best in the coming year and look forward to a return to normalcy and in-person visits as the pandemic subsides!

Asset Class		* ↔ Neutral weight ↓ Underweight ↑ Overweight
Equities	***View****	***Comments***
U.S. Large Cap	↓	We expect GDP to be strong in 2021, up over 7%. This should help depressed earnings bounce back sharply, supporting the overall market. We suggest tilting portfolios towards value and cyclical stocks. Valuations are steep but market conditions are favorable, our underweight is slight and the funds are being used to overweight foreign stocks.
U.S. Small/Mid Cap	↔↑	We are neutral to overweight on small/mid-cap stocks. We expect a strong economy to benefit small-cap stocks more than large-cap. They are likely to outperform large-cap stocks if interest rates and inflation continue to rise.
International Developed	↑	Valuations are attractive relative to U.S. stocks. We like broad exposure to the foreign markets and would overweight dividend paying and value stocks in this environment. Strong global growth and a weak dollar should be a tailwind.
Emerging Markets	↑	Valuations are very attractive for the long-term. Emerging markets tend to be volatile and are always susceptible to further selloffs, but in a global economic recovery with low rates, a declining US dollar, and ample liquidity they should outperform.

Fixed Income		
Investment Grade	↓	With the 10- year treasury yield near 1.7% and real yields negative, we remain under-weight core bonds. We recommend keeping some exposure for disciplined risk management and diversification purposes.
High-Yield Bonds	↔↓	High yield bonds may continue to outperform core bonds as the economy recovers. However, investors should recognize valuations are high, and risk may be more like stocks if the economy disappoints.
Municipal Bonds	↔	We are neutral on municipal bonds relative to Treasury bonds, however they remain attractive for high tax-bracket investors.
TIPS	↑	TIPs are a hedge for higher inflation, we would hold positions in tax-deferred accounts as a long-term hedge against inflation and would favor them over traditional treasury bonds.
Floating-Rate Loans	↑	Similar to HY bonds, FRLs are likely to outperform core bonds in a strong economy. However, in a weak economic environment there is downside risk, we like small positions as a hedge against higher rates.
Emerging Markets	↔	This asset class can be volatile but also provides opportunity. Interest rates in many EM markets are higher than in the U.S.; we get some exposure thru our core bond managers and don't anticipate buying any direct positions.

Alternatives		
Absolute-Return/Alternatives	↑	We like this asset class and have raised our rating back to overweight given the strong rally in stocks and bonds. We like alternative funds as a way to hedge volatility and improve the risk vs reward in portfolios. Bonds are a source of funds.
REITs	↔	We are neutral on REITs. There are diversification benefits from owning REITs, however we recognize REITs may be structurally impaired in the future as a result of shifts in work habits and technology caused by the pandemic.
Commodities/Gold	↑	We view commodities as an effective way for long-term investors to diversify their portfolios and hedge against higher inflation. Commodities have bounced nicely off the bottom and should continue to perform well as the economic recovery continues. Gold and silver have underperformed YTD, however we still like small positions in portfolios as a hedge.

U.S. Stocks
Market Performance, First Quarter 2021

Index	Q1 2021	1 YR
S&P 500	6.17%	56.35%
Russell 1000	5.91%	60.59%
Russell 1000 Value	11.26%	56.09%
Russell 1000 Growth	0.94%	62.74%
Russell Midcap	8.14%	73.64%
Russell 2000	12.70%	94.85%

Source: Morningstar

- The Rally continued in the first quarter, and investors continued the rotation into value and cyclical stocks.
- Economic growth is expected to exceed 7% and earnings should be up over 25%. Strong economic growth and low interest rates is an ideal environment for stocks.
- Small-cap stocks led the way with strong returns, up over 12%. The theme again was a strong economic recovery.

International Stocks
Market Performance, First Quarter 2021

Index	Q1 2021	1 YR
MSCI EAFE	3.60%	45.15%
MCSI EME	2.34%	58.92%
MSCI BRIC	(0.08%)	48.96%

Source: Morningstar

- Foreign developed markets had solid returns but lagged the US markets. Valuations look more attractive than US stocks, and investors should maintain an overweight.
- Emerging market stocks also had solid returns but lagged their US counterparts. Valuations are relatively attractive, and investors should stay structurally overweight in the face of volatility.

