Monthly Investment Report

March 2021

SUMMARY: _Stocks had mostly positive returns in February amid optimism about an economic rebound, fueled by decreasing Covid-19 cases, a vast rollout of vaccines and perhaps more stimulus from Washington. But that optimism also raised inflation expectations, leading to a rise in bond yields, which depressed fixed-income prices. Nevertheless, the Federal Reserve remains committed to easy monetary conditions until unemployment declines, which should provide a cushion against a possible correction in asset prices._

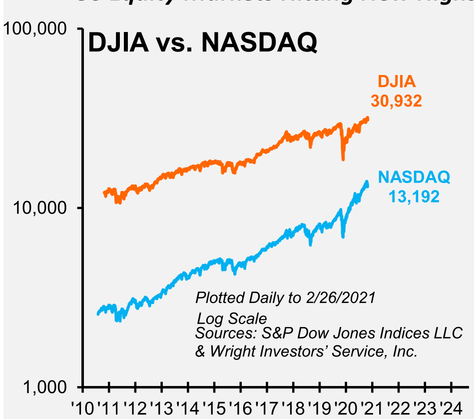
Stocks moved back into the green in February as the number of new Covid-19 cases dropped, more people got vaccinated, and more government stimulus looked to be on the way. Small- and mid-cap stocks once again led the rebound, as they traditionally do in economic recoveries. The S&P 600 Small-Cap index was the best performing U.S. index, returning 7.7% on top of January's 6.3% gain to boost its year-to-date return to 14.4%; that already puts it ahead of its full-year 2020 return of 11.3%. The S&P 400 Mid-Cap index was just behind with a 6.8% return for the month. The large-cap indexes also had positive returns but trailed the small-caps, as the Dow gained 3.4%, the S&P 500 rose 2.8%, and NASDAQ added 1.0%. The technology stocks that predominate in NASDAQ underperformed the rest of the market as interest rates began to rise last month. Energy was the top performing sector in the S&P 500 for the second straight month, soaring 22.7% on higher oil prices triggered by optimism about an economic rebound. Financial stocks gained 11.5% as rising interest rates promise to boost bank profit margins. By contrast, utilities were the worst performers, declining 6.1% as increased borrowing costs threaten their bottom lines. Equity markets outside the U.S. also had mostly positive returns, except in China, where stocks fell 1.0% in dollar terms although they remain ahead of most other foreign markets this year with a 6.3% return.

Bonds had mostly negative returns as interest rates rose on fears of higher inflation stoked by improved economic activity and concerns about ballooning federal spending. The Bloomberg Barclays U.S. Aggregate lost 1.4% as the yield on the benchmark 10-year U.S. Treasury note jumped 33 basis points to 1.40%, its highest level since world economies began to shut down a year ago. But high-yield bonds and bank loans continued to post positive returns of about 0.5% for the month. Outside the U.S., the Bloomberg Barclays Global Aggregate ex-U.S. index lost 1.9%. Commodities including oil, unleaded gasoline and copper rose by double-digit percentages, fueling concerns that an overheating economy may ignite inflation, which will increase demands from bond buyers for higher yields.

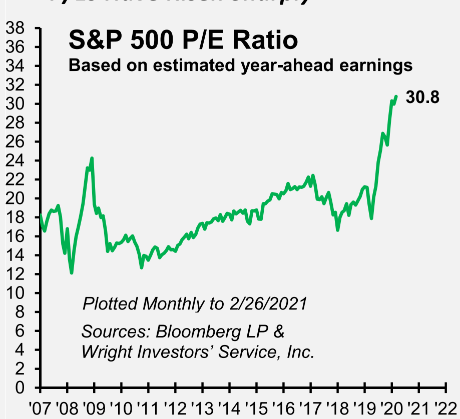
U.S. ECONOMY

The U.S. economy is expected to rebound strongly in 2021 as the number of Covid-19 cases declines and the mass rollout of several vaccines continues, with the added kicker of more stimulus. The latest Wall Street Journal survey of economists expects real (inflation-adjusted) GDP to jump 4.9% this year, up from its January forecast of 4.3%. That would be the strongest annual growth rate since 1984's 7.2% rate and a sharp reversal from last year's 3.5% decline. Even Federal Reserve chair Jerome Powell, who has been more skeptical of a resurgence than most, sounded a bit more optimistic after the Fed's January meeting. "While we should not underestimate the challenges we currently face, several developments point to an improved outlook for later this year," he said. Indicators released in February validated that optimism. The Institute for Supply Management's manufacturing index climbed more than two points in February to a three-year high of 60.8. Likewise, durable goods orders for January jumped 3.4%, their strongest monthly increase since last July; ex-transportation, orders were up 1.4%, more than double expectations. Industrial production rose a better-than-expected 0.9%, its fourth straight monthly increase as capacity utilization climbed to 75.6%, its highest level since February 2020, when enforced lockdowns began. Leading indicators rose for the third month in a row, rising 0.5%, leading the Conference Board to revise its GDP growth forecast upward to 4.4% this year.

