Where there is a will, there is a way.

This expression seems fitting to describe the developments in the past 12 months. To think we were hit by an awful pandemic, but in the span of a year we created, tested, and obtained emergency use authorization for three separate vaccines to fight the Covid-19 virus, and then distributed nearly 200 million doses in the span of months is incredible. As of early April, nearly 34% of the US population has received at least one dose of the vaccine, and nearly 20% of the population is fully vaccinated.[1] It was a long winter, but optimism is being felt not only in the vaccination acceleration rate, but also with economic normalization in sight.

The true trajectory of the reopening of our economy remains to be clear, but vaccines and stimulus may put us on track for a strong second half of 2021. Households put aside over US$5 trillion in the first three quarters of 2020.[2] As such, there could be pent-up demand to spend that money, as well as doing things that have been restricted up until this point, such as travel, which could lead to a robust rebound.

Enclosed our team shares insights on the developments over the first quarter of 2021 in the markets and economy. For additional in-depth analysis and to view recordings of our team on various local and national media outlets, visit our website RocklandTrust.com/Wealth&Investments.

Key Takeaways from Q1 2021:

- Vaccine rollout has accelerated and more Americans are being vaccinated on a daily basis resulting in a sustained downtrend in new infections and hospitalization rates
- The $1.9 trillion American Rescue Plan was passed in March injecting the markets with significant fiscal stimulus and putting a fast track on the speed of the economic recovery
- Record results continue in the S&P 500 as the index finished up 6.17% in the first quarter and reached an all-time high of 3,974.54 on March 26th
- All eyes on US Treasury yields – sharp rise in rates attributed to investors speculating the economy will recover more quickly than originally anticipated

US Economy

With the first three months of the year in the rear view mirror, we reflect on an economy full of optimism buoyed by the widespread availability and distribution of highly effective vaccines to combat Covid-19 and bringing us closer to herd immunity. In addition, fiscal policy targeted at providing $1.9 trillion in economic relief to the most battered areas of our economy will provide an important extension of relief as we near the light at the end of the economic tunnel. If you factor in those who have already contracted COVID and as a result have developed antibodies to fight reinfection, our country is moving closer and closer to herd immunity – the level medical experts assert that infections should fall off dramatically and life can begin to return to "normal".

As case levels declined from over 200,000 a day in January to 50,000 a day in March, state governments began to ease social distancing and in conjunction many service related businesses were able to reopen with greater capacity. Economic data reflected that renewed optimism and return to growth. The Institute for Supply Management monthly manufacturing and service sector activity confirms economic reengagement. Additionally, high frequency economic data reflects greater advancement in areas such as US seated diner restaurant reservations, TSA traveler traffic, travel and navigation application usage, as well as hotel occupancy and consumer debit/credit transactions.

Job creation has reinforced the durability of this economic recovery as initial jobless claims have begun to trend lower and jobs added to the economy become more broad based, with a faster recovery in the hardest hit areas

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[1] Our World in Data, as of April 3, 2021
[2] US Bureau of Labor Statistics

of leisure and hospitality. With nearly a million new jobs created in March and with significant upward revisions to job creation in January and February, the labor market continues to heal. It is important to note, that our economy will need many more months with job creation of at least 1 million to get the labor market back to its pre-pandemic full employment levels, but with headline unemployment at 6% it still represents significant improvement from the 14.7% level of unemployment in April 2020.

As we watch the economy fully reopen, economists estimate between 7-8% annualized GDP growth in 2021, followed by above trend growth in 2022. The anticipated growth is largely the result of herd immunity and the immense fiscal tailwinds resulting in a level of debt to GDP not seen since WWII. As we move past the pandemic we will need to keep a watchful eye on how the country addresses these debt levels, and in the interim, look for the unintended consequences of rising inflation and interest rates on our economic recovery.

Traditional Asset Class Returns Q1 2021

Asset Class	Benchmark	Q1
US Stocks	S&P 500	6.17%
US Gov't Bonds	BbgBarc US Govt Intermediate	(1.72%)
Cash	BbgBarc US Treasury Bill 1-3 Mon	0.02%

US Stocks

Following an 18.40% return in 2020, the momentum of the S&P 500 continued into 2021 as the index finished up 6.17% in the first quarter. It reached an all-time high of 3,974.54 on March 26th. As the market marched higher, leadership changed and a broader array of market participants charged higher. Sectors and companies more leveraged to cyclical demand and an economic expansion outperformed defensive and deflationary investments. Investor flows were redirected to companies with stronger earnings expectations, operating leverage and attractive valuations.

All 11 sectors in the S&P 500 posted positive returns for the quarter. Reflationary winners included Energy, Financials, and Industrials. The Energy sector was the best performing sector in Q1 up 30.85%, as demand for oil increased as global economies continue to reopen. Technology ceded its leadership role as valuation concerns in the wake of rising interest rates led to the sector returning only 1.97%. The defensive Consumer Staples sector was the worst performing up only 1.15% as investors turned their attention to more cyclical names.

