Portfolio Manager Commentary

April 16, 2021

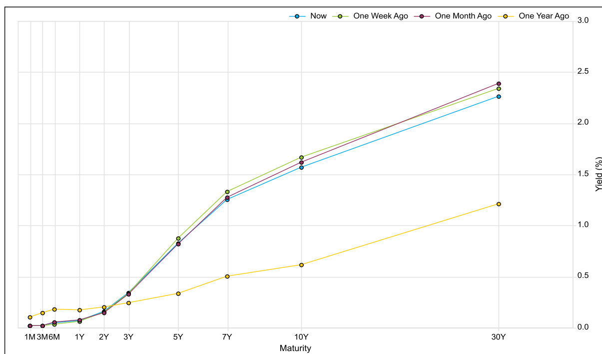
Economic Outlook

U.S. Consumer Prices were up 0.6% for March versus 0.4% in February, while U.S. Import Prices were up 1.2% for March versus +1.3% for February. Retail Sales were up a strong 9.8% for March versus having been down 2.7% in February. Industrial Production was up 1.4% in March after having been down 2.6% in February, and C apacity Utilization was up to 74.4% from 73.4%. Finally, the National Association of Homebuilders Index came in at a strong 83 for April versus 82 in March.

Fixed Income

Investors continue to bet against the U.S. Treasury market in anticipation of higher yields, but last week proved a setback for those investors as even in the face of better economic news as the pandemic seems to have passed its peak, Treasuries rallied. The debate over the long-term outlook for the $21 trillion is far from over though. The bearish view has dominated in 2021, but that was just dealt a blow as Treasuries posted their biggest weekly gains since August. And some on Wall Street see potential for yields to stage a brief foray to even lower yields. Ten-year yields tumbled to below 1.60% last week, a stunning turnaround after the specter of a breach of 2% permeated the market just a few short weeks ago. The bond rally gained speed as evidence of robust international demand spurred some investors to exit short bets, a move that seems counterintuitive as robust economic news usually leads to weakness in the fixed income markets. It does not look like there is much help in the near-term for the market bears with this week devoid of major economic releases, Federal Reserve officials in a black-out period in front of their next meeting on April 28 and geopolitical tensions on the rise. What is more, the fate of the next U.S. spending plan from Congress is unclear, and the reopening of the economy may take a little bit of a breather as federal regulators paused Johnson & Johnson's Covid-19 vaccine rollout. After the worst quarter since 1980, the Treasury market has gained about 1% this month, paring its loss for 2021 to around 3.30%, according to Bloomberg Barclays Index data through last week. The ten -year Treasury note closed last week at 1.58%, down about 20 basis points from the more than one year high reached at the end of March. Fed Chairman Jerome Powell has said that while the economy has appeared to have turned the corner, central bankers are not in a hurry to remove monetary support. BlackRock Inc., the world's biggest asset manager, is among those predicting the Fed will begin communicating plans to taper its bond buying by mid-year. The median forecast in a recent Bloomberg survey is predicting the ten-year note will end 2021 at 1.86%.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.01%	3 mo	-0.07%	3 mo	0.16%	3 mo	0.11%
6 mo	0.04%	6 mo	-0.06%	6 mo	0.17%	6 mo	0.11%
1 yr	0.06%	1 yr	-0.02%	1 yr	0.21%	1 yr	0.13%
2 yr	0.16%	2 yr	0.17%	2 yr	0.28%	2 yr	0.16%
5 yr	0.83%	5 yr	0.71%	5 yr	1.06%	5 yr	0.54%
10 yr	1.58%	10 yr	1.63%	10 yr	2.08%	10 yr	1.11%
30 yr	2.27%	30 yr		30 yr	2.99%	30 yr	1.72%

Equity

U.S. equity finished the week higher as the S&P 500 closed +1.40%. Continued optimism amongst higher vaccinated population an d infrastructure stimulus. Growth continues to outperform value as the gap between the spaces narrow with Value returning 14.27 % year-to-date and Growth 9.76%. Utilities (+3.69%) and Materials (+3.26%) outperformed with Communication Services (-0.10%) being the only negative sector.

The S&P 500 continues to make new highs as the Large Cap Index closed at ~4185. The S&P hovers in new territory with the 50 -day moving average being the next slight level of support (~3975).

Index Returns	Last Week	YTD
Dow Jones Industrials	1.22%	12.29%
S&P 500 (LCap)	1.40%	11.94%
S&P 400 (MCap)	1.89%	17.97%
Russell 2000 (SCap)	0.86%	14.57%
NASDAQ Composite	1.09%	9.03%
MSCI EAFE (Int'l)	1.67%	8.68%
iShares Real Estate	2.51%	12.98%

Source: FactSet Research Systems

Asset Allocation

Current Sentiment

Cash	Favorable
Short FI	Neutral
Intermediate FI	Neutral
Inflation-Adjusted FI	Neutral
High Yield FI	Unfavorable
International FI	Unfavorable
Equity Income	Neutral
Large Cap Equity	Favorable
Mid Cap Equity	Neutral
Small Cap Equity	Unfavorable
International Equity	Unfavorable
Emerging Markets Equity	Unfavorable
Real Estate	Neutral
Commodities	Unfavorable

Summary below - Current stance on most asset classes:

Cash - Overweighting due to market volatility and uncertainty from Covid-19.

Short Term Bonds - Relative to Intermediate Bonds, the reduced duration is preferable given the oversold long-end of the curve.

Intermediate Term Bonds - The current trading range of intermediate bonds warrants a neutral position with limited upside potential. Some opportunities still remain in certain sectors.

Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.

High Yield Bonds - Spreads are rising given the market turbulence and exposure to unnecessary credit risk when compared to Treasuries would not be advised.

International Bonds - Foreign bonds offer good diversification qualities and higher yield opportunities, however, risks have been elevated recently and investment should be made cautiously.

Equity Income - High quality and higher-dividend-paying companies remain attractive for long-term investors given their favorable risk-adjusted profile and current yield curves.

Large Cap Stocks - A favorable weighting is recommended. Growth continues to be a more favorable style and should continue to be overweighed versus Value.

Mid Cap Stocks - Mid cap exposure remains neutral - more attractive than small caps but not as attractive as large caps.

Small Cap Stocks - In broad market corrections, small cap stocks will suffer most with increased volatility. Underweight until a clearer picture of recovery ensues.

International Stocks - Given most foreign investment is in developed markets and European countries, until sovereign debt concerns are alleviated, an underweight is recommended.

Emerging Market Stocks - Stronger balance sheets, less debt, and better growth potential make emerging markets more fundamentally attractive than developed countries longer-term. However, trade uncertainty and dollar strength provide a headwind for EM in the near term.

Real Estate - Pricing has begun to stabilize and long-term valuations appear attractive. Real Estate should continue to be a strong alternative to other asset classes.

Commodities - Global demand should support higher prices if the global recovery remains on track. Volatility will be higher, and commoditi es will be susceptible to short-term price shocks, however, if used in conjunction with other asset classes, risk can be reduced substantially within a diversified portfolio. Used alone though is not recommended as the short-term outlook is not favorable.

Sources of statistical information are Bloomberg and Ned Davis Research.

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