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Stimulus and Vaccine Optimism Power Markets Higher in the First Quarter

The first quarter of 2021 was marked by several macro- and micro-economic surprises that resulted in increased market volatility compared to the fourth quarter of 2020, but additional economic stimulus combined with accelerating COVID-19 vaccine distribution and a decline in coronavirus cases helped stocks start the new year with solid gains.

The first surprise of 2021 came on January 5th when both Democratic candidates won Georgia Senate seats in the runoff election, giving the Democratic party a majority in the Senate and control of Congress and the presidency. The very next day, during confirmation of the November 2020 presidential election results, protestors stormed the U.S. Capitol, causing a temporary delay to the election certification and marking a historically tragic day in the U.S. democratic process. But after that short delay, Joe Biden was certified as the winner of the 2020 election and became president-elect of the United States. Both the surprise election results and the incident at the Capitol caused a volatile start to the new year.

In late January, after two weeks of relative calm, market volatility returned, this time driven by a historic short squeeze in videogame retailer GameStop (GME). The disorderly trading in GameStop and select other stocks caused broader market volatility, primarily due to fears of losses inflicted on large hedge funds because of the various short squeezes. Those factors combined to pressure stocks and the S&P 500 finished January with a modest loss.

But concerns of widespread losses due to GameStop trading ultimately proved unfounded, and the volatility linked to the GameStop saga dissipated in early February. And as trading returned to normal, investors began to focus on macro-economic positives. First, the Democratic controlled government immediately began steps to pass another massive economic stimulus bill, and that helped stocks rally in early February. Second, vaccine distribution throughout the U.S. meaningfully accelerated in February. That increased distribution combined with the authorization of a single-dose Johnson & Johnson COVID-19 vaccine helped investors embrace the idea that the end of the pandemic was now possibly just months away, and that sentiment helped stocks rally further. Finally, COVID-19 cases began to decline rapidly in the U.S., leading to economic reopenings in several states. The S&P 500 recouped all of January's losses and ended February slightly positive for the year.

Markets continued to rally in early March as investors began to price in a looming economic recovery following the passage of the massive $1.9 trillion economic stimulus bill, which President Biden signed on March 11th. That new stimulus, combined with COVID-19 vaccine distribution reaching 2.5 million doses/day, resulted in growing expectations for a full economic reopening and recovery in the coming months. But expectations for an acceleration in economic growth also pushed Treasury yields higher during the month of March. The 10-year Treasury yield surged to fresh one-year highs and the rapid rise in bond yields weighed on stocks periodically throughout March, as higher borrowing costs could become a future headwind on economic growth. But while the risk of high yields must be monitored going forward, it was not enough to offset the reality of historic economic stimulus and improvement in the pandemic, and stocks drifted higher to finish the quarter with solid gains.

The first quarter of 2021 at times reminded investors of the volatility and unpredictable nature of markets that we all witnessed in 2020; however, just like markets proved resilient last year, stocks overcame multiple surprises during the first quarter to provide another positive quarterly return.

1st Quarter Performance Review

Expectations of a post-COVID-19 economic recovery drove market performance in the first quarter, as the Dow Jones Industrial Average outperformed both the S&P 500 and the Nasdaq 100 due to the underperformance of technology shares.

By market capitalization, small-cap stocks, which are historically more sensitive to changes in economic growth, outperformed large-cap stocks as COVID-19 cases declined and numerous states partially or fully reopened their economies, leading investors to expect a broad acceleration in future economic activity.

From an investment style standpoint, value handily outperformed growth for a second consecutive quarter. The substantial outperformance by value stocks once again underscored increasing investor optimism for an economic rebound in the coming months.

On a sector level, all 11 S&P 500 sectors finished the first quarter with positive returns. Cyclical sectors, including energy, financials, industrials, and materials led markets higher for the second straight quarter. As mentioned, expectations of an acceleration in future economic growth (again, mainly a product of stimulus and COVID-19 vaccine distribution), combined with higher bond yields and fears of potentially rising inflation, drove the cyclical sector outperformance in the first quarter.

