IN THIS ISSUE

QUARTERLY MARKET INSIGHTS
1ST QUARTER 2021

RCB BANK
Trust & Wealth Management

MARKET PLUMBING BEHIND RETAIL INVESTOR SURGE

The struggling video game retailer GameStop (GME) captivated the investing world for a few weeks early in the quarter as retail investors drove its stock price up 1,864% in just 13 days. The recent frenzy in so-called "meme stocks" that were hyped up on social media was driven by over 10 million individual investors who flocked to retail brokerages in 2020 as estimated by JMP Securities. Rolling shutdowns kept many Americans at home over the last twelve months, while several rounds of pandemic relief provided a large percentage of them with stimulus funds; some of those funds were almost certainly used to purchase stocks. In recent years, retail brokerages helped facilitate the individual investor surge by creating frictionless trading with zero commission trades and fractional shares.

The arcane market plumbing behind retail brokerages became an area of interest for lawmakers in February after GME lost nearly 90% of its market value in less than a month amid atypical circumstances. GME's downfall appeared to have been largely triggered by some brokerages, most notably Robinhood, restricting trading in the stock in late January. According to JMP Securities, some observers misguidedly speculated that brokerages were pressured by the market makers, who paid brokerages $2.6 billion for their order flow in 2020, into restricting GME trading. Although many of these brokers have close relationships with hedge funds that were losing money on their GME short positions, it was the magnitude of margin buying and increased collateral demands which drove the trading restrictions.

While testifying before Congress in February, Robinhood CEO Vladimir Tenev said the company restricted trading in some stocks including GME because the firm was unable to meet a $3 billion collateral call from the Depository Trust & Clearing Corporation (DTCC). The DTCC is the main clearinghouse for the U.S. stock market and acts as an intermediary between buyers and sellers. During the two days it takes stock trades to settle, the DTCC requires counterparties to post collateral to protect against a situation where one party is unable to satisfy their settlement obligation. Brokerages are responsible for posting collateral for the portion of trades borrowed on margin, which typically ranges from 10% to 50%. The rapid rise in GME's stock price in combination with many retail investors trading on margin intensified brokerages' collateral requirements.

The brokerage industry's shift to zero commission trading in late 2019 was largely enabled by a practice known as payment for order flow (PFOF). In many cases, market makers pay retail brokerages to execute their customers' trades instead of brokerages directing trades to stock exchanges such as the New York Stock Exchange or Nasdaq. Market makers are willing to pay to execute the brokerages' trades because they earn a profit on the spread between bid and ask prices. Brokerages including Charles Schwab, Robinhood, and E*TRADE recorded PFOF revenue in 2020 of $1.4 billion, $690 million, and $400 million, respectively. The largest source of PFOF was the market maker Citadel Securities which paid retail brokerages $1.14 billion in 2020. Citadel executes approximately 26% of U.S. equity trading volume and 47% of U.S. retail volume.

Proponents of PFOF argue that retail investors receive a better price than the nationally quoted best bid price. Critics say PFOF creates a conflict of interest because brokerages are incentivized to funnel customer trades to market makers that pay the most instead of following their best execution legal requirement to obtain the most advantageous terms for their customer. Prior to becoming a major player in the PFOF space, Citadel sided with the PFOF critics and told the SEC in 2004 that "the practice of payment for order flow creates serious conflicts of interest and should be banned."

The retail investing surge and GME drama brought PFOF into the crosshairs of lawmakers and regulators. The House Committee on Financial Services held its first of three planned hearings on the subject in February. Meanwhile, the Securities and Exchange Commission's (SEC) acting chairwoman, Allison Herren Lee, and President Biden's SEC chair nominee, Gary Gensler, both said they support reviewing the PFOF practice, which is banned in the U.K. and Canada. The SEC has conducted reviews of PFOF in the past, but the agency has preferred to take a more targeted approach focused on individual company violations rather than changing regulations. According to a December 2020 SEC Press Release, Robinhood agreed to pay $65 million to settle SEC charges for making "repeated misstatements" by failing to disclose its PFOF revenue and failing to "…seek to obtain the best reasonably available terms when executing customers' orders, causing customers to lose tens of millions of dollars." In a January 2017 SEC Press Release, Citadel paid $22.6 million to settle SEC charges for making "misleading statements suggesting that it would provide or try to get the best prices it saw for retail orders routed by other broker-dealers."

