Market & Economic Outlook 2021 – April Update: Market Prices in Ever-Higher Growth Metrics

2021 Returns*	Value	Price Return	Total Return	All-Time High	% from High
S&P 500	3,972.89	5.8%	6.2%	3,974.54	0.0%
Dow Jones Industrial Average	32,981.55	7.8%	8.3%	33,171.37	0.6%
NASDAQ Composite	13,246.87	2.8%	3.0%	14,095.47	6.4%
Russell 2000	2,220.52	12.4%	12.7%	2,360.17	6.3%
MSCI EAFE (USD)	2,208.32	2.8%	3.6%	2,388.74	8.2%
MSCI Emerging Markets (USD)	1,316.43	1.9%	2.3%	1,444.93	9.8%
Bloomberg Commodity Index	83.44	6.9%	6.9%	237.95	185.2%
Barclays U.S. Aggregate Bond	105.16	-4.3%	-3.4%	112.07	6.6%

**Through 3/31/2021* *Data Source: FactSet*

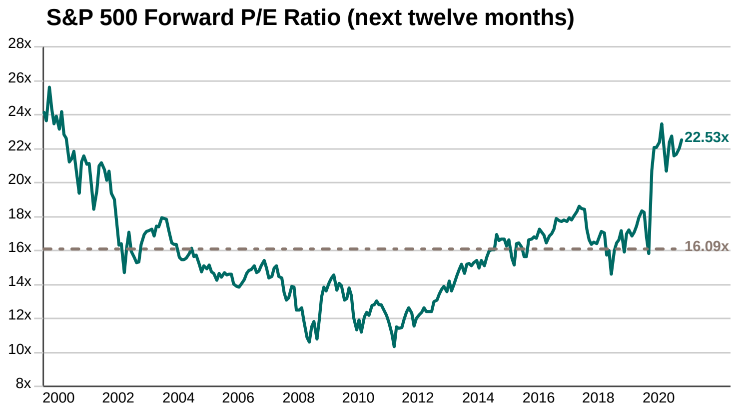
Outlook Summary:

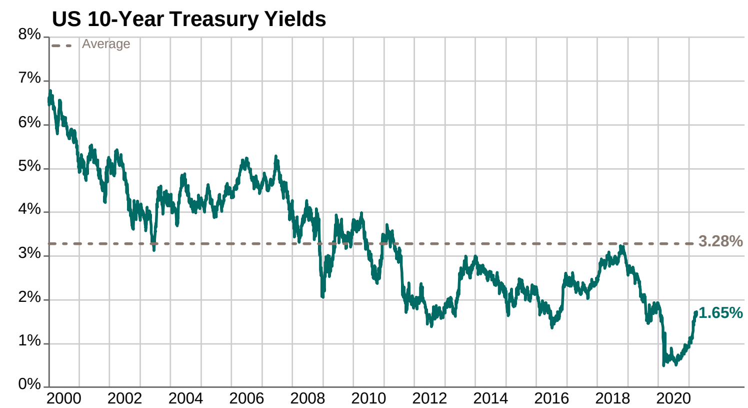
Equity market gains continued in Q1 as economic reopen and fiscal stimulus developments elevated investor sentiment despite the emerging risk of rising long-term interest rates and potential inflation. Cyclical sectors and small cap stocks led recent equity gains, representing a broadening of participation compared to relatively narrow leadership for much of 2020. We believe this healthy trend is likely to continue as economic activity resumes, driving sequential improvement in consumer spending and business investment. Equity gains have largely kept pace with earnings estimates; earnings results for Q4 2020 significantly exceeded expectations, and S&P 500 EPS estimates for full-year 2021 and 2022 were revised higher. Higher long-term interest rates over the past few months create potential headwinds for valuations if P/E multiples compress, but the outlook for economic and earnings growth is solid, and visibility has improved**. Due to higher earnings growth expectations since our December outlook, we have increased our S&P 500 fair value estimate to 4,300 from 4,000. Our fair value is 8.2% above the S&P 500's Q1 closing level of 3,973, and 14.5% above index levels as of 12/31/20. We remain bullish on equity markets overall, and see continued strength in cyclical sectors that will benefit from a broad-based economic recovery that is underway. But we also advocate for sector diversification, which can help protect investors from inevitable volatility and unexpected market pullbacks that generally occur every year.** Market risks include rising interest rates and inflation, lofty expectations for continued positive earnings surprises, higher corporate tax rates that limit earnings growth, and high levels of Federal and corporate debt.