Fixed Income

Market Performance, First Quarter 2021

Index	Q1 2021	1 YR
Vanguard Total Bond Index	(3.37%)	0.44%
Barclays Muni Bond	(0.35%)	5.51%
Barclays US Corp High-Yield	0.85%	23.72%
JPM GBI- EM Global Diversified	(6.68%)	13.03%
iShares TIPS Bond	(1.68%)	7.25%
BofA Merrill Lynch 3-month Treasury Note	0.02%	0.40%

Source: Morningstar

- Core bonds struggled as economic growth and interest rates increased. Yields have improved but there remains limited long-term value, other than diversification and risk management.
- High-yield bonds were up slightly. In more aggressive accounts we think they have the potential to outperform as long as we avoid an economic downturn. If the economy slows down, there could be substantial downside to high-yield and floating rate bonds.

Alternative Assets

Market Performance, First Quarter 2021

Strategies	Q1 2021	1 YR
PIMCO All Asset	6.19%	37.13%
AQR Diversified Arbitrage	5.50%	41.53%
JPMorgan Hedged Equity	4.54%	25.46%
Vanguard REIT	8.69%	36.47%
BNY Mellon Global Real Return	1.33%	22.57%

Source: Morningstar

- Alternatives performed well in the quarter and significantly outperformed bonds. We are selectively bullish on alternatives and believe they can add substantial value to portfolios in the current environment. We view bonds as a source of funds.
- We like alternative assets as a strategic way to reduce risk and increase absolute returns in portfolios. We plan to maintain a position in alternative assets unless we see a significant pullback in traditional assets. We expect alternatives to significantly outperform bonds over the full market cycle. We like commodities as a hedge against higher inflation.

Appendix:

Benchmark Definitions

U.S. Equity		Description
S&P 500	Index	The index includes 500 leading US companies and captures approximately 80% coverage of available market capitalization.
Russell 1000	Index	The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe and includes approximately 1000 of the largest securities. The Russell 1000 represents approximately 92% of the U.S. market.
Russell 1000 Value	Index	The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.
Russell 1000 Growth	Index	The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
Russell Midcap	Index	The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.
Russell 2000	Index	The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.
International Equity		**Description**
MSCI EAFE	Index	The EAFE (Europe, Australasia, Far East) index consists of 21 developed market country indexes, excluding the US & Canada. It is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets.
MCSI EME	Index	The index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets and includes 23 emerging market countries in the index.
MSCI BRIC	Index	The index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the following four emerging market country indexes: Brazil, Russia, India and China.

Fixed Income		Description
Vanguard Total Bond Index	Index Fund	This index measures a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.
Barclays Aggregate Bond	Index	The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-through bonds), ABS, and CMBS sectors.
Barclays Muni Bond	Index	The U.S. Municipal Indices cover the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.
Barclays US Corp High-Yield	Index	The index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market and excludes Emerging Markets debt.
JPM GBI- EM Global Divers	Index	The index tracks returns for actively traded external debt instruments in emerging markets. Included in the index are US-dollar denominated Brady bonds, Eurobonds, and traded loans issued by sovereign entities.
iShares TIPS Bond	ETF	The iShares TIPS Bond ETF seeks to track the investment results of an index composed of inflation-protected U.S. Treasury bonds.
BofA Merrill Lynch 3-month Treasury Note	Index	The 3-month US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into a newly selected issue.
Alternative Assets		**Description**
PIMCO All Asset All Authority	Mutual Fund	The investment seeks maximum real return, consistent with preservation of real capital and prudent investment management. The primary benchmark for the fund is the S&P 500, with a secondary objective of Consumer Price Index +650 basis points.
AQR Diversified Arbitrage	Mutual Fund	The investment seeks long-term absolute (positive) returns. It invests in a diversified portfolio of instruments, including equities, convertible securities, debt securities, loans, warrants, options, other types of derivative instruments.
JPMorgan Hedged Equity	Mutual Fund	The investment seeks to capture the majority of the returns associated with equity market investments, while exposing investors to less risk than other equity investments. The fund invests in a broadly diversified portfolio of common stocks, while also selling index call options and purchasing index put options.

Alternative Assets		Description
Vanguard REIT	ETF	The investment seeks to provide a high level of income and moderate long-term capital appreciation by tracking the performance of a benchmark index that measures the performance of publicly traded equity REITs.
BNY Mellon Global Real Return	Mutual Fund	The fund allocates its investments among global equities, bonds and cash, and, generally to a lesser extent, other asset classes, including real estate, commodities, currencies and alternative or non-traditional asset classes and strategies, primarily those accessed through derivative instruments.