

Market Commentary—First Quarter of 2021

The financial markets continued the trend higher in the first quarter of 2021. Retail investors that use Reddit and the Robinhood trading platform made headlines in their ability to drive certain stocks like GameStop to unprecedented highs. These types of price surges are frequently found in asset bubbles. It appears that investors big and small showed little fear in risk-taking this quarter. This might be a speculative moment for certain equity traders, or it could be a phenomenon that continues during this period of stimulus money being injected into the U.S. and other major economies of the world. Long-term interest rates jumped this quarter but remain near historically low levels as the yield on the 10-year U.S. Treasury is currently at 1.7% versus 0.9% at the end of last year. The major equity indices continue upward with all making recent new highs. Additionally, small cap stocks continue their recent out performance and value stocks such as the energy sector had significant gains this quarter.

The first quarter earnings season which begins this week will have significance as it is the first quarter in comparison to a full year of the pandemic. This quarter the winning sectors were energy, financials, industrials, telecom services and real estate. The equity markets have had a rotation into more cyclical, smaller and mid-cap stocks, which is indicative also of a broader participation in the gains and momentum of the markets.

The table below illustrates First Quarter, Last 12 Months and 2020 Returns (percentages are for total returns):

Time Period	Dow Jones Industrial	S&P 500 Index	Nasdaq Composite	Barclays U.S. Aggregate Bond
First Quarter	8.3	6.2	2.8	-3.4
Last 12 Months	53.8	56.4	72.0	0.7
Calendar Year 2020	9.7	18.4	43.6	7.5

Growth in U.S. Government spending and deficits and what investors do now

It is certain that the new Biden administration is acting on many fronts. It is showing very early that more government spending and higher budget deficits will continue indefinitely and that higher taxes are also to be expected this year. There is always controversy surrounding higher government spending and rising debt. Will the ever-increasing Federal debt slow economic growth and lead to inflation? The national debt has continued to soar for the past twelve years. The interest on this debt is becoming an increasing larger portion of the Federal budget. This servicing of the debt crowds out more productive spending/investments. And many economists believe this will lead to higher inflation over time. Currently, the expectation is for broad economic expansion in the U.S. and the world coming out of the pandemic. The Federal Reserve is willing to accept higher inflation in the short term. Meanwhile bond investors are beginning to demand higher yields for the risk of rising rates. Industries such as home-building and construction are negatively impacted by higher long term interest rates. Other industries like banking and insurance need higher interest rates to achieve better profitability. Investors need to keep to the discipline of having diversification in their investments. This is especially important during times of change and inflection in the markets. SCO over this past year has remained diligent in following the CDC guidelines regarding COVID-19. We have reopened our office for client visits, and we welcome you. We do ask that you wear a mask during your stay. Please review this report and contact us if you wish to schedule a time to discuss it in detail in person or over a video call.