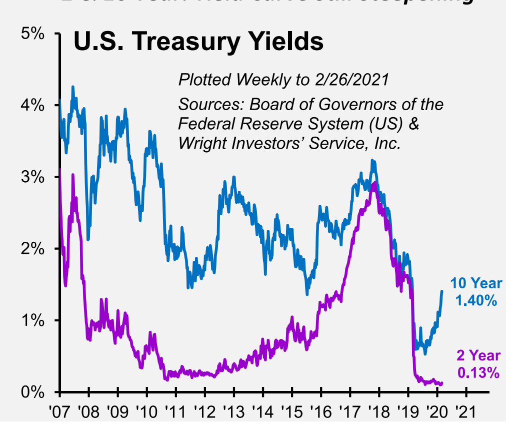
US Equity Markets Hitting New Highs



P/Es Have Risen Sharply



2 & 10 Year: Yield Curve Still Steepening



Total Investment Returns — 2/28/2021	February	Last 12 Mos.
Dow Jones Industrial Average	3.4%	24.4%
Nasdaq Composite	1.0%	55.3%
S&P 500 Composite	2.8%	31.3%
S&P MidCap 400	6.8%	39.8%
S&P SmallCap 600	7.7%	46.7%
MSCI World ($)	2.6%	29.3%
MSCI World ex U.S. ($)	2.5%	22.1%
Bloomberg Barclays U.S. Aggregate	-1.4%	1.4%
90-Day Treasury Bills	0.0%	0.4%
Consumer Price Index NSA* (Jan 2021)	0.4%	1.4%

*NSA: Not Seasonally Adjusted   Sources: Bloomberg LP & Wright Investors' Service, Inc.

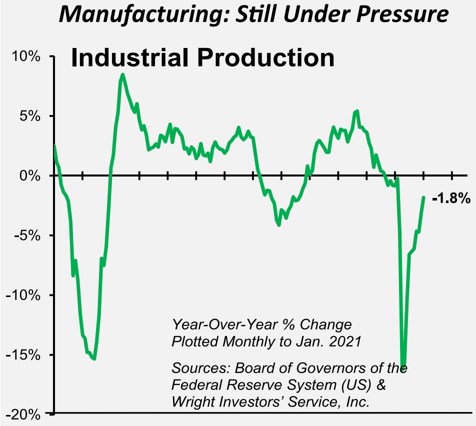
Fiscal stimulus helped lift consumer spirits in January, with the promise of even more to come. Household income jumped 10%, boosted mainly by December's $900 billion stimulus measure, which included $600 checks to most individuals and $300 a week unemployment bonuses. That propelled personal spending up 2.4%. Retail sales were likewise up by 5.3%. Much more is likely to follow, as the House in late February passed a $1.9 trillion stimulus bill that includes additional $1,400 checks for most Americans and extends unemployment benefits through August, with bonus payments raised to $400 a week. Not surprisingly, perhaps, the Conference Board's consumer confidence index rose more than two points to 91.3 last month. While some view the next stimulus round as unnecessary largesse at a time when the economy seems to be rebounding, it's important to remember that the unemployment rate—one of the Fed's mandated concerns—remains about two percentage points above where it stood before the pandemic began, new hiring has slowed, and new jobless claims remain elevated at an average weekly count of more than 800,000.

Prospects for the housing market may be dimming as mortgage rates rise, soaring lumber prices raise prices on newly-built homes, and rising existing home values threaten to put a damper on sales. Existing home sales rose 0.6% in January to an annual rate of 6.69 million units, but pending home sales slipped 2.8% as the median price of a home rose to $303,900, up 14.1% over a year earlier. For the second straight quarter, median home prices rose in all 180 U.S. metro areas, with 161 of them rising by double-digit percentages. New home sales rose 4.3% to an annual rate of 923,000, but housing starts dropped 6.0% as lumber prices jumped a record 73% year-on-year, threatening to impede new construction as more people get priced out of the market. The median price of a new home rose to $346,400 in January, with the average price climbing to $408,800.

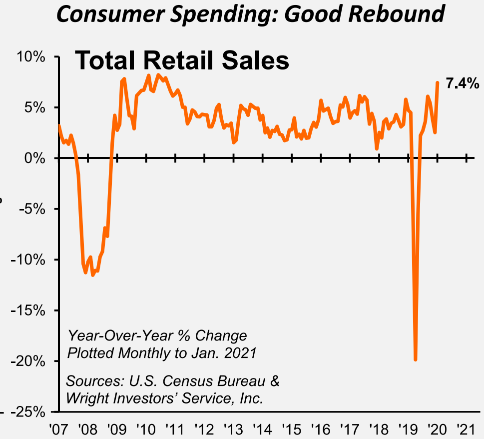
INVESTMENT OUTLOOK

With stock prices and valuations at historically high levels and interest rates climbing steeply, some investors are getting nervous and pulling back, while others are stretching into more speculative plays in search of yield and higher returns. That has many wondering if the long bull market in both equities and bonds is poised to end, or at least correct. However, while the economic numbers we just went through indicate a coming resurgence, we should also remember that we're not there yet. "The economy is a long way from our employment and inflation goals," Powell cautioned in his Senate testimony last month, adding that the Fed has no intention of tightening monetary policy or raising its benchmark interest rate until "substantial further progress has been made," which he said is "likely to take some time." A lot of pent-up demand remains in many important sectors of the economy, such as travel, hospitality and entertainment, which have yet to fully reopen. Moreover, those sectors of the economy that have actually benefited from the pandemic, such as e-commerce and remote technology, are likely to continue to make advances, we believe. That's why we maintain a constructive outlook on the markets and continue to believe that the best approach is to hold a diversified portfolio of quality assets for the long-term.

Manufacturing: Still Under Pressure



Consumer Spending: Good Rebound



Core Inflation: Dropping Again