



Patten & Patten, Inc.

2Q21 Market Outlook

April 5, 2021

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Market Commentary

- Please save **Thursday, May 20, 2021** for our **12th Annual Investment Symposium**, an “in person” event at the Westin in Downtown Chattanooga. We intend to mail invitations soon. While it is possible that certain social restrictions could remain in effect at that time, our ability to plan this gathering reflects unprecedented scientific developments and logistical efficiencies that have allowed for the vaccination of a large and growing percentage of our population.
- As we commented in last quarter’s letter, the global scientific effort to develop diagnostics, therapies, treatments, and vaccines highlights, perhaps, the greatest acceleration of research since the Great Space Race of the 1960s. **Society will likely benefit for decades, in ways currently unimaginable, from applications developed from advances made during the past year in health care.** This prospect has us both encouraged and excited for the future.
- As of this writing, the US is administering nearly 3.0 million vaccine doses per day. At that pace, nearly fifty percent of our population could be fully vaccinated by the summer holidays. At the same time, the important “herd immunity” threshold remains elusive because of the emergence of new variants of the coronavirus. Consequently, we reiterate our view that the keys to market and economic performance in 2021 will be vaccine effectiveness and distribution.
- Economic data will remain quite distorted for some time, particularly when compared with 2020 and historical trends. In general, however, we are constructive as global economies recover through capacity restoration and in response to pent-up demand. In many sectors, it is likely that demand could initially lead supply, resulting in temporary price surges. We expect producers will adjust to rising demand in a disciplined manner, allowing for prices to gradually normalize as sectors discover equilibrium.

Market Commentary, continued

- Yields on Treasuries rose sharply during the First Quarter because of several factors. First, expectations for economic “re-opening” improved dramatically with the approval of vaccines. The bond market logically removed the deflationary impact of regional shut downs. Second, supply shortages in various sectors led to price surges. In response, investors began to boost expectations for future inflation. Finally, economic data have confirmed improvement, particularly in the US.
- These trends were also reflected in equity market performance, which included an aggressive rotation out of defensive, “shut down” stocks, which performed handsomely in 2020, to cyclical, “re-opening” stocks, which performed poorly in 2020. For the past year, extremely low interest rates have supported lofty valuations in the stock market. As yields have risen, we expect further gains from equities will require earnings growth. We believe earnings estimates could prove cautious because of the dearth of demand visibility, providing market upside if results are better than expectations.
- Despite growing market concerns over inflation, we do not expect the Federal Reserve will shift its policy stance in 2021. In public comments, Fed officials have committed to restore full employment and to tolerate inflation greater than their 2.0% target. In addition, massive fiscal stimulus should support economic growth as the world moves past the coronavirus. Our economic outlook for the balance of the year is positive as we anticipate growth in many sectors could exceed expectations.
- Similar to the first few years following the Great Financial Crisis, consumers and corporations alike are hoarding cash, despite near zero interest rates. For the long term, we expect growth of precautionary savings will lead to slower, “normalized” economic growth and lower inflation. To the extent there are periods of volatility and uncertainty for the balance of 2021, we continue to recommend investors approach such situations opportunistically.

Markets

Year to date and historical performance of select asset classes

Asset Class	YTD	1 year	3 Year Annualized	Total Returns since...	
				Trough*	Peak*
Domestic Equities					
S&P 500	10.39	50.50	18.70	87.86	24.38
S&P 500 Equal Weight (RSP)	14.32	60.06	16.13	105.98	25.64
Dow Jones Ind. Avg.	11.02	45.57	14.73	85.85	18.05
NASDAQ Comp	8.05	71.82	27.23	104.29	42.92
Russell 2000 (IWM)	13.74	82.12	15.42	126.40	34.31
International Equities					
Shanghai Composite (CIN)	-1.68	27.41	9.94	34.26	22.39
Hedged Japan (DXJ)	12.70	45.51	6.15	59.14	19.85
Hedged Europe (HEDJ)	11.71	39.42	7.89	61.93	6.64
Asia Pacific ex. Japan (EPP)	7.40	46.37	7.38	80.50	13.24
Emerging Markets (EEM)	3.64	53.96	6.67	77.80	23.05
Brazil (EWZ)	-9.47	33.43	-4.74	64.39	-22.06
Canada (EWC)	13.72	55.00	10.72	103.21	16.52
India (EPI)	7.82	85.52	6.92	122.81	29.49
Mexico (EWW)	4.98	62.16	-2.58	82.44	-3.64
Bonds					
Long Treasuries (TLT)	-12.49	-15.69	6.46	-15.88	-3.91
Inv. Grade Corporates (LQD)	-4.75	1.81	7.10	17.38	2.94
High Yield Corporates (HYG)	0.94	11.07	5.89	33.98	4.64
Commodities					
Gold (GLD)	-8.46	2.89	8.79	11.60	7.56
Silver (SLV)	-4.72	63.25	14.59	90.17	35.87

*Stock market trough at 03/23/2020. Stock market peak at 02/19/2020. YTD through 04/11/2021

Source: Thomson Reuters Datastream

Year to date and historical performance of select equity sectors

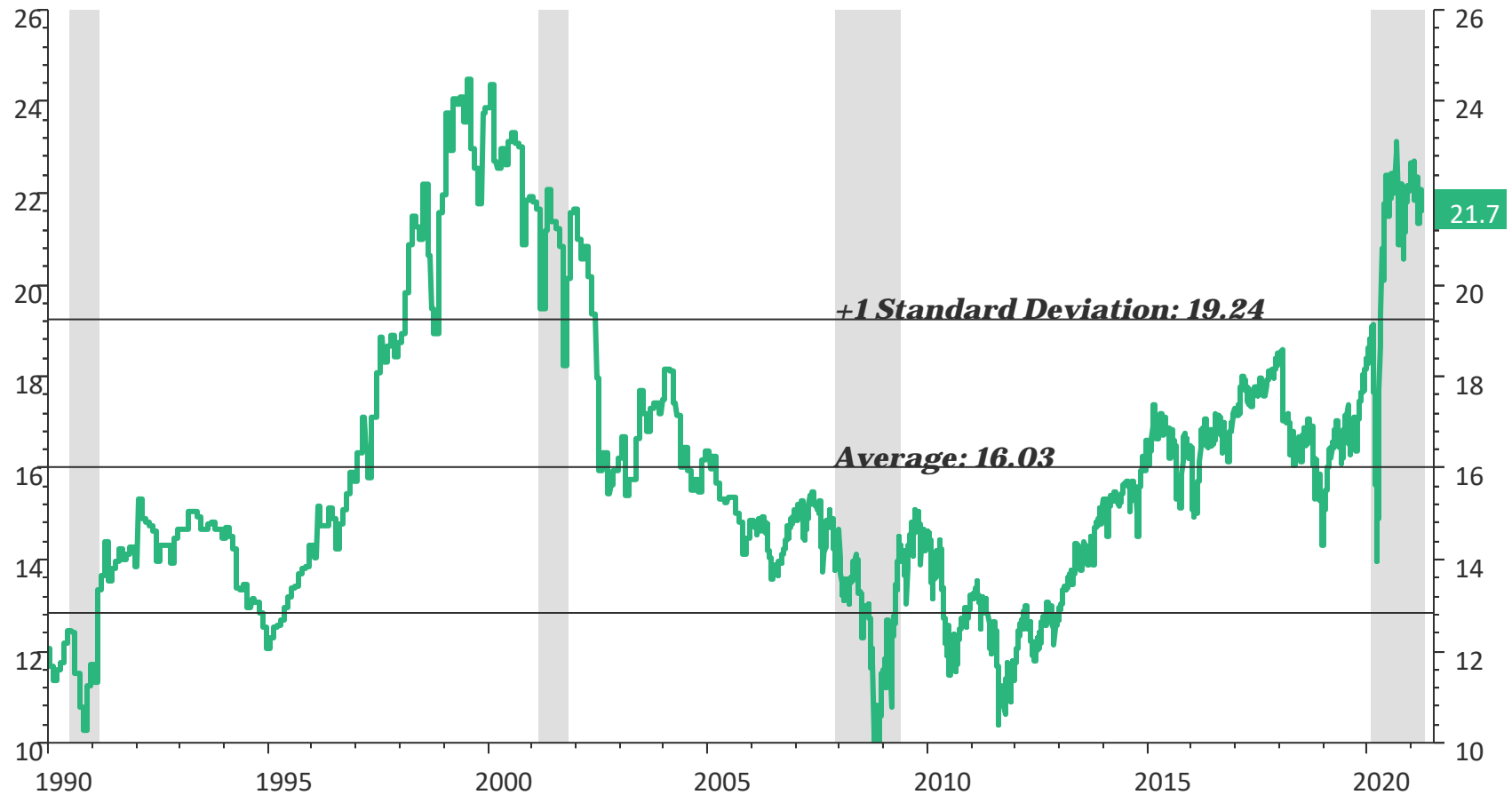
Domestic Equity Sectors	YTD	1 year	3 Year Annualized	Total Returns since...	
				Since Trough*	Since Peak*
Domestic Equities					
Consumer Discretionary	43.61	177.74	29.65	245.25	108.37
Retail (XRT)	43.61	177.74	29.65	245.25	108.37
Consumer Staples	7.01	31.24	14.06	58.55	17.38
Energy	25.66	58.13	-5.17	124.57	0.52
Oil & Gas Exploration (XOP)	34.76	93.62	-15.77	166.42	9.47
Financial Services	21.28	61.39	13.72	115.29	22.23
Regional Banks (KRE)	30.44	86.19	7.24	147.41	26.99
Health Care	3.36	31.58	17.21	66.69	20.09
Industrials	13.85	60.29	14.54	107.01	21.65
Materials	11.32	64.22	13.73	120.09	36.21
Technology	9.86	72.38	31.61	105.93	43.83
Telecom	0.00	-8.55	3.41	NA	NA
Utilities	3.64	10.66	11.74	48.62	-5.28
Transportation (IYT)	19.27	79.57	14.37	121.71	36.50
Real Estate	11.04	26.00	11.68	74.46	-1.27

