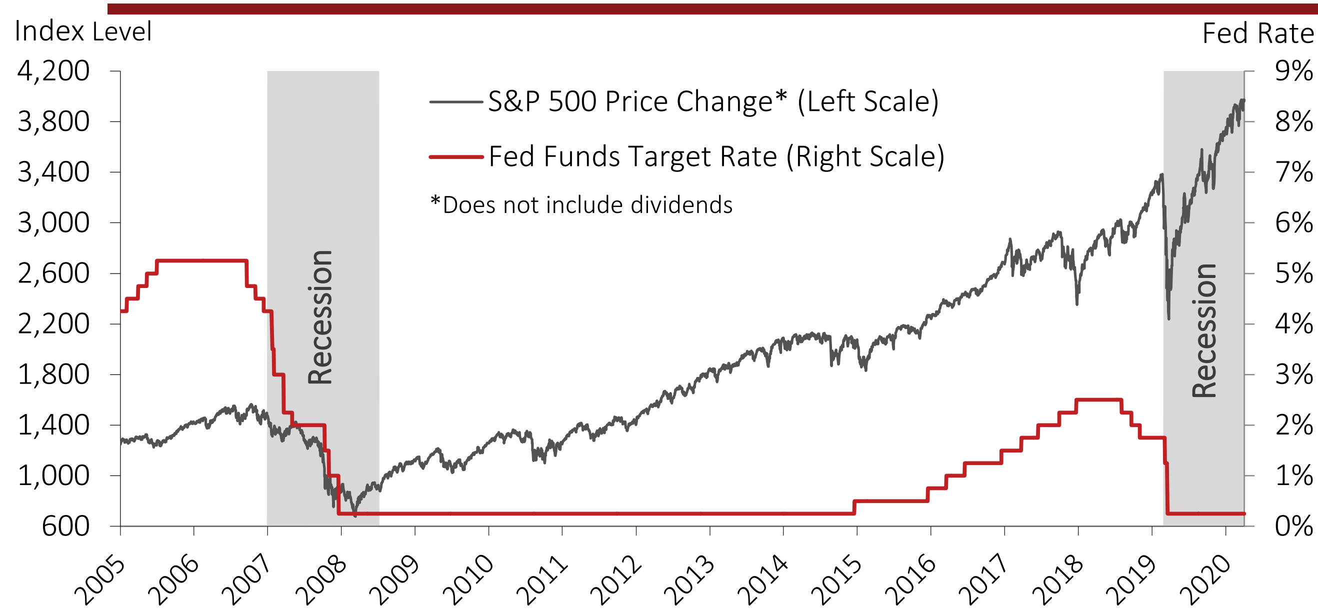
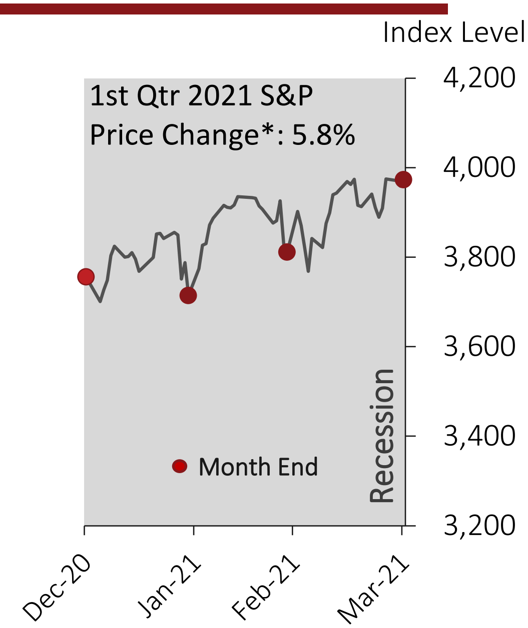
Capital Market Review

