MINK WEALTH MANAGEMENT

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MACRO MUSINGS

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Q1 2021 Quarter in Review: Strong Stocks, Weak Bonds

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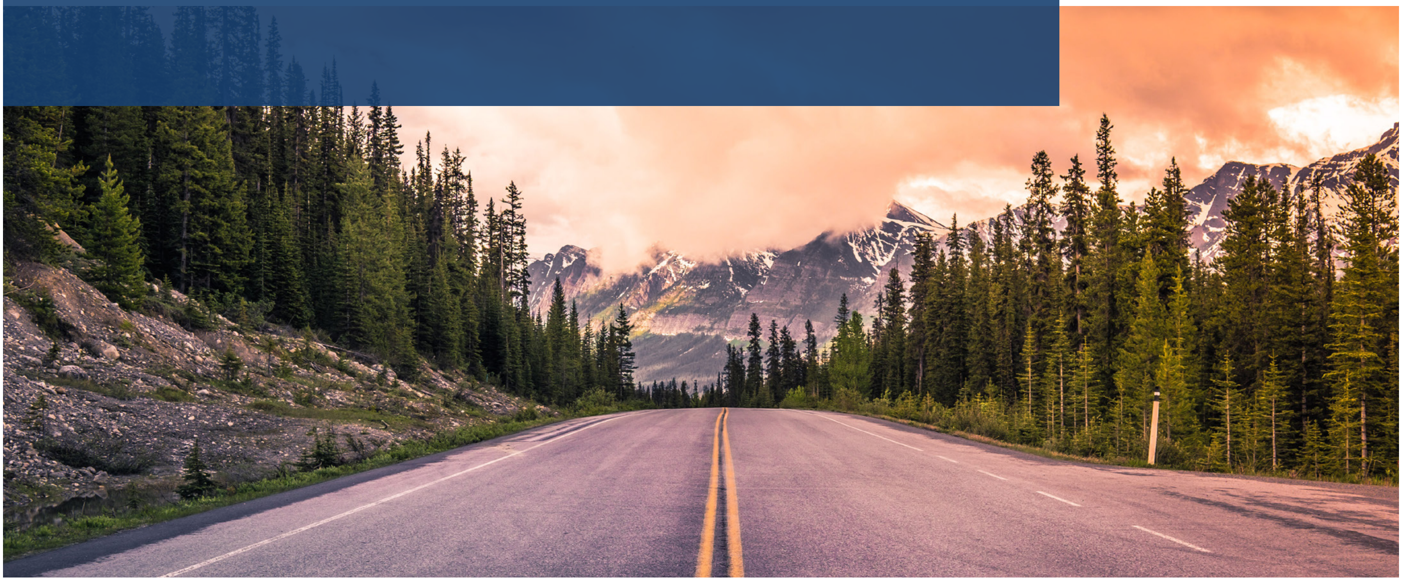


