Dear xxxx;

2021 started off rather unpleasantly with a capitol insurrection; however, cooler heads ultimately prevailed and at just after 3:40am on January 7th, Congress formally affirmed President-elect Joe Biden's victory. The social, political, medical, and economic news during the remainder of the quarter certainly was not perfect, but it was significantly more upbeat than the world had become used to in 2020. The COVID-19 vaccine rollout is underway, and America as well as the rest of the world is looking forward to getting back to normal.

Many of the primary drivers of the stock market's performance this quarter were previously unloved segments of the market. During the quarter, large cap value outperformed growth by 9.89%. Small cap soared by 14.78% and the reopening trade continued to run hot. There were significant price improvements in Reddit-pumped stocks; however, these companies are so small that their price changes did not have much of an impact on the broader market.

The first quarter of 2021 was the first quarter in a while where the broad market indices we track delivered substantially diametric results. Over the past few years and especially in 2020, commodities have been beaten too far down and after exploding upward by almost 20% in mid-March, they finished the quarter with a gain of 13.55%. US stocks (+5.80%) hit a record intraday high on the last trading day of the quarter before closing slightly lower. International stocks (+3.07%) faired moderately well while US fixed income (-3.36%) delivered one of its worst quarterly performances in decades. This letter will provide an analysis of the major geopolitical, financial, and thematic events that shaped the quarter as well as our predictions for the rest of 2021 and beyond.

Busy January

The violent political theater experienced on January 6th did not have nearly as much impact on the stock market as could have been expected. In fact, while the market slipped from its intraday high of +1.53%, it still finished the day gaining a modest 0.60%. This was shocking given the scenes unfolding on live tv at the capitol. The remainder of January brought with it a blue sweep in Georgia, another impeachment, a President kicked off social media, and the swearing in of a new President.

Looking at the US stock market, late in the month it became apparent that a group of Reddit traders were organizing via the Wall Street Bets forum to drive up the price of certain securities. A short squeeze occurs when the price of a heavily shorted security rises and short sellers are forced to cover by purchasing shares, thereby driving the price even higher. Heavily shorted securities like GameStop, AMC, Nokia, Black Berry, and Koss rose by hundreds or thousands of percent during the last few days of January. While some individual investors made money, most ended up buying too high and forgetting to sell before the prices ultimately dropped back down to reality. On the other hand, many hedge funds and other institutional investors made money by initiating short positions once the prices of these securities were at or near their Reddit-induced peak.

COVID-19 Update

Based on data disseminated by John's Hopkins Coronavirus Resource Center (https://coronavirus.jhu.edu/map.html), as of 4:18pm CST on March 31st, 2021, globally, COVID-19 has infected 128.5 million people, killing more than 2.8 million. In the US, 30.4 million have been infected and more than 550 thousand killed. Unlike in past letters, finally, there is universal good news as it relates to the fight against COVID-19. With eight different vaccines available throughout the world, the vaccine tracker run by Bloomberg shows that 577 million doses have been administered across 141 countries. In the United States, an average of 2.83 million doses are administered daily, and a total of 150 million doses have been distributed since the vaccine became available in mid-December 2020.

With 23.1% of Americans vaccinated, the US is rounding the corner in its fight against COVID. Travel and leisure spending are both accelerating, especially by older Americans who were early receivers of the vaccine. Based on data from the CDC, both average daily new cases and average daily deaths have decreased by more than 70% from the highs experienced in late December 2020. Anecdotally, the number of patients hospitalized at our local hospital in Williamson County, TN, decreased from 55 in December 2020 to three on March 15, 2021. While we are not out of the woods yet, we are very optimistic about the continued recovery both domestically and abroad.

Stimulus Update

Almost two months after President Biden was sworn in as the 46th President of the United States, on March 11th, he signed The American Rescue Plan, the third Coronavirus relief package. This $1.9 trillion bill brings the total Coronavirus relief aid dispensed by the US government to $5.3 trillion. Unfortunately, this bill failed to unify both sides of the aisle, as it was passed without the help of any Republican members of the House or Senate.

Below are the highlights of The American Rescue Plan:

- $1400 to every adult and child who meet the income requirements
- Direct aid to state, local, and tribal governments
- Unemployment benefit expansion including extending the additional $300 weekly unemployment benefit until September 6, 2021
- An increase in the tax credit for children from 2,000 to 3,000 and up to $3,600 for children under 6
- Funding for vaccine distribution, COVID-19 testing, and contract tracing
- Monetary support to help schools safely reopen
- Financial resources for small business, emergency rental assistance, mortgage assistance, and relief to prevent homelessness
- Tax benefits to recipients of stimulus payments, unemployment benefits, and PPP loans

In separate news, on March 29th, the CDC announced it will extend the national eviction moratorium through June 30th.

Interest Rates Soar

During the last three months the yield on the 10-Year Treasury rose from 0.915% to a high of 1.749% on March 18, before ending the quarter at 1.74%. This is a quarterly increase of 90.16%. As it relates to mortgage rates, the average 30-year rate increased by almost 18%, from 2.9% at the beginning of 2021 to 3.42% today. The Bloomberg US Aggregate Bond Index, the broadest measure of US fixed income, reported its worst quarterly performance (-x.xxx%) since GA Pincus Funds began collecting data on January 1, 2000.

There are three primary factors that caused this increase in rates. First, many market participants fear that the trillions of dollars printed in the last year will cause inflation which will force the Fed to raise interest rates. Second, as US interest rates ticked higher, Treasuries began to look like a better investment, and investors took the opportunity to replace high flying technology stocks with more secure US Treasuries. Third, with rates hovering at or near zero, unless the Fed had decided to cut rates below zero, the only direction they could go was up. We knew rates would eventually increase but we did not predict the velocity of the increase. The Fed tried to calm markets by explaining that while inflation was expected due to the COVID-19 pandemic, it would not be long-lasting, nor would it lead to increases in the Federal Funds rate until at least 2023. While these comments helped provide a brief respite, the announcement of President Biden's first of two infrastructure bills caused rates to end the quarter at a 14-month high.

