

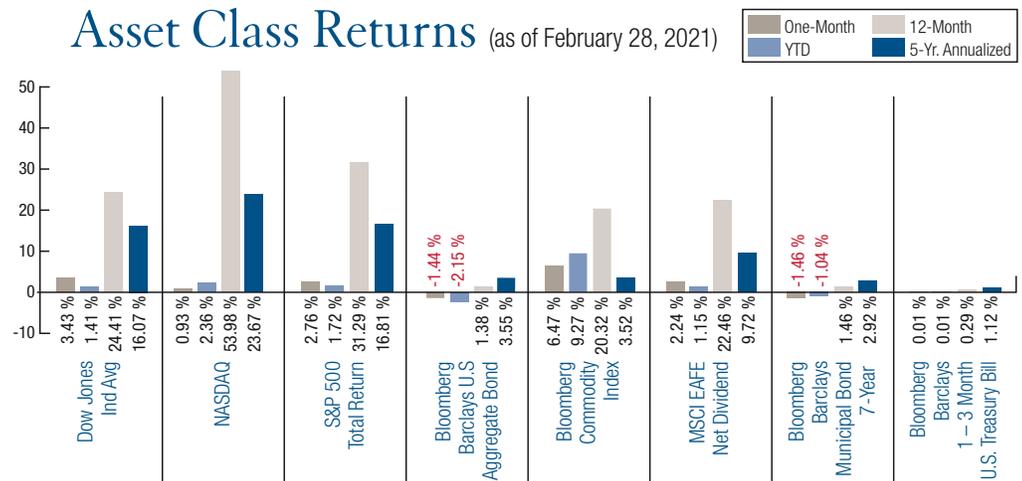
From the Office of Jeff Sgroi, CFP®



“In matters of style, swim with the current; in matters of principle, stand like a rock.”

– Thomas Jefferson

Asset Class Returns (as of February 28, 2021)



Market & Economic Synopsis

- COVID-19 vaccine rollout continues to exceed most expectations; U.S. only behind Israel in percentage of population fully vaccinated.
- Trading of GameStop (GME) rattles short traders and hedge funds, as well as broader markets for brief period.
- Microchip shortage disrupts supply lines; alters new vehicle production.
- United States Senate and House of Representatives pass, and President Biden signs, historic \$1.9T coronavirus relief bill.
- European Union and a handful of states in the U.S. push to abolish Daylight Savings Time.
- Cryptocurrencies collective values continue historic move upward as central banks maintain loose monetary and devaluation policies.
- Housing boom may be derailed by rising mortgage rates and higher commodity prices.
- Prices at the pump rise to multi-year highs shortly after executive orders halt Keystone XL Pipeline construction and freeze new drilling leases on federal land.

Market Tidbits

The volume and breadth of financial and market information available to all of us can be overwhelming at times. In the spring of 2009, at the depths of the financial crisis, I recognized this, and began writing our bi-monthly (at the time quarterly) Market Update. My intent, at the time, was to distill the noise and the confusion down to a thoughtful, rational, and clear perspective to share with you.

In this age of social media, cell phones, and a plethora of experts, I feel a renewed necessity to share our views with you on an ongoing basis. For this Market Update, I have gathered, what I believe to be, a number of interesting, but highly relevant bits of current market and economic information. Pieced together, they provide the advice we continue to roll out to you.

Core Inflation

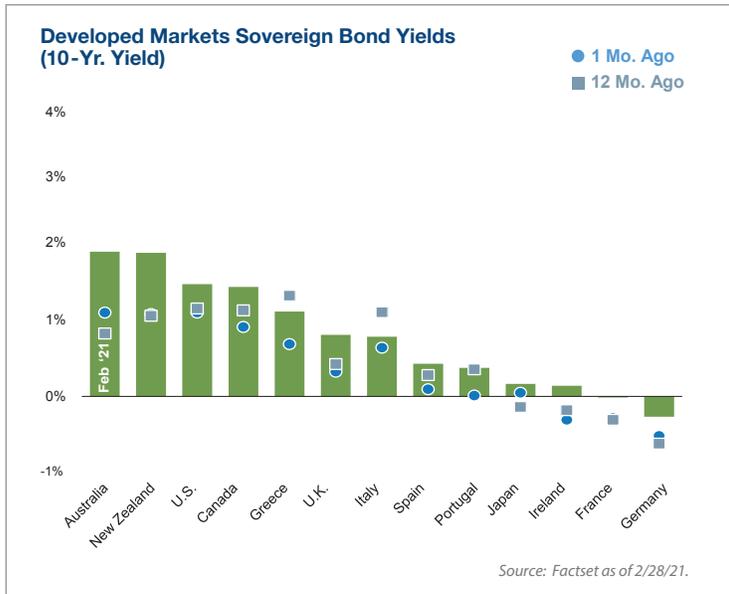
One of the common questions and concerns I am hearing about is inflationary pressure. We have all seen higher fuel prices at the pump, higher food costs at the grocery store, and for those building new homes, much higher material costs. From a statistical perspective, however, inflation remains in line with the Federal Reserve’s targets.



