Foundations and Endowments Specialty Practice

First Quarter 2021: Review and Outlook

Executive Summary – 1Q2021

- Despite headline volatility, **many equity indices hit new highs throughout the first quarter in anticipation that a semblance of normality was upon us** thanks to improving COVID-19 case trends and vaccination progress. That's not to say everything is wonderful. Indeed, over 8 million people remain unemployed compared to pre-pandemic levels.
- **The S&P 500 notched 16 new highs and gained 6.2% for the quarter**, while the tech-heavy NASDAQ rose only 3.0%. S&P Value, up 10.8%, far outweighed gains in S&P Growth, up 2.1%. S&P Small Cap stocks surged by 18.2%, while international developed shares, as measured by the MSCI EAFE, gained 3.6%.
- **A new round of fiscal stimulus was unexpectedly passed at its full proposal of $1.9 trillion, adding to the $3.5 trillion already provided**. This stimulus adds to the ability of the U.S. consumer to spend on goods and services and should lead to the best economic growth we have seen in over 35 years.
- **The 10-year U.S. Treasury yield rose over 80 basis points to 1.74% as bond prices declined**. Bond market concerns stemmed from the fiscal stimulus that not only points to heavy Treasury issuance but also its implications for inflation. The broad bond market, as measured by the Bloomberg Barclays Aggregate index, fell -3.4% for the quarter.
- **The Federal Reserve insisted it remains committed to keeping interest rates low at least through 2023**, though some FOMC participants began to include rate hikes in their 2022 projections.

Outlook and Positioning

- The stock market is forward looking and has been anticipating the much improved economic outlook as monetary and fiscal support provided an important bridge up until now. We had observed at year-end that some of the good news may have already been priced into the stock market, and **we expect this current phase of the cycle to exhibit positive but moderating return**s.
- **Bond yields have risen, which is largely considered a natural progression with the improvement in the economy**. Nonetheless, the upward move in the 10-year U.S. Treasury yield was swifter than expected and is now more than triple its August level.
- We see risks to the financial markets from the **tug of war between expectations for better earnings, vaccinations, and economic data versus concerns about virus mutations, potential for higher taxes and interest rates, and the trajectory of Fed policy**. This battle should add to a choppier environment for the markets.
- In anticipation of a better economy, higher yields, and firming inflation, **we reduced the interest rate risk in our fixed income portfolios during the quarter while staying overweight in credit**. The bond market has become skeptical that the Fed can maintain its accommodative stance for as long as it has projected.
- We removed our growth style tilt and **moved to a more cyclical sector concentration** with an emphasis on equal-weight exposure in large caps which complements the small-cap upgrade we implemented in the fall. These areas allow us to participate in the reflation trade while we await further evidence that a pure value rotation is taking place. REITs are also starting to appear more attractive.

TRUIST

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The Episcopal Diocese of Bethlehem Diocesan Investment Trust

Market Value 03/31/2021: **$34,880,987**

Performance:	**1Q21**	**Since Inception 5/31/16**
DIT	**3.07%**	**9.65%**
Benchmark*	**3.23%**	**11.39%**

*(52.5% S&P 1500 / 17.5% MSCI EAFE / 30% Barclays Aggregate)

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