PARITAS CAPITAL MANAGEMENT

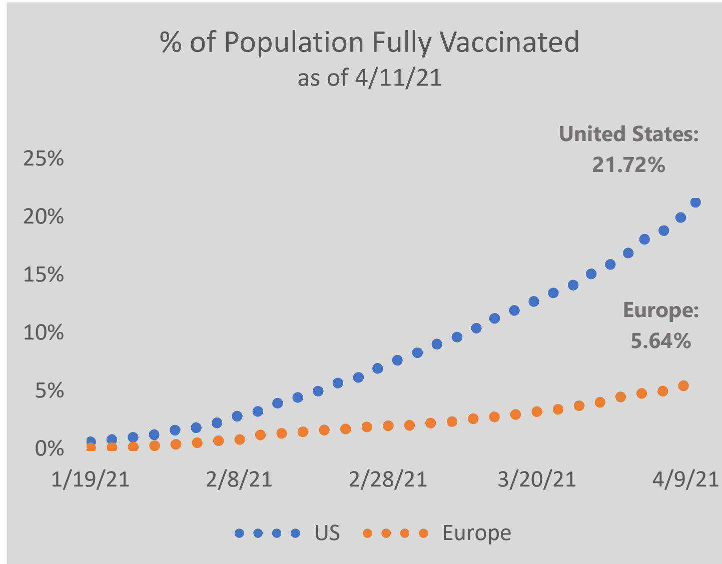
**FIRST QUARTER | 2021**

# INVESTMENT COMMENTARY

## First Quarter 2021 At a Glance

In the US during the first quarter of 2021, the storylines impacting the economy and markets included another round of massive economic stimulus, a sharp rise in the yield of the 10-year treasury bond, the continuation of value outperforming growth, and a rapidly expanding rollout of COVID-19 vaccines.

Increases in COVID-19 cases internationally delayed the opening of economies in several countries with many imposing new lockdowns. Also, most European countries have lagged the US in the rollout of the vaccines. Emerging market countries have experienced dramatic increases in daily cases. India's daily cases skyrocketed from 11,199 on February 14th to 143,343 on April 12th.




Source: Official Data Collected by Our World in Data

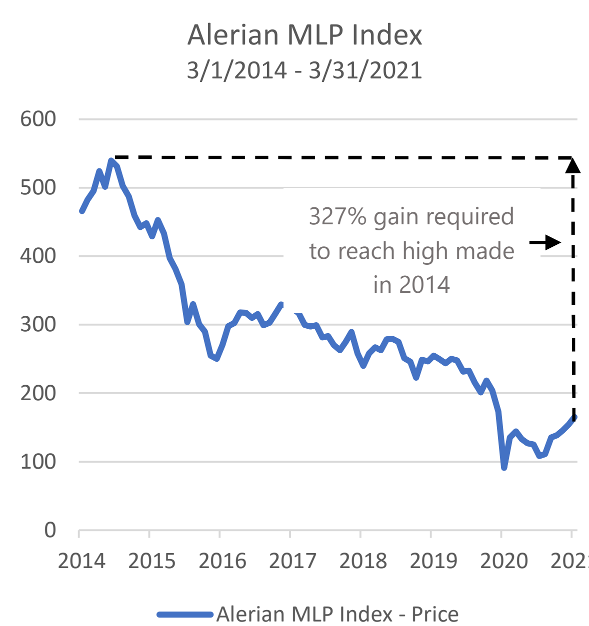
The rapid rollout of vaccines in the US is helping to fuel expectations that economic growth will accelerate in 2021. This helped US equity markets outperform international markets in the first quarter. The S&P 500 Index finished the quarter up 6.17% while the MSCI EAFE Index and MSCI Emerging Markets Index returned 3.48% and 2.29%, respectively.

Value stocks picked up where they left off at the end of 2020 and dwarfed the performance of growth stocks. The Russell 1000 Value Index was up 11.26% vs 0.94% for the Russell 1000 Growth Index in the first quarter. Value has now outperformed growth by 16.89% over the last two quarters.