One of the biggest sector laggards in the first quarter was tech as investors rotated out of tech stocks and into cyclical sectors as they positioned for an acceleration of economic activity that is expected to come with a full economic reopening. Traditionally defensive sectors such as utilities, health care, and consumer staples also underperformed the S&P 500 on the expectations of a strong economic rebound.

US Equity Indexes	Q1 Return	YTD
S&P 500	6.18%	6.18%

DJ Industrial Average	8.29%	8.29%
NASDAQ 100	1.76%	1.76%
S&P MidCap 400	13.36%	13.36%
Russell 2000	12.70%	12.70%

Source: YCharts

Internationally, foreign markets saw positive returns in the first quarter thanks to declining COVID-19 cases, continued progress on vaccinations, and initial signs of an economic reopening across the EU and UK. Emerging markets also rallied in the first quarter on hopes of a global economic recovery, although they underperformed foreign developed markets due to headwinds from a stronger U.S. dollar and economic turmoil in Turkey following the firing of the head of the Turkish central bank. Both foreign developed and emerging markets underperformed the S&P 500 in the first quarter.

International Equity Indexes	Q1 Return	YTD
MSCI EAFE TR USD (Foreign Developed)	3.60%	3.60%
MSCI EM TR USD (Emerging Markets)	2.34%	2.34%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	3.60%	3.60%

Source: YCharts

Commodities posted strong gains for the second quarter in a row and notably outperformed the S&P 500 over the past three months. Major commodity indices were led higher by a large rally in crude oil futures as investors anticipated an increase in demand for both oil and refined products as the global economy begins to normalize. Gold, however, posted another quarterly decline despite rising fears of higher inflation, as a stronger U.S. dollar combined with the increasing popularity of alternative investments such as Bitcoin dampened demand for the precious metal.

Switching to fixed income markets, quarterly total returns for most bond classes were negative for the first time in more than two years. Massive economic stimulus combined with COVID-19 vaccinations led to an acceleration in economic growth expectations in the coming months, but that also resulted in a surge in inflation estimates, which topped a five-year high in the first quarter and that weighed broadly on the fixed income markets.

Looking deeper into the bond markets, longer-duration bonds underperformed those with shorter durations in the first quarter. That substantial underperformance was driven by the Fed's consistent promise to keep short duration interest rates unchanged while the market priced in higher future levels of inflation, which pressured bonds with longer-dated maturities.

In the corporate debt markets, lower quality but higher yielding bonds handily outperformed investment grade bonds. That further confirms that during the first quarter of 2021 investors were positioning for a broad economic rebound later in the year. Investment grade corporate bonds underperformed as investors embraced more risk in their fixed income portfolios and as the decline in longer-dated Treasury bonds weighed on higher quality debt.

2nd Quarter Market Outlook

As we begin the second quarter, the outlook for markets remains broadly positive. Monies from the recently passed stimulus bill are now entering the economy on a personal, corporate and government level, and those funds should help to spur economic growth in the months ahead.

Additionally, while the COVID-19 outlook has recently dimmed in Europe, the outlook for the U.S. remains generally positive. Vaccine distribution continues to accelerate, with the goal of having vaccines available to all adults nationwide by May. As a result, it is not unreasonable to think the pandemic will be declared "over" by the early summer (although obviously COVID-19 inflections will continue, just not at a pandemic level that requires a large-scale government response).

Meanwhile, the outlook for the economic recovery remains bright, with improvement across multiple economic indicators, while the Federal Reserve has pledged numerous times in recent months to continue to keep interest rates low and its quantitative easing (QE) program ongoing until the economy returns to pre-pandemic activity levels.

Those factors all provide substantial support for markets as we begin the second quarter.

But as the first quarter clearly demonstrated, there are always risks that need to be monitored. First, rising bond yields caused volatility in late February and throughout March, and if the pace of the rise in bond yields accelerates, we can expect more stock and bond market volatility as high interest rates are a threat to the economic recovery.

Similarly, investors are expecting inflation to accelerate as historically massive stimulus fuels the economic recovery. Right now, Federal Reserve officials expect any increase in inflation to be temporary, but if that expectation proves to be incorrect, then the Fed will have to remove stimulus via a reduction in the current QE program, and that is not priced into markets right now.

