FULLEN FINANCIAL GROUP

Quarterly Market Summary – Q1 2021

Market Results as of the First Quarter of 2021
Selected Index Results for Q1 – 2021

Index(1)	**%Growth For FY 2020**	**%Growth For YTD 2021**	**%Growth For Q1 2021**
DJIA	7.25%	7.76%	7.76%
Core U.S. Aggregate Bond Index (U.S. multi-sector bond)	5.18%	-3.69%	-3.69%
S&P 500 (large cap)	16.26%	5.77%	5.77%
S&P 400 (mid cap)	11.81%	13.12%	13.12%
Russell 2000 (small cap)	18.36%	12.44%	12.44%
MSCI EAFE Index (developed international)	5.07%	3.99%	3.99%
iShares MSCI Emerging Market Index	15.15%	3.23%	3.23%
iShares Dow Jones US Home Construction	25.62%	21.63%	21.63%
MSCI US REIT Index	-11.11%	7.89%	7.89%
Amex Oil Index	-37.63%	27.13%	27.13%
Barclays Global Agg ex-US Corp Bond Index	10.95%	-5.46%	-5.46%

(1) These results do not include reinvestment of dividends.

Q1 Quick Summary

- The U.S. stock market continued to post positive returns in Q1, with particular strength in mid cap stocks (up 13.1%) and small cap stocks (up 12.4%).
- U.S. bond yields followed an upward trend in Q1, driven by continued strong economic growth and inflation concerns, leading to a decline of about 3.7% in the U.S. Aggregate Bond Index.
- The American Rescue Plan Act (ARPA) was signed into law on March 11, 2021, providing $1.9 trillion of fiscal stimulus and bringing total pandemic-related economic relief in the U.S. to nearly $6 trillion.
- COVID-19 vaccinations ramped up significantly in major developed economies, with the U.K. and Israel leading the way and countries in the E.U. area lagging behind. Several countries experienced renewed lockdowns to combat new variants of the virus.

Vaccine Progress, But Concerns Remain

The COVID-19 pandemic continues to impact global economic growth, and the extent of that impact now depends largely on vaccine distribution and uptake. In those countries where vaccine distribution has been particularly effective, namely Israel and the U.K., data on the number of cases and hospitalizations has improved dramatically. The U.S. has also made good progress, with more than half of the adult population having received at least on dose of the vaccine. Despite these positive signs, concerns remain about new variants of the virus, slow distribution in Canada and the E.U. area, and significant vaccine hesitancy, particularly among younger cohorts of the population. These concerns, combined with renewed lockdowns in some areas, have led to downward revisions of economic growth forecasts in some regions. Vaccine distribution outside of the developed world remains a challenge and may continue to impact international travel and global supply chains throughout 2021.

Fiscal and Monetary Support Continue

The U.S. also received a boost, at least psychologically, in the first quarter from additional fiscal stimulus in the form of the American Rescue Plan Act (ARPA), signed into law on March 11th. This comes on top of the $600 per person in direct payments received in January. A summary of ARPA's key components is as follows:

Table 1: Summary of Biden's American Rescue Plan Act	
Key elements	**Amount ($, bn)**
Direct payments of $1400/person*	410
State and local government aid	350
Unemployment benefits ($300/week to Sept.)	289
Transportation, infrastructure, financial services, other education and labor	268
Assistance for Small Businesses, Pensions, Expanded health benefits for workers and premium tax credits	217
Expanded Child Tax Credit, Earned Income Tax Credit and various others	159
Re-open K-12 Schools	129
Testing, tracing & vaccines	122
Total	**1.9 trillion**
*Individual incomes below $75k, and their dependents. Source: Tax Foundation, TD Economics.	

Though much of this plan does not directly benefit individuals or businesses, the additional direct payments and continued unemployment benefits will bring immediate stimulus to the economy and/or continue to support the higher saving rates seen throughout the pandemic.

At the same time, the Federal Reserve has maintained its accommodative monetary policy, keeping short-term borrowing rates effectively at 0% and continuing its program of quantitative easing to maintain liquidity in the financial system. While this unprecedented level of fiscal and monetary support has muted the economic impact of the pandemic and provided a tailwind for stock prices, the resulting deficit spending has taken U.S. debt levels to more than 130% of GDP, a level not seen since 1946.

