VWG WEALTH MANAGEMENT
A Hightower Company

1st Quarter Review

Executive Summary

- A year ago, the global economy was grinding to a near halt as fears of a COVID-19 pandemic gripped the world. Tens of millions of Americans were left jobless. The pandemic led to the U.S. economy contracting 3.5% for 2020, its worst recession since the end of World War II. Today, although the crisis is far from over, with many families, cities and countries still suffering, a path to recovery is possible. Much global assistance and sustained effort remains.
- Fueling the recovery are potent twin punches – stimulus and science. The U.S. Federal Reserve and global central banks have delivered breathtaking amounts of liquidity and assistance, attempting to fill an economic void and support suffering households and businesses. Three COVID-19 vaccines have been developed, approved and are now being rapidly delivered in the U.S., marking an unprecedented triumph of advanced medical research and collaboration.
- The S&P 500 Index gained 6.3% in the first quarter, as optimism for a reopening of the economy and a gradual return to 'normal' grew. Smaller stocks (Russell 2000 index), considered more levered to growth, did even better rising 12.4%. International stocks also gained

but lagged as the COVID-19 virus continued to plague certain regions and vaccine rollouts were uneven.

- The bond market sniffed out economic recovery in record fashion. The yield of the 10-year U.S. Treasury note almost doubled. Prices of longer-duration bonds fell, along with prices of many rate-sensitive assets and sectors.
- Astounding levels of monetary stimulus and liquidity, healthy household balance sheets, the unleashing of pent-up consumer demand, and disruptions in supply chains and inventories, are expected to coalesce in producing periodic inflation fears. VWG does not expect these to be persistent or damaging.
- We currently recommend that investors remain positive. Long-term investors should hold diversified, moderately balanced portfolios, featuring assets and strategies that can capitalize on entrepreneurship, innovation, and wealth creation. Occasional periods of volatility should be expected as the economic recovery accelerates, and as interest rates normalize.

Review of the Markets

Following through from December's optimism, and boosted by the rollout of COVID-19 vaccines, the S&P Index rose 6.3%. Although the market advance was broad, tremendous sector rotation occurred underneath the surface. Financial, industrial and energy stocks saw large gains, as sentiment toward a reopening of the economy strengthened. More defensive large technology stocks and healthcare issues paused. Small U.S. stocks soared, considered as a group to be more economically sensitive. The benchmark Russell 2000 Index gained 12.4%. At one point during the quarter, relentless buying pressure pushed it to a record overbought condition.

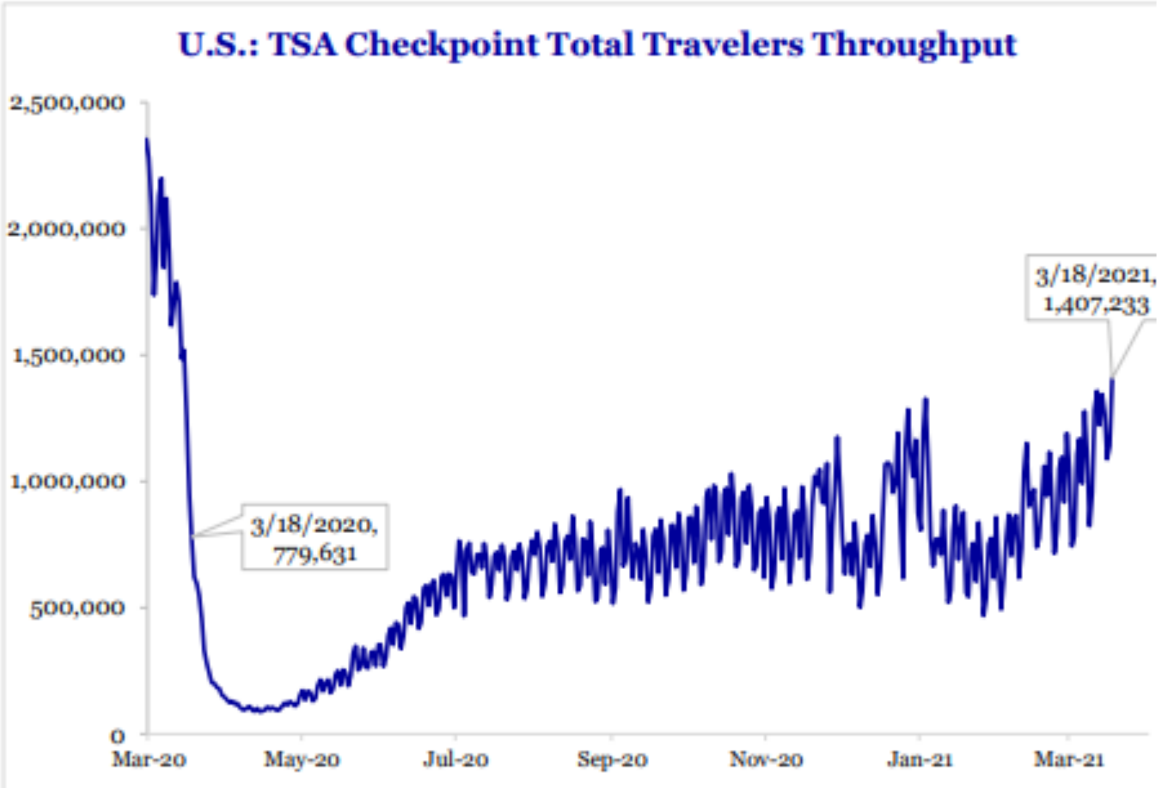
Foreign stocks also rose, but lagged U.S. stocks as COVID-19 hotspots persisted parts of Europe, India, Brazil and parts of Africa. Slower immunization deployment and pockets of vaccine reluctance softened the global recovery theme. The MSCI EAFE Index, a benchmark for stocks of companies domiciled in developed economies, increased 4.0%. Japan was a standout as the Nikkei 225 Index improved 6.3%. The MSCI Emerging Markets Index gained 3.2% in the 1st quarter.