ECONOMY

U.S. ECONOMY REVS UP

As 2021 gets underway, the U.S. economy appears to be primed with ultra-accommodative monetary policy and several tanks of fiscal stimulus. Yet, inflation concerns could cause a few misfires on the economy's road to a full recovery. Coming off a challenging 2020 during which Gross Domestic Product (GDP) shrank on an annual basis (-3.5%) for the first time in over a decade, the U.S. economy is expected to grow by 6.2% in 2021 according to the median estimate in Bloomberg's survey of economists. Several factors are fueling the optimistic growth outlook, including fiscal stimulus coursing through the system and expectations for a surge in consumer and business spending activity following widespread economic reopening throughout 2021.

The $2.2 trillion CARES Act added roughly 14% to GDP growth on an annualized basis in the second quarter of 2020, providing by far the largest fiscal boost to GDP over the last 20 years as seen in Chart 1. According to the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution, the $1.9 trillion American Rescue Plan enacted on March 11 will contribute roughly 11% to U.S. GDP on an annualized basis in the first quarter. All told, the Hutchins Center estimates that fiscal policy will add 1.6% to GDP growth in 2021. As the effects of fiscal stimulus measures taper off, the release of pent-up demand, driven by increasing vaccination rates in the U.S., could very well pick up the slack. President Biden's recently proposed $2.3 trillion American Jobs Plan is not incorporated in Chart 1, but could provide a more consistent contribution to GDP growth from fiscal policy than has existed for several decades.

In response to the injection of roughly $6 trillion of spending into the U.S. economy over the last twelve months, a growing number of economists and market participants have raised concerns about the prospects of an overheated economy and related inflationary pressures. Federal Reserve Chair Jerome Powell and other Fed officials have repeatedly indicated in recent months that although inflation could spike in the short term as the economy reopens, they expect elevated price pressures to be short-lived. Moreover, Fed officials have stated their intention to keep monetary policy very accommodative until the domestic labor market reaches full employment irrespective of short-term trends in inflation. With a U.S. labor force of roughly 150.8 million in March 2021 compared to 158.7 million in December 2019, reclaiming full employment could take several years if policymakers use a yardstick like the sub-4.0% unemployment rate at the end of 2019.

ECONOMIC INDICATORS	LATEST	3MO PRIOR	CHANGE*
REAL GDP (QoQ ANNUALIZED)	4.3%	33.4%	▼
TRADE BALANCE	-71.1	-69.0	▼
UNEMPLOYMENT RATE	6.0%	6.7%	▲
NON-FARM PAYROLLS	916K	-306K	▲
ISM MANUFACTURING	64.7	60.5	▲
ISM NON-MANUFACTURING	63.7	57.7	▲
RETAIL SALES (LESS AUTOS)	-3.3%	-1.1%	▼
INDUSTRIAL PRODUCTION	-2.2%	0.9%	▼
HOUSING STARTS	1421M	1553M	▼
CONSUMER PRICE INDEX (YoY)	2.6%	1.4%	▼
CONSUMER CONFIDENCE	109.7	87.1	▲
EXISTING HOME SALES	6.22M	6.59M	▼
CONSUMER CREDIT	27.57B	12.2B	▲
CRUDE OIL PRICE	59.16	48.52	▼

Source: Bloomberg. Past performance does not guarantee future results. *The change arrow is indicative of a positive or negative change in the economic nature of the data series. For example, a downward-pointing change arrow assigned to the crude oil price field will correspond with an increase in the actual price of crude oil over the last three months. This is because a short-term increase in the price of crude oil has historically been detrimental to aggregate U.S. consumer spending.

Several measures of consumer confidence reached their highest levels in a year toward the end of the first quarter, as an increasing number of Americans expressed an improved short-term outlook for the labor market and broader economy. The Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Report both came in better than expected for March, suggesting that consumer spending could strengthen in coming months. The American Rescue Plan stimulus checks combined with improved consumer sentiment should lead to a rebound in retail sales, which dropped in February due to bad weather and elevated spending in January related to $600 direct payments received by many Americans as part of the December coronavirus relief bill.

EMPLOYMENT AND MANUFACTURING

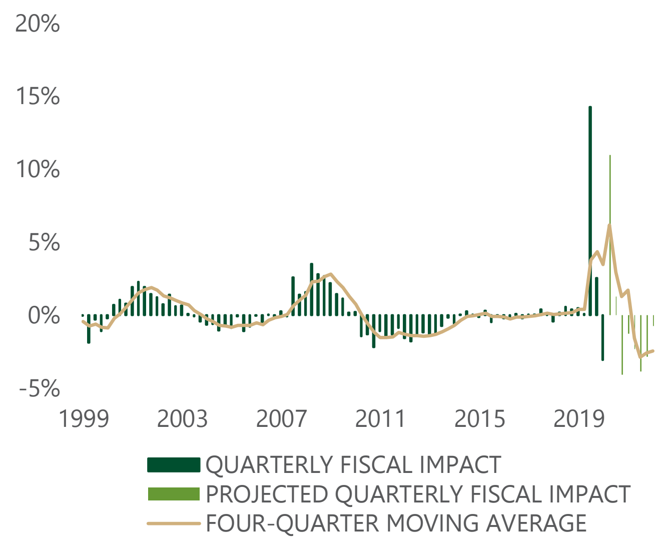
First quarter labor market strength was mainly driven by the rapid pace of vaccines administered in the U.S. As discussed in the Outlook section, roughly one-in-five Americans have been fully vaccinated as of the first week of April. This progress helped bring a total of 1.617 million Americans back to the workforce during the first quarter. In March, the U.S. economy added 916,000 jobs, the biggest gain since last August. The leisure and hospitality industries continued their strong recovery by adding 280,000 jobs. Additionally, the unemployment rate ticked down from 6.2% to 6.0%, the lowest rate since before the pandemic began.

