

Q1 2021

Quarterly Market & Economic Perspective



Pursuit
PLANNING AND INVESTMENTS, LLC

Keeping a Balanced Approach

SUMMARY

- A year into coronavirus, light at the end of the tunnel?
- New administration takes office, with Democrats in majority in both House and Senate
- Upward sloping yield curve with short-term rates near zero but longer-term rates seeing increase

POSITIVE SIGNALS

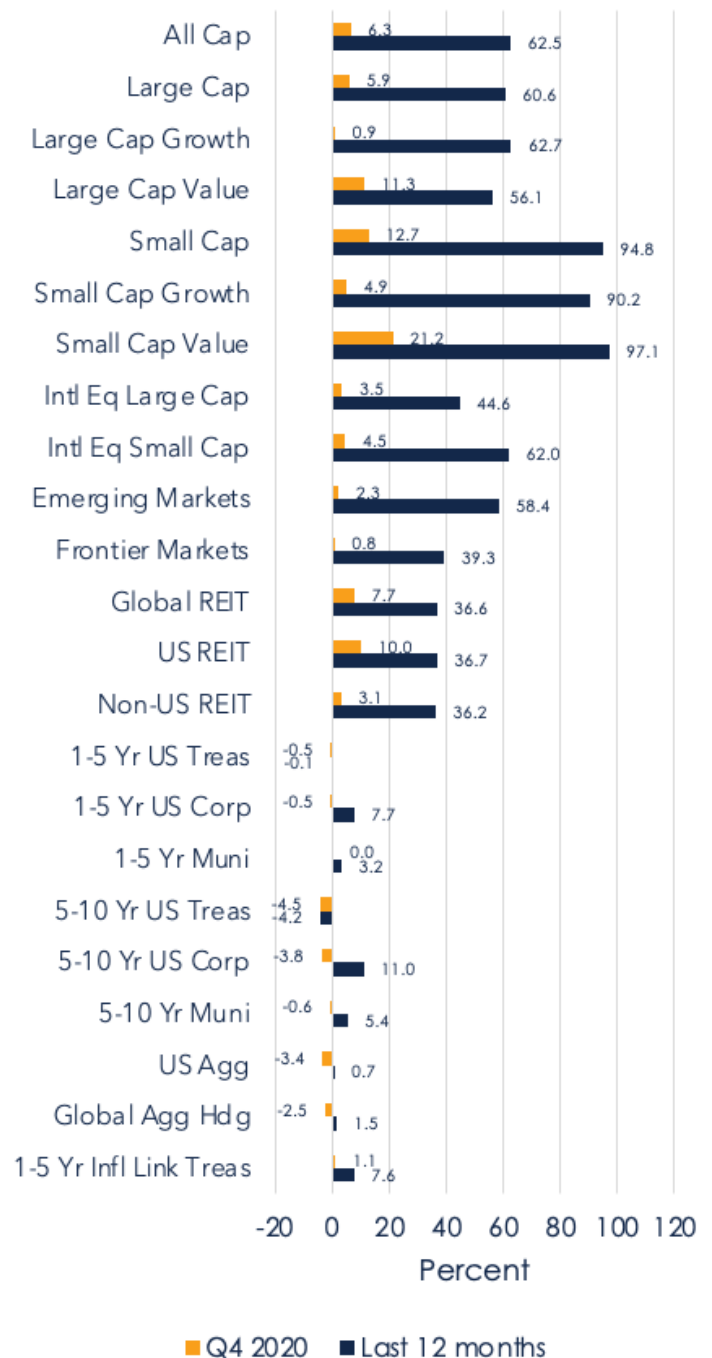
- Vaccination efforts accelerating across the globe; economists projecting increase in economic growth
- Fed strongly committed to achieving goals, not yet ready to talk about tapering
- Consumer confidence is strong

REASONS FOR CONCERN

- Vaccine rollout is inconsistent across the globe
- We could see unexpected inflation, forcing the Fed's hands earlier than anticipated
- Recovery is far from over, obstacles can get in the way



