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## Quarterly Commentary

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March 31, 2021

# Executive Summary



**ANN TRIPP**  
President

## MARKET COMMENTARY

Momentum carried on in the capital markets from the end of last year supported by additional fiscal stimulus, increased supply of vaccines, and the re-opening of many local economies in the U.S. Unlike last year, rapid improvement in economic forecasts resulted in differing effects on asset classes, namely fixed income and equities. While the S&P 500 continued to set new record highs, the improving backdrop had a different impact on the bond market. For the quarter, the Bloomberg Barclays U.S. Aggregate Bond Index returned -3.37% – the worst quarterly return since 1981. Historically low yields were no match for the negative price impact of higher interest rates brought on by growing optimism about economic expansion.

Fresh off gaining control of both chambers of Congress and the White House, Democrats were quick to begin deliberating, and eventually approving, The American Rescue Plan Act. Following the \$900 billion stimulus package from December, this \$1.9 trillion program extended enhanced unemployment benefits through Labor Day 2021, provided \$1,400 payments to individuals, allocated aid to state, local, and tribal governments, and provided other benefits to educational services and vaccination efforts. States are gradually reopening with almost 30% of the population in the U.S. having received at least one dose of a vaccine as of quarter end. This, coupled with the latest stimulus package, has resulted in the Fed increasing its GDP forecast to 6.4% for 2021.

