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Patten & Patten, Inc.

1Q21 Market Outlook

Market commentary

- As much as any year in recent memory, we look forward to the New Year with optimism. As an example of this optimism, our **12th Annual Investment Symposium** will be an “in person” event on **Thursday, May 20, 2021**. **Please save the date.** Historically, we have held our Symposium during the First Quarter, but it is probable that COVID-19 will continue to disrupt society through April. We are hopeful that a successful, broad-based vaccine roll-out will have enough people protected by May to validate our decision.
- The key to market and economic performance in 2021 will be vaccine distribution, a daunting logistical challenge that will experience occasional missteps. Consequently, we expect uneven economic growth characterized by frequent but temporary setbacks, especially during the first half of the year. Economic data will remain quite distorted and volatile because of the pandemic, but by the second half of the year, we expect a gradual return to normalcy.
- The economic dislocation created by the pandemic was atypical. Generally, a loss of demand leads to a contraction in supply. In the case of COVID-19, regional shut downs, ongoing restrictions, and temporary “shelter in place” orders contributed to a contraction in supply that led to decreased demand, much of it involuntary. Economic damage was concentrated in the restaurant, leisure, travel, hospitality, and entertainment sectors. Vaccine distribution should lead, therefore, to capacity restoration, especially among those sectors that suffered the most from restrictions.
- Numerous “experts” have already published prognostications of the long-term impact of the pandemic. While we acknowledge there could be permanent adjustments, we remain unconvinced by many of these forecasts. For example, it is likely that a certain percentage of the labor force will continue to “work from home,” either voluntarily or involuntarily. This trend could alter infrastructure requirements in various communities. Yet, we are skeptical that the degree of permanent “work from home” situations will be as high as some predict.

Market commentary (*continued*)

- We also expect corporate priorities could shift as the paramount objectives of efficiency and productivity are supplanted to a certain extent by security and redundancy. For decades, investors rewarded companies that squeezed out costs, and consumers successfully bargained for services delivered at ever lower prices. It is possible that investors will begin to favor more resilient supply chains, even at the expense of margins. Concepts such as “just in time” inventory management could lose luster to “just in case” storage. As residents of Tennessee realized from the Christmas Day bombing in Nashville, bundling telecommunications services with a single provider to reduce fees leads to vulnerability during extended system outages.
- Another source of economic volatility will be the tension between demand that has been “pulled forward” and demand that remains “pent-up”. COVID-19 has no modern, historical precedent against which to make comparisons. Therefore, a push-pull dynamic could ensue as investors rotate among sectors based on their relative sensitivity to both supply and demand restoration. Additionally, we expect temporary spikes in inflation that could, in turn, prompt investors to question the policy direction of the Federal Reserve.
- We further anticipate the impact on the US economy will be indirect, but we also acknowledge that forecasting the magnitude and extent of such an event is exceptionally difficult. While the impact of Brexit will carry over into 2021 and markets will require time to adjust, we believe the US economy should be relatively insulated from extreme political uncertainty in Europe and the United Kingdom.
- We are disappointed, yet not surprised, that Congress failed to enact additional fiscal support in the Third Quarter. Numerous programs comprising early phases of COVID-19 “rescue” packages provided important and necessary support to the economy. Most of those programs have expired, and it appears that economic recovery could stall without an additional package before yearend. The markets, on the other hand, remain buoyed by enormous liquidity support from the Federal Reserve. The Fed’s aggressive actions during the Spring should maintain low interest rates and support for equity valuations.

Markets

Year to date and historical performance of various asset classes

Asset Class	YTD	1 year	3 Year Annualized	Total Returns since...	
				Trough*	Peak*
Domestic Equities					
S&P 500	4.55	65.25	15.16	77.92	17.80
S&P 500 Equal Weight (RSP)	10.21	82.28	13.60	98.57	21.12
Dow Jones Ind. Avg.	7.12	65.98	12.41	79.32	13.90
NASDAQ Comp	2.70	86.32	22.84	94.17	35.84
Russell 2000 (IWM)	15.75	121.60	14.74	130.40	36.68
International Equities					
Shanghai Composite (CIN)	-1.88	32.55	8.45	33.97	22.13
Hedged Japan (DXJ)	14.50	61.36	7.00	61.69	21.77
Hedged Europe (HEDJ)	6.64	55.17	6.45	54.58	1.80
Asia Pacific ex. Japan (EPP)	4.93	66.49	5.72	76.35	10.64
Emerging Markets (EEM)	4.66	76.56	5.88	79.56	24.26
Brazil (EWZ)	-7.61	57.34	-5.73	67.77	-20.45
Canada (EWC)	11.54	85.07	10.26	99.33	14.30
India (EPI)	8.80	106.34	8.19	124.83	30.67
Mexico (EWW)	1.93	55.59	-2.02	77.14	-6.44
Bonds					
Long Treasuries (TLT)	-14.37	-7.85	6.32	-17.68	-5.97
Inv. Grade Corporates (LQD)	-6.50	25.72	6.77	15.22	1.05
High Yield Corporates (HYG)	-0.71	26.76	5.51	31.78	2.93
Commodities					
Gold (GLD)	-8.48	18.26	9.34	11.58	7.54
Silver (SLV)	-1.06	114.75	16.46	97.48	41.09

*Stock market trough at 03/23/2020. Stock market peak at 02/19/2020. YTD through 03/21/2021

Source: Thomson Reuters Datastream

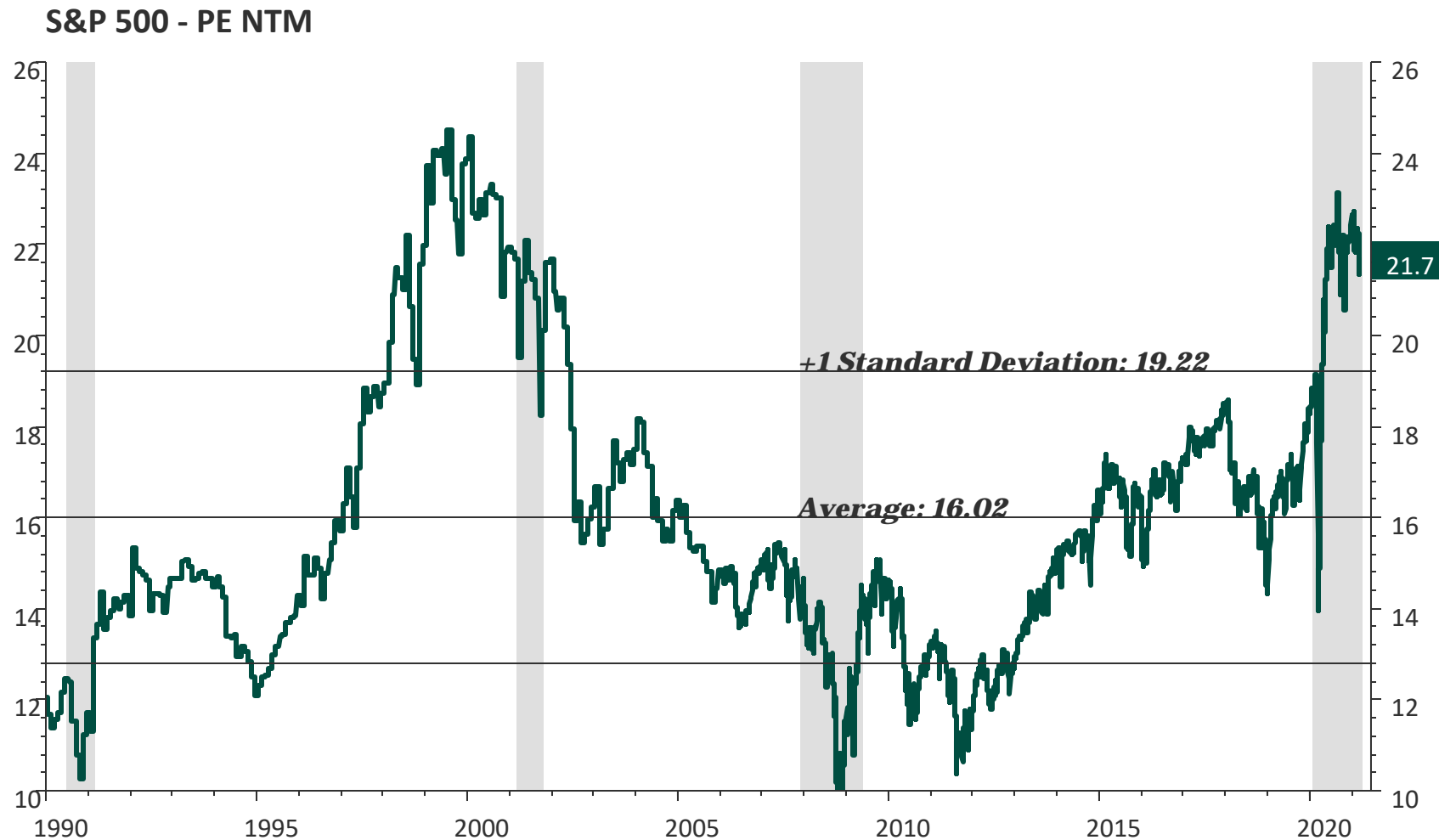
Year to date and historical performance equity sectors

Domestic Equity Sectors	YTD	1 year	3 Year Annualized	Total Returns since...	
				Since Trough*	Since Peak*
Domestic Equities					
Consumer Discretionary	5.03	102.98	22.05	110.10	39.13
Retail (XRT)	41.42	215.53	28.82	239.98	105.19
Consumer Staples	2.70	38.27	12.14	52.15	12.64
Energy	28.68	116.62	-3.75	129.97	2.94
Oil & Gas Exploration (XOP)	43.16	160.97	-13.09	183.03	16.30
Financial Services	18.86	90.89	11.43	110.99	19.79
Regional Banks (KRE)	33.88	119.06	5.78	153.94	30.35
Health Care	1.66	50.64	15.01	63.95	18.11
Industrials	9.20	81.44	11.17	98.56	16.68
Materials	8.22	95.56	11.64	113.96	32.42
Technology	1.25	81.64	25.57	89.79	32.55
Telecom	0.00	-8.55	3.41	NA	NA
Utilities	-1.52	22.88	10.33	41.22	-9.99
Transportation (IYT)	13.39	99.09	10.50	110.79	29.78
Real Estate	6.58	51.56	10.08	67.44	-5.24

*Stock market trough at 03/23/2020. Stock market peak at 02/18/2020. YTD through 03/21/2021

