QUANTITATIVE ASSET MANAGEMENT, LLC
Investment & Advisory Services

April 12, 2021

Quarter Ending March 31, 2021

Year-to-Date Performance	YTD Index	Close
Dow Jones Industrial Average	7.76%	32,981.55
NASDAQ Composite Price	2.78%	13,246.87
Standard & Poor's Averages	6.17%	3,972.89

A year ago, our quarterly commentary was focused on the significant market and economic impact of the new coronavirus pandemic. World economies were plummeting to a standstill and equity markets were experiencing volatility not seen since the financial crisis of 2008 and Great Depression. Today, the headlines and investor sentiment are dramatically different. Multiple vaccines have been approved, millions of people have received their vaccinations, world economies are slowly staring to re-open, and broad-based equity markets are hitting all-time highs. There seems to be light at the end of the tunnel.

Equity markets continued to make progress during the first quarter of 2021; however, as we mentioned in our last letter, investor sentiment has continued to migrate away from the high-multiple growth stocks and into more value-oriented names. The high flying FAANG stocks (Facebook, Apple, Amazon Netflix, Google) that have driven the performance of most equity indices, have been replaced by companies and sectors that have been out of favor for quite some time; financials, industrials, and oil and gas companies have seen a nice rally.

In our opinion, there are two main reasons for the transition. First, the equity markets have been priced for perfection. Investors, whether they realize it or not, have been buying into indices (index funds) during a time where valuation metrics are at all-time highs. Whether it is using P/E ratios, cash flow yields, price/book, or US market cap/GDP, the equity markets are "expensive". We think some investors and institutions are starting to realize it may be difficult to match these lofty expectations.

The second factor is interest rates. We have mentioned before that low interest rates have "forced" investors into a dangerous search for yields and returns by taking on more risk. In short, investors justify paying huge multiples for companies simply because rates are low. Well, that train of thought can cut both ways. Over the last few months, we have witnessed a huge move in rates. The 10-year treasury rate is up 50% since February. The same calculations that were made to support over-paying for some stocks are now starting to point the other direction.

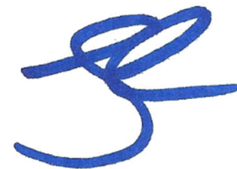
Not only do rising rates have an impact on the equity markets, but they also have a significant influence on the bond markets. Bonds have been in a 40-year bull market. Over the last 40 years, interest rates have continued to fall, pushing bond prices higher (remember from previous letters, interest rates and bond prices move in opposite directions). Some investors might slowly start to realize there can be a significant risk to this, and you can lose money owning bonds/fixed income investments. Year to date, the Barclay's Bond Index is down 3.4%. If rates continue to rise, which they will eventually do, investors can expect loses to continue.

The rotation from growth to value has continued to benefit our clients. Our detailed value-based investment approach will continue to focus on fundamentals. We are not going to chase performance or short-term investment trends. As noted in the book Zen & The Art of Risk Management, "The highest correlation between stock prices and future returns comes from valuations. Short-term price changes of stocks are based solely on liquidity, or the balance of buyers and sellers. Over longer periods, price changes become more dependent on valuations and less on supply and demand."

Although there is bound to be continued volatility in the equity markets, we expect the economy to continue its rebuilding process. Higher vaccination rates should allow businesses to gradually reopen. In turn, employment numbers should continue to improve. President Biden's proposed $2.3 trillion infrastructure spending plan should also aid in the economic recovery. At this time, due to the enormous stimulus plan and continued economic improvements, we do not anticipate any significant market selloff.

Lastly, an operations update: You will find a new layout for our quarterly reports included with this letter. We moved to a more efficient and robust system. Rest assured that; the reports contain the same information as the old system. If you have any questions, please give us a call or send us an e-mail.

Jeffrey L. Farni, Sr.



John C. Farni