Per the chart, the Consumer Price Index rose 0.4% in February, with the year-over-year pace rising to 1.7%. While this was the fastest pace in over a year, it was in line with consensus expectations.

Sovereign Bond Yields

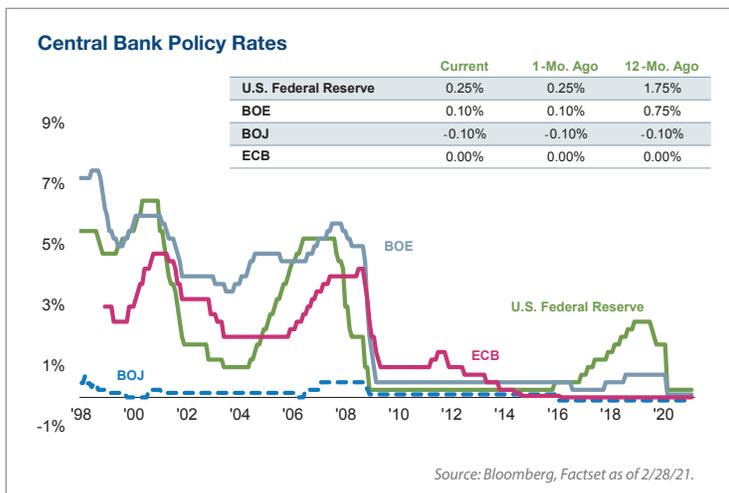
We are in the midst of a historically low-interest-rate environment, although rates have seemingly bottomed out in the short term.



As the chart shows, yields on 10-year debt of many developed nations currently hover between 2% and below 0%. A year ago, few were higher than 1%. This short-term move can, in part, be attributed to ongoing monetary stimulus from the world’s central banks. Nonetheless, it remains a great time to borrow money.

Central Bank Policy Rates

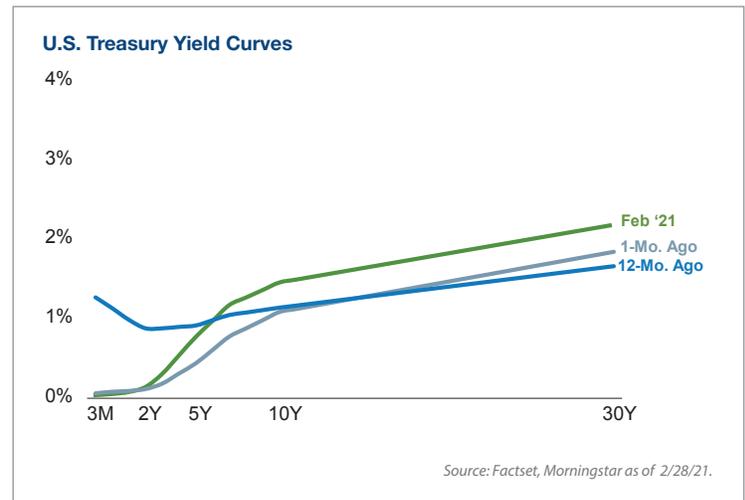
In keeping with the theme of lower rates, central bank policy rates have trended lower since 1998. Per the chart below, there is credence to the notion that we continue to witness a “race to the bottom,” in an effort to devalue currencies and monetize sovereign debt.



Interestingly, we have seen cryptocurrency values trend upward. Whether the inverse correlation between sovereign currencies and cryptocurrencies has staying power remains to be seen.

U.S. Treasury Yield Curves

Taking a closer look at U.S. debt, the yield curve has steepened and “normalized” over the past 12 months.



The Federal Reserve is, no doubt, celebrating this trend. A larger spread between short-term and long-term Treasury bonds often precedes economic growth.

Business Outlook

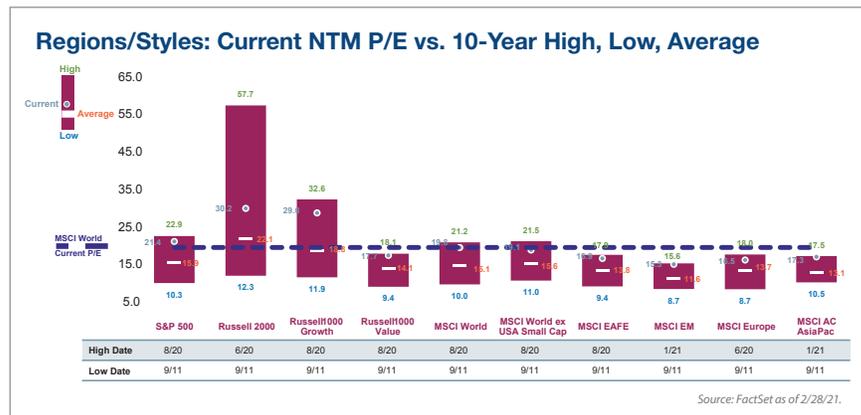
Since hitting multi-year lows in 2020, short-term optimism has rebounded significantly. Typically, this results in additional capital expenditures, economic growth, and higher corporate earnings.