March 31, 2021

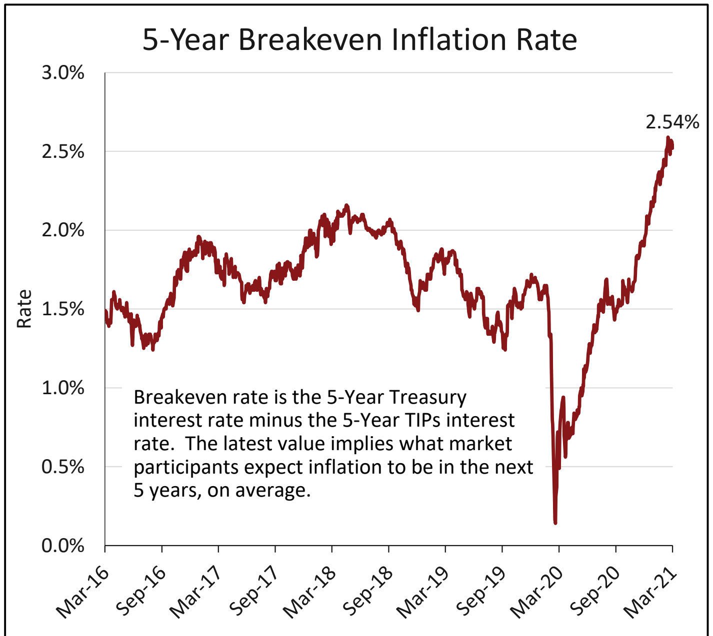
DeMarche

Remarkable Rebound & Rotation





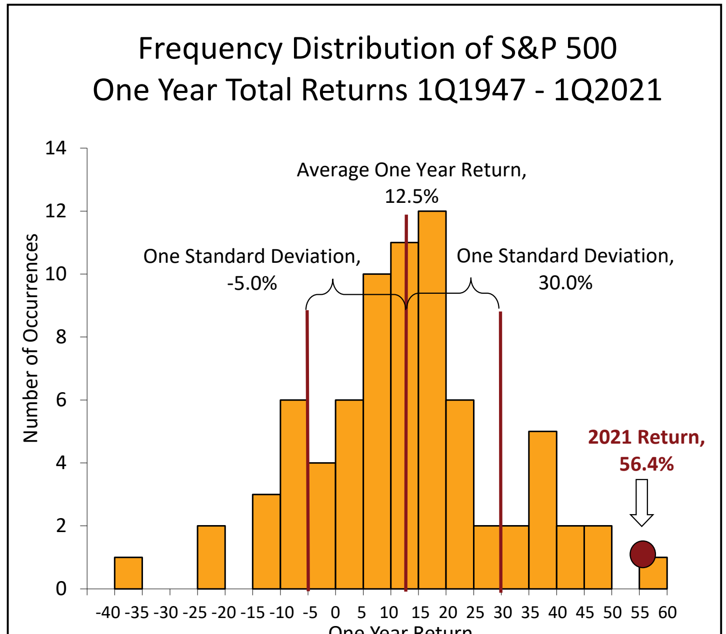
Source: Standard & Poor's, Federal Reserve



Source: Federal Reserve of St. Louis

The first quarter of 2021 continued the rebound coming off the bottom of the first quarter 2020. Annual returns, therefore, are strong and beyond the range of normal expectations. The chart to the right shows the outsized one-year return. Of the 75 one-year observations since first quarter 1947, the past 12 months is the highest on record at over 56%.

The pent-up consumer demand and strong savings rate have created an environment of strong economic growth. Coupled with bottlenecks and uneven reopening across the country, the prospect of strong growth has fueled inflation concerns. The chart to the left shows the large jump in 5-year inflation expectations to over 2.5%.