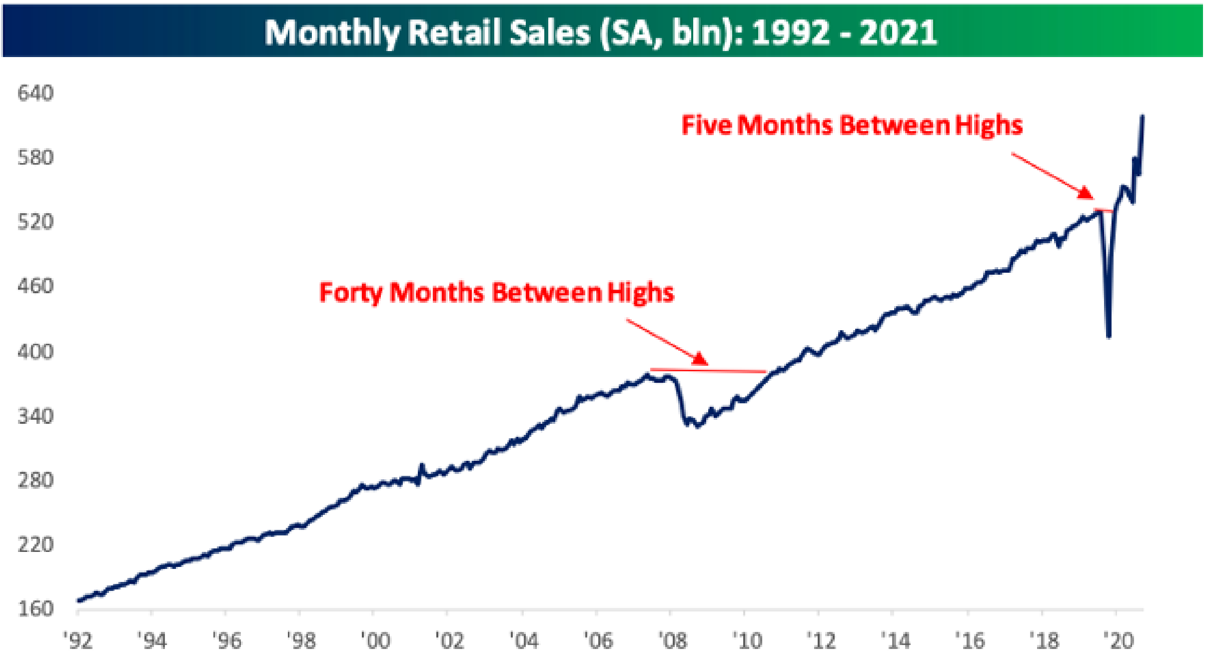
SUMMARY

- **macro**cast™ indicates a recessionary bear market in 2021 is unlikely. Our current **micro**cast™ signal is suggesting an aggressive allocation. Both models remain positive, underpinning a constructive market outlook for the remainder of the year.
- The positive **macro**cast™ score is driven by strong data in the Aggregate Economy, Technicals, and Liquidity categories. Current negative signals are concentrated in the Sentiment and Valuation categories.
- The majority of asset classes performed well in the first quarter. Equities around the globe and across market caps saw positive returns. The notable laggard was bonds. The Barclays Aggregate Bond index suffered its worst quarter since 1981.
- S&P 500 performance in Q1 was strong, but not too strong. Historically, when the market started the year with gains between 5-10%, the rest of the year saw positive returns.

THE MESSAGE FROM **macro**cast™

As a reminder, **macro**cast™ is Corbett Road's proprietary investment model. **macro**cast™ measures the appeal of risk assets by looking at the **VITALS** of the market–**V**aluation, **I**nflation, **T**echnical Analysis, **A**ggregate Economy, **L**iquidity, and **S**entiment. By looking at multiple factors, we seek to better gauge market conditions and the probability of a major, sustained market decline.

Within the VITALS, the **Aggregate Economy** data remains the most robust. This is most evident in the V-shaped recovery in retail sales, which recently surged to another all-time high on the back of fiscal stimulus and a reopening economy (chart from Bespoke):



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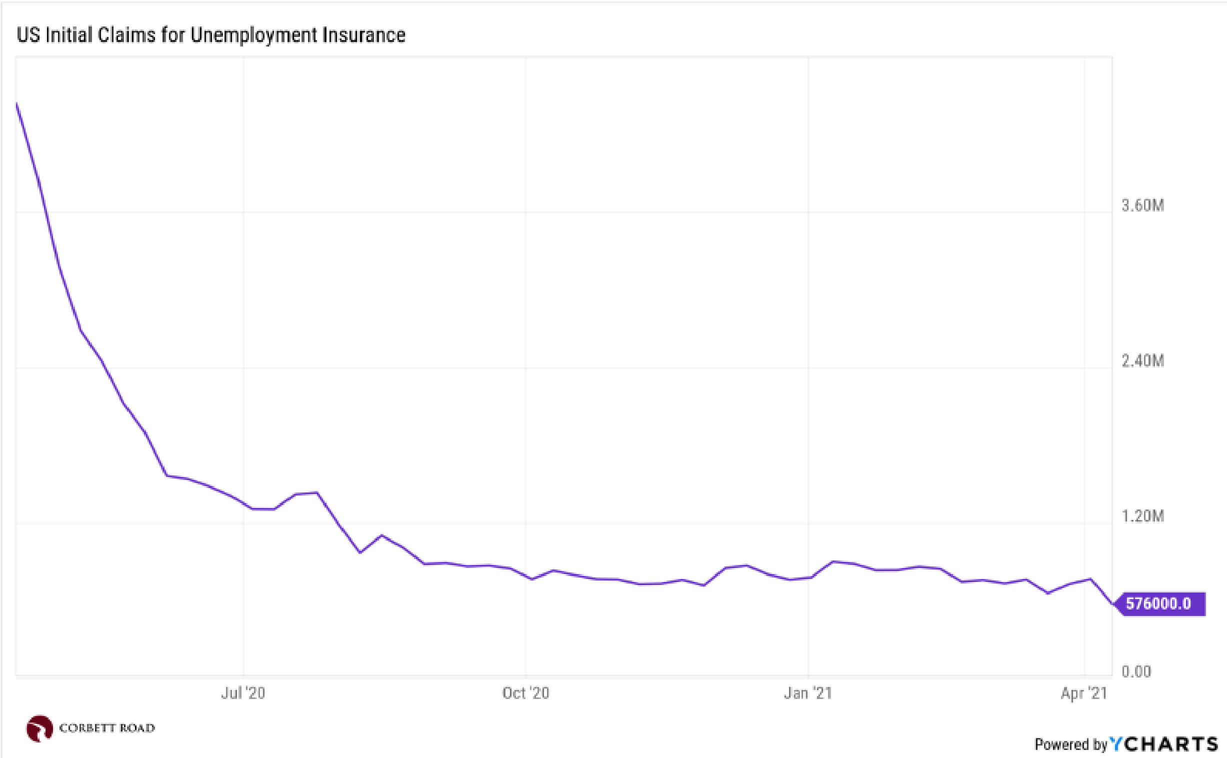
The difference in the rebound compared to recovery following the Global Financial Crisis is staggering. In 2008, it took almost four years for retail sales to return to its previous peak. This time around, it only took five months, and retail sales have continued to climb to new record highs since.