Improving Economic Forecasts in the U.S. and Globally

Vaccine progress combined with continued central government support of the economy, has resulted in strong economic growth and improved GDP growth forecasts for much of the world. Although growth forecasts have been revised downward for 2021 in those areas experiencing additional lockdowns, those near-term declines are offset by higher anticipated growth in future years. In the U.S., economists are forecasting growth to range from 6% to 8% this year, the fastest rate of growth since 1983. U.S. equities continued to post strong results in Q1, with particularly strong performance from small caps and value stocks. Many stock indices in the U.S. are at all-time high levels and continued economic expansion, along with strong corporate earnings, may be critical to supporting these valuations.

Signs of Inflation Are Mounting

Rapid economic expansion, combined with unprecedented growth in the money supply, bring legitimate concerns of inflation, at least in the near term. Signs of such inflation are starting to materialize. On the supply side, service-oriented businesses are likely to have lower capacity once the pandemic has passed, and rehiring workers to ramp up capacity may not occur as quickly as demand returns. Indeed, capacity pressures and rising input costs are already being widely reported in purchasing manager and small business surveys.

At the same time, such inflationary pressures may not result in immediate reaction from central banks, especially the Federal Reserve, which has committed explicitly to allowing inflation to exceed its 2% target for some period of time, and to keeping rates low and monetary policy loose until it sees evidence that inflation is picking up. Unwinding such monetary policies in an environment of higher public and private debt loads will be a more difficult task than in past economic cycles. While this could result in some near-term economic and market volatility, central banks have affirmed their commitment to low and stable inflation over the long term.

Bonds Underperform

Bond yields pushed higher in Q1, reflecting the economy's faster-than-expected recovery from the COVID-19 pandemic. Ten-year U.S. Treasury yields jumped 80 basis points in the quarter, continuing a recovery from record-low levels in 2020. With vaccination rates picking up and expansive fiscal policy supporting consumer and business incomes, it's not surprising that bond yields are reflecting a more positive economic outlook, along with possible concerns about inflation. While it's likely that fixed income prices will remain under downward pressure in a rising interest rate environment, bonds continue to provide an element of relative stability in a broadly diversified portfolio.

Conclusions

The COVID-19 pandemic and ongoing recovery efforts continue to impact the global economy and the financial markets. While we are still operating in an uncertain environment, we remain generally optimistic that successful vaccine rollouts, combined with significant government stimulus, will support continued economic recovery for the remainder of this year. Fundamentally, stock valuations are based on long-term expectations for dividend payments and price appreciation. Assuming continued success in combatting the virus and returning the economy to more "normal" levels of activity, the long-term impact on economic growth and equity values should not be significant.

One counterweight to this argument is the unprecedented level of government stimulus, both fiscal and monetary, undertaken over the past 14 months. Prior to this pandemic, we had voiced concerns about deficit spending and the corresponding growth in national debt. While such stimulus may be critical in times of stress, the long-term implications for economic growth are likely to be negative. In the near term, uncertainties around these policies (among other developments) will likely result in continued high levels of market volatility.

In periods of higher market volatility, maintaining investment discipline will be more difficult emotionally. However, we need to remember that market timing as an investment strategy has never worked consistently (and results in lower longer-term yields). Trying to time markets has a high probability of creating permanent losses.

As always – stay with a consistent and disciplined investment strategy – it is the only course of action with any track record of success (in any investment environment). There is no reason to believe, even with the changing economic dynamics, that the disciplined approach to investments will be less effective than in the past at delivering the best possible relative returns.

At the most fundamental level, match your investment time horizon to your spending timeline – if you have short term cash needs then those funds should be in short term investments. These are simple asset/liability matching principles practiced by the most sophisticated investment managers every day (but far too complex to explain in sound bites and not conducive to selling products). Additionally, don't try to solve short-term financial problems with long-term equity exposure. If you try to chase returns, you may get lucky sometimes but, if pursued long enough, it always ends in extreme frustration and often with serious financial losses. The reality is that no one has ever consistently predicted investment markets and they never will - and there is always a consequence to continued unsound financial behavior.

As always, if your personal or family situation has changed (or is likely to), a discussion with us as to how this may impact your financial plan and your overall asset allocation is warranted. Or, if you simply feel a need to discuss any aspect of your portfolio and/or financial plan, or you haven't had a planning update within the last 12 months, please contact us to review your financial plan and investments.

Risks

Investors should be aware of the risks associated with all portfolio strategies and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, vaccine missteps, other geopolitical events can have a substantial effect on portfolio performance and the effectiveness of strategic and tactical portfolio approaches.

