



Quarterly Themes

Q1 2021



Quarter Recap

Capital Market Update

Capital markets saw two major narratives play out over the quarter. The first was coming into the quarter with COVID cases rising and vaccine distribution starting, though slowly. The latter half of the quarter saw increased growth expectations that pushed up yields on government bonds while causing a pullback in the growth-oriented parts of equity markets, notably technology.

Rising Yields Drive Negative Fixed Income Performance

- Yields quickly rose in the quarter, causing bond prices to decline due to the inverse relationship between bond yields and prices.
- Equity markets gained considerable ground in the last months of the quarter as financials, and other value-oriented sectors, outperformed.

Market Total Returns ¹		Jan	Feb	Mar	Q1
	U.S. Stocks	-1.0%	2.8%	4.4%	6.2%
	U.S. Bonds	-0.7%	-1.4%	-1.2%	-3.4%
	Global Stocks	-0.5%	2.3%	2.7%	4.6%
	Global Bonds	-0.9%	-1.7%	-1.9%	-4.5%

Economic News and Developments

Relief bills and vaccine news dominated the quarter's headlines. Vaccine distribution accelerated, prompting hopes of a faster recovery, and economic data, such as retail sales, were boosted by December's stimulus and expectations for a significant boost in March from the latest relief bill.

Latest Federal COVID Relief

- In March, President Biden signed the latest relief bill, providing \$1.9T to fund direct assistance, vaccine rollout, and a host of other programs.

Yields and Interest Rates

- Throughout the quarter, yields on the U.S. 10-year government bond have increased with a notable acceleration in the back half of the quarter on positive vaccine news and stimulus efforts.

Key Figures



4.1%
Annualized U.S. GDP
Growth
(Q4 2020)



1.4%
U.S. Inflation,
Core PCE
(February 2021)



6.2%
Unemployment
Rate
(February 2021)

1. U.S. Stocks represented by the S&P 500 Index; U.S. Bonds by the Bloomberg Barclays U.S. Aggregate Bond Index; Global Stocks by the MSCI ACWI; Global Bonds by the Bloomberg Barclays Global Aggregate Index. 2. Full Year expectations based on median response from Bloomberg's December survey of economists.

All data latest as of 03/31/2021

Source: Bloomberg, Helios Quantitative Research

Theme A

Recovery Expectations Grow

- Expectations of how fast the economy can return to normalcy have accelerated over the last few months on the back of large-scale fiscal stimulus and the acceleration of vaccine administration.
- Previously, median economist U.S. GDP forecasts decelerated throughout much of the year. However, expectations have shifted upward for both Q2, and Q3 with median expectations considerably moving upwards to 7.0% and 6.9%, respectively.
- Inflation, measured by Personal Consumption Expenditure (PCE) Core Price Index, the Fed's preferred measurement, has stayed muted. Economist's expectations have adjusted upward over the quarter, but median forecasts, based on Bloomberg surveys, largely remain just below the Fed's target well into next year.

Economic Growth Forecasts

U.S. Annualized Real Growth. Q4 2020 to Q3 2022



Inflation Expectations Nudge Upwards

YoY Core PCE Historical and Forecast, Q4 2009 to Q3 2022



All data latest as of 03/31/21

Source: Bloomberg, Helios Quantitative Research



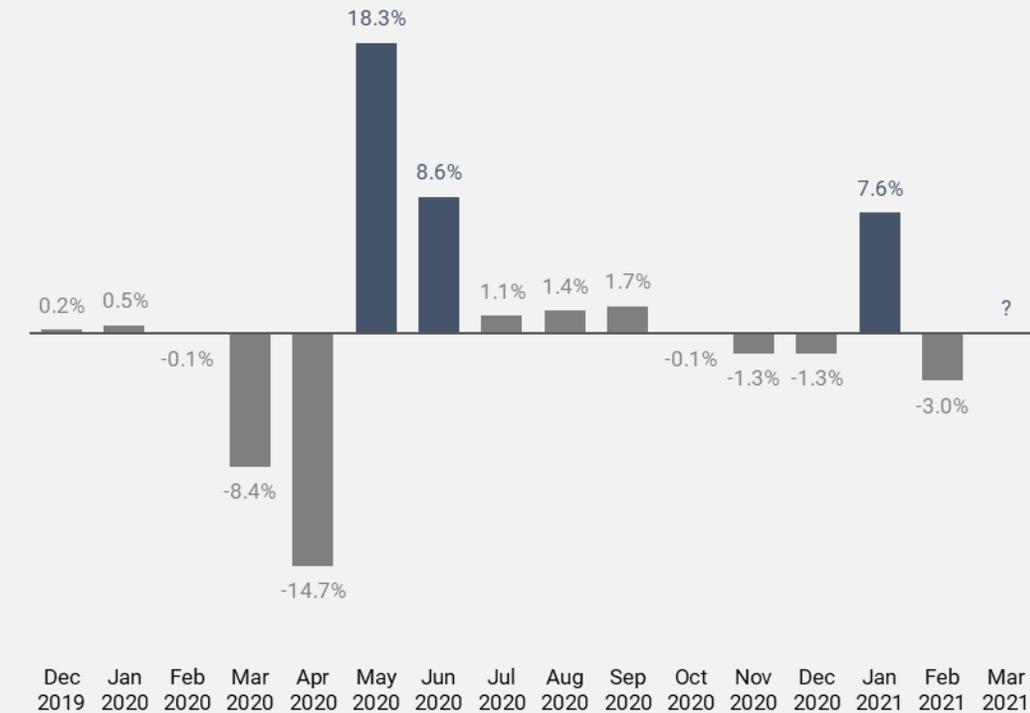
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Theme B

