VITUCCI INTEGRATED PLANNING

INVESTMENT MARKET COMMENTARY

Mid-Quarter Investment Market Commentary – 1st Quarter 2021

March 1, 2021

In the end, last year was rewarding for patient, long-term investors, but it was not a smooth ride. 2021 may be one of the most anticipated years in our lifetime. We begin the year with hope for the end of a pandemic and the continuation of an economic recovery. New questions will come into focus. Among them, how much economic scarring has taken place in the past year? And, how much will life resume back to “normal?”

While we believe that portfolio risk will continue to be rewarded during the economic recovery in 2021, we need also bear in mind the challenged longer-term return regime characterized by high valuations in stocks and low yields in bonds. Portfolios may need to be adjusted for this new regime in order to better manage risk and potentially enhance returns to levels that are appropriate for client goals.

“Fear of missing out” on investing exuberance can sometimes influence the emotions attached to our investments—particularly when a sector of the economy or particular asset class seems over-fueled with enthusiasm. Diversification rarely feels good, but it creates the necessary framework to potentially weather the inevitable economic storm. This was illustrated in both the initial gut-punch to markets at the outset of the pandemic and the subsequent bounce to asset valuations. A well-diversified portfolio is designed to help you achieve your long-term goals as well as limit your portfolio’s downs (and ups). Though you may get upset when you inevitably lose money during certain periods (though your loss is likely less than that of the broader stock market), you may also be disappointed during up markets when you see how well the equities performed, and you didn’t do as well. The good news: A disciplined diversified portfolio may produce a better outcome for you in the long-term.

A perfect market for "S&P Envy" during the last 20 years

Years	S&P 500 Index	Diversified portfolio	
2000*-2002	-40.1%	-17.3%	"I lost money"
2003-2007	+82.9%	+80.0%	"I didn't make as much"
2008	-37.0%	-24.5%	"I lost money"
2009-2019	+351.0%	+195.3%	"I didn't make as much"
Q1 2020†	-30.4%	-20.7%	"I lost money"
Q2-Q4 2020‡	+70.2%	+42.6%	"I didn't make as much"
Total return	**+268.7%**	**+275.3%**	**"Diversification can work even when it feels like it's losing"**
Growth of $100,000	**$368,745**	**$375,302**	

Source: Morningstar as of 12/31/20. *Performance is from 9/30/00 to 12/31/02. †Performance is from 1/1/20 to 3/23/20. ‡Performance is from 3/24/20 to 12/31/20. **Diversified Portfolio** is represented by 40% S&P 500 Index, 10% MSCI EAFE Index, 5% Russell 2000 Index, 30% Bloomberg Barclays U.S. Aggregate Bond Index, 10% Bloomberg Barclays U.S. Corporate High Yield Index and 5% FTSE Emerging Stock Index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index. Diversification does not guarantee a profit or protect against a loss in a declining market.

We have already witnessed incredible market movement this year, including stocks that packed years' worth of returns into a few days, only to give them right back.

I think it's prudent to continue to expect a roller-coaster ride, as markets try to price the length of the runway between today's economic environment and the impact of complete vaccine rollout across the nation and rest of the world. The best course of action, as we have seen time and again, is to stay balanced, disciplined, and active, while keeping your investments in line with your goals-based plan.

As always, please don't hesitate to contact us with questions or concerns. We are available for online or phone meetings, and we're commited to re-opening our offices to clients once it is safe for all to do so.

Thank you for your continued partnership. I look forward to speaking with you soon.

Sincerely,

Jason

Jason Vitucci, CFP®, EA
Financial Advisor

Market Movement

Asset Class Performance Last 3 Months through February 26, 2021

Dow Jones Industrial Avr. (US Large Cap)	+3.5%
MSCI EAFE (Developed International)	+5.2%
MSCI Emerging Markets	+9.2%
Barclays Agg Bond (US Corporate Bonds)	-1.75%
Crude Oil	+34.5%
Gold	-4.55%

The Social Distancing Recovery Dashboard is published by Cetera Investment Management weekly & posted to our blog twice per month. It illustrates measurements of various economic data as the economy begins to re-open & recover.

