ROARING '20s

Earlier in the year, I went to a Sacramento restaurant … for dinner … inside … with other humans. It was exhilarating. Everyone was so happy to see each other and to be in each other's company. One friend said, "It feels like I've been released from prison."

Given the events of the last year, I think we all have a better understanding of the emotional underpinnings of the Roaring '20s. American society had endured not only a pandemic (Spanish Flu), but also a world war. The '20s ushered in an age of economic prosperity, the advent of car and plane travel, and movies with sound, and television. Culturally, women got the right to vote, Jazz was born, and Art Deco peaked. American society changed at a much faster pace than it ever had before.

What will the '20s of this century offer? We know economically that we are poised for tremendous growth. Prior to last year, our economy had been chugging along, growing at 1-3% a year. Then COVID-19 hit, governments imposed shutdowns, and our economy shrank by 3.5% for the full year of 2020. This year, the Federal Reserve estimates that thanks to vaccines and the other double jab of low interest rates and trillions in stimulus, we should grow at a 6.5% rate, the best growth rate in nearly four decades.

Of course, it is our job to contemplate the future and how this all unwinds in a few years. When does the Fed raise rates again? What will be the ultimate impact of trillions in deficit spending? What industries are changed forever by COVID-19 and won't necessarily bounce back?

We expect this economy will roar for a while as people look to travel, eat out, and enjoy each other's company again. But we are also mindful of the lessons of the Roaring '20s, which came to a screeching halt with an economic and stock market crash and the subsequent Great Depression beginning in 1929.

While we are not predicting a recession, let alone depression, in the foreseeable future, we do believe risks are elevated and the consequences of global government intervention and unprecedented levels of stimulus are difficult to comprehend. Our hope is they will not pump too much air into the balloon before it bursts. As we have often said in the past, hope is not a very good investment strategy. But for now, we are cautiously optimistic.

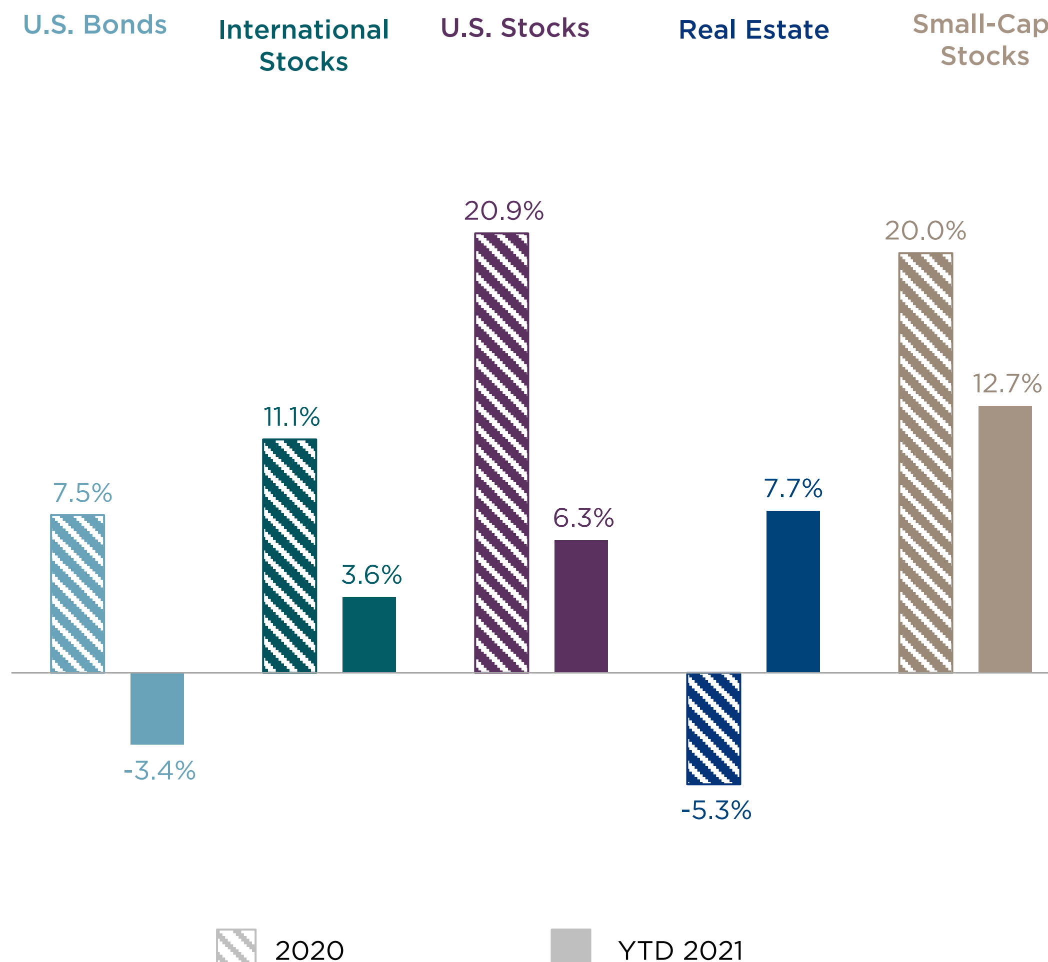
Thank you for your confidence in CAPTRUST – Sacramento. Enjoy our beautiful spring weather, and I hope you can all get out and enjoy a good meal among friends as well.

