DT INVESTMENT PARTNERS, LLC

Q1 2021
FINANCIAL MARKETS COMMENTARY

"Much Closer To Boom Than Bust"

RISK-BASED ASSETS PERFORMANCE SUMMARY

- Risk-Based Assets rose during the first quarter led by U.S. equities, particularly Mid and Small Cap stocks. The rapid rollout of Covid-19 vaccines, a $1.9 trillion fiscal spending package, the continuance of ultra-easy monetary policy support from the Federal Reserve (Fed), and pent-up business and consumer savings all have the potential to help the U.S. drive a booming global economic recovery later this year. The world economy is projected to grow between 5-7%. This would be the fastest rate of growth in the last 50 years thanks to vaccine distributions enabling pandemic restrictions to be lifted and businesses to re-open. For the first time since 2005, the U.S. is expected to be a larger contributor to global growth than China.

- U.S. Mid and Small Cap stocks each more than doubled the performance of U.S. Large Cap, International Developed and Emerging Market stocks on a YTD basis (See page 5). Mid and Small sized companies started the year trading at lower prices relative to their net worth. Their large weightings in the more cyclical sectors of the economy, such as Industrials and Financials, contributed to their strong relative performance. Given the brightening economic outlook, investors rotated away from sectors that benefitted from pandemic lockdowns to ones that prosper as the economy rebounds.

- While still generating solid returns, U.S. Large Cap stocks trailed Mid and Small Cap stocks because nearly 25% of the U.S. Large Cap asset class is comprised of the Mega-Cap Technology companies that thrived last year during the pandemic-induced, economic shut down. Across Europe and Japan, the rollout of vaccines has been extremely slow and governments aren't planning significant fiscal policy stimulus due to concerns about high debt levels.

- All Large Cap sectors rose for the quarter, led once again by Energy. Financials, Industrials, and Materials also performed well as investors focused on prospects for a cyclical recovery and future economic growth, moving money into sectors/stocks that would benefit most from an economic rebound. Technology struggled as investors sold richly valued stocks that had risen in a low yield environment.

BOND PERFORMANCE SUMMARY

- U.S. Government and Investment Grade Corporate bonds had their worst start to a year this century. A brightening economic outlook, selling by Japanese banks looking to smooth the volatility of their portfolio returns for fiscal year-end, and fears that faster inflation will increasingly eat into bond returns arose as a $1.9 trillion fiscal stimulus package passed. Global central banks repeatedly vowed to keep interest rates near historic lows and progress with vaccine distribution helped authorities lift economic lockdowns, offering signs of a global economic rebound.

- With the exception of High Yield bonds, all U.S. fixed income sectors generated negative returns for the quarter (See page 5). The yield on the 10 year U.S. Treasury Note, a benchmark that guides the interest rate for fixed rate mortgages, rose from 0.92% to 1.74% during the quarter. Concerned by the prospect for a return of inflation, investors continued to pile into risk-based assets and out of the safety of bonds.

- Returns on investment-grade corporate bonds had their second-worst start to a year on record. Investor expectations that vaccines and new stimulus money will boost the economy, lifting growth and inflation, reduces the appeal of fixed coupon payments from bonds. High-yield bonds performed far better than U.S. government and investment-grade corporate bonds because their larger spreads provide more cushion against rising U.S. Treasury yields.

- Municipal bonds were one of the best relative bond performers during the quarter due to continued strong investor demand, diminished supply, and improving credit fundamentals thanks in large part to the passage of the $1.9 trillion fiscal stimulus package.

CONTRIBUTORS & DETRACTORS TO PERFORMANCE

- Performance contributors for the first quarter versus the Global Stock/Intermediate Bond blended benchmark index included our overweight allocation to risk-based assets, particularly our outside-of-benchmark allocation to U.S. Small Cap stocks. In addition, our bond duration short of the benchmark was also a contributor.

- Detractors to performance included our underweight to U.S. Mid Cap stocks and our overweight allocation to U.S. Government bonds.

- Further development and distribution of vaccines, pent up demand from economic shutdowns, low rates/borrowing costs, low energy prices, ultra-easy monetary policy, and additional fiscal stimulus should lead to an economic recovery in the second half of 2021.

- Financial Conditions, as measured by an Index that tracks the overall level of financial stress in the U.S. stock, bond, and money markets to help assess the availability and cost of credit, currently signals very accommodative financial conditions. Economic data releases have generally been stronger than forecasted/expected. The yield curve is positively-sloped and has been steepening. This often precedes a period of economic expansion. A cyclical bear market usually does not develop unless the yield curve is flattening or negatively-sloped and the economy is on the brink of recession.

