FINANCIAL MARKET COMMENTS – March 2021

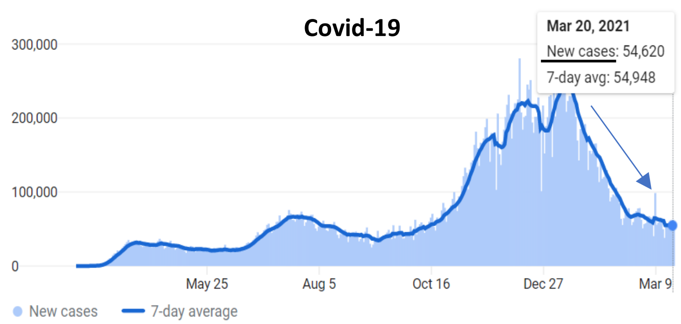
Clearly Recovering!

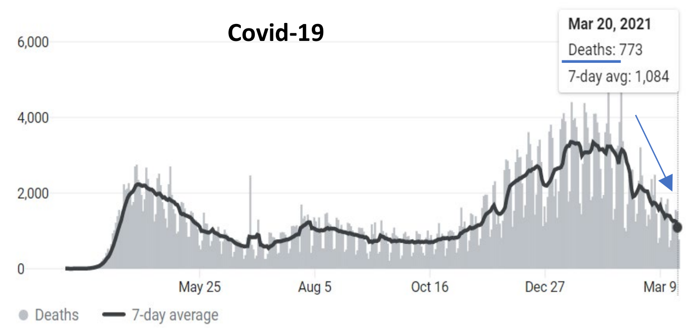
THE WAY FORWARD

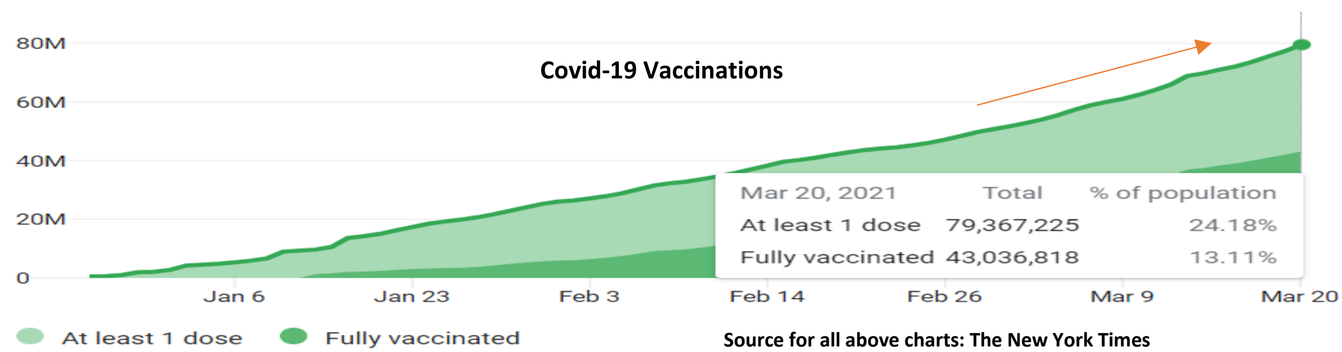
When the end of March approaches, and spring begins, there is typically anticipation of "renewal" and recovery from the winter doldrums. That is clearly the picture now. Improvement is underway in the health, social dealings, and economy of the U.S., and globally, with few exceptions.

The apparent success of, and rapid inoculation with various Covid-19 vaccines have set the stage for a continued economic upturn. In addition, the passing of the ***American Rescue Plan***[i], improving employment data, rising levels of U.S. household net worth and liquidity, pent-up consumer spending plans, and the resultant anticipated increase in corporate profits have resulted in accelerating U.S. GDP growth and a positive stock market.

While a degree of caution is warranted, the coronavirus charts below strengthen our expectations that recovery will continue, and the worst is likely behind us.