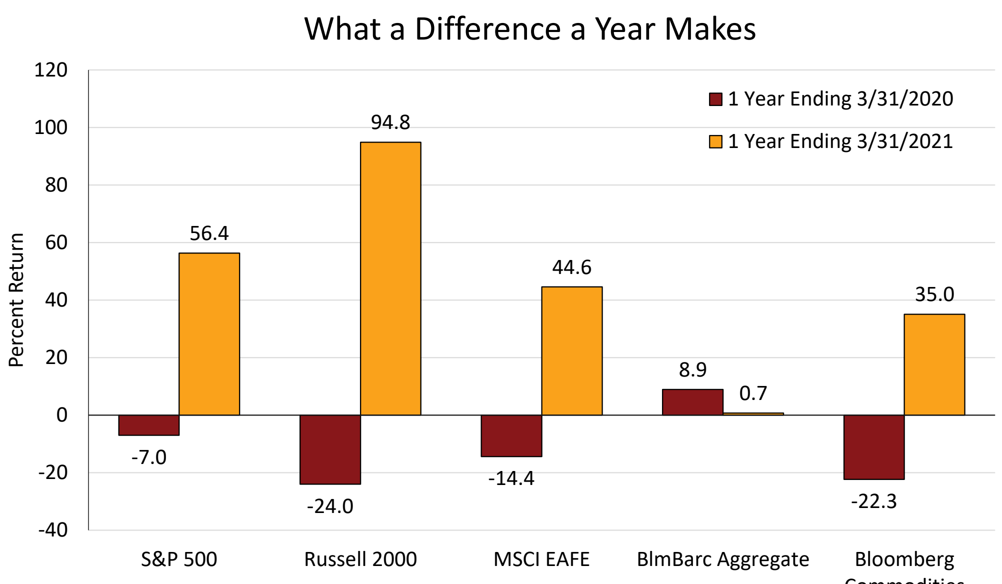


Source: S&P and DeMarche Associates, Inc.

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	4.9	54.0	12.8	13.4	9.9
DeMarche 3000	6.4	60.2	14.3	14.6	11.0
Russell 3000	6.3	62.5	17.1	16.6	13.8
S&P 500	6.2	56.4	16.8	16.3	13.9
MSCI EAFE USD	3.5	44.6	6.0	8.8	5.5
BlmBarc Aggregate	-3.4	0.7	4.7	3.1	3.4
FTSE Non-US Gov't Bond	-6.4	5.7	0.9	2.0	1.1
BlmBarc Global Aggregate	-4.5	4.7	2.8	2.7	2.2
NCREIF (Private RE)	1.7	2.6	4.9	5.8	8.8
Bloomberg Commodity	6.9	35.0	-0.2	2.3	-6.3

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.

U.S. Indicators Yr Ending 3/31	2021	2020	2019	2018	50-YEAR AVERAGE
GDP Annual Growth Rate	0.4	0.3	2.3	3.1	2.7
Unemployment	6.0	4.4	3.8	4.1	6.3
Inflation (CPI)	2.6	1.5	1.9	2.4	3.9
10-Year Interest Rates	1.7	0.7	2.4	2.7	6.2



Source: DeMarche

- Domestic equities have rebounded dramatically from the depths of the pandemic drawdown 12 months ago. Domestic stocks as measured by the Russell 3000 are up 62.5%. Recall that at the end of March 2020, the market had just experienced a massive drawdown from the pandemic and associated economic shutdowns around the globe.

- International stocks also rebounded over the past 12 months, but they are still lagging in performance to domestic equities. Over the longer time frame, the performance has lagged as large cap domestic growth stocks have led the way over the past decade. International markets lack the large allocation to faster growing tech stocks that dominate the U.S. indexes.

- Commodity prices are finally getting a foothold and moving upward. Over the past year, prices are up 35%. The starting point of the comparison is important. At the end of March 2020, energy prices cratered. Over the past year, energy and metal prices have moved forward as economies have reopened.

- Bond prices fell in the past quarter as interest rates increased in response to expected inflation pressures due to rebounding economic growth. The BlmBarc Aggregate fell 3.4% in the quarter. Over the 12 months, the Aggregate has eked out a modest return of 0.7%.