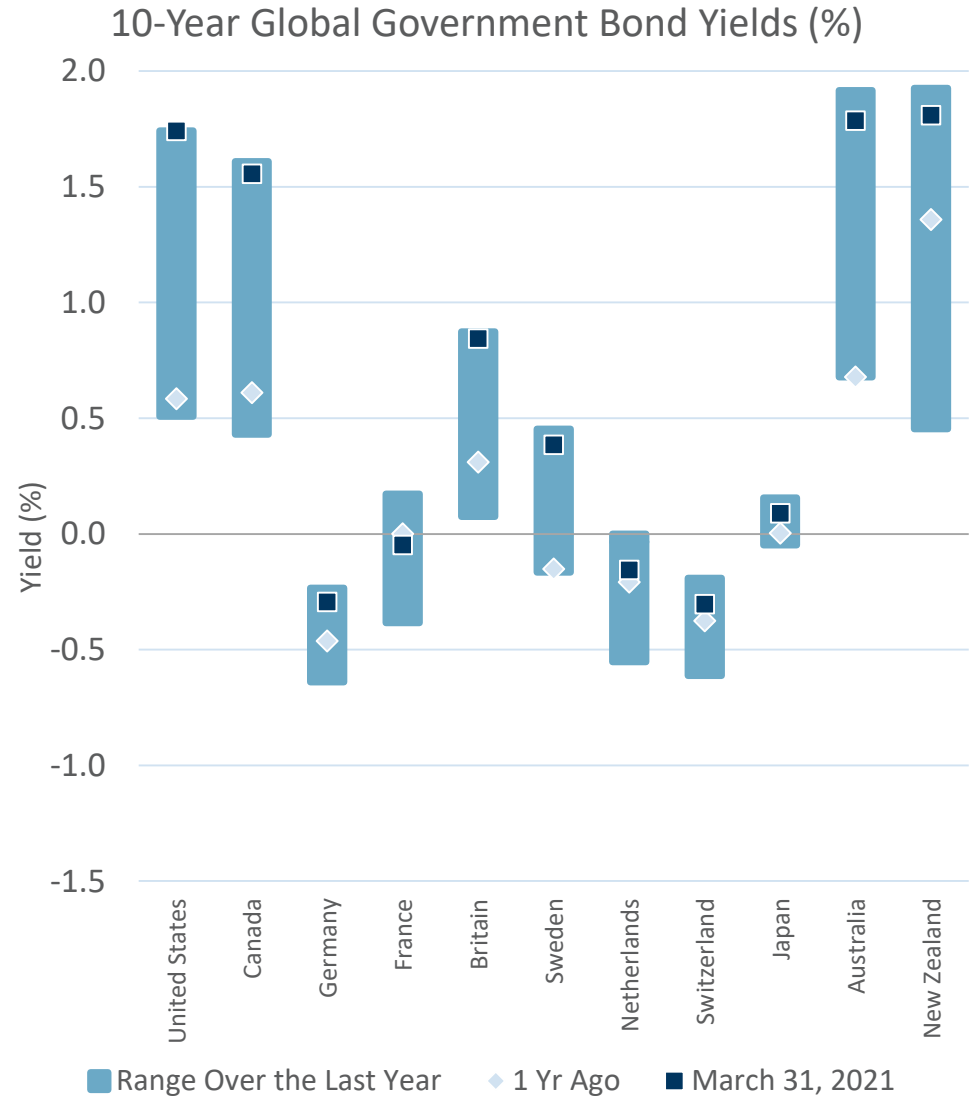
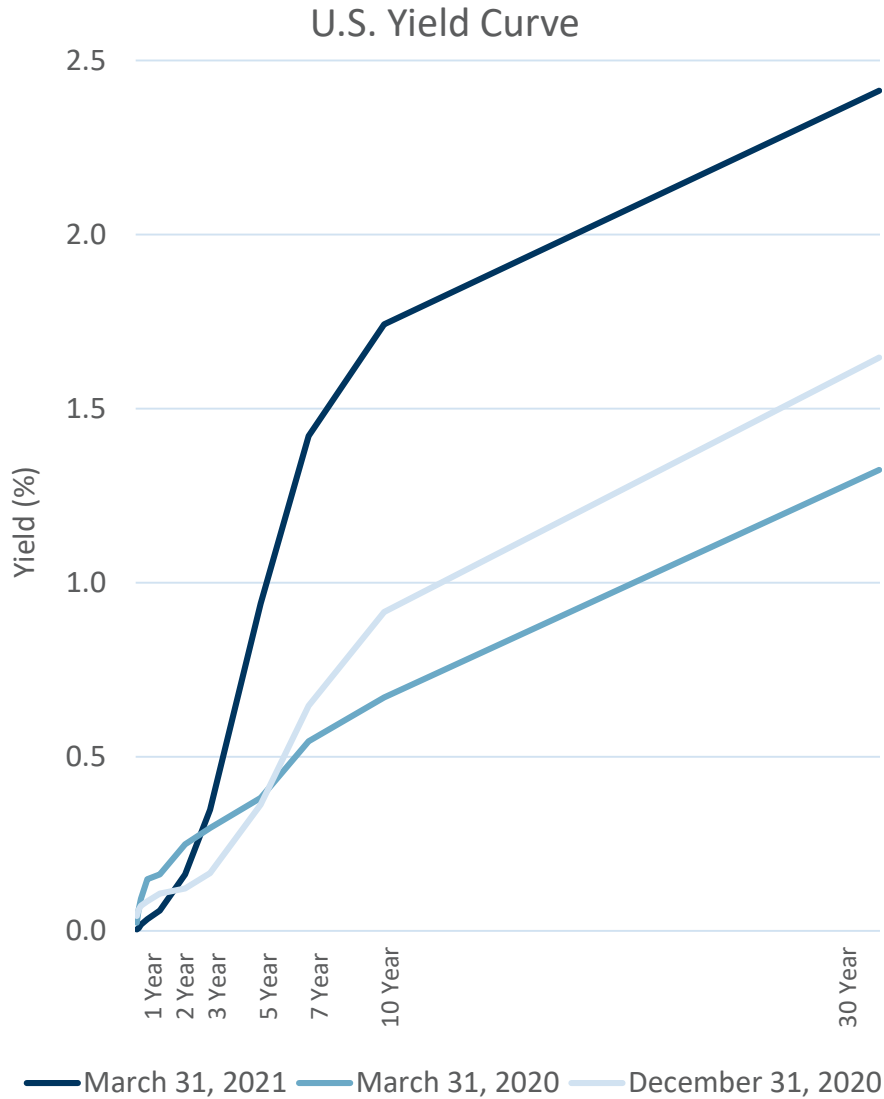
With abundant fiscal support, higher trending vaccination rates, and an accommodative central bank, both inflation expectations and real interest rates pushed the 10-year Treasury rate up from 0.92% to 1.74% over the quarter. As interest rates moved higher, investors questioned if the Fed would alter its policy when faced with higher inflation and stronger economic growth. Investors received their answer following the March Fed meeting with Chairman Powell noting that any change to monetary policy would be predicated on hard evidence rather than expectations or forecasts. Globally, foreign central banks are also having to contend with higher rates. Unlike the Fed, the ECB is increasing the pace of bond purchases to contain yields to prevent financial conditions from tightening. Since the Great Financial Crisis (GFC), the capital markets have relied upon central bank policy for support, making a policy change a delicate, and potentially hazardous, event for investors.

Within investment grade fixed income, risk premia trended lower during the quarter leaving options to generate yield fair at best and close to post-GFC lows. Although interest rates have moved higher, all-in yields remain close to historically low levels. Recently passed stimulus, as well as a potential infrastructure package, should lead to above trend growth domestically and provide support for these valuations. If growth and inflation realize or exceed expectations, all eyes will be on the Fed and its dual mandate of full employment and average 2% inflation. Although higher inflation is anticipated to be transitory, financial markets can have a tendency to deviate from long-term valuations over short time horizons, which could force the Fed's hand.

A handwritten signature in cursive script that reads "Ann".

