Spring 2021 Market Commentary

Domestic Equity Market Recap

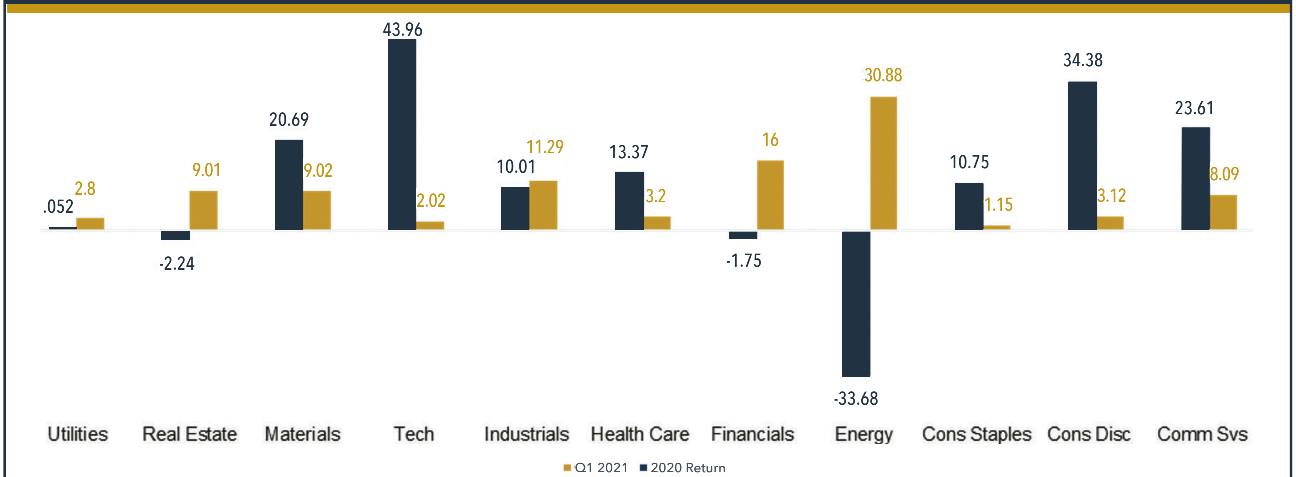
In the first quarter, mass vaccinations, another round of fiscal stimulus, and optimism around a nascent economic recovery drove the market higher. A concurrent spike in treasury yields, however, increased volatility throughout the quarter, continuing the rotation in market leadership sparked in Q4. As the recovery broadens, areas of the market which have lagged in recent months, and in some cases years, have been outperforming. Downtrodden value stocks outperformed high flying growth names—with Energy the top performing sector and Technology, for the first time since 2016, the worst.

BENCHMARK RETURNS (%) AS OF MARCH 31, 2021 (3-10 Year Periods Annualized)

	1M	3M	1Y	3Y	5Y	10Y
Large Cap						
S&P 500	4.38	6.17	56.33	16.75	16.27	13.89
Russell 1000	3.78	5.90	60.57	17.28	16.64	13.96
Russell 1000 Growth	1.72	0.94	62.74	22.77	21.03	16.62
Russell 1000 Value	5.88	11.24	56.06	10.93	11.72	10.97
Mid Cap						
Russell Midcap	2.71	8.14	73.63	14.70	14.65	12.45
Russell Midcap Growth	-1.91	-0.57	68.61	19.39	18.37	14.10
Russell Midcap Value	5.16	13.05	73.75	10.66	11.57	11.05
Small Cap						
Russell 2000	1.00	12.69	94.82	14.71	16.32	11.67
Russell 2000 Growth	-3.15	4.87	90.19	17.12	18.57	13.00
Russell 2000 Value	5.22	21.16	97.01	11.53	13.54	10.04