P.S. *By the way, we want you to know our transition to CAPTRUST continues to go well. Over the next few months, we will be adjusting software and systems, and you will certainly be notified and offered instruction, if necessary. We are already utilizing the CAPTRUST investments team and their deep research capabilities. If you have any questions, please reach out to your advisor team. Thank you for your flexibility during this transition.*

TENTATIVE GAINS IN THE NEW YEAR

Despite an uptick in interest rates in the first quarter, most asset classes have posted solid returns so far in 2021. Vaccine-driven optimism and historic levels of fiscal and monetary stimulus continued to fuel stock market returns as economies began to reopen, while concerns emerged over rising inflation pressures.

- U.S. stocks continued their rally into the new year, posting solid gains in the first quarter. Resilient corporate earnings have provided a tailwind so far this year. Small-cap stocks are this year's standout so far; they are more economically sensitive and likely to benefit from the reopening.
- International developed stocks are in positive territory for 2021 but have lagged their U.S. counterparts this year as slower vaccine deployment and reopening have hampered recovery in those regions. Emerging market stocks have slowed from last year's torrid pace, in part due to a stronger U.S. dollar.
- Bonds notched a loss in the first quarter as interest rates rose from historically low levels. The benchmark 10-year U.S. Treasury yield stood at 1.74% at the end of the quarter, its highest level in more than a year.
- Despite rising interest rates, real estate rebounded from last year's weakness on reopening optimism.



Asset class returns are represented by the following indexes: Russell 3000 Index (U.S. stocks), Russell 2000 (small-cap stocks), MSCI All-Country World ex-U.S. Index (international stocks), Bloomberg Barclays U.S. Aggregate Bond Index (U.S. bonds), and Dow Jones U.S. Real Estate Index (real estate).

DIGGING DEEPER: STOCKS AND BONDS

Equities

	Q1 2021	YTD 2021	Last 12 Months
U.S. Stocks	6.2%	6.2%	56.3%
• Q1 Best Sector: Energy	30.8%	30.8%	75.1%
• Q1 Worst Sector: Consumer Staples	1.1%	1.1%	28.4%
International Stocks	3.6%	3.6%	45.2%
Emerging Market Stocks	2.3%	2.3%	58.9%

Fixed Income

	03.31.21	12.31.20	03.31.20
1-Year U.S. Treasury Yield	0.07%	0.10%	0.17%
10-Year U.S. Treasury Yield	1.74%	0.93%	0.70%
	QTD 2021	YTD 2021	Last 12 Months
10-Year U.S. Treasury Total Return	-7.02%	-7.02%	-8.11%

Equities—Relative Performance by Market Capitalization and Style

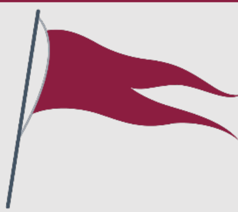
Q1 2021				YTD 2021				Last 12 Months			
	Value	Blend	Growth		Value	Blend	Growth		Value	Blend	Growth
Large	11.3%	6.2%	0.9%	Large	11.3%	6.2%	0.9%	Large	56.1%	56.3%	62.7%
Mid	13.1%	8.1%	-0.6%	Mid	13.1%	8.1%	-0.6%	Mid	73.8%	73.6%	68.6%
Small	21.2%	12.7%	4.9%	Small	21.2%	12.7%	4.9%	Small	97.1%	94.8%	90.2%

Sources: Bloomberg, U.S. Treasury. Asset class returns are represented by the following indexes: S&P 500 Index (U.S. stocks), MSCI EAFE Index (international stocks), and MSCI Emerging Markets Index (emerging market stocks). Relative performance by market capitalization and style is based upon the Russell US Style Indexes except for large-cap blend, which is based upon the S&P 500 Index.

ECONOMIC OUTLOOK

The combination of accelerating vaccine rollouts, strong consumer balance sheets, and a record-shattering injection of fiscal stimulus sets the stage for breakout growth. However, the virus remains a concern, and risks remain, along with rising inflation fears.

HEADWINDS



The Virus and Variants

- Although pandemic conditions continue to improve in the U.S., other parts of the world have seen cases spike and new restrictions instituted to forestall another wave of infection.
- New virus variants that are more contagious—and for which vaccine effectiveness is not fully understood—represent an emerging threat. A longer-lasting pandemic would represent a significant challenge to public health and the global economy.