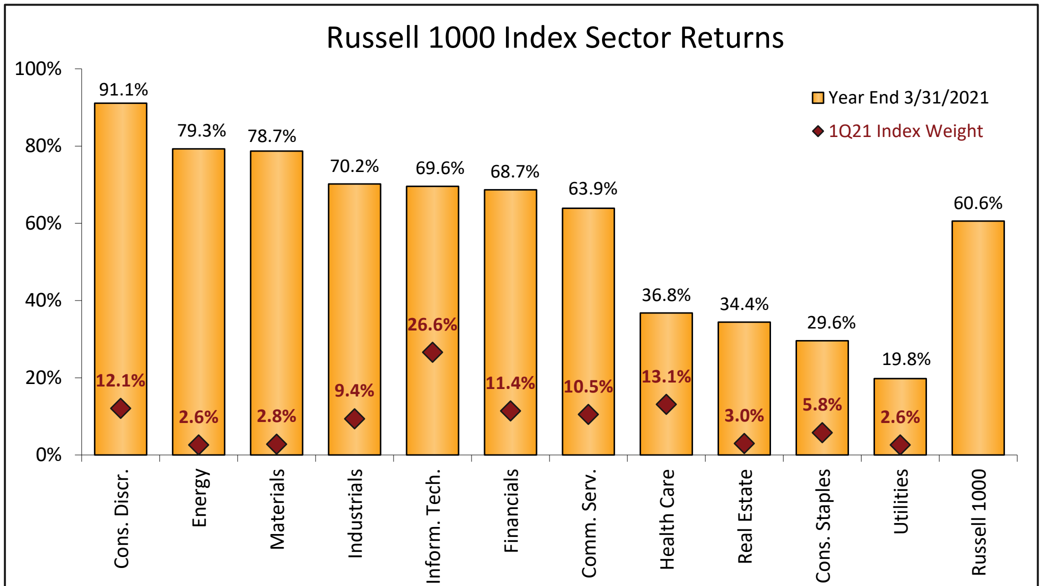
- The chart to the left provides context to the outsized returns over the past year, compared to the previous 12 months. Small cap stocks fell the most, then increased the most in the subsequent year. It is a reminder that the starting point matters when looking at returns and comparing them across time.

DeFact

We have read numerous stories about supply chain bottlenecks in the past year, but none were as literal as the weeklong closure of the Suez Canal due to a stuck container ship. The canal sees about 12 percent of world trade. The blockage cost about $10 billon in global trade a day so in the bigger picture, the impact will end up being minimal. But in the short term companies from Ikea to Caterpillar were all affected as were the tens of thousands of live animals stuck on ships. ~NY Post

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	4.1	62.7	18.7	18.2	13.8
DeMarche Value	11.6	53.4	6.4	8.5	6.8
DeMarche Aggressive	8.8	139.3	22.4	20.1	11.0
DeMarche Defensive	6.2	55.1	13.7	14.1	11.0
DeMarche Large Cap	4.8	54.1	14.5	14.5	11.0
Large Cap Growth	3.0	59.2	19.7	18.8	14.3
Large Cap Value	9.3	40.6	4.8	7.2	5.9
DeMarche Small Cap	25.2	124.9	14.6	17.1	11.2
Small Cap Growth	18.8	96.3	13.0	16.3	10.3
Small Cap Value	29.6	146.9	15.4	17.4	11.8
S&P 500	6.2	56.4	16.8	16.3	13.9
S&P Mid-Cap 400	13.5	83.5	13.4	14.4	11.9
S&P Small-Cap 600	18.2	95.3	13.7	15.6	13.0
Russell 1000	5.9	60.6	17.3	16.7	14.0
Russell 1000 Growth	0.9	62.7	22.8	21.0	16.6
Russell 1000 Value	11.3	56.1	11.0	11.7	11.0
Russell 2000	12.7	94.8	14.8	16.4	11.7
Russell 2000 Growth	4.9	90.2	17.2	18.6	13.0
Russell 2000 Value	21.2	97.1	11.6	13.6	10.1

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.



Source: DeMarche, Columbia Threadneedle 1Q2021 Market Mosaic

- Small cap value stocks led the rebound, returning 97.1% as measured by the Russell 2000 Value index, for 12 months. Again as we discuss annual returns, the starting point matters. Small cap value stocks really took it on the chin in March 2020 so a rebound in prices will generate outsized returns. Over the longer term, small cap value still lags its small cap growth cousin.

- Even in large cap stocks, value continued its rebound and has now outperformed large cap growth stocks two quarters in a row. Returns were driven by financials and energy, most notably JP Morgan, Bank of America and Exxon. Unlike small cap, large cap growth stocks continued to lead value for the past 12 months. Large cap growth has built up a strong lead over the years and still shows its dominance over all other U.S. equity styles.