Source: Thomson Reuters Datastream

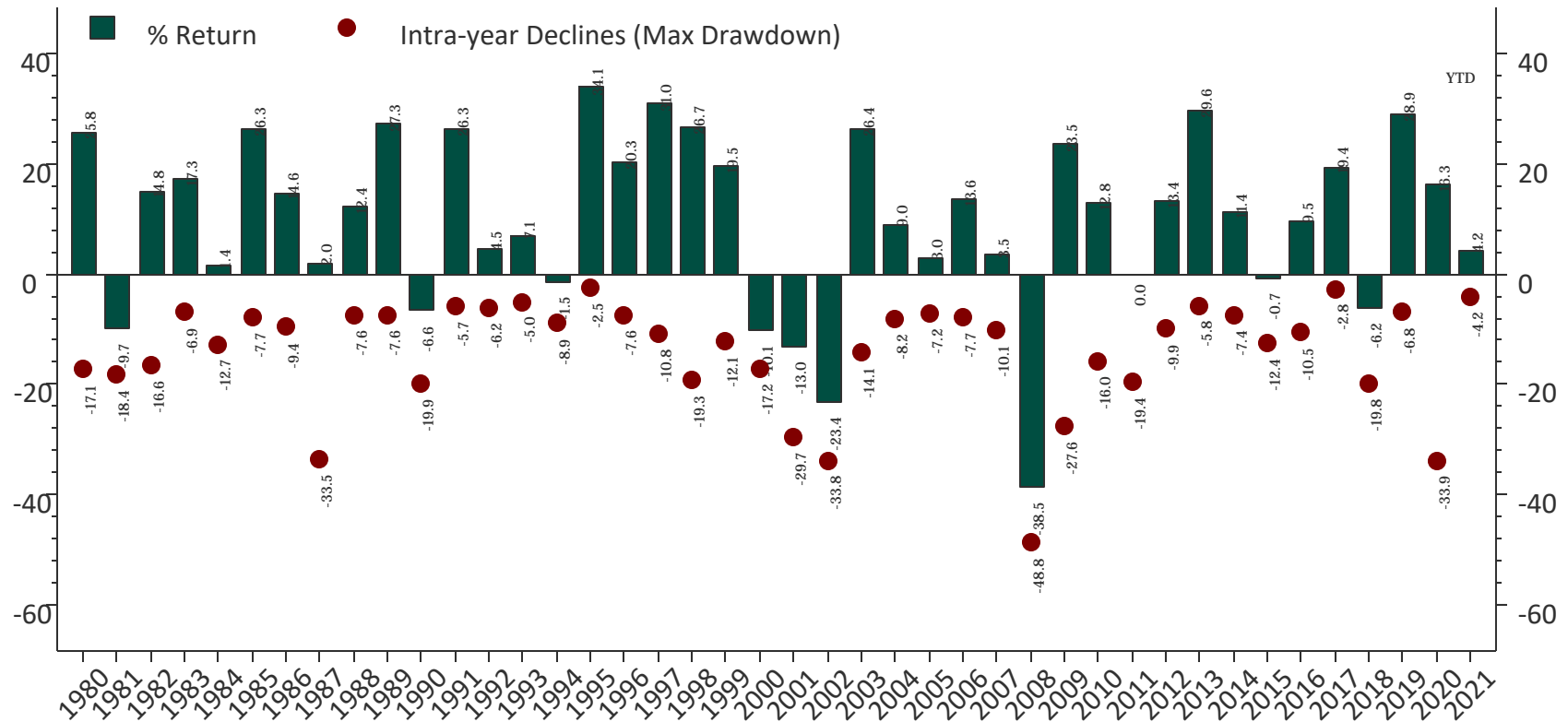
S&P 500 Valuation



Source: Refinitiv Datastream

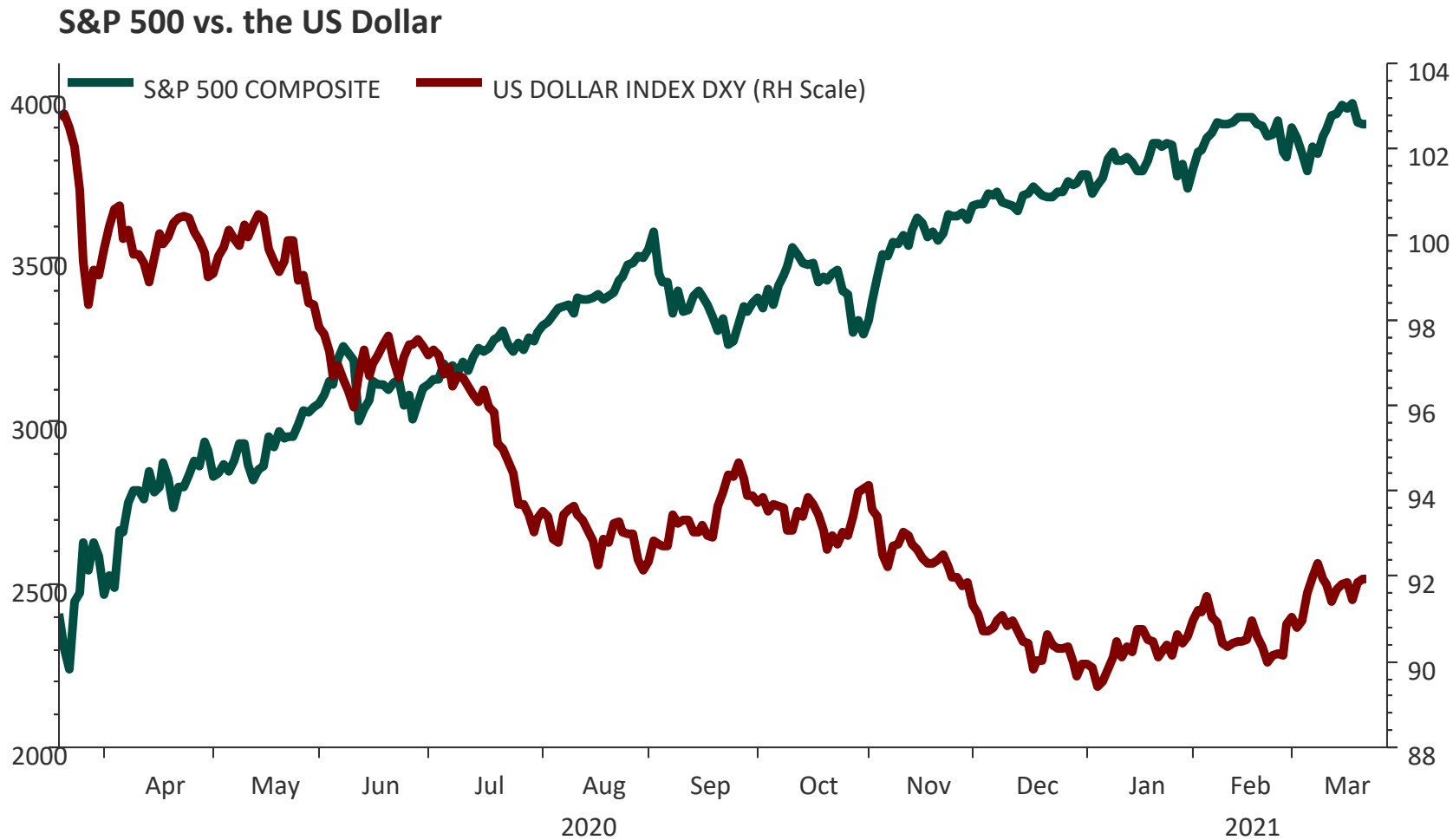
Stock Market Sell-offs are Normal

S&P 500 Intra-year Price Declines (Max Drawdown) vs. Yearly Price Returns

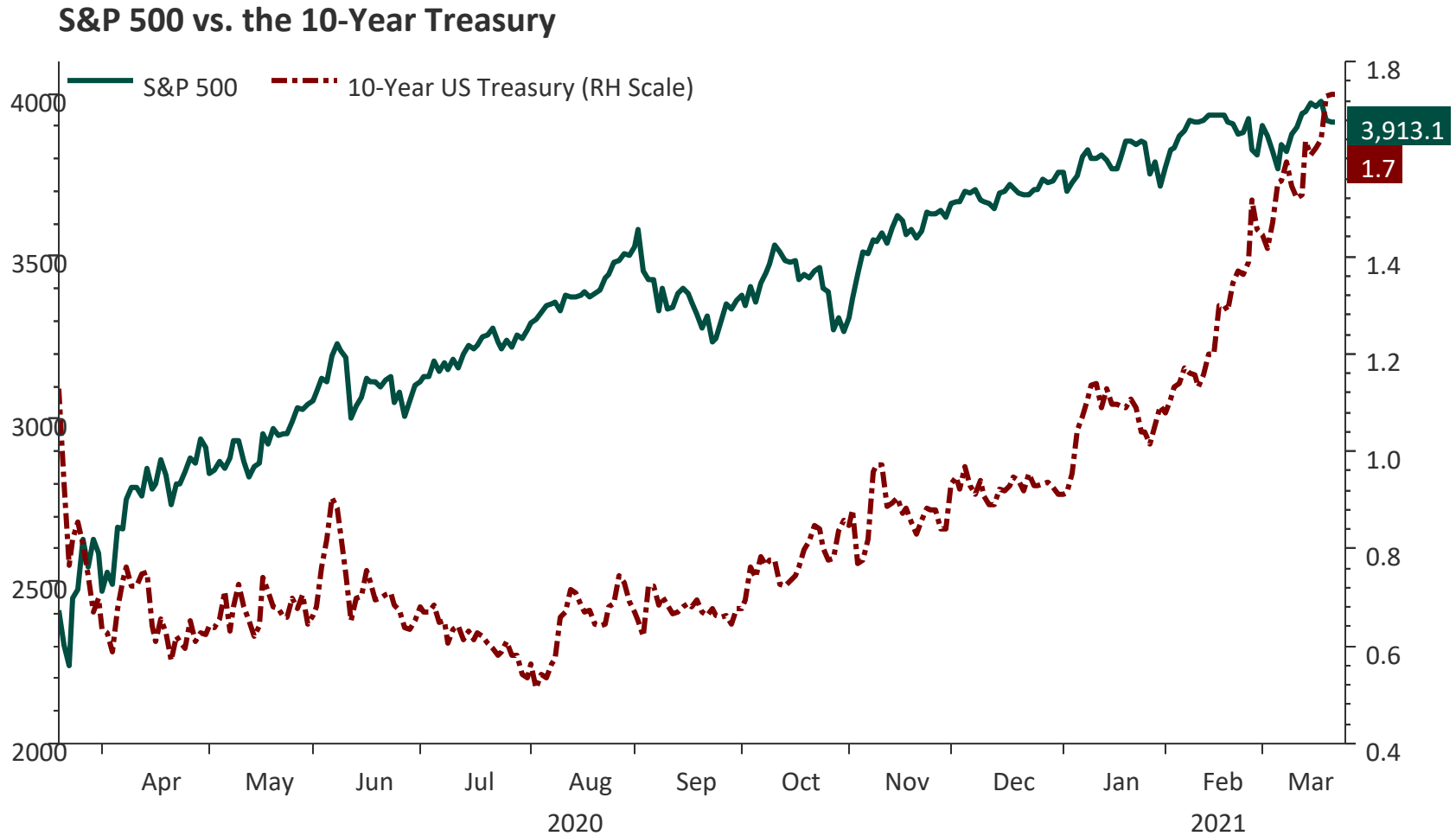


Source: Data provided by Thomson Reuters

S&P 500 vs. the US Dollar



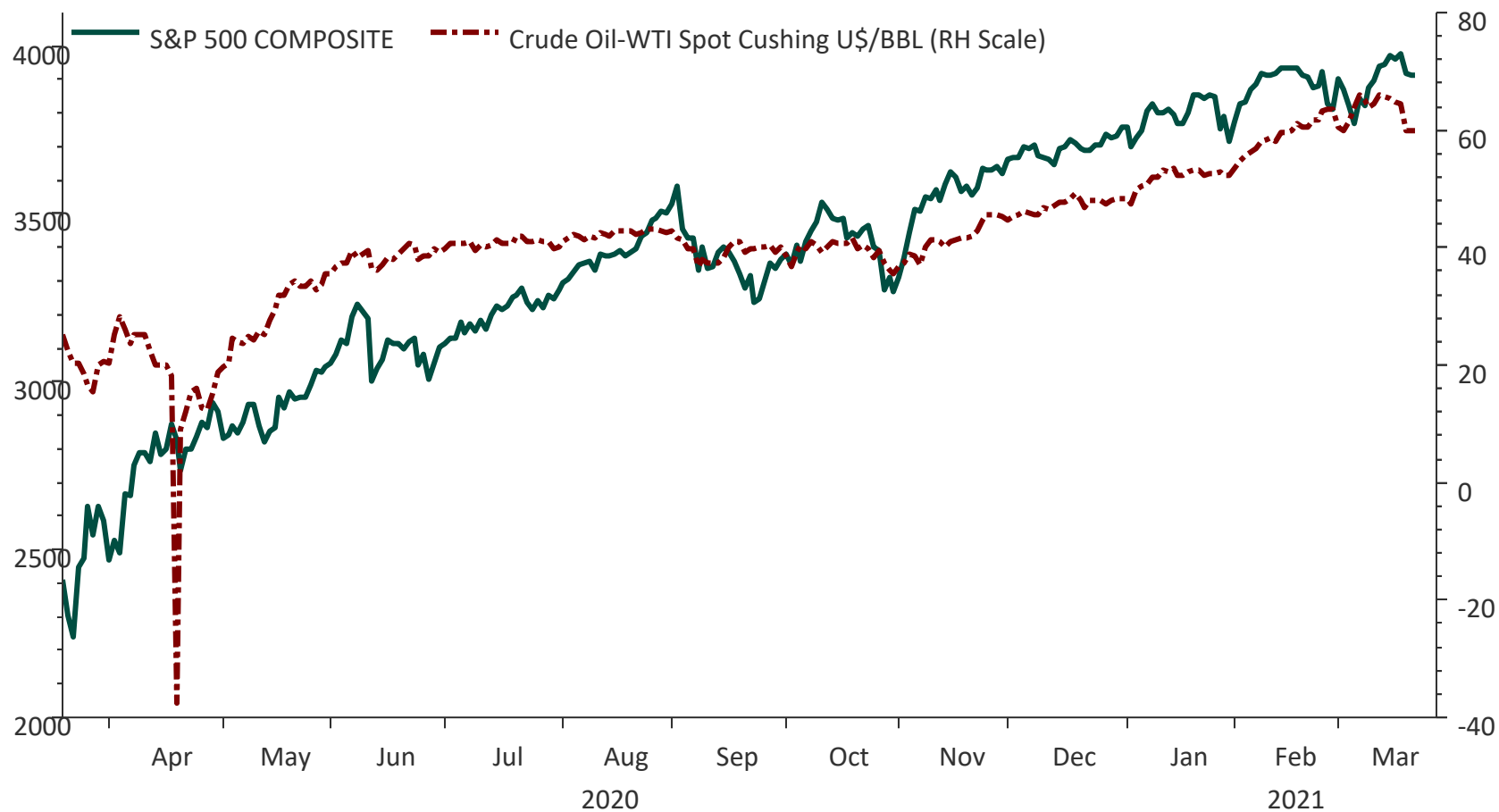
S&P 500 vs. the 10-Year Treasury



Source: Refinitiv Datastream

S&P 500 vs. the price of crude oil

S&P 500 vs. WTI Crude Spot



Source: Refinitiv Datastream

LME Copper Spot Price

\$/MT



Source: Refinitiv Datastream

Interest Rate Outlook

Global Interest Rates

Global Bond Yields on March 22, 2021

Maturity	US	Canada	UK	Germany	Switzerland	Japan	Spain	Italy	Brazil	Greece
2 year	0.147	0.266	0.081	-0.703	-0.774	-0.138	-0.439	-0.329	7.060	NA
5 year	0.858	0.992	0.386	-0.652	-0.577	-0.093	-0.275	0.007	7.815	0.043
10 year	1.691	1.550	0.827	-0.307	-0.271	0.082	0.346	0.660	8.675	0.914
30 year	2.394	2.030	1.353	0.270	-0.028	0.637	1.286	1.680	NA	NA