# Economic Outlook

*Sovereign yields near one-year highs as global growth and inflation expectations increase*

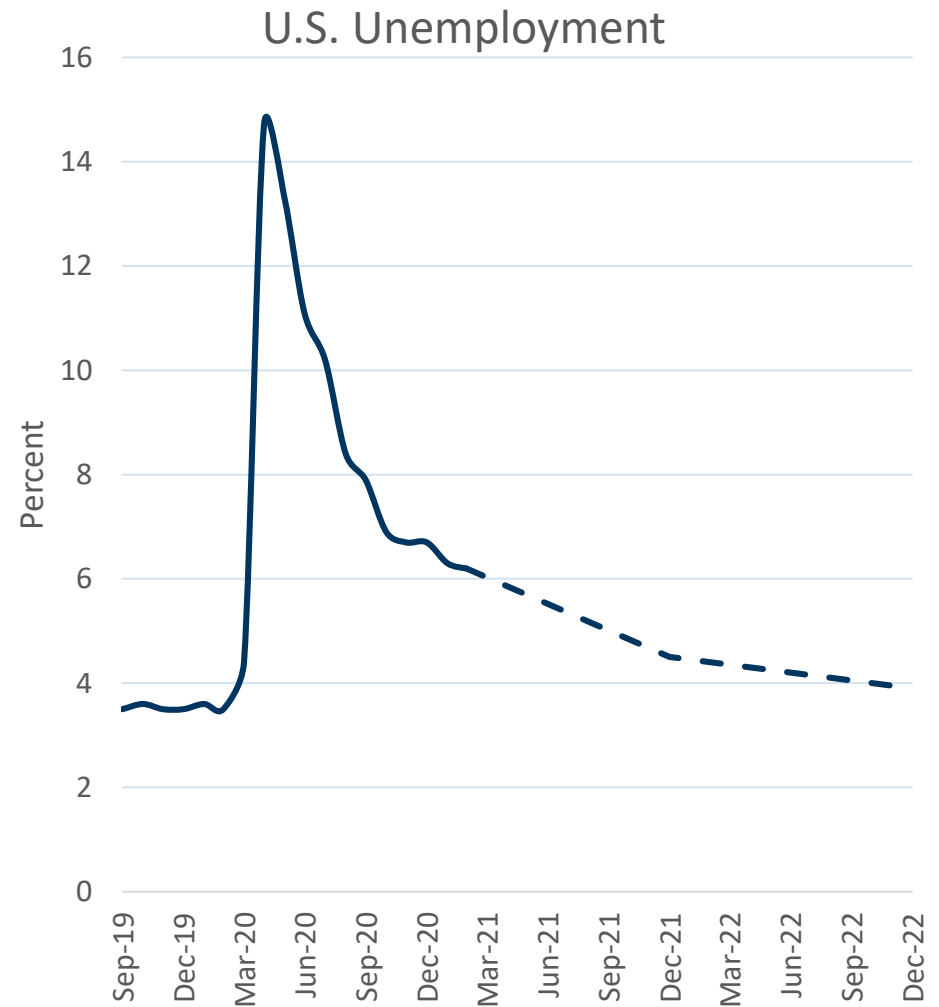
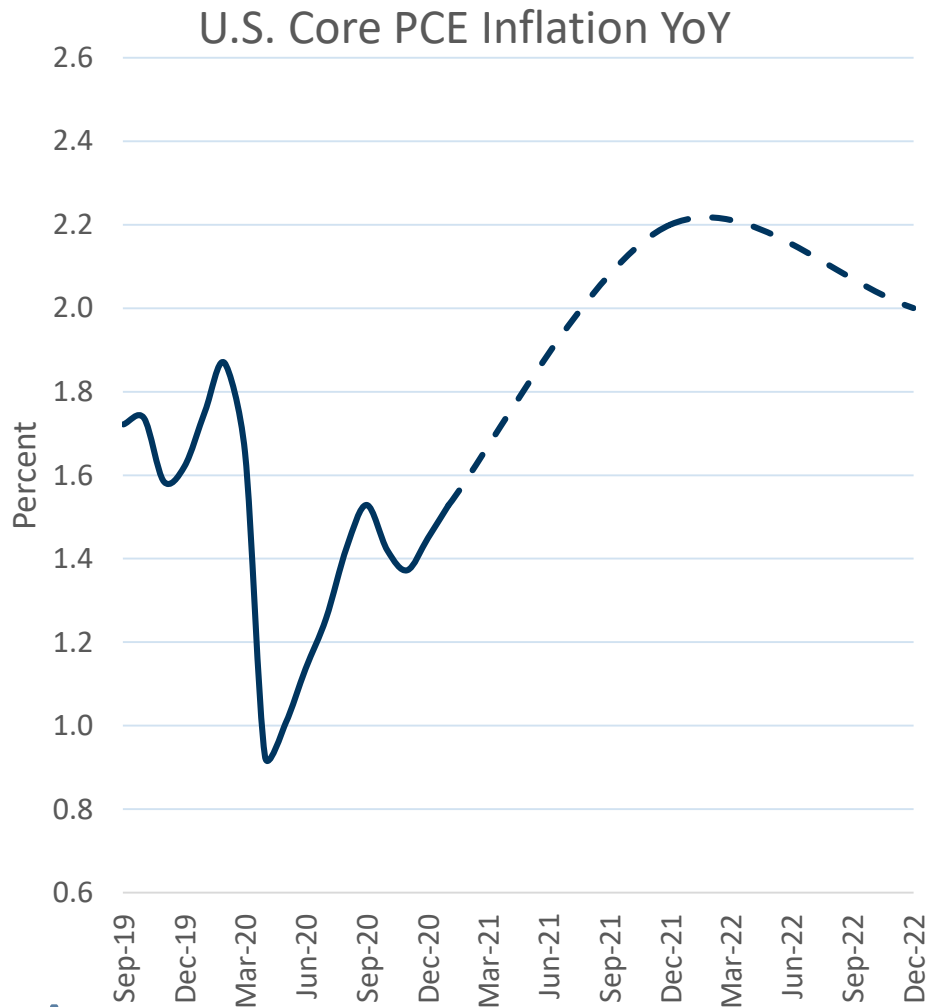


