

# FLAGSTONE

FINANCIAL ADVISORS, INC.

## MARKET REVIEW FIRST QUARTER 2021

### ***What Happened:***

Positive pandemic news and the strengthening economy have pushed the stock market to new highs. In fact, since the market bottomed on March 23, 2020, almost all major stock indices are up 50% or more. In a clear sign of recovery, industries that were hit hard from the pandemic are starting to show steep gains in employment and profits. In short, the economic outlook is bright, and investors are putting their money to work again.

Of course, it is natural to wonder if the market has gotten ahead of itself. We would argue that except for excesses on the fringes of the market—think Bitcoin and GameStop—the stock market on balance seems fairly valued. What’s more, with GDP growth projections of 5% in 2021 and with corporate profit growth projections of 20%, the market is poised for more upside. By the way, when you look at the market now as compared to its pre-pandemic high, the gains are a more reasonable 18%.

Interestingly, the best market performance recently has come from small-cap stocks and value stocks. You may recall that growth stocks—think FAANG (Facebook, Apple, Amazon, Netflix, Google)—have dominated market returns over the past few years much to the dismay of value investors. The rotation from growth to value is overdue in the minds of many investors and there is growing sentiment that this trend may continue for some time. We agree, and our clients’ portfolios are well positioned to take advantage of this shift.

### ***First Quarter 2021 Performance:***

S&P 500 Index (large stocks)	6.2%
Russell 2000 Index (small stocks)	12.7%
MSCI EAFE Index (international stocks)	3.5%
Barclays U.S. Aggregate Bond Index (bonds)	-3.4%

### ***Prognosis:***

A year ago, there was no way to know how the pandemic would unfold. Now, it seems the worst may be behind us. Many millions of people have been vaccinated, the economy is slowly opening up and people are becoming more comfortable with the notion of returning to normal activities like travelling and eating out. It is also encouraging to see that some medical experts are predicting herd immunity is nigh.

We will end this quarter’s prognosis with some historical perspective from our friends at CFRA. Since WWII, they found that the market has a nearly perfect track record (95%) of advancing in years in which first quarter stock prices failed to retreat below the lows from the previous December. There have been 39 such years—with 2021 being another—and only two times did the market fail to advance. The average annual return for those advancing years was 18.2%.

We will leave you with that happy thought and our best wishes for a wonderful spring.

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