Change in Global Bond Yields since March 15, 2021

Maturity	US	Canada	UK	Germany	Switzerland	Japan	Spain	Italy	Brazil	Greece
2 year	-0.002	-0.008	-0.012	-0.005	-0.018	-0.004	0.055	0.066	0.160	NA
5 year	-0.024	-0.015	-0.009	-0.009	-0.025	-0.014	0.003	-0.009	0.135	0.011
10 year	-0.041	-0.038	-0.018	-0.014	-0.031	-0.023	-0.005	-0.005	0.165	-0.001
30 year	-0.056	-0.023	-0.020	-0.010	-0.053	-0.032	0.006	-0.002	NA	NA

Source: Data provided by Thomson Reuters

Forward Interest Rates

US Dollar Swap Curves

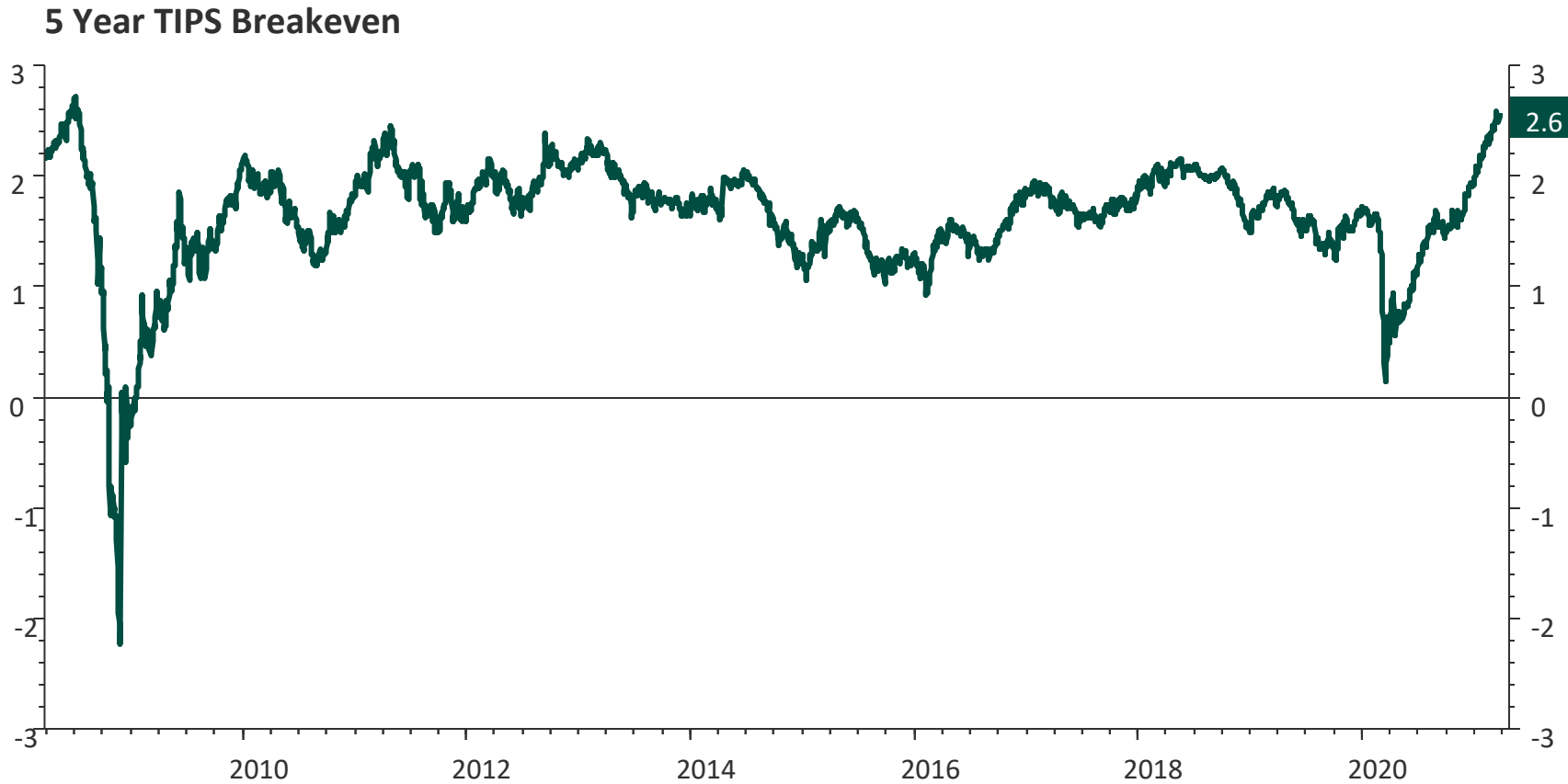
Forward Rates

Maturity	Current	6 Mo	1 year	2 year	5 year	10 year	Chg (in bp)
1 year	0.195%	0.233%	0.314%	0.819%	2.320%	2.602%	241
2 year	0.259%	0.383%	0.566%	1.162%	2.409%	2.675%	242
3 year	0.442%	0.645%	0.878%	1.431%	2.458%	2.623%	218
5 year	0.953%	1.159%	1.376%	1.812%	2.525%	2.637%	168
10 year	1.703%	1.828%	1.950%	2.201%	2.578%	2.562%	86
30 year	2.121%	2.181%	2.221%	2.299%	2.389%	2.282%	16
2 - 10 Curve	144	145	138	104	17	(11)	
1 - 30 Curve	193	195	191	148	7	(32)	

*market rates as of 03/22/2021 and based on 3 month LIBOR.