The Institute for Supply Management (ISM) reported that its index of national factory activity, based on a survey of purchasing managers, surged to 64.7 in March to reach its highest level since December 1983. Although manufacturing accounts for only roughly 12% of U.S. GDP, it is a closely watched area of the economy due to its inherent cyclicality.

HOUSING

Existing home sales cooled off in January and February amid poor winter weather and rising home prices. Housing construction starts declined 10.3% from January to an annualized rate of 1.42 million in February, the lowest rate since last August and well below economists' projections for 1.56 million. Severe winter weather likely curbed residential construction last month. Housing starts are expected to see a strong rebound in March. Building permits, a proxy for future construction, registered at an upwardly revised annualized rate of 1.72 million units in February. The number of new building permits has been higher than the new home starts rate for seven consecutive months, suggesting demand for new houses remains strong.

CHART 1
FISCAL CONTRIBUTION TO U.S. GDP GROWTH



Source: Hutchins Center at the Brookings Institution. Past performance does not guarantee future results.

EQUITY

CYCLICAL STOCK ROTATION CONTINUES

The S&P 500 closed out the first quarter with a 6.17% gain despite periodic bouts of turbulence. Investors' confidence in the economic recovery was bolstered by an improving COVID-19 situation in the U.S. and additional fiscal stimulus. The domestic COVID-19 distribution effort is off to a strong start with over 170 million vaccine doses administered as of the first week of April. About one-third of the U.S. population has received at least one dose (see Outlook section). Meanwhile, the number of new virus cases in the U.S. declined sharply from the January peak to the lowest level since last October. Democrat victories in the two Georgia Senate runoff elections in January paved the way for a Democrat-controlled Congress and another round of fiscal stimulus totaling a massive $1.9 trillion. This year's fiscal stimulus package plus December's $900 billion stimulus bill equate to around 15% of U.S. GDP. Additional federal stimulus led to an increase in the median projection for 2021 U.S. GDP growth in a Bloomberg survey of economists to 6.2% in April from 4.0% in December. President Biden's infrastructure-focused American Jobs Plan proposes another $2.3 trillion in government spending.

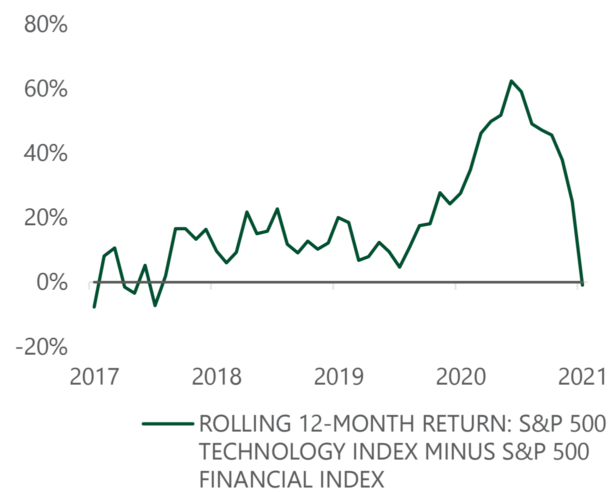
Two major themes in the first quarter across equity markets were rising bond yields and a continuation of leadership from cyclical sectors. Stocks stumbled in the second half of February amid concerns about a sharp rise in bond yields. Expectations for stronger economic growth and inflation drove yields on the U.S. 10-year Treasury note up 0.83% in the quarter to 1.74%. Yields stabilized around mid-March, leading to stocks regaining their momentum.

The rotation into more cyclically oriented stocks and value stocks that began in the fourth quarter extended to the first quarter. After a particularly challenging 2020, cyclical sectors are projected to generate exceptionally strong earnings growth this year amid expectations for a robust economic recovery. Investors have appeared to act on these expectations in recent months, as the energy, financials, and industrials sectors posted double-digit returns for the second consecutive quarter. Mid and small capitalization stocks were also beneficiaries of the recovery trade due to their greater economic sensitivity. The S&P 400 and Russell 2000 both rose by double digits for a second consecutive quarter.

