CFO CAPITAL MANAGEMENT
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The CFO 2021 First Quarter Client Update

The S&P 500 Index of U.S. stocks gained +5.8% in Q1 and its 4-quarter, annualized gain of +53.7% is the strongest gain of the post-war period. The list of catalysts that drove Q1 stock market performance is long and varied: [1] one of the most oversold extremes on record a year ago, [2] vaccine development, [3] economic reopening, [4] the resurgence in corporate earnings, [5] the unprecedented support by the Federal Reserve, and [6] the three rounds of fiscal stimulus totaling $5.2 **trillion**. From the chart below, we briefly summarize the key takeaways from the 2021 Q1 results for the broad asset categories and financial market indices that we follow:

- U.S. Stocks extended their Q4 rally off the short-term low of October 30, 2020. However, stock market leadership changed from growth to value as the Dow Industrials was the top performing equity index with a +7.8% gain for Q-1. Stock returns continued to trounce bonds beating both long-term U.S. Treasury Bonds [-13.5%] and the Barclays US Aggregate Bond Index [-3.4%] which both declined during Q1.

- Helped by the Q1 rise in the U.S. dollar [+3.6%], U.S stocks again outperformed the major foreign stock market indices, but China [-0.4%] was the only major stock market that declined in Q1.

- The energy sector had a strong Q1 [+29.3%] which helped to drive the S&P GSCI Index of commodities higher by +14.2%. However, Gold [GLD] fell each month during Q1 and ended up the quarter down by -10.7%.

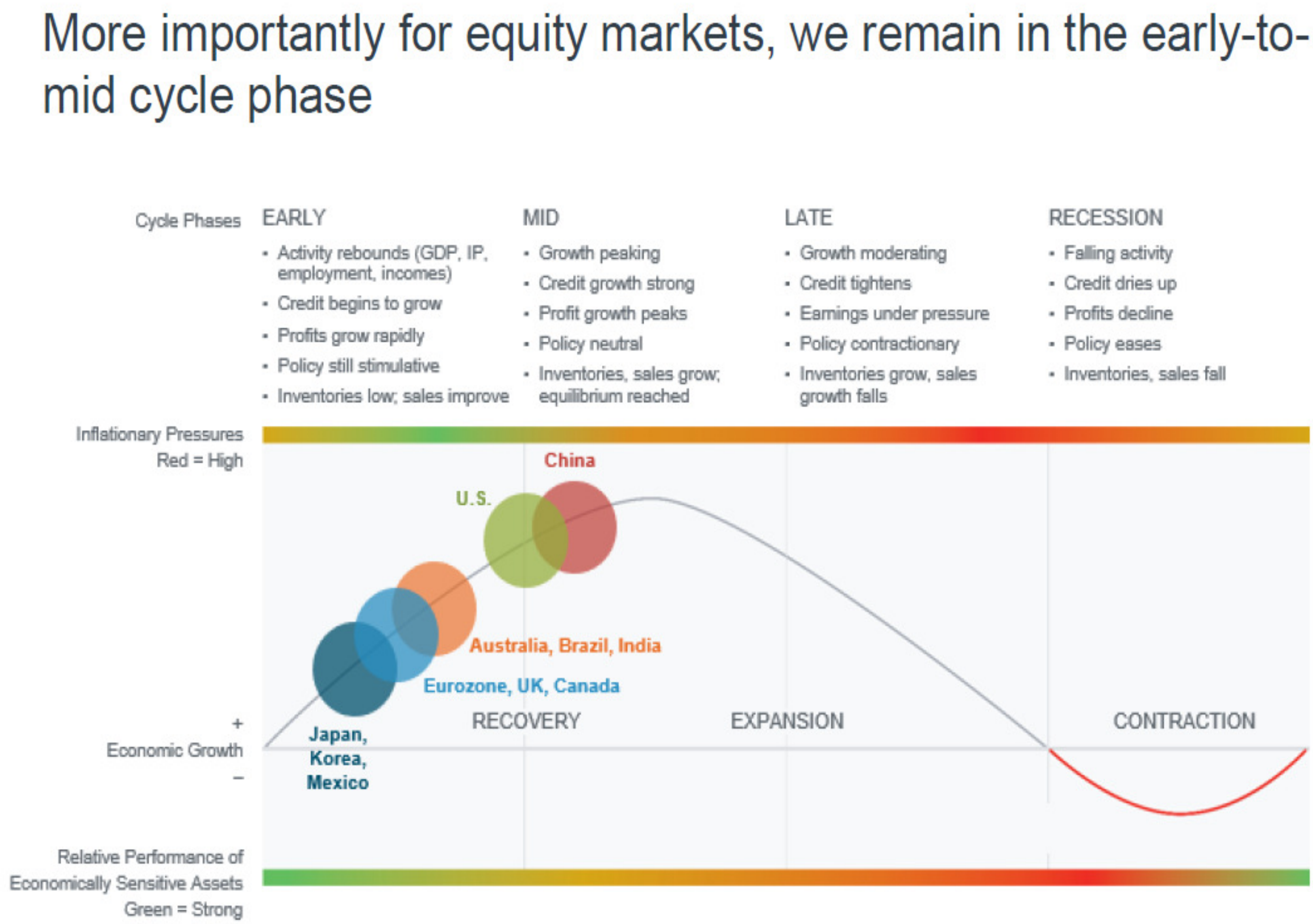
Index Returns for Asset Classes & Broad Market Index Averages (1)	1ST Quarter 2021	Last Twelve Months
30-Day US Treasury Bills	0.01%	0.08%
Barclays Long-Term US Treasury Bond	-13.51%	-15.80%
Barclays US Aggregate Bond Index	-3.37%	0.71%
S & P 500 Composite Price Index	5.77%	53.71%
Dow Jones Industrials Price Index	7.76%	50.48%
Wilshire 5000 Total US Stock Mkt Index	6.10%	59.51%
MSCI EAFE Index of Foreign Markets	3.48%	44.57%
MSCI Emerging Markets Index	2.34%	58.92%
MSCI Europe Index	4.08%	44.95%
MSCI Japan Index	1.57%	39.73%
MSCI China Index	-0.43%	43.61%
SPDR GOLD Shares ETF [GLD]	10.67%	4.68%
US Dollar ETF [UUP]	3.56%	-6.41%
S & P GSCI Commodity Index [Spot]	14.15%	82.91%

