Allen M. Zick, CFP®
Financial Advisor
allen.zick@raymondjames.com
845-294-0955

Brad J. Whitted
Financial Advisor
brad.whitted@raymondjames.com
845-294-0988

ZICK WHITTED TAUB
INVESTMENT STRATEGIES

Clear Direction in a Complex World

Alex Taub, CRPC®
Financial Advisor
alex.taub@raymondjames.com
845-294-0959

Michele Eckerson
Client Service Manager
michele.eckerson@raymondjames.com
845-294-0930

Quarterly Insights – April 2021

We hope this letter continues to find you safe and healthy during these still-unprecedented times.

Expectations of a post-COVID-19 economic recovery drove market performance in the first quarter, as the Dow Jones Industrial Average outperformed both the S&P 500 and the Nasdaq 100 due to the underperformance of technology shares.

By market capitalization, small-cap stocks, which are historically more sensitive to changes in economic growth, outperformed large-cap stocks as COVID-19 cases declined and numerous states partially or fully reopened their economies, leading investors to expect a broad acceleration in future economic activity.

From an investment style standpoint, value handily outperformed growth for a second consecutive quarter. The substantial outperformance by value stocks once again underscored increasing investor optimism for an economic rebound in the coming months.

On a sector level, all 11 S&P 500 sectors finished the first quarter with positive returns. Cyclical sectors, including energy, financials, industrials, and materials led markets higher for the second straight quarter. As mentioned, expectations of an acceleration in future economic growth (again, mainly a product of stimulus and COVID-19 vaccine distribution), combined with higher bond yields and fears of potentially rising inflation, drove the cyclical sector outperformance in the first quarter.

One of the biggest sector laggards in the first quarter was tech as investors rotated out of tech stocks and into cyclical sectors as they positioned for an acceleration of economic activity that is expected to come with a full economic reopening. Traditionally defensive sectors such as utilities, health care, and consumer staples also underperformed the S&P 500 on the expectations of a strong economic rebound.

US Equity Indexes	Q1 Return	YTD
S&P 500	6.18%	6.18%
DJ Industrial Average	8.29%	8.29%
NASDAQ 100	1.76%	1.76%
S&P MidCap 400	13.36%	13.36%
Russell 2000	12.70%	12.70%

Source: YCharts

Internationally, foreign markets saw positive returns in the first quarter thanks to declining COVID-19 cases, continued progress on vaccinations, and initial signs of an economic reopening across the EU and UK. Emerging markets also rallied in the first quarter on hopes of a global economic recovery, although they underperformed foreign developed markets due to headwinds from a stronger U.S. dollar and economic turmoil in Turkey following the firing of the head of the Turkish central bank. Both foreign developed and emerging markets underperformed the S&P 500 in the first quarter.

International Equity Indexes	Q1 Return	YTD
MSCI EAFE TR USD (Foreign Developed)	3.60%	3.60%
MSCI EM TR USD (Emerging Markets)	2.34%	2.34%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	3.60%	3.60%

Source: YCharts

Commodities posted strong gains for the second quarter in a row and notably outperformed the S&P 500 over the past three months. Major commodity indices were led higher by a large rally in crude oil futures as investors anticipated an increase in demand for both oil and refined products as the global economy begins to normalize. Gold, however, posted another quarterly decline despite rising fears of higher inflation, as a stronger U.S. dollar combined with the increasing popularity of alternative investments such as Bitcoin dampened demand for the precious metal.

Commodity Indexes	Q1 Return	YTD
S&P GSCI (Broad-Based Commodities)	13.55%	13.55%
WTI Crude Oil	22.54%	22.54%
Gold Price	-9.77%	-9.77%

Source: YCharts/Koyfin.com

Switching to fixed income markets, quarterly total returns for most bond classes were negative for the first time in more than two years. Massive economic stimulus combined with COVID-19 vaccinations led to an acceleration in economic growth expectations in the coming months, but that also resulted in a surge in inflation estimates, which topped a five-year high in the first quarter and that weighed broadly on the fixed income markets.

Looking deeper into the bond markets, longer-duration bonds underperformed those with shorter durations in the first quarter. That substantial underperformance was driven by the Fed's consistent promise to keep short duration interest rates unchanged while the market priced in higher future levels of inflation, which pressured bonds with longer-dated maturities.

In the corporate debt markets, lower quality but higher yielding bonds handily outperformed investment grade bonds. That further confirms that during the first quarter of 2021 investors were positioning for a broad economic rebound later in the year. Investment grade corporate bonds underperformed as investors embraced more risk in their fixed income portfolios and as the decline in longer-dated Treasury bonds weighed on higher quality debt.