Source: Bloomberg as of March 31, 2021

S&P 500 SECTOR PERFORMANCE



Source: Bloomberg as of March 31, 2021

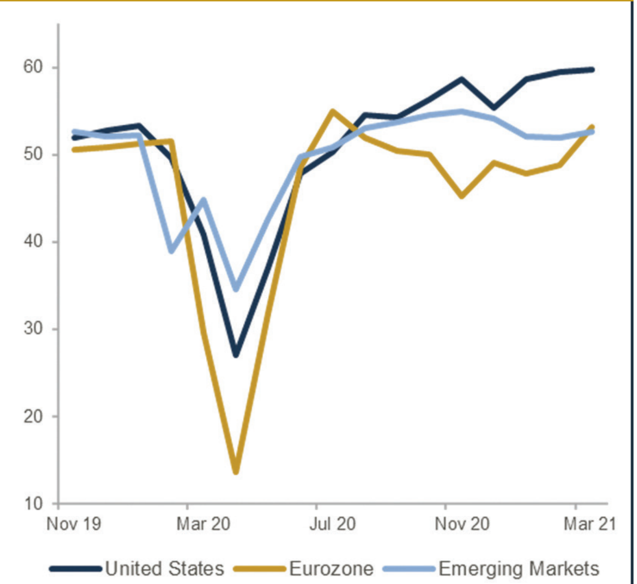
Domestic Economic Highlights

Reopening and reflation were the economic buzzwords in the first quarter. The expanding vaccination campaign, easing business restrictions, warmer weather, and fiscal stimulus helped to fuel 9.8% growth in retail sales in March, with a 13.4% increase in sales at restaurants and bars—hinting at a recovery for the particularly hard hit service industries. The total number of people receiving unemployment assistance fell as well, though the economy still has 8.4 million fewer jobs than when the pandemic began.

Concerns around the pandemic remain, however, as variants become more prevalent and potential rare side effects have hindered several vaccines. Still, economists project the US economy to grow by 6.2% in 2021.

