



## Reopening optimism drives US stocks to all-time highs in Q1

Spring 2021  
Vol. 29 No. 2

The year of transitions got well underway in the First Quarter of 2021, as reopening optimism was the underlying force that helped drive US stocks to all-time highs. Accelerating vaccine distribution, historic Fed accommodation, and the \$1.9 trillion American Rescue Plan all contributed. However, it wasn't without its challenges, including the horrendous January 6 attack on the US Capitol, a second impeachment trial, the inauguration transfer of power to the new Biden-Harris administration, mixed but encouraging economic data, rising interest rates, and late month-end market volatility in February and March. Not to mention COVID lockdown setbacks overseas.

Nonetheless, the global markets remained focused on the brightening light at the end of the tunnel as vaccine distribution accelerated throughout Q1. It's remarkable that at the beginning of the quarter the 7-day moving average of daily vaccinations in the US was 397,376 and by the end of March it hit 2.9 million, according to the CDC, far surpassing goals and expectations. The old normal could again be the new normal if things keep progressing well.

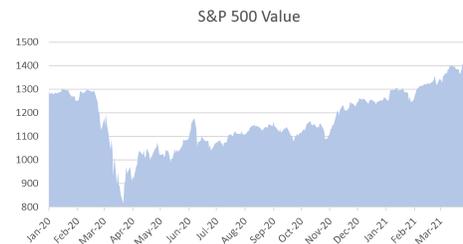
With reopening optimism accelerating, US stocks hit multiple new all-time highs throughout Q1 and were led by the more cyclical mid- and small-cap stocks, as well as the Dow Jones Industrials. The mid-cap S&P 400 jumped 13.1%, while the small-cap Russell 2000 surged 12.4%. The Dow Industrials surpassed 33,000 for the first time ever in March and closed up 7.8% for the year. Interestingly, the First Quarter was a near mirror image of 2020, when technology and communications growth companies dominated in the COVID lockdown economy. Q1 saw a rotation to value, cyclical and industrial stocks, more of which are found in the Dow Jones Industrial Average, which lagged in 2020. The tech-heavy Nasdaq gained 2.8% in Q1 but even briefly dipped into negative territory in early March before recovering. The benchmark S&P 500 gained 5.8% in Q1. Growth stocks have dominated

Continued on page 2

### Market Snapshot

	1-YR %	3-31-21 YTD %
Dow Jones Industrials	+50.5%	+7.8%
S&P 500	+53.7%	+5.8%
Nasdaq	+72.0%	+2.8%
Russell 2000	+92.6%	+12.4%
S&P 400	+80.8%	+13.2%
MSCI EAFE	+41.6%	+2.8%
MSCI Emerging Markets	+55.1%	+2.0%
MSCI World All-Cap	+55.2%	+5.2%
Barclays-Bloomberg Agg Bond	+0.7%	-3.4%

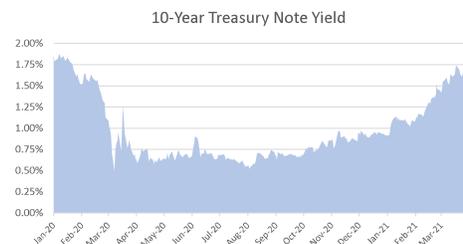
### Value stocks surge as vaccine distribution ramps



Fueled by rising reopening optimism coinciding with the acceleration of vaccine distribution, value, cyclical and industrial stocks surged in Q1 2021. It was largely a mirror image of 2020, when COVID lockdown growth stocks, like technology and communications companies, dominated the markets. The S&P 500 Value Index jumped 10.8% in Q1 versus 2.8% for the tech-heavy Nasdaq. Value stocks have lagged growth stocks for over a decade and have many wondering if this resurgence is a long-term shift or a short-term rotation. At this juncture, diversification remains imperative.

*\*Past Performance is No Guarantee for Future Success*

### Interest rates rose in Q1 on reopening optimism



The Fed continued to expand its balance sheet in Q1 to unprecedented heights surpassing \$7.7 trillion in late March, while purchasing \$120 billion per month in Treasury and Agency securities. The benchmark 10-year T-Note yield hit a 14-month high, rising 0.81% in Q1 to close at 1.74%, fueled by rising reopening optimism. At its March FOMC meeting, the Fed significantly raised its US GDP estimate for 2021 to 6.5% from 4.2% (Dec20) and maintained its commitment to support the US economy and keeping interest rates near zero until 2023.

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### Q1-21 Market Quicktakes...