We are also seeing positive trend in employment, with initial claims for unemployment falling to their lowest level since March 14, 2020:



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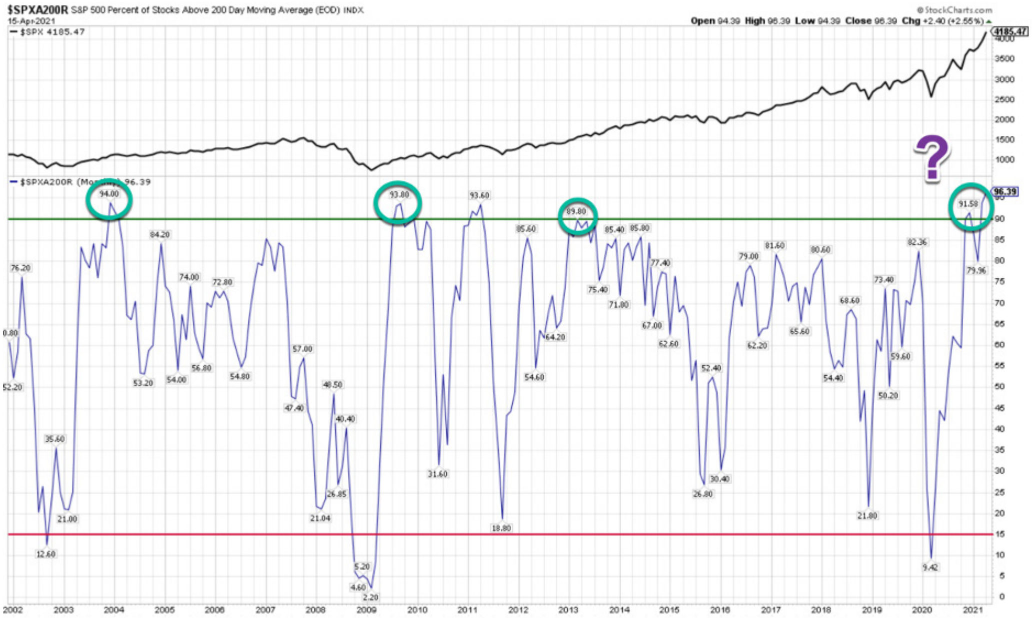
The **Technicals** category is also decisively positive. For the first time since 2013, over 90% of S&P 500 stocks are trading above their long-term moving average. This level of broad-based participation typically occurs at the beginning of new bull markets.



Liquidity remains plentiful. Central banks across the globe responded to the pandemic with aggressive monetary easing. Periods of strong global liquidity have sustained equity markets in the past (chart from Bank of America):

Exhibit 4: Global free liquidity is rising sharply, making it conducive or equity markets to thrive

Source: BofA Global Research, FactSet. **Note**: Free Liquidity for individual countries is defined as the M1 YoY growth minus nominal GDP YoY growth (CPI YoY growth plus PMI-rebased to 50). For UK, M0 is used instead of M1. G7 + China free liquidity is calculated as the GDP-weighted average of individual country free liquidities.

Indicators within the **Valuation** and **Sentiment** categories are still negative. However, as we have mentioned before, this is not unusual at the beginning of a new bull market and economic cycle. Expectedly, sentiment remains elevated, as the market's rebound and the prospect for a normalized economy have buoyed investors.