Inflation Fears

- The combination of record levels of global financial stimulus, pent-up demand, supply chain disruptions, and household spending capacity amplifies inflation concerns.

Rising Rates

- The yield on the 10-year Treasury nearly doubled in the first quarter, pushing broad bond indexes into negative territory and spurring fresh concerns over a bond bear market.
- While rising rates may help banks and savers, they raise interest costs for firms and governments saddled with extra debt from the pandemic and place pressure on high-growth stocks.

TAILWINDS

Vaccines Accelerate

- The biggest drivers of markets over the past six months have been progress toward and rollout of vaccines.
- Nearly one-third of the U.S. population has received at least one vaccine dose, and the number fully vaccinated now exceeds the total number of U.S. cases.

Policy Pedals to the Metal

- The $1.9 trillion American Rescue Plan Act passed in March seeks to accelerate economic recovery. The White House has shifted its attention to an infrastructure package of similar magnitude, with economic impacts likely spread over the next decade, along with the possibility of higher tax rates.
- Meanwhile, the Federal Reserve has reiterated its willingness to be patient with interest rates and look through “transitory” bouts of inflation, with a focus on healing the labor market.

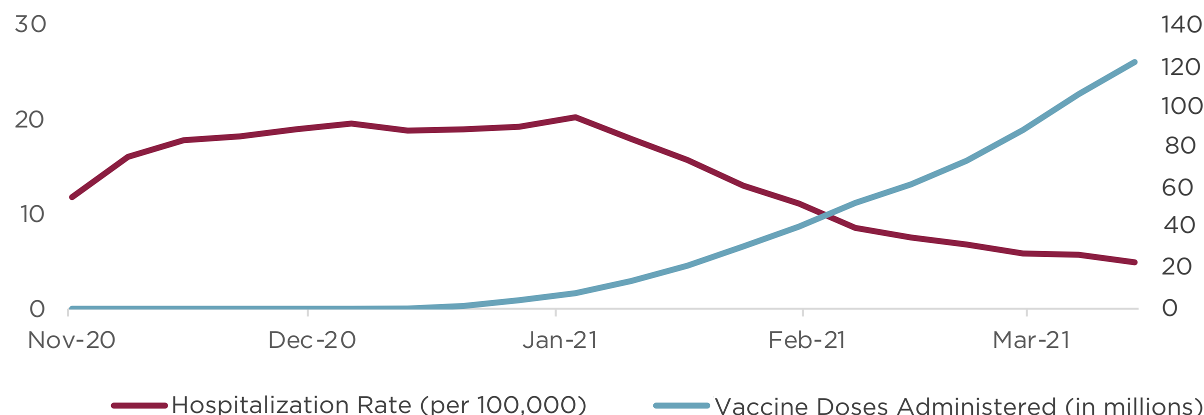
Consumer Spending Capacity

- Stimulus checks, pent-up savings, and soaring home and stock prices mean that consumers have both the ability to spend and the willingness to do so after a disruptive year.

The global economy is in a footrace with the virus, and the reopening may be bumpy. Although markets rebounded sharply last year on the promise of vaccines, the easy part of the recovery may be behind us.

THE THREE Vs: VIRUS, VACCINES, AND VARIANTS

After a post-holiday spike in cases, U.S. health conditions continue to improve, with falling hospitalization rates and a rapidly accelerating vaccination rollout. This good news has spurred relaxed restrictions and increased travel, dining, and consumer mobility. However, the pandemic threat is far from over. Mutated virus variants have reached all 50 states and Puerto Rico, with risks including higher transmission rates, increased severity, reduced effectiveness of treatments, and weaker antibody protection from vaccines or prior infections.



Variant	First Detected	U.S. States Reporting	Potential Risks
B.1.1.7	UK	50	• Increased transmission • Increased severity
B.1.351	South Africa	31	• Increased transmission • Reduced treatment effectiveness • Reduced effectiveness of antibodies from vaccines or prior infection
P.1	Japan/Brazil	22	• Reduced treatment effectiveness • Reduced effectiveness of antibodies from vaccines or prior infection