The S&P 500 energy sector was once again the benchmark's leading group as it has recorded back-to-back quarters of

CHART 2

ROTATION INTO CYCLICAL STOCKS



Source: Morningstar. Past performance does not guarantee future results.

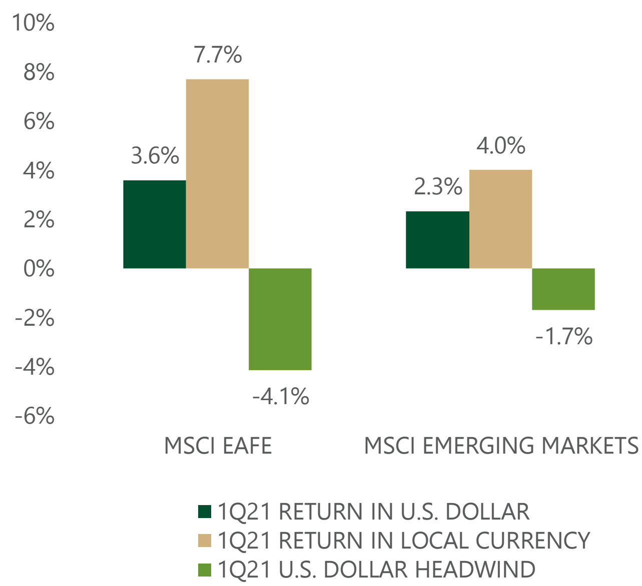
roughly 30% gains. The price of West Texas Intermediate (WTI) crude oil surged 22% in the quarter and surpassed $60 per barrel for the first time since the pandemic began. A confluence of factors supported higher oil prices including optimism for a recovery in oil demand as economic activity picks up, and extreme weather causing widespread power outages in Texas, the largest oil-producing state in the country. The financial sector's cyclical nature, in combination with the rise in bond yields and steepening yield curve, drove its 15.99% return in the quarter. Importantly for banks, the spread between the 10-year and 2-year Treasury yields expanded to 1.58% at quarter end from 0.80% at the end of last year.

The rotation into cyclical stocks at the expense of higher growth and valuation stocks led to the technology sector landing in an unusual position among the worst performing sectors in the quarter with a modest 1.97% return. The technology sector's 16-month reign as the top performing sector on a rolling 1-year basis came to an end in March after energy, financials, industrials, and materials surpassed technology's 66.61% 1-year return. Recent underperformance in growth sectors has led to the S&P 500 Value index's widest quarterly outperformance versus the S&P 500 Growth index since the technology bubble burst in 2000. The S&P 500 Value index gained 10.77% in the quarter, 8.65% ahead of the S&P 500 Growth index's 2.12% return.

Foreign developed and emerging market stocks have trailed U.S. stocks so far this year. A strengthening U.S. dollar was a major headwind for foreign equity returns for U.S. investors. Dollar strength reduced the MSCI EAFE and MSCI Emerging Market indexes' quarterly performance in U.S. dollar terms by 4.06% and 1.68%, respectively. In local currency terms, however, foreign developed equities outperformed their U.S. counterparts, partly due to their larger exposure to cyclical sectors. Brazil was a notable drag on emerging market performance as the country's number of new COVID-19 cases and deaths rose to record levels. The MSCI Brazil index finished the quarter down 9.93%.

Retail investor activity in so-called meme stocks including GameStop (GME) and AMC Entertainment (AMC) and special-purpose acquisition companies (SPACs) faded throughout the quarter. A Bloomberg index that tracks 37 meme stocks, that were restricted by the brokerage firm Robinhood, was roughly unchanged in February and March after falling nearly 40% in one week following the index's peak in late January. Individual investors' attention quickly shifted from meme stocks to SPACs in February which helped drive the IPOX SPAC Index up 23% in two weeks. As discussed in the Spotlight section, brokerages' purchase restrictions on meme stocks and SPACs to limit collateral requirements likely played a large role in dampening the retail investor frenzy.

CHART 3
U.S. DOLLAR HEADWIND FOR FOREIGN EQUITIES



Source: Morningstar. Past performance does not guarantee future results.