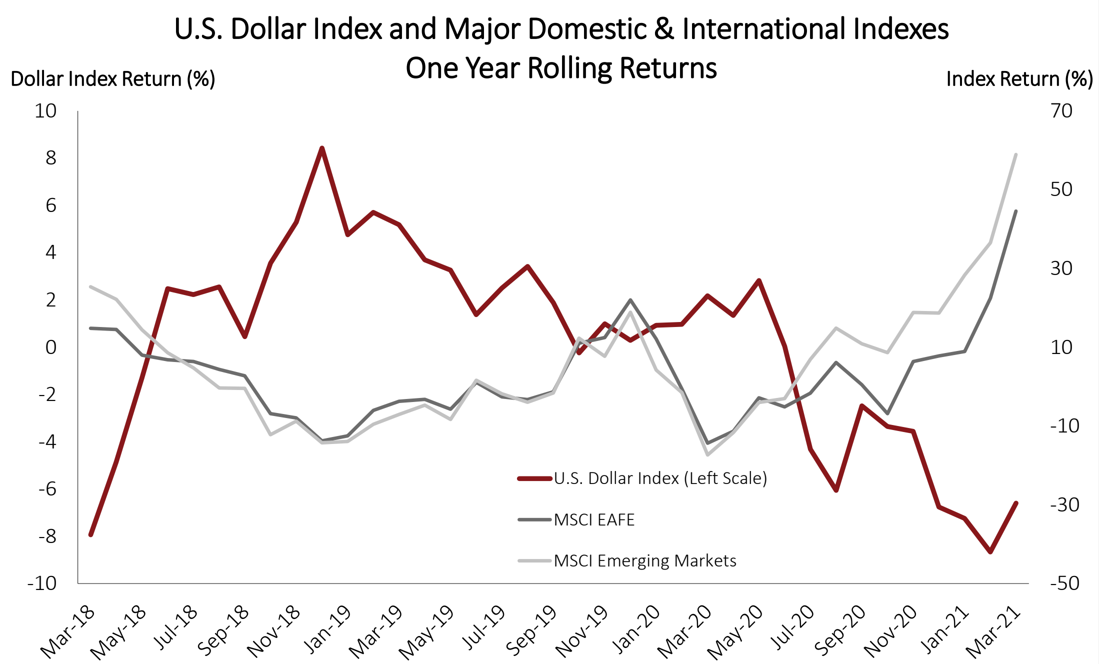
- The Russell 1000 index is a broad market index of large cap domestic stocks. Over the past number of years, technology stocks have moved the market forward. However, in the past 12 months the rebound of less loved sectors, like energy and materials, led technology. The best performing sector, consumer discretionary, is dominated by Amazon, but the driving force of the 91% annual return was Tesla, up 537% during that time frame.

DeFact

The primary driver of small cap value stocks was the robust returns of small cap consumer discretionary stocks. The sector returned 247% in the past 12 months and over 35% for the past three months. Digging deeper into returns, we find the outsized impact of GameStop. At the end of the 1st quarter 2020, the weight of GameStop was three basis points in the Russell 2000 Value Index; at the end of March 2021, the weight grew to 75 basis points and was the second largest holding in the small cap value index. ~DeMarche

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI EAFE Local	7.6	36.6	7.1	8.8	7.5
MSCI EAFE USD	3.5	44.6	6.0	8.8	5.5
Growth	-0.6	42.6	9.8	10.8	7.2
Value	7.4	45.7	1.8	6.6	3.7
MSCI Japan	1.6	39.7	6.3	10.5	7.2
MSCI AC Asia-ex Japan	2.7	57.3	8.9	13.8	6.7
MSCI China	-0.4	43.6	8.2	16.1	7.3
MSCI Germany	4.2	59.3	4.3	8.0	5.2
MSCI France	4.4	50.0	5.9	10.0	5.3
MSCI UK	6.2	33.5	0.9	4.3	3.3
MSCI EAFE Small Cap	4.5	62.0	6.3	10.5	8.0
MSCI EM	2.3	58.4	6.5	12.1	3.7
MSCI All Country-ex US	3.5	49.4	6.5	9.8	4.9

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.