The S&P 500 gained 6.2%, including dividends, in Q1, as U.S. markets led a global equity rally driven by vaccine optimism and global government stimulus that is expected to add fuel to a robust economic recovery. Global developed market equities (MSCI EAFE) gained 3.6% in Q1 and emerging markets (MSCI Emerging Markets) delivered a total return of 2.3%. International returns for U.S. investors were hurt by Q1 strength in the U.S. dollar, as the trade-weighted U.S. dollar index surprisingly strengthened 3.7% since the end of the year. Small cap stocks led U.S. markets as the Russell 2000 posted a 12.7% return. The Dow Jones Industrial Average delivered an 8.3% total return, while the technology-heavy Nasdaq Composite gained 3.0% and lagged the broader market. The rotation into small cap stocks, away from the Nasdaq Composite, was notable, as the Nasdaq had outperformed the Russell 2000 for four consecutive years from 2017 to 2020. Since the end of 2016, the compounded annual return of the Nasdaq Composite was 25.6%, compared to 16.0% for the S&P 500 and 11.3% for the Russell 2000. The Russell 2000 has now outperformed both indices for each of the past two quarters, and could continue to do so as the economic recovery drives improving results for a wider group of companies and small businesses. What a difference a year makes. Following a 34% S&P 500 decline from mid-February to late-March in 2020 (one year ago), the S&P 500 (through 4/1/21) gained 79.7% from the lows. Compared to the end of 2019 the S&P 500 is 24.4% higher. Investors have expected a strong economic recovery from the pandemic response-driven recession, and that view has been enhanced by vaccines with high efficacy and unprecedented government spending.

Data Source: FactSet as of 4/1/21. S&P 500 Price Changes 12/31/19 to 4/7/21

Our S&P 500 fair value estimate of 4,300 represents a P/E of 24.6x the 2021 FactSet consensus EPS estimate of $175 and 21.4x the 2022 EPS estimate of $201. Following an S&P 500 earnings decline of 14% in 2020, earnings are estimated to surge 27% in 2021 and 15% in 2022, as companies benefit from a synchronized global economic recovery and accelerating margins. Market valuations (using price/earnings ratios) remain substantially above the long-term average, as the S&P 500 trades at 22.3x the consensus estimated earnings over the next 12 months, compared to an average of 16.1x over the past 21 years. Since late-2018, higher equity valuations have correlated with rapidly dropping long-term interest rates, as the U.S. 10-year Treasury yield ended 2020 at 0.92% vs. 3.21% on 11/2/18. On 4/1/21, the U.S. 10-year Treasury yield was 1.72% after a fairly steady rise in Q1. While we view rising interest rates as a potential risk for equity valuations (higher rates lower the present value of future cash flows), investors, for now, believe that the interest rate environment reflects a strong economic growth outlook. In our 2021 Market Outlook note in December we wrote, *"equities can move higher even if long-term interest rates trend up from current levels, which we believe is likely in 2021."* In past periods of elevated valuations, U.S. 10-year Treasury yields were significantly higher. In 2000 to 2002, the market P/E remained above 20x, while 10-year Treasury yields ranged between 4.0% and 6.5%.

