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Quarterly Market Insights

Looking Back—One Year Later

It has been one year since the World Health Organization declared the Covid outbreak a pandemic. If we travel back to March 2020, we were bracing for lockdowns, shelter-in-place restrictions, and traveling to the grocery store to stock up on staples.

Index	1st Qtr. 2021 Return*	Trailing 12 Month Return 4/1/2020-3/31/2021
S&P 500 (large)	+6.17%	+56.35%
S&P 400 (midsize)	+13.47%	+83.46%
Russell 2000 (small)	+12.70%	+94.85%
MSCI EAFE (intl.)	+3.48%	+44.57%
Bond Yields	**3/31/2021 Yld. & YTD Change**	**Dec 31, 2020 Yield**
3-month T-bill	0.03% (-0.06%)	0.09%
2-year Treasury	0.16% (+0.03%)	0.13%
10-year Treasury	1.74% (+0.81%)	0.93%
30-year Treasury	2.41% (+0.76%)	1.65%
Commodities	**3/31/2021 Price & YTD Change**	**Year end 2020**
Oil per barrel	$59.16 (+$10.64)	$48.52
Gold per ounce	$1,713.80 (-$181.30)	$1,895.10

*Stock indices include reinvested dividends and are not annualized for the first quarter.

The jolt to the economy and fear of Covid led to the steepest downturn in economic activity that's ever been recorded. The lion's share of the damage occurred in the second quarter of 2020, which saw a record 31.4% annualized drop in GDP (U.S. BEA—quarterly records date back to 1947). Meanwhile, the S&P 500 Index lost 34% of its value in a little over one month.

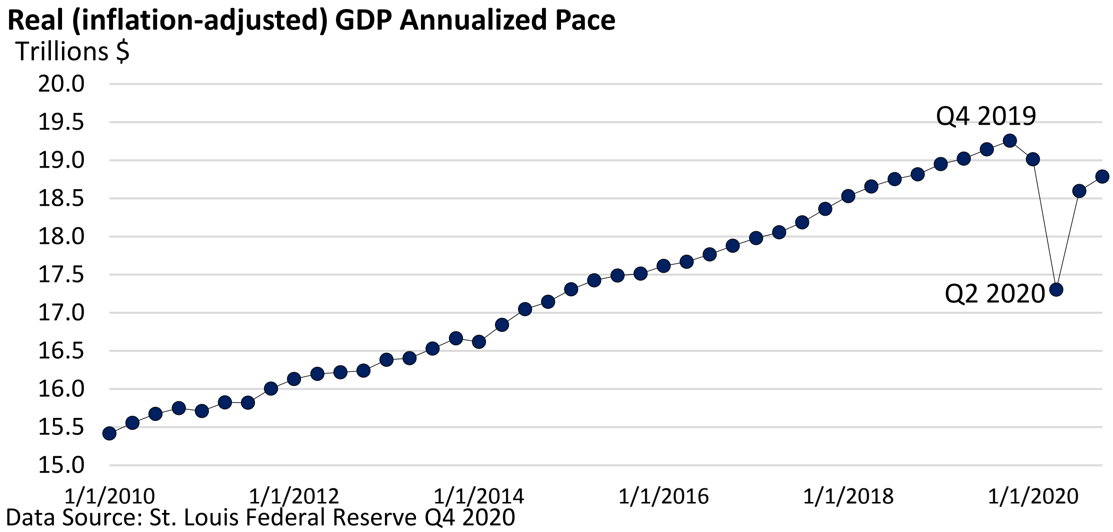
With uncharacteristic speed, the Federal Reserve jumped into action, announcing a host of new programs. Its response went well beyond the 2008 financial crisis.

The Federal government quickly passed the $2.2 trillion CARES Act, which provided generous jobless benefits, stimulus checks, paycheck protection loans, and more.

Investors reacted to the generosity and anticipated a robust economic recovery. By the end of August, the S&P 500 Index surpassed its February high.

In the 3rd quarter of last year, GDP rose a record 33.4% on an annualized basis. A new relief package was passed at the end of December, and a much costlier bill, the American Rescue Plan

Act, was signed into law last month. While the $1.9 trillion bill's price tag has led to some criticism, it will send a tsunami of money into the economy.



Nonetheless, the pandemic has created economic distortions that have yet to dissipate. The trend towards online buying has accelerated, and big box retailers that were deemed essential have excelled.

Though we are seeing progress, some service-related industries have struggled to adapt to the new normal and remain well below pre-pandemic output.

Government Support, U.S. Economic Resilience and Looking Forward

The rollout of the vaccines, trillions of dollars being injected into the economy, and very low interest rates have supported economic growth and helped fuel the stock market rally over the last year.

Since bottoming in March of 2020, the S&P 500 Index has gained an astounding 56.35% for the one-year period ending March 31, 2021.

Where are we headed from here? Much will depend on the economy, corporate profits, Federal Reserve policy, bond yields, and inflation. They have historically been the key drivers of stocks.

The Federal Reserve raised its outlook in March, boosting its 2021 GDP forecast from December's estimate of 4.2% to a faster-paced 6.5%. The rollout of the vaccines and new government money are largely responsible for the outlook, though we must caution, as most economists missed the strong rebound, forecasts are simply educated estimates.

Still, the economic outlook is favorable based on today's information. One caveat, however, is that while the economy may have a resounding year, the markets have already performed extremely well and may not perform quite as well going forward.

In addition, while the fundamentals have been favorable, never rule out the possibility of volatility.

Final Thoughts

As most of you know, while investment management is a very important part of our practice, financial planning is the glue that brings everything together. We work closely with each client to take your unique goals and circumstances into account to develop a practical plan that gives you a financial roadmap to follow. Importantly, we are there all along the way of your financial journey since we all know that things come up along the way.

With that as a backdrop, we wrote a year ago that that was a good time to review your plan. We would contend that THIS is again a good time to do the same. Many things have changed and now could be a very appropriate time to see if potential changes are in order.

And if you have never done a plan, let us know and we would be glad to do one for you.

Thank you for your business. We are always here for you.

Hopwood Financial Services, Inc.