Regarding the pandemic, while the trend in the U.S. is clearly positive, parts of Europe are struggling with vaccine supply, and there is always the risk of a broader vaccine supply disruption or of a new COVID-19 strain that renders vaccines less effective, and any of those events would pose a threat to the rally in the stock market.

From a fiscal standpoint, the multiple rounds of stimulus that have been unleashed upon the economy since the pandemic began have resulted in very large increases to the national debt and federal deficits, and the recently passed stimulus bill only exacerbated those existing issues. So far, markets haven't seen any negative impacts related to the growing debt or deficits, but these high levels of debt and deficits represent longer-term risks to U.S. financial stability, and it remains unclear when those risks will begin to impact asset prices.

Finally, so far in 2021 markets have embraced the Democratic agenda of more economic stimulus. But numerous prominent Democrats also are in favor of increased corporate, personal and investment taxes, and if those efforts gain momentum, we can expect that to increase market volatility.

For now, these potential risks do not outweigh the actual positive influences pushing stocks higher, and as such, the macroeconomic outlook for the second quarter remains positive. But rest assured we will be monitoring all of the risks listed above as well as any others that pose threats to your investments.

In sum, the start of 2021 showed that even though 2020 is behind us and the pandemic is likely closer to the end than the beginning, volatility and macro-economic surprises will remain with us, and as such we should all remain prepared for continued volatility.

Importantly, though, the start of 2021 again clearly demonstrated that a well-executed and diversified, long-term focused financial plan can overcome temporary bouts of volatility, just like it did in 2020.

We understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this still-challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility like we experienced in the first half of 2020 is unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's critical for you to stay invested, remain patient, and stick to the plan, as we've worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

The resilient nature of markets in 2021 notwithstanding, we remain vigilant towards risks to portfolios and the economy, and we thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Enclosure #1 – Our first enclosure is the Investment Strategy Quarterly piece from Raymond James. This provides a quick understanding of relevant themes in the investment world. Additionally it provides an economic snapshot as well as a tactical outlook. We like to include this in the Weiss Report as a handy two-page reference – even in moments like this.

Enclosure #2 – Our second enclosure is a discussion on inflation and what recent Federal Reserve moves could mean in the future. Brian Wesbury, from First Trust Advisors, provides a look at what states can do individually to spur their local economies.

Enclosure #3 – Our last enclosure is a new writing from our team member Lenny Weiss. He provides an important contextual conversation about the panic cycle of markets

Important Disclosures

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One cannot invest directly in an index. Past Performance does not guarantee future results. Sector Investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors. Bond prices and yields are subject to change based upon market conditions and availability. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

Investing in commodities is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

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Enclosure #2: Information was developed by First Trust, an independent third party. The opinions of Brian Wesbury are independent from and not necessarily those of RJFS or Raymond James.

*Prices of DJIA and NASDAQ as of 04/07/2021.

First Trust
Monday Morning **OUTLOOK**

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Jobs Are Booming

When the scientists said "15 days to slow the spread," some of us actually believed that by Easter the shutdowns would end. That was last year. Now, a full year, and $5 trillion in government spending later, we may finally be getting our wish.

On Good Friday, the Bureau of Labor Statistics released the March 2021 employment data, and payrolls increased a staggering 916,000 for the month, easily beating the consensus expected 660,000. Jobs increased most in leisure & hospitality (up 280,000), construction (up 110,000), and education and health services (up 101,000). Meanwhile, manufacturing jobs increased 53,000, while government jobs rose 136,000 (almost all in education services).

This is what we should expect as unprecedented shutdowns ease. As we wrote weeks ago, the best stimulus is a COVID vaccine (and herd immunity) which gives people confidence to return to more normal life.

We expect similar gains in jobs in the months ahead. In fact, we would not be surprised if some months of 2021 had job gains topping one million. We need it. In spite of the surge in jobs in March, total payrolls are still 8.4 million short of where they peaked pre-COVID, with the leisure & hospitality sector, all by itself, accounting for 3.1 million of that deficit. Most of those gaps should be closed by the end of this year.

But, completely closing those gaps won't mean the labor market has fully healed. Jobs would have been growing in the past year if COVID-19 had never happened, perhaps adding two million new jobs or more. Nonetheless, this is the world we have created, and we have a hole to dig out of. And we are digging rapidly, indeed.