Source: Federal Reserve, S&P, MSCI

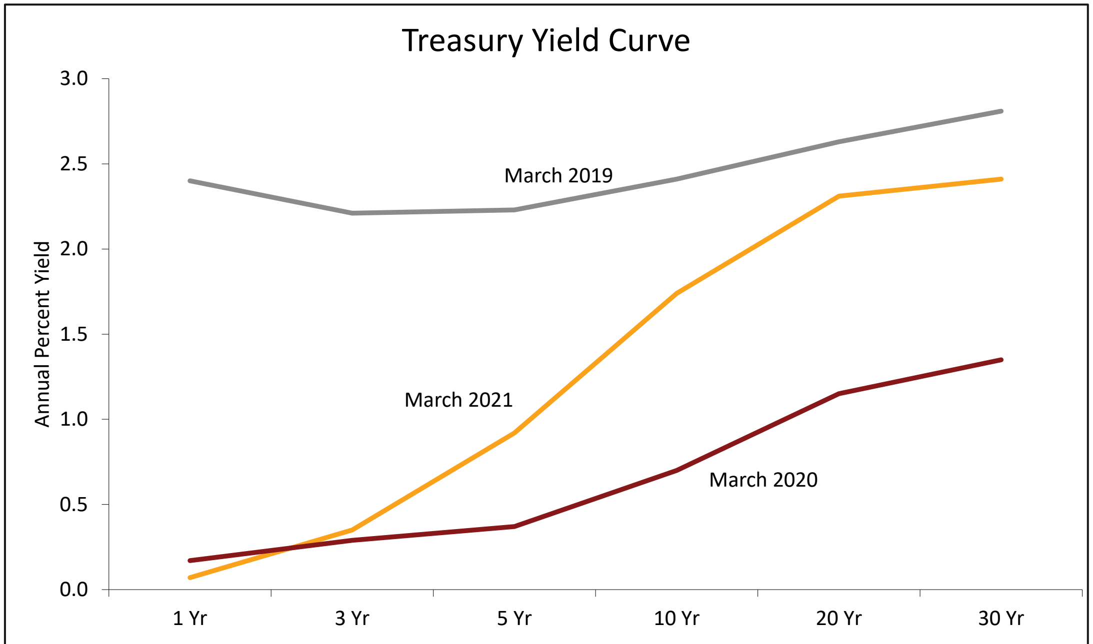
- International returns were also strong this quarter. The strength of the dollar in the quarter is evident as MSCI EAFE local returns generated 7.6%, but when converted into dollar terms generated only 3.5%. This strength provided a headwind to all non-dollar based assets in the quarter.
- Emerging market equity returns for the quarter lagged behind developed international. Over the past 12 months, emerging markets have rebounded nicely in light of the pandemic. Even though Chinese stocks posted negative results for the quarter, they posted a strong return for calendar year 2020 at 29.5% versus the 18.4% return for the S&P 500.
- Taiwan's equity market drove the returns of the emerging market index forward, outperforming South Korea for the past 12 months, 88% to 86%. China, the largest weight in the index, returned 44% for the past year. Taiwan also led other Asian country equities in the quarter with about an 11% return.
- The dollar weakness was a trend for 2020 and into early 2021, before it turned around in March, as seen in the chart to the left. When the dollar weakens relative to a basket of other currencies, it provides a tailwind to international returns. The trailing 12-month returns for both emerging market and developed market equities have been strong and trending upward as the dollar return trended downwards. The recent increases in interest rates in the U.S. have provided an incentive to reverse its recent downward trend.

DeFact

We have discussed the changes in the emerging markets index over the past years. The impact of large technology companies in the EM index is expanding as they are now also the largest holdings in the All Country World ex-U.S. index. That index measures returns of the international developed and emerging market equities. Even though the EM weight in the index is only about 22%, the largest holdings are Taiwan Semiconductor, Tencent, Alibaba and Samsung totaling 6.6% of the index. The dominance of these companies is poised to drive returns in future years over developed international companies. ~DeMarche