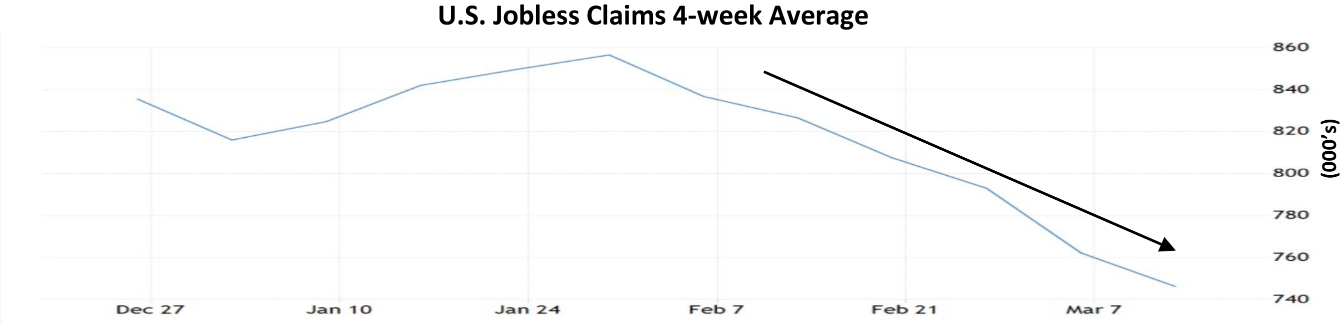




Source for all above charts: The New York Times

With the pandemic receding, stimulus checks being spent or anticipated, employment, which benefits from increased consumer sentiment and spending, has improved. This trend should continue as "reopening" broadens and employers rehire to meet current demands and restock depleted inventory.

U.S. Jobless Claims 4-week Average



Source: Trading Economics

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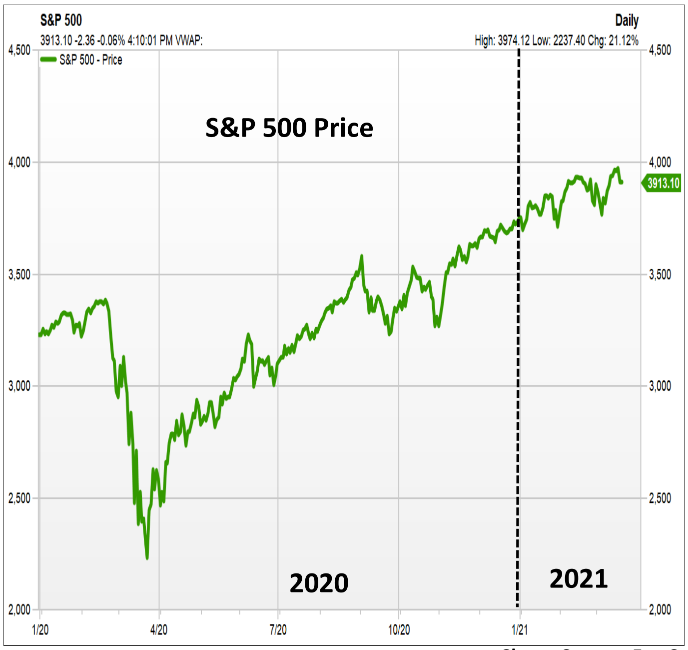
A VOTE OF CONFIDENCE

Investor confidence has grown that the coronavirus is being contained, that the stimulus plan will have the desired impact on consumers and businesses, and that the Federal Reserve will remain accommodative. This renewed confidence has expressed itself in continued positive equity market (S&P 500) returns, and rising interest rates.

The Financial Markets 12/31/2019 – 3/19/2021



Charts Source: FactSet Research Systems

Following a very positive, but somewhat unanticipated total return of +18.0% in 2020[ii], the S&P 500 is again positive +4.2% (price only) thus far in 2021. The index has risen 67% since the depth of the market decline (3/23/20) a year ago and has provided positive returns during eleven of the past twelve years[iii].

