Goodman FINANCIAL

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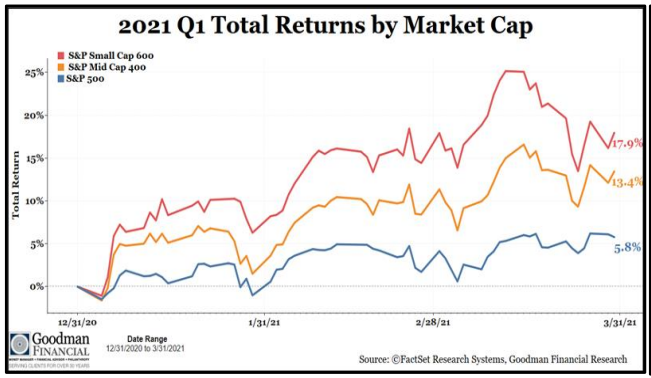
SERVING CLIENTS FOR OVER 30 YEARS

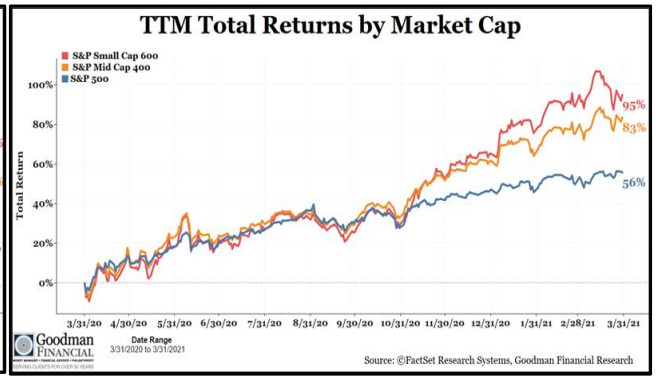
Q1 2021 MARKET & ECONOMIC REVIEW

INDEX	DESCRIPTION	12/31/20	LOW CLOSE	HIGH CLOSE	3/31/21	QTD RETURN*
S&P 500	A market-capitalization weighted index of 500 large U.S companies.	3,756	3,701	3,975	3,973	↑ +5.8%
DJIA	Dow Jones Industrial Average or "The Dow"; A price-weighted average of 30 major U.S. companies.	30,606	29,983	33,171	32,982	↑ +7.8%
Nasdaq Composite Index	A market-capitalization weighted index comprised of over 3,000 companies, mostly in the technology and biotech industries.	12,888	12,609	14,095	13,247	↑ +2.8%
Russell 2000	A market-capitalization weighted index tracking U.S. small-cap stocks.	1,975	1,946	2,360	2,221	↑ +12.4%
NIKKEI 225	A price-weighted index comprised of Japan's top 225 most established companies (in Yen).	27,444	27,056	30,468	29,179	↑ +6.3%
MSCI Emerging Markets	An index comprised of 23 MSCI indices from emerging economies including Brazil, China, India, Mexico, Russia, South Africa, and the UAE.	1,291	1,288	1,445	1,316	↑ +1.9%
Stoxx Europe 600	An index comprised of 600 companies based in one of 18 EU countries including Austria, Belgium, Denmark, France, Germany, Ireland, Spain, and the United Kingdom (in Euro).	399	396	431	430	↑ +7.7%

*** Excludes effects of dividends**

Source: FactSet





Major Equity Market Indexes & Commentary

- Stocks had solid gains once again in Q1, extending their winning streak to four quarters in a row. GFC equity portfolios significantly outperformed their benchmarks in the quarter. Investors reacted with optimism to increasing levels of Covid-19 vaccinations of U.S. citizens, and more importantly for a further re-opening of the economy due to those vaccinations. Additionally, investors reacted positively to the $1.9 trillion Covid relief and stimulus package that was passed by Congress and signed into law during the quarter – the third such package passed in the last year, altogether totaling over $5 trillion. Finally, investors began to contemplate the prospect and impact of a $2 trillion infrastructure bill that was introduced by President Biden at quarter-end.

- Small and mid-cap stocks trounced their large-cap brethren for the second quarter in a row, as seen in the chart below (left). Even more amazing are the small and mid-cap returns for the trailing twelve months (TTM), from around the time stocks bottomed last year. As seen in the chart below (right), the S&P 600 small-cap index nearly doubled during that time, up a whopping 95%. The S&P 400 mid-cap index did nearly as well, up 83%. Both indexes blew past the large-cap S&P 500, which was up a “mere” 56% for the TTM.