PERIODIC RETURNS



SOURCE: MORNINGSTAR; RUSSELL, MSCI, DOW JONES, BLOOMBERG BARCLAYS, ICE BOA ML BENCHMARKS SHOWN; PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS

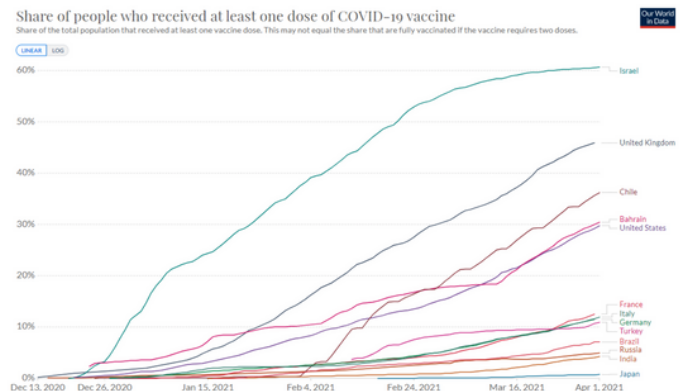
INTRODUCTION

Quite A Year

It is hard to believe that we have been dealing with Covid-19 for over a year now. Remember where we were at the end of the first quarter of 2020: the longest bull market run in history had ended, we experienced the fastest bear market in history, and we were all searching for toilet paper. Since that time, we have received timely and sizable amounts of stimulus, in the forms of fiscal and monetary policy. And yes, the last 12 month returns shown in the graph on the previous page are correct; it has indeed been quite a year.

We have continuously spoken about this from the perspective that Covid-19 is a health crisis that created an economic crisis, which really does make it different from previous downturns. And there are a lot of encouraging signs, though it would be too early and irresponsible to give the “all-clear” signal. In early November 2020, we received the first news that vaccinations were effective in global trials. Since then, the rate of vaccinations globally has steadily increased, though is still very inconsistent from country to country. Interestingly, the inconsistencies aren’t even consistent across developed and emerging countries.

EXHIBIT 1



SOURCE: OFFICIAL DATA COLLECTED BY OUR WORLD IN DATA

As exhibit 1 shows, developed countries like Israel, the UK, and the US have done a better job than most vaccinating larger portions of their population while other developed countries like France, Italy, Germany, and Japan have lagged. However, you also have Chile (an emerging country) and Bahrain (a frontier country) that have done relatively well while Russia and India have not been as successful in vaccinating their populations. This inconsistency creates economic concern because if timetables for vaccination slip, or we find the vaccinations are not effective against new variants, it is feasible the world will still be dealing with the pandemic and its economic impacts well into 2022 and beyond.



Let's also take a look at how global equities have fared over the last year. While the previous page shows returns over the last 12 months across a variety of indexes, exhibit 2 shows the daily price movement in ACWI, an ETF that represents global equities. The time period shown is from the beginning of 2020 through March 2021. We chose this time period as a reminder of just how far global stocks dropped in March 2020, but also as a sign of how far we have come since. It is also a gentle reminder that investing in stocks can be volatile.

EXHIBIT 2



SOURCE: YAHOO! FINANCE

U.S. Equity

U.S. equities had quite a strong first quarter, which only added to the results of the previous several months. In fact, small cap equities, as represented by the Russell 2000, gained 13% for the last three months and 95% over the last 12. Part of what makes this run so astonishing is the extent to which we saw small caps lag large cap stocks in 2020, in particular at the early stages of the pandemic, only to see a meaningful reversal in such a short time period.