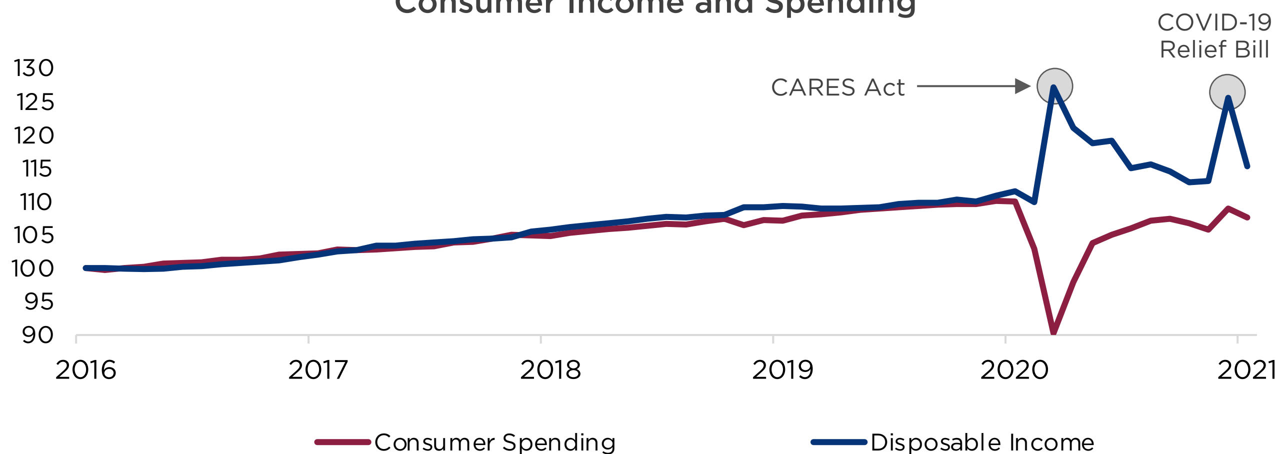
Sources: Centers for Disease Control and Prevention, Bloomberg, Mayo Clinic, Oxford Economics

OBSERVATIONS

- Weekly hospitalization rates have dropped fourfold since January—from more than 20 per 100,000 population to fewer than five.
- Meanwhile, vaccinations are occurring at a rate of roughly 2.8 million doses per day and rising. Roughly 32% of the U.S. population has received at least one dose, and 18% have completed vaccination.
- While relaxed restrictions and more contagious variants pose risks for rising cases, vaccination progress among more vulnerable groups may help keep hospitalization rates low.
- U.S. vaccination efforts continue to expand rapidly, but the pandemic is a global phenomenon, and virus mutations originating elsewhere continue to pose risks.

SPRING/SUMMER SPENDING SPREE?

With an estimated $3 trillion in excess savings (relative to pre-pandemic levels), U.S. households possess a record capacity to spend. Those spared from direct financial impacts have seen elevated savings rates, soaring home equity and portfolio gains, and low mortgage rates. For those whose jobs or income were affected by the pandemic, the American Rescue Plan Act provides significant support via direct stimulus checks and extended unemployment. This sets the stage for a broad spending surge as the economy reopens.