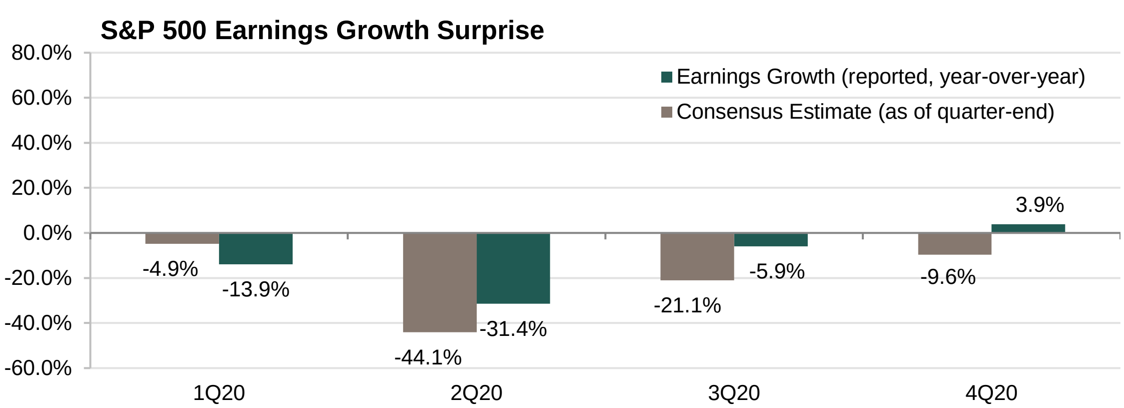




Data source: FactSet as of 4/7/21

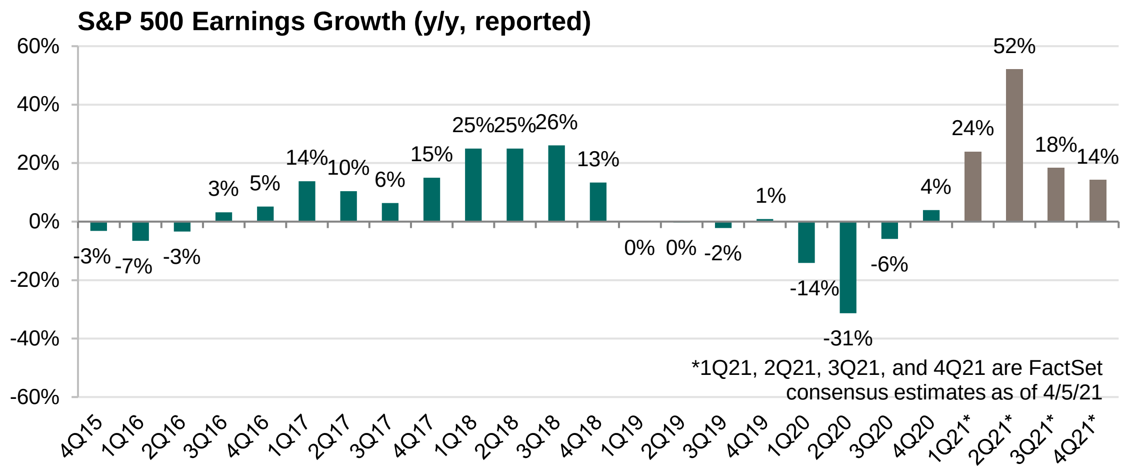
With the worst impacts of COVID-19 continuing to fade, visibility for a post-pandemic world has improved and we will discuss several important considerations for investors over the balance of 2021 and 2022. Investors have correctly positioned for economic and earnings results to exceed expectations; economic data is starting to look very good, forecasting growth from pandemic lows is difficult; and equity markets surged to new highs in Q1 without leadership from the Technology sector.

The rapid recovery in equity prices that began in late March of 2020 and then continued through Q1 2021 has surprised many forecasters. We have been bullish, but the level of gains has surprised us as well. However, equity markets appear to have correctly predicted that earnings results, when reported, would be better than consensus expectations. In the first quarter of 2020, S&P 500 earnings were worse than expected as the pandemic shutdowns rocked global economies in the last month of the quarter. But, since then, Q2 2020, Q3 2020, and Q4 2020, reported earnings significantly exceeded consensus estimates that were in place at the end of each respective quarter. In addition, during each of those quarters estimates were revised higher and results still beat estimates. Perhaps it was not a surprise that the S&P 500 increased (price return) 20.0%, 8.5%, and 11.7% in 2020's Q2, Q3, and Q4, respectively. Upward earnings revisions have continued in early 2021. On 4/1/21, the Q1 2021 S&P 500 consensus earnings growth estimate was 24%, up from an expected 13.3% increase just three months earlier. In addition, full-year 2021 estimates reflect a Y/Y increase of 27%, up from a consensus of 23% at the end of December. We believe that equity markets expect upside to the revised higher estimates, reflecting strong investor sentiment. This sets a high bar for continued equity market gains, but is quite possible given the economic recovery that is now underway. Should earnings fall short of those lofty expectations, equity markets could react negatively and represents a risk for investors.