*Stock market trough at 03/23/2020. Stock market peak at 02/18/2020. YTD through 04/11/2021

Source: Thomson Reuters Datastream

S&P 500 Valuation

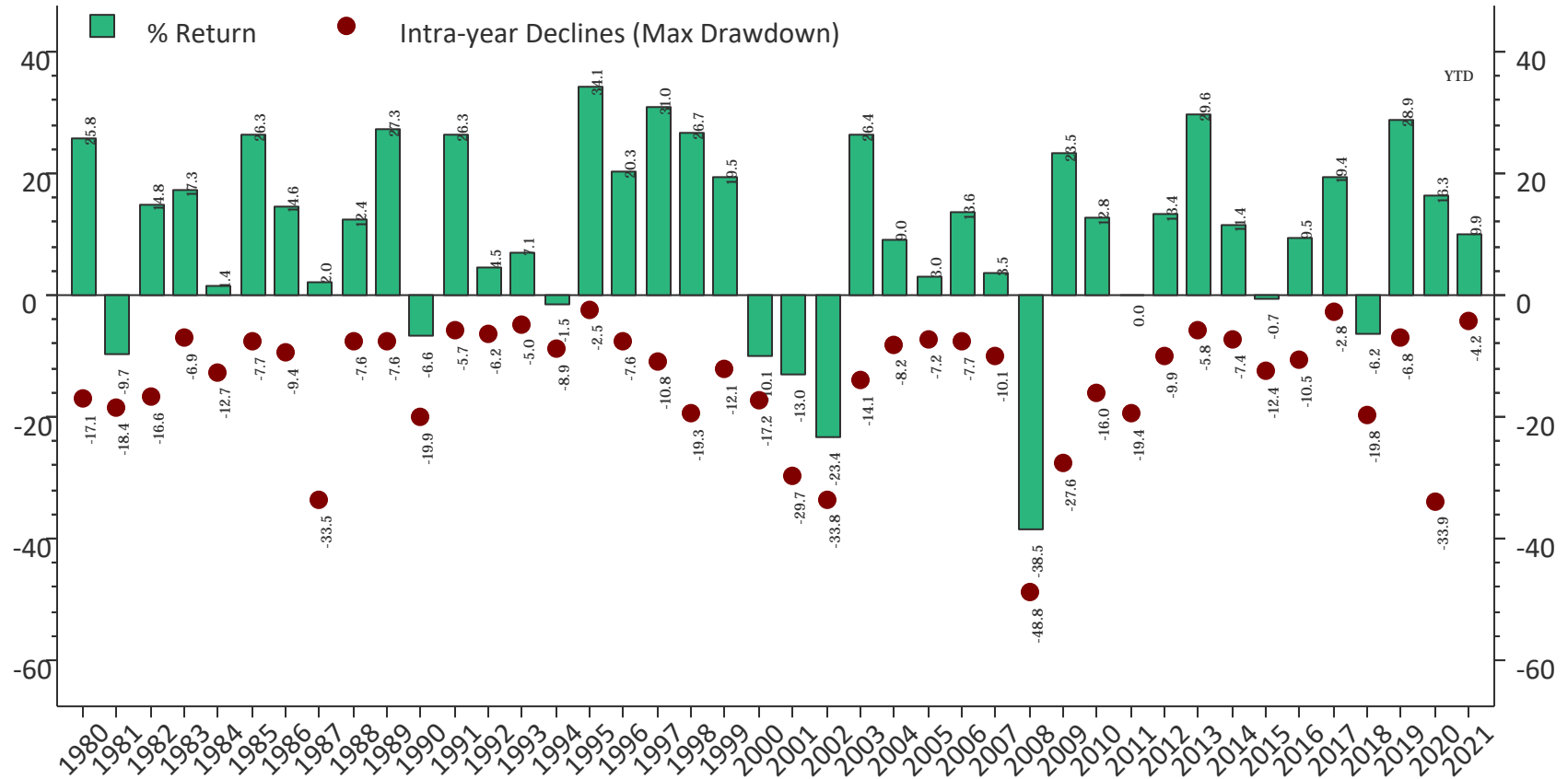
S&P 500 - PE NTM



Source: Refinitiv Datastream

Stock Market Performance and Max Drawdowns by Year

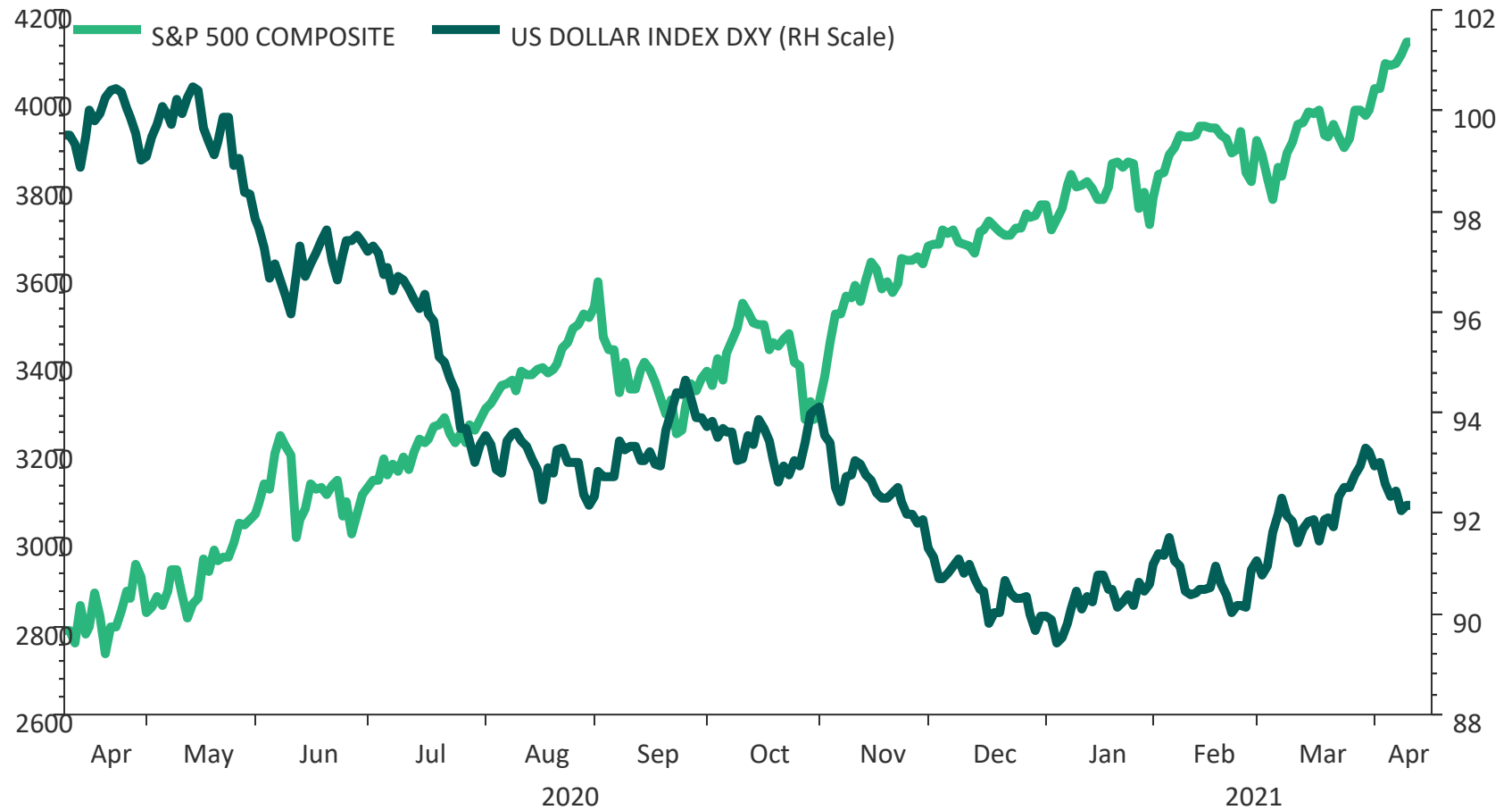
S&P 500 Intra-year Price Declines (Max Drawdown) vs. Yearly Price Returns



