

Encompass Portfolios Quarterly

First Quarter 2021

First Quarter 2021 – Reopening Trade Gains Steam

Markets weathered an eventful first quarter that began with the storming of the US Capitol, a change in Whitehouse leadership, a literal freeze-up as far south as Houston, the rise and fall of GameStop, and ended with the blow-up of heavily margined hedge fund, Archegos. Even so, the positive shift in national tone post-election in parallel with the worldwide vaccination rollout was equally dramatic. Financial markets picked up on the good vibrations, forecasting an accelerated economic restart aided by major additional COVID relief stimulus to the tune of \$1.9 trillion plus a multi-year infrastructure bill here in the US, further stimulus overseas in the EU (€1.8 trillion), and rising corporate earnings forecasts.

Indeed, a small panic over inflation fears occurred, matching the strongest economic rebound since the early 1980s with the worst quarterly fixed income performance since that same era (*Barron's*, "The Treasury Market Just Had Its Worst Quarter Since 1980," 4/1/21). However, interest rates have only really re-normalized to pre-pandemic levels, and the Federal Reserve has stated a belief that any inflation will be transitory as supply chains rebuild capacity, as well as reiterated its commitment to low rates for the foreseeable future. The rapid rise in rates also challenged high price-to-earnings growth stocks, which felt the sting of a corresponding rise in equity discount rates. In the end, all this nevertheless translated to another positive, if not uneven performance among the major equity indices, ultimately posting all-time highs while bonds recorded a negative start to the year.

For the quarter, the S&P 500 index rose **+6.3%** (ETF proxy SPY*), while the Barclays Aggregate Bond Index fell by **-3.4%** (AGG). In contrast among equities, the small-cap Russell 2000 ran up **+12.9%** (IWM), the technology-focused Nasdaq 100 finished just **+1.8%** higher (QQQ), while value and growth-focused issues came in at **+10.9%** (IVE) versus **+2.2%** (IVW), respectively, demonstrating the significant dispersion among the major equity factors.

That leaves our largest concern for the moment - simply that we'd be hard-pressed to find a professional that isn't onboard with this optimistic outlook. And when all market participants get on the same side of a trade with stocks and bonds both as expensive as they are, it can end poorly. That said, for now the outlook is bright and we will continue to monitor markets regularly and adjust portfolios accordingly to help our clients reach their goals while sleeping well at night.

*Dividend-adjusted ETF data from CommoditySystems, Inc. as of March 31, 2021.

SPDR S&P 500 ETF Trust (SPY)

NYSEArca - Nasdaq Real Time Price. Currency in USD

417.26 **+1.39 (+0.33%)** **416.75 -0.51 (-0.12%)**

At close: 4:00PM EDT

After hours: 7:59PM EDT



Market Outlook-at-a-Glance

Economy	●●●●●○
Valuation	●○●●●○
Price Trends	●●●●●○
Choppiness	●●●○●○

Association Financial Services



Association Financial Services brings together a team of experts to provide portfolio solutions to its clients.

The firm's founder, Roffé Hofmann, feels an important sense of accomplishment in helping his clients achieve their financial goals.

The Encompass Portfolios managed by our sub-advisor are comprised of five diversified, objectives-based core strategies that adapt to changing market conditions to help you achieve your goals.

Discussion

Chart

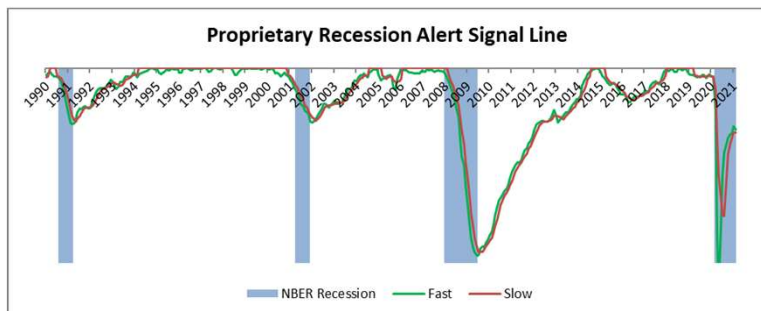
(Available Data as of 3/31/21)

US Economy ●●●●●

The US economy technically remains in recession; however, while improvement has been “uneven and incomplete” to-date, to quote Federal Reserve Chair Powell (*ABC News, 2/23/21*), recent metrics indicate the greatest positive momentum seen since the early 1980s, including expansionary ISM manufacturing and service reports, sentiment, and jobs data nearing the million monthly additions mark (*Bureau of Labor Statistics, 4/2/21*).

After the recent addition of +1.9T in US relief stimulus and the worldwide rollout of multiple vaccines, the rebound is now expected to continue for an extended period. The World Trade Organization projects global gross domestic product to increase by +5.1% for the year (*WTO, 3/31/21*). Economists expect even better results for the US, with the Federal Reserve forecasting +6.5% for 2021 (*BBC, “US Economy to Grow Faster,” 3/17/21*).