In addition to a reversal in stocks across capitalization, we have seen a reversal as well in stocks when you look at valuation. Both large cap and small cap value stocks have outperformed their more growth-oriented counterparts more recently. In particular,

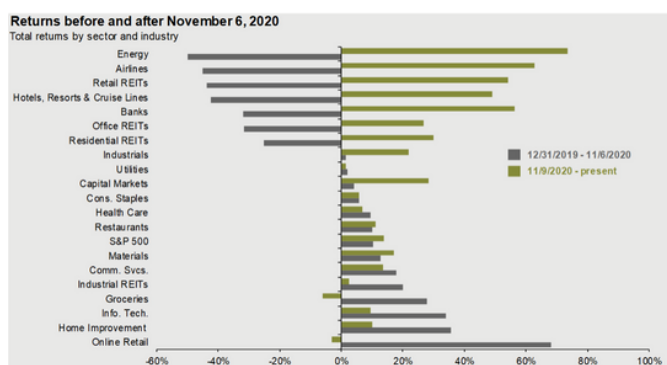
technology stocks that benefited and soared during the early stages of the pandemic have since slowed, as there are concerns these stocks are now simply overvalued. Part of the math behind the view that technology stocks are overvalued is straightforward: a share's value is determined by its projected future cash flows discounted to the present using the investor's required rate of return. When interest rates fall and everything else is held constant, share values should theoretically rise. However, as rates rise, assuming everything else is held constant, then share values are likely to fall.

It is possible too that technology stocks are not growing as fast simply because the returns they generated last year (and in previous years) are simply not sustainable. As the lockdowns end and economies begin to open more broadly, it makes sense that these previously high-flying companies would experience a slower pace of growth. As for value-oriented companies, they were hit hardest during the early stages of the pandemic but have since gained traction from signs of an improving economy. Plus, certain cyclical stocks like financials, actually can benefit from rising rates.



In fact, we have seen a change in sector leadership in general. In Exhibit 3, the gray bars show returns from 12/31/2019 through 11/6/2020. This date in November 2020 was chosen as it was the last business day before vaccines were revealed to be effective in global trials. As you can see, sectors like online retail, home improvement and groceries did really well during the shutdown phases of the pandemic but have struggled since. At the same time, those sectors that performed worst during the early stages of the pandemic, energy, airlines, hotels and banks, have rebounded to do very well. Overall, the development and rollouts of a vaccine have supported these cyclical sectors.

EXHIBIT 3



SOURCE: FACTSET, STANDARD & POOR'S, J.P. MORGAN ASSET MANAGEMENT. NOVEMBER 6, 2020 CHOSEN AS THE LAST BUSINESS DAY BEFORE VACCINE CANDIDATE IS REVEALED TO HAVE MORE THAN 90% EFFICACY AGAINST THE COVID-19 VIRUS IN GLOBAL TRIALS. THE COMPANY REFERENCED IS FOR ILLUSTRATIVE PURPOSES ONLY. JPM GUIDE TO THE MARKETS - U.S. DATA ARE AS OF MARCH 31, 2021.

Taken as a whole, these rapid and sizable changes in leadership, whether between growth vs. value, large vs. small, or even tech vs. energy show why it's important to be allocated broadly across the equity universe.

Non-U.S. Equity

Over the last quarter, international small cap stocks outperformed their large cap counterparts while emerging market stocks trailed both.

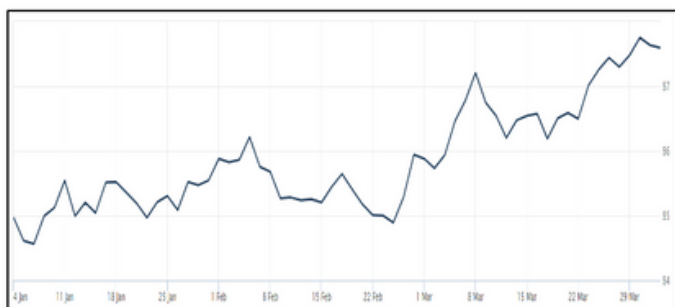
From a country perspective, the countries with the largest weight in the MSCI EAFE index (Japan, UK, France, Germany, Switzerland) all underperformed the US on a relative basis.

The Netherlands had the highest return (11.8%) but comprises less than 5% of the index. In the emerging markets, China remains the largest country exposure in most emerging market indexes but was flat (0.0% return) for the quarter. Other countries with larger exposures in emerging market indexes performed relatively well, including Taiwan (10.7%) and India (6.9%), though these returns were still not enough to pull the overall index ahead of either US or developed ex-US equity indexes for the quarter.