US Bond Indexes	Q1 Return	YTD
BBgBarc US Agg Bond	-3.37%	-3.37%
BBgBarc US T-Bill 1-3 Mon	0.02%	0.02%
ICE US T-Bond 7-10 Year	-5.81%	-5.81%
BBgBarc US MBS (Mortgage-backed)	-1.10%	-1.10%
BBgBarc Municipal	-0.35%	-0.35%
BBgBarc US Corporate Invest Grade	-4.65%	-4.65%
BBgBarc US Corporate High Yield	0.85%	0.85%

Source: YCharts

2nd Quarter Market Outlook

As we begin the second quarter, the outlook for markets remains broadly positive. Monies from the recently passed stimulus bill are now entering the economy on a personal, corporate and government level, and those funds should help to spur economic growth in the months ahead.

Additionally, while the COVID-19 outlook has recently dimmed in Europe, the outlook for the U.S. remains generally positive. Vaccine distribution continues to accelerate, with the goal of having vaccines available to all adults nationwide by May. As a result, it is not unreasonable to think the pandemic will be declared "over" by the early summer (although obviously COVID-19 inflections will continue, just not at a pandemic level that requires a large-scale government response).

Meanwhile, the outlook for the economic recovery remains bright, with improvement across multiple economic indicators, while the Federal Reserve has pledged numerous times in recent months to continue to keep interest rates low and its quantitative easing (QE) program ongoing until the economy returns to pre-pandemic activity levels.

Those factors all provide substantial support for markets as we begin the second quarter.

But as the first quarter clearly demonstrated, there are always risks that need to be monitored. First, rising bond yields caused volatility in late February and throughout March, and if the pace of the rise in bond yields accelerates, we can expect more stock and bond market volatility as high interest rates are a threat to the economic recovery.

Similarly, investors are expecting inflation to accelerate as historically massive stimulus fuels the economic recovery. Right now, Federal Reserve officials expect any increase in inflation to be temporary, but if that expectation proves to be incorrect, then the Fed will have to remove stimulus via a reduction in the current QE program, and that is not priced into markets right now.

Regarding the pandemic, while the trend in the U.S. is clearly positive, parts of Europe are struggling with vaccine supply, and there is always the risk of a broader vaccine supply disruption or of a new COVID-19 strain that renders vaccines less effective, and any of those events would pose a threat to the rally in the stock market.

From a fiscal standpoint, the multiple rounds of stimulus that have been unleashed upon the economy since the pandemic began have resulted in very large increases to the national debt and federal deficits, and the recently passed stimulus bill only exacerbated those existing issues. So far, markets haven't seen any negative impacts related to the growing debt or deficits, but these high levels of debt and deficits represent longer-term risks to U.S. financial stability, and it remains unclear when those risks will begin to impact asset prices.

Finally, so far in 2021 markets have embraced the Democratic agenda of more economic stimulus. But numerous prominent Democrats also are in favor of increased corporate, personal and investment taxes, and if those efforts gain momentum, we can expect that to increase market volatility.

For now, these potential risks do not outweigh the actual positive influences pushing stocks higher, and as such, the macroeconomic outlook for the second quarter remains positive. But rest assured we will be monitoring all of the risks listed above as well as any others that pose threats to your investments.

In sum, the start of 2021 showed that even though 2020 is behind us and the pandemic is likely closer to the end than the beginning, volatility and macro-economic surprises will remain with us, and as such we should all remain prepared for continued volatility.

Importantly, though, the start of 2021 again clearly demonstrated that a well-executed and diversified, long-term focused financial plan can overcome temporary bouts of volatility, just like it did in 2020.

At Zick Whitted Taub Investment Strategies, we understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this still-challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility like we experienced in the first half of 2020 is unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's critical for you to stay invested, remain patient, and stick to the plan, as we've worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

The resilient nature of markets in 2021 notwithstanding, we remain vigilant towards risks to portfolios and the economy, and we thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Sincerely,



Allen Zick, CFP®
Financial Advisor

Brad Whitted, CPFA
Financial Advisor

Alex Taub, CRPC®
Financial Advisor

3 Coates Drive Suite 5 | Goshen, NY 10924 | Toll-Free: 888-294-8838 | Fax: 845-294-1006 | zwtgroup.com

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The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The NASDAQ-100 (^NDX) is a stock market index made up of 103 equity securities issued by 100 of the largest non-financial companies listed on the NASDAQ. It is a modified capitalization-weighted index. ... It is based on exchange, and it is not an index of U.S.-based companies. The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, measures the performance of mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. The MSCI ACWI (All Country World Index) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of June 2007 the MSCI ACWI consisted of 48 country indices comprising 23 developed and 25 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indices included are: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. S&P GSCI Gold is an index tracking changes in the spot price for gold bullion. S&P GSCI Crude Oil is an index tracking changes in the spot price for crude oil.