FIXED INCOME

THE DOWNSIDE OF DURATION

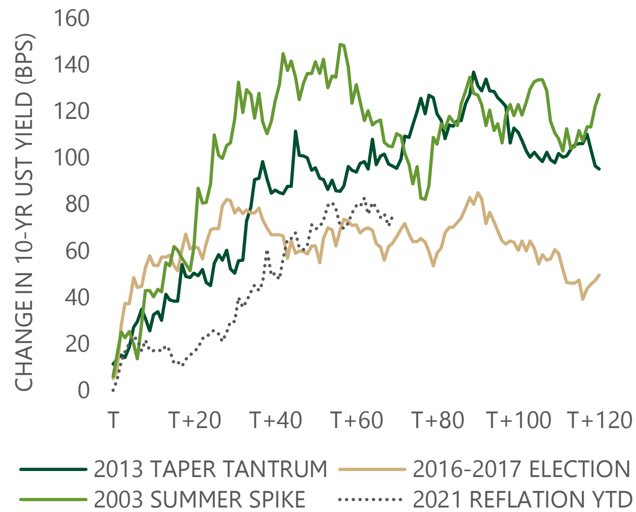
The first three months of 2021 probably felt like an uphill battle for many fixed income investors focused on investment grade bonds. A backup in U.S. Treasury yields from historically low levels that began to percolate in the fourth quarter gathered steam in January and February as expectations for above-trend economic growth and an acceleration of inflation took hold. The U.S. Treasury yield curve steepened sharply in the first quarter. Yields on the 2-year note inched higher by only 0.05%, while yields on 5-year, and 10-year securities rose by 0.56% and 0.81%, respectively, during the period. To provide recent historical context, yields on the U.S. 10-year Treasury note closed at 1.52% on February 25, compared to a closing level of 1.51% on January 31, 2020, the last month-end before the onset of the pandemic. As seen in Chart 4, the path of the current rise in yields has thus far taken a track somewhat similar to several notable precedents over the last twenty years.

This created a challenging return environment for most U.S. government bonds. The Bloomberg Barclays U.S. Treasury Index posted a total return of -4.25% in the first quarter, which can be decomposed into 0.41% of coupon and a 4.66% price decline. For the broad U.S. Treasury bond and investment grade corporate bond markets, paltry levels of coupon income did not come close to offsetting the negative price response to a significant increase in yields from ultra-low levels. An exceptionally strong two-year stretch spanning 2019 and 2020 for high quality U.S. government and corporate bonds was characterized by a steady decline in market yields and coupon levels. This dynamic changed markedly in the first quarter, as the interest rate sensitivity (often referred to as duration) embedded in most areas of the U.S. Treasury and investment grade corporate bond market overwhelmed low coupon levels.

Although U.S. investment grade corporate bond indexes encountered powerful interest rate headwinds in the first quarter, the credit environment was benign. This probably strikes most investors as intuitive given muscular policy support and an economic recovery that is most likely in its early stages. The credit spread of the Bloomberg Barclays U.S. Corporate High Yield Bond Index tightened by approximately 0.70% in the first quarter after approximately 1.90% of tightening in the fourth quarter. (Credit spreads are the additional compensation, or yield, investors require for a bond compared to a similar maturity U.S. Treasury security.) According to Neuberger Berman's fixed income team, "The proportion of the high

CHART 4

PERIODS OF RISING BOND YIELDS IN RECENT HISTORY



Source: Bloomberg. Past performance does not guarantee future results.

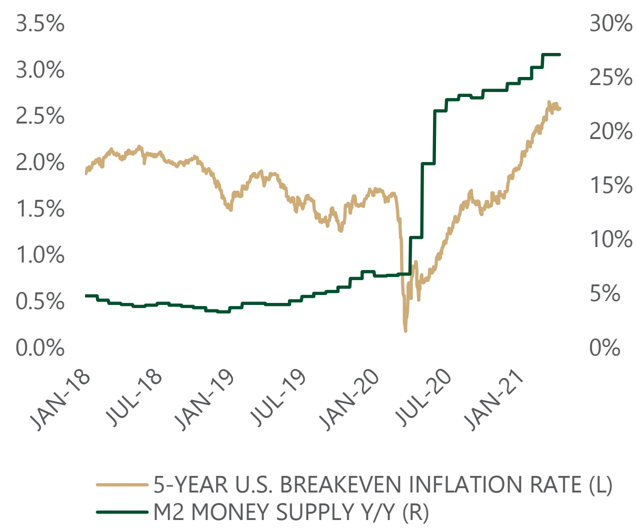
yield bond market now trading below 50 cents on the dollar is just 0.4%, below even the pre-pandemic low of 0.9%. Only 2.7% of high yield bonds trade with a spread of more than 1,000 basis points, the lowest proportion since July 2007." The Bloomberg Barclays U.S. Corporate High Yield Bond Index's coupon is about 60% higher than its investment grade counterpart, while its option-adjusted duration (a measure of interest rate sensitivity) is roughly 55% lower. The combination of higher coupon, lower duration and credit spread tightening enabled the Bloomberg Barclays U.S. Corporate High Yield Bond Index to achieve a modest positive return of 0.85% in the first quarter, comprised of 1.39% of coupon and 0.54% price decline.