As one can see from the chart on the right above, the yield on the benchmark 10-year U.S. Treasury note has increased meaningfully from its thirty-year low of 0.55% on July 30th last year, to the current 1.74%[iv]. This increase has resulted in a good deal of commentary about being a problem for the Fed. It should be noted however, that the current yield is meaningfully below its long-term average of 4.37%[v] and still below the yield on the 10-year Treasury at the beginning of last year. The current increase reflects the expectation of increased economic growth.

Despite this recent increase in interest rates and renewed inflation expectations, Federal Reserve Chairman Powell reiterated during the Fed's meeting last week that he believes any spike in inflation will be only transitory. Powell further stated that the Fed does not intend to raise interest rates until the U.S. economy reaches "maximum employment, and inflation has exceeded 2.0% on a sustainable basis". The expectation is that those conditions will not occur for, at least, another two years. The current annualized rate of inflation (CPI for All Items) is 1.68% and even a rate of 2.0%+ will still be appreciably below the long-term average rate of inflation of 3.21%[vi].

REINFORCEMENT

The information/charts below represent a cross section of important trends or estimates that help reinforce our (and hopefully your) confidence that the U.S. economy is on track to grow strongly during the next twelve to twenty-four months. That economic growth should provide corporate earnings growth that

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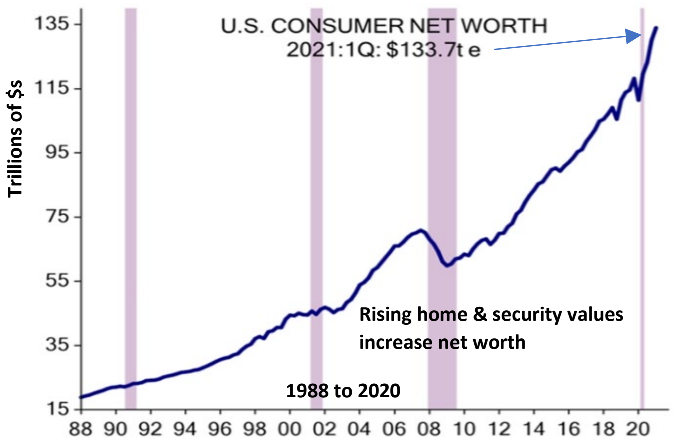
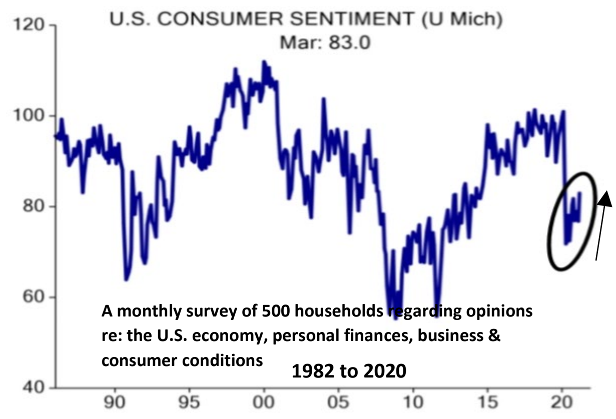
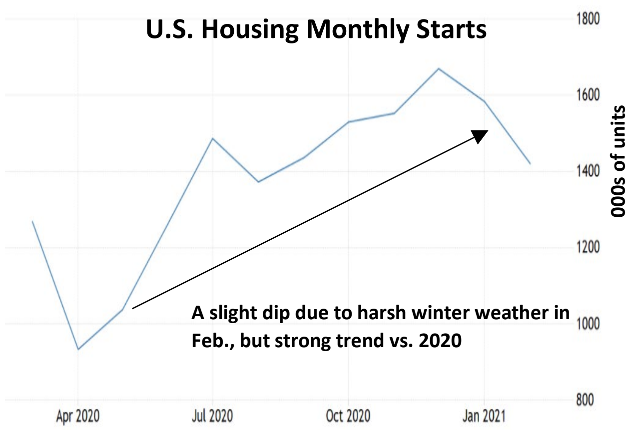
supports current and future stock market valuations. While we expect these trends to materialize and have a positive impact on equity market returns, challenges and volatility will remain.

