THE PORTFOLIO STRATEGY GROUP, LLC

81 MAIN STREET
SUITE 201
WHITE PLAINS, NEW YORK 10601

TEL: (914) 328-6660
(800) 535-5110

FAX: (914) 328-6670

FIRST QUARTER COMMENTARY
APRIL 12, 2021

Stocks continued to rally in the first quarter. For the second consecutive quarter, gains were led by small and mid cap value stocks. Returns for growth stocks were very modest, with mid cap growth showing a small loss. The gap in favor of value for the second consecutive quarter has still not made up for the outsized returns for growth stocks in previous quarters. The following table provides first quarter returns for a variety of sectors:

Russell 2000 Value (small cap)	21.17%
Russell Mid Cap Value	13.05%
Russell 1000 Value (large cap)	11.26%
S&P 500	6.17%
Russell 2000 Growth (small cap)	4.88%
MSCI EAFE (foreign stocks)	3.48%
Russell 1000 Growth (large cap)	0.94%
Russell Mid Cap Growth	(0.57%)

Hedge funds produced a wide range of returns, with distressed securities having generally solid results, while results for long / short equity varied widely. Gold was down over 9% and international stocks were generally flat. Bitcoin was a huge gainer, up 103% for the quarter. We plan to share additional thoughts about bitcoin during this quarter.

The U.S. Treasury yield curve steepened significantly during the quarter. Additional fiscal stimulus, a successful vaccine rollout and better than expected corporate earnings raised hopes for strong economic growth in 2021. These factors caused interest rates on longer maturities to rise. In fact, bonds with longer term maturities had significantly negative returns for the quarter as bond prices declined and yields rose. On the other hand, yields on 1-3 month Treasury Bills declined further. The following are Treasury yields for various maturities:

Maturity	12/31/19	12/31/20	3/31/21
3 Month	1.55%	0.08%	0.025%
2 Year	1.57%	0.12%	0.16%
10 Year	1.92%	0.94%	1.74%
30 Year	2.39%	1.67%	2.42%

The rally in value stocks, and small and mid cap stocks in particular, is consistent with a cyclical economic recovery. Stocks that should benefit from a reopening economy outperformed those that had benefited from

the pandemic. Energy, financials and industrial stocks, which lagged in 2020, were the leaders this past quarter.

In our last commentary, we discussed the speculation in certain sectors of the stock market. A major story in late January was a rally in stocks like GameStop. This was driven by a frenzy among poorly informed retail investors, with cash and time on their hands and a fear of missing out (FOMO). The stocks which attracted these funds all had weak financial statements and poor or no earnings. This activity, along with the froth in other speculative areas such as cryptocurrencies and SPACs (special purpose acquisition companies), is similar to the market conditions that existed in 1999 and early 2000.

The recently passed $1.9 trillion stimulus bill raised concerns it will cause inflation. The anticipated infrastructure package will add additional stimulus to the economy. A number of economists have provided their opinions about whether inflation will be generated by this government spending.

Inflation is generated either by rising wages or rising prices. Wage inflation tends to be more stubborn and potentially harmful to the economy. Currently, there is no sign or short term expectation of wage inflation. Unemployment is too high for broad wage inflation over the near term. Government stimulus and strong consumer spending may cause short term price inflation, but we do not anticipate stubborn inflation causing a problem for securities unless yields rise a great deal more. The Fed has stated they see no imminent inflation and will not be increasing rates for the foreseeable future. However, a ten-year Treasury yield of 2½-3% could provide competition for equities and slow the housing market as mortgage rates rise.

Overall, we believe stocks will continue to have an upward bias, but we are wary of the speculative nature of certain stocks and sectors. Key positive factors are as follows:

- Liquidity being provided by central banks, as they continue asset purchases which began in March, 2020;
- Very large fiscal stimulus, past and future;
- High level of vaccinations and the re-opening of the economy;
- Strong projected economic and corporate earnings growth this year;
- Pent-up demand by consumers and high cash savings may spur spending.

Risk factors include:

- Broad based surge in coronavirus and its variants or stubborn rates of hospitalizations / illness despite the vaccine;
- Higher taxes on corporations and individuals. This has been so well telegraphed that we wonder if it is already at least partially baked into stock prices;
- Significantly higher interest rates;
- Unexpectedly high or longer lasting inflation;
- International surprise(s);
- Bursting of the speculative bubble – too much positivity / complacency among retail investors.

We continue to believe in a well-diversified approach to the market with high quality as an important component. It is evident that diversification makes sense since what performed worst last year is performing best this year.