(1) Source: MORNINGSTAR [In USD$]

CFO Economic and Financial Market Outlook

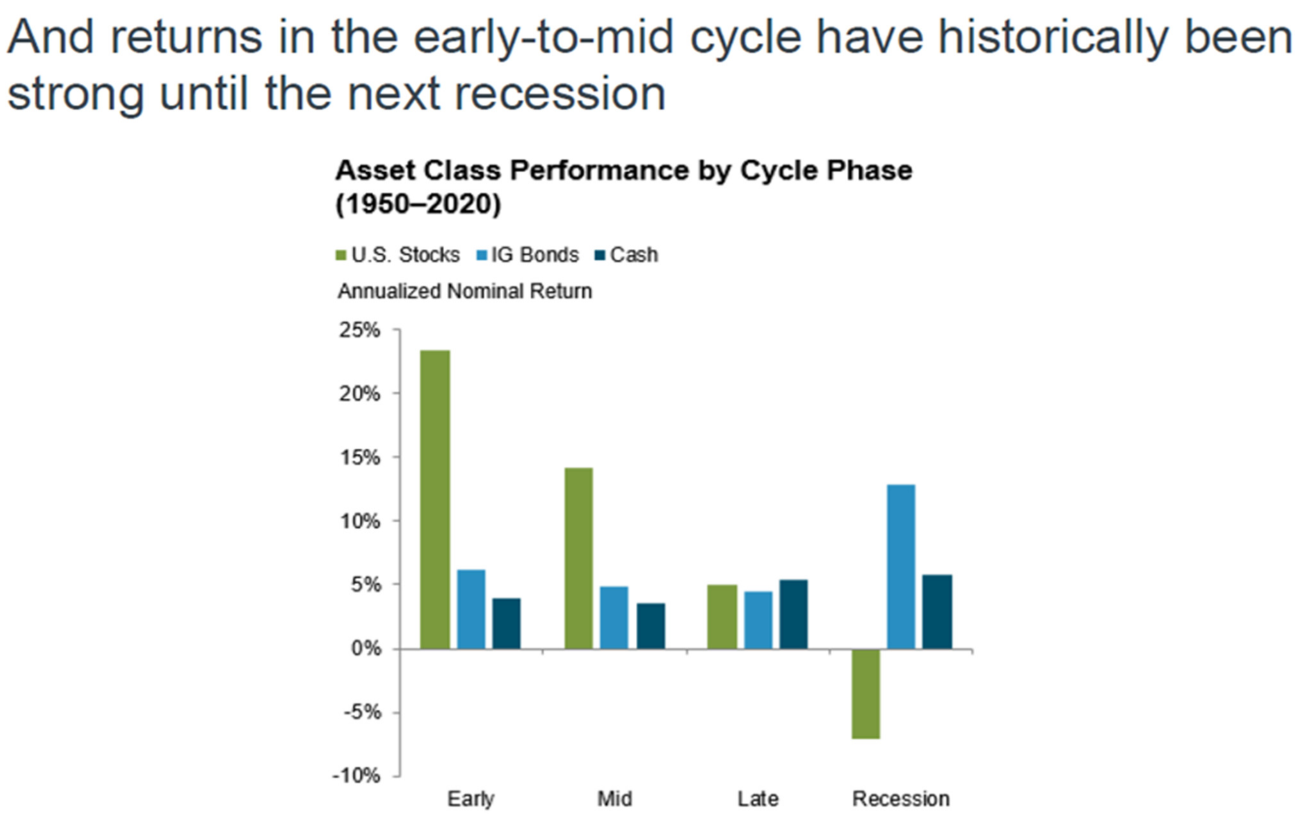
In our 2020 year-end report to our investors, we presented a positive outlook for both the U.S. and global economies and financial markets based on the very aggressive fiscal and monetary responses by the world's key governments and central banks including most importantly our own Federal Reserve. The just enacted $1.9 trillion American Rescue Plan follows a $900 billion package passed in December. This is on top of a record $2.2 trillion package passed earlier in 2020. At the same time, Chairman Jerome Powell reiterated in recent testimony the Federal Reserve's forward guidance of a near-zero federal funds rate and bond purchases of $120 billion a month until the labor market returns to "maximum employment", and core Personal Consumption Expenditures (PCE) inflation averages "moderately above 2% for some time." The Fed expects this policy to remain in place until at least the second half of 2022. In short, Fiscal and monetary policies continue to be highly accommodative, with any future policy normalization awaiting "too much" inflation. With the accelerating vaccine rollout, most notably in the U.S., global economic growth has rebounded faster in 2021 than originally forecasted and Ned Davis Research [NDR] has upgraded their outlook for 2021 U.S. and global real GDP to +6.5% and +6.1% respectively. That positive news notwithstanding, this is a very different economic cycle, with the U.S. and major foreign economies coming out of a deep recession that was driven not by underlying economic and financial strains, but rather by voluntary social distancing and government-imposed lockdowns.

There has been a global economic cycle “reset” which the chart from Fidelity Investments below illustrates, and which brings a higher-than-usual amount of uncertainty in any forecasted outlook beginning with the reality that the COVID-19 pandemic is still not behind us.