Source: Data provided by Thomson Reuters

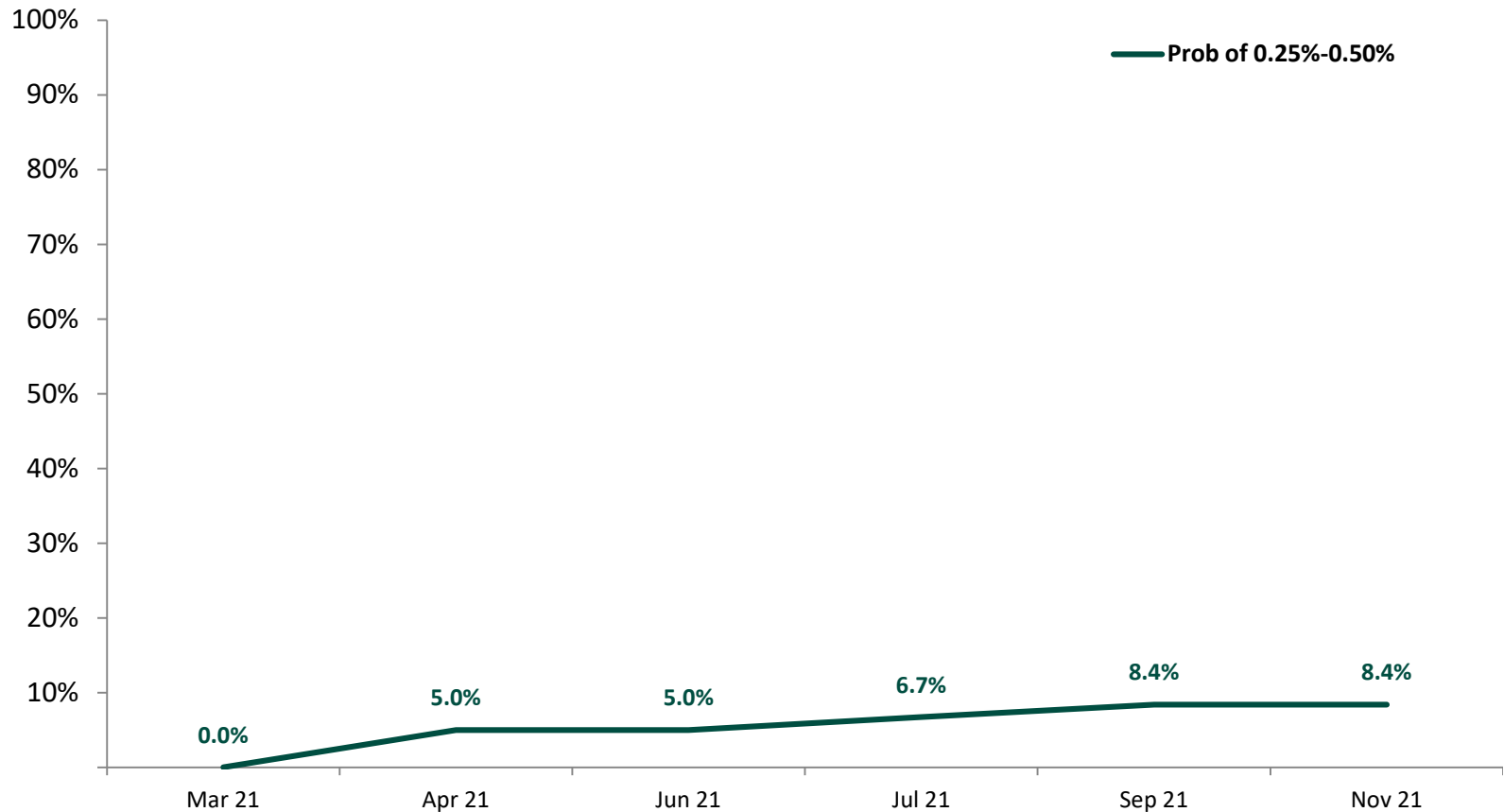
Rising Inflation Expectations



Source: Refinitiv Datastream

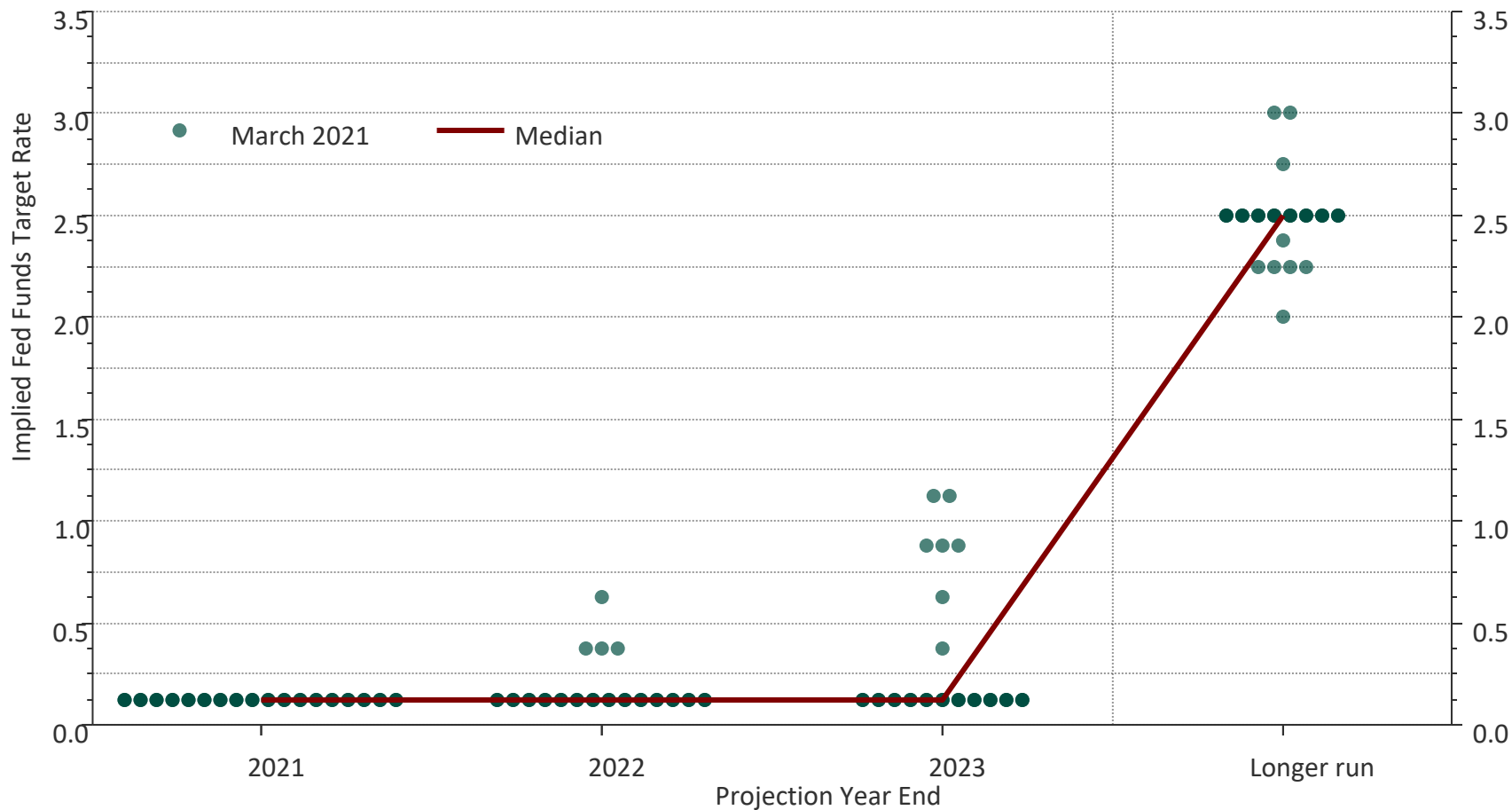
Market Does Not Indicate Higher Rates

Implied probability using Fed Funds futures for change in policy



Fed Committed to Low Rates

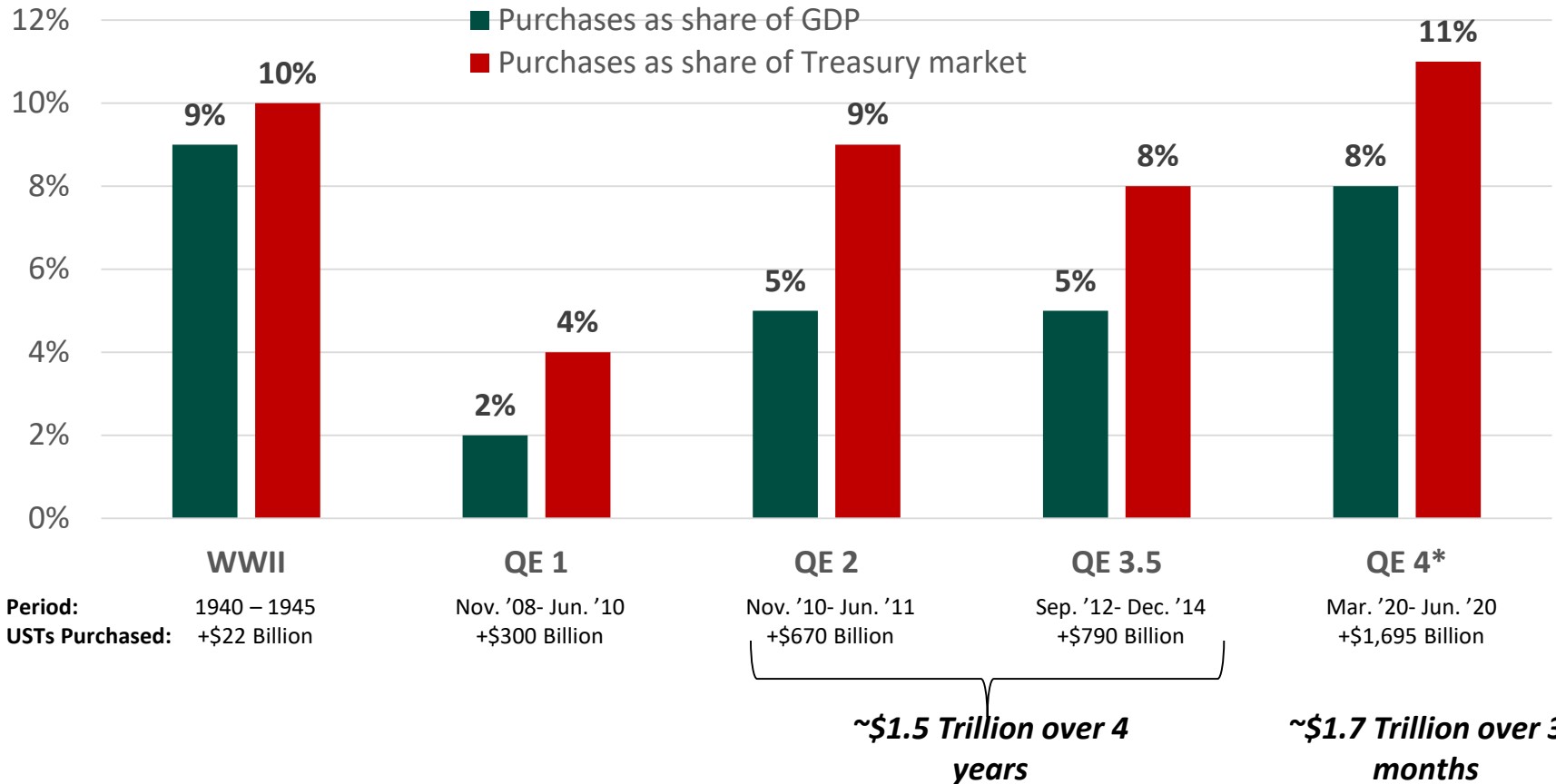
Federal Open Market Committee Projections



Source: Refinitiv Datastream

Fed Purchases of Treasuries

Fed purchases of Treasuries during various QE programs as a share of nominal GDP and public debt outstanding; %



