

First Quarter Summary

Stocks continued their ascent as we surpassed the one-year anniversary of the COVID-19 pandemic in the United States. If you told us a year ago, when the world was gobsmacked with the emerging pandemic, that stocks would be up roughly 65% over the subsequent twelve months, we would have assumed you were telling us a distasteful April Fool's joke. But alas, here we are with the U.S. economy poised for its greatest GDP growth rate since 1950 and the S&P 500 exceeding the 4,000 level for the first time. The reasons for the sharp rebound are multifaceted and have been discussed in our prior writings. But to recap, there has been a massive monetary and fiscal response as well as incredible progress in treating COVID-19, ranging from the development of a series of successful vaccines with lightning speed, efficacious pharmaceuticals, effective social distancing procedures, and perhaps the largest mass vaccination program since polio.

The S&P 500 increased 6.2% over the first quarter, but the gains were not uniform. The biggest outperformers and underperformers of Q1, were essentially the mirror image of 2020 calendar year returns. To wit, Energy (+31%), Financials (+16%), and Industrials (+11%) led the way at the sector level, while Technology (+2%) and Consumer Staples (+1%) had the lowest returns. Continuing this topsy-turvy relationship, Value (+11%) outperformed Growth (+1%), Small Cap (+13%) outperformed Large Cap (+6%) and many foreign markets outperformed the U.S.

Bonds had a rough go of it as interest rates rose across the intermediate and long-term maturity range, exemplified by the benchmark 10-year Treasury Note jumping 0.8% over the quarter. The rise in rates resulted in most investment grade fixed income indexes losing money over Q1. For example, the widely followed Bloomberg Barclays US Aggregate Bond Index decline 3.4% in Q1. Returns like these are not a disaster, but disappointing for the "low risk" portion of a diversified portfolio. Fortunately, equities carried their weight and then some, providing yet another sterling reason to always hold a diversified portfolio.

The rise in interest rates and massive monetary and fiscal stimuli has stoked investor fears of inflation. Fed Chair, Jay Powell, and Treasury Secretary, Janet Yellen, have in unison stated they expect a transitory increase in inflation and are not concerned of the "runaway" type that occurred in the 1970s and early 1980s. For now, the market is currently taking the word of this dynamic duo, but perceptions on Wall Street may change very rapidly once the first abnormally high CPI print appears.

Market Outlook

We realize that stocks are at the upper end of their historical valuation ranges, but still expect positive returns for equities over the balance of the year. The economy is rapidly opening up, the stimuli are being unleashed, and there is enormous pent up demand. In fact, forward looking readings of economic activity published by the Institute for Supply Chain Management (ISM) are at or near all-time high levels. In our view, becoming too bearish too quickly would be a mistake, especially with the Fed routinely stating that short-term rates will be near 0% for the remainder of the calendar year and likely beyond. We believe the surge in long-term interest rates is likely over, although we expect rates to incrementally drift upwards over the balance of the year as the economy takes flight in earnest.

We fully expect to see spikes in market volatility, especially with respect to the macro risks we outline below. However, we would view declines as opportunities to buy quality stocks on sale. For example, as of this writing Microsoft has returned to its all-time high. However, as interest rates spiked earlier in the quarter, the stock was selling at a 15% discount to its current prices. The macro (higher interest rates and a rotation towards value stocks) temporarily overwhelmed the micro (strong earnings, industry position, and company outlook). We believe the risk mitigation properties of holding diversified portfolios should provide most clients with the courage to withstand the inevitable market gyrations.

There are always risks as the stock market climbs the proverbial "wall of worry." Foremost in our mind are the following. First is the continued path of COVID-19. Hospitalizations and fatality rates are moving in the right direction, in higgledy-piggledy fashion, but these positive trends don't preclude another surge of infections, especially from a mutated strand of the virus that is resistant to the current approved vaccinations. China-US relations remained strained, even though a new administration has taken charge and has promised a more multilateral approach to

trade. If the two largest economies in the world have a problem, the rest of the world will be affected as well. Heightened geopolitical risks remain in the Middle East, North Korea, and Russia, although the economic implications are of an order of magnitude less.

As we look out to 2022, it is highly likely that taxes will increase, in many forms. We expect corporate income taxes, individual income taxes, and consumption taxes to increase in order to pay for the aforementioned stimulus and planned infrastructure programs. The market is a forward looking mechanism so it may price in lower future earnings and growth, resulting in a transitory market decline. There are always unknown risks as well, as the COVID-19 pandemic took much of the world by surprise about a year ago. We look forward to a brighter economy and pleasant weather in the days ahead.

John M. Longo, PhD, CFA

Chief Investment Officer, Portfolio Manager

 **Beacon Trust** 163 Madison Avenue, Suite 600 | Morristown, NJ 07960 | 973.377.8090 | BeaconTrust.com

Important Information: Beacon Investment Advisory Services, Inc. ("BIAS") is an SEC registered investment adviser, under the name Beacon Trust, and is wholly owned by Beacon Trust Company ("BTC"), which is a subsidiary of Provident Bank. Provident Bank is a subsidiary of Provident Financial Services, Inc., a holding company whose common stock is traded on the New York Stock Exchange. Beacon Trust may only transact business in those states where they are notice filed or qualify for a corresponding exemption from notice filing requirements. Additional information is contained in the respective Form ADV disclosure documents, the most recent versions of which are available on the SEC's Investment Adviser Public Disclosure website at <http://www.adviserinfo.sec.gov>.

SECURITIES AND INVESTMENT PRODUCTS: Not FDIC Insured | May Lose Value | No Bank Guarantee

This publication is limited to the dissemination of general information pertaining to the wealth management products and services offered by Beacon to U.S. residents of those states where not prohibited by applicable law. No portion is to be construed as a solicitation to effect transactions in securities or the provision of personalized investment, tax, or legal advice. Investing involves risks which may lead to losses, including loss of principal. Different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will be profitable. Any reference to a market index is included for illustrative purposes only, as it is not possible to directly invest in an index. Indices are unmanaged vehicles that serve as market indicators and do not account for the deduction of management fees or transaction costs generally associated with investable products, which otherwise have the effect of reducing the performance of an actual investment portfolio. Calculation methodologies are available from BIAS upon request. **Past performance is not a predictor of future results.** It should not be assumed that any information discussed herein will prove to be profitable or that decisions in the future will be profitable or provide specific performance results. Any discussion of tax matters contained within this communication should not be used for the purpose of avoiding U.S. tax related penalties or promoting, marketing, or recommending to another party any transaction or matter addressed herein. Beacon Trust does not provide legal advice. 00142073