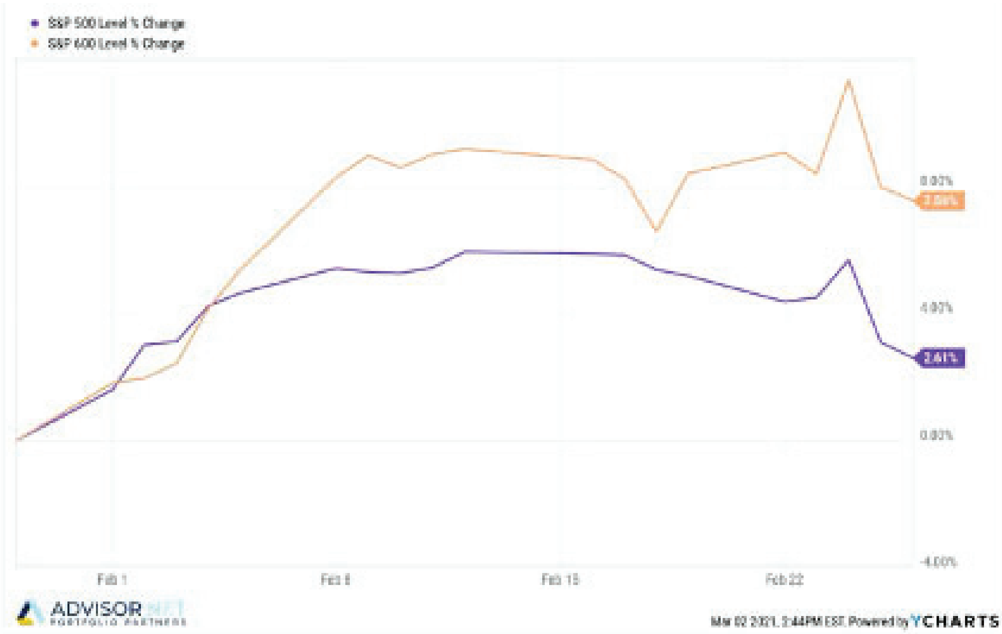
GBA Financial
financial planning for retirement

NEWSLETTER
MARCH 2021

COMMENTARY

Smalls caps continue to lead the equity market rise



The equity market continued to advance in February with small caps again leading the way, with the S&P SmallCap 600 Index, the main barometer for this segment of the market, rising 7.56% for the month, outpacing the 2.61% gain in the S&P 500, the proxy for US large caps (Chart 1). Year-to-date the performance gap between small and large caps is even more pronounced, with the S&P 600 up 14.27%, and the S&P 500 gaining just 1.47%.

Reducing the degree of our overweight equity position given some divergent market signals

Even though there has been positive price action in the US stock market, and we remain over-weight equity longer-term, we have reduced its proportion, given some divergences in the market that we must respect (Chart 2, Source: Stockcharts.com, Portfolio Partners). While our overweight stance has seen some support from the fundamentals, with strong fourth quarter 2020 earnings, with 74% of companies reporting a better-than expected EPS (as of February 12, 2021), short-term, we are seeing some

ECONOMIC HIGHLIGHTS

S&P 500	3,811.15
DIJA	30,932.37
NASDAQ	12,909.44
OIL	$61.55 /BARREL
GOLD	$1,742.90/OUNCE
10-YEAR TREASURY YIELD	1.44%
UNEMPLOYMENT	6.30%
GDP	4.1%
PPI	1.68% Year-Over-Year
CPI	1.40% Year-Over-Year