Social Distancing Recovery Dashboard

High Frequency Metric	Pre-Shutdown (March 7, 2020)	Jan 9	Jan 16	Jan 23	Jan 30	Feb 6	Feb 13	Feb 20	Feb 27	1-Week Change	4-Week Change
Daily COVID-19 Vaccinations (Millions)	N/A	0.54	0.83	0.93	1.29	1.35	1.66	1.52	1.65	↑	↑
Apple Mobility Tracker: Driving (Level)	118.8	102.4	103.2	104.1	102.6	103.2	105.0	98.8	115.1	↑	↑
Apple Mobility Tracker: Public Transit (Level)	101.1	45.5	46.3	46.9	45.9	47.4	49.5	49.9	52.8	↑	↑
Apple Mobility Tracker: Walking (Level)	116.0	98.5	99.7	100.9	97.5	99.1	101.9	99.7	111.3	↑	↑
Google Mobility Tracker: Retail and Recreation (vs. Baseline)	7.9	-23.9	-24.7	-25.4	-26.3	-24.7	-24.0	-29.0	-27.6	↑	↓
Google Mobility Tracker: Workplaces (vs. Baseline)	2.4	-41.9	-32.9	-34.6	-32.4	-32.7	-32.0	-40.0	-39.3	↑	↓
Dallas Fed Mobility and Engagement Index (vs. Baseline)	-2.3	-60.8	-50.2	-47.3	-45.9	-44.3	-50.4	-45.5	-59.6	↓	↓
Weekly Mortgage Application Index (Level)	280.7	313.8	338.9	348.2	334.2	334.6	318.8	299.5	264.9	↓	↓
Weekly Unemployment Claims (Millions)	0.21	0.78	0.93	0.88	0.81	0.81	0.85	0.84	0.73	↑	↑
Consumer Comfort Index (Level)	62.7	44.4	43.2	43.7	45.7	44.6	44.9	45.8	47.3	↑	↑
U.S.Oil Rig Count	793	360	373	378	384	392	397	397	402	↑	↑
Airport Travelers vs. 2019 Level	-10.3%	-56.8%	-60.0%	-64.1%	-62.5%	-61.2%	-54.0%	-58.2%	-55.9%	↑	↑
New York Fed Weekly Economic Index	1.42	-1.88	-1.66	-1.94	-1.88	-1.88	-1.98	-1.44	-3.27	↓	↓
High Yield Bond Spread (End of Week)	5.64%	3.76%	3.74%	3.75%	3.79%	3.58%	3.48%	3.41%	3.52%	↓	↑

Sources and Notes: Cetera Investment Management, FactSet, Centers for Disease Control and Prevention (COVID-19 Vaccinations), Apple (Driving, Public Transit, and Walking Mobility), Google (Retail and Workplace Mobility), Federal Reserve Bank of Dallas (Mobility and Engagement Index), Mortgage Bankers Association (Weekly Mortgage Application Purchase Index), U.S. Employment and Training Administration (Weekly Unemployment Claims), Bloomberg (Consumer Comfort Index), Baker Hughes (U.S. Oil Rig Count), Transportation Security Administration (Airport Checkpoint Passenger Traffic), Federal Reserve Bank of New York (Weekly Economic Index), Bank of America Merrill Lynch (High Yield Bond OAS Spread). The 7-day average is used for metrics that are daily (COVID-19 Vaccinations, Mobility trackers, and Airport Travelers). Data is pushed forward 1-week for the following metrics because there is a 1-week data release lag: Dallas Fed Mobility and Engagement Index, Mortgage Application Index, Unemployment Claims, Consumer Comfort Index, and New York Fed Weekly Economic Index. The Google Mobility Trackers and Dallas Fed Mobility Index compare current level versus the pre-pandemic baseline. For the 1-week and 4-week change, an up arrow indicates the metric is improving and a down arrow indicates the metric is weakening.

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High quality investments are investments in securities issued by companies with the propensity for higher than average characteristics including higher and more consistent profitability, stronger balance sheets, and higher dividend growth. The primary diversifiable risk is opportunity risk.

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Bonds are a type of debt instrument issued by a government or corporate entity for a defined period of time at a fixed interest rate. Bonds may be subject to unsystematic risks including, but are not limited to, call risk and reinvestment risk. High yield bonds, or junk bonds, will be subject to an even greater degree of these risks as well as subject to the credit risk. Commodity instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargo, tariffs, and international economic, political, and regulatory developments.

A client's risk budget is derived from the client's specific answers to a risk assessment, which establishes the client's financial goals, ability to handle risk, and overall investment time horizon. The individual client risk budget is expressed as a percentage of the risk of a well-diversified equity portfolio. CLS Investments & Tower Square Investment Management contributed to this commentary.

Please remember that diversification and asset allocation do not guarantee a profit nor protect against loss in a declining market. They are methods used to help manage risk.

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