Reversing its deeply pessimistic deflationary stance, the bond market sniffed out economic momentum building. In one of the most acute relative increases ever, the yield of the U.S. 10-year Treasury almost doubled from 0.92% to 1.74%. Bond prices correspondingly fell, with the Barclays Aggregate Bond Index dropping 3.3%. Rate-sensitive and highly valued speculative assets sold off. High yield bonds bucked this trend as expectations for a stronger economy and a return of corporate earnings improved. The Barclays High Yield Very Liquid Bond Index increased 0.6% in the quarter. Municipal bonds outperformed taxable bonds, as the new Presidential agenda began to gel and prospects for increased taxes strengthened. The S&P National Municipal Bond Index fell 0.7% in the quarter.

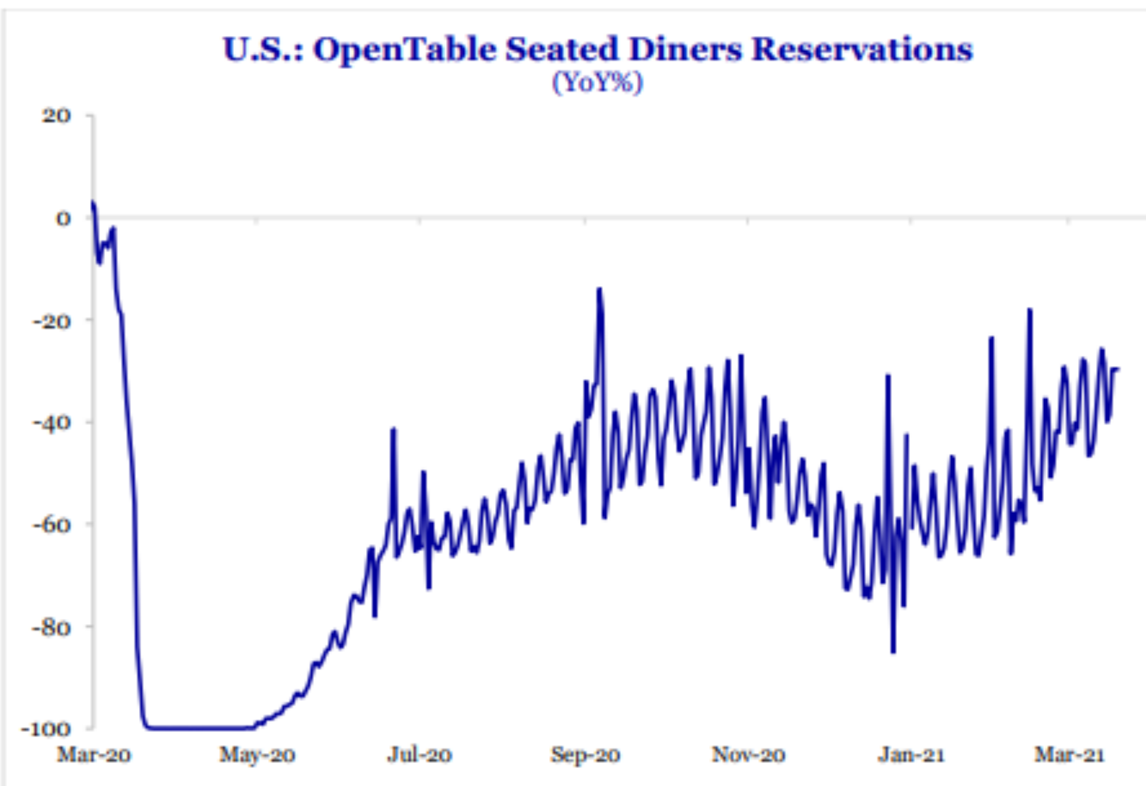
Commodities strengthened broadly in the 1st quarter, reflecting prospects for a healing of the global economy. The NYMEX High Grade Copper continuous futures contract rose 13.6%. Prices of crude oil and refined products rose soundly as consumption increased amidst tighter supply due to 2020 pandemic-related production cuts. The NYMEX West Texas Intermediate Crude Oil continuous futures contract increased 21.9%. Gold faltered as the prospects for deflation diminished and the U.S. dollar strengthened against a basket of foreign currencies. The NYMEX Gold continuous futures contract lost 9.5% for the quarter.

