YHB Investment Advisors, Inc.
Integrity • Independence • Insight

1st Quarter, 2021

Markets At A Glance

Period	S&P 500	DJIA	INT'L (EAFE)	Emerging Markets	Barclays Intermediate Govt/Credit	Barclays 1-15 Yr Muni	INFLATION (CPI)
1st Quarter	6.2%	8.3%	3.5%	2.3%	-1.9%	-0.3%	0.9%
12 Months	56.4%	53.8%	44.6%	58.4%	2.0%	4.9%	1.7%

Stock indexes finished the first quarter at new all-time highs as the vaccine rollout accelerated in the U.S. and reopening optimism increased. Returns for the last twelve months reflect the magnitude of the recovery from the sharp sell-off last year. Interest rates rose as investors anticipated a pickup in growth from reopening, resulting in market value losses for bonds. The 10-year U.S. Treasury yield increased from 0.9% at the end of December to 1.7% at the end of March. Although a significant percentage increase, interest rates remain at low levels.

Economists expect the U.S. economy to be growing strongly by mid-year. The improvement will be supported by the unprecedented relief bills already passed, continuing monetary support from the Federal Reserve, pent-up demand from consumers and anticipated further progress in defeating the pandemic. The Federal Reserve has indicated it plans to keep short-term interest rates at these low levels for several more years. The growth outlook outside the U.S. is less clear as widely varying vaccination rates around the world and emergence of new strains continue to hamper a full global economic reopening. A short-term pickup in inflation is anticipated, however the longer-term outlook is less clear as there remains significant slack in the labor market as well as excess production capacity.

Congress passed a massive new $1.9 trillion spending bill that goes beyond immediate pandemic concerns to attempt to stimulate economic growth. With much of the funding from the last relief package not spent yet, a flood of fiscal stimulus is coming. All of this new spending will directly add to outstanding government debt. With interest rates on government debt currently very low, interest payments have not had a material impact on current budgets. However, it would not take much of a rise in interest rates for the annual interest cost to overwhelm other spending priorities in future years.

To partially offset increased spending, the administration is targeting tax increases on corporations and higher earning individuals. We will be watching any changes to corporate taxes to determine the impact on earnings momentum, a critical driver of recent stock market gains. Changes to capital gains tax rates could cause stress in the markets if investors decide to reposition their portfolios in anticipation of higher tax rates. It does not appear that the market is fully pricing in passage of the current proposals.

Equity markets have started 2021 with positive momentum and remain volatile. We continue to be concerned about the impact of current elevated stock valuations on potential returns over the next several years. Now is not a time to be materially increasing allocations to equities relative to long-term targets. Quality and diversification are more critical than ever.