PATHSTONE
THE MODERN FAMILY OFFICE™

MARKET FLASH REPORT

March 2021

KEY TAKEAWAYS

- Rising interest rates, stimulus relief, and progress in reopening the economy were the major themes driving markets in the first quarter.
- Increased economic growth and rising inflation expectations pushed the yield on the 10-year Treasury up to 1.7%, significantly above the 0.9% yield to start the year. Core bonds suffered as investors repriced safe assets, with the Aggregate Bond Index declining 3.4% over the quarter. Credit held up relatively well as spreads remain tight.
- Equities rose due to the brighter outlook, and small-cap momentum carried over to start 2021. Small caps, value styles, and economically sensitive areas of the market were the biggest gainers in Q1.
- Now, a full year after the market's bottom, the trailing one-year returns are eye-popping, with small-cap equities gaining nearly 95%.
- The U.S. has made solid progress distributing vaccines, particularly when compared to European peers. Checking in on mobility data also paints a promising picture in the U.S. as airline passengers and restaurant activity has climbed to the highest levels since lockdowns began — trends that should continue to aid in finalizing the recovery, as long as the spread of the virus remains in check.

ALASKA
ARIZONA
CALIFORNIA
COLORADO
FLORIDA
GEORGIA
MASSACHUSETTS
NEW JERSEY
NEW YORK
TEXAS
BELLEVUE, WA
SEATTLE, WA
WASHINGTON D.C.

888-750-PATH (7284)

WWW.PATHSTONE.COM

INDEX PERFORMANCE (as of 3/31/2021)

Equity	**Q1 2021**	**One-Year**	**Three-Year**
U.S. Large Cap	6.2%	56.4%	16.8%
U.S. Small Cap	12.7%	94.9%	14.8%
Developed Non-U.S.	3.5%	44.6%	6.0%
Emerging Market	2.3%	58.4%	6.5%
Real Assets			
Real Estate	5.4%	34.6%	5.0%
Commodities	6.9%	35.0%	-0.2%
Natural Resource Equities	19.4%	72.4%	-1.5%
Fixed Income			
Core Plus			
U.S. High Yield Debt	0.9%	23.7%	6.8%
Emerging Market Debt	-6.7%	13.0%	-0.8%
Core Bonds			
U.S. Aggregate Bonds	-3.4%	0.7%	4.7%
U.S. Treasuries	-4.3%	-4.4%	4.1%
U.S. Municipal Bonds	-0.3%	4.5%	4.0%

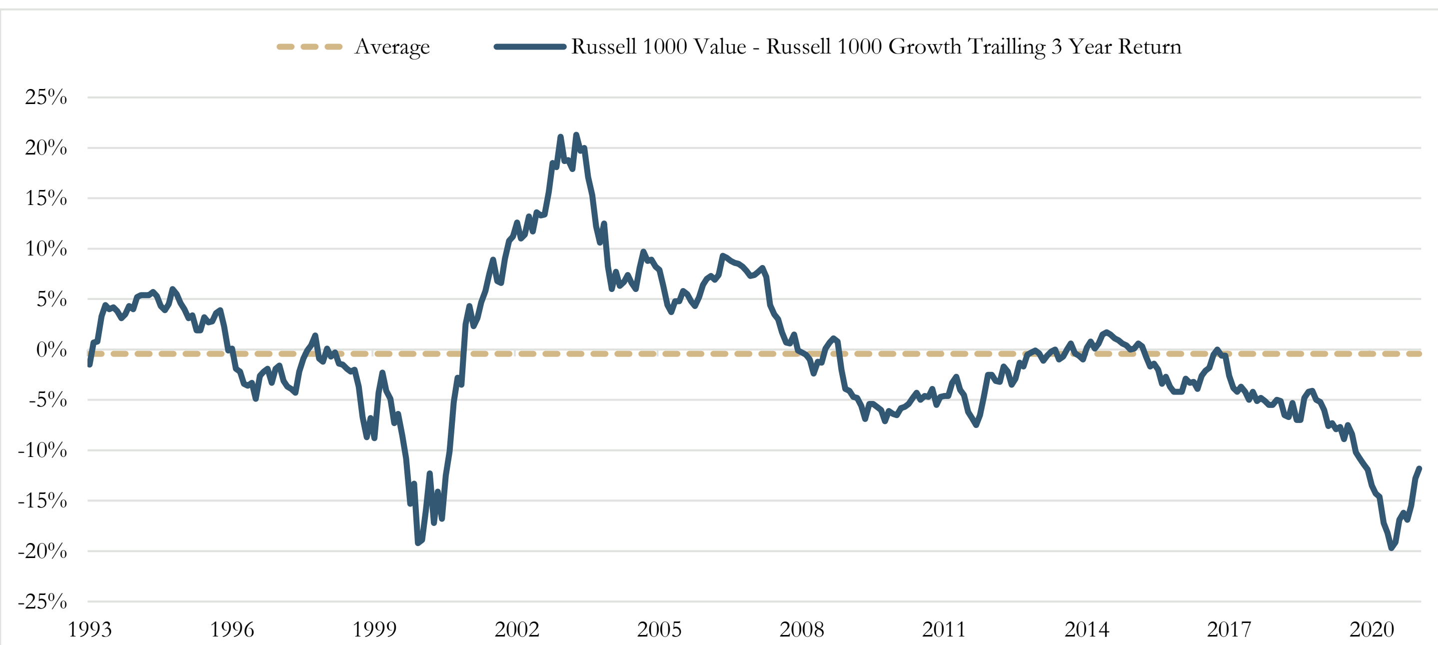
Month-End Values/Yield	**Current**	**Prior Month**	**One-Year Ago**
CBOE Volatility Index	19.4	28.0	53.5
10-Year Treasury Yield	1.7%	1.4%	0.7%