Periodic Inflationary Pressures are Expected as the Economy Rebounds

Due to unprecedented monetary and fiscal stimulus, vaccine rollouts gaining momentum, and gradual relaxing of some public health restriction, confidence continues to grow for U.S. economic recovery out of a harsh recession. 2021 and 2022 could be the strongest back-to-back years of global gross domestic product (GDP) growth since the early 1970s. Many large banks and strategists are predicting 8%+ real U.S. GDP growth this year. The Federal Reserve has raised its 2021 real GDP forecast to 6.5% growth, and it expects 2.4% inflation. There are even signs of real resurgence in two of our economy's most battered sectors – travel and dining.



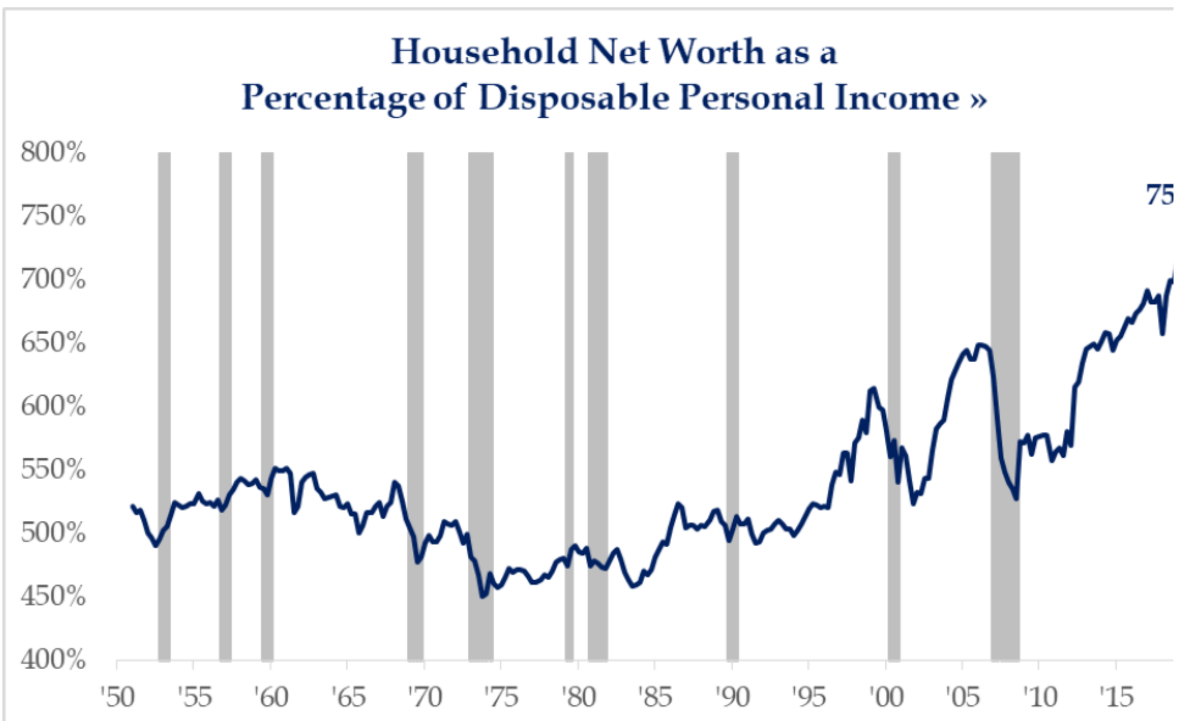
U.S.: TSA Checkpoint Total Travelers Throughput
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
Mar-20
May-20
Jul-20
Sep-20
Nov-20
Jan-21
Mar-21
3/18/2020, 779,631
3/18/2021, 1,407,233