Source: Opus, Bloomberg

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# Economic Outlook

*Federal Reserve committed to accommodative monetary policy until data demonstrates sustained recovery*



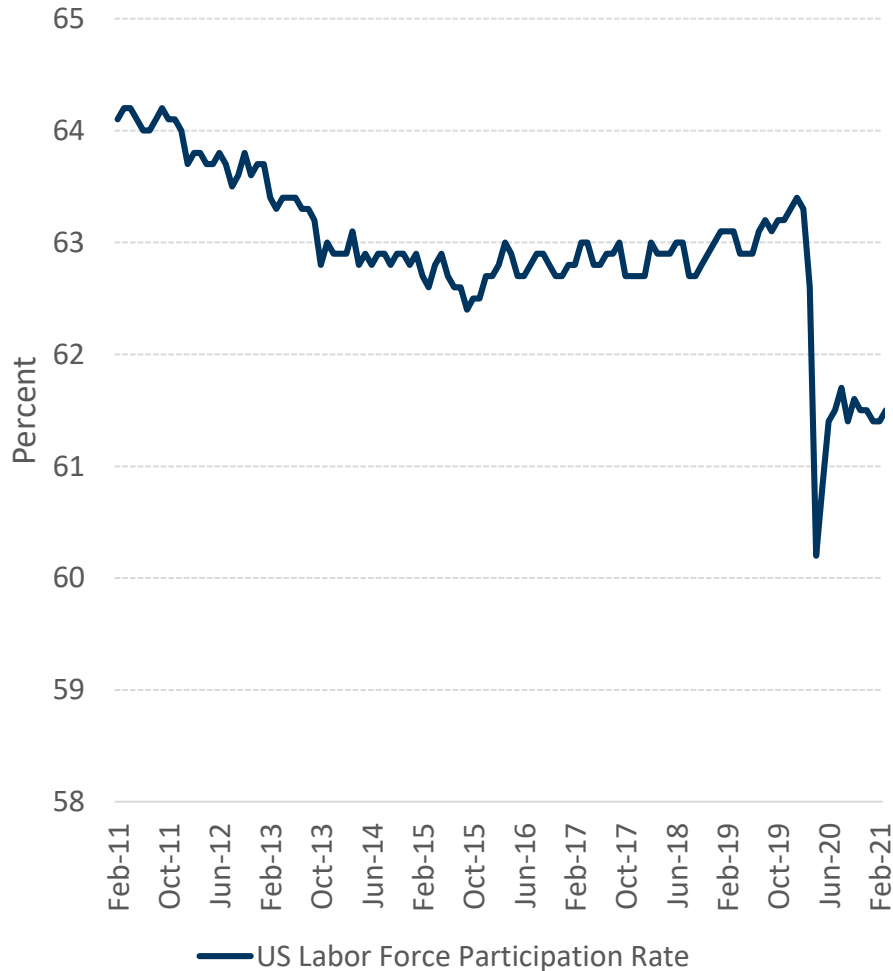
Source: Opus, Bloomberg, U.S. Bureau of Labor Statistics