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ASSET CLASS REVIEW

The following table highlights major asset class returns for the first quarter:

Performance (Total return % change)

Index	3/31/21	1 mo.	3 mos.	YTD	1 yr.	2 yrs.
Dow (DJIA)	32,981.55	6.78	8.29	8.29	53.78	33.20
S&P 500	3,972.89	4.38	6.17	6.17	56.33	45.41
Nasdaq	13,246.87	0.48	2.95	2.95	73.47	74.82
Russell 2000	2,220.52	1.00	12.69	12.69	94.82	48.04
Russell 3000	2,382.74	3.58	6.34	6.34	62.51	47.66
S&P 500 Equal Wgt.	5,752.06	5.96	11.48	11.48	71.58	41.43
MSCI AC World	673.29	2.72	4.67	4.67	55.35	38.63
MSCI Europe	142.36	3.66	4.29	4.29	45.86	23.96
MSCI EAFE	2,208.32	2.39	3.61	3.61	45.35	25.11
MSCI Asia-Pacific	203.57	-1.06	2.33	2.33	52.26	34.41
MSCI Emerg. Mkts.	1,316.43	-1.51	2.21	2.21	58.85	31.23
60/40 Allocation[1]	N/A	2.13	2.35	2.35	34.08	31.13
S&P 500 Sector	**3/31/21**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
Consumer Disc.	1,340.92	3.65	3.11	3.11	70.29	51.94
Consumer Staples	699.46	8.19	1.15	1.15	28.37	27.62
Energy	369.89	2.78	30.84	30.84	75.14	-16.66
Financials	565.72	5.80	15.90	15.90	67.32	38.55
Health Care	1,360.34	3.92	3.18	3.18	34.04	32.68
Industrials	831.98	8.91	11.41	11.41	69.60	36.52
Information Tech.	2,331.06	1.69	1.97	1.97	66.61	83.98
Materials	494.71	7.58	9.08	9.08	78.29	48.75
Real Estate	247.00	6.80	9.02	9.02	32.02	17.07
Comm. Services	239.28	3.12	8.08	8.08	60.87	55.54
Utilities	325.26	10.51	2.84	2.84	19.52	17.84
FI, FX, & Commod.	**3/31/21**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
U.S. Treasuries[2]	1.74%	-1.54	-4.25	-4.25	-4.43	8.21
Invest-Grade Credit[3]	2.28%	-1.72	-4.65	-4.65	8.73	14.14
High-Yield Credit[3]	4.23%	0.15	0.85	0.85	23.72	15.14
WTI Crude Oil[4]	$59.16	-3.80	21.93	21.93	188.87	-1.63
Dollar Index[4]	$93.23	2.59	3.66	3.66	-5.87	-4.17
Gold[4]	$1,707.71	-1.52	-10.04	-10.04	8.28	32.14

[1] 60% S&P 500 and 40% Bloomberg Barclays U.S. Aggregate. [2] Yield reflects 10-year U.S. Treasury, total returns reflect Bloomberg Barclays U.S. Treasury Index. [3] Yield and total returns reflect that of the respective Bloomberg Barclays Index. [4] Spot prices and price returns.

Source - Bloomberg, RBC Wealth Management

Some additional insights:

1. Value stocks outperformed Growth. 2020 was a record year for growth outperforming value. Companies that benefited from the pandemic were heavily skewed toward industries like software and online retail, which tend to fall within the growth category. So far in 2021, growth has trailed value, as investors have favored cheaper, cyclical companies that will benefit from the reopening of the economy.

2. Bonds had their worst quarter in 40 years. The Bloomberg Barclays US Aggregate Bond index was down 3.7% in Q1. This was the worst performance for the index since 1981. The combination of higher debt issuance, a strong rebound in GDP growth, and worries about inflation drove yields aggressively higher in a short period of time, negatively impacting bond prices.

3. Small- and Mid-Caps Outperformed Large. Smaller capitalization stocks handily outperformed larger companies in the first quarter. Small- and mid-caps tend to be more sensitive to the economic cycle than their large-cap peers, so part of the outperformance was likely due to the improving economic outlook.

4. US outperformed International. International stocks did very well at the end of 2020 and started off the year strong before fading towards the end of the quarter. Returns from both developed countries and emerging markets were positive but lagged domestic stocks.

5. "Defensive" asset classes and sectors struggled. Perhaps the most consistent theme of the quarter was investors shunning areas of the market that are defensive in nature. We already mentioned bonds, but gold also finished the quarter negative (despite it supposedly being a hedge against inflation), and sectors like utilities and consumer staples were among the worst performers.

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"GOLDILOCKS" FIRST QUARTER:
STRONG RETURNS FOR REST OF THE YEAR?