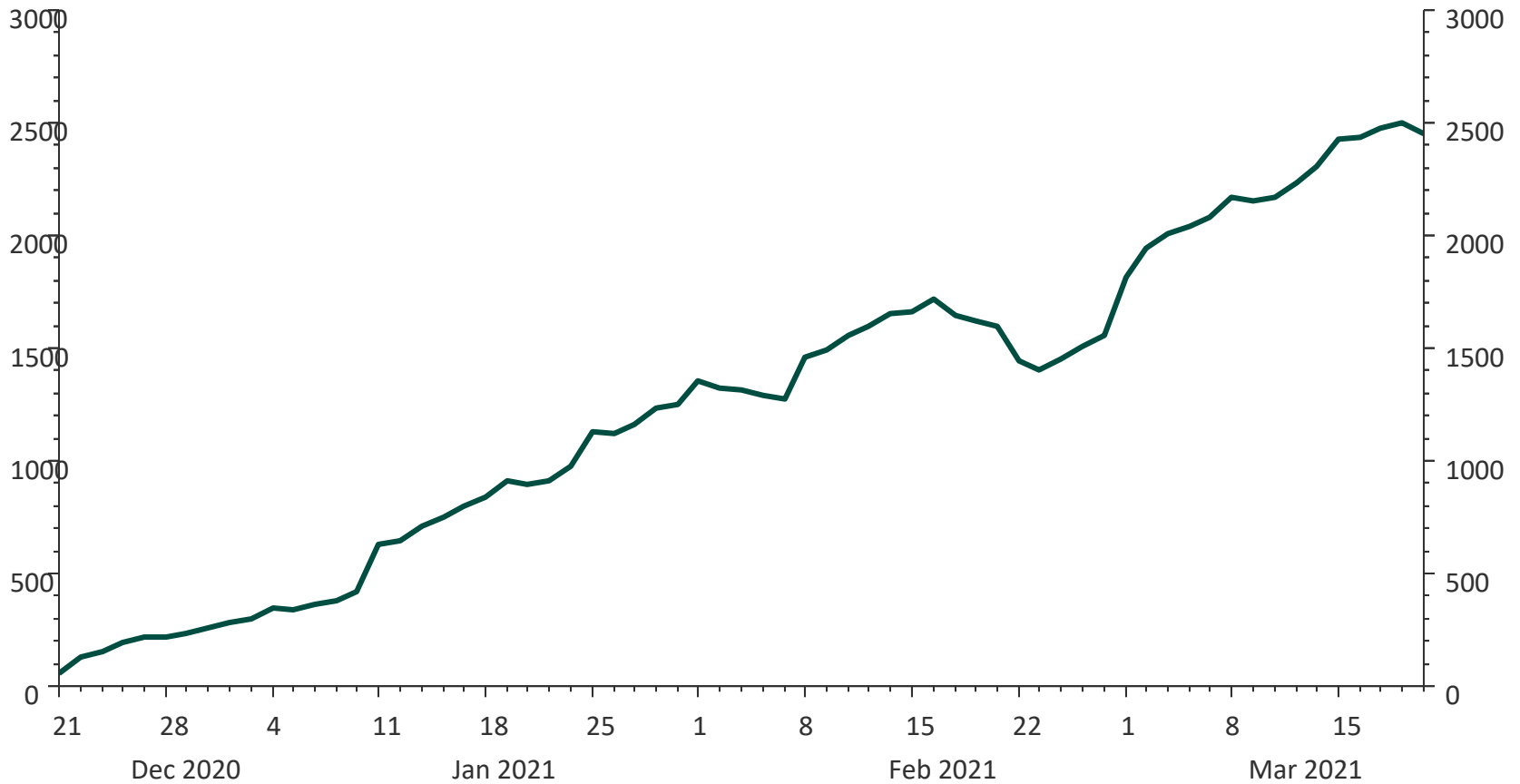
Source: JP Morgan, Patten & Patten

Economic Backdrop

Vaccine Rollout is Accelerating

US Daily COVID-19 Vaccinations

7-Day Moving Average, in thousands

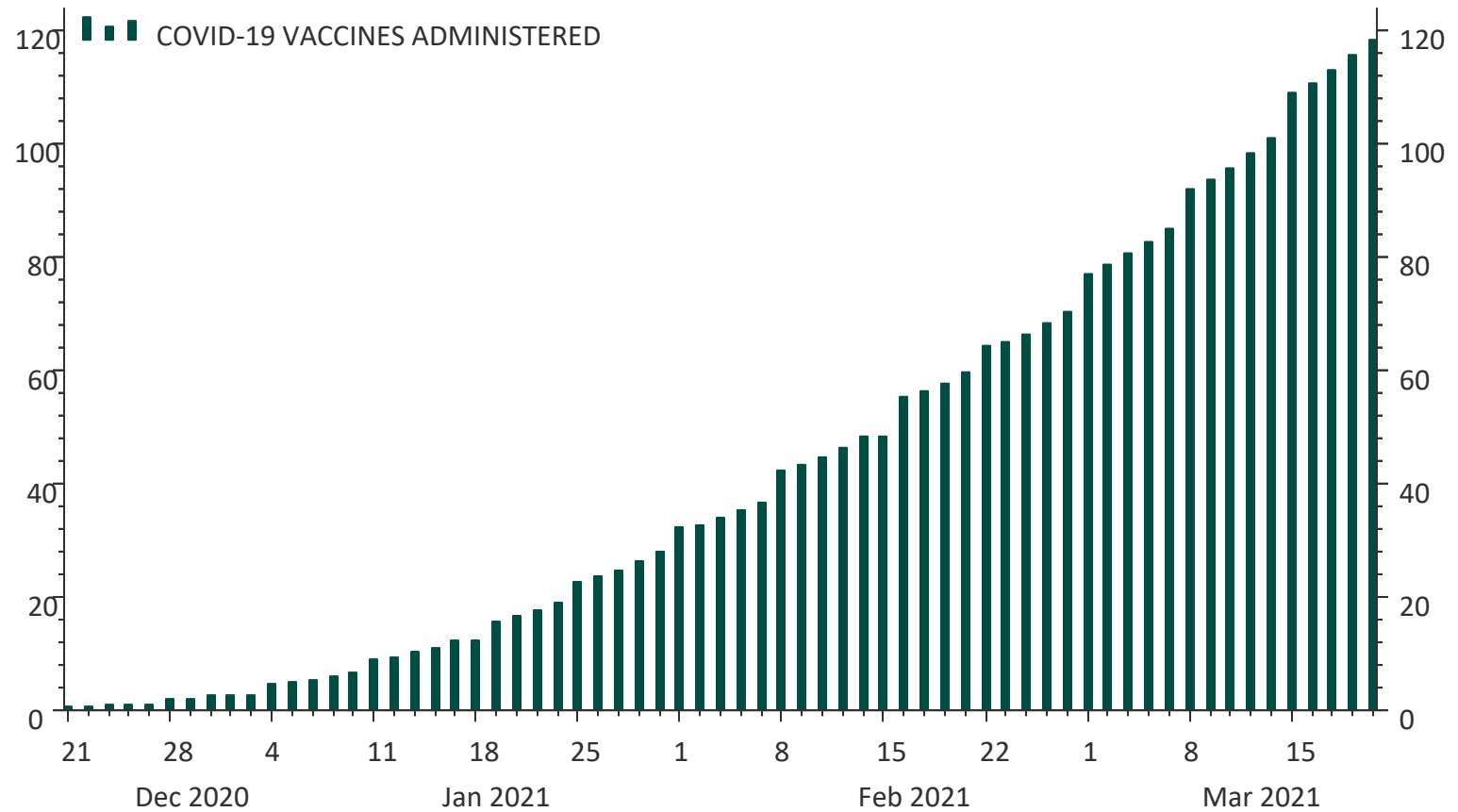


Source: Refinitiv Datastream

Total Vaccines Administered

US Vaccines Administered

Millions of Doses