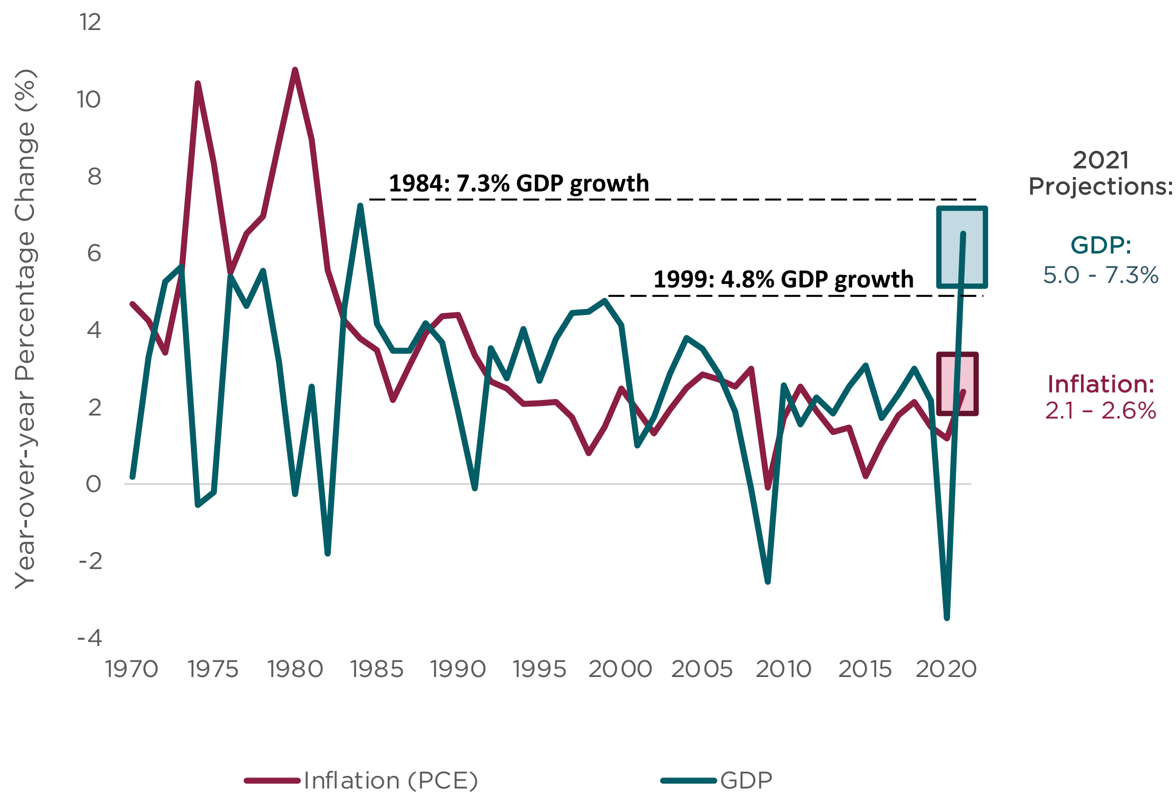
OBSERVATIONS

- Disposable personal income surged last March and December on the heels of stimulus checks. Expect another spike this spring from the American Rescue Plan Act's $1.9 trillion injection of aid and stimulus.
- After a sharp tumble last spring, the overall level of consumer spending has nearly recovered—although services, the largest component of spending, remains depressed relative to goods.
- A jump in consumer spending will require both the capacity and the confidence to spend. The latest Michigan survey of consumer sentiment suggests that consumers are ready to go, touching a one-year high in March.

Top: Real Personal Consumption Expenditures and Disposable Personal Income, indexed to 100 at 01.01.2016
Bottom: Personal Consumption Expenditures: Services as a percentage of total PCE (SAAR)
Sources: Bureau of Economic Analysis (retrieved from FRED, Federal Reserve Bank of St. Louis), Cornerstone Macro, CAPTRUST

INFLATION ANXIETY: TOO MUCH OF A GOOD THING?

Despite heightened inflation fears stemming from the experimental policy tools used during the financial crisis, the U.S. has enjoyed a long period of low and stable inflation. With an even more aggressive stimulus response to COVID-19 and an economy in better shape fundamentally, these anxieties have grown. Moderate and stable inflation is evidence of a healthy economy, but sudden spikes can erode purchasing power, raise borrowing costs, or lead to a damaging spiral of rising prices.



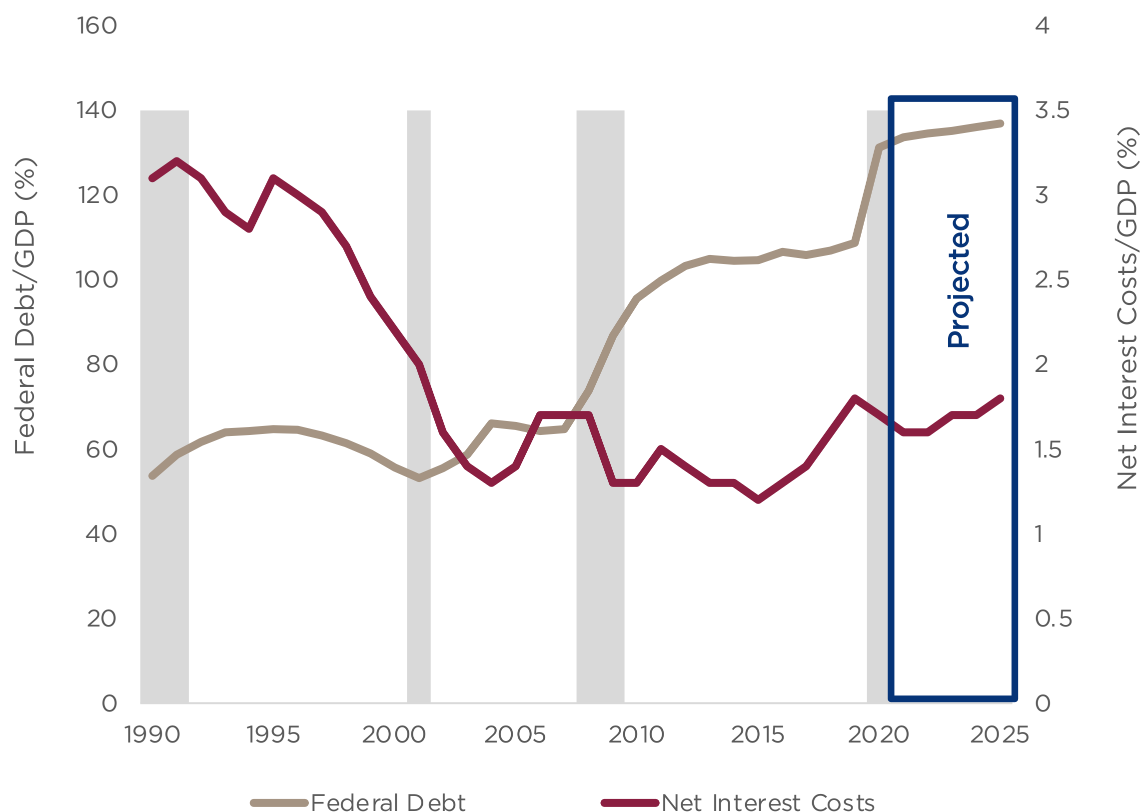
Percent change in annual real GDP, and percent change in annual PCE (chain-type) price index.
Sources: Federal Reserve Bank of St. Louis, Federal Reserve Summary of Economic Projections.