The S&P 500 finished the first quarter up 6.17%. This is an excellent return, but not necessarily excessive. LPL dubbed it a "Goldilocks" quarter, and historically, the market saw solid performance through the end of the year.

In 13 of 15 instances, the rest of the year saw additional gains. The trend seems to be holding so far, with the market up an additional 4.85% to start Q2 (as of Monday, April 19).

In summary, **macro**cast™ is decisively positive, which suggest minimal risk for a recessionary bear market. The first quarter was a good start for risk assets across the globe and the market's performance in Q1 has historically led to further gains. While market corrections happen every year and can occur at any time, the overall fundamental backdrop remains constructive.

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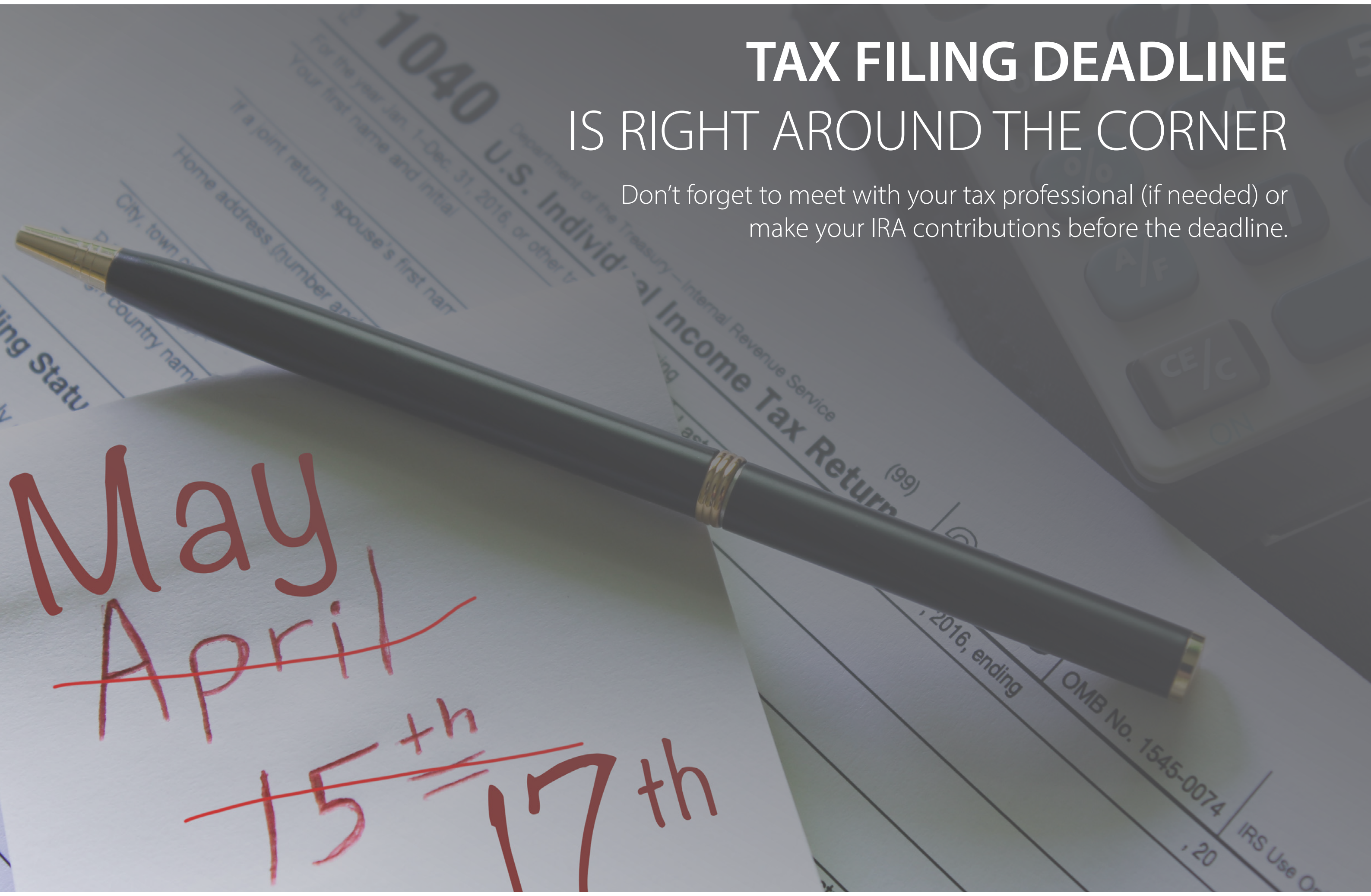

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