- Rising reopening optimism sparked by accelerating vaccine distribution, historic Fed accommodation, and the \$1.9 trillion American Rescue Plan ignited a Q1 surge for stocks
- Value, cyclical and industrial stocks led the market, in many ways a reversal in leadership from the COVID lockdown surge in tech stocks
- Mid- and small-caps led the charge with gains of 13.2% and 12.4%, respectively, but the 7.8% gain by the Dow Industrials handily outpaced the tech-heavy Nasdaq, which rose 2.8%
- Foreign markets posted gains in Q1 but lagged the US; benchmark MSCI EAFE index gained 2.8%, while Emerging Markets were up 2.0%
- The Fed raised its 2021 US GDP forecast to +6.5%, up from +4.2% in December 2020, while unemployment dropped to 6% in March. The Fed maintained its near zero interest rate policy and remains focused on supporting the US economy and full jobs recovery.
- Bonds had a rough start to 2021 as intermediate- and long-term interest rates rose sharply in Q1. The benchmark Bloomberg Barclays Aggregate Bond index fell 3.4%, as the 10-year Treasury Note yield jumped 81 basis points to 1.74%.

*Past Performance is No Guarantee for Future Success*

ed value stocks for over 10 years, and many are wondering if Q1 is the start of a new long-term trend or a short-term rotation. Time will tell so in the meantime we highly encourage diversification.

While states across the US continue to reopen at varying paces and in fits and starts the trend has remained in the right direction. However, countries overseas have been mired in COVID lockdown setback despite rising vaccine distribution. Economic growth projections remain solid though. The MSCI EAFE index posted a gain of 2.8% in Q1, while emerging markets edged higher by 2.0% and hit a new all-time high in February. Valuations overseas remain compelling after roughly ten years of underperformance to the US and we've bumped up our International allocations for the first time since 2017 ([Model Portfolio Allocations](#)). Yet, we remain underweight.

Interest rates, intermediate and longer-term, rose sharply in the First Quarter fueled by reopening optimism and rising inflation concerns boosted by the Fed's continued historic monetary support and the new fiscal stimulus in the \$1.9 trillion American Rescue Plan. The 10-year Treasury Note yield jumped 0.81% in Q1 to 1.74%, which contributed to the 3.4% decline in the benchmark Bloomberg Barclays Aggregate Bond index. Remember, bond prices and yields move in opposite directions. The result was a steepening of the yield curve, but this is healthy and rates have risen for the right reason. The Fed raised its GDP forecast to +6.5% from +4.2% in December at its March meeting, but remained committed to keeping interest rates low and accommodation high. The unemployment rate fell to 6% in March but remains well above the Fed's goal. Signs of inflation have increased by some measures but remain below Fed targets.

*The old normal could again be the new normal if things keep progressing well.*

### The Outlook

We anticipated 2021 to be a year of transitions and First Quarter results show that from a health, economic and market perspective, we are well on our way. Yet, we must remain vigilant on defeating COVID-19 and the pandemic so we can return to the old normal. On March 23, we hit the one-year anniversary of the COVID market sell off. Unprecedented monetary and fiscal support resulted in 12-month returns across board that are among the best in history, including the S&P 500's best since 1936 at +74.9%, while the Russell 2000 led with a gain of 118%. This is the latest evidence of "don't try to time the market."

We remain cautiously optimistic and while there are many encouraging positives, we don't want investors to get complacent with risk.

- Q1 Earnings expectations exceed 23% and best since 2018 (FactSet)
- New Biden \$2 trillion infrastructure and jobs fiscal stimulus plan announced 3-31-21 lends further economic growth support if passed
- Valuations remain stretched; a pullback/consolidation would not be a surprise; volatility expected to increase in Q2 but refrain from changing course
- Baring a setback, full economic reopening still remains more of a second half transition story coinciding with broad to full vaccine distribution; economic growth projections remain strong for 2021 at +6.5% (Fed)
- Maintain diversification, discipline and keep your focus long-term
- Refrain from chasing returns and making large portfolio changes
- Maintain regular contributions and a rebalancing program

## Spring 2021 Action Plan

Welcome to the New Wealth Asset Advisor! While smaller, the New WAA remains your *Guide to Successful Investing*:

- More Focused for Quick Reading
- Expands the extensive resources of our Investment Partners
- More interaction with our website with Quick Links
- Direct Mutual Fund and Annuity Models 100% supported Online at our website (see page 3 for Quick Link & password)

**IMPORTANT NOTE:** 2020 Tax-Filing Deadline Extended to May 17, 2021, which means 2020 IRA Contributions are extended as well. Not all IRA custodians take post-marked contributions after the deadline so check first!

## The Big Picture

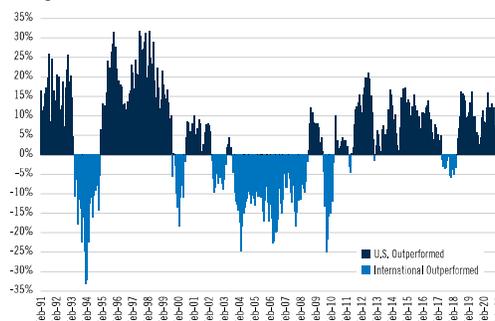
### The Case for International Diversification

Historically, international and U.S. stock markets are cyclical in nature. Looking back over the last 30 years, international stocks have at times outpaced U.S. stocks over long stretches. Timing these shifts in market sentiment are virtually impossible. By including both U.S. and non-U.S. exposure in an equity portfolio, investors are optimally positioned to take advantage of growth opportunities around the world.