The payroll data comes from a survey of businesses, while the household employment data is captured by talking directly to workers. As a result, it includes small-business start-ups that haven't yet made it into the business payroll survey. This alternative measure of employment increased 609,000 in March and the unemployment rate dropped to 6.0%, even as the labor force (people who are either working or looking for work) grew 347,000 and the labor force participation rate ticked up to 61.5%.

The March data was also lifted by the fact that February was held back by harsh winter weather. We can see this in the length of the average workweek, which fell in February, but rebounded strongly in March. Total hours worked (the average workweek x total employment) rose 1.9% in March – that is a huge lift to overall economic output.

If there was a negative part of the March jobs report it was that average hourly earnings declined 0.1% for the month. However, we think that decline is a side-effect of the otherwise very strong jobs report.

COVID-19 and related shutdowns caused the most economic damage among service businesses that need many workers to interact directly with customers, like at restaurants and bars. These workers are often younger and earn lower than average pay. So, when these firms are re-hiring workers, which is a good thing, that process can also temporarily drive down average earnings. In other words, we don't think the dip in average hourly earnings is worth worrying about.

When you combine the path of total hours worked and average hourly earnings, they show a robust private-sector recovery. This measure of total private earnings hit a new all-time record high in March, up 0.7% versus the pre-COVID peak. When combined with trillions of dollars in stimulus spending that will roll out in the months ahead, we expect economic activity to boom. Job gains in the seven million range for all of 2021 and real GDP growth of 6%, or more, are highly likely if renewed shutdowns do not occur.

Collectively, adding the increased savings rate to the gains in income we expect households to have more money to spend than at any point we can find in historical data.

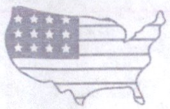
Growth and increased spending themselves don't cause inflation, and neither do budget deficits. Inflation is too much money chasing too few goods. So, if the government takes money from one person to redistribute it to another person, then there is no increase in overall demand. But if government prints money to fund itself, then that debt represents an increase in potential spending. And if government lifts tax rates, then output is hampered. That's our biggest worry for the next few years – watching demand soar due to 27% growth in the M2 money supply, while higher tax rates and more redistribution hold back output, leading to inflation. In the meantime, the economy is booming.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-5 / 9:00 am	ISM Non Mfg Index – Mar	58.5	**58.5**	63.7	55.3
9:00 am	Factory Orders – Feb	-0.5%	**+0.3%**	-0.8%	+2.6%
4-7 / 7:30 am	Int'l Trade Balance – Feb	-$70.2 Bil	**-$71.2 Bil**		-$68.2 Bil
2:00 pm	Consumer Credit– Feb	$2.4 Bil	**$0.0**		-$1.3 Bil
4-8 / 7:30 am	Initial Claims – Apr 3	705K	**705K**		719K
4-9 / 7:30 am	PPI – Mar	+0.5%	**+0.6%**		+0.5%
7:30 am	"Core" PPI – Mar	+0.2%	**+0.3%**		+0.2%

INVESTMENT STRATEGY QUARTERLY QUICKVIEW

APRIL 2021

THEMES



The Longer-Term Market Impact of the Biden Agenda: A Preview of the New Economy?

The early theme of the Biden presidency is domestic policy, working with Congressional Democratic majorities in the House and Senate on COVID relief efforts with the first legislative priority being the American Rescue Plan, the $1.9 trillion fiscal relief package. Following the 'rescue' plan, we anticipate the focus to pivot toward a 'recovery' package, which will likely include modernization of the economy, tackling climate change, addressing racial and economic inequalities, and investments in the workforce.

The Inflation Outlook: What, Me Worry?

For a variety of reasons, investors are worried about higher inflation. Some may remember the Great Inflation of the 1970s and early 1980s. Some fret over the sharp rise in commodity prices; others are concerned about the end result of aggressive monetary and fiscal policy. However, while we may see reflation – a pickup in prices that were restrained due to the pandemic – a lasting period of substantially higher inflation appears unlikely. Unless longer-term inflation expectations become wildly unanchored, inflation is unlikely to become a serious issue.

Is the 60/40 Portfolio Dead?