OBSERVATIONS

- Inflation is the heat produced by economic growth and typically moves in tandem with gross domestic product (GDP). However, this relationship can break down, creating damaging conditions.
- In a recent survey, Federal Reserve board members or regional presidents predicted real GDP growth of up to 7.3% for 2021, a level not seen in the U.S. since 1984. Some forecasters project even higher growth.
- As economic growth accelerates, the key question is one of timing. Inflation could be:
  - Transitory, noisy, short-term price volatility from artificially depressed levels and disruptions;
  - Cyclical, coinciding with economic growth and a return to full output; or
  - Structural, a disconnect from growth conditions, sparking economic damage and demand destruction.

LONG-TERM EFFECTS OF RECORD BORROWING AND SPENDING

Aiming to return economic growth to its pre-pandemic trajectory, the $1.9 trillion American Rescue Plan Act passed in March is the nation's largest-ever package of stimulus and aid. This adds to 2020's already historic amounts of stimulus, raising concerns over the long-term implications of borrowing and spending at this level.



OBSERVATIONS

- A decade ago, policymakers responded to the financial crisis with the largest-ever program of stimulus and support, totaling $1.8 trillion between 2008 and 2012.
- This stimulus drove total U.S. public debt above GDP for the first time since World War II. However, low interest rates kept debt costs manageable, well below levels of the '90s.
- At more than $6 trillion, the U.S.'s fiscal pandemic response totals more than three times the response to the financial crisis.
- The U.S. is not alone with its public debt burden. Japan maintains a debt-to-GDP ratio in excess of 260%.
- Because interest rates have declined, higher debt has yet to translate into elevated interest costs. However, meaningfully higher future rates could pose very real risks and require an increasing share of government resources to service past debt.

Sources: Federal Reserve Bank of St. Louis, International Monetary Fund, Congressional Budget Office, Committee for a Responsible Federal Budget

ASSET CLASS RETURNS

Period Ending 03.31.21 | Q1 21

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD 2021
Fixed Income 5.24%	International Equities 42.14%	Real Estate 28.48%	Real Estate 8.69%	Real Estate 17.77%	Small-Cap Stocks 38.82%	Real Estate 30.38%	Strategic Opportunities 2.86%	Small-Cap Stocks 21.31%	International Equities 27.77%	Cash 1.87%	Large-Cap Stocks 31.43%	Large-Cap Stocks 20.96%	Small-Cap Stocks 12.70%
Cash 1.51%	Mid-Cap Stocks 40.48%	Small-Cap Stocks 26.85%	Fixed Income 7.84%	International Equities 17.39%	Mid-Cap Stocks 34.76%	Large-Cap Stocks 13.24%	Real Estate 2.14%	Mid-Cap Stocks 13.80%	Large-Cap Stocks 21.69%	Fixed Income 0.01%	Mid-Cap Stocks 30.54%	Small-Cap Stocks 19.96%	Mid-Cap Stocks 8.14%
Strategic Opportunities -13.09%	Real Estate 28.61%	Mid-Cap Stocks 25.48%	Large-Cap Stocks 1.50%	Mid-Cap Stocks 17.28%	Large-Cap Stocks 33.11%	Mid-Cap Stocks 13.22%	Large-Cap Stocks 0.92%	Large-Cap Stocks 12.05%	Mid-Cap Stocks 18.52%	Strategic Opportunities -0.49%	Real Estate 28.92%	Mid-Cap Stocks 17.10%	Real Estate 7.70%
Small-Cap Stocks -33.79%	Large-Cap Stocks 28.43%	Large-Cap Stocks 16.10%	Cash 0.10%	Large-Cap Stocks 16.42%	International Equities 15.78%	Fixed Income 5.97%	Fixed Income 0.55%	Real Estate 7.56%	Small-Cap Stocks 14.65%	Real Estate -4.03%	Small-Cap Stocks 25.52%	International Equities 11.13%	Large-Cap Stocks 5.91%
Large-Cap Stocks -37.60%	Small-Cap Stocks 27.17%	International Equities 11.60%	Mid-Cap Stocks -1.55%	Small-Cap Stocks 16.35%	Strategic Opportunities 3.58%	Small-Cap Stocks 4.89%	Cash 0.05%	International Equities 5.01%	Real Estate 9.84%	Large-Cap Stocks -4.78%	International Equities 22.13%	Fixed Income 7.51%	International Equities 3.60%
Real Estate -37.97%	Fixed Income 5.93%	Fixed Income 6.54%	Strategic Opportunities -3.71%	Fixed Income 4.22%	Real Estate 2.47%	Strategic Opportunities 0.79%	Mid-Cap Stocks -2.44%	Fixed Income 2.65%	Fixed Income 3.54%	Mid-Cap Stocks -9.06%	Fixed Income 8.72%	Strategic Opportunities 2.72%	Strategic Opportunities 0.65%
Mid-Cap Stocks -41.46%	Cash 0.21%	Cash 0.13%	Small-Cap Stocks -4.18%	Strategic Opportunities 0.88%	Cash 0.07%	Cash 0.03%	Small-Cap Stocks -4.41%	Cash 0.33%	Strategic Opportunities 3.40%	Small-Cap Stocks -11.01%	Strategic Opportunities 4.37%	Cash 0.67%	Cash 0.03%
International Equities -45.25%	Strategic Opportunities -3.58%	Strategic Opportunities -0.12%	International Equities -13.33%	Cash 0.11%	Fixed Income -2.02%	International Equities -3.44%	International Equities -5.25%	Strategic Opportunities 0.31%	Cash 0.86%	International Equities -13.78%	Cash 2.28%	Real Estate -5.29%	Fixed Income -3.37%