Source: Refinitiv Datastream

S&P 500 vs. the US Dollar

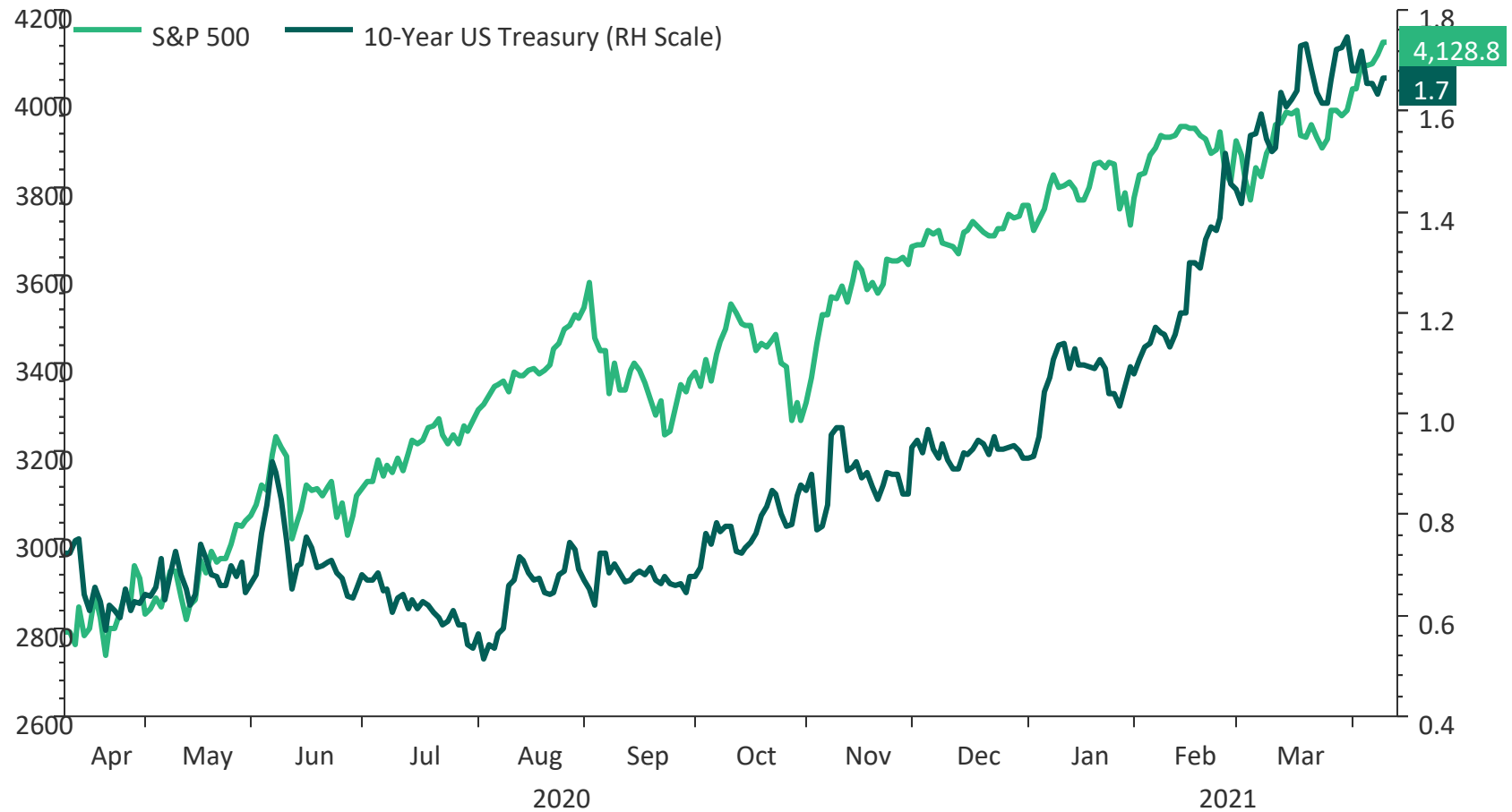
S&P 500 vs. the US Dollar



Source: Refinitiv Datastream

S&P 500 vs. the 10-Year Treasury

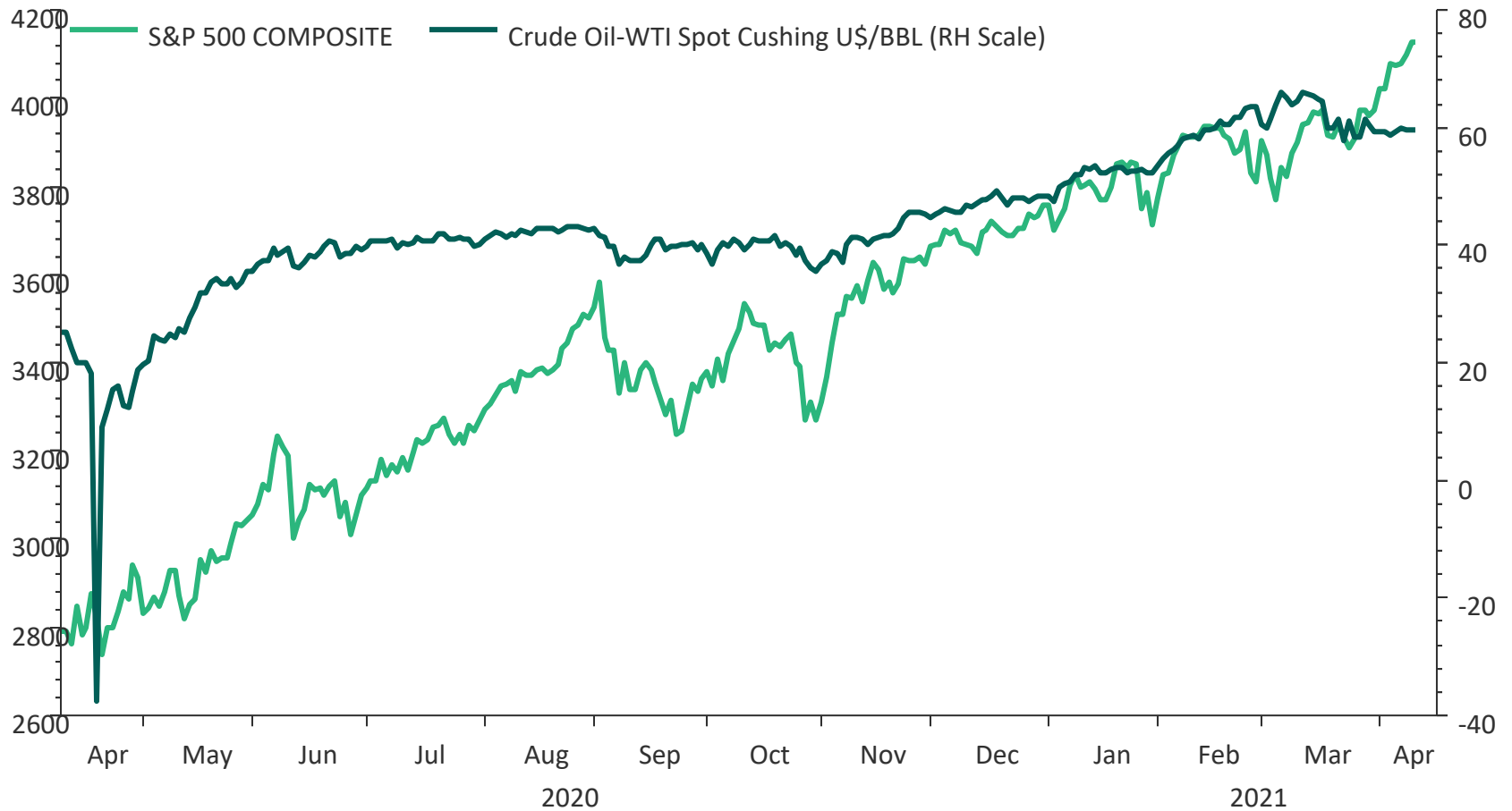
S&P 500 vs. the 10-Year Treasury



Source: Refinitiv Datastream

S&P 500 vs. the Price of Crude Oil

S&P 500 vs. WTI Crude Spot



Source: Refinitiv Datastream

Dr. Copper

LME Copper Spot Price

\$/MT



Source: Refinitiv Datastream

Interest Rate Outlook

Global Interest Rates

Global Bond Yields on April 12, 2021

Maturity	US	Canada	UK	Germany	Switzerland	Japan	Spain	Italy	Brazil	Greece
2 year	0.163	0.257	0.060	-0.709	-0.753	-0.125	-0.494	-0.363	7.475	NA
5 year	0.884	0.954	0.370	-0.633	-0.558	-0.088	-0.237	0.054	8.310	0.209
10 year	1.673	1.516	0.790	-0.300	-0.267	0.113	0.386	0.729	9.405	0.875
30 year	2.340	1.926	1.318	0.250	-0.009	0.687	1.319	1.740	NA	NA

Change in Global Bond Yields since April 5, 2021

Maturity	US	Canada	UK	Germany	Switzerland	Japan	Spain	Italy	Brazil	Greece
2 year	0.006	0.013	0.007	-0.008	-0.025	0.005	-0.001	-0.002	0.575	NA
5 year	0.015	-0.003	0.005	-0.005	-0.014	0.002	-0.004	-0.007	0.030	0.037
10 year	0.007	0.016	0.007	-0.002	-0.005	0.010	0.000	-0.004	-0.085	0.010
30 year	0.001	0.007	0.002	0.001	-0.020	0.008	-0.003	-0.006	NA	NA

Source: Patten & Patten, US Census

Forward Interest Rates

Forward Rate Analysis US Dollar Swap Curves

Maturity	Forward Rates						Chg (in bp)
	Current	6 Mo	1 year	2 year	5 year	10 year	
1 year	0.200%	0.253%	0.362%	0.934%	2.282%	2.550%	235
2 year	0.284%	0.436%	0.647%	1.239%	2.349%	2.619%	233
3 year	0.499%	0.706%	0.944%	1.484%	2.397%	2.578%	208
5 year	0.996%	1.197%	1.410%	1.822%	2.459%	2.601%	161
10 year	1.675%	1.816%	1.935%	2.175%	2.526%	2.539%	86
30 year	2.101%	2.159%	2.197%	2.271%	2.347%	2.244%	14
2 - 10 Curve	139	138	129	94	18	(8)	
1 - 30 Curve	190	191	184	134	7	(31)	

*market rates as of 04/12/2021 and based on 3 month LIBOR.