ECONOMIC SURPRISE INDICES

COMPOSITE PMIs

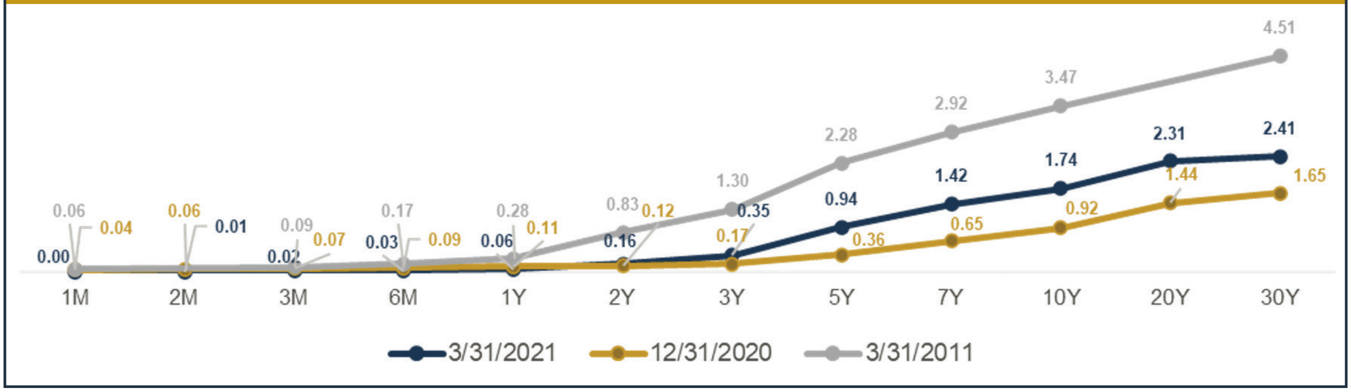


Source: Bloomberg as of March 31, 2021

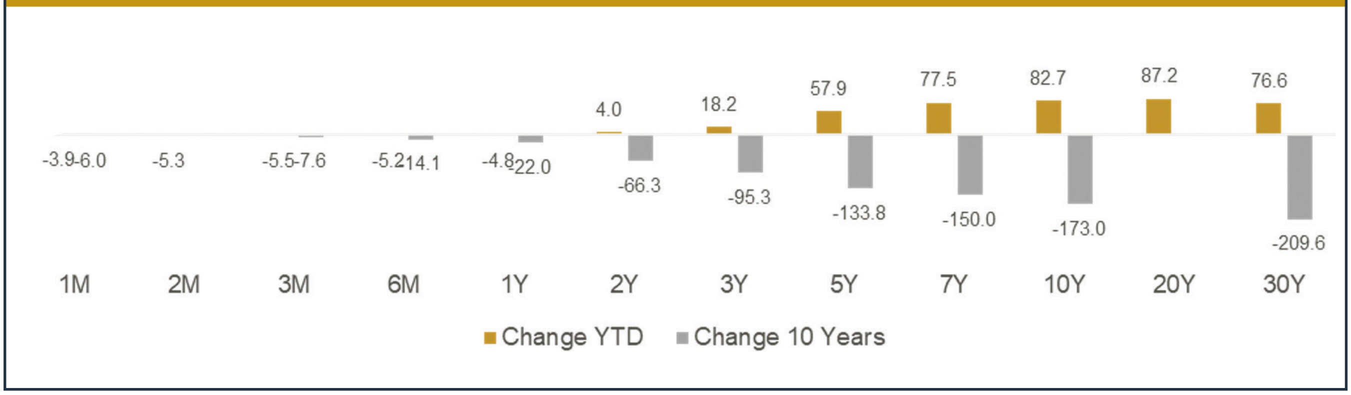
Domestic Bond Recap

The combination of improving economic prospects and increased fiscal stimulus sparked inflationary concerns in the first quarter. While the Federal Reserve is expected to continue accommodative bond purchases until mid-2022 while keeping interest rates at the zero bound, market yields have already begun to move higher. The 10-year yield closed the quarter at 1.74%, nearly double start of year levels. As a result, longer duration fixed income exposures saw negative returns for the quarter, as bond prices fell. Credit spreads were fairly stable, with high yield spreads tightening to a 14 year low.

US TREASURY YIELD CURVE (%)



YIELD CURVE CHANGE (Bps)



Source: Bloomberg as of March 31, 2021
Note: 20 Year Historical Treasury data not available as the US Treasury did not issue 20 Year maturity bonds from 1986-May 2020.

International Equity Market Recap

International equity returns were mixed in the first quarter, as divergent rates of COVID infections and differing rates of vaccinations shape the global economic recovery. Certain emerging markets have experienced difficulties accessing and rolling out vaccination programs. For example, Brazil has been impacted by the new P.1 variant and at quarter-end accounted for nearly one third of daily deaths in spite of being home to less than 3% of the world's population. These issues weighed on the performance of some emerging markets during the quarter. Amongst developed markets, equity market performance was uneven. Some European countries, including Germany and the UK, have delayed or restricted the roll out of the AstraZeneca vaccine because of possible negative side effects. As a result, in general, International Developed and Emerging equity markets underperformed domestic markets during the quarter.

BENCHMARK RETURNS (%) AS OF MARCH 31, 2021 (3-10 Year Periods Annualized)

	1M	3M	1Y	3Y	5Y	10Y
Developed International	2.39	3.61	45.35	6.60	9.45	6.11
Emerging markets	-1.51	2.21	58.85	6.83	12.49	4.02
United Kingdom	4.16	4.97	22.41	2.32	5.78	5.22
Japan	1.27	6.93	56.62	12.93	13.88	13.69
China	-6.08	-0.16	44.22	8.03	16.31	7.47

Source: Bloomberg as of March 31, 2021

Commodity Recap

During the quarter, commodities in general were beneficiaries of expectations of accelerated economic growth and higher inflation rates. One of the biggest beneficiaries was crude oil prices and other energy related commodities. Back in April of 2020, Russia and OPEC agreed to reduce production by 9.8 million barrels per day or about 10% of global production. Currently, Russia and Saudi Arabia continue to withhold 60% of the production that they cut last year. These actions coupled with accelerated economic growth drove crude oil prices higher by +22.49%. On the flip side, precious metal prices declined as fear of economic dislocations due to the pandemic have receded.