International stocks (both developed and emerging) were negatively impacted by a US Dollar that strengthened vs. a basket of its peers during the first quarter of 2021 (see Exhibit 4), which is a reversal of what we saw for much of 2020. In fact, in the developed markets, only the Canadian dollar, British pound and Norwegian Krone appreciated vs. the dollar, with all others depreciating.



EXHIBIT 4



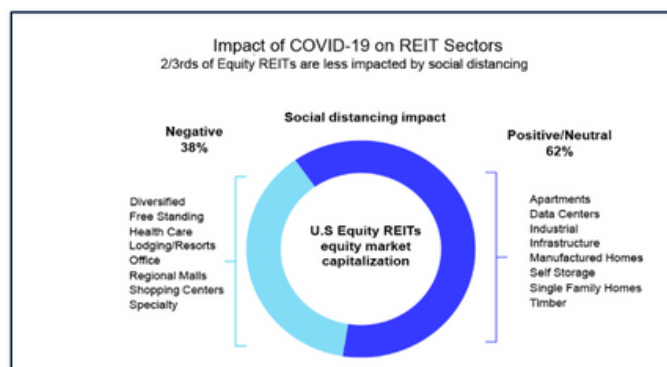
SOURCE: WALL STREET JOURNAL DOLLAR INDEX AS OF MARCH 31, 2021; IT SHOWS THE VALUE OF THE USD RELATIVE TO A BASKET OF 16 FOREIGN CURRENCIES

Global REITs

Global REITs, as represented by the Dow Jones Global Select REIT, generated a 7.7% return for the quarter, with U.S. REITs (10.0%) outperforming non-U.S. REITS (3.1%). Over the last 12 months, REITS have bounced back but not nearly as much as equities have in general.

Obviously, Covid-19 played a major role in the experiences of various REITS throughout the last year. With lockdowns in place and most people not traveling too far from home, it makes perfect sense that we saw significant declines in REIT sectors where social distancing is quite difficult. This includes sectors such as lodging, shopping centers and health care facilities (e.g. nursing homes). However, it is important to remember that REIT sectors are quite diversified.

EXHIBIT 5



SOURCE: NAREIT ANALYSIS OF EQUITY MARKET CAPITALIZATION FOR EQUITY REITS IN FTSE NAREIT ALL REIT INDEX AND FACTSET MONTHLY RETURNS AS OF NOVEMBER 30, 2020

Per the analysis done by Nareit and shown in Exhibit 5, just less than 2/3 of REIT sectors as measured by market cap are considered to be less impacted by social distancing and includes REIT sectors like data centers, manufactured homes and self-storage facilities.

Like we have seen in equities, it is not out of the question that we will see the sectors that were hurt most by the virus and the ensuing lockdowns experience a rebound as economies continue to open up around the globe.

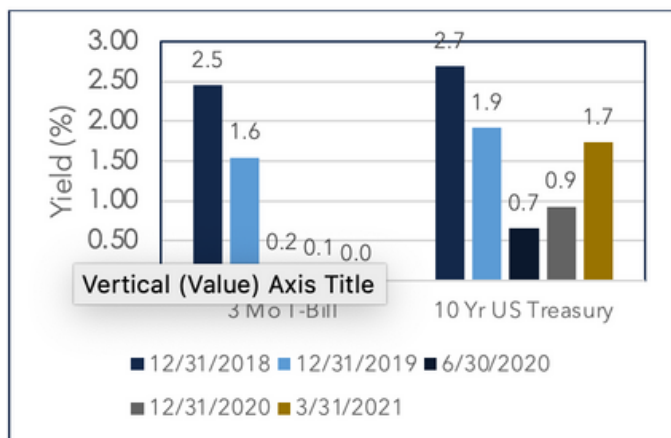
Global Fixed Income

Unlike equities, most fixed income indexes actually declined for the quarter, and Treasury indexes have even moved into negative territory over the last 12 months. As signs of a strengthening economy continued, we saw a steepening of the yield curve as Treasuries sold off, in particular on the intermediate and longer portions of the yield curve. As we know, yields and prices move inversely with one another, hence the negative returns across Treasuries.



