DANN ASSET ADVISORS, LLC

First Quarter 2021 Update

April 13, 2021

1Q21 Highlights

- Additional fiscal stimulus, an accommodating Fed and accelerating vaccine availability underpin another strong quarter for stocks
- Economically sensitive stocks lead the market, continuing the shift that began last fall
- Longer term interest rates rise significantly, reflecting higher economic growth expectations
- Bonds have a difficult quarter given the rise in yields

The table below summarizes the performance of some key indices during the first quarter:

Market Performance	
Index	% Ch. 1Q21
S&P 500	6.2
MSCI All Country World ex US	3.5
MSCI Dev. Mkts. (ex US)	3.5
MSCI Emerging Markets	2.3
US Aggregate Bond	-3.4
Liquid High Yield	0.7

Source: Morningstar, iShares

Equities. U.S. stocks registered their fourth straight quarter of gains, with the large-company S&P 500 index returning 6.2%. For perspective on the market's outsized moves in response to the pandemic's impact on the economy, we note that: a) the S&P 500 had its fastest ever 30%-plus decline between February 22 and March 23, 2020[(1)], and b) the 77% one-year return from the March 23 low marked only the fifth time the market has gained 75% or more in a one-year period[(2)]. The last time the market saw gains or losses of such speed and magnitude was during the 1930s.

The first quarter saw a continuation of fourth quarter trends, with value stocks outperforming growth and small outperforming large. For the quarter, the Russell 1000 Value index returned 11.3% compared with 0.9% for the comparable growth index. The Russell 2000 index of small company stocks returned 12.7%, although at its March 15 peak it had been up nearly 20% (an indication of volatility throughout the quarter).

The biggest gainer among the indices we track was the Russell 2000 Value index, which returned 21.2% for the quarter. We view this index as a proxy for lower-quality U.S. stocks, given the predominance of small, economically sensitive, often leveraged companies within the index. Generalizing, the first-quarter's best performers were among those that had been hardest hit during the first half 2020 downturn. International stocks trailed the U.S., likely due to continuing Covid-19 impacts on European economies and less fiscal stimulus than being provided in the U.S.

Fixed income. While still low by historical standards, 10-year treasury yields rose significantly during the quarter, from 0.92% at year-end 2020 to 1.75% on March 31. The prospect of an improving economy, the most recent stimulus package and the potential for an infrastructure bill all likely contributed to the increase in longer term rates. Two-year treasury yields increased only

modestly, from 0.12% to 0.16%, reflecting the Fed's continued commitment to keeping rates low in the portion of the treasury market they can most closely control.

With the increase in rates, investment grade bonds as measured by the Barclays U.S. Aggregate Bond index had a poor quarter with a -3.4% return. Longer dated bonds did significantly worse, with the iShares 20+ Year Treasury Bond index returning -15.1%. High yield bonds eked out a small positive return due to higher coupons and a narrowing of the spread to Treasuries.

Market sectors. Energy was by far the best performing sector during the quarter with a gain of 32%. Financials and industrial stocks were the second and third strongest groups with gains of 16% and 11%, respectively. After a very tough first half of 2020, each of these sectors began rebounding during the fourth quarter in advance of the economy's likely improvement. This trend continued during the first quarter.

For the first time we can remember, technology was the quarter's worst performer. Healthcare and consumer staples companies were the second and third worst sectors. The quarter's gain for each of the three groups ranged from 1% to 3%. To us, the common factor for these three sectors is that each contains businesses that benefitted from or were able to get through the worst of the Covid-19 downturn relatively unscathed. The businesses of the companies in these sectors generally are more stable and less sensitive to economic downturns than those of the quarter's best performing groups.

Portfolio Positioning

For many clients owning fixed income we added modestly to a high yield bond mutual fund that we'd begun purchasing late in 2020. We believe that high yield should do relatively well in an environment with significant fiscal and monetary stimulus even though the spread between high yield and investment grade rates is low. For a number of equity-only clients we purchased a position in an industrials sector index exchange traded fund (ETF) in early February. Similar to the financials ETF purchased last October, the industrials ETF was bought to gain additional exposure to economically sensitive stocks in advance of what we believe will be a period of strong economic growth through the remainder of 2021.

Near-term outlook. The S&P 500 is currently trading at 21.5x the average of 2021/22 consensus earnings estimates ($188.50, estimates provided by Yardeni Research). This multiple is high by historical standards but may be justified by all the recent fiscal stimulus and the Fed's commitment to keeping rates low. Our guess is the market doesn't have a lot of near-term upside from current levels. Of course, in January we predicted a flat market for all of 2021 – so far not terribly on target. We don't put a lot "stock" in our or other investors' near-term market projections.

Having said that, we believe it's important to be right on whether the recent significant outperformance of cyclical/value stocks is the start of a long-term trend or just a typical bounce that often occurs at the start of an economic recovery. Given the breadth of pandemic induced lockdowns last spring, we believe we're currently in the midst of the strongest year over year economic and earnings growth that we'll see this cycle. In our opinion, cyclical stocks have moved up over the past six or so months in anticipation of this growth and, at current levels, already in many cases reflect a very substantial recovery.

We believe that by this summer the market will begin considering slower growth rates for the fall and certainly much slower growth for 2022 (both against tougher comparisons with the economy having begun reopening last summer, albeit in fits and starts). We're anticipating that as the market discounts this slower growth, there will be at least a partial rotation back to higher quality stocks.

(1) CNBC, March 23, 2020
(2) MFS Strategist's Corner, March 2021

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