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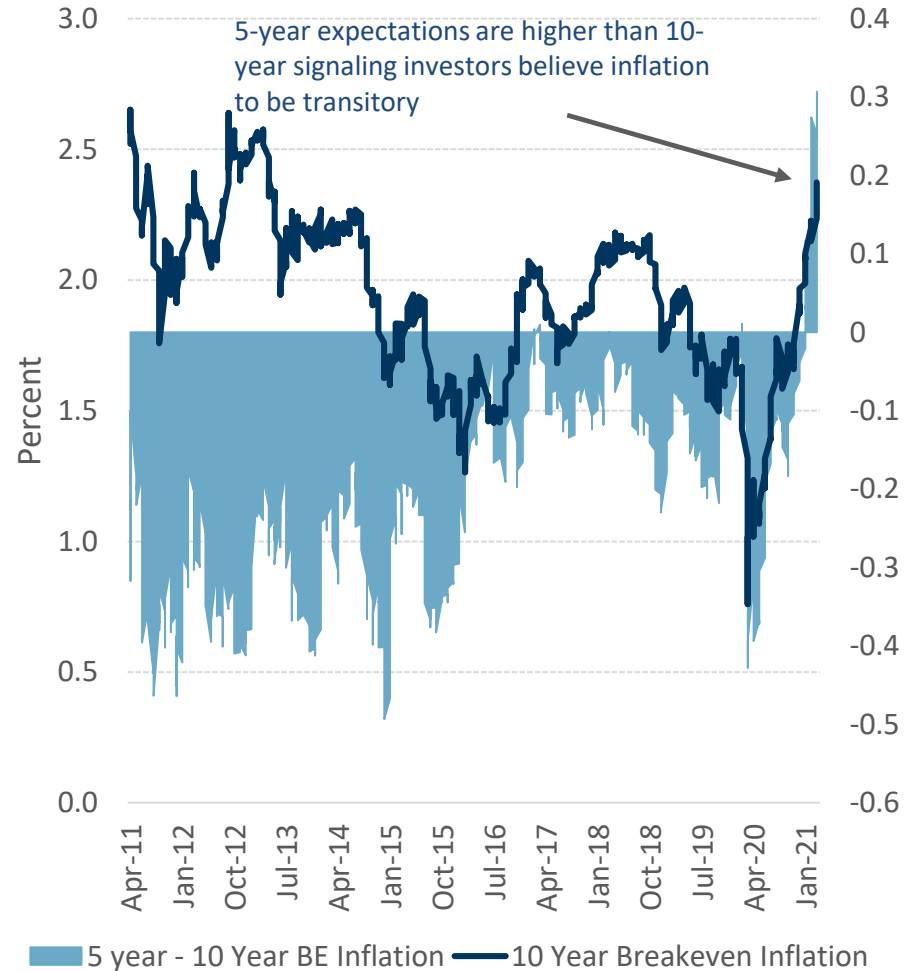
# Economic Outlook

*However, inflation expectations are rising, even with significant slack in the labor market*

### US Labor Force Participation Rate



### Inflation Expected to Rise by Market



Source: Opus, Bloomberg, Bureau of Labor Statistics

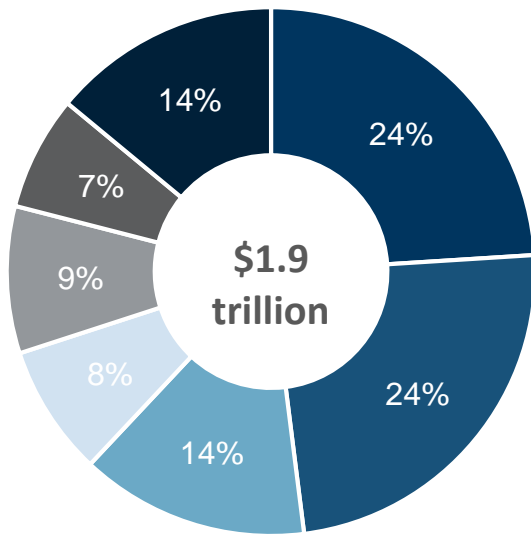
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# Economic Outlook

*The OECD projects the U.S. economy will grow 6.5% this year, more than twice the rate it was projecting in December, thanks in large part to more robust federal aid*

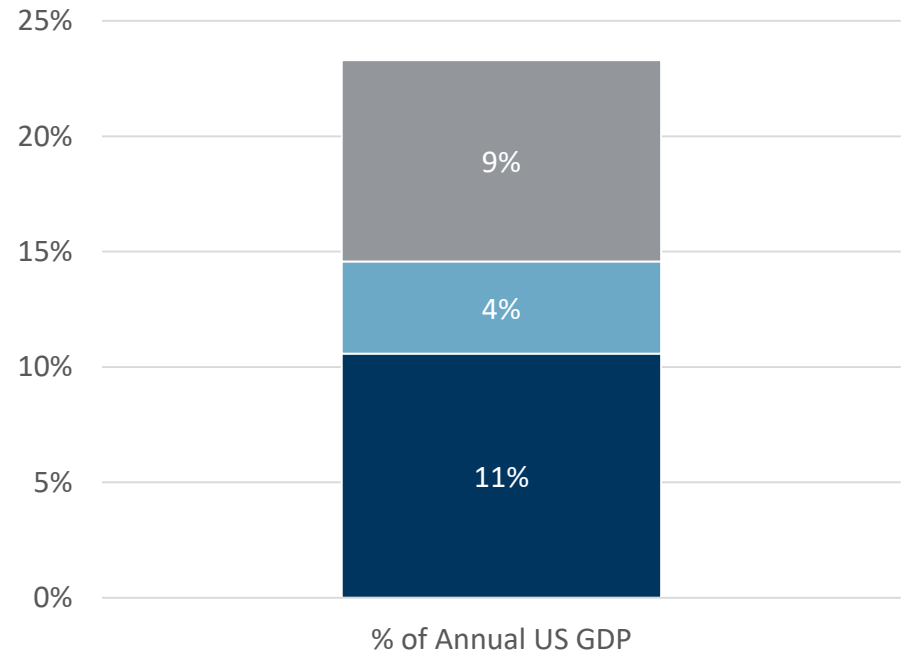
## American Rescue Plan

Passed March 2021



- Stimulus Checks
- State & Local
- Aid to Unemployed
- Vaccination
- Education
- Children
- Other

