

## FIRST QUARTER MARKET OVERVIEW

Stocks began the new year much as they ended the old one, with both U.S. and foreign equities climbing higher.

In the U.S., the S&P 500 index of large-cap stocks gained 6.17% for First Quarter 2021. Small-cap stocks continued to outperform their large-cap peers, with the Russell 2000 index gaining 12.70% for the quarter.

In the past six months, the real story has been the shift in market momentum from growth stocks to value stocks. While the big technology growth stocks powered the major indices higher during the first half of the 2020 market recovery, it has been value stocks—especially small-value stocks—that have driven the market higher since last fall.

For example, the Russell 2000 Value index gained 61.59% from 10/1/2020 to 3/31/21, while the Russell 2000 Growth index gained “only” 35.92%. The strong performance of value vs. growth has been evident in large stocks as well, with the Russell 1000 Value index gaining 29.34% to the Russell 1000 Growth index’s 12.44% gain during the past six months.

In contrast with the strong recovery in stocks, bonds have been negatively impacted in recent months by the prospect of rising interest rates. The Barclays U.S. Aggregate bond index declined 1.25% in First Quarter 2021.

The recovery in stocks in the past 12 months is another example, among many, of stocks staging a significant rebound on the heels of a big selloff, right when the so-called experts least expect it.

First Quarter 2021

## All Things in Moderation:

*The First Quarter 2021 is off to a good start. Most people are eager to return to normal with travel, dining, and shopping this summer. Financial markets are no different.*

We see similar pent-up yearnings in an array of analysts’ second-quarter financial forecasts. Check out these second-quarter forecast headlines:

- [“Open the Door to Optimism for 2021”](#) — BlackRock
- [“U.S. Will Be Ready for Liftoff After Mass Vaccination”](#) — Morningstar
- [“Outlook 2021: Things Can Only Get Better”](#) — Commonwealth Financial Network
- [“2021 Global Outlook: The Second Coming”](#) — Russell Investments

A second coming? That last one shows the extent of optimism found in the current narrative diffusing through the global financial markets.

Now, think back to April 2020. A year ago, fear was tempting many investors to pile into safe-harbor holdings, even as most markets staged robust and surprising recoveries.

### SELECTED 2021 EQUITY INDICES

	Mar. '21	1 <sup>st</sup> Qtr.	YTD
S&P 500 Total Return (Large-Cap Stocks)	4.38%	6.17%	6.17%
Russell 2000 Total Return (Small-Cap Stocks)	1.00%	12.70%	12.70%
MSCI EAFE (Developed International Stocks)	2.30%	3.48%	3.48%
MSCI Emerging Markets (International Emerging Stocks)	-1.51%	2.29%	2.29%

### SELECTED 2021 FIXED INCOME INDICES

	Mar. '21	1 <sup>st</sup> Qtr.	YTD
Barclays U.S. Aggregate (Broad Domestic Bonds)	-1.25%	-3.37%	-3.37%
Barclays 1-5 Yr. Credit (Short-Term Domestic Bonds)	-0.29%	-0.57%	-0.57%
Barclays 5-10 Yr. Credit (Intermediate-Term Domestic Bonds)	-1.74%	-3.90%	-3.90%
Barclays U.S. TIPS (Treasury Inflation Protected Securities)	-0.19%	-1.47%	-1.47%
FTSE World Gov't 1-5 Yr. Hedg'd (Short-Term Global Bonds)	0.02%	-0.36%	-0.36%

This year, we're seeing many of those same investors chasing all kinds of hot holdings, as they now embrace an *absence* of fear. Consider these quarter-end headlines:

- [“Family Offices Like Archegos Take Big Risks Like Hedge Funds”](#) — *The Wall Street Journal*
- [“Robinhood Trader’s Battle Cry: ‘It’s All Just a Game to Me’”](#) — Jason Zweig, *The Intelligent Investor*
- [“Institutional investors putting risk back on the table”](#) — *Pensions & Investments*

In its [quarter-end recap](#), *The Wall Street Journal* summarized similar sentiments as follows:

“If there is a unifying theme to all this, it is that investors big and small showed no fear of risk-taking to start 2021. In fact, they embraced it.”

Sometimes, an extra shot of bravery is just what the doctor ordered. “No fear,” you might tell yourself as you enter your first marathon, launch a new business, or hug your college-bound child farewell. In investing, however, *no* fear can be as damaging as an excess dose of fear.

There are numerous proverbial sayings in every culture along the lines of “all things in moderation.” While taking things in moderation is often true in life, it’s true in investing too.

Moderation is vital to keep in mind given the investment environment we encounter today. The efficient market hypothesis proposes that asset prices are set by rational investors, whose primary concerns are systematic risk and expected returns. However, asset prices may now, more than normal, be fueled by investors’ desire to be part of a social movement, hopes to strike it rich, or plain old envy. While there are many reasons to own a stock, it helps to keep an accurate assessment of the potential risks and rewards involved in any given approach.

We hope favorable markets continue, but investing is not a game of chance. If you were a client of ours last April, we were honored to be by your side to remind you that your disciplined investment strategy was in place. Your globally diversified portfolio is structured to help you maximize expected returns while minimizing the risks involved.

At the time, we encouraged you to stick to the plan. Today, we encourage you to do the same. Markets may run hot or cold. The scenery may be different. But your financial journey is still the same.

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*Past performance does not guarantee future results. All investments include risk and have the potential for loss as well as gain.*

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