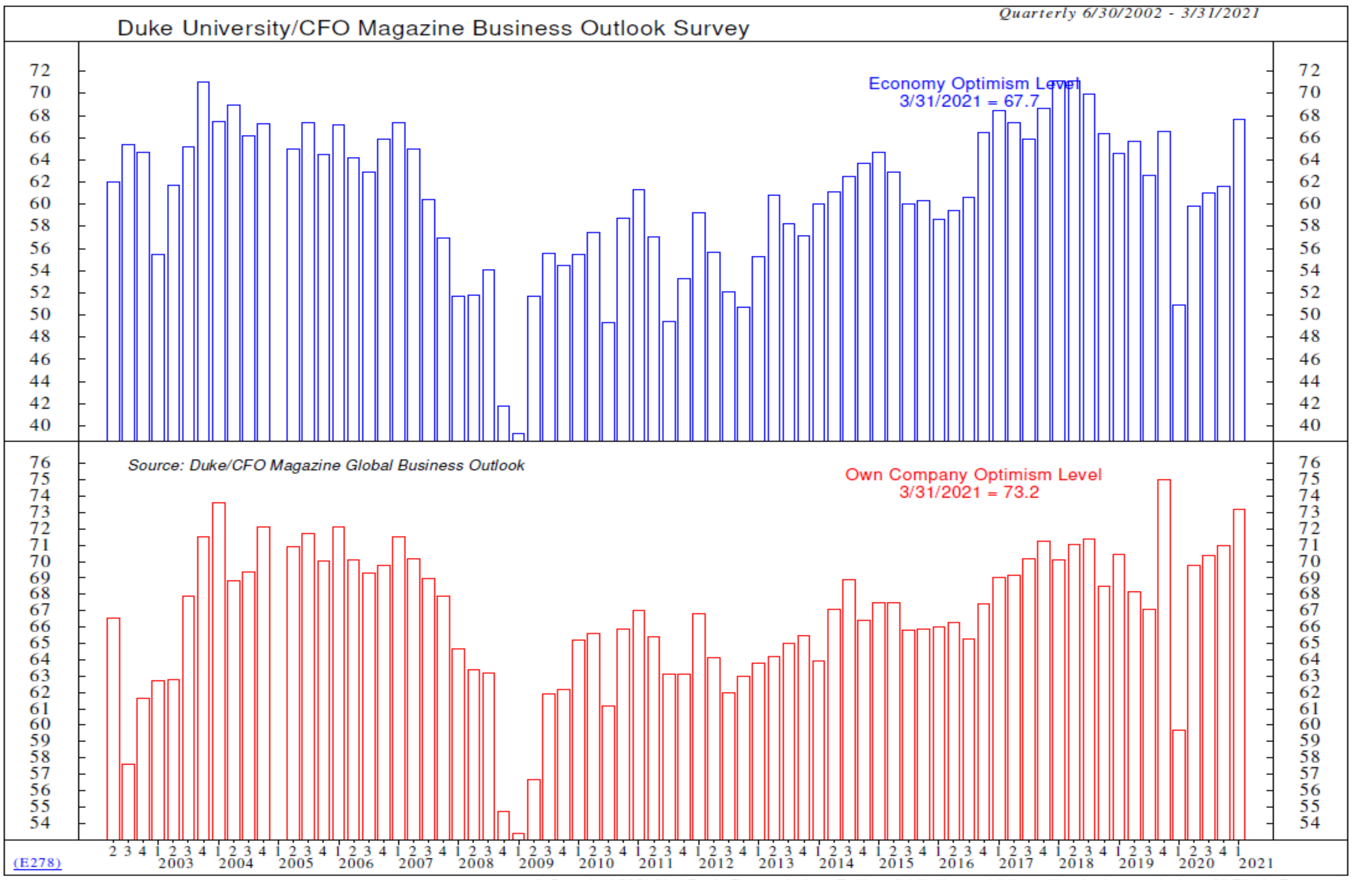
Outside of the U.S., vaccine deployments have been woefully lagging. Numerous countries are still mired in lockdowns with the number of new cases rising. India, for example, is a disaster with reported outbreaks of new [and more virulent] strains of the COVID-19 virus. Moreover, there is the material risk of whether or not the fiscal stimulus will be enduring enough to materially close the employment gap that is still over 9 million jobs below its pre-pandemic level. Other primary risks include higher inflation and premature tightening of both monetary and fiscal policy. A fast backup in interest rates could negatively impact housing and big-ticket consumer purchases. NDR’s outlook for 2021 annual PCE inflation is that it will remain stable in the 2.2% range. Over the next few months, however, a combination of base effects, such as increasing energy prices [for which reported monthly future prices actually fell into negative figures!], will likely push year-over-year inflation rates materially higher. The risk of a sustained breakout in inflation needs to be carefully monitored.