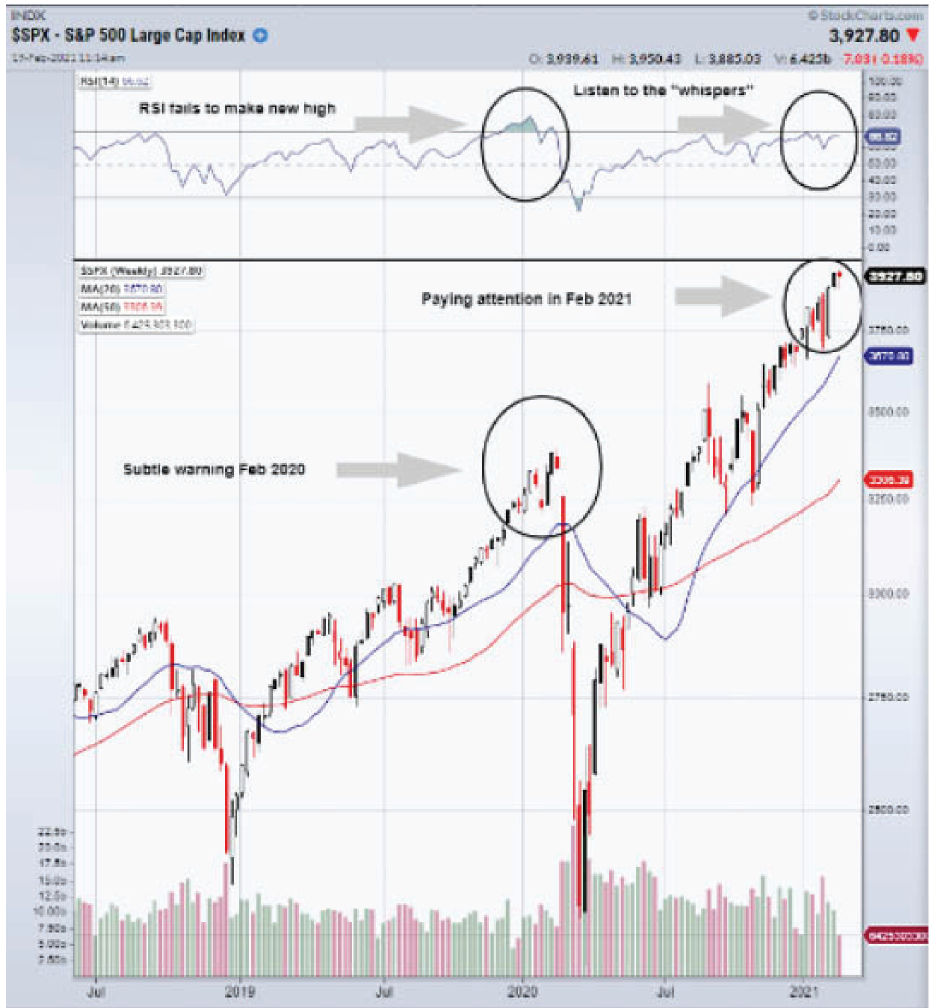
Source: ycharts.com

The Biden Administration believes there will be enough COVID vaccines for every adult by the end of May 2021.

Still waiting for Congress to agree on and approve the next COVID relief package.

Markets sold off as fears of inflation and surging bond yields spooked investors.

signs leading us to ease off risk. One example is the Relative Strength Index (RSI), a momentum indicator measuring the speed and magnitude of recent price changes (with a measure below 30 indicating oversold conditions, and above 70, overbought). While ideally new price highs would be met with new RSI highs, this did not happen February 2021, with the RSI pulling back after nearing 70. The market gave a similar small, quick warning in February 2020 just prior to the March crash, and we have learned that when the market "whispers" such a signal, is it pru-dent to amplify that message and take appropriate action. Note that we are not predicting another significant drawdown like that seen in March 2020, but rather implementing a risk management strategy to both protect gains and be well positioned if the market does experience a consolida-tion or correction. We will continue to monitor market action for any future allocation changes.



We expect yield rise might be nearing resistance, given medium and long-term ranges

Treasury yields continue to rise, with the US 10-year yield marching consistently upwards from a near-term bottom in August 2020, causing much consternation among fixed income investors (Chart 3, Source: Stockcharts.com, Portfolio Partners). We believe that it is prudent in this situation to step back and look at yields from a longer-term perspective. The US 10-year Yield Index traded in a range of about 15.0 to 35.0 (equivalent to a yield range of 1.50%-3.50%) from around 2011 until the global health crisis hit in March 2020 (Chart 4, Source: Stockcharts.

INDEX	3 mo	1 yr	3 yr	5 yr
S&P 500	5.42%	24.50%	13.24%	16.64%
MSCI EAFE	5.25%	16.7%	4.68%	10.26%
BAR AGG BOND	-1.05%	5.32%	3.74%	3.66%

Source: Morningstar Direct

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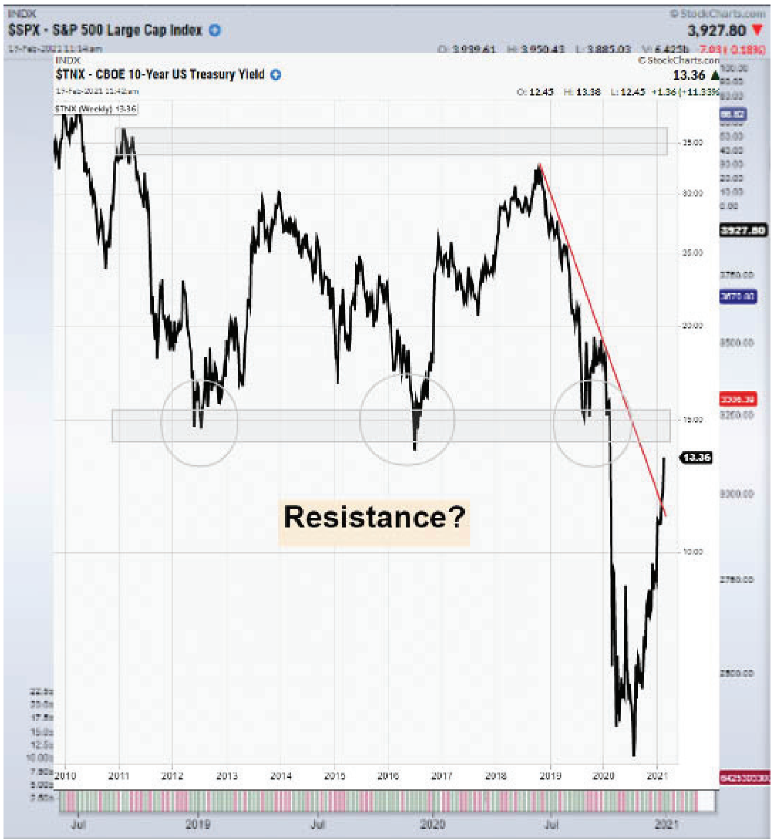