Market-based inflation expectations were bolstered in the first quarter by a combination of a better-than-expected coronavirus vaccine rollout, trillions of dollars in fiscal spending and a Federal Reserve willing to let the economy run hot. As seen in Chart 5, the U.S. 5-year breakeven inflation rate climbed from 1.97% on December 31 to 2.60% on March 31, implying that market participants expect average annualized consumer inflation over the next five years to be 0.63% greater than was expected just three months ago. Notably, the 5-year breakeven inflation rate eclipsed its 10-year counterpart in the first quarter, suggesting that investors expect inflation to accelerate over the next several years but to eventually lose steam and gravitate toward the Federal Reserve's stated long-term target of 2.0% annualized inflation. Fed policymakers themselves seem unconcerned that a regime of persistently higher inflation will materialize. Federal Reserve Chair Jerome Powell said during a *Wall Street Journal* conference in early March "We expect that as the economy reopens and hopefully picks up, we will see inflation move up through base effects. That could create some upward pressure on prices."

Whatever path price levels in the U.S. economy take in the short term, it seems that Federal Reserve policymakers will be most concerned in 2021 with the full employment component of their mandate and protecting against deflation rather than inflation. Over a 6- to 12-month period, we continue to believe clients' fixed income portfolios will benefit from duration exposure moderately below benchmark. Increasing signs that the economic recovery currently underway could be stronger than consensus expectations and the potential for short-term inflationary pressure driven by deficit spending and a release of pent-up consumer demand could put upward pressure on government bond yields. We believe a substantial allocation to corporate credit is warranted, although exposure to industries facing the most uncertainty surrounding the timeline of the vaccination progress and economic reopening efforts should be minimized.

CHART 5

INFLATION EXPECTATIONS AND MONEY SUPPLY



Source: Bloomberg. Past performance does not guarantee future results.

GREAT EXPECTATIONS (AND TAXATION)

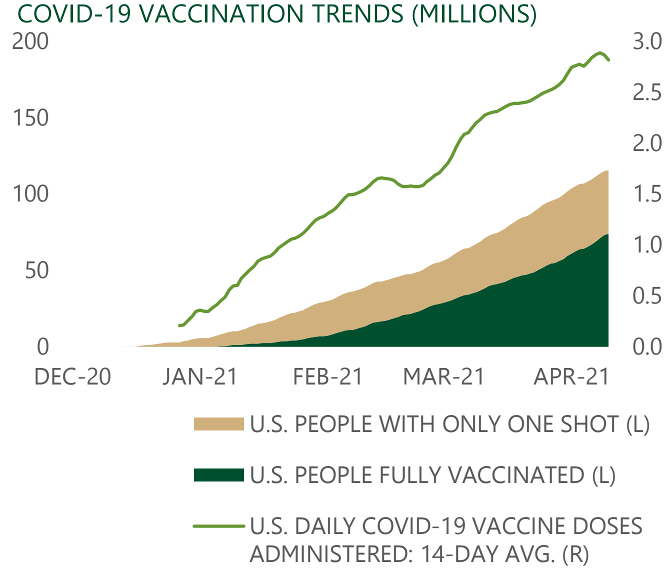
In last quarter's Outlook section, we noted several prominent signs of a potential regime change across markets brought to life by the early November announcement of the Pfizer and Moderna coronavirus vaccines. These signs generally took the form of various types of performance leadership from market segments and asset classes most closely tied to global economic growth. Broadly speaking, the focus on economic reopening and reflation has carried through to the first quarter of 2021. As discussed in the Equity section, the widely covered rotation from growth stocks to their value counterparts has been propelled by the outsized gains of cyclically oriented industries including oil and gas production, banking and machinery. Meanwhile, U.S. government bond yields rose sharply in the quarter from historically low levels as economists and investors scrambled to upwardly revise their expectations for GDP growth and inflation (see Fixed Income section). It should be noted that the back-up in U.S. Treasury yields and the outperformance of value stocks are related. This is because higher interest rates disproportionately diminish the present value of the cash flows projected well into the future for companies that often enjoy the most enthusiastic long-term earnings growth assumptions and market valuations. To get a sense for this dynamic, we could observe the recent inverse relationship between government bond yields and the share price of electric vehicle juggernaut and market darling Tesla (TSLA). From February 2 to March 8, yields on the U.S. 10-year Treasury note climbed from 1.10% to 1.59%, accounting for roughly 60% of the upward move in yields during the first quarter. Over this five-week period, TSLA's share price plummeted 35.5%, while the S&P 500 energy and financials indexes rallied 31.6% and 13.6%, respectively.