It was a difficult quarter for fixed income markets. Inflation concerns triggered a dramatic increase in bond yields with the 10-year treasury yield finishing the quarter at 1.75% compared to 0.92% at the end of last year. The magnitude of the move left the 10-year US treasury bond down -7.02% which is the worst quarterly return in the last 40 years.

## Portfolio Review

Much of the portfolio themes from the end of 2020 carried into the first quarter of 2021. Energy continued its resurgence helping to propel MLPs to finish the quarter as the portfolio's top performer with a return of 21.84%. Although MLPs are up sharply over the past 6 months, they would need another 327% of growth to reach their high made in 2014. We believe this could be the beginning of a long-term move higher in MLPs.

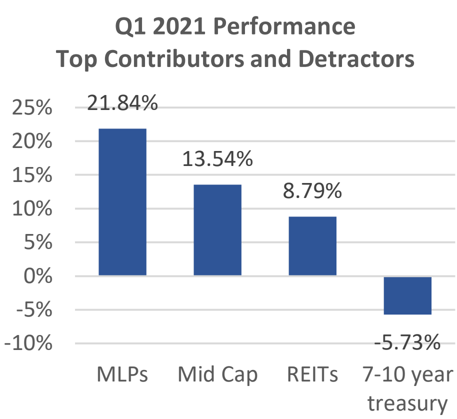



Our risk evaluation of MLPs, REITs and mid-caps continued to improve

Source: FactSet. The historical performance of the index and individual stocks cited is provided to illustrate market trends. It is not possible to invest directly in an index. Index performance does not take into account fees and expenses. Past performance is no guarantee of future results.

which led to an increase in the allocation to these three segments during the quarter. Within the US large cap portfolio segment, an overweight to materials and industrials combined with an underweight to technology helped the portfolio capitalize on the rotation from growth to value sectors.

As stated, international equities underperformed the US equity markets but still made a meaningful contribution to the portfolio's return for the quarter. Given our evaluation of risk we believe the international markets are very attractive and have increased our International Equities allocation by 2.03% to a total of 20.56% at the end of the first quarter.




The spike in bond yields had a significant impact on the performance of three of the four fixed income segments. US treasuries, investment grade corporates and emerging market bonds were all down over 5% during the quarter. As rates rose during the quarter, the allocation to treasuries was reduced in February and March which helped to soften the impact on the portfolio. Reducing the portfolios exposure to treasuries will help diminish the effect rising bond yields will have on the portfolio.

The negative returns from fixed income were more than offset by strong gains in all equity segments which contributed to the GWS portfolio producing a net return of 1.61% for the first quarter of 2021.

## Final Thoughts

Even with projected earnings growth of 26% for 2021, the Forward 12-month P/E multiple for the S&P 500 Index is 22.4x which is 40% above its 10-year average of 15.9x. The equity markets do not appear to be very concerned about inflated market valuations and instead are laser focused on a seemingly never-ending supply of economic stimulus ($6 trillion and counting) and short-term lending rates that are expected to be near zero through 2023.

There are potential headwinds that we are evaluating such as a corporate tax rate increase, earlier than expected increase in the fed funds rate, an uptick in inflation and rising yields that could stall further market appreciation.

## Current Portfolio Allocation

Based on our evaluation of risk, the risk/return characteristics of the Inflation Hedges asset class (MLPs, REITs, Consumer Staples, Utilities, Health Care) are very attractive and warranted an allocation increase. Within the class, we continue to favor MLPs and REITs. The decrease in the fixed income allocation is largely attributable to treasuries which were reduced from 22.83% to 13.97%.

| Asset Class | Allocation (12/31/2020) | Allocation (3/31/2021) | Net Change | |
|---|---|---|---|---|
| **US Equities** | 13.42% | 14.32% | | **0.90%** |
| **International Equities** | 18.53% | 20.56% | | **2.03%** |
| **Inflation Hedges** | 17.09% | 21.73% | | **4.64%** |
| **Global Fixed Income** | 50.96% | 43.39% | | **-7.57%** |

Source: FactSet. The historical performance of the index and individual stocks cited is provided to illustrate market trends. It is not possible to invest directly in an index. Index performance does not take into account fees and expenses. Past performance is no guarantee of future results.
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