Source: Patten & Patten, US Census

Inflation Expectations

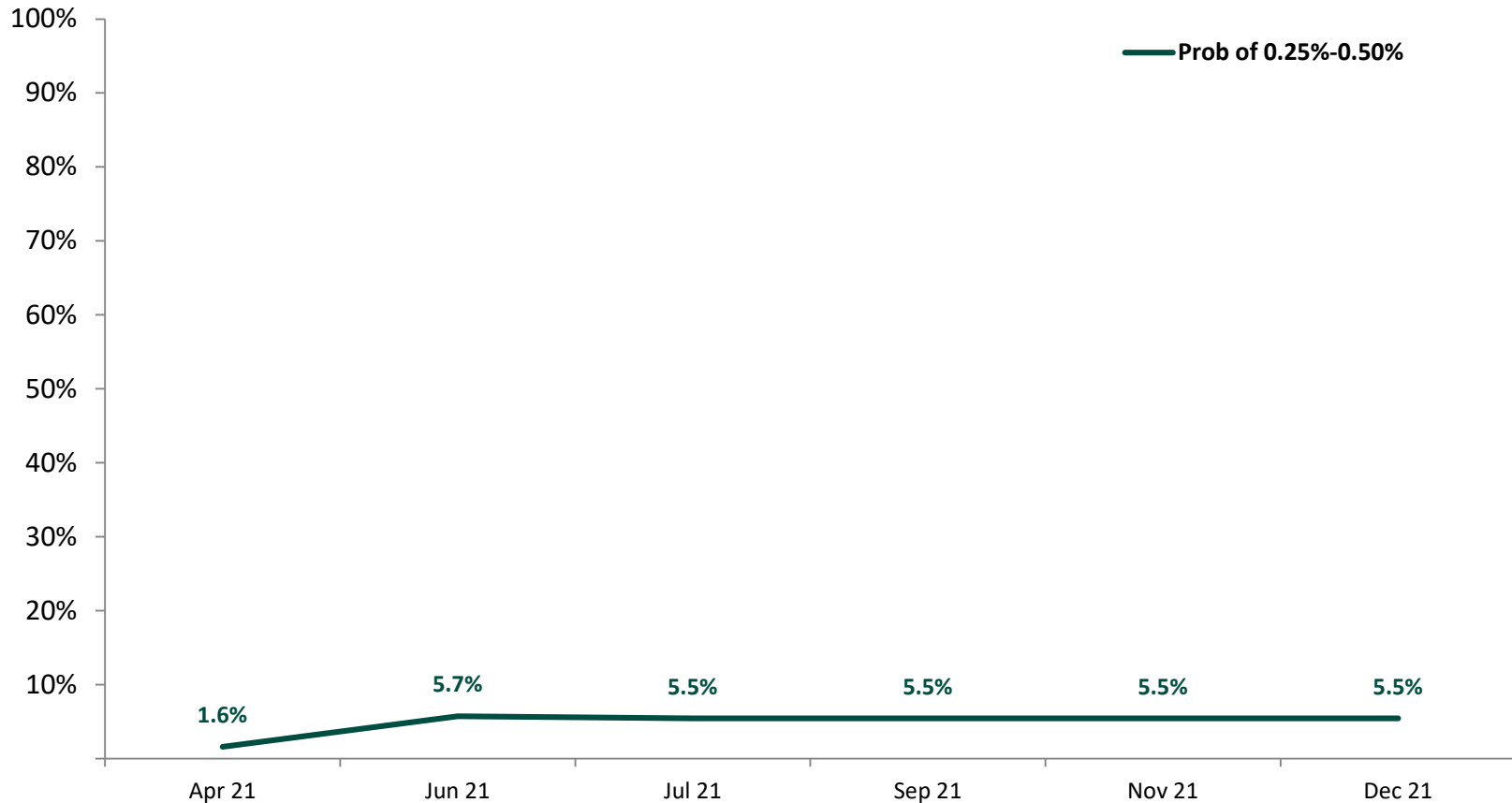
5 Year TIPS Breakeven



Source: Refinitiv Datastream

Fed Funds Implied Probability

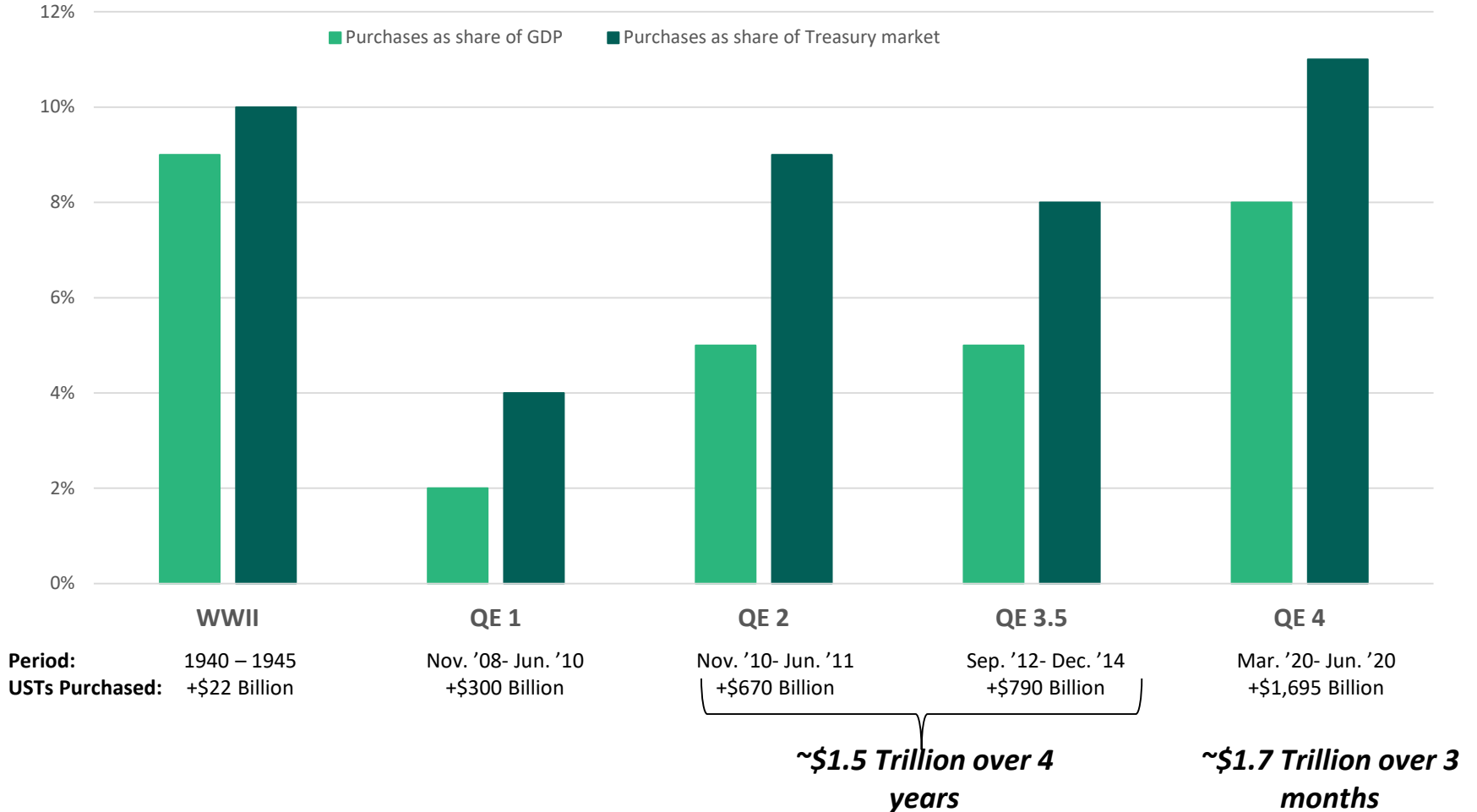
Implied probability using Fed Funds futures for change in policy



