50 Congress Street, Suite 900
Boston, MA 02109
(617) 557-7407
www.minotdeblois.com

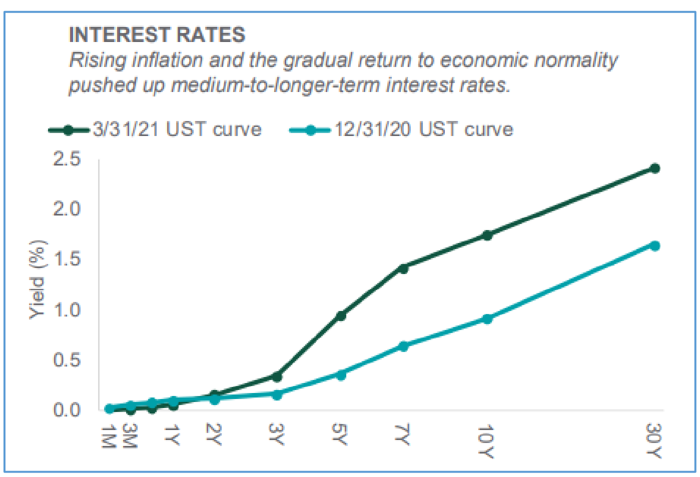
1st Quarter 2021 Investment Commentary
April 2021

U.S. stocks continued their strong performance to start the year, as the S&P 500 reached a new all-time high in the first quarter and ended March with a year-to-date return of more than 6%. This rise was accompanied by a change in market leadership, as the technology growth stocks (e.g., Apple) that had led markets through much of the recovery passed the baton to more cyclical stocks. Companies in these more economically sensitive industries have seen their share prices increase following positive news on vaccinations and business reopening, and the tailwind provided by the recently passed federal stimulus. Overcoming – for the time being – concerns about rising interest rates and inflation, U.S. stocks outperformed their foreign counterparts, while bonds declined on modestly rising interest rates.

Major Asset Class Indices[1]	Total Return Q1 2021	Total Return 2020 Year
S&P 500 (U.S. Large Cap Stocks)	+6.2%	+18.4%
MSCI EAFE (Foreign Developed Large Cap Stocks)	+3.6%	+7.8%
Bloomberg Aggregate Bond Index (U.S. Investment Grade Bonds)	-3.6%	+7.5%
US Short-Term Treasury Bills (Money Market Fund)	+0.0%	+0.4%

There were several significant capital market events in the quarter, including a retail-driven rally in smaller, heavily-shorted stocks such as GameStop (GME). Enabled in part by the growth of new discount brokerage houses and the advent of zero-cost trading across many retail investment platforms, these rallies ultimately led to large losses at several major hedge funds. Even though these events did not have a direct impact on our investment strategy, we continue to monitor them for insights into weak points in market structure and risks posed to both retail and institutional investors by higher levels of leverage.

As the economy has continued to show signs of improvement in concert with the Covid vaccine rollout, yields on bonds have increased for maturities above two years, and have risen more sharply for bonds with a maturity of 5 years and longer. The bellwether 10-year U.S. Treasury bond's yield has increased from less than 1% on January 1st to 1.7% at the end of March, a large move in percentage terms over a short time period. A gradual steepening of the yield curve is generally viewed positively by equity investors, as it indicates an improving economy.



In the U.S., the pace of vaccinations has now reached 3 million per day, while the economy continues to recover with the relaxation of Covid-related restrictions. While unemployment remains significantly above pre-pandemic levels, job

[1] The S&P 500 Index is a broad measure of U.S. large capitalization stocks; the MSCI EAFE Index (Net) is a broad measure of mid-large capitalization stocks in developed international markets; the Bloomberg U.S. Aggregate Bond Index is a broad index of U.S. investment grade bonds; the 90-Day U.S. Treasury Bill represents short-term government money market funds. Returns are provided by sources deemed to be reliable but are subject to change or revision.

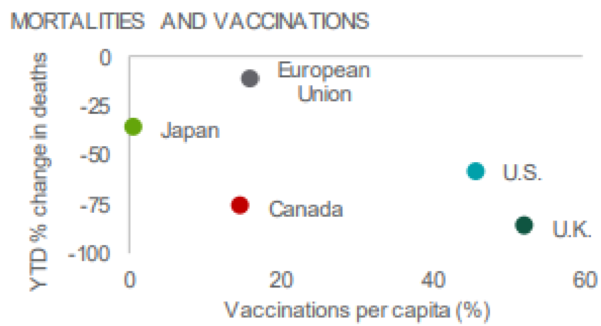
openings surpassed 7 million in the U.S. in a sign of strengthening demand for labor. The recently passed Covid relief bill and continued monetary support from the Federal Reserve will help to support the economy as it continues to recover.

Looking beyond the U.S., the International Monetary Fund (IMF) raised its forecast for global GDP growth to 6% in 2021, marking a sharp post-pandemic recovery with a rate of growth that, if achieved, would be the highest since 1980. This follows a global GDP decline of 3.5% in 2020, which was the worst 1-year contraction of economic output during peacetime since the Great Depression.

Controlling COVID

From a health perspective, there is still much to be done to address COVID-19, especially as new strains push cases higher. From an investment perspective however, the pandemic is mostly behind us. There is clear evidence that vaccines are working (see chart). And, in short order, any U.S. citizen who wants a shot can have one. European citizens must stay patient for now. But production is ramping to get the continent back on track. As the pandemic comes under control, economies are reopening – and recovering.

VACCINE EFFECTIVENESS



While advances are being made in the pace and breadth of Covid vaccinations, continued progress on controlling the virus remains a key factor to watch and likely the major short-term determinant of the pace of economic recovery. Longer-term, we are closely monitoring economic factors to evaluate whether recent interest rate and inflation pressures will be transitory or will persist well beyond the end of the pandemic.

A major risk to the financial markets is that the U.S. Federal Reserve and other global central banks may be forced, as a result of accelerating inflation, to tighten monetary policy more quickly than they would prefer – a development which would likely dampen economic output and cause investors to reduce their appetite for equity risk. The Fed has continued to state its view that core inflationary pressures are contained, observing that its preferred inflation measure (the Personal Consumption Expenditure [PCE] Index) remains well below its 2% target. While this likely remains true of aggregate inflation measures, it is worth noting that the annual food inflation rate is hovering around 4%, its highest level in nearly a decade, while crude oil prices have risen more than 30% in the past three months and lumber prices have more than doubled since October. History, however, shows that equity investors will tolerate at least some acceleration in inflation if it is accompanied by stronger economic growth and higher earnings.

Taken on balance, developments in the first quarter of the year have not changed our overall investment outlook, which remains cautious in the face of continued strong equity performance and relatively high market valuations, and which is further complicated by the difficulty of evaluating both individual and aggregate company data as we emerge from an unprecedented year of pandemic lockdowns. The appearance of even modest inflation, a rise in interest rates, and the rapid expansion of government debt also lead us to position portfolios more cautiously and to maintain our more conservative approach to fixed income by keeping bond maturities relatively short. Above all, we remain focused on our long-term investment goal of participating in market increases while limiting exposure to significant declines by regularly rebalancing diversified portfolios of high-quality stocks and bonds, which we believe should compensate investors for the inevitable uncertainty present in the economy and capital markets.

Zachary Bourque CFA   Gregory Gullickson CFA   Adam Rutledge CFA