~ Virtus Funds - Vontobel

TAKING TURNS AT THE TOP: U.S. VS. INTERNATIONAL EQUITIES

Rolling 1-Year Excess Returns (S&P 500® vs. MSCI ACWI ex USA)



Source: S&P 500 Index minus MSCI ACWI ex USA Index, as of February 28, 2021. Past performance is not indicative of future results.

## Market Barometer

### Index PE Ratios and Yields

Index:	P/E*	Fwd P/E*	Dividend Yield%	3-31-21
Dow Jones 30 Industrials	33.48	21.24	1.81%	
Dow Jones Utilities	23.58	22.90	3.15%	
S&P 500	44.66	22.62	1.48%	
NASDAQ 100	37.55	28.12	0.78%	
Russell 2000 (Small-Cap)	NA	49.62	1.00%	

\*Trailing 12 months Price Earnings Ratio - WSJ

+Forward 12 months Price Earnings Ratio Estimates - Birinyi Associates

### Economic and Market Indicators

Measure:	Latest	Change	3-31-21
Gross Domestic Product (GDP)	+4.3% Q4	-29.1% Q3	
Fed 2021 Real GDP Projection	+6.5% Mar	+4.2% Dec	
Unemployment Rate	6.0% Mar	-0.7% Dec	
Inflation Rate (12mo CPI-Consumer Price Index)	+1.7% Feb	+1.3% Jan	
Consumer Confidence	109.7 Mar	+21.4% Feb	
Index of Leading Indicators	110.5 Feb	+0.2% Jan	
Volatility Index (VIX - S&P 500)	19.40 Mar	-14.7% Dec	
US Dollar Index	93.24 Mar	+3.7% Dec	

Source: WSJ, Barron's, StockCharts.com, Federal Reserve, BLS

Publisher: Nelson Securities, Inc.  
Editor: Jeffrey S. Miller

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The following are insightful articles, brochures, and presentations from our trusted Investment Partners and other resources, which are All Client Approved.

Use the **Quick Links** on the titles below (must be connected to the Internet) to view using Acrobat Reader, or other common multimedia applications.

Visit the [NSI Resource Center](#) at our website often for new Videos and Presentations on Estate, Retirement, Investment, Money, Lifestyle and much more!

### **NEW!**

#### 5 Reasons International Equities are a Compelling Opportunity Now

Source: Virtus Funds

As Vontobel notes in this piece, "Although U.S. stocks have outperformed international stocks in recent years, we don't know when market sentiment will shift once again and a change in market leadership will occur." Attractive valuations are among the compelling reasons to consider diversifying your portfolio overseas.

### **NEW!**

#### Beyond Investment Illusions

Source: Hartford Funds

This classic Hartford Funds brochure is updated through 2020 and provides unique perspectives on many common investment misperceptions that can help investors make better decisions and improve results.

### **NEW!**

#### Using the Backdoor (Roth IRA)

Source: Lord Abbett

IRA Season for 2020 is extended to May 17, 2021 so you can still make 2020 IRA contributions until then (no extensions). The ability to make a Roth IRA contribution is limited by income thresholds, so for many the only way to make a Roth IRA contribution is using the Backdoor Roth IRA strategy. This article by Lord Abbett provides helpful insights.

Note: Consulting a Tax Advisor is always recommended

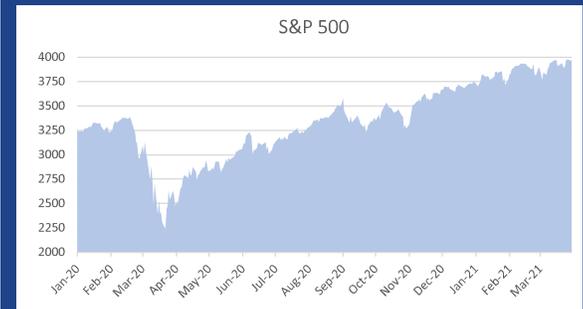
All Content is CLIENT APPROVED. Most presentations are in Adobe Acrobat, Microsoft PowerPoint, or HTML 5 formats, which may require downloading the applicable program or player to view.