Source: Patten & Patten, Refinitiv

Fed Purchases of Treasuries – Historical Context

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



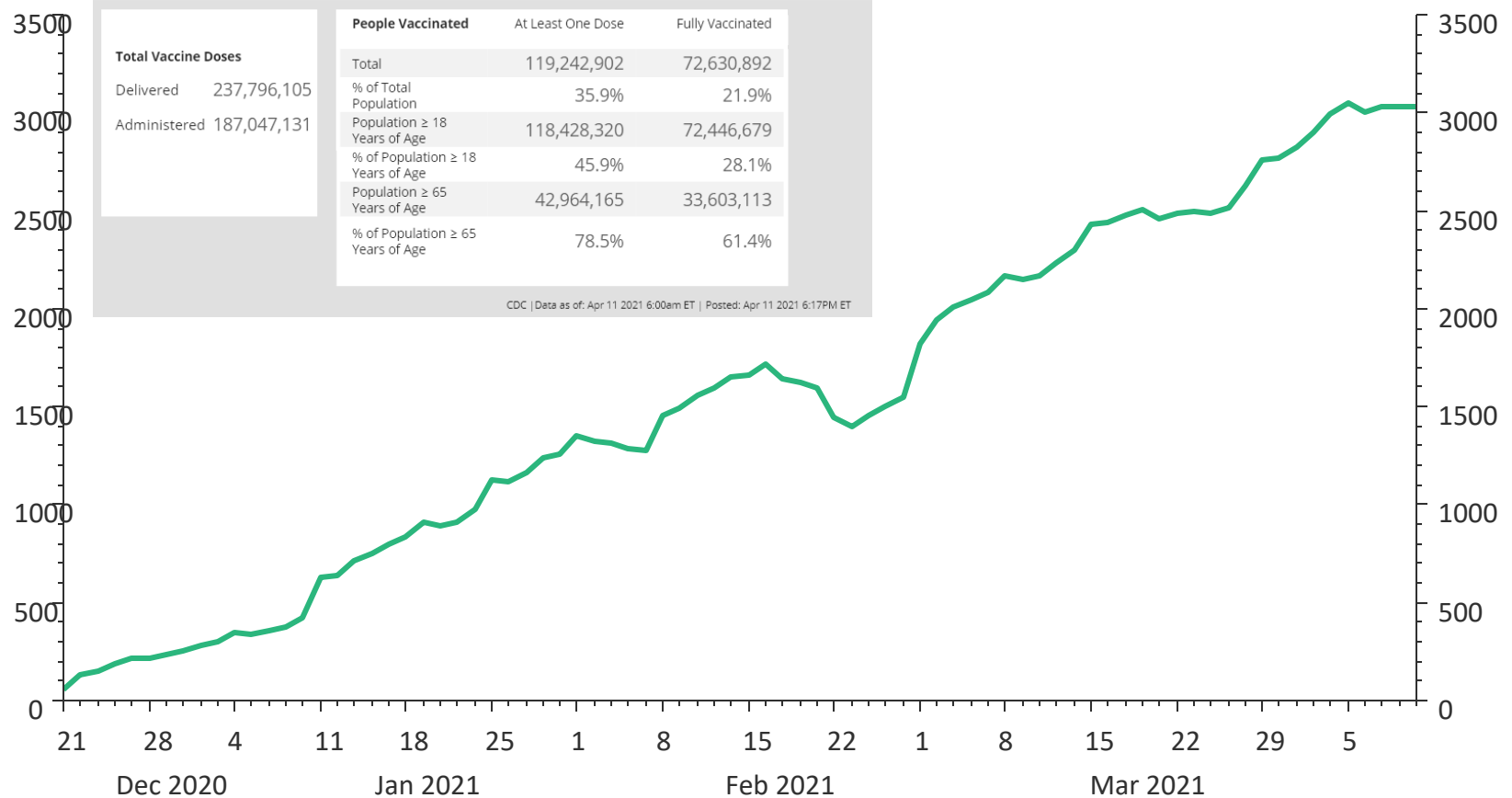
Source: Patten & Patten, Refinitiv

Economic Backdrop

Vaccine Progress

US Daily COVID-19 Vaccinations

7-Day Moving Average, in thousands

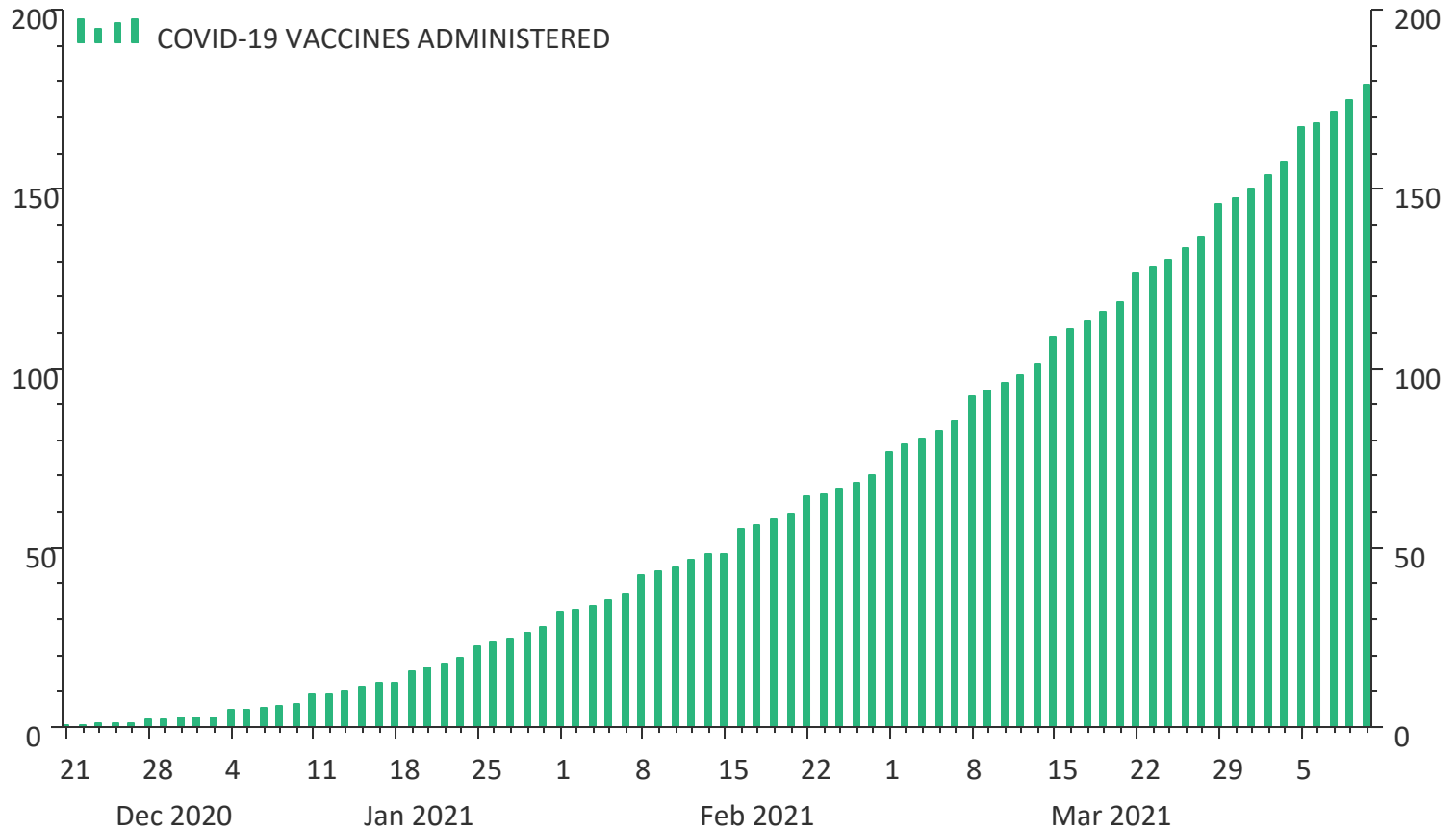


Source: Refinitiv Datastream

Vaccine Progress

US Vaccines Administered

Millions of Doses

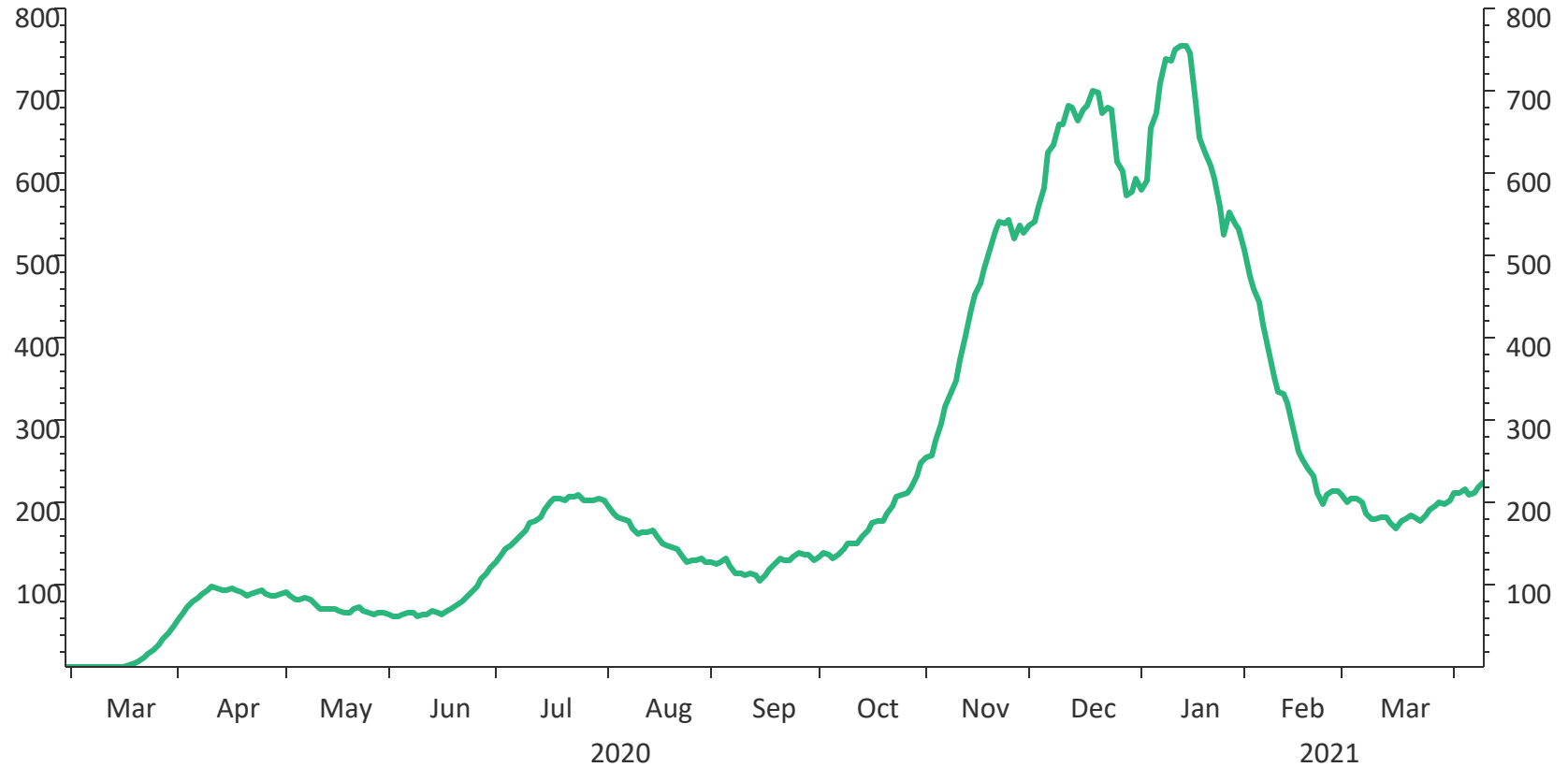


Source: Refinitiv Datastream

New US COVID Cases

COVID-19 new daily cases

Number per million inhabitants, 7-DMA



Source: Refinitiv Datastream

Global Economy Picking Up

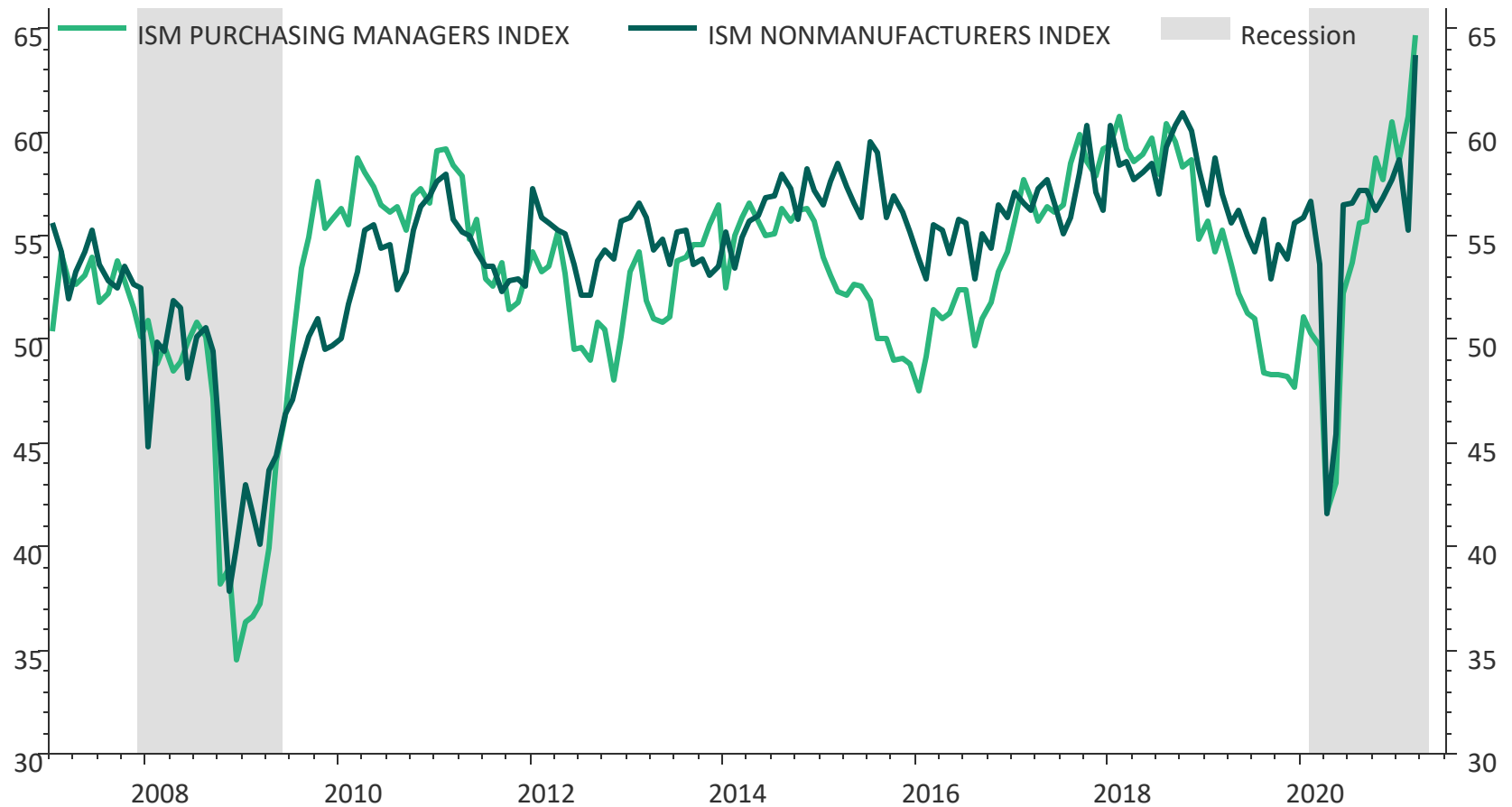
Global Manufacturing PMIs (Seasonally Adjusted)

	2019												2020									
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Australia	51.0	52.0	51.6	50.9	50.3	50.0	49.9	49.2	49.6	50.2	49.7	44.1	44.0	51.2	54.0	53.6	55.4	54.2	55.8	55.7	57.2	56.9
Austria	48.3	47.5	47.0	47.9	45.1	45.5	46.0	46.0	49.2	50.2	45.8	31.6	40.4	46.5	52.8	51.0	51.7	54.0	51.7	53.5	54.2	58.3
Brazil	50.2	51.0	49.9	52.5	53.4	52.2	52.9	50.2	51.0	52.3	48.4	36.0	38.3	51.6	58.2	64.7	64.9	66.7	64.0	61.5	56.5	58.4
Canada	49.1	49.2	50.2	49.1	51.0	51.2	51.4	50.4	50.6	51.8	46.1	33.0	40.6	47.8	52.9	55.1	56.0	55.5	55.8	57.9	54.4	54.8
China	50.2	49.4	49.9	50.4	51.4	51.7	51.8	51.5	51.1	40.3	50.1	49.4	50.7	51.2	52.8	53.1	53.0	53.6	54.9	53.0	51.5	50.9
Colombia	50.8	49.2	51.5	50.3	50.9	51.1	52.9	52.4	53.4	52.5	49.3	27.6	37.2	54.7	54.2	51.2	50.4	51.7	52.1	51.8	53.3	50.2
Czech Rep.	46.6	45.9	43.1	44.9	44.9	45.0	43.5	43.6	45.2	46.5	41.3	35.1	39.6	44.9	47.0	49.1	50.7	51.9	53.9	57.0	57.0	56.5
Denmark	47.9	45.4	47.2	48.1	49.1	47.4	53.4	53.0	54.3	47.7	44.4	37.5	54.3	52.1	56.3	51.4	53.6	61.7	46.8	42.2	43.6	40.1
Egypt	48.2	49.2	50.3	49.4	49.5	49.2	47.9	48.2	46.0	47.1	44.2	29.7	40.7	44.6	49.6	49.4	50.4	51.4	50.9	48.2	48.7	49.3
EuroZone	47.7	47.6	46.5	47.0	45.7	45.9	46.9	43.7	47.9	49.2	44.5	33.4	39.4	47.4	51.8	51.7	53.7	54.8	53.8	55.2	54.8	57.9
France	50.6	51.9	49.7	51.1	50.1	50.7	51.7	50.4	51.1	49.8	43.2	31.5	40.6	52.3	52.4	49.8	51.2	51.3	49.6	51.1	51.6	56.1
Germany	44.3	45.0	43.2	43.5	41.7	42.1	44.1	43.7	45.3	48.0	45.4	34.5	36.6	45.2	51.0	52.2	56.4	58.2	57.8	58.3	57.1	60.7
Greece	52.7	52.1	52.5	51.4	51.4	50.6	51.2	52.7	55.3	54.5	51.8	27.4	30.8	47.2	46.0	52.0	56.8	58.9	56.3	56.4	57.7	57.5
