



2021 First Quarter Update

During the first quarter of 2021, there have been a lot of movements in the markets that indicate good future growth as well as some short-term risk. A couple things we have been watching are interest rates, historical data in regard to prior epidemics in U.S. history, and what is ahead for the markets. Below we have summarized our findings:

Interest Rates Rising

Interest rates have risen at a decidedly fast pace. The widely followed benchmark U.S. 10-Year Note yielded above 1.50% at the end of February, which is well above the yield in January of near 1.00%.

However, let's keep in mind that we are still in an extremely low-interest-rate environment compared to historical averages. Yet, the pace of the increase in February does have traders buzzing about higher rates--there's the argument that higher rates support a healthy economy.

While the benchmark 10-Year Note yield has risen and a mixed job market picture continues, U.S. Equities have remained resilient overall. We are keeping an eye on the tech downturn, as any continued volatility could create entry opportunities into some of the higher-quality names.

We will be paying close attention to the 10-Year Note yield and the Federal Reserve statement on interest rates. Volatility may come back into focus across the major averages (especially in the Nasdaq), bringing potential opportunities along with it.

Covid-19 Concerns

So many have voiced questions surrounding COVID-19's ongoing impact on the US equity markets. I wanted to share few insights based on previous health crises that have affected financial markets throughout history.

Here are some key market observations (listed chronologically) from past health crises:

1. **Spanish Flu Pandemic 1918 - 1920 / Dow Jones Industrial Average + 12.05%**
 - Estimated 20 - 50 million worldwide deaths: including approximately 675,000 Americans.
 - The annualized growth rate of the Dow Jones Industrial Average from March 15, 1918 - June 30, 1920: + 6.20%. The approximate total return of the Dow Jones Industrial Average over this duration was approximately 12.05% over this time period.
 - This seems quite impressive; given the high infection rate, high casualty rate, and coming out of World War I. That's what we would call market resilience!

2. **SARS November 2002 - May 2004 / Dow Jones Industrial Average + 25.10%**
3. **Avian Bird Flu (H5N1) January 2006 - December 2006 / Dow Jones Industrial Average + 16.27%**

Epidemic	Date Range	S&P 500 Performance During Date Range	S&P 500 Performance Over Next 12 Months
Swine Flu	April 2009 - April 2010	+ 42.30%	+ 14.25%
Ebola	March 2014 - July 2015	+ 12.36%	+ 3.31%
Zika	April 2015 - November 2016	+ 5.43%	+ 20.41%

Do the US equity markets really care about health crises? They certainly did in March and April of 2020. What about over the longer term? The historical data shows positive market yields throughout the duration of previous health crises. In addition, we see positive stock market returns in the following 12 months after the end of the health crises, in the majority of the above examples. Although we are still in the midst of COVID-19 and do not know the end date, it is important to know the history and market performance while a health crisis is ongoing.

4. **COVID-19 January 2020 - Present**

- S&P 500 has gained 21.98% from when the first US case was announced on 01/20/20 and 03/31/2021.
- Long-term holding and adding to positions methodically has proven to be the ultimate strategy; not trying to time the market.

Our aim is to provide some comparison based on historical data in order to provide some clarity in today's unusual market environment. Past performance is not indicative of future results, but we wanted to share some interesting market data as we continue through 2021.

If you have thoughts or questions about the rising interest rate environment, market volatility, post-pandemic recovery strategy, or anything else, please feel free to reach out to us. As always, we are here when you need us.