Vertex Planning Partners
LLC

Quarterly Market Review

Q1

First Quarter 2021

Economy

Monetary Policy

What's Happening:

Following an unprecedented injection of financial support in 2020, the Fed Chairman Jerome Powell stated his intention to remain supportive of the recovery through 2021-22. This support is validated through the Fed's willingness to let inflation rise above the stated 2% goal and intention of delaying future rate hikes.

What does this mean?

The era of ultra-low rates in the United States may be coming to an end. The concerns from the bond market over increasing economic activity and future inflation expectations has resulted in a sharp reversal in longer term government bonds. The rise in rates has been a challenge for fixed income investors as the treasury market witnessed one of its worst quarterly performances in decades. Conversely the rise in rates has been a positive tailwind to rate sensitive industries such as banking.

Fiscal Policy

What's Happening:

With Democratic taking control of both the White House and Congress, additional spending measures are stacking up with the newest Covid-Relief bill tacking on $1.9 trillion and a proposed infrastructure spending and social program floating around an additional $3-4 trillion.

What does this mean?

So far the programs being proposed have been a positive for the equity markets, interpreting the additional influx of spending supportive of above average growth in 2021. The longer term concern will be the impact of proposed measures to remove excess liquidity through an increase in corporate and personal taxes.

Economy

Geopolitics

What's Happening:

The Presidential election along with a Democratically controlled Congress will usher in a new era of policies similar to the previous Obama administration. Already announcing a string of ambitious spending plans, President Biden is looking to make an indelible mark on America in the form of both economic and societal programs.

What does this mean?

Although it isn't clear the entirety of the administrations agenda, based on the initial tally we may expect something akin to the 60's era Great Society in terms of ambition and long term effects. As the country heals from the impact of Covid-19, an acceleration of long term trends (technological adoption, healthcare innovation, environmental activism, social equity) will have a deeper impact on our country and our markets in the near term.

GDP

What's Happening:

After enjoying sub 3.5% employment, the current crisis witnessed a rapid rise in unemployment peaking at almost 15% (higher than during the Great Financial Crisis). There has been a recovery in reported unemployment, with the latest figures numbers falling to around 6%. Last year GDP contracted 3.5%. With a strong rebound in activity and continued stimulus 2021 GDP is predicted to top 6.5%.

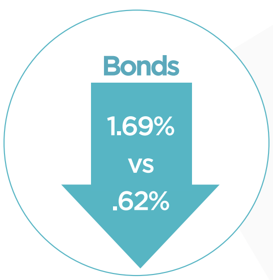
What does this mean?

Additional spending with the gradual return to normal activity will provide a large boost to short term GDP growth. Longer term, a growing economy will require an increase in productivity to help combat the coming wave of baby boomers heading into retirement.

Markets

Equity

In the start of the New Year equity markets continued their positive returns with the S&P 500 gaining 7.54%, MSCI EAFE returning 4.14% and MSCI Emerging Markets up 3.81%. The US markets have seen a shift in leadership from technology and growth companies to more traditional value sectors like banking, materials and industry as the economy gains steam paired with the rise in interest rates.



Fixed Income

In sharp contrast to the first quarter of 2020, the bond markets had one of their worst quarters, with the US Aggregate Bond Index losing -3.05%. With economic activity picking up, continued government spending, and inflation expectations yields have continued to rise, with the 10 year treasury yield rising from a low rising 107 basis points from 1 year ago (1.69% vs .62%). Although relatively benign on an absolute basis, the 172 increase is historic in scale.

Current Strategy

Reasons To Be Optimistic

The recession in 2020 was not a normal recession caused by overcapacity or decreasing demand, and the response was historic in both speed and scale. With the quick development and deployment of vaccines, economic growth is expected to reach the highest levels post Financial Crisis. The low interest rates stimulated a housing boom as homeowners looked for more space outside of city centers, (unlike the previous ten years focused on coastal cities like SF and NYC). The collective wealth effect from elevated stock markets, property markets, pent up demand and return of share buybacks should drive equity returns over the next 12-18 months.

Reasons To Be Cautious

Stock markets globally have experienced robust recoveries from the sharp drawdown in 2020, and positive economic news is being priced in by most investment professionals. Across the globe countries are still experiencing flare ups in infection rates, necessitating local shutdowns. With the prospects of future tax hikes and higher interest rates the markets are increasingly exposed to negative shocks and tail risks from the repricing of market multiples.

Summary

For our advisory clients, during the first quarter we made two important shifts, reducing the allocation to fixed income and exposure to interest rate sensitive bonds, while increasing our equity allocation and shifting to more economically sensitive stocks in order to take advantage of accelerating earnings. We also reduced our direct exposure to Gold, shifting the allocation to more economically sensitive commodities such as oil and industrial metals.