QUARTERLY MARKET COMMENT
First Quarter 2021

ALEXANDER
FINANCIAL PLANNING

If we reflect back to the beginning of this quarter where feelings of uncertainty and disbelief were prevalent to where we are today, it's been an emotional roller coaster. From the unknown election results in GA, to the surge on the Capital and the escalating cases of the corona virus, it felt like a winter of discontent. Fast forward to February and a sense of optimism began to take hold. This was primarily due to the increased pace of the nationwide vaccine rollout (not smooth, but gathering speed), passage of the $1.9 trillion stimulus program and an accommodating Federal Reserve.

As a result, economists adjusted their expectations for a strong recovery. The 1st Q ended with double digit returns in the U.S. stock market and positive returns in the international markets. There was a rotation in leadership from 2020. Small and mid-caps outperformed large caps while value outperformed growth. The winning sectors of 2020, tech and other momentum plays, took a backseat to cyclical stocks that shine when economic prospects improve. The Federal Reserve has maintained the objective of keeping short-term interest rates low, but the intermediate to long-end of the bond curve is dictated by the fixed income markets. Given this backdrop, bond yields began to increase the first week in 2021. The 10-year Treasury note rose to 1.75% from 0.84% at the beginning of the year. This is the steepest one quarter increase since December of 2016. When interest rates rise, bond values decrease, as noted below. The longer the maturity, the greater the negative impact. This recent sharp move-up in interest rates has led to nervousness among some money managers.

Asset Index Category	1Q 2021 %	Year 2020 %	5-Year Average %	10-Year Average %
S&P 500 Index-Large Companies	5.77	18.40	15.06	11.60
S&P 400 Index-Mid-size Companies	13.12	11.81	13.35	10.19
Russell 2000 Index-Sm Companies	12.44	18.36	15.38	10.16
Natural Resource Funds	12.19	16.37	11.92	2.25
Gold	-9.81	20.95	5.69	0.89
US Real Estate Funds	8.21	-4.49	6.55	8.25
Global Real Estate Funds	5.16	-5.43	5.98	5.90
MSCI EAFE-Developed International	2.83	5.43	6.84	2.64
MSCI EM Index-Emerging Markets	1.95	15.84	10.25	1.18
Barclays US Aggregate Bond Index	-3.37	7.51	3.14	3.44
Long US Government Bond Index	-13.91	14.89	0.23	2.90
Emerging Market Bond Index	-5.15	4.91	4.30	2.72

The U.S. economy is showing strong signs of rebounding and with this are growing concerns of higher inflation. It is projected that inflation may spike up to 3.50% in this quarter and then trend back closer to 2%. This could have a short-term negative impact on the stock markets. The Federal Reserve is anticipating this move and they are not showing signs of concern. Their two goals are to maintain an "average" inflation rate of 2% and full employment. They are expecting inflation to run higher than 2% for a time to achieve their average objective. Given the huge economic shock that the global economy has experienced over this last year, there is much healing still needing to be done. Global leaders and central banks are turning their attention towards the hardest hit areas of the economy to rejuvenate pockets in need of attention. Global economic growth is expected to accelerate in the second half of 2021 as economies are better positioned to reopen.

At this point, we continue to remain broadly diversified: balancing domestic vs. international exposure; growth vs. value; as well as large, medium and small companies. Interest rates and bond yields had been at rock bottom levels. To protect principle, we are maintaining a bar-bell approach with short-term duration positions and exposure to securities that are more insulated to the rise in interest rates. Given the great returns experienced in the 1st Q, it seems prudent to maintain a very diversified portfolio after one of the most difficult and unusual years in modern history.

In the meantime, we suggest to tune out the noise, focus on your long-term goals, and practice what our health professionals are asking of us. Many events of today will have a long lasting effect on how we live our lives, conduct our businesses and value our relationships. It is a reopening for many, with mindful intention. It continues to be a collective surreal experience – a time of awakening and continued concern. Please know that we are here for you as your thinking partner, your resource, and your guide. We truly value you as our client and we are grateful for the trust you've placed in us and in helping guide you through your financial life.

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