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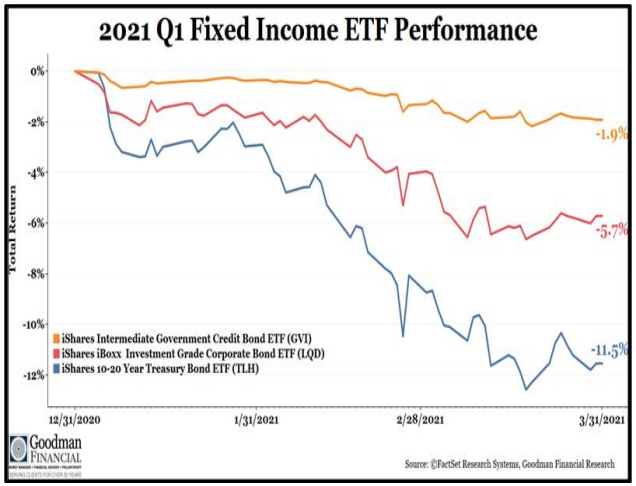
DESCRIPTION	12/31/20	3/31/21	QTD CHANGE IN BASIS POINTS*	DESCRIPTION	12/31/20	3/31/21	QTD CHANGE IN BASIS POINTS*
Federal Funds Target Rate	0.00%-0.25%	0.00%-0.25%	0	15 Yr. Mortgage Rate	2.21%	2.45%	+24
90 Day Treasury Bill	0.09%	0.03%	-6	30 Yr. Mortgage Rate	2.67%	3.17%	+50
2 Yr. Treasury Note	0.13%	0.16%	+3	Prime Rate (U.S.)	3.25%	3.25%	0
10 Yr. Treasury Note	0.92%	1.74%	+82	LIBOR (3 Month)	0.24%	0.19%	-5
30 Yr. Treasury Bond	1.65%	2.41%	+76	5-Year CD	1.10%	1.06%	-4

***One basis point is equal to 1/100th of 1% or 0.01%**

Sources: FactSet, Wall St. Journal, U.S. Treasury



Fixed Income Rates & Commentary

- It was a rough quarter for bond investors in Q1. As seen in the accompanying table, long-term treasury rates rose significantly in the quarter. In fact, according to the *Wall St. Journal*, the 0.82% increase in the 10-year treasury rate for the quarter was the largest quarterly increase since Q4 2016. Accordingly, longer-dated treasury bonds declined significantly in price in Q1. This can be seen in the chart below (left), which shows Q1 performance for various bond exchange traded funds (ETF's). As seen, the iShares 10-20 Year Treasury Bond ETF (TLH) was down 11.5% for the quarter – a rather large decline for what is supposed to be a "safe" asset. Meanwhile the ETF that represents our bond benchmark, the iShares Intermediate Government Credit Bond ETF (GVI), was down 1.9% for Q1. GFC fixed income portfolios outperformed their benchmark during the quarter, and in the aggregate posted positive returns.

- As seen in the accompanying table, the 2-year treasury rate stayed nearly flat to end the quarter at 0.16%. This is mostly due to the fact that the Federal Reserve (Fed) is on record as stating that they don't plan to increase their short-term Federal Funds rate until sometime in late 2022 or early 2023. Accordingly, the interest rate spread between the 10-year and 2-year bonds has climbed rather dramatically, as seen in the chart below (right). If history is any guide, that "10-2" rate spread, which currently stands at 1.52%, has further room to rise as that spread has usually risen to over 2.0% following previous recessions. Such a further rise would likely occur about the time that the Fed then begins to raise their Fed Funds rate in an effort to cool down a recovery that probably starts to have inflationary impacts. It will be interesting to see if the Fed reacts sooner than planned to raise the Fed Funds rate, especially as we are already seeing signs of inflation in many areas, something we recently wrote about in our ***Spring 2021 Goodman Report***.