### **Investor Note:**

Mutual Fund and Variable Annuity investment strategies, which include investing in specific sectors, foreign securities (both developed and developing markets), high yield securities, or small and medium sized securities may increase the risk and volatility of the funds/sub-accounts. Changes in interest rates may affect the performance of fixed income (bond) funds; if rates increase, bond values decrease and vice versa. Investors should consider the investment objectives, risks, and charges and expenses of the Mutual Fund and/or Variable Annuity carefully before investing. The Mutual Fund prospectus (and summary prospectus, if available) and Variable Annuity prospectus contains this and other information. Please read carefully before investing. A Mutual Fund prospectus and Variable Annuity prospectus and contract can be obtained by calling your Nelson Rep at 800-345-7593 or the Mutual Fund and/or Annuity company directly.

Source: Wall Street Journal, Barron's, BankRate.com, Morningstar

3-31-21



### Domestic Markets 3-31-21

Index:	Close	1-YR%	YTD%
Dow Jones 30 Industrials	32981.55	+50.5%	+7.8%
Dow Jones Transportation	14631.39	+99.0%	+17.0%
Dow Jones Utilities	880.34	+24.3%	+1.8%
DJ Total Stock Market	41602.65	+67.9%	+6.1%
S&P 500	3972.89	+53.7%	+5.8%
S&P 400 (Mid-Cap)	2609.24	+80.8%	+13.1%
S&P 600 (Small-Cap)	1319.35	+107.6%	+17.9%
Nasdaq Composite	13246.87	+72.0%	+2.8%
Russell 2000 (Small-Cap)	1974.86	+92.6%	+12.4%
BB Aggregate Bond	2211.35	+0.7%	-3.4%

### Foreign Markets 3-31-21

Index:	Close	1-YR%	YTD%
Tokyo Nikkei Stock Avg.	29178.80	+61.5%	+6.3%
Shanghai Comp. (China)	3441.91	+25.9%	-0.9%
London FT 100-share	6713.63	+23.1%	+3.9%
Frankfurt Xetra DAX	15008.34	+57.2%	+9.4%
Paris CAC 40	6067.23	+44.2%	+9.3%
S&P/TSX Comp. (Canada)	18700.67	+45.2%	+7.3%
MSCI EAFE Index	2208.32	+41.6%	+2.8%
MSCI Emerging Mkt Index	1316.43	+55.1%	+2.0%
MSCI World All-Cap Index	2380.97	+55.2%	+5.2%

### Bond Yields & Key Interest Rates 12-31-20 3-31-21

Benchmark:	Yield/Rate	Yield/Rate
30 Year Treasury Bond Yield	1.65%	2.41%
10 Year Treasury Note Yield	0.93%	1.74%
5 Year Treasury Note Yield	0.36%	0.92%
2 Year Treasury Note Yield	0.13%	0.08%
Bank Money Market Yields	0.11%	0.19%
1 Year Certificates of Deposit	0.22%	0.19%
Prime Rate	3.25%	3.25%
Federal Funds Rate	0.0-0.25%	0.0-0.25%
Discount Rate	0.25%	0.25%

### Morningstar Fund Averages 3-31-21

Investment Style/ Objective:	1-YR %	YTD%
Large-Cap Growth (L-C G)	+63.7%	+2.3%
Large-Cap Blend (L-C B)	+56.8%	+6.8%
Large-Cap Value (L-C V)	+57.1%	+11.4%
Mid-Cap Growth (M-C G)	+82.2%	+4.0%
Mid-Cap Blend (M-C B)	+74.8%	+12.4%
Mid-Cap Value (M-C V)	+78.5%	+15.7%
Small-Cap Growth (S-C G)	+96.2%	+7.0%
Small-Cap Blend (S-C B)	+89.4%	+15.1%
Small-Cap Value (S-C V)	+100.7%	+21.5%
Multi-Alternative (Multi-Alt)	+15.6%	+2.2%
Financial Funds (Fin)	+81.0%	18.0%
Technology Funds (Tech)	+91.9%	+3.5%
Communications (Comm)	+61.6%	+6.7%
Natural Resources Funds (NatR)	+93.8%	+12.1%
Health Funds (Health)	+51.2%	+0.7%
Utilities Funds (Util)	+23.7%	+3.6%
Real Estate (REITs)	+39.2%	+8.2%
Foreign Funds- Lg Blend (Fgn)	+48.3%	+3.7%
Emerging Market (EMkt)	+62.8%	+3.1%
Precious Metals Funds - Equity (Prec)	+63.4%	-11.4%
Long-Term Bond (Long-Term)	+6.3%	-6.8%
Intermediate Core Bond (Int-Term)	+2.8%	-3.0%
Short-Term Bond (Short-Term)	+6.2%	-0.1%
Multi-Sector Bond (MS-Bond)	+15.3%	-0.2%
Inflation-Protected Bond (Infl-Prot)	+9.0%	-0.9%
High Yield Bond (HYId)	+21.9%	+1.2%
World Bond (Wld Bd)	+10.2%	-3.6%