Traditional stock/bond balanced accounts are a staple in investment management. This approach is primarily a volatility management tool that relies on the historically negative correlation between stocks and bonds. However, this relationship has come under strain recently due to rising correlations between asset classes and historically low yields. If the reflation theme holds, a three-pronged approach to 60/40 may be wise: equities (domestic and foreign), bonds, and some form of inflation hedge.

Global Energy Transition

Energy transition, also commonly referred to as decarbonization, is one of the global megatrends of our time. For investors, it is essential to at least conceptually recognize the impact that this megatrend will have for the entire energy value chain. There will be winners and losers, but not always the ones you'd expect, and with a wide range of impacts in different geographies.

For more information, refer to the full Investment Strategy Quarterly.

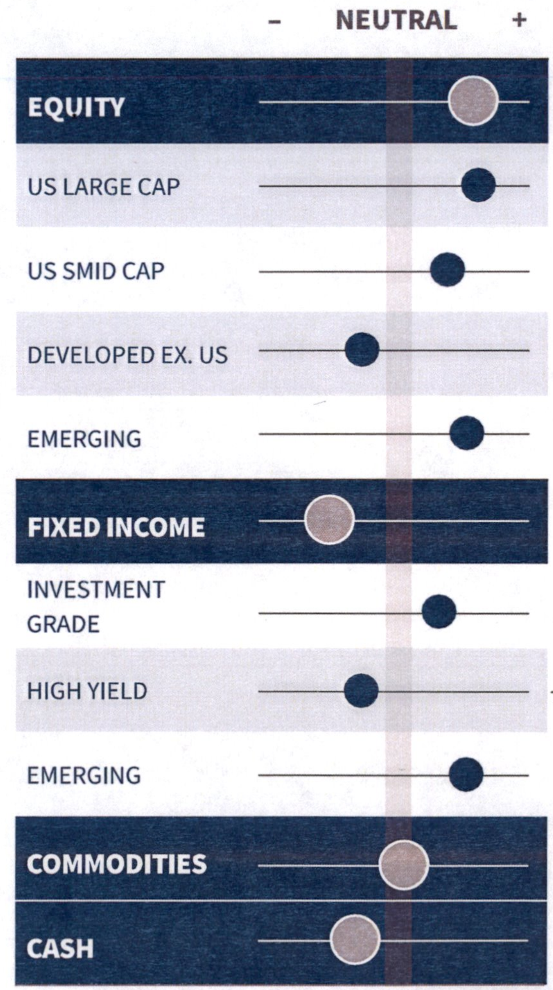
Economic Snapshot

Economic Indicator

FAVORABLE	GROWTH
	EMPLOYMENT
	CONSUMER SPENDING
	BUSINESS INVESTMENT
	MANUFACTURING
	HOUSING AND RESIDENTIAL CONSTRUCTION
	MONETARY POLICY
	FISCAL POLICY
	REST OF THE WORLD
NEUTRAL	INFLATION
	LONG-TERM INTEREST RATES
	THE DOLLAR

From Scott Brown, Ph.D.,
Chief Economist, Raymond James

Tactical Outlook



The tactical asset allocation outlook above reflects the Raymond James Investment Strategy Committee's recommendations for current positioning. Your financial advisor can help you interpret each recommendation within this material relative to your individual asset allocation policy, risk tolerance and investment objectives.

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INVESTMENT STRATEGY QUARTERLY QUICKVIEW

APRIL 2021

Capital Markets Snapshot

EQUITY	AS OF 3/31/2021*	1Q 2021 RETURN**	12-MONTH RETURN**
DOW JONES INDUSTRIAL AVERAGE	32,981.55	7.76%	50.48%
S&P 500 INDEX	3,972.89	5.77%	53.71%
NASDAQ COMPOSITE INDEX	13,246.87	2.78%	72.04%
MSCI EAFE INDEX	2,208.32	3.60%	45.15%
RATES	**AS OF 3/31/2021**	**AS OF 12/31/2020**	**AS OF 3/31/2020**
FED FUNDS TARGET RANGE	0-0.25	0-0.25	0-0.25
3-MONTH LIBOR	0.19	0.24	1.16
2-YEAR TREASURY	0.16	0.13	0.23
10-YEAR TREASURY	1.74	0.93	0.70
30-YEAR MORTGAGE	3.17	2.67	3.50
PRIME RATE	3.25	3.25	3.78
COMMODITIES	**AS OF 3/31/2021***	**1Q 2021 RETURN**	**12-MONTH RETURN**
GOLD	$1,715.60	-9.47%	7.45%
CRUDE OIL	$59.16	21.93%	188.87%