## Stimulus as a % of 2019 US GDP



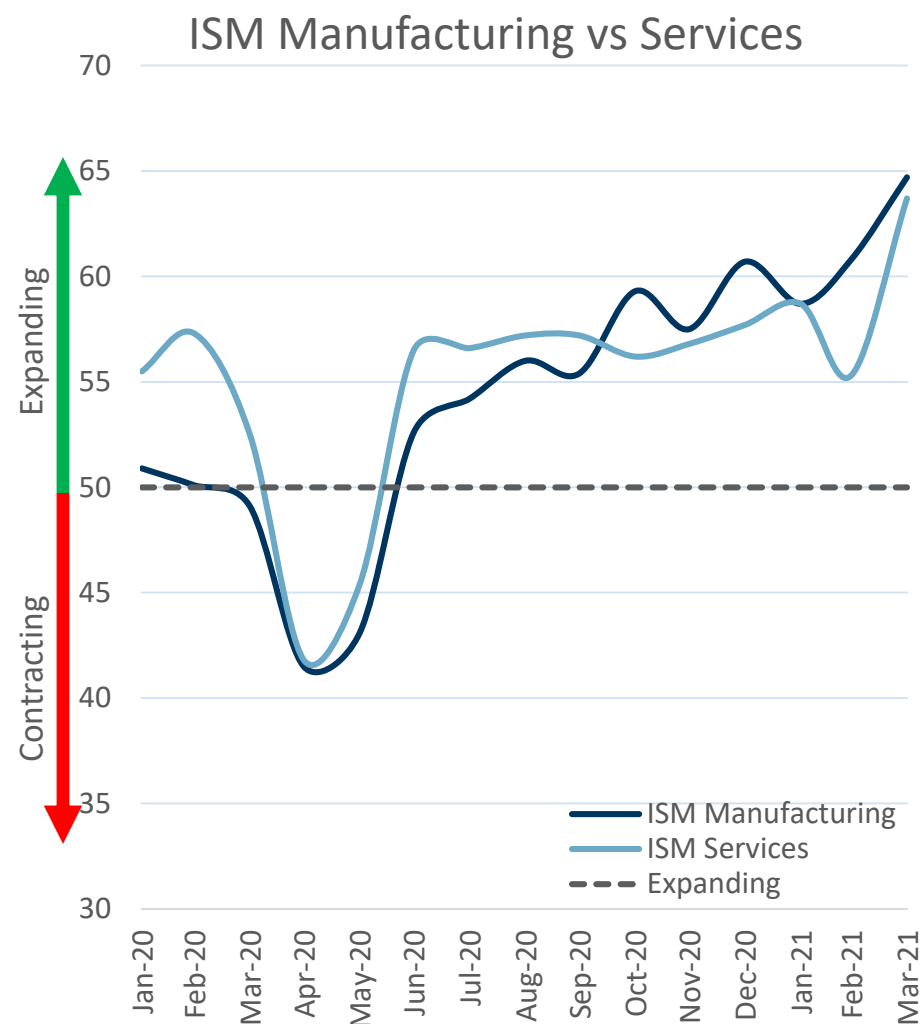
- American Rescue Plan, March 2021
- Consolidated Appropriations Act, December 2020
- Cares Act, March 2020

# Economic Outlook

*Growth expected to recover quickly in 2021, supported by fiscal and monetary policy*

(YoY%)	2020	2021	2022	2023
Real GDP	-3.5	5.8	4.0	2.4
Consumer Spending	-3.9	6.1	4.2	2.5
Government Spending	1.1	1.3	1.7	0.6
Private Investment	-5.2	11.1	4.8	3.4
Exports	-12.9	8.2	6.3	5.1
Imports	-9.3	13.0	4.5	3.7