India	51.6	50.6	49.6	49.0	49.1	47.7	48.2	49.5	49.3	51.9	45.3	27.5	28.6	39.1	46.9	50.8	47.2	47.8	50.6	51.3	52.2	50.9
Indonesia	50.4	49.8	48.7	48.6	48.7	50.7	49.7	49.5	51.4	51.2	45.1	36.0	39.2	51.0	57.3	52.3	50.0	50.3	52.2	57.2	51.8	52.0
Ireland	49.7	48.4	48.5	48.7	47.8	47.7	47.6	46.2	48.9	48.7	40.3	31.1	45.4	47.5	51.9	53.1	53.2	53.8	51.5	52.8	55.1	56.9
Italy	49.8	49.3	49.4	49.3	48.9	48.4	48.9	48.4	48.8	47.8	44.8	41.9	38.4	40.1	45.2	47.2	47.7	48.7	49.0	50.0	49.8	51.4
Japan	48.8	47.8	47.6	47.4	47.9	49.3	49.5	50.0	48.8	48.5	48.4	31.3	45.6	51.0	50.0	49.3	49.0	48.5	48.4	49.1	48.9	47.7
Malaysia	48.8	47.8	47.6	47.4	47.9	49.3	49.5	50.0	49.0	50.0	47.9	35.0	38.3	38.6	40.4	41.3	42.1	43.6	43.7	42.4	43.0	44.2
Mexico	54.2	53.0	52.9	52.0	52.0	53.0	52.7	52.0	52.7	49.8	45.3	29.0	38.9	48.7	51.7	53.2	35.9	30.6	43.2	44.7	47.8	27.7
Myanmar	52.2	50.7	50.7	51.6	51.6	50.3	49.6	48.3	49.9	52.9	50.5	41.3	40.5	45.2	47.9	52.3	52.5	50.4	54.4	58.2	58.8	59.6
Netherlands	54.2	52.4	54.6	54.9	53.6	53.5	54.1	53.9	54.4	56.2	42.5	29.5	41.1	49.4	48.6	49.4	50.0	48.7	42.3	46.9	50.0	49.4
Philippines	51.2	51.3	52.1	51.9	51.8	52.1	51.4	51.7	52.1	52.3	39.7	31.6	40.1	49.7	48.4	47.3	50.1	48.5	49.9	49.2	52.5	52.5
Poland	48.8	48.4	47.4	48.8	47.8	45.6	46.7	48.0	47.4	48.2	42.4	31.9	40.6	47.2	52.8	50.6	50.8	50.8	50.8	51.7	51.9	53.4
Russia	49.8	48.6	49.3	49.1	46.3	47.2	45.6	47.5	47.9	48.2	47.5	31.3	36.2	49.4	48.4	51.1	48.9	46.9	46.3	49.7	50.9	51.5
S. Korea	48.4	47.5	47.3	49.0	48.0	48.4	49.4	50.1	49.8	48.7	44.2	41.6	41.3	43.4	46.9	48.5	49.8	51.2	52.9	52.9	53.2	55.3
Spain	50.1	47.9	48.2	48.8	47.7	46.8	47.5	47.4	48.5	50.4	45.7	30.8	38.3	49.0	53.5	49.9	50.8	52.5	49.8	51.0	49.3	52.9
Switzerland	49.4	48.0	45.4	46.9	44.7	49.5	47.9	48.4	48.0	49.2	43.5	41.2	42.5	41.4	49.6	51.0	52.8	52.9	54.5	57.3	59.4	61.3
Taiwan	48.4	45.5	48.1	47.9	50.0	49.8	49.8	50.8	51.8	49.9	50.4	42.2	41.9	46.2	50.6	52.2	55.2	55.1	56.9	59.4	60.2	60.4
Thailand	50.7	50.6	50.3	50.0	50.6	50.0	49.3	50.1	49.9	49.5	46.7	36.8	41.6	43.5	45.9	49.7	49.9	50.8	50.4	50.8	49.0	47.2
Vietnam	52.0	52.5	52.6	51.4	50.5	50.0	51.0	50.8	50.6	49.0	41.9	32.7	42.7	51.1	47.6	45.7	52.2	51.8	49.9	51.7	51.3	51.6
UK	49.4	48.0	48.0	47.4	48.3	49.6	48.9	47.5	50.0	51.7	47.8	32.6	40.7	50.1	53.3	55.2	54.1	53.7	55.6	57.5	54.1	55.1
United States	50.5	50.6	50.4	50.3	51.1	51.3	52.6	52.4	51.9	50.7	48.5	36.1	39.8	49.8	50.9	53.1	53.2	53.4	56.7	57.1	59.2	58.6
World	49.8	49.4	49.3	49.5	49.7	49.8	50.3	50.1	50.3	47.1	47.3	39.6	42.4	48.0	50.6	51.8	52.4	53.1	53.8	53.8	53.6	53.9