As Exhibit 6 shows, the short end of the yield curve remains near zero. This makes sense as the Fed really controls this portion of the curve, and they have strongly stated they do not expect to raise rates until their objectives of full employment and an average inflation of 2% are met. Currently, popular opinion is this won't happen until 2023.

EXHIBIT 6



SOURCE: TREASURY.GOV

Fed Chairman Powell has stated it would be “quite some time” before enough progress towards their goals is made while adding later “the economy is a long way from our employment and inflation goals.”

At the same time, we have seen yields rise in the intermediate and long-term portion of the curve, which has been driven by additional fiscal stimulus and economic growth expectations from continued vaccination efforts.

Yields started to increase in January as Democrats took control of the Senate, and with that the likelihood of increased stimulus grew, along with the belief that economic growth and inflation would follow. In fact, 10-year Treasury yields topped the 1% mark while the 30-year Treasury topped 2%, marks that had not been hit in about a year. The widening split between long- and short-term Treasuries indicates investors believe economic growth is coming and are moving towards riskier assets and away from safe-haven assets like Treasuries. At the end of the quarter, the 10 year Treasury yielded 1.74%, a level that had not been

reached since January 2020.

In all, while rising rates can create negative returns in the short term for bond investors, rising rates can actually be a good thing, especially as they move higher to what is considered more normal levels, and expectations are for higher growth. In all, it can be taken as a statement of confidence in the economy and recovery overall. Furthermore, even though a rise in yields means a drop in prices, investors should benefit from receiving the higher yield going forward.

Inflation continues to be a hot topic and there continue to be strong arguments for why we will (and also why we won't) see high inflation ahead. Folks that believe that high inflation is coming simply point to the massive amounts of fiscal and monetary stimulus added to the financial system. When you combine that with an economy that continues to open up and the possibility that supply will not be able to keep up with demand, you see rational arguments for inflation. However, skeptics have shown that rising rates do not automatically mean high inflation, especially when unemployment is still as high as it is. The reality is that we have no data to reference how the global economy will respond post-pandemic, and that includes what happens to inflation. One thing to note is that while some may remember the run-away inflation we saw in the 1970's and be concerned we are headed there again when we discuss inflation, it is believed the Fed has the necessary tools available as well as more knowledge in order to avoid another similar scenario.



There is one important point to keep in mind over the next several months when looking at inflation data. Remember that inflation statistics are often quoted as year-over-year statistics, and with CPI data falling dramatically last May after the initial shock and awe of Covid-19, it will not be surprising to see some high year-over-year CPI statistics in the coming months. Exhibit 7 shows the level of CPI from January 2020 through February 2021, with the drop off in May 2020.

EXHIBIT 7



SOURCE: U.S. BUREAU OF LABOR STATISTICS, FRED.STLOUISFED.ORG

As we think about inflation, TIPS are thought of as the best hedge against inflation as the securities are literally tied to CPI, a broad measure of inflation. Some of the reasons why some inflation protection and an allocation to TIPS may be warranted today include: 1) the Fed has stated their inflation target is an average of 2% and not a 2% target as it previously was, which means inflation could be above 2% for a while, 2) a surge in economic activity could lead to an inflation surprise. On the flipside, there are also reasons why an investor may choose not to hedge against inflation via a TIPS allocation: 1) for investors that have substantial equity positions, it is generally believed that equities will outpace inflation over time, 2) TIPS perform relatively poorly when real yields rise, 3) TIPS are seen as being tax inefficient.

As we discussed in previous quarters, in order to generate more return, investors need to assume more risk. In fixed income, that means either extending duration or lowering credit quality. There are tradeoffs that have to be weighed very carefully before implementing either strategy. From a duration standpoint, extending duration too far out can be a risky move in a period of rising rates. Similarly, lowering credit quality means investing in high yield, or junk bonds, which generally correlate much more with equities and therefore don't provide the diversification benefits we expect from fixed income.

Like Treasuries and corporate bonds, municipal bond returns mostly fell during the quarter with only short-term bonds eking out a slight, positive return.