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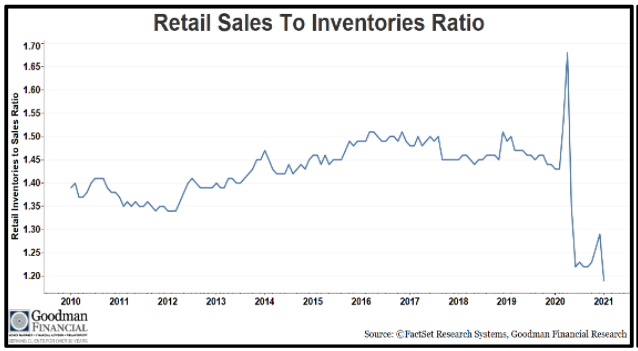
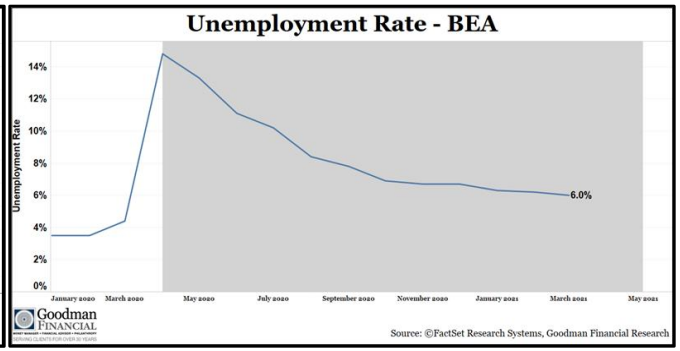
INDICATOR	DESCRIPTION	12/31/20	3/31/21	QTD CHANGE
Weekly Initial Claims for Unemployment Insurance (in Thousands)	The number of new filings for unemployment insurance benefits. Most economists believe claims below 300,000 indicate a healthy labor market environment. **While claims continue to drop, they are still well above the 200,000 weekly type number we were seeing before the pandemic hit.**	806	719	↓ -11.0%
Unemployment Rate	The percentage of total labor force that is unemployed but actively seeking employment. The U.S. Federal Reserve targets a long-run unemployment rate of between 4.5% and 5%. **The unemployment rate continues to decline. Per FactSet, economist expect the rate to fall below 5% by year-end.**	6.7%	6.0%	↓ -70 bps
Average Weekly Earnings	The average weekly salary earned by private, nonfarm employees. **Wages are back to growing again, after falling some in 2020. The growth seen this quarter bodes well for consumer spending.**	$1,029	$1,046	↑ +1.7%
Index of Consumer Sentiment	This index is published by the University of Michigan and reflects consumer attitudes towards the state of the economy. **Given the strength of the economic recovery and lower unemployment, the increase in sentiment isn't too surprising. It is still much lower than last year's reading of 93.2.**	80.7	84.9	↑ +5.2%
ISM Purchasing Managers Index (PMI®)	This index represents economic activity in the manufacturing sector. Any value above 42.9 represents economic expansion. **The PMI recovery continues to be good news as this indicator has risen for 10 months in a row.**	60.7	64.7	↑ +6.6%
Existing Home Sales (in Millions) *	This data is provided by the National Association of Realtors®. It is a seasonally adjusted annualized rate and reflects completed transactions in houses, townhomes, and condominiums. **The fall in home sales this quarter is more due to a lower inventory of homes for sale than to a reduction in demand.**	6.69	6.22	↓ -7.0%
US Capacity Utilization: Manufacturing *	The ratio of production capacity being used to produce finished products compared to the total capacity available. **Utilization stalled this quarter due mostly to supply chain disruptions rather than to lower demand.**	73.1%	72.9%	↓ -2.7%

***These items are as of 2/28/21, the date of the most recently published statistics**
Sources: FactSet, Federal Reserve Bank of St. Louis, The University of Michigan, U.S. Census Bureau, U.S Department of Labor, Institute of Supply Management





U.S. Economic Commentary

- The number of green arrows in the accompanying table reflects the ongoing strength of the U.S. economic recovery currently underway. Any indicators of weakness seen in the economy are mostly due to severe supply chain disruptions that have caused manufacturing lines to shut down from the lack of components or for retailers to miss sales opportunities due to lack of inventory. This can be readily seen in the chart below (left) that shows a level of retail inventories relative to sales that is at 10-year lows. Underlying demand for many products is stronger than had been expected just a few months ago.

- Per FactSet, economists now estimate that we will see a strong real GDP growth rate for 2021 of 5.7%, a significant increase from the 4.1% rate those same economists were estimating just 3 months ago.

- As seen in the chart below (right), the headline unemployment rate continues to steadily decline from the nearly 15% rate seen in April last year. The unemployment rate should see further declines as the service economy begins to more fully re-open as Covid-19 vaccinations become available to anyone in the U.S. who wants one. Per FactSet, economists now estimate the unemployment rate will drop below 5% by year-end and below 4% once again by the end of 2022.