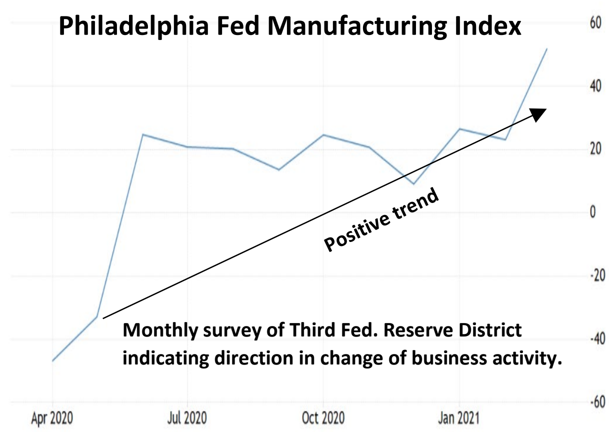




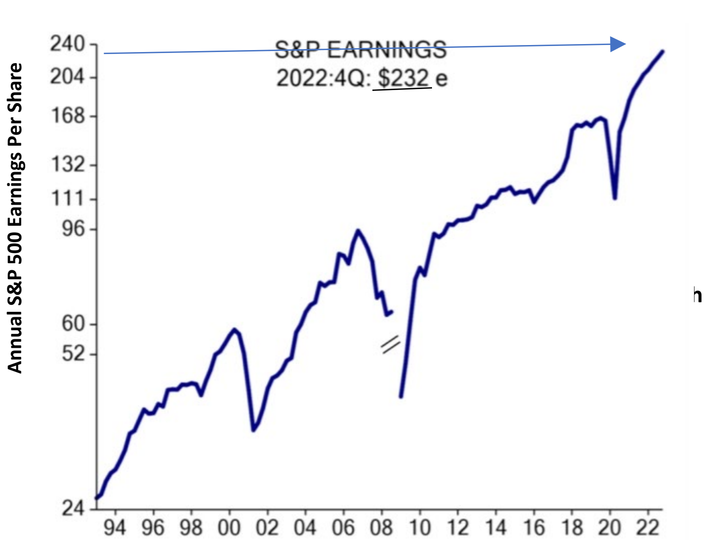
Source both charts above: Evercore ISI



Source: Trading Economics; U.S. Census Bureau



Source: Trading Economics; Fed. Reserve Bank of Phil.



Source & estimates, both charts: Evercore ISI

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PHILOSOPHY AND DISCIPLINES REMAIN IN PLACE

As we have observed recently, financial market trends often waver e.g., growth stocks vs. value stocks, commodity stocks vs. REITS, utilities vs. financials, good companies vs. "turnarounds"? Our philosophy and disciplines don't change.

We continue to emphasize the importance of maintaining a long-term investment perspective, and to actively manage portfolios in a well-diversified and balanced manner. Yet when equity markets become "highly oversold" or "too dearly" valued (which occurred at various times during the past several years) we won't hesitate to act opportunistically to purchase or sell/trim securities to enhance long-term returns. Our single objective though is to preserve and grow our client's capital.

Our security selection process focuses intently on the stocks of companies that can grow revenues and earnings at rates greater than the average company while maintaining a solid financial footing and keeping management in place. Some of these investments have grown quite large as a percent of total equity holdings in many portfolios. As a result, a topic for future meetings may include the suggestion to modestly reduce several of the holdings and increase diversification in a manner that requires some tax consequence. We believe this may be a modest "price to pay" after more than a decade of strong capital appreciation.

As always, we appreciate your confidence, particularly during the past year's challenges, and we value-highly our relationship and friendship. We look forward to any comments, questions or critique' that you might have, but most importantly, we look forward to seeing you, in person, again soon.

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[i] American Rescue Plan Act, Passes U.S. Congress on 3/11/2021
[ii] Stocks, Bonds & Bills, New York University Stern School of Business
[iii] Stocks, Bonds & Bills, New York University Stern School of Business
[iv] United States Treasury Dept. 3/19/2021
[v] Long-term (1913-2020) U.S. Treasury Note average return 4.37%; Y-Charts Inc.
[vi] InflationData.com; 1913-2020