Bloomberg Consensus

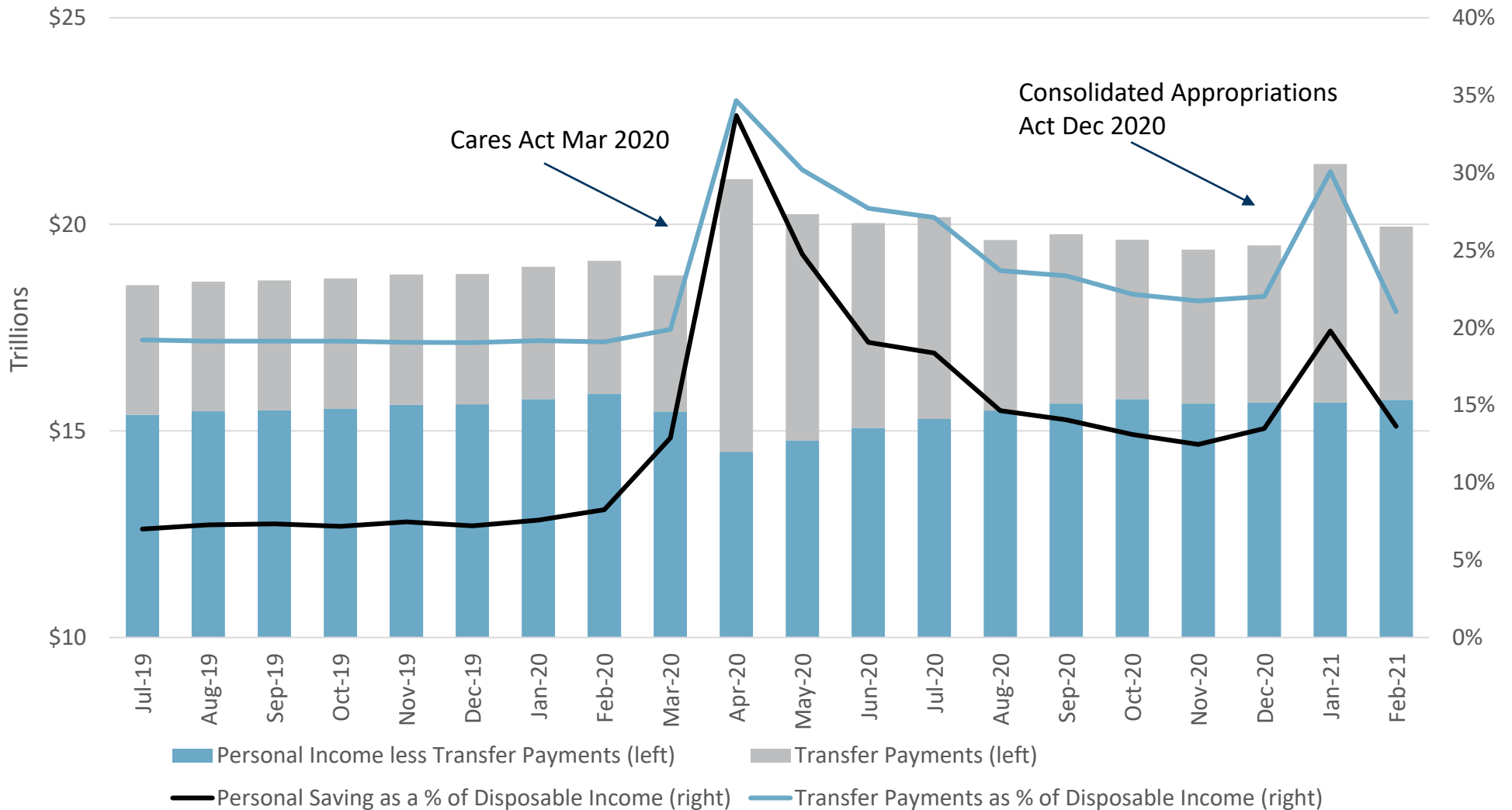


Source: Opus, Bloomberg, Institute for Supply Management

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# Economic Outlook

*Personal income, aided by stimulus, is largely being saved rather than spent*



Source: Opus, Bureau of Economic Analysis

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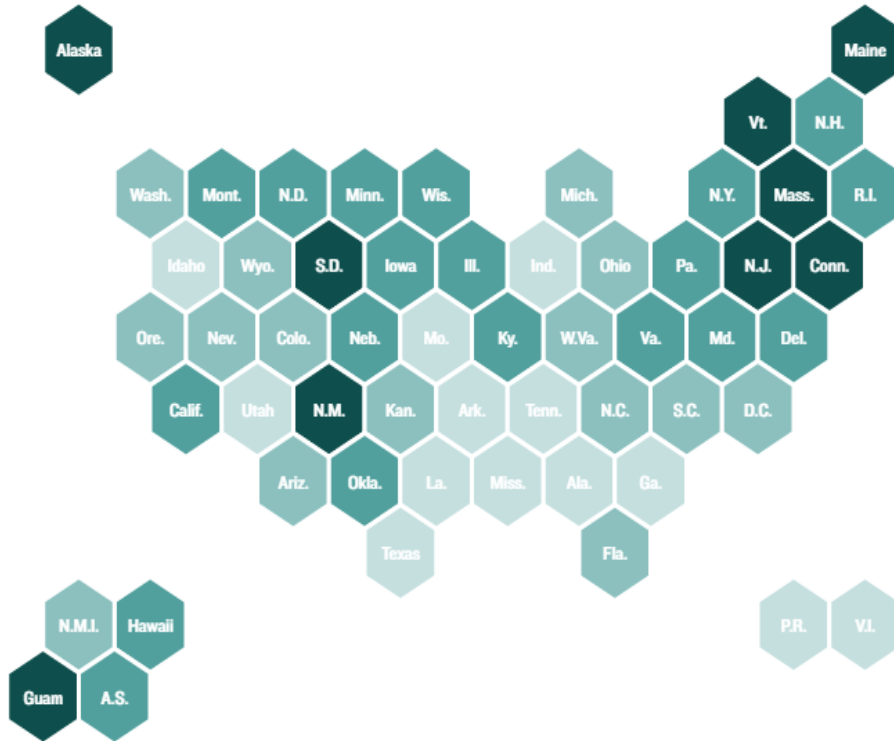
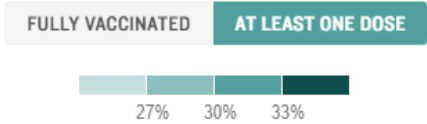