A coronavirus vaccination campaign in the U.S. that overcame early stumbles to recently achieve a 14-day moving average of more than 2.5 million daily doses administered has provided a backdrop for this apparent regime change. As seen in Chart 6, over 70 million Americans, or 21% of the population, have been fully vaccinated as of the first week of April. Extrapolating the current rate of vaccination into the future implies that 60% to 80% of the U.S. population could be inoculated by the late summer. While vaccination efforts progress, the gushing of U.S. fiscal spending pipes has provided an additional column of support for the reflation narrative. As covered in the Economy section, the combined $5-6 trillion fiscal thrust of the March 2020 CARES Act, the late December 2020 pandemic relief bill and the March 2021 American Rescue Plan Act will likely add 1.6% to domestic GDP growth in 2021. Notably, this projection does not incorporate any potential contribution to growth from the Biden Administration's recently unveiled and wide-ranging $2.3 trillion American Jobs Plan.

One of the most market-relevant components of the American Jobs Plan is the embedded effort to offset some of the spending with higher tax rates. This includes, most notably, a proposed increase in the U.S. corporate tax rate from 21% to 28%. This would partially reverse the corporate

CHART 6

COVID-19 VACCINATION TRENDS (MILLIONS)



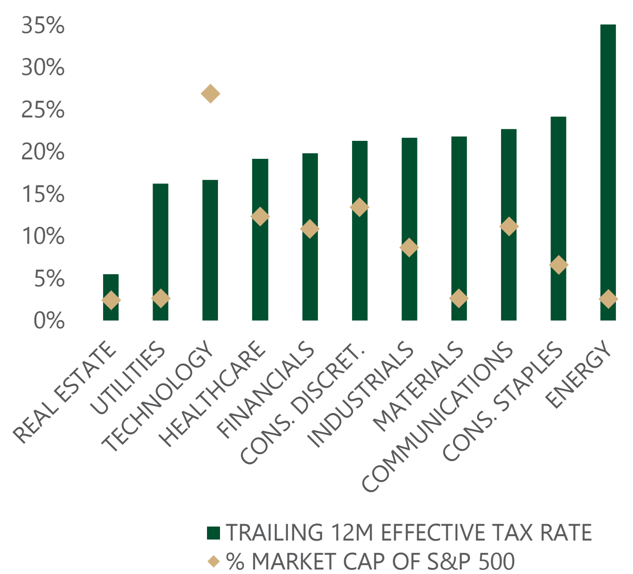
Source: CDC COVID Data Tracker, Bloomberg. Past performance does not guarantee future results.

tax rate reduction from 35% to 21%, which many free marketeers view as the crown jewel of the Trump Administration’s Tax Cuts and Jobs Act (TCJA) of 2017. According to Bloomberg Intelligence Chief Equity Strategist, Gina Martin Adams, this proposed corporate tax rate increase along with plans to target U.S. multinational firms' profits generated in foreign countries could detract up to 10% from S&P 500 earnings per share in 2022, 2023 and 2024. This does not include the potential for any offsetting revenue derived by U.S. corporations from the American Jobs Plan. Several political and market commentors expect moderate Democrats to argue for a smaller tax rate increase. Notably, West Virginia Democratic Senator Joe Manchin has publicly called for a scaled back 25% corporate tax rate, mentioning that there are “six or seven” other Senate Democrats who agree with him. As seen in Chart 7, the U.S. technology, healthcare and utilities sectors would likely experience the most significant negative effects of a prospective corporate tax rate hike given their current effective tax rates are below 20%.

Regarding prospective changes to personal tax rates, the Biden Administration has proposed increasing the rate at which realized capital gains and qualified dividends are taxed for Americans earning $1 million or more from 20.0% to 39.6%. Historically, it has been difficult to establish a relationship between changes in capital gains tax rates and equity market returns. In a recent Barron's article, David Lefkowitz, Head of Equities Americas at UBS, observed: "In 2013, for example, the S&P 500 gained 30% even though the capital-gains tax rate rose nine percentage points. In 1981, the tax rate fell about eight percentage points, but the S&P 500 still fell 10%." Notably, a significant portion of U.S. equity market exposure is through tax-exempt institutional pension plans and individual retirement accounts. Furthermore, it seems reasonable to expect pushback against an effective doubling of capital gains and dividend tax rates from moderate Democrats in Congress representing wealthy northeastern districts. Many of these legislators have unapologetically demanded a repeal of the TCJA's $10,000 cap on state and local tax (SALT) deductions and represent districts that have historically been lukewarm to tax hikes.

CHART 7

S&P 500 SECTORS: TAX RATES AND SIZE



Source: Bloomberg. Past performance does not guarantee future results.