On the back of improving pandemic conditions, additional fiscal stimulus, and recovering economic activity, business confidence has surged in recent months. In fact, the Outlook Index in the Business Roundtable Survey rose to the highest level since 3Q18 and to the sixth highest level on record.

Regions/Styles: Valuation Analysis

Over the past 10 years, most all geographic regions and styles within the equity markets have moved significantly higher. With that being said, there have been widely varying valuations in said indices over those 10 years.



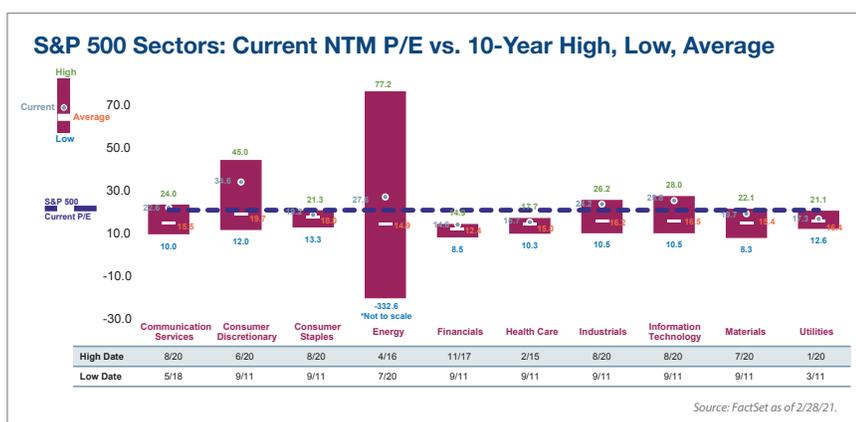
Currently, most indices are trading above their 10-year average P/E multiples. Small-cap stocks (Russell 2000) and large-cap growth (Russell 1000 Growth) traditionally trade at higher multiples, and current levels are in line with said expectations. International equity continues to trade at absolute levels significantly below domestic equity valuations.

S&P 500 Sectors: Valuation Analysis

Similar to the previous example, most all equity sectors have moved significantly higher over the past decade. Valuations amongst sectors have varied significantly during that time.

Currently, most sector valuations are at the high end of their 10-year range. Five sectors (consumer staples, financials, healthcare, materials, and utilities) all settle in at valuations lower than the S&P 500, presenting a reasonable case for additional upside potential.

In all, we have enjoyed a healthy and robust rebound in the markets since the COVID-19 pandemic started one year ago. As vaccines roll out, businesses reopen, and the United States pushes ahead, we continue to seek a balance between opportunity and caution on behalf of you and your goals. We appreciate your ongoing loyalty and the opportunity to serve you.



From the Homefront

The local hockey season came to an abrupt end two weeks ago, but not before Hannah got one final skate on our rink.



For those of you looking for an inspirational film, I suggest taking a look at “Miracle”; it stars Kurt Russell as Herb Brooks, coach of the 1980 U.S. Olympic Hockey Team. Hannah is seen sporting a Mike Eruzione jersey. Eruzione, as team captain, reached legendary status when he scored the game winning goal against the Russians in one of the greatest upsets in sports history.

Index performance is shown for illustrative purposes only and does not reflect the deductions of fees, trading costs or other expenses, which will affect actual investment performance. You cannot invest directly in any index. Individual results may vary. Past performance is not a guarantee of future results. There is no assurance any of the forecasts mentioned will occur.

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The DJIA index covers 30 major NYSE industrial companies. The NASDAQ represents 4500 stocks traded over the counter. The S&P 500 is a broad based measurement of performance of 500 widely held common stocks. The Barclays Aggregate Bond Index is a diversified index measuring approximately 6,000 investment grade, fixed-rate taxable securities. The Bloomberg Commodity Index is a diversified benchmark for the commodity futures market. The MSCI EAFE index is designed to measure the equity market performance of developed markets excluding the U.S. & Canada. The Barclays Municipal Bond Index is a measure of the long-term tax-exempt bond market with securities of investment grade. The Citigroup Broad Investment Grade Bond Index is market capitalization weighted and designed to track the performance of U.S. dollar-denominated bonds issued in the U.S. investment-grade bond market.

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There is no assurance any of the trends mentioned will continue in the future. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal. Investing in the energy sector involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

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