Given the positive but challenging U.S. and global economic backdrop, investors should maintain portfolio flexibility and liquidity to be able to respond to events in what will be a challenging and volatile investment environment. We believe that asset category diversification is critical, including allocations to non-equity/fixed income and cash equivalents as a hedge to risk assets, but the early-to-mid economic cycle ingredients are in place for the current cyclical bull market in stocks to continue. Please review the Fidelity Investments chart that follows below.



With low stress in the financial system and readily available credit, it is hard to foresee a near-term recession or bear market. To reiterate, estimates for economic growth have been increasing steadily for several months. Retail sales are rising and factories are humming. Employment is expanding.

Also aiding the equity markets are share buybacks, dividend growth, M&A activity, and buckets of cash in private equity funds hunting for investment opportunities. As the NDR chart below also illustrates, a Q1 survey of corporate Chief Financial Officers [CFOs] showed rising optimism among financial executives.



That CFO optimism about demand, sales and revenue growth is further supported by a recent Bloomberg top-down S&P 500 earnings consensus for 2021, which reported corporate earnings per share rising +24% in 2021 to $174 from $140 in 2020. This gives a forward price/earnings ratio of close to 23 times for the market making stock valuations stretched, but we do not see the overpricing and other behaviors often seen at market peaks.

While we expect that the stock markets can move higher over the next year, there is a "struggle" going on in the valuation of stock prices. The recent and rapid [1 percentage point] increase in the yield of the 10-year Treasury that occurred in Q1of 2021 is hurting traditional valuation measures while the growth in reported corporate earnings is increasing value.

If stock prices move higher slowly, stock prices should not get ahead of value, and we would not expect to see equity valuations reach dangerous, widespread “bubble levels”.

On this key point of equity valuations, please review the Fidelity Investments chart below. The chart shows that a rise in interest rates does not always cause a decline in stock prices.

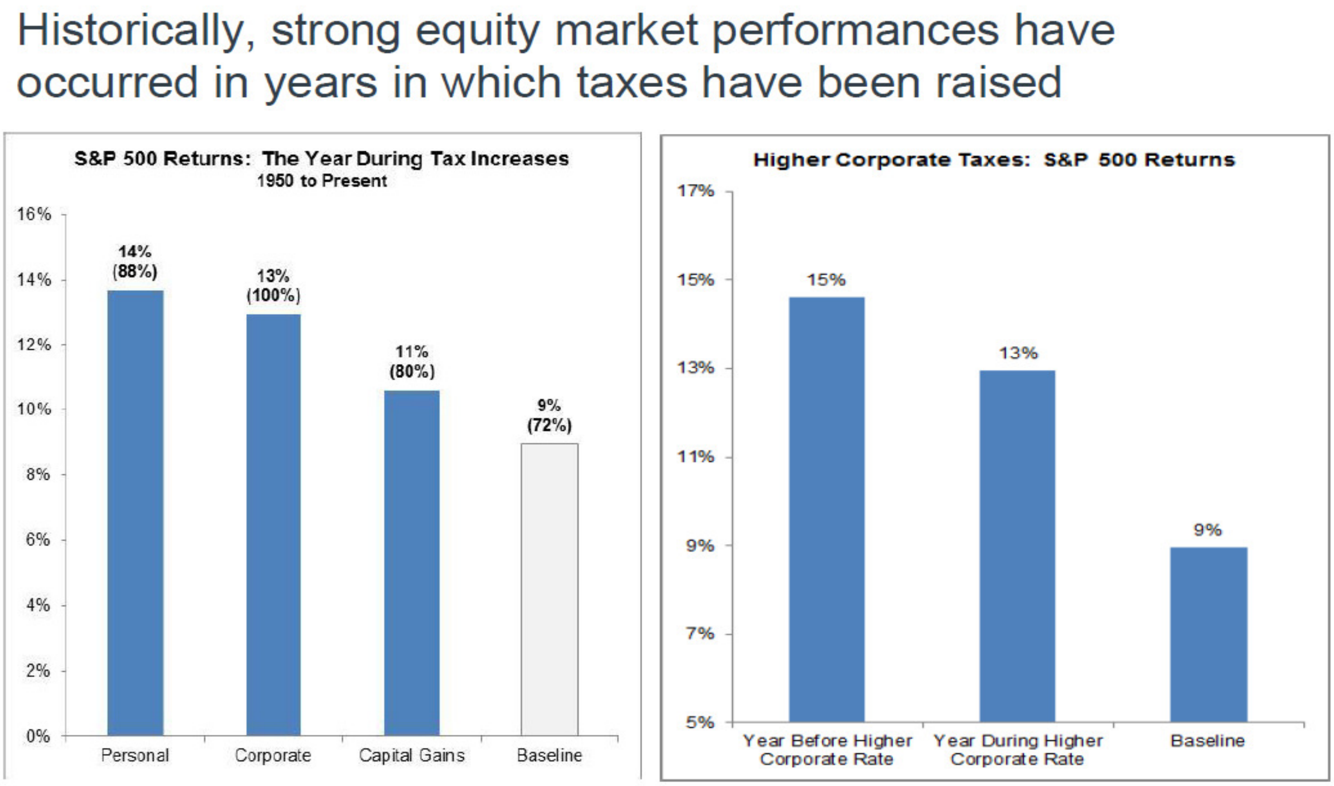
A rise in interest rates is not necessarily a cause for concern, as the equity market has historically performed strongly following periods of rising rates