BENCHMARK RETURNS (%) AS OF MARCH 31, 2021 (3-10 Year Periods Annualized)

	1M	3M	1Y	3Y	5Y	10Y
S&P GSCI	-2.01	14.15	82.91	1.05	7.64	-4.30
Copper	-3.25	13.24	77.68	9.45	12.58	-0.70
Silver	-7.22	-7.12	73.30	14.66	9.66	-4.25
Gold	-0.92	-9.81	4.37	7.42	5.47	0.89
WTI Crude	-3.38	22.49	80.22	-17.10	-4.95	-15.44

Source: Bloomberg as of March 31, 2021

The Importance of Financial Planning

By Stephen J. Augstell
Berkshire Bank Wealth Management

A client once asked me why financial planning is important. I thought about the question and I believe there are a handful of simple ways, that once illustrated in our minds, can help us better understand the importance of financial planning. Knowing that we all like lists . . . here are the Top Five Reasons Financial Planning is Important.

(1) You'll be more Fit Financially. We all know the importance of being healthy. At a very early age we begin the framework of practicing healthy habits with doctors who advise and guide us along the path of wellness. Financial planning is much the same. We can begin to work with an advisor early on and build a similar framework of habits that build and supports financial wellness over the long term

(2) It helps you Pack your Parachute. How important is the detail that goes into packing a parachute? When you do make the jump to retire . . . are you confident the chute is going to open and be big enough as you make your descent? And what about your secondary chute—do you have one if the unexpected occurs? Planning puts the details in the chute, including items such as how much you need to save to retire comfortably. And that affords you the confidence to make the jump

(3). It Protects your Human Capital. Think of what you earn over your lifetime as a bucket of money. It's called Human Capital. Your human capital will support your lifestyle now and sometime later when you exit the workplace—and that's if you're lucky enough to survive the inherent risks along the way. Financial planning helps you mitigate the risks of unexpected losses in income that can occur as a result of unemployment, disability, chronic issues and premature death

(4). It Gives your Money Purpose. We can't live in our investment portfolios or gaze upon them like fine art. Financial planning helps us understand how much market risk we need to take to support our goals and that makes our investments more meaningful

(5) It gets you where you want to go . . . and on time. We all know the importance of planning a trip. The cost, destination and the balance of travel arrangements all play an important role. Financial planning will integrate all the particulars of your life's journey—like the purpose of your goals and the money you'll need to achieve them . . . and that will get you to all the places you want to go on time

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Stephen Augstell is a Senior Financial Planner and Vice President with Berkshire Bank Wealth Management. He has over 25 years of experience in the financial planning industry working closely with clients and communicating complex planning concepts in simple terms. Berkshire Bank Wealth Management is currently offering complimentary financial planning to Berkshire Bank clients. Inquiries can be directed to

2021 Outlook

For most of the course of 2020, equity market performance was dominated by large cap domestic growth stocks. This pattern began to change in the fourth quarter of last year and continued in the first quarter of 2021. While domestic stocks continued to outperform their international brethren, value and small cap domestic stocks were the standouts in the quarter. This is a direct result of expectations of accelerated economic growth. An environment of strong economic growth and higher interest rates typically favors companies that while possessing slower secular growth rates also have lower valuations. The latter group include so-called cyclical stocks, companies whose growth rates are more sensitive to the generally economy.

Of course, accelerated economic growth will depend upon success in stemming the worst effects of the pandemic. Economists are calling for GDP growth of +6.1% and S&P 500 earnings growth of +22.94%, robust growth by any measure. This growth is expected to be driven by high personal savings rates and pent up consumer demand and fiscal stimulus. However, equity valuations as measured by the S&P 500 P/E are currently high at 21.88x vs. a 25 year historical average of 16.64x. Additionally, the fiscal stimulus measures implemented by the Federal government should drive the US debt-to GDP ratio to a record high, even higher than in the aftermath of World War II.

With these considerations in mind, during the quarter we moved to a neutral weight in the Energy sector. We also added to the Industrials and Financials sectors. The latter two sectors generally consist of companies that are sensitive to the general economy and benefit from rising interest rates. We also reduced our exposure to certain defensive areas such as Consumer Staples and Pharmaceuticals. As always, we continue to favor the adoption of multi-year investment horizons and broadly diversified portfolios.