Bitcoin

The US Dollar price of one bitcoin surged from $29,290 to $58,528, an increase of almost 100%. A currency is defined by Oxford as "a generally accepted system of money." A currency is defined by Investopedia as a "store of value." Bitcoin is not a currency. Bitcoin and other "cryptocurrencies" are not true currencies because their values are volatile, and they cannot be regularly accepted to purchase goods and services. Any investment in Bitcoin is pure speculation on price appreciation. If you decided to take the leap into bitcoin at the stock market low in March 2020, you would have generated returns of 950%, 10x greater than the price appreciation provided by the S&P 500.

Currently there are no US-listed Exchange Traded Funds that hold bitcoin. Should a bitcoin ETF get approved by the SEC and pass our internal quality tests, we will allow our clients to adjust their holdings to include bitcoin. While many parties have tried to launch Bitcoin ETFs at the time of print, the SEC has been reluctant to approve them. If you are interested in purchasing bitcoin or other "cryptocurrencies" we recommend using Voyager Digital as this company supports trading without transaction fees. If you open an account and trade using the link provided we both receive 25 dollars of Bitcoin.

President Biden's Agenda 2021+

President Biden's "Build Back Better" political agenda has been relatively consistent since he initiated his presidential campaign. The first and most important step in this plan was his goal of vaccinating 100 million Americans in his first 100 days. After achieving this goal in 60 days, he doubled down, vowing to vaccinate another 100 million Americans in the remaining 40 days. Achieving this milestone has helped set the stage for Biden's primary objective: infrastructure.

President Biden aims to release two infrastructure spending bills. The first, entitled the American Jobs Plan, was released on March 31st at an event in Pittsburgh, PA. This plan focuses on clean-energy improvements including but not limited to infrastructure (roads, railways, airports, water systems, broadband, etc), home care services, manufacturing, R&D, schools, and workforce development. The second bill will be aimed at improving childcare and healthcare programs (daycare, homelessness, school modernization, etc). Splitting up the bills increases the potential for bipartisan support; however, if support cannot be garnered Biden is hopeful the plans can be passed through budget reconciliation.

President Biden has proposed to pay for the American Jobs plan by raising taxes on corporations, creating a minimum corporate tax rate that all corporations must pay, and by preventing US corporations from using other countries as tax shelters. These corporate tax rate changes are estimated to shave 5% off the S&P 500 Earnings Per Share (EPS), lowering 2022 estimated growth from 17% to 12%. While these new taxes may have a negative effect on the near-term performance of the S&P, it likely will not be noticeable to the average individual. We believe the benefits received through the creation of new jobs and improved infrastructure will outweigh the negative financial ramifications of the proposed corporate tax increases.

Payment for the second infrastructure bill has not yet been disclosed; however, it is generally accepted that this payment will be funded through increased taxes on the wealthy. President Biden defines "the wealthy" as those earning more than $400,000 annually. While these bills may cause tax increases, it is very important to understand that tax code changes for individuals or corporations will always be met with new loopholes to bypass those taxes.

Conclusion

The first quarter of 2021 has been extremely busy. Between the political chaos, market volatility, and the lingering effects of COVID-19, every day seems to bring with it a new challenge for the globe and for financial markets. In recent years leading into 2021, stocks, bonds, and commodities have been relatively highly correlated with one another. The last ninety days have bucked this trend. We believe stability of US interest rates between 1.5-2.0% will suppress the performance of the Nasdaq while boosting value names and the reopening trade. Commodities, which are still down 50% since 2013, will continue to perform well. While there will continue to be increased volatility in all global markets, we remain bullish not only on the US stock market but on international stock markets as well.

Client Referral Network

One of the oldest and most successful methods to grow a business is through word of mouth. GA Pincus Funds has been fortunate and has grown substantially due to referrals made by you and your fellow clients. We would like to use our future quarterly newsletters to return the favor to our clients. We plan to dedicate a section of our newsletters to our client's businesses. Rather than list your name or company name, we will instead indicate the category of business and location where you operate. For example, Real Estate Professional in Chicago, or Employment Lawyer in Georgia, or Public Relations Professional in New York, etc. If you would like to participate in this program, please let us know. This referral program is **free marketing** for your business. **We will not accept payments for these referrals.**

Performance Calculations

The performance of your accounts is calculated daily, taking into consideration daily deposits and withdrawals, and those daily returns are combined to form your quarterly, YTD, and since inception returns. When we round off this enhanced precision it may shift your performance by 0.01-0.02% when compared to the calculation ((end date value – start date value)/start date value). Please note, the performance figures on your statement are accurate and are GIPS (Global Investment Performance Standards) compliant.

It is impossible to predict whether and by how much the market will increase or decrease. Our algorithm rebalances your accounts according to changes in the relative weightings of the securities you hold. As one security becomes too heavily weighted the algorithm sells shares in that security. Conversely, as one security becomes too lightly weighted, the algorithm purchases shares of that security. Instead of rebalancing based on time (as most managers do), this algorithm rebalances based on a securities' relative weighting in the portfolio. This gives GA Pincus Funds a long-term advantage. No matter what the market does in the future or has done in the past, if your time horizon is long enough (>1 year), this algorithm has proven itself to be successful.

Please stay safe and healthy. I am always available to answer any questions you may have.

Best regards,

Gabriel

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