- For Q4 2020, 79% of S&P 500 companies reported a positive Earnings Per Share (EPS) surprise. This marked the third-highest percentage of S&P 500 companies reporting a positive EPS surprise since 2008. For Q1 2021, the estimated earnings growth rate for the S&P 500 is 22.6%. If 22.6% is the actual growth, it will mark the highest year-over-year earnings growth rate reported by the index since Q3 2018. The forward 12-month Price Earnings (P/E) ratio for the S&P 500 is 19.90. This P/E ratio is above the 5-year average (16.8) and above the 10-year average (15.2).

- Stocks prices are clearly not cheap and several stock indices set new all-time highs during the quarter. Given lofty valuation levels, talk of risks to the current rally has become more prevalent. Rising Covid-19 cases in Europe and recent extensions to lockdowns in Germany, France, and Italy have been weighing on market sentiment. Recently, the U.S. has seen a slight uptick in virus cases after trending lower since January. Fortunately, over 100 million people in the U.S. have been vaccinated with projections for another $100 million by May.

- ***The vitality of the current U.S. economy is based upon vaccine distribution and fiscal stimulus. Both items continue to favor an economic recovery as opposed to a slowdown.*** Any significant government regulation of mega-cap technology companies and personal/ corporate tax rate increases are unlikely until next year, at the earliest. However, 2022 is a mid-term election year with several Congressional seats in play and neither political party currently has a clear mandate. This would make tax increases and/or substantial regulation very difficult to achieve in 2022.

- Talk of a U.S. economy that's about to overheat and force the Fed to tighten sooner than 2023 is very premature. The unemployment rate is still elevated with 9.5 million less jobs in the U.S. than before the pandemic. The pandemic created an enormous downside shock to demand leading to significant economic slack. The massive void in global economic activity and wealth destruction from business shutdowns may take years to fill. The recent $1.9 trillion fiscal stimulus package primarily represents transfer payments that are temporary, not permanent.

- Although corporate profits, sales revisions, and earnings guidance are showing signs of a looming economic boom, Fed Chair Powell noted at the March 17th meeting that ***"the economy is a long way from our employment and inflation goals, and it is likely to take some time for substantial further progress to be achieved."*** Any risk at this time of the Fed tapering its $120 billion monthly bond purchases ($80B UST/$40B MBS) is premature. Chair Powell noted that these measures ***"will ensure that monetary policy will continue to deliver powerful support to the economy until the recovery is complete."***

- Fears of rising bond yields derailing the economic recovery are unwarranted. In his recent semi-annual testimony to Congress, Fed Chair Powell said higher bond yields reflected economic optimism, not inflation fears. Powell said he doesn't expect the $1.9 trillion stimulus package will lead to an unwelcome increase in inflation. ***"Our best view is that the effect on inflation will be neither particularly large nor persistent."***

- Last but not least, a sustained increase in inflation expectations and actual inflation can be a risk to stocks and overall investment allocations. In our opinion, a sustained uptick in inflation is not likely anytime soon. Any increase will be transitory as manufacturers will ramp up production of such items as lumber, appliances, and computer semiconductors to meet the current, excess demand.. An abundance of goods, services, savings, and labor remains a dominant, global phenomena. Technologically-enabled innovation, which has historically proven to be deflationary, has accelerated since the onset of the pandemic and is poised to continue well after the recovery.

- While Japan and Europe continue to be mired in deflation, the U.S. Output Gap (actual output of economy vs. potential output) is still too large for a sustained rise in inflation. The Output Gap refers to the difference between actual Gross Domestic Product (GDP) or actual output and potential GDP. The current U.S. Output Gap is at -3.00%. Negative numbers signify deflation. The massive debt buildup is more deflationary than inflationary. Total U.S. public debt is currently 128% of GDP. Total public and private debt is 406%.

- After an economic boom later this year and early next year thanks to vaccine distribution along with ultra-accommodative monetary policy and the knock-on effects of enormous amounts of fiscal policy stimulus, we believe the economy will mostly return to the way it was before the global pandemic. Fiscal stimulus is transitory, not ongoing and permanent. A return to low economic growth, low inflation, and low interest rates awaits us following a recovery.

- Macro factors that act as headwinds to economic growth including aging demographics, declining fertility rates, massive U.S. and global debt build-up, a global savings glut, and shrinking labor force participation were at play prior to the onset of Covid-19. If anything, the pandemic only exacerbated their negative economic influence.

- We expect a global economic recovery in the second half of 2021 as large numbers of people get vaccinated, allowing economies around the globe to accelerate re-opening plans. The current structural backdrop in the U.S. is supportive for a sustainable bull market in risk assets. There is a strong pro-business environment with low corporate tax rates and global trade deals in place. Developments in artificial intelligence, vaccine creation, and digitalization are occurring on a daily basis. Fed monetary policy is ultra-accommodative with expectations that interest rates will remain low for years to come.