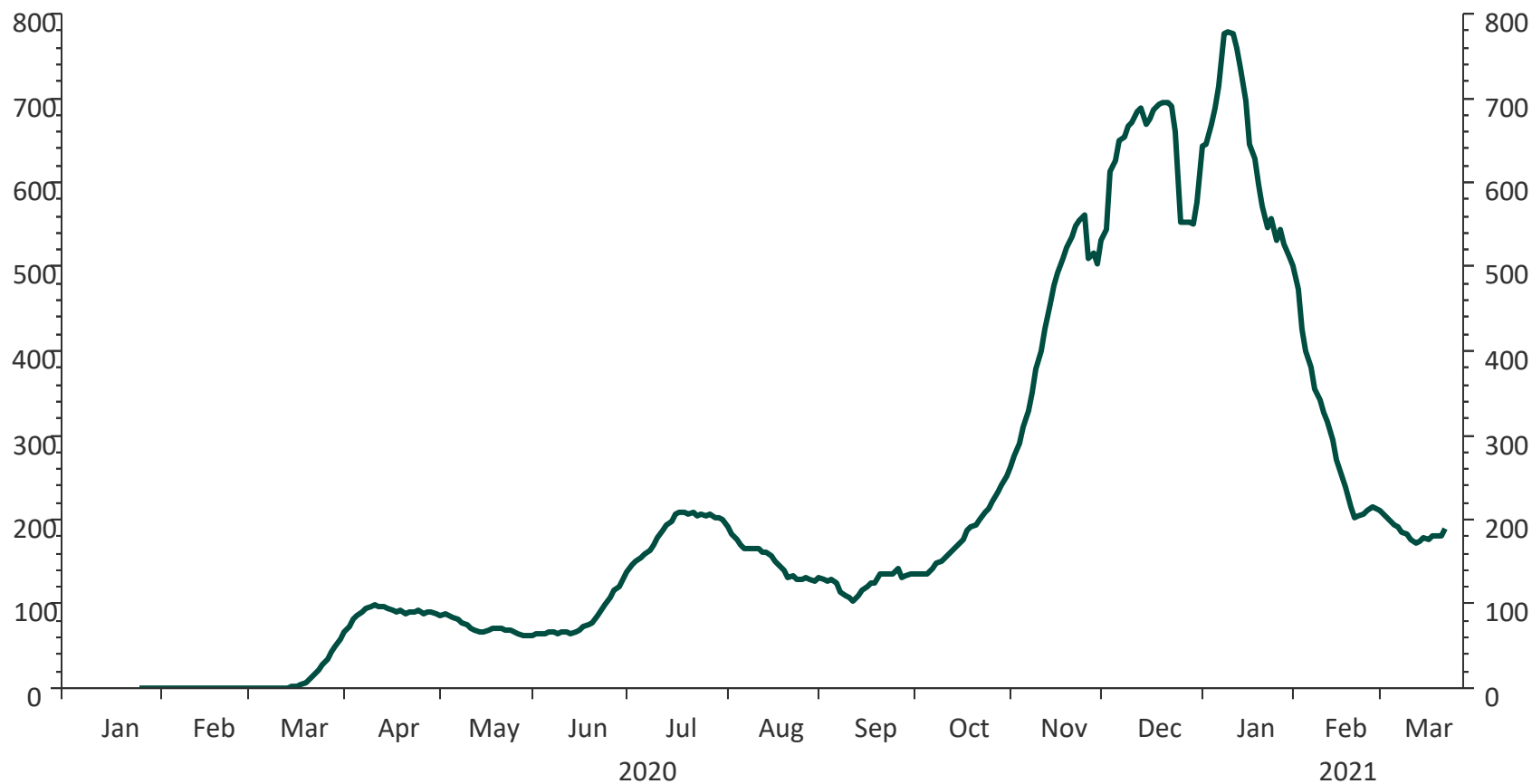


Source: Refinitiv Datastream

New COVID Cases

US COVID-19 new daily cases

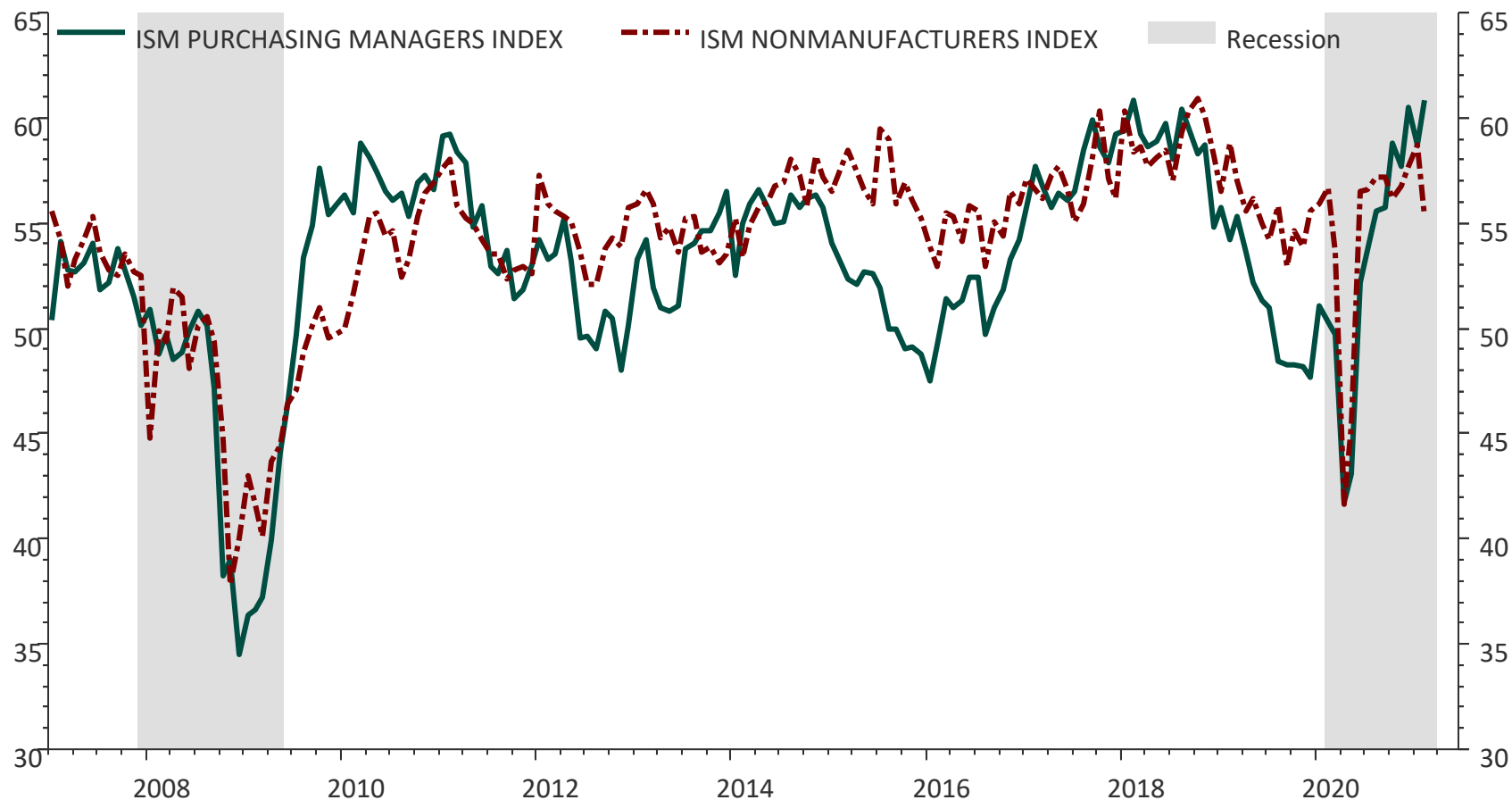
Per million of the population, 7-DMA



Source: Refinitiv Datastream

Manufacturing and Services Sectors Expand

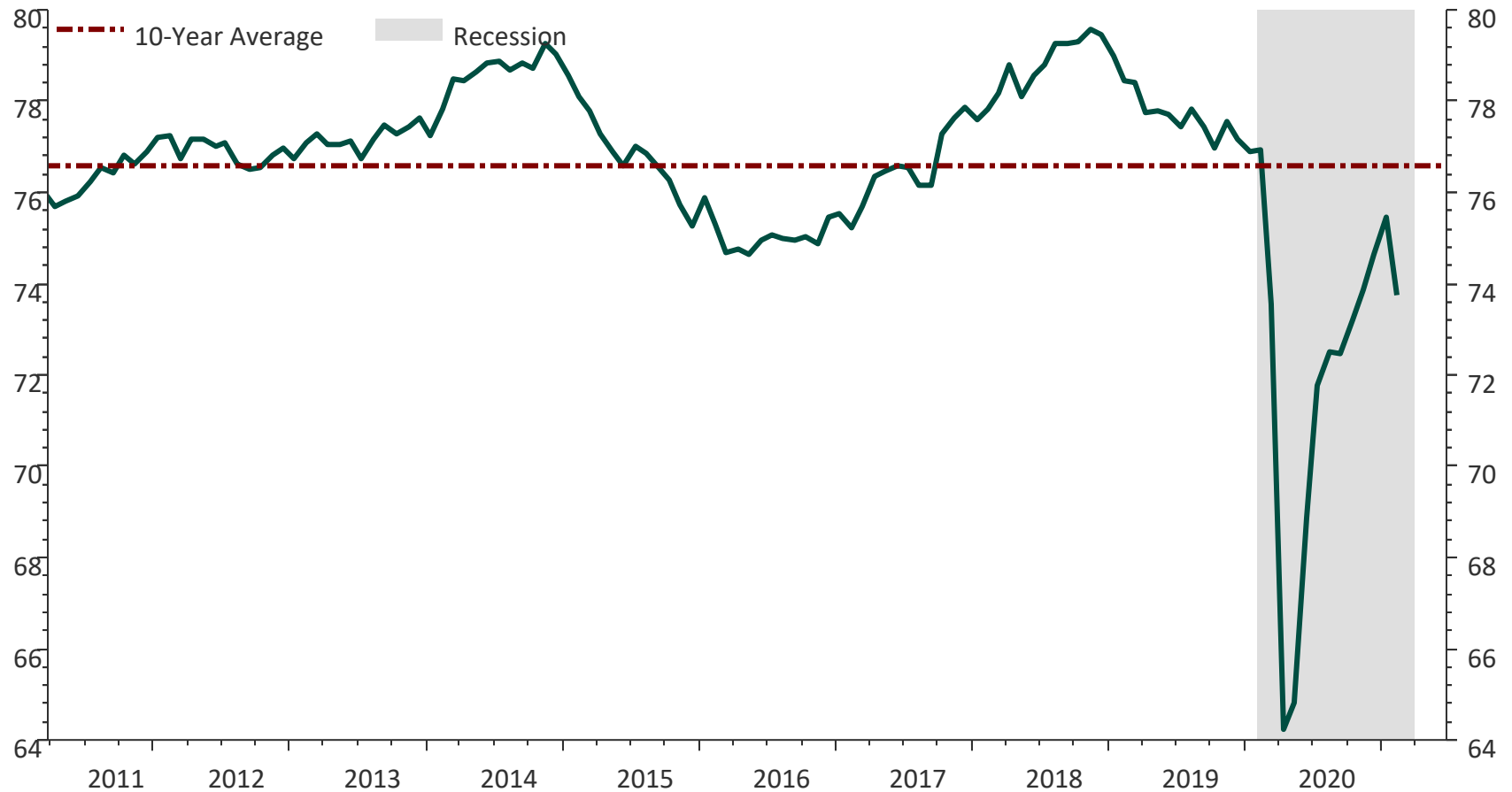
ISM Manufacturing PMI and Non-Manufacturing NMI