U.S.: OpenTable Seated Diners Reservations
(YoY%)
20
0
-20
-40
-60
-80
-100
Mar-20
May-20
Jul-20
Sep-20
Nov-20
Jan-21
Mar-21

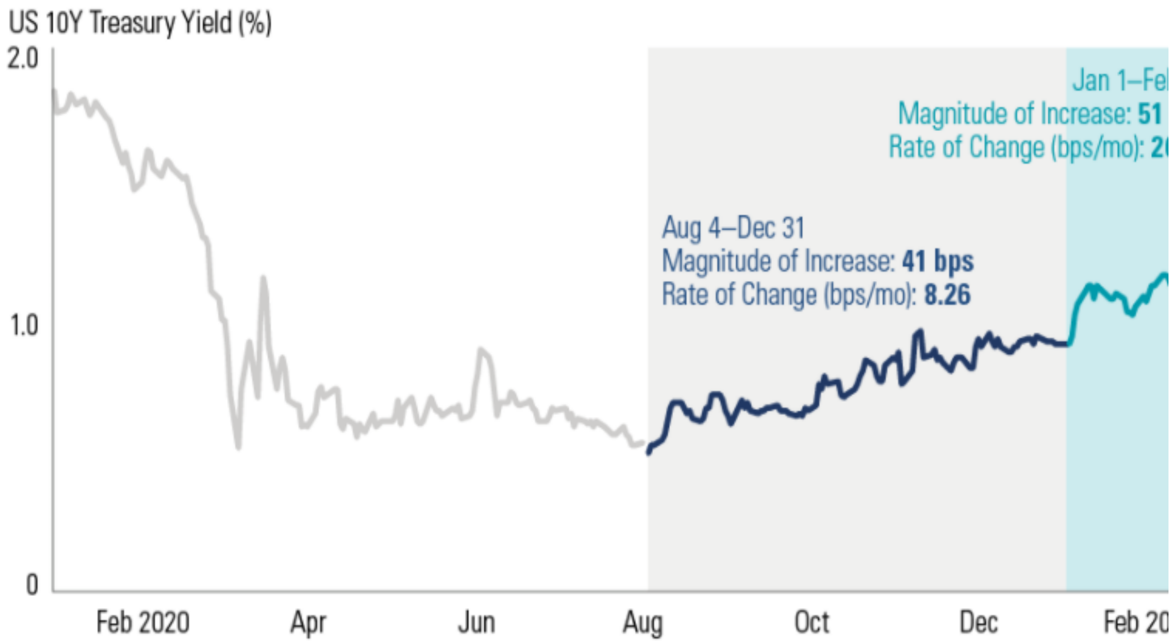
Charts and data courtesy of Strategas Research Partners

Pent-up discretionary spending is likely to be unleashed as sentiment improves, and public gathering and entertainment venues gradually reopen. Wealthy households have the means and the desire to spend. Assistance is on the way to those in need (and who will spend it). The wealth of many U.S. households has increased during the pandemic, due to reduced consumption spending and increased asset valuations. Total U.S. household net worth has hit a record $130 trillion. U.S. personal savings has increased almost threefold from pre-COVID levels. Regretfully, other parts of the economy have been devastated, further widening the wealth gap.



Charts and data courtesy of Strategas Research Partners

Coming out of a sharp and deep recession, these improvements should be termed as being “reflationary,” meaning returning towards pre-pandemic levels. The 800 lb. gorilla is the massive amount of stimulus that has been injected into the economy and its unknown longer-term effects. Blackrock estimates that “nearly a third of all broad money in circulation in the U.S. will have been created since the onset of the pandemic.” The Federal Reserve has stated that they will not back off the liquidity pedal until the economy is back at full employment, and “humanity is served.” Rapid reflation will be erratic and uneven. Episodes of asset volatility and spikes in consumer prices should be expected. Cornerstone Macro’s Nancy Lazar states that “inflation fears aren’t going away any time soon, implying that financial market volatility could intensify with interest rates continuing to grind higher.”