Sources: Bloomberg, Morningstar, treasury.gov. S&P Dow Jones Indices.

You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved. Returns over one year have been annualized.

- Hindsight is always 20/20, but now a year after the market bottom, sizing up the recovery adds perspective to how remarkable the past twelve months have been and how important unemotional decision-making can be for achieving investment success.
- Few would have anticipated markets to climb a wall of worry to reach all-time highs as the disruptive forces of a pandemic, a polarizing election, and widespread uncertainty were overcome by the massive levels of stimulus, and the miracle of science produced several successful vaccines.
- The economic recovery is not yet complete, but the sharp rebound has been surprisingly positive, and thanks to the tailwinds of elevated savings levels, vaccine distribution, and an eagerness to resume social activities, forecasters are anticipating the coming quarters will reflect some of the highest levels of economic growth in decades.
- Clearly, markets at current levels have baked in much of this good news, and based on traditional measures, few bargains remain to be found. But high prices alone are not justification for a market crash, and strengthening economic fundamentals should be supportive of risk assets.
- Equities, when compared on a relative basis to other asset classes such as core bonds, appear more reasonably priced.
- As the real economy continues to reopen and growth and inflation pick up steam, companies closely related to traditional economic activities should continue to benefit. Approval of an infrastructure spending plan may provide a further boost to cyclical areas of the economy as well.
- Despite the outperformance of value styles over the past few months, on a trailing three-year basis, growth continues to lead by a sizable margin. Additionally, value style equity valuations are more attractively priced when compared to their growth counterparts.

Relative Opportunities: Value Styles May Have Room to Run



Sources: Bloomberg

You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved.

Past Performance Is No Guarantee Of Future Performance. Any opinions expressed are current only as of the time made and are subject to change without notice. This report may include estimates, projections or other forward looking statements, however, due to numerous factors, actual events may differ substantially from those presented. The graphs and tables making up this report have been based on unaudited, third-party data and performance information provided to us by one or more commercial databases. Additionally, please be aware that past performance is not a guide to the future performance of any manager or strategy, and that the performance results and historical information provided displayed herein may have been adversely or favorably impacted by events and economic conditions that will not prevail in the future. Therefore, it should not be inferred that these results are indicative of the future performance of any strategy, index, fund, manager or group of managers. While we believe this information to be reliable, Pathstone bears no responsibility whatsoever for any errors or omissions. Index benchmarks contained in this report are provided so that performance can be compared with the performance of well-known and widely recognized indices. Index results assume the re-investment of all dividends and interest. Moreover, the information provided is not intended to be, and should not be construed as, investment, legal or tax advice. Nothing contained herein should be construed as a recommendation or advice to purchase or sell any security, investment, or portfolio allocation. Any investment advice provided by Pathstone is client specific based on each clients' risk tolerance and investment objectives. This presentation is not meant as a general guide to investing, or as a source of any specific investment recommendations, and makes no implied or express recommendations concerning the manner in which any client's accounts should or would be handled, as appropriate investment decisions depend upon the client's specific investment objectives.

U.S. Large Cap Equity is represented by the S&P 500 Index, with dividends reinvested. U.S. Small Cap Equity is represented by the Russell 2000 Index. Developed Non-U.S. Equity is represented by the MSCI EAFE Index. Emerging Market Equity is represented by the MSCI EM Index. Real Estate is represented by the S&P Global Property Index. Commodities are represented by the DJ UBS Commodity Index. Natural Resource Equities are represented by the S&P North American Natural Resources Index. U.S. High Yield Debt is represented by the Bloomberg Barclays U.S. Corporate High Yield Index. Emerging Market Debt is represented by the JPM GMI-EM Global Diversified Index. U.S. Aggregate Bonds is represented by the Bloomberg Barclays U.S. Aggregate Bond Index. U.S. Treasuries is represented by the Bloomberg Barclays U.S. Treasury Index. U.S. Municipal Bonds is represented by the Bloomberg Barclays Municipal 1-10yr Index.