Source: Refinitiv Datastream

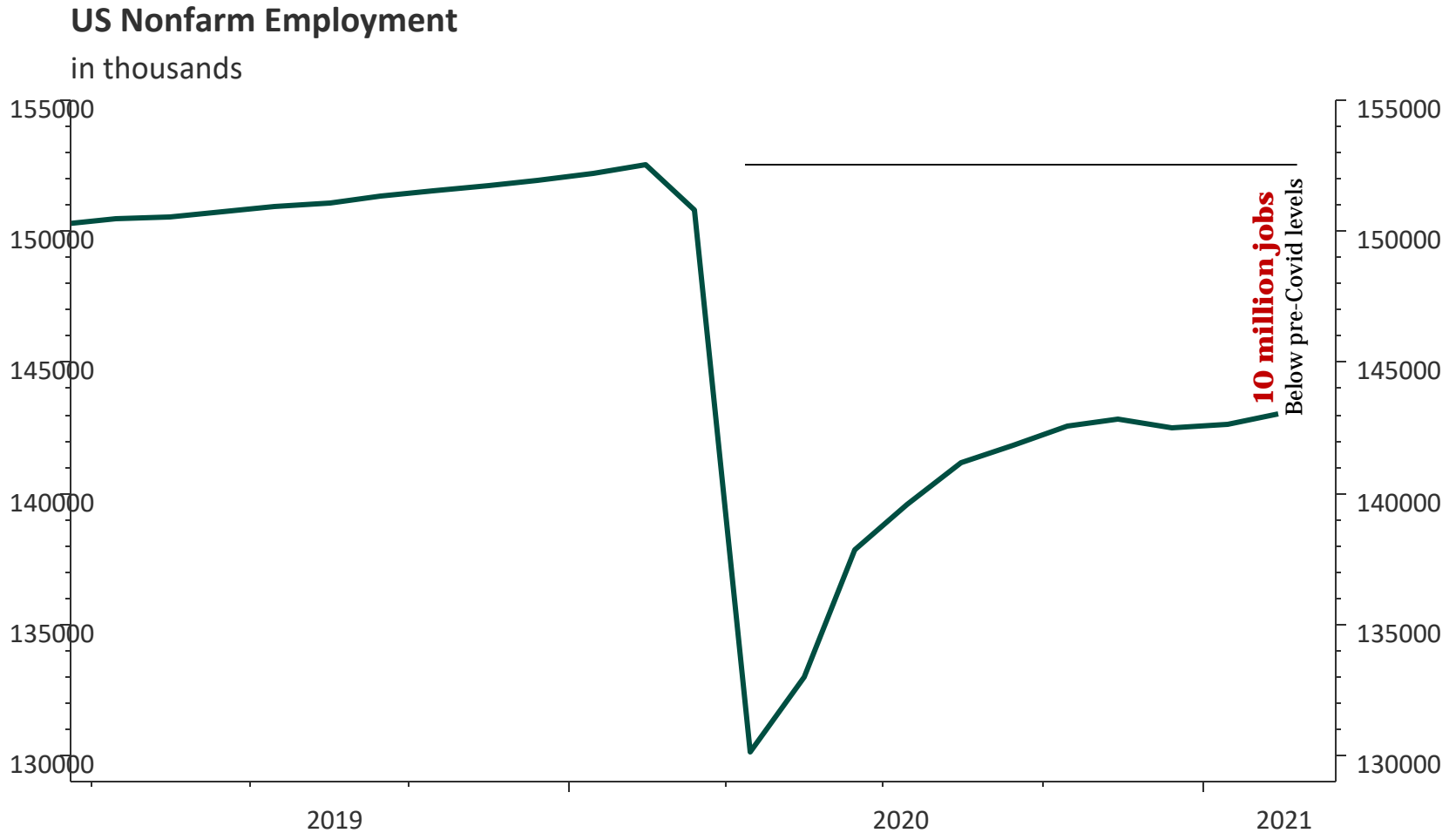
Underutilized Capacity

Total Industry Capacity Utilization



Source: Refinitiv Datastream

Significant Slack in Labor Market

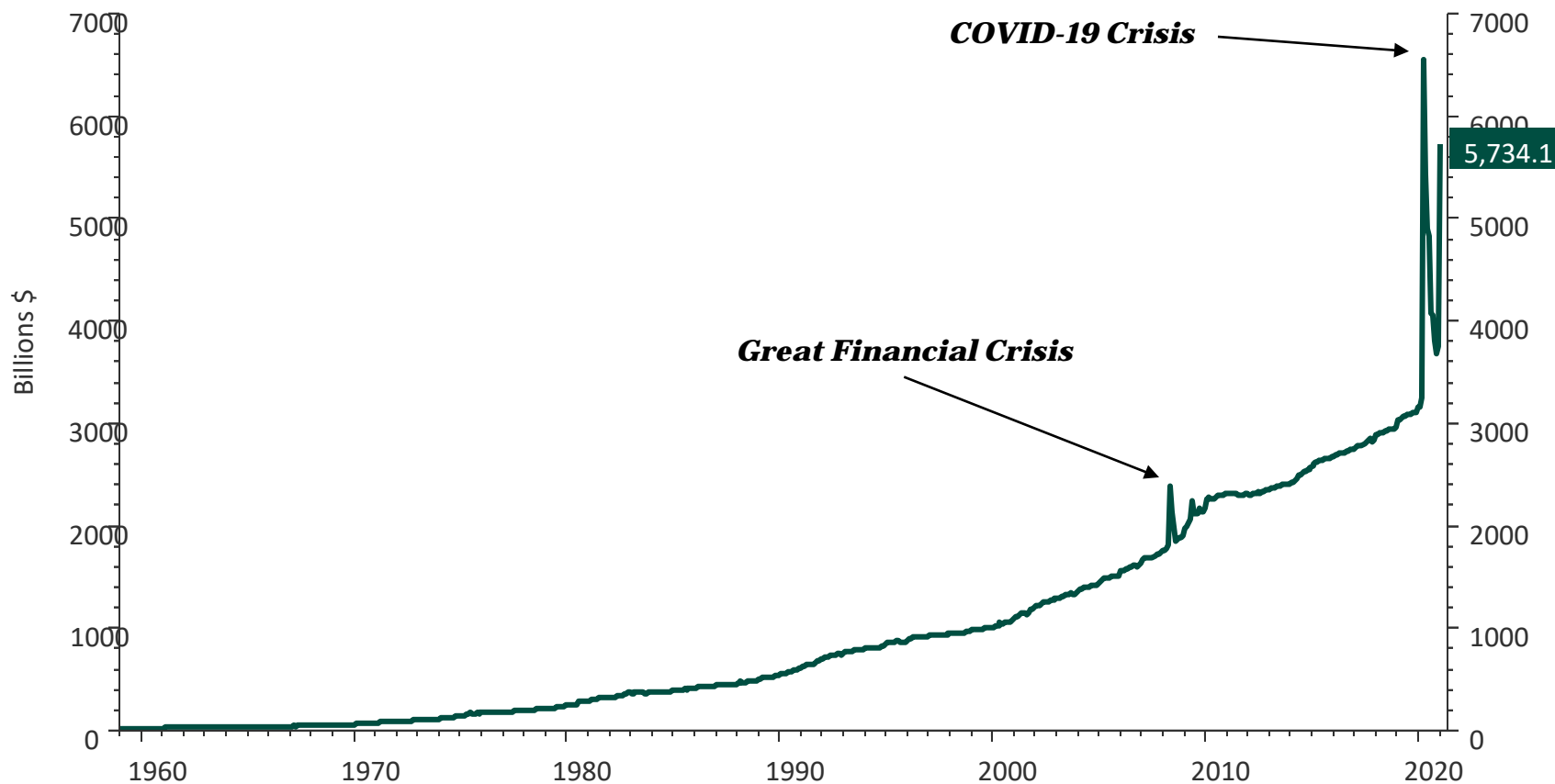


Source: Refinitiv Datastream

Rapid & Robust Fiscal Response

Government Social Benefits

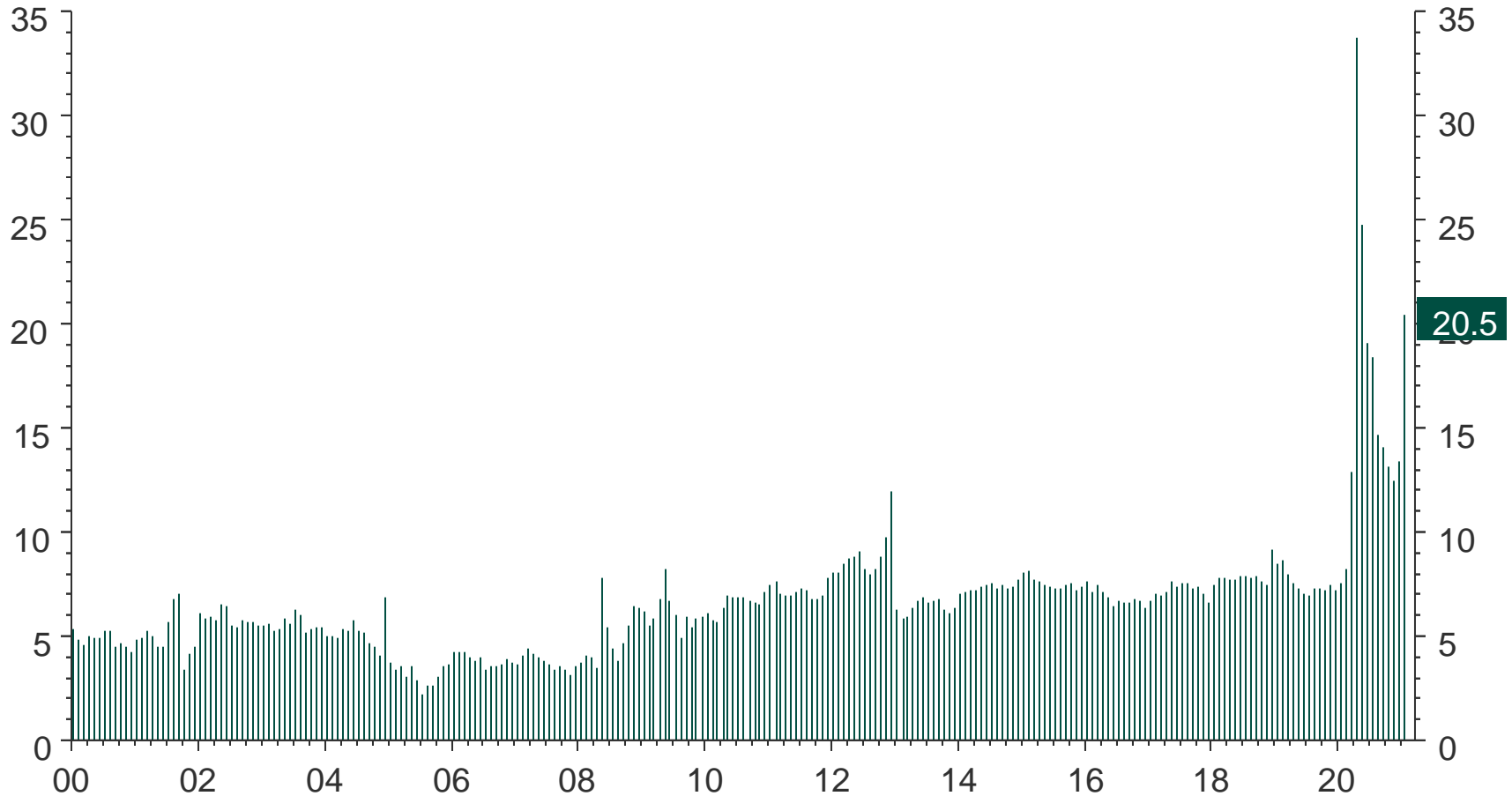
Annualized Rate, Seasonally Adjusted



Source: Refinitiv Datastream

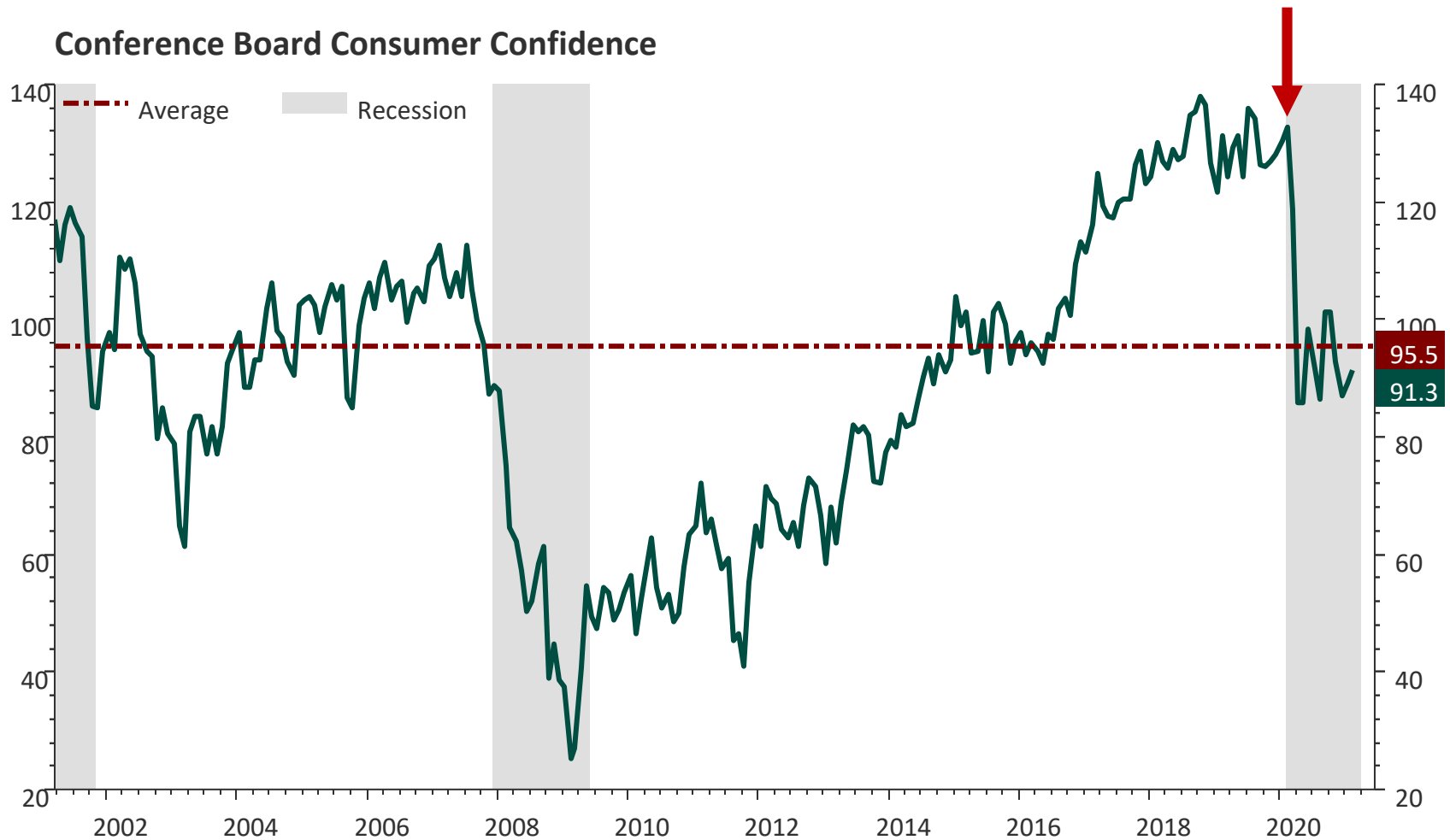
Americans Saved Stimulus Money

Personal Savings Rate



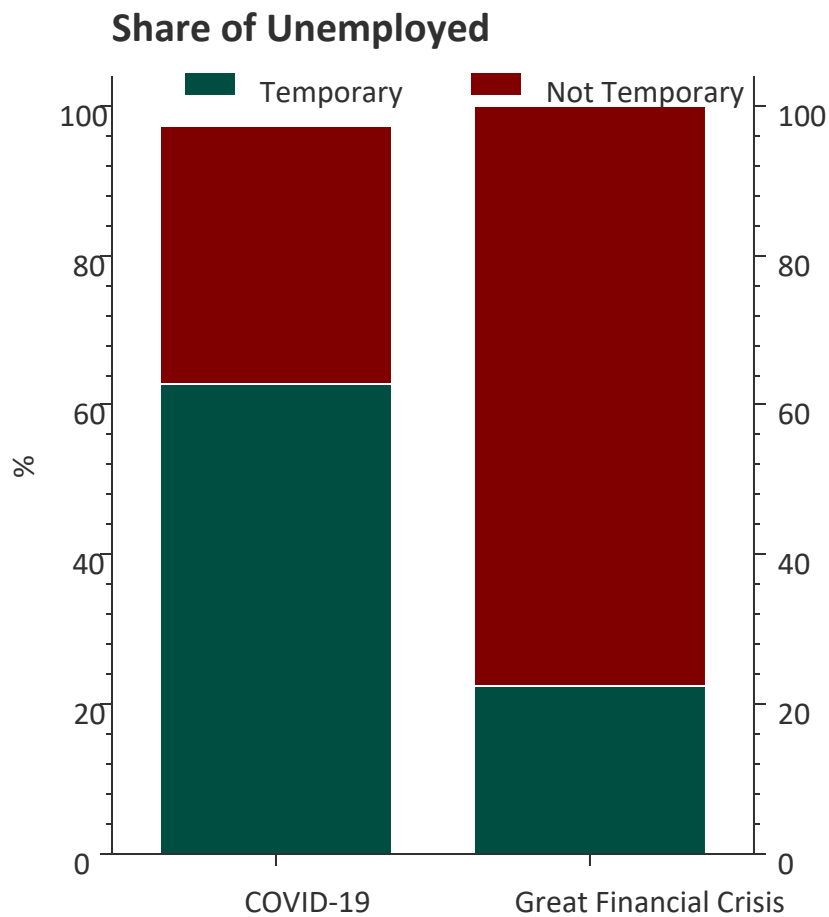
Source: Refinitiv Datastream

Confidence rattled by COVID-19

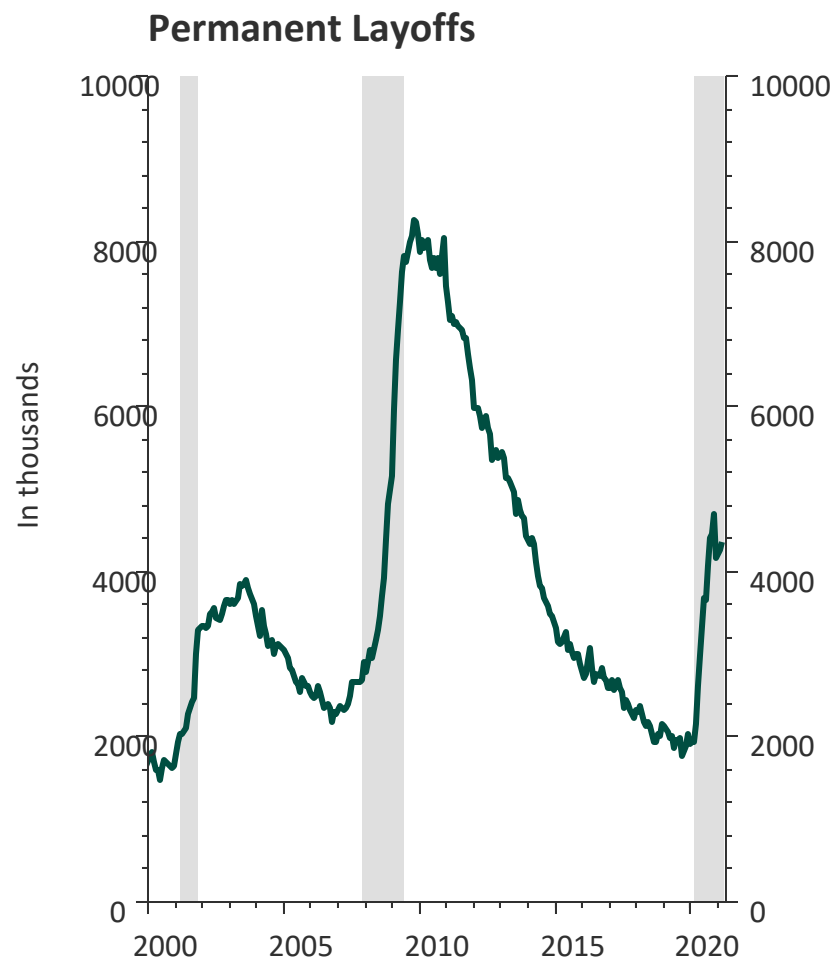


Source: Refinitiv Datastream

A Majority are Temporary but Permanent Layoffs Increasing

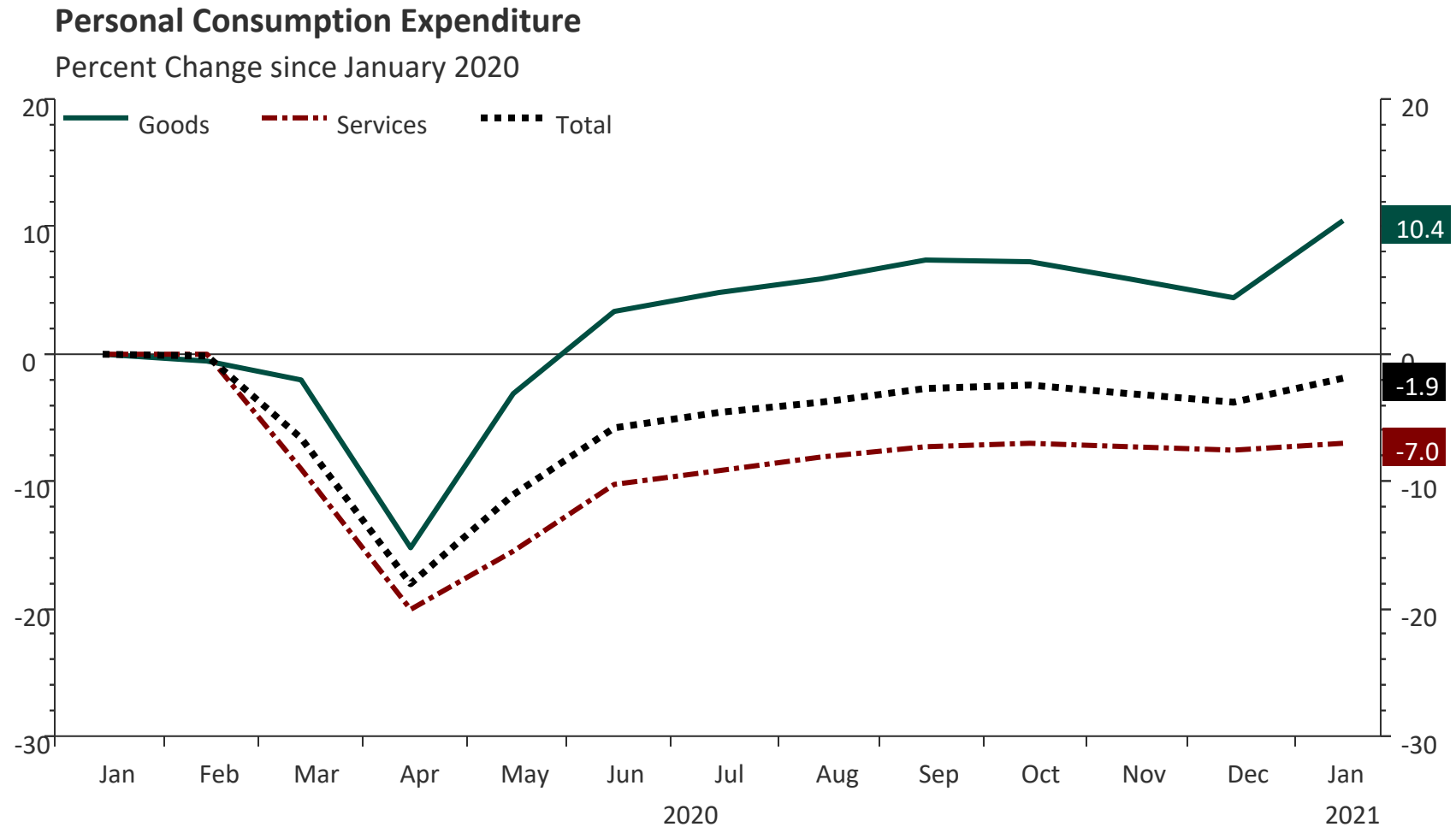


Source: Refinitiv Datastream



Source: Refinitiv Datastream

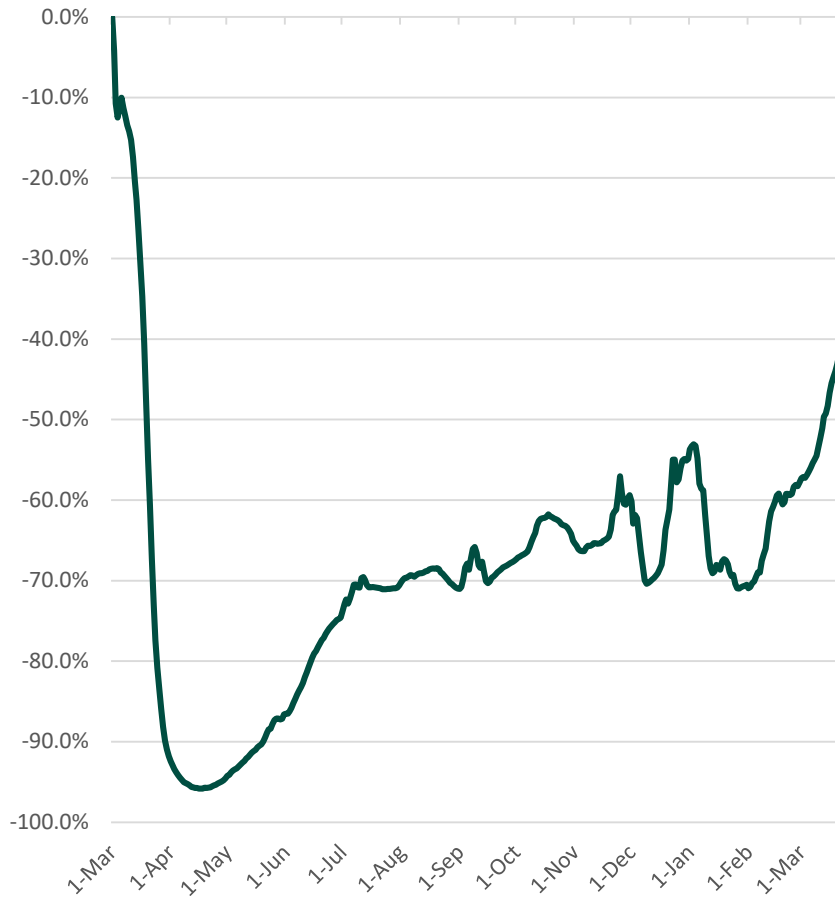