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
BlmBarc 1-3 Gov Credit	0.0	1.6	3.0	2.0	1.6
BlmBarc Aggregate	-3.4	0.7	4.7	3.1	3.4
BlmBarc Gov Credit Long	-10.4	-2.1	7.1	5.5	7.0
BlmBarc US TIPS	-1.5	7.5	5.7	3.9	3.4
Merrill Lynch High Yield	0.8	23.2	6.5	7.9	6.3
CSFB Leveraged Loan (bank loans)	2.0	20.8	4.1	5.3	4.4
BlmBarc Global Aggregate	-4.5	4.7	2.8	2.7	2.2
JPM EmgMkt Bd Glbl Dvrsfd (hard)	-4.5	16.0	4.0	5.1	5.6

Notes: Data are presented as percent returns. All 3, 5-, and 10-year returns are annualized.



Source: St. Louis Federal Reserve

- Interest rates increased in the quarter and the result of rising rates are decreasing prices for bond sectors in the quarter. Returns, as measured by the BlmBarc Aggregate, fell 3.4% for the quarter. The return negatively impacted the trailing 12-month return, reducing it to a modest 70 basis points.
- The strong returns of high yield and bank loans in the past 12 months reveal the impact of credit spread widening and tightening. At the beginning of April 2020, high yield spreads were 911 basis points, they subsequently narrowed to 336 basis points through the end of March 2021 and generated strong returns.
- The negative return of emerging market bonds show the impact of rising interest rates and a stronger dollar in the first quarter. The longer 12-month return shows the positive impact of a weaker dollar in 2020 in addition to the tightening credit spread phenomenon.
- Interest rates in the longer maturity part of the Treasury curve have increased markedly in the past 12 months. The Federal Reserve dropped interest rates a year ago in response to the pandemic. In March of 2019, short-term rates were over 2%. With short-term interest rates now anchored at close to zero, the rebound in economic growth has caused the yield curve to steepen.

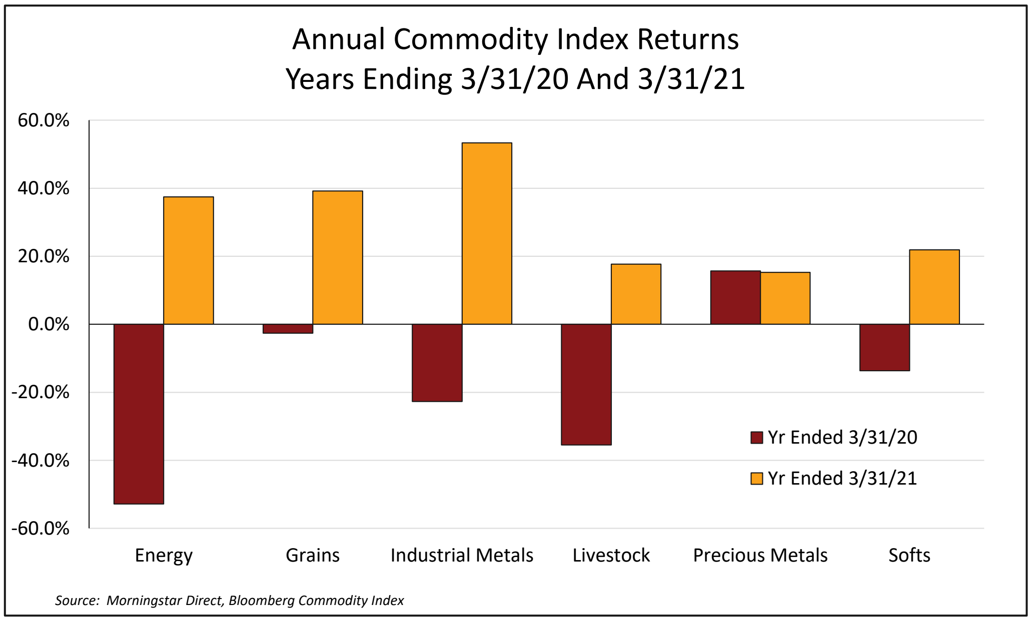
DeFact

With the anticipation of higher interest rates looming, March 2021 was a record breaking month for corporate bond issuance. High yield borrowers issued $59.1 billion in total, surpassing the record from June 2020 of $58 billion. Investment grade borrowers also got in on the act during March, issuing $196 billion in corporate bonds, the second highest month on record. ~Bloomberg