From a market capitalization standpoint, Small Cap Stocks (Russell 2000 +12.70%) comprised of companies highly sensitive to our domestic economy, outperformed Large and Mid-Cap stocks (Russell 1000 +5.91%) whose companies attribute a larger percentage of revenues to global economic demand.

From a style perspective, Value stocks (Russell 3000 Value +11.89%), or stocks that appear to be undervalued relative to their fundamentals such as dividends, earnings and sales, regained interest and significantly outperformed Growth stocks (Russell 3000 Growth +1.19%).

US Bonds

Investors generally pay close attention to US Treasury rate yields because they play an important role in determining borrowing costs across the economy and are even used as a discount rate to value stocks. During the first quarter 2021, people watched the treasury curve particularly close as we saw a sharp rise in rates with the 10-year treasury climbing 82 basis points from 0.92% in the beginning of the year to 1.74% on March 31, 2021. A rapid rise in rates directly impacts both individuals and businesses with mortgage rates essentially first to rise.

The 10-year treasury last saw the 1.74% level in January 2020. The quick rise in yields over the last quarter may be attributed to investors speculating the economy will recover more quickly than originally anticipated due to the vaccine and further government stimulus. In addition to an optimistic outlook, the rise in interest rates can also be ascribed to the treasury market being flooded with supply, as the US Government continues its spending to support the economy. In late February, a poorly received 7 year Treasury auction (perceived as one of the worst in decades) led to continued bond selling and additional higher yields.

Although the Federal Reserve (Fed) agrees there are signs of economic improvement, during its March meeting the Fed reiterated it intends to hold short term rates near zero and continue quantitative easing for the foreseeable future. While many investors see the rapid rise in rates as a precursor to an inflation spiral, the Fed has stated that it believes there may be a spike in inflation, but it will be transitory in nature. This disconnect between the Federal Reserve and investors has resulted in a steepening yield curve which is often measured by calculating the spread between the 2 yea and 10 year treasury rates. At quarter end, the 2 to 10 year spread hit its widest level since September 2015 at 1.58%.

During the quarter the corporate bond market remained relatively stable as interest rates rose. The US credit index ended the quarter with the option-adjusted spread (OAS) nearly flat from where we started the year. With bond yields moving inversely to prices, bond returns for the quarter were negative across the entire fixed income spectrum with the exception of corporate high yield bonds, bank loans, and convertible bonds.

As we continue into 2021 and toward future Federal Reserve meetings, investors will be watching economic data intently in an attempt to decipher what is more likely to occur; a continued accommodative monetary policy or a near term surge in economic recovery.

Diversifying Asset Classes

Diversification was beneficial in the first quarter. Several equity-related diversifying asset classes outperformed the S&P 500. Mid Cap Value stocks, US REITs, MLPs, Commodities and Managed Futures are among the asset classes that outperformed the S&P 500 in the quarter. Mid Cap Value (+18.43%) performed well due to its exposure to more cyclical sectors that are expected to strengthen as the economy reopens. MLPs (+21.95%) had a strong quarter due to their exposure to the energy sector which is seeing increased demand as the economy continues to ramp up.

Fixed-income related diversifying asset classes helped stem the impact of rising rates on bond portfolios. Floating Rate Loans (+2.01%) were strong as investors looked to protect themselves against the possibility of rising interest rates. Convertible Bonds (+3.04%) have continued to work for investors as the ability to convert to common stock has been a valuable feature as equities continued to rally.

Asset Class	Benchmark	Q1
Foreign Stocks	MSCI EAFE	3.48%
Emerging Markets Stocks	MSCI Emerging Markets	2.29%
US Mid Cap Stocks	Russell Mid-Cap	8.14%
US Small Cap Stocks	Russell 2000	12.70%
REITs	MSCI US REIT	8.76%
Commodities	Bloomberg Commodity	6.92%
MLPs	Alerian MLP	21.95%
Managed Futures	Credit Suisse Mgd Futures Liquid TR	5.88%
Foreign Bonds	FTSE WGBI Non-USD	(6.42%)
Emerging Market Bonds	JPM EMBI Global	(4.74%)
US Inflation Protected Bonds	BbgBarc US Treasury TIPS	(1.47%)
Floating Rate Loans	Credit Suisse Leveraged Loan	2.01%
US High Yield Bonds	BbgBarc US Corp High Yield	0.85%
Convertible Bonds	ICE BofAML Convertible Bonds	2.86%

Conclusion

We all have worked hard to overcome so many of the challenges 2020 presented us, both personally and professionally. Our clients and their financial futures have always been a paramount focus of ours and will continue to be so into the future. As you may have seen, we were honored and pleased to announce Rockland Trust's Investment Management Group reached $5 billion in assets under administration for the first time in February. This achievement is a testament to our team and the trust our clients have in us as a source of strength especially during difficult times, we truly appreciate our relationship with you. We continue to invest in our people, our communities, and our business by building services and capabilities to meet your financial needs.

As always, our team is available to answer any questions and we remain committed to ensuring your investments are appropriately positioned and well-diversified so you can meet your financial goals.

Sincerely,

David B. Smith, CFA
Chief Investment Officer
Investment Management Group