Spending on Goods Quicker to Recover



Source: Refinitiv Datastream

Still Room for Recovery in the Services Sector

TSA Checkpoint Travel Numbers
Relative to March 1, 2020, 7-Day Moving Average



Open Table Seated Diners
% Change for 2019 Baseline, 7-Day Moving Avg.



President's party is not a good predictor of market performance

Annualized Total Return on S&P 500 by President

President	Annualized % Return	Beginning	End
Trump	+15.0	11/8/2016	10/19/2020
Obama	+12.3	11/4/2008	11/8/2016
G.W. Bush	-2.6	11/7/2000	11/4/2008
Clinton	+18.9	11/3/1992	11/7/2000
H.W. Bush	+14.9	11/8/1988	11/3/1992
Reagan	+14.8	11/3/1980	11/8/1988
Carter	+11.4	11/1/1976	11/3/1980
Ford	+16.5	8/9/1974	11/1/1976
Nixon	-0.6	11/5/1969	8/9/1974
Johnson	+9.3	11/22/1963	11/5/1969
Kennedy	+11.5	11/7/1960	11/22/1963
Eisenhower	+15.3	11/3/1952	11/7/1960
Truman	+15.0	4/12/1945	11/3/1952
Roosevelt	+9.9	11/7/1932	4/12/1945
Democrat	+12.6		
Republican	+10.5		