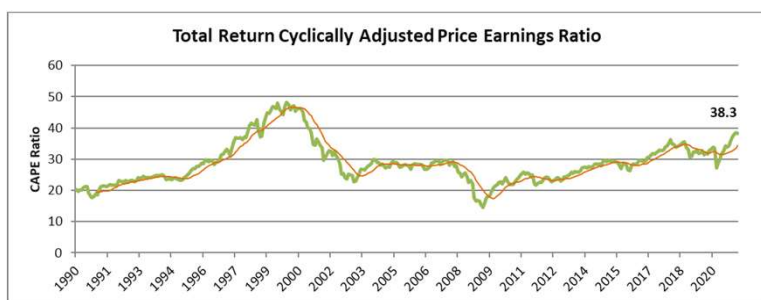
Period	Non-Farm Payroll	Personal Income	Retail Sales	Industrial Production	Service Activity	Weighted Economic Assessment	
	PAYEMS	PI (Net)	RSAFS	INDPRO	NMFBAI	Overall	Acceleration
Year-over-Year	-6.11%	-2.42%	4.70%	-4.25%	-3.98%	Negative	Minus
Feb-21	0.33%	0.20%	-3.37%	-2.24%	-7.35%	Negative	Minus
Jan-21	0.16%	-0.40%	7.32%	1.14%	0.84%	Positive	Plus
Dec-20	-0.21%	-0.15%	-1.51%	1.02%	2.41%	Flat	Plus
Nov-20	0.19%	-0.71%	-1.44%	0.89%	-5.23%	Negative	Minus
Oct-20	0.48%	0.66%	-0.22%	1.01%	-2.86%	Positive	Minus



Source: Federal Reserve Bank of St. Louis; assessments and signal line are proprietary.

Stock Valuation ●●●●●

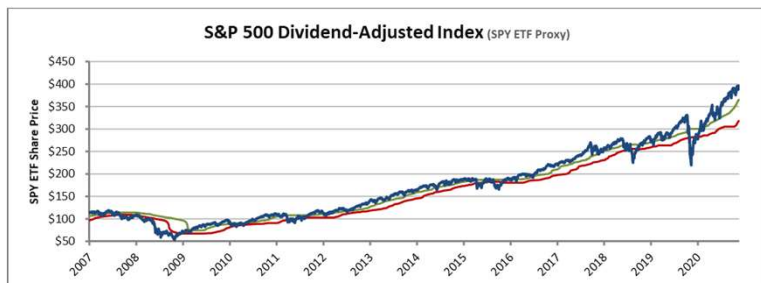
The total return adjusted stock Price/Earnings (PE) ratio moved higher once again to 38.3 on the global economic re-opening. Real earnings fell to +0.9% and Q1 demonstrated how even modest inflation expectations are able quickly pressure this metric. Given valuations remain in the 98th historical percentile, our longer-term warning flag remains in effect. Earnings growth and contained inflation will be key during the quarters ahead.



Source: Professor Robert J. Shiller, Yale University; Price/Smoothed 10-yr Earnings.

Price Trends ●●●●●

History’s fastest pandemic-induced bear market just one year ago was followed by an equally rapid recovery fueled by government intervention not seen since WWII. While initially led by large-cap technology, a heavy rotation back into small-cap and value stocks eventually took hold. As interest rates renormalized on the accelerated vaccine-driven reopening story, the first-quarter provided significant headwinds to bonds and high growth stocks alike for uneven performances across classes and indices.

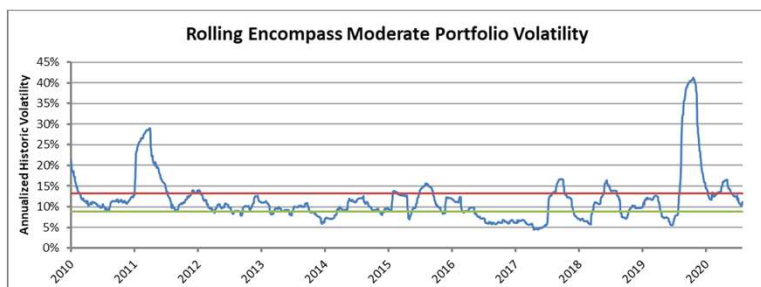


Source: Dividend adjusted data from Commodity Systems, Inc.; technical channels.

Portfolio Choppiness ●●●●●

Our portfolio choppiness measure finished March falling and well within targeted levels. Also encouraging, the VIX S&P 500 options index closed below 20 for the first time in nearly a year.

This could leave stocks subject to occasional shallow news-driven corrections, essentially because the market is not prepared for surprises along the way. However, these levels often represent a favorable environment for small but persistent daily gains.



Note: Historic volatility of the Moderate ETF Index portfolio; annualized dispersion from mean calculation.

Asset Class (Representative ETP)	Proprietary Outlook*	Quarterly Performance	Price Chart (As of 3/31/21)**
United States Stocks Vanguard Total Stock Market ETF (VTI)	Constructive ●●●●●	+6.6%	
Overseas Stocks Vanguard FTSE Developed All Cap ex-US ETF (VEA)	Constructive ●●●●●	+4.5%	
Emerging Stocks iShares Core MSCI Emerging Markets ETF (IEMG)	Constructive ●●●●●	+3.7%	
US Aggregate Bonds iShares Core US Aggregate Bond ETF (AGG)	Neutral (Downgraded) ●●●●●	-3.4%	
Global Fixed Income Vanguard Total International Bond ETF (BNDX)	Neutral (Downgraded) ●●●●●	-2.3%	
Global Real Estate SPDR Dow Jones Global Real Estate ETF (RWO)	Constructive ●●●●●	+6.6%	
Commodities PowerShares DB Commodity Tracking ETF (DBC)	Constructive ●●●●●	+13.0%	
Alternatives IQ Hedge Multi-Strategy Tracker ETF (QAI)	Constructive ●●●●●	-0.4%	

* Based on a proprietary indicator, not trading advice; ** Representative ETP index proxies, dividend-adjusted time series from Commodity Systems, Inc.

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