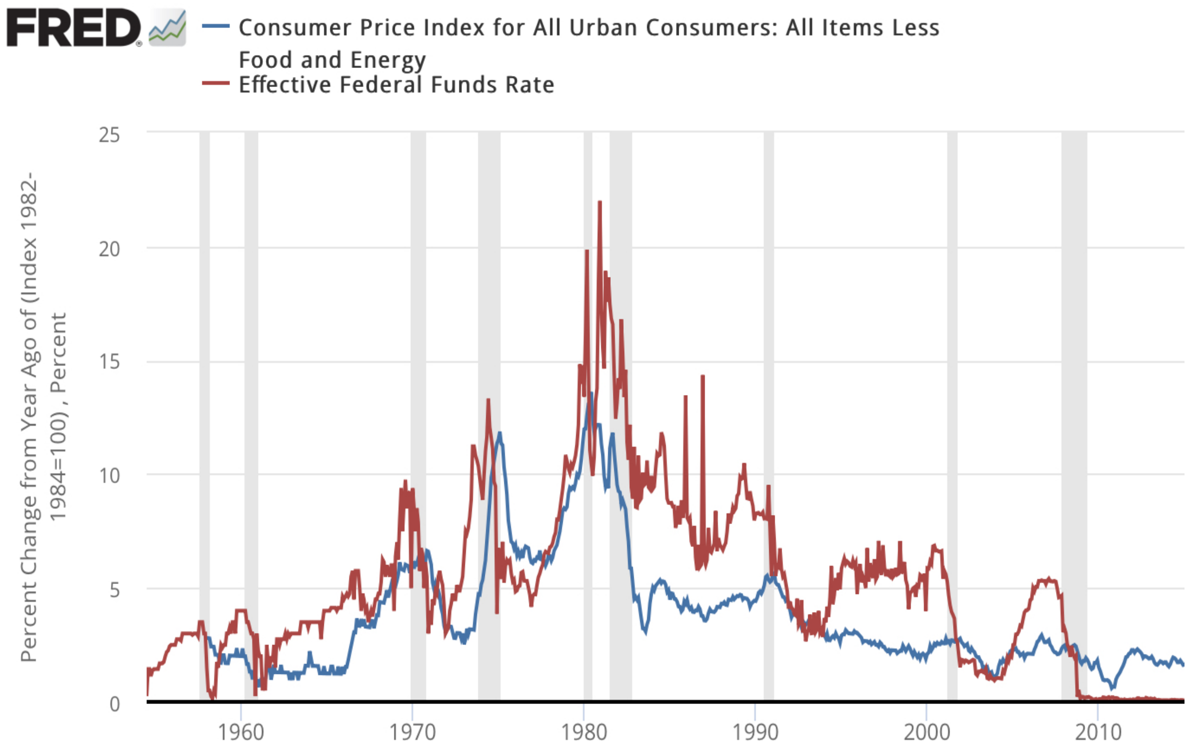


Source: GSAM, Federal Reserve Bank of St. Louis. As of February 28, 2021. **Past performance does not guarantee future results, which**
vary.

Other forces are at work. Global supply chains have been greatly disrupted – by work outages due to sick and socially distancing manufacturing workers, and by their inability to predict and keep pace with quickly changing demand. Autos, single-family homes, semiconductors, lumber, and crude oil are just some of the areas showing disparity between supply and demand. Stabilization may take time but is transitory. The pandemic is not solely to blame. Morgan Stanley’s Mike Wilson points out that “other inflationary trends were already established before the COVID-caused recession began – populism, nationalism, de-globalization (with the call to reshore some U.S. businesses and inventories), and signs that the US would have to share its reserve currency status."

The health and economic damage that COVID-19 has wrought on less fortunate, lower income households has coalesced - along with increasing social unrest, rising objection to untenable minority and gender inequality and abuses, desperate calls for the repair of crumbling and outdated infrastructure, greater focus on the environment and sustainability - into broad calls for change. Several high-profile macro observers see this as a secular turning point.

If this "turning point" thesis proves correct, it is possible that inflation could be higher in the future (albeit from the extremely low levels witnessed over the past thirty years). Programs taken to fight income equality and redistribute wealth increase consumption, as lower income households generally spend more of their disposable income. Jeff Currie, Goldman Sachs' global head of commodities research, reminds us that "global income inequality was at a low point in the late 1970's / early 1980's, as actions were taken to fight income inequality, and clean up pollution. That period was marked by inflation and higher real commodity prices."



