Last quarter we opened with “What a Year” and “What a Quarter”. Well, the first quarter of 2021 was another big deal. A mob stormed the Capitol in Washington on January 6th, the former President was impeached and acquitted and a new administration was sworn in. Also, a surge of immigrants overwhelmed the southern border leading to chaotic conditions there. The Operation Warp Speed Program provided a number of Covid vaccines which are rapidly being distributed around the country. A number of huge relief programs, costing billions of dollars, were put into place despite a deeply divided Congress. The climate change agenda moved to the front burner along with discussion of tax increases and a focus on income inequities. Our relationships with China, Russia and North Korea continued to be strained as well.

In spite of all of this, the U.S. economy continues to improve. Employment, while displaying some swings, is generally on an upward trajectory. There are, of course, problems. Covid cases are rising again with New York, New Jersey, Michigan and Florida being the current hot spots. This resurgence could hurt the continued opening of the economy (smaller service businesses are really hurting). The huge stimulus programs – and maybe more to come- will result in higher taxes and potentially higher inflation down the line. Market forces are driving interest rates higher particularly on the ten-year Treasury even though the Federal Reserve has pledged to keep inflation in the 2% range and to keep short term interest rates low through bond buy-back programs. Also, this quarter witnessed a significant increase in speculative trading and the formation of an increasing number of Special Purpose Acquisition Companies (SPAC’s) that raise money with the goal of finding an acquisition target.

Europe and South America are not in good shape. Their economies have been severely hurt by Covid and unfortunately Covid seems to be surging there again. France has gone back to total lockdown mode. Not good for their economy, and Brazil is a disaster with Covid running rampant amid government instability.

China’s economy continued to recover. Additionally, N. Korea, Russia and Iran may test the new administration. Economic recovery in Europe will remain challenged as the vaccination of a significant portion of the population there is proceeding at a slow pace.

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|  | **QUARTER Ending 3/31/2021** | **12 MONTHS Ending** **3/31/2021** | **THREE YEARS Ending** **3/31/2021** | **FIVE YEARS Ending** **3/31/2021** |
| **DJIA** | 8.3% | 53.8% | 13.6% | 16.0% |
| **S & P 500** | 6.2% | 56.4% | 16.8% | 16.3% |
| **NASDAQ Composite** | 2.8% | 72.0% | 23.3% | 22.0% |
| **Barclay Agg. Bond** | -3.4% | 0.7% | 4.7% | 3.1% |
| *Mutual Funds* |  |  |  |  |
| Domestic |  |  |  |  |
|  *Large Cap* |  |  |  |  |
|  Growth | 2.2% | 63.6% | 20.4% | 19.4% |
|  Value | 11.4% | 57.0% | 10.5% | 11.4% |
|  *Small Cap* |  |  |  |  |
|  Growth | 6.9% | 96.0% | 20.5% | 20.5% |
|  Value | 21.4% | 100.7% | 9.9% | 11.7% |

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| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| International |  |  |  |  |
|  Europe (MSCI Index) | 5.0% | 50.9% | 6.4% | 8.5% |
|  Latin Am. (MSCI Index) | -6.9% | 50.5% | -3.7% | 8.7% |
|  Japan (MSCI Index) | 3.2% | 40.5% | 5.5% | 10.4% |
|  Pacific ex Japan (MSCI) | 2.7% | 64.7% | 11.0% | 14.6% |
|  China (Shanghai Index) | 0.4% | 54.7% | 9.6% | 14.2% |
|  India (Sensex Index) | 5.9% | 78.3% | 5.1% | 10.2% |

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|  | **QUARTER Ending 3/31/2021** | **12 MONTHS Ending** **3/31/2021** | **THREE YEARS Ending** **3/31/2021** | **FIVE YEARS Ending** **3/31/2021** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Corporate Bond |  |  |  |  |
|  Long | -7.0% | 6.2% | 7.3% | 6.0% |
|  Intermediate |  3.0% | 2.8% | 4.6% | 3.1% |
|  Short | -0.1% | 6.2% | 3.3% | 2.6% |
| Government Bond |  |  |  |  |
|  Long  | -12.8% | -15.7% | 5.7% | 3.0% |
|  Intermediate | -2.1% | -0.8% | 3.7% | 2.0% |
|  Short | -0.5% | 0.6% | 2.6% | 1.6% |
| Municipal Bond |  |  |  |  |
|  Long  | -0.1% | 7.3% | 5.1% | 3.6% |
|  Intermediate | -0.2% | 5.8% | 4.3% | 2.9% |
|  Short | 0.0% | 3.0% | 2.2% | 1.6% |

**Market Outlook**

Uncertain. The tax and spend plans of the new Administration are risky. Have increased taxes and higher inflation ever worked that well? Also, although billed as higher taxes on the rich, the so-called middle class will also be affected in some form or other. We will have to wait and see how these programs all work out for the economy, employment and the stock market.

The impact of the stimulus programs and inflation pressure may be somewhat in the future. But the stock market is relatively high and has been rotating between high tech and financial related stocks. Therefore, we continue to be cautious. Except for possible modest investment in a broadly diversified stock market fund, we do not recommend any new equity investment. This investment would depend on current and target equity allocation positions. Also, short term bond funds are OK and we may recommend moving from intermediate term to short term bonds as the year unfolds.

**MSM FINANCIAL STRATEGIES**

 **4/13/2021**

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