Source: Refinitiv Datastream

Manufacturing and Services Sectors Expand

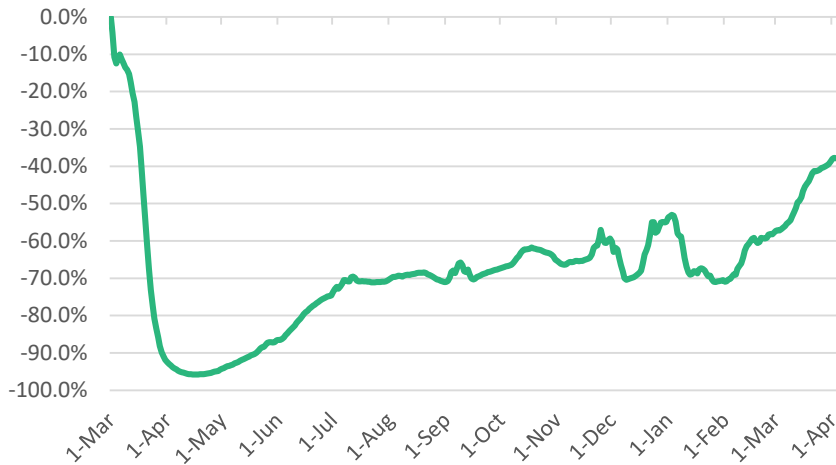
ISM Manufacturing PMI and Non-Manufacturing NMI



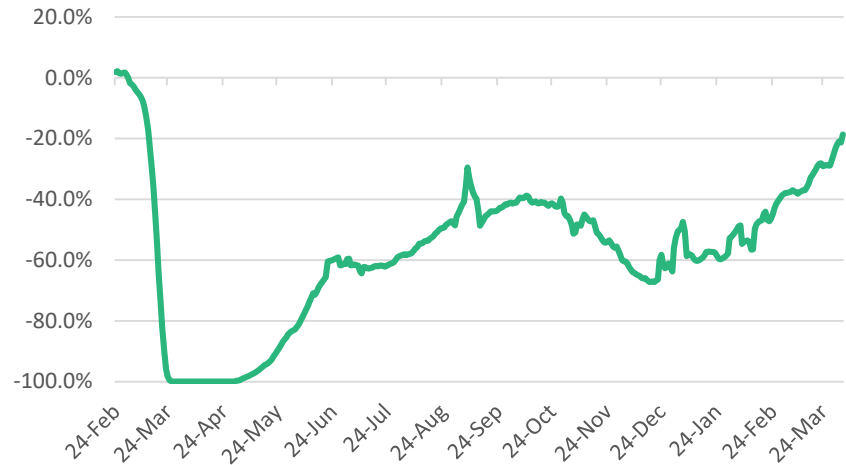
Source: Refinitiv Datastream

Beaten Down Sectors Show Signs of Life

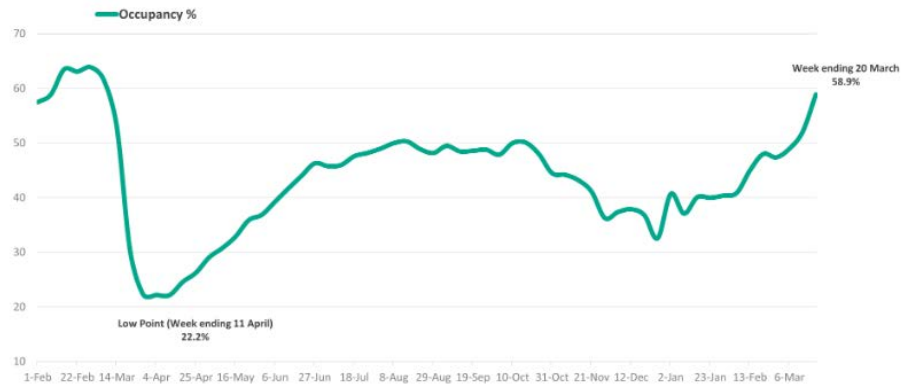
TSA Checkpoint Travel Numbers
Relative to March 1, 2020, 7-Day Moving Average



Open Table Seated Diners
Year-over-Year % Change, 7-Day Moving Avg.



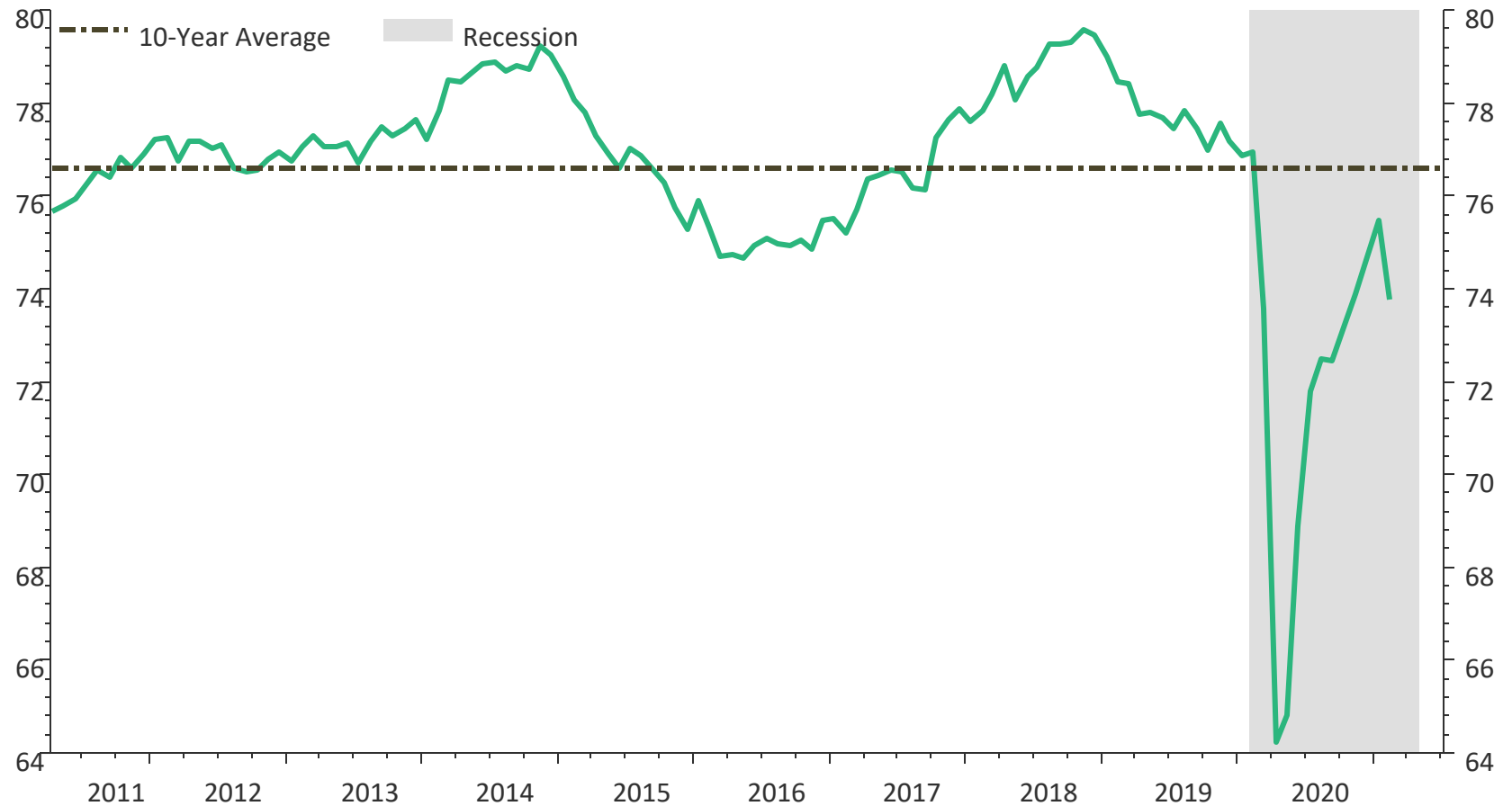
U.S. Hotel Occupancy
Weeks ending with specified dates



Source: STR, 2021 © CoStar Realty Information, Inc.