We continue to view fixed income as a method of reducing overall portfolio risk (as measured by standard deviation), given that equities are expected to have much higher volatility. Our portfolio's focus will continue to be on high quality bonds with an emphasis on short to intermediate duration government and corporate bonds, where default risk has historically been relatively low. For some investors, muni bonds are attractive for their tax-free income.



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An investor should consider a portfolio's investment objectives, risks, charges and expenses carefully before investing. The underlying funds' prospectus contain this and other important information. Please read any applicable prospectus carefully before investing.

Benchmark descriptions: MSCI ACWI Index, MSCI's flagship global equity index, is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 24 emerging markets, covering approximately 85% of the free float-adjusted market capitalization in each market. Russell 3000 Index is a market-capitalization-weighted equity index that tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S. incorporated equity securities. Standard & Poors 500 is an index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices. Russell 1000 Index is an index of approximately 1,000 of the largest companies and is a subset of the Russell 3000, comprising approximately 90% of total market capitalization of all listed US stocks. Russell 1000® Growth Index is a market capitalization weighted index that measures the performance of those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. Russell 1000® Value Index is a large-cap value index measuring the performance of the largest 1,000 U.S. incorporated companies with lower price-to-book ratios and lower forecasted growth values. Russell 2000® Growth Index measures the performance of the Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. Russell 2000® Value Index is an unmanaged, market-value weighted, value-oriented index comprised of small stocks that have relatively low price-to-book ratios and lower forecasted growth values. MSCI EAFE (Europe, Australasia, Far East) Index is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. MSCI EAFE Small Cap Index captures small cap representation across Developed Markets countries around the world, excluding the US and Canada. MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries and covers approximately 85% of the free float-adjusted market capitalization in each country. MSCI Frontier Markets Index captures large and mid cap representation across 29 Frontier Markets countries and covers about 85% of the free float-adjusted market capitalization in each country. Dow Jones Global Select REIT Index is designed to measure the performance of publicly traded REITs and REIT-like securities and is a sub-index of the Dow Jones Global Select Real Estate Securities Index (RESI), which seeks to measure equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded globally. The index is designed to serve as a proxy for direct real estate investment. Dow Jones U.S. Select REIT Index tracks the performance of publicly traded REITs and REIT-like securities and is designed to serve as a proxy for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index. Dow Jones Global ex-US Select REIT Index is designed to measure the performance of publicly traded REITs and REIT-like securities traded globally ex-US. ICE BofAML 3-Month T-Bill Index is an unmanaged index that measures returns of three-month Treasury Bills. ICE BofAML 1-5 Year US Treasury, Corporate and Municipal Indexes are subsets respectively of ICE BofAML US Treasury, Corporate and Municipal Indexes including all securities with a remaining term to final maturity greater than or equal to 1 year and less than 5 years. ICE BofAML 5-10 Year US Treasury, Corporate and Municipal Indexes are subsets respectively of ICE BofAML US Treasury, Corporate and Municipal Indexes including all securities with a remaining term to final maturity greater than or equal to 5 years and less than 10 years. ICE BofAML 10+ Year Treasury, Corporate and Municipal Securities Index are subsets respectively of ICE BofAML US Treasury, Corporate and Municipal Securities Indexes including all securities with a remaining term to final maturity greater than or equal to 10 years. Bloomberg Barclays Global Aggregate Bond Index provides a broad-based measure of the global investment-grade fixed income markets (one version shown with its currency hedged back to the USD and is noted as such). Bloomberg Barclays US 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 securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and nonagency). J.P. Morgan Global (ex-US) Government Bond Index: Is the standard unmanaged foreign securities index representing major government bond markets outside the US markets (one version shown with its currency hedged back to the USD and is noted as such). ICE BofAML US Inflation-Linked Treasury Index tracks the performance of U.S. dollar denominated inflation linked sovereign debt publicly issued by the U.S. government in its domestic market. Qualifying securities must have at least one year remaining term to final maturity and no more than 5 years to maturity. Bloomberg Barclays U.S. Corporate High Yield Bond Index is a total return performance benchmark for fixed income securities having a maximum quality rating of Ba1.

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