Source: Markov Processes, Inc., Bloomberg, Mobius

- Small-Cap Stocks (Russell 2000 Index)
- Mid-Cap Stocks (Russell Mid-Cap Index)
- Large-Cap Stocks (Russell 1000 Index)
- Real Estate (Dow Jones U.S. Real Estate Index)
- Strategic Opportunities (HFRX Absolute Return Index)
- Cash (Merrill Lynch 3-Month Treasury Bill)
- International Equities (ACWI Ex-U.S. Index)
- Fixed Income (Bloomberg Barclays U.S. Aggregate Bond Index)

The information contained in this report is from sources believed to be reliable but is not warranted by CAPTRUST to be accurate or complete.

ESTATE PLANNING: COMMON PITFALLS TO AVOID

Death and taxes are inevitable. The importance of planning for the transfer of your assets is evident. A proper estate plan will ensure your assets are distributed according to your wishes. However, implementing an estate plan is a step that often gets pushed off and avoided due to the emotional nature of the event you are planning for. Prioritize this part of your plan and avoid these common pitfalls.

1 MISSING KEY DOCUMENTS
Wills and powers of attorney allow you to make your wishes clear, legally protect your assets, and save your family time and money.

2 NOT UPDATING KEY DOCUMENTS
Update your documents if your state of residency changes, you have a child, your marital status changes, you inherit assets, or just change your mind about your goals.

3 IMPROPER BENEFICIARIES
Make sure retirement accounts and insurance policies have primary and contingent beneficiaries that accurately reflect your current situation and intentions.

4 INSUFFICIENT LIFE INSURANCE
Make sure your spouse and family can meet their financial obligations with appropriate life insurance coverage.

5 INSUFFICIENT ESTATE LIQUIDITY
Ensure your real estate, business interests, and illiquid assets aren't sold hastily to cover estate costs.

6 NOT TAKING ADVANTAGE OF TRUSTS
Trusts can help avoid probate costs and delays, may receive tax benefits, provide beneficiaries with protection, and govern the private transfer of your assets.

7 KEEPING LIFE INSURANCE IN YOUR ESTATE
Life insurance death benefits can add a large increase to your estate unless it is owned in an irrevocable trust.

8 FAILURE TO CONSIDER LIFETIME GIFTS
Gift and estate tax legislation changes. You may wish to take advantage of exemptions while you are living.

9 FAILURE TO CONSIDER YOUR SPOUSE'S ESTATE
Depending on your situation, leaving too much to your spouse or holding too much joint property may not be best.

10 NOT HOLDING BUSINESS KEY PERSON INSURANCE
Key person insurance protects your business and the value of your estate by providing liquidity at a critical time.

ASSET LOCATION: OPTIMIZING INVESTMENT TAX EFFICIENCY

Aligning your current financial position, goals, time horizon, and risk tolerance with a suitable overall asset allocation is critical. Beyond that, investors may also benefit from additional planning around *asset location*. Asset location is the strategy of maximizing after-tax returns by matching the type of investment with the best kind of account. Asset location can potentially provide a valuable boost to earnings if you're currently in a high marginal tax bracket and have a long-term time horizon.