<u>Your financial plan is the most important financial document that you possess! Keep it updated and use it.</u>

Please note that you are entitled to receive Fullen Financial's Form ADV whenever you would like to. This document outlines many details of who Fullen Financial is, their investment methodologies and their advisor's education and experience. You may do so by contacting Paula Miller (paula@fullenfinancial.com) and requesting such. Alternatively, you can go to the Fullen Financial website at www.fullenfinancial.com and click on "Resources" in the top menu bar, and then on "Client Forms."

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Appendix: Economic Indicators and Outlook

Economic Indicators: G7 & Europe				
		Forecast		
	2019	2020	2021	2022
Real GDP (annual per cent change)				
G7 (30.1%)*	1.6	-5.1	5.0	4.0
U.S.	2.2	-3.5	5.7	4.3
Japan	0.3	-4.9	2.9	2.2
Euro Area	1.3	-6.8	4.5	4.4
Germany	0.6	-5.3	4.0	4.0
France	1.5	-8.2	5.7	3.7
Italy	0.3	-8.9	4.9	4.3
United Kingdom	1.4	-9.9	5.0	6.6
Canada	1.9	-5.4	6.0	3.9
Consumer Price Index (annual per cent change)				
G7	1.5	0.7	1.6	1.6
U.S.	1.8	1.2	2.5	2.0
Japan	0.5	0.0	-0.1	0.4
Euro Area	1.2	0.3	1.3	1.2
Germany	1.3	0.4	1.6	1.4
France	1.3	0.5	1.0	1.3
Italy	0.6	-0.1	0.7	0.9
United Kingdom	1.8	0.9	1.5	1.8
Canada	2.0	0.7	2.4	2.3
Unemployment Rate (per cent annual averages)				
U.S.	3.7	8.1	5.7	4.1
Japan	2.4	2.8	3.7	3.0
Euro Area	7.6	7.9	8.9	8.5
Germany	5.0	5.9	6.0	5.6
France	8.5	8.0	9.7	9.1
Italy	10.0	9.0	10.9	9.9
United Kingdom	3.7	4.6	6.5	5.7
Canada	5.7	9.6	7.2	6.1

*Share of 2018 world gross domestic product (GDP) at PPP.
Forecast as at March 2021
Source: National statistics agencies, TD Economics.

Global Economic Outlook				
Annual Per Cent Change Unless Otherwise Indicated				
	2018 Share*	Forecast		
Real GDP	(%)	2020	2021	2022
World	100.0	-3.3	6.0	4.8
North America	18.5	-4.1	5.6	4.1
United States	15.2	-3.5	5.7	4.3
Canada	1.4	-5.4	6.0	3.9
Mexico	1.9	-8.5	4.5	3.3
European Union (EU-28)	16.3	-6.4	4.5	4.7
Euro Area (EU-19)	11.4	-6.8	4.5	4.4
Germany	3.2	-5.3	4.0	4.0
France	2.2	-8.2	5.7	3.7
Italy	1.8	-8.9	4.9	4.3
United Kingdom	2.2	-9.9	5.0	6.6
EU accession members	2.6	-3.0	3.3	4.5
Asia	45.0	-1.9	7.3	4.9
Japan	4.1	-4.9	2.9	2.2
Asian NIC's	3.4	-0.9	4.2	3.2
Hong Kong	0.4	-6.1	4.2	3.7
Korea	1.7	-0.9	3.7	3.0
Singapore	0.4	-5.4	6.3	4.0
Taiwan	0.9	3.1	4.2	3.2
Russia	3.1	-3.6	2.4	3.9
Australia & New Zealand	1.1	-2.2	4.3	4.0
Emerging Asia	33.2	-1.4	8.7	5.5
ASEAN-5	5.5	-3.7	6.1	5.7
China	18.7	2.0	8.9	5.1
India**	7.7	-9.1	10.4	6.3
Central/South America	5.6	-7.3	4.7	3.5
Brazil	2.5	-4.4	4.1	3.3
Other Emerging Markets	13.6	-2.0	4.3	5.9
Other Advanced	1.1	-2.3	5.4	5.8

*Share of world GDP on a purchasing-power-parity (PPP) basis.
Forecast as at March 2021. **Forecast for India refers to fiscal year.
Source: IMF, TD Economics.

Investors should consult with their investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.