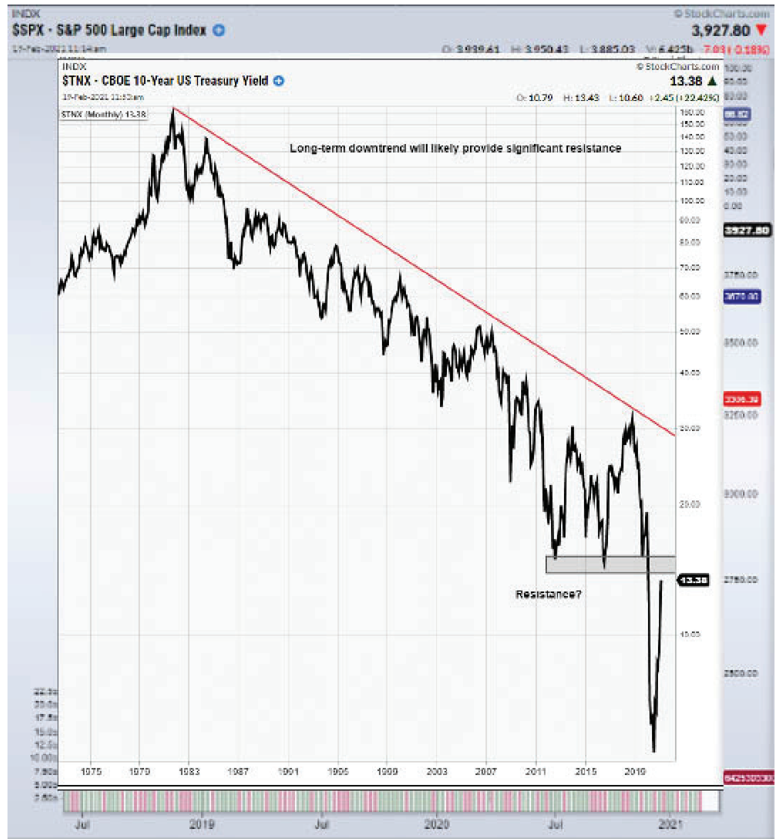

com, Portfolio Part-ners). At that point the Fed promptly ramped up its monetary stimulus, with rate cuts sending the 10-year yield down to the August 2020 lows of 0.52%. With the sharp rebound in rates since, the 10-year yield is now approaching the bottom of the previous range, although we believe that yields may have trouble clearing 1.40%-1.45% and will be watching this closely. Stepping back further, yields have been in a steady decline since 1981, and this long-term trend line also seems to point to resistance around 1.40%-1.45% (Chart 5, Source: Stockcharts.com, Portfolio Partners). While it may be too early to declare a definitive change in direction for yields, it is time to start planning our playbook for when it happens, and we look forward to keeping you updated.

In conclusion, we continue to believe that the evidence supports higher prices ahead for the stock market, but we have recently reduced the degree of our overweight exposure to equity. We be-lieve that it is prudent to listen to the recent "whispers" from some market signals and take a posi-tive, but risk-adjusted, stance on the equity market. We are also closely watching yields and what rising rates will mean for the fixed income and equity markets. Thank you for your continued trust and support.

The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of large-cap U.S. equity securities that are classified as "growth" based on a multi-factor analysis.
The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of small-cap U.S. equity securities.
The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of large-cap U.S. equity securities that are classified as "value" based on a multi-factor analysis.
The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of small-cap U.S. equity securities.
The S&P 500® Information Technology comprises those companies included in the S&P 500 that are classified as members of the GICS® information technology sector.

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The S&P 500® Real Estate comprises stocks included in the S&P 500 that are classified as members of the GICS® real estate sector.
The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.
The S&P 500® Consumer Staples comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.
The S&P 500® Materials comprises those companies included in the S&P 500 that are classified as members of the GICS® materials sector.
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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. The Nasdaq is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks and is also used to refer to the Nasdaq Composite, an index of more than 3,000 stocks listed on the Nasdaq exchange. The NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index. The MSCI EAFE index is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted. The Bloomberg Barclays US Aggregate Bond Index, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government–related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.

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