TAX-EFFICIENT CONSIDERATIONS FOR SPECIFIC ASSET TYPES

TAXABLE OR TAX-SENSITIVE ACCOUNTS	TAX-DEFERRED OR TAX-EXEMPT ACCOUNTS
• Low-turnover growth strategies • Tax-free municipal bond strategies • Tax-managed strategies • Exchange-traded funds (ETFs) and other index strategies	• High-turnover and actively managed strategies • Taxable bond strategies • Dividend-paying stocks • Real estate investment trusts (REITs)
It may be optimal to have tax-exempt or tax-advantaged investments within taxable accounts such as traditional brokerage accounts. Passive investments are well suited for taxable accounts due to their low turnover, avoiding short-term gains. Conservative strategies don't benefit as much from tax-deferred growth, so they may be allocated to taxable accounts. Strategies that include qualified dividends are currently well suited for taxable accounts.	It may be optimal to have assets taxed at ordinary income to be held in tax-deferred (IRAs, 401(k)s, 403(b)s and annuities) or tax-exempt (Roth IRAs, Roth 401(k)s, Roth 403(b)s, and HSAs) accounts. Roth accounts tend to maximize tax efficiency with higher growth strategies. REIT income is typically taxed 80% at ordinary income tax rates and 20% tax exempt. There are situations where it may make sense to allocate REITs in taxable accounts as well.

CONCLUDING REMARKS

While most equity benchmarks moved higher over the course of the first quarter, we believe some headwinds have become apparent.

Interest Rates

Long-term interest rates, as measured by the yield on the 10-year U.S. Treasury bond, have escalated from 0.93% at the beginning of the year to 1.74% (almost doubling) at quarter's end. That triggered a rotation out of popular growth stocks and put a damper on their valuations mid-quarter. Consequently, we've seen broadening market participation and a rotation in leadership to more cyclical sectors that should benefit from a reopening of the economy under the assumption vaccine distribution and efficacy lives up to expectations.

Energy

Oil prices are on the rise; a barrel of West Texas Intermediate crude was $48.35 at the end of 2020 and rose to $61.45 for a 27% increase for the quarter.

Taxes

The third major headwind for domestic equities going forward is the increasing probability that corporate tax rates will be rising. The question now is the extent of the increase after all the lobbying and negotiating concludes.

These three headwinds (interest rates, oil prices, and corporate tax rates) have risen substantially (or will potentially increase in the case of corporate tax rates) since the beginning of the year. The media points to these factors as indicators of inflation to come; however, to date we have not seen inflation at the consumer level, and there has been significant asset appreciation. We suspect with all the various forms of stimulus, modestly higher inflation will be a byproduct, but Jimmy Carter-era inflation and interest rates are an extremely low probability. To lend some perspective, at the beginning of 2020 (pre-pandemic) the economy was humming along, and the 10-year U.S. Treasury was yielding 1.88% with the price of a barrel of oil at $61.47. So, it would come as no surprise to us that as the economy gets back on track, these two measures would return to pre-pandemic levels.

After the passage of the $1.9 trillion American Rescue Plan, President Biden is turning his attention to an infrastructure spending package which seems to have bipartisan support. The only question is how big of a package will it be—as President Biden's opening salvo is another $2.25 trillion. While that is an extremely large number, unlike the prior stimulus packages, this money would be spent and invested over an extended period of time.

Consequently, it's near-term economic impact will likely be muted in comparison to prior programs. Our hope is it will provide more in the way of long-term economic benefits for our country than other stimulus packages, which were more triage in nature. One industry we believe will be a significant beneficiary is electricity utilities.

There is a clear need to expand and upgrade our electricity grid. From an investment perspective, electricity utilities historically have been a very boring, but stable income-generating alternative to bonds.

Currently, electricity utilities are one of a handful of sectors that are trading at a price-to-earnings multiple below their long-term averages. They still generate healthy dividend yields that are stable, and we believe they have the potential to grow over time. In all but our more aggressive core portfolios, we are in the process of initiating a 3% allocation to an exchange-traded fund focused on this sector.

CONCLUDING REMARKS (continued)

The proceeds to fund this position are coming from money that we would traditionally have invested in bonds.

Given the massive U.S. government stimulus programs, we should probably ask the question: How are we going to pay for all of this? While the sheer magnitude of the government's debt can take your breath away, it doesn't appear to be a near- or intermediate-term problem. That is, if interest rates stay relatively low, which is what Jerome Powell, chair of the Federal Reserve, keeps trying to reassure us is the intention.

I guess if you or I owed $25 or $30 trillion, we would do everything we could to keep the cost of borrowing as low as possible, as well. Over the longer term, it's harder to be as optimistic that the debt and its carrying cost won't be a problem when rates move materially higher, especially if the economy doesn't grow at a healthy clip.

With all of that said, we're reasonably optimistic that the global economy is stabilizing and growing again. More importantly, the U.S. economy looks poised to have a robust economic expansion that should last at least a few years, if not longer. Nonetheless, it's probably a little early to proclaim this as the Roaring '20s, version 2.0.

As always, thank you for your trust and confidence in GBB/CAPTRUST.

Warmest regards,

Michael Genovese, CFP®
Principal, Financial Advisor

Scott Thomas, CFP®, MBA®
Principal, Financial Advisor