Charts and data courtesy of FRED Economic Research, Federal Reserve Bank of St. Louis

For all these reasons, it makes sense to us that the topic of inflation, and higher interest rates, has entered the conversation. This should be taken as a positive, considering it was only a few months ago that fears of deflation fanned the fires. We are not overly concerned. We don't envision structural, persistent inflation as was seen in the 1970s and early 1980s. Temporary spikes in prices of certain goods and services should be expected but should not be persistent. Noted economist David Rosenberg instructs that "there can be no lasting inflation without a wage cycle." Apollo Global Management's Torsten Slok points out that "over 10 million (6.2%) of Americans are currently unemployed and it is unlikely that we can return to 'full employment' levels until 2022."

Large changes in our economy over the past forty years counterbalance any likelihood of persistent inflation. The services sector now accounts for 67% of United States GDP. Re-shoring some essential manufacturing capabilities is unlikely to greatly alter this composition. Demographics have changed markedly, as baby boomers are reaching their 60s and 70s, and as life expectancy has increased.

Moreover, the digitization revolution and technological disruption underway is touching everything and appears to be still in its infancy. Margins are being compressed. All is highly deflationary. Nancy Lazar believes “technological innovation increases the odds that productivity will be stronger and more sustainable in this expansion. Technology capital expenditures and the digitization supercharger are extremely deflationary. They should offset inflationary pressures.”

Portfolio Strategy and Asset Positioning

Given the expectation for synchronized global growth, unleashing of pent up demand, and periodic inflationary pressures, how should portfolios be positioned? Despite the many challenges and concerns, investors cannot be too pessimistic. VWG Wealth Management continues to feature equities and strategies that can capitalize on entrepreneurship, innovation, and wealth creation. We continue to underweight bond allocations. The U.S. equity market structure is positive, noted by breadth and healthy sector rotation. International equities are attractively priced and should benefit in recovery despite regional reopening delays. Strategas’ CEO Jason Trennert observes that “there is nothing more normal than interest rates and stock prices rising at the same time at the start of a new business cycle.”

The recovery will not be without some fits and starts, both domestically and globally. Much remains to be learned about the COVID-19 virus and our efforts to combat it. Millions worldwide are still suffering. Volatility should be expected. Portfolio diversification and some measures of defense are required. Volatility will also stem from interest rates normalizing, and from the skimming of froth in speculative and overvalued assets. Duration of bond maturities should be kept short, with some exception in tax-exempt municipal bonds where expectations for increased taxes should keep demand firm.

As the complex mix of the COVID-19 pandemic, policy and politics, markets and the economy evolves, we will persevere in serving you and your families. We continue to seek out opportunities and experienced operators who can exploit them. We remain vigilant to risks and strategies to defend against them.

Please make sure to mark your calendars for the next episode of VWG's live webinar series:

Ponderings & Musings LIVE: "Women's Edition"

Putting on Your Mask First: Prioritizing Financial Self Care - May 5 @ 12.00pm EDT

Women now earn, influence, and inherit more money than ever. Yet, many women associate stress and anxiety with financial planning and don't enjoy spending time with their finances. Women also feel stretched between the competing financial needs of their children and aging parents, sometimes sacrificing their own well-being. Please join our webinar on May 5th featuring an all-female panel of VWG advisors to start changing this narrative and further chart your path to financial independence.   We'll highlight the following:

- Workplace benefits for maximizing savings, investments, and healthcare coverage
- Planning for a comfortable and purpose driven retirement
- Tips for raising financially responsible kids
- Making an impact through charitable giving & ESG investing

RSVP link to follow.

Please accept our best wishes to you and your family for a brilliant spring, a healthy reopening, and much more time spent together with loved ones and friends.

Regards,

VWG Wealth Management

Suzanne, Ashley, Rashmi, Kay, Lynette, Ona, Michelle, Ryan, Ryan, Susan, Marnie, Justin, Elana, Patricia, John, Rick and Jeff

Who we are

Please reach out to us if you have any questions or comments.

VWG Wealth Management

(571) 406-4700
vwg@hightoweradvisors.com

Disclosures

VWG Wealth Management, A Hightower Company

1919 Gallows Road, Suite 330, Vienna, VA, 22182
(571) 406-4700
Visit Our Website