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	1.7	2.6	4.9	5.8	8.8
Apartment	1.7	2.6	4.5	5.3	8.4
Industrial	4.7	14.1	13.7	13.3	13.2
Office	1.0	1.3	4.7	5.3	8.1
Retail	-0.4	-6.0	-1.6	1.4	7.1
NCREIF Timberland	0.8	1.5	1.7	2.5	4.5
NCREIF Farmland	0.9	4.1	4.7	5.5	10.2
NAREIT (Public RE)*	8.5	36.9	10.4	7.2	9.3
Bloomberg Commodity	6.9	35.0	-0.2	2.3	-6.3
HFR FOF Composite	1.9	23.8	5.4	5.6	3.4
Conservative	3.6	18.9	5.0	4.7	3.2
Diversified	1.6	21.8	5.5	5.4	3.4
Strategic	0.8	31.2	5.9	6.7	3.9

Private Market Indexes as of 9/30/2020	**3rd Qtr**	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Preqin Private Equity	10.6	17.1	14.3	14.2	13.8
Preqin Private Debt	4.5	3.1	5.0	6.0	8.1
Preqin Infrastructure	1.5	1.9	7.8	8.2	9.3

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.
**Public RE is not a less liquid strategy. It is listed for comparative purposes.*



- Real estate and real assets are correlated to inflation and the returns reflect slow and steady performance over all time frames. Real estate and farmland posted positive performance for the quarter and modest one year returns. Retail real estate still has been struggling due the pandemic while industrial real estate continues its run of strong performance.
- Hedge funds continued their comeback into the 1st quarter. There have been a few hedge funds, Melvin Capital and Archegos Capital, which have not fared as well during the pandemic as levered bets went the wrong way. But for the most part, annual returns are strong and longer term returns have improved fueled by cryptocurrencies and more traditional strategies such as credit arbitrage and event-driven equities.
- Commodity prices have rebounded in the past year. Energy prices fell dramatically before the pandemic and have now rebounded. Other commodity prices also rebounded significantly. The correlation of commodity prices to inflation expectations is high, and the suggestion is that the price increases we see are a precursor to inflation in the next few years. Unleaded gas, a sub component of energy, was up over 179% for the past 12 months

DeFact

Lumber prices are growing through the roof. Typically, a 1,000 board foot contract would be priced between $300 and $400, but a year ago it dipped below $270. Now the price of the same contract is over $1,000. At the beginning of the pandemic, construction halted and sawmills were left with excess supply and worker layoffs. As interest rates fell and economies reopened, a large influx of demand came from new home construction and remodeling. ~CME, CNBC, FRED

2021 DeMarche Finance and Investment Education Series

Join us for our spring webinar series exploring the post-COVID financial landscape. Our May program will focus on the needs of hospitals and healthcare systems as they attempt to manage the disruption of the past year. Our June program will examine how investors can navigate asset allocation in the current environment of high-priced U.S. equities and low-yielding bonds.

Spring Webinars

Registration is open for the following educational programs.

Plan of Care 2021: Healthcare DC Plans – Post-COVID Opportunities

Wednesday, May 5 | 10:00 – 11:00 AM Central

Healthcare systems and related organizations are redefining their business models in light of the COVID-19 pandemic. Disruption to their revenue, delivery systems, and people has required them to rethink how they want to structure the models they use for future success. Join DeMarche Senior Consultant Peg VanWagoner and her panel of healthcare finance experts as they discuss building better DC plans, managing acquisitions, and navigating post-COVID disruptions.

Facing the Fear: Asset Allocation in a Post-COVID World

Wednesday, June 16 | 10:00 AM – Noon Central

In the wake of the largest global pandemic since the early 1900’s, institutions are now faced with the daunting task of navigating asset allocation in a world where unprecedented levels of central bank activity and fiscal stimulus have reshuffled the deck of risk and reward for many asset classes. Join DeMarche Consultant Mark Andes and his panel for a healthy discussion on the opportunities and challenges faced by institutional investors in 2021 and beyond.

Register at https://cvent.me/klxDmN