# Economic Outlook

*Vaccination rates have steadily increased in the United States*

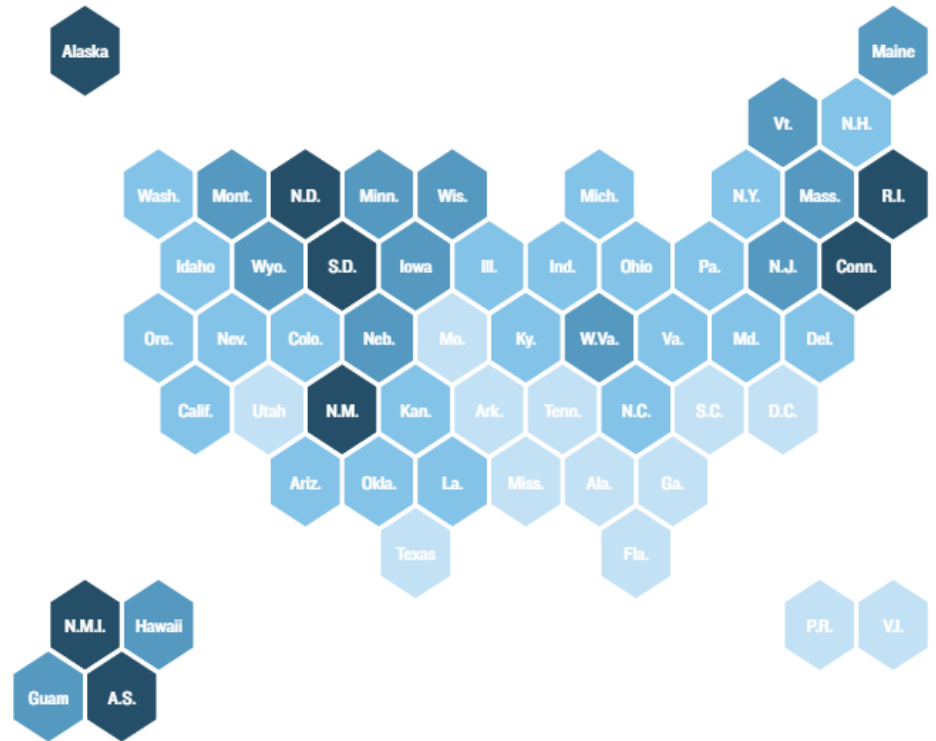
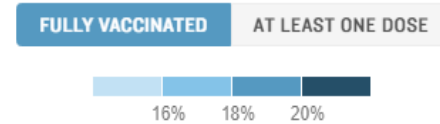
Which States Have Vaccinated More Of Their Population?

Percentage of state's population as of March 31



Which States Have Vaccinated More Of Their Population?

Percentage of state's population as of March 31



*Vaccination momentum, a unified government, and a committed Fed should provide stability*

## Monetary and fiscal stimulus likely to continue

- Fed's target rate expected to remain near zero through 2023. Global central banks continue QE programs.
- The latest round of stimulus provided direct payments to individuals, extended enhanced unemployment benefits and provided support to local authorities.
- Fiscal stimulus is expected to continue, including infrastructure spending.

## Resulting in higher expected growth

- Positive vaccine momentum coupled with improved forecasted earnings has resulted in the S&P 500 hitting a new all-time high in March.
- Growth forecast for 2021 increased to 5.8% (Bloomberg consensus), with inflation expectations trending above Fed target, resulting in upward pressure on Treasury yields.
- Spreads on risk assets remain near historic lows.

## How will monetary policy adjust

- Increased growth expectations and additional stimulus are pressuring FOMC accommodative stance.
- Rising inflation expectations coupled with increasing yields resulting in a tightening of market conditions could influence timing of Fed policy changes
- Uncertainty regarding fiscal policy changes remain, including tax reform, which could be a risk to long-term growth.

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