*Price Level
**Total Return

Sector Snapshot

	SECTOR	S&P WEIGHT
OVERWEIGHT	INFORMATION TECHNOLOGY	26.4%
OVERWEIGHT	CONSUMER DISCRETIONARY	12.4%
OVERWEIGHT	FINANCIALS	11.6%
OVERWEIGHT	COMMUNICATION SERVICES	11.2%
OVERWEIGHT	INDUSTRIALS	8.8%
EQUAL WEIGHT	HEALTH CARE	13%
EQUAL WEIGHT	ENERGY	2.8%
EQUAL WEIGHT	MATERIALS	2.7%
UNDERWEIGHT	CONSUMER STAPLES	6.1%
UNDERWEIGHT	UTILITIES	2.6%
UNDERWEIGHT	REAL ESTATE	2.4%

The Weiss Report
Volume 24, Number 2
Enclosure #3

Why Inflation is an Economic Threat

By: Leonard A. Weiss

Most people under 50 didn't have to live through the high inflation era of the 1970's and the 1980's. In that time, annual inflation, as gaged by the Consumer Price Index (CPI), rose steadily and peaked near 12% triggered by the oil price shock of the mid 1970's and very poor monetary policy from the Federal Reserve Board (FED).

Over the last 30 years, inflation has steadily declined to a point that since 2010 growth in the CPI has generally been below 2%. This low rate has allowed price stability at home, and a cyclical high in the value of the U.S. Dollar.

But what do inflation rates really mean? Nobel Laureate Milton Friedman used to say that inflation is a monetary condition created by excess money printed by the Government. It simple terms, inflation sets in when there is too much money chasing too few goods.

These excesses tend to find their way to increased speculation as asset prices are bid up by the extra money in circulation. This can easily be seen in the run up of Tesla and Bitcoin. It can also be seen in the steady rise of food, gasoline and housing costs this year. As a sneak preview, the February CPI rose .04% which translated to a 4.8% annual rate should these numbers continue.

So, why is inflation a threat to long term growth and price stability? To best understand we need to see inflation as a monetary phenomenon. Our industry has used the Investment Rule of 72 to explain the power of compound returns. Take a rate of return, divide it by 72 and the result is how many years it takes to double money.

But there is an Inverse Rule of 72 as well. When we take an inflation rate and divide it by 72 the result is how long it takes the value of money and its purchasing power to halve. At 2% inflation, our currency halves in 36 years. At 6% inflation money halves in only 12 years. We don't even get to directly see this currency erosion. The way we see it is in rising prices. Making a loaf of bread takes the same materials and process today as 50 years ago. Then, the loaf sold for $.50. Today it costs about $3.00. But the loaf of bread is still the same.

We see the price rise, but it's really the currency that devalued. This is why rising inflation is such a long term economic threat. At 6% inflation the cost of gas, food and homes could double in nominal dollars 12 years on.

For inflation to be tamed, borrowing costs must exceed an inflation rate for a few years! Higher borrowing costs tend to dampen speculation which in turn slows inflation. When inflation was near 12% in 1980, interest rates were raised to near 20% to dampen the ever rising price inflation. These rates also caused a double dip recession as aggregate consumption also fell sharply.

Today, inflation is nearing 3-4% yet our 10 year T-Bond rate is still under 2%. Keeping interest rates below the inflation rate can work like a bellows to fan inflation's rise more quickly.

Perhaps this is why a barrel of crude oil is back above $60, food prices have been rising for months and housing prices are pricing new buyers out of the market. And last, the U.S. Dollar Index has already declined 9% from its 2019 peak.

Conclusion: As long as the Fed keeps rates this low we should expect to see inflation steadily rise. We expect the annual inflation rate to top 4% next year. Let see how the markets handle something not seen in the last 40 years.