Retail Sales Helped By Stimulus

Stimulus-Driven Retail Spending Pops

Monthly Change, December 2019 to February 2021



All data latest as of 03/31/21

Source: Bloomberg, Helios Quantitative Research

- Since the crisis began, retail spending surges have aligned with federal fiscal stimulus efforts as entire categories, such as travel and leisure, ground to a halt. With the consumer typically representing nearly 70% of the economy, having robust retail and consumer data will be critical to the recovery.
- The stimulus signed in late December caused retail sales to grow by 7.6% in January, blowing past economist expectations of a 1.2% gain. The growth was a welcome sign after seeing a weak Q4 and holiday season last year.
- Given the latest stimulus size, expectations are for a surge in retail activity in March and April. Overall, expectations are for a robust 6.1% growth for all consumer spending in 2021.

Theme C

Recovery Hopes Push Yields Up

- With increased growth expectations, the bond market sent yields on 10-year U.S. government bonds above 1.5% for the first time since the crisis began. While the yields had been rising for much of the quarter, the increase in late February caused some worry amid bond investors on what may happen to the bond funds' prices in their portfolios.
 - While higher yields do mean lower bond prices and short-term negative returns in bond portfolios, but these are, at least partially, offset by an increase in forward expected returns in the same bonds.
- With the rising yields, attention turned to what may happen to relatively lofty technology valuations. While certain companies saw some intraday swings, aggregate valuations didn't change much over the quarter. When looking at the S&P 500 Information Technology Index, the price-to-earnings ratio actual rose in the quarter from 34.6x to 35.0x.

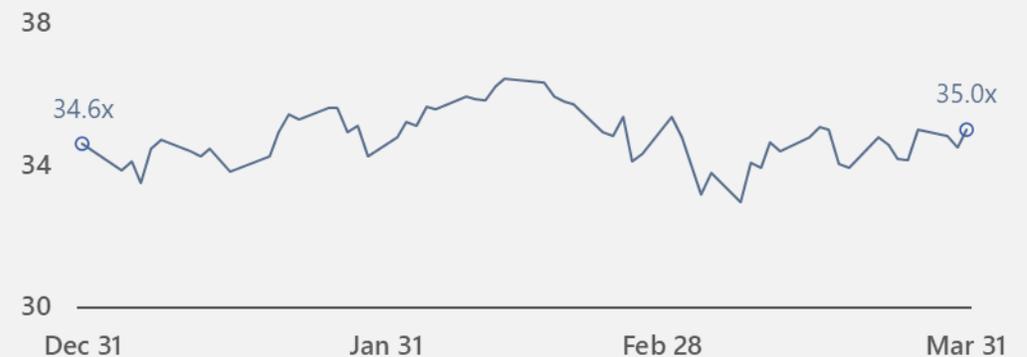
Yields Rise on U.S. Government 10-Year Bond

December 31, 2019 to March 31, 2021



Technology Valuations Remain Stable

P/E Ratio, December 31, 2020 to March 31, 2021



All data latest as of 03/31/21

Source: Bloomberg, Helios Quantitative Research



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Notable Mentions

TECH IPOS

In March, the U.S. had administered over 100M vaccine doses in acceleration from early efforts that were criticized as too slow. By the time it crossed the 100M mark, we were the 6th fastest distribution and the largest in terms of total jobs. In a prime-time TV announcement, President Biden announced plans to open eligibility for all adults to be eligible for the vaccine by May 1, ahead of prior estimates. The news came along with the administration announcing additional large vaccine purchases.

FINANCIAL TIMES

Huge, fast and haphazard: inside the US vaccine rollout

ELECTION

The late January, the markets were all focused on a small video game retailer. GameStop's stock price was pushed from ~\$20 to over \$400 in intraday trading, fueled largely by a Reddit message board. The price of course didn't stay there for long and subsequently fell back to ~\$50 before again being pushed back up to north of \$200 in March. The event was large enough Congressional hearings were held on the topic, including the heads of Citadel, Robinhood, and a Redditor known as Roaring Kitty.

Bloomberg

GameStop Prompts U.S. to Consider New Rules for Options, Shorts

RELIEF BILL

Q4 U.S. GDP growth of 4.0% (annualized rate) disappointed expectations of a slightly higher 4.2%. Surging COVID cases weighed down growth through the end of the year.

Driving the report was slower consumer growth amid weak employment and jobless claims numbers. The bright spots included both business and residential investment, expanding at a 13.8% and 33.5% pace, respectively. These expansionary figures put the cap on a tumultuous year, with the U.S. economy contracting 2.5% over 2020.

THE WALL STREET JOURNAL

U.S. Economy Shrank in 2020 Despite Fourth-Quarter Growth

Source: The Economist, The Financial Times, The Wall Street Journal, Helios Quantitative Research



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