Performance In The 12-Months Following Periods of Rising Interest Rates

Index	11/30/1994 11/30/1995	8/31/1996 8/31/1997	1/31/2000 1/31/2001	6/30/2006 6/30/2007	12/31/2009 12/31/2010	12/31/2013 12/31/2014	10/31/2018 10/31/2019	Average
Financials	54.2%	55.3%	29.5%	14.7%	12.1%	15.2%	11.7%	27.5%
Technology	50.5%	80.7%	-24.5%	25.9%	10.2%	20.1%	22.6%	26.5%
Health Care	51.4%	39.8%	18.8%	18.6%	2.9%	25.3%	8.6%	23.6%
Industrials	42.0%	36.9%	15.3%	17.4%	26.7%	9.8%	14.9%	23.3%
Real Estate				11.7%	28.0%	26.1%	26.7%	23.2%
Staples	39.9%	32.2%	17.6%	14.8%	14.1%	16.0%	14.0%	21.2%
Utilities	26.2%	9.9%	28.1%	26.1%	5.5%	29.0%	23.7%	21.2%
S&P 500	**37.0%**	**40.6%**	**-0.9%**	**20.6%**	**15.1%**	**13.7%**	**14.3%**	**20.0%**
Materials	25.4%	26.4%	-6.9%	29.1%	22.2%	6.9%	13.5%	16.7%
Discretionary	19.1%	26.2%	-0.9%	19.1%	27.7%	9.7%	15.8%	16.7%
Communications	37.9%	22.7%	-27.3%	38.8%	19.0%	3.0%	15.5%	15.7%
Energy	21.6%	42.7%	14.0%	28.0%	20.4%	-7.8%	-11.0%	15.4%

If, however, stock prices surge higher along with continued increases in the 10-year Treasury yield, that would be our signal to get defensive. We do not expect that to occur but we will be closely monitoring valuations and inflationary pressures. The financial media can put a negative spin on the reported inflation data and turn a short-term challenge into something that could become dangerously reinforcing. Finally, given that fiscal spending by the U.S. government has already exceeded $5 trillion, there is a very strong likelihood that taxes for higher-income individuals and corporations will go higher.

On that key point, please review the Fidelity Investments chart below. It illustrates that strong equity market performance can co-exist during the year in which taxes have been raised.



As we move through Q2 of 2021, we expect to maintain our target allocations to global equities. Sector selection will remain important. We favor cyclical stocks over defensive stocks, and also favor equity markets in the U.S. and Asia regions that most likely will emerge from the pandemic earlier and stronger from the benefits from ongoing accommodative monetary and fiscal support policies. We are also researching equity opportunities in Europe.

Please do not hesitate to call us directly with any questions that you may have about portfolio strategy or your investment account(s).

The CFO Capital Management Team
April 23, 2021