Unutilized Capacity

Total Industry Capacity Utilization

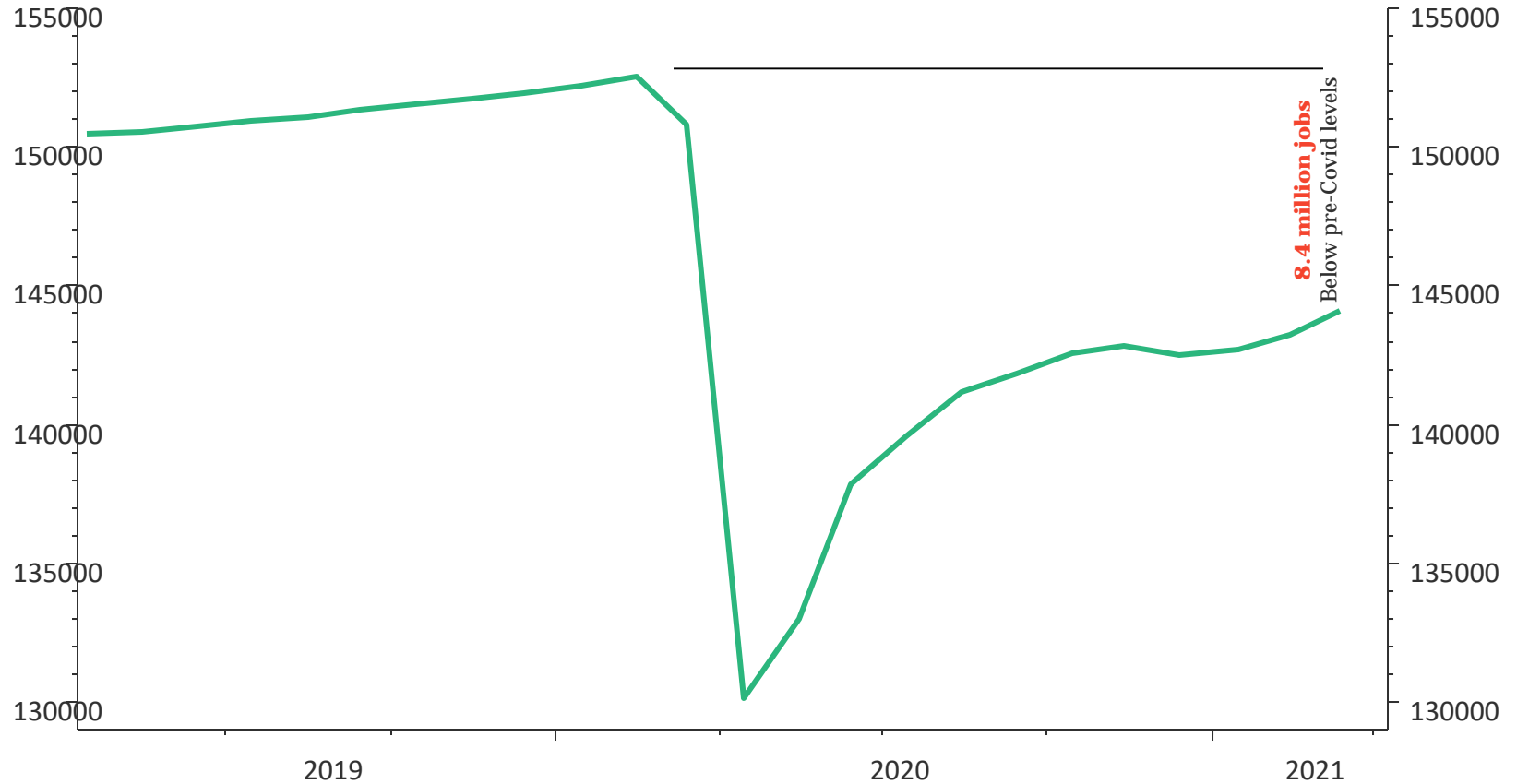


Source: Refinitiv Datastream

Significant Slack in the Labor Market

US Nonfarm Employment

in thousands

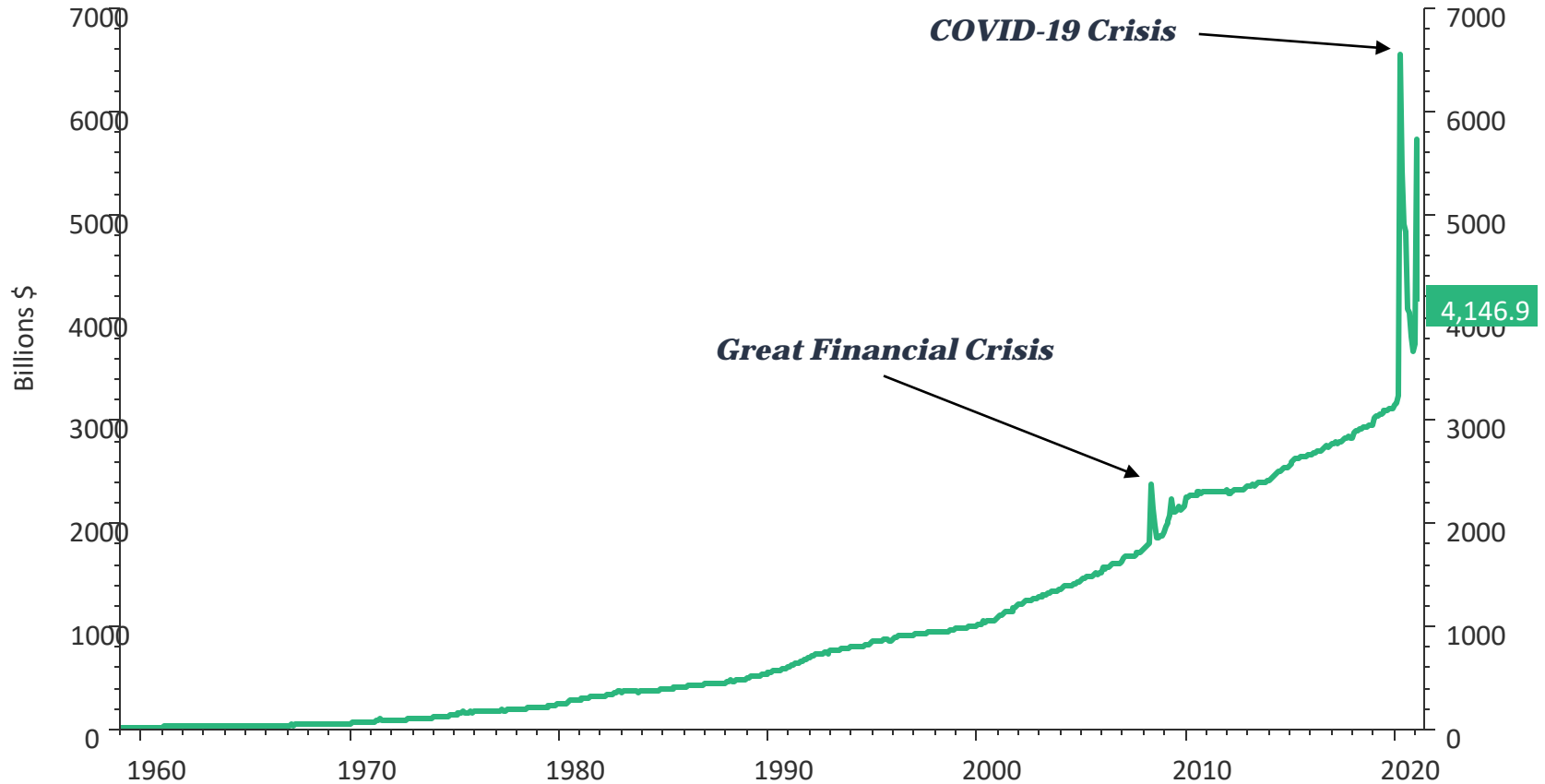


Source: Refinitiv Datastream

Rapid, Large-scale Support for the Economy

Government Social Benefits

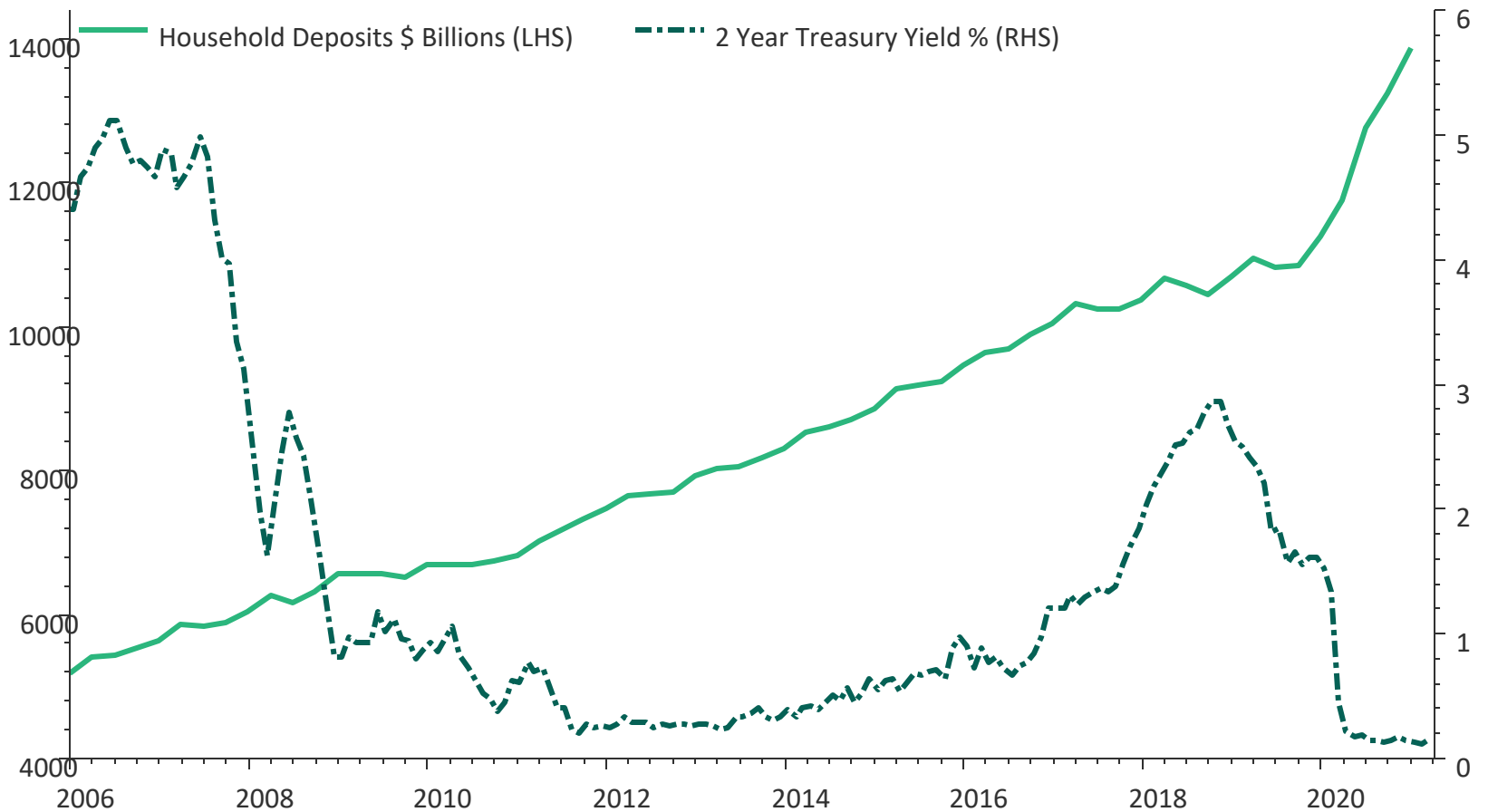
Annualized Rate, Seasonally Adjusted



Source: Refinitiv Datastream

Households Hoard Stimulus

Household Deposits vs. 2 Year Treasury Yield



Source: Refinitiv Datastream