ECONOMIC FACTORS	CURRENT OUTLOOK
U.S. GDP Growth	The median projection for 2021 U.S. GDP growth in a Bloomberg survey of economists rose to 6.2% in April from 4.0% in December with a range of 2.2% to 7.6%.
Federal Funds Rate	Market participants are pricing in the first 0.25% Federal Reserve rate hike by December 2022 as implied from the U.S. Overnight Index Swaps Curve.
Inflation	Expectations for average annual inflation over the next five years derived from U.S. TIPS breakevens eclipsed 2.6% in March, marking the highest level since 2008.
Employment	According to the NFIB's March monthly jobs report, a record 42% of U.S. small business owners reported job openings they could not fill.
Consumer Confidence	The Conference Board's March survey of 3,000 U.S. households indicated consumer sentiment about current conditions surged to a one-year high.
Oil	Saudi Arabia's January production cut and a renewed U.S. regulatory push against domestic production could enable oil prices to continue grinding higher in 2021.
Housing	Limited supply and a 0.50% increase in the average U.S. 30-year fixed rate mortgage loan in the first quarter to 3.17% could create housing market headwinds.
International Economies	The IMF increased its projected global GDP growth in 2021 to 6.0% in April from 5.5% in January amid additional fiscal support in a few large economies.

	MINIMUM		NEUTRAL		MAXIMUM
FIXED INCOME		●			
Core Bonds			●		
TIPS				●	
Non-Investment Grade				●	
International	●				

CURRENT OUTLOOK

An underweight to fixed income in multi-asset class portfolios remains appropriate in our view. The total return prospects of high-quality fixed income bonds will likely encounter headwinds over the next 6-12 months related to expectations for strong economic growth and the potential for bouts of elevated inflation. Within core segments of fixed income allocations, we think a moderate duration underweight relative to benchmark is sensible given our base case of gradually higher government bond yields over the next several quarters. Although they are not a perfect hedge for inflation, we believe an allocation to Treasury Inflation-Protected Securities (TIPS) should continue to help dampen fixed income portfolios' exposure to interest rate volatility compared to nominal U.S. Treasuries. In the non-core fixed income segment, we believe high yield bonds and preferred stocks can continue to significantly benefit from of a benign credit environment underpinned by robust policy support during the early stages of an economic recovery.

	MINIMUM		NEUTRAL		MAXIMUM
EQUITIES				●	
Large Cap				●	
Mid Cap				●	
Small Cap			●		
Developed International		●			
Emerging Markets		●			

CURRENT OUTLOOK

The gap between expected future returns in equity markets and high-quality bond markets remains wide enough for us to justify an overweight allocation to equities for long-term investors. This is despite uncertainty about coronavirus vaccine distribution, the trajectory of fiscal policy, the potential for elevated inflation and pockets of market froth. We believe a moderate overweight to U.S. large capitalization stocks remains appropriate given our expectation that their size, scale, diversification and balance sheet strength should allow them to navigate what is likely to be a volatile economic and policy landscape for most of 2021. An overweight to U.S. mid cap stocks should provide client portfolios with exposure to forthcoming cyclical growth without the greater balance sheet risk that exists in U.S. small cap indexes or the currency and policy risks inherent in emerging market equities.

	MINIMUM		NEUTRAL		MAXIMUM
ALTERNATIVES*				●	
	CAP PRES	IWSG	BAL	GWSI	GROWTH
Global Real Estate					
Global Infrastructure					
Gold		●	●	●	
Hedged Equity	●	●	●	●	●
Arbitrage	●	●	●		

CURRENT OUTLOOK

We believe an allocation to alternative asset classes and strategies remains appropriate despite expectations for above-trend economic growth in 2021. This is driven by our view that alternatives can be an effective portfolio diversification tool in an environment characterized by elevated policy uncertainty and a low risk-free rate. Within an alternatives allocation, we believe an allocation to gold should help most client portfolios better navigate the next 6-12 months. This is largely based on our observation of gold's tendency to behave as a safe-haven asset in periods of market stress and the potential for it to benefit from U.S. dollar weakness and negative real (inflation-adjusted) interest rates. Our diversified alternatives portfolios, as seen in the table to the left, are designed to decrease the overall risk profile of our five investment objective-based portfolios (CAP PRES, IWSG, BAL, GWSI, and GROWTH).

The above minimum/neutral/maximum recommendations represent MainStreet Advisors' current positions relative to our Strategic Asset Allocation ranges. Views expressed have a six- to twelve-month horizon and are those of the MainStreet Advisors Investment Committee.

*Cap Pres: Capital preservation; IWSG: Income with some growth; Bal: Balanced; GWSI: Growth with some income

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