- Beginning in March 2020, the Fed embarked upon an unprecedented amount of monetary policy stimulus. By placing a safety net under financial markets and encouraging risk-taking, the Fed is providing a bridge for the economy until it can grow on it own. Despite inevitable bouts of future volatility, the path of least resistance for stock prices may be higher, as long as the Fed stays so accommodative. Defeating the pandemic and fully re-opening all aspects of the global economy remain the key drivers of financial market performance.

- Based upon our tactical indicators, we are overweight to the strategic target for risk-based assets, underweight bonds, and slightly overweight cash. In particular, we are overweight U.S. Large Cap stocks, International Developed Market stocks, Gold, and Government bonds. We are equal-weight U.S. Small Cap stocks and underweight U.S. Mid Cap and Emerging Markets stocks, High Yield bonds, Investment Grade Corporate bonds, and Mortgage-Backed Securities. Demand is likely to continue to outpace supply in the Municipal bond market. While credit selection should always be paramount, uncertainty surrounding COVID-19's effects on the market has been drastically reduced thanks to the unprecedented amount of direct aid to State and Local governments from the recent $1.9 trillion federal stimulus package.

Andrew Zimmerman, Chief Investment Strategist

ASSET CLASS TOTAL RATE OF RETURN PERFORMANCE SUMMARY AS OF 3/31/2021

Stock Indices	Asset Class	QTD Return	1 Year Return
MSCI AC World Daily TR N	Global Equities	4.57%	78.31%
S&P 500 INDEX	U.S. Large Cap Equities	6.17%	80.67%
S&P 400 MIDCAP INDEX	U.S. Mid Cap Equities	13.47%	117.47%
RUSSELL 2000 INDEX	U.S. Small Cap Equities	12.69%	124.29%
MSCI EAFE	International Developed Market Equities	3.61%	68.06%
MSCI EM	Emerging Market Equities	2.21%	77.98%
FTSE E/N All Eqty ReitTR	Real Estate (REITs)	8.32%	64.61%
U.S. Large Cap Sector Stock Indices			
S&P 500 ENERGY INDEX	U.S. Large Cap Equities - Energy Sector	30.84%	116.16%
S&P 500 HEALTH CARE IDX	U.S. Large Cap Equities - Health Care Sector	3.18%	59.02%
S&P 500 CONS DISCRET IDX	U.S. Large Cap Equities - Consumer Discretionary Sector	3.11%	89.21%
S&P 500 CONS STAPLES IDX	U.S. Large Cap Equities - Consumer Staples Sector	1.15%	43.77%
S&P 500 INFO TECH INDEX	U.S. Large Cap Equities - Information Technology Sector	1.97%	90.15%
S&P 500 UTILITIES INDEX	U.S. Large Cap Equities - Utilities Sector	2.84%	47.91%
S&P 500 INDUSTRIALS IDX	U.S. Large Cap Equities - Industrials Sector	11.41%	105.51%
S&P 500 COMM SVC	U.S. Large Cap Equities - Telecom Sector	8.08%	75.66%
S&P 500 MATERIALS INDEX	U.S. Large Cap Equities - Materials Sector	9.08%	109.17%
S&P 500 FINANCIALS INDEX	U.S. Large Cap Equities - Financials Sector	15.90%	97.33%
S&P 500 REAL ESTATE IDX	U.S. Large Cap Equities - Real Estate Sector	9.02%	60.62%
Commodities Indices			
ISHARES GOLD TRUST	Gold	-10.31%	9.49%
S&P GSCI Tot Return Indx	Broad Commodities	13.55%	45.61%
Bond Indices			
U.S. Aggregate	Core Bonds	-3.37%	2.81%
Intermediate	Intermediate Government & Corporate Bonds	-1.86%	3.64%
US Corporate High Yield	High Yield Debt	0.85%	34.66%
U.S. Treasury	U.S. Treasuries	-4.25%	-4.08%
U.S. TIPS	U.S. TIPs	-1.47%	7.74%
U.S. Agency	U.S. Government Agencies	-1.59%	0.48%
U.S. MBS	Mortgage-Backed Securities	-1.10%	0.68%
Corporate	Corporate Debt	-4.65%	16.36%
Municipal Bond Index	Municipal Debt	-0.35%	13.49%

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Sources: Bloomberg and DT Investment Partners. Investors cannot invest in a market index directly, the performance of an index does not represent any actual transactions and its performance does not reflect the deduction of any fees or expenses associated with actual investing. Market performance information is included on this slide solely to demonstrate the potential benefits historically associated with long-term investing in a portfolio of well-diversified asset classes and does not represent or suggest results DT Investment Partners would or may have achieved when managing client portfolios

Notes

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