Data source: FactSet as of 12/31/20

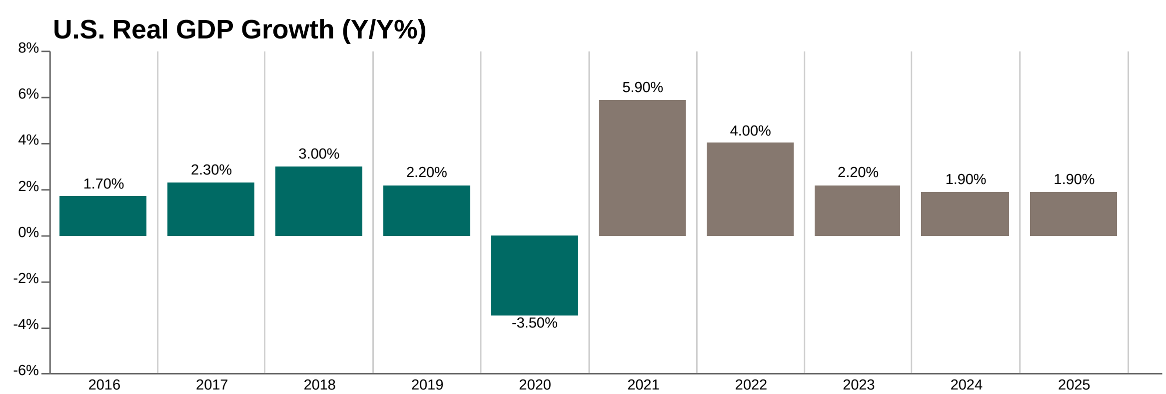
S&P 500 earnings increased 4% in Q4 2020, ending three consecutive quarters of Y/Y earnings declines caused by the COVID-19 recession. Double-digit earnings growth rates are estimated in 2021 helped by strong GDP growth trends and the easier comparisons vs. weak results last year. In 2020, the S&P 500 earnings decline of 14.0% was driven by lower revenue (down 3.6%) and operating margins that dropped to 12.1% from 13.9% in 2019. At the depths of the recession in April of last year, it appeared that it might take two years for S&P 500 earnings to make a full recovery from 2019's pre-pandemic levels. Today, however, earnings estimates for each quarter of 2021 are above the comparable quarter in 2019, now reflecting an expected full earnings recovery in less than one year. 2021 earnings are estimated to increase 26.7% from 2020; if that happens 2021 earnings will exceed 2019 by nearly 9%. Comparisons become more difficult in the second half of this year, although consensus estimates still reflect mid-teens percentage growth in the second half of 2021 and for all of 2022. S&P 500 operating margins are expected to recover in 2021 and continue to expand in 2022, allowing profits to grow faster than sales. We see the potential for rising wage pressures and input costs to create challenges once the recovery is fully underway and companies are likely to encounter margin challenges if inflationary pressures build. In the near-term, however, we look for very strong corporate results in Q1 2021 and Q2 2021, and believe that earnings estimates could be revised modestly higher.



S&P 500 Year Earnings Estimates (Y/Y%) (FactSet consensus 4/6/21)	
2020A	-14.0%
2021E	26.7%
2022E	15.0%
2019 to 2021E	8.9%

Data source: FactSet as of 4/5/21

U.S. economic data is starting to look very good as vaccine penetration supports accelerating business and consumer activity, and Congress has passed $2.8 trillion of fiscal COVID relief. According to the CDC, through 4/6/21, more that 170M vaccine doses were administered in the U.S. and nearly 65M are now fully vaccinated. This suggests that more than 100M people in the U.S. are either fully or partially vaccinated, and when added to 31M confirmed COVID cases (according to Johns Hopkins), the country is moving closer to herd immunity. Many schools have reopened and consumer leisure activity (air travel, hotel visits, dining) has picked up significantly since the end of last year. As an example, the weekly average of daily airline passengers (from the TSA) on 4/6/21 was 1.44M. While this remains about 36% below pre-pandemic levels, it has increased 91% since the first full week this past January, and is up 47% from the 7-day daily average just five weeks ago on March 1st. On 3/11/21, President Biden signed the $1.9 trillion American Rescue Plan Act which provided substantial near-term relief in the form of direct checks and tax-free unemployment benefits to individuals and families. In addition, the Act provides funds for child credits, small businesses and paycheck protection, K-12 schools and colleges, pandemic response including vaccine distribution, and substantial state and local aid. We believe this latest aid package creates upside to GDP in 2021, including a positive impact in the first quarter even though GDP estimates, similar to earnings estimates, have been revised higher since December. The FactSet consensus GDP estimate for Q1 2021 GDP growth is 4.8%, which is higher than the 2.5% estimate in late-December. An alternative GDP estimate, the Atlanta Fed's GDPNow, which reflects GDP trends as data is reported, is currently at 6.2%, and could trend higher as many of the expected strong economic inputs for March remain unreported. The full-year 2021 GDP consensus estimate is now 5.8%, vs. the December estimate of 4.0%. This would be the highest annual real GDP growth in 36 years, since the U.S. economy grew at 7.2%. All major segments of the economy in 2021 are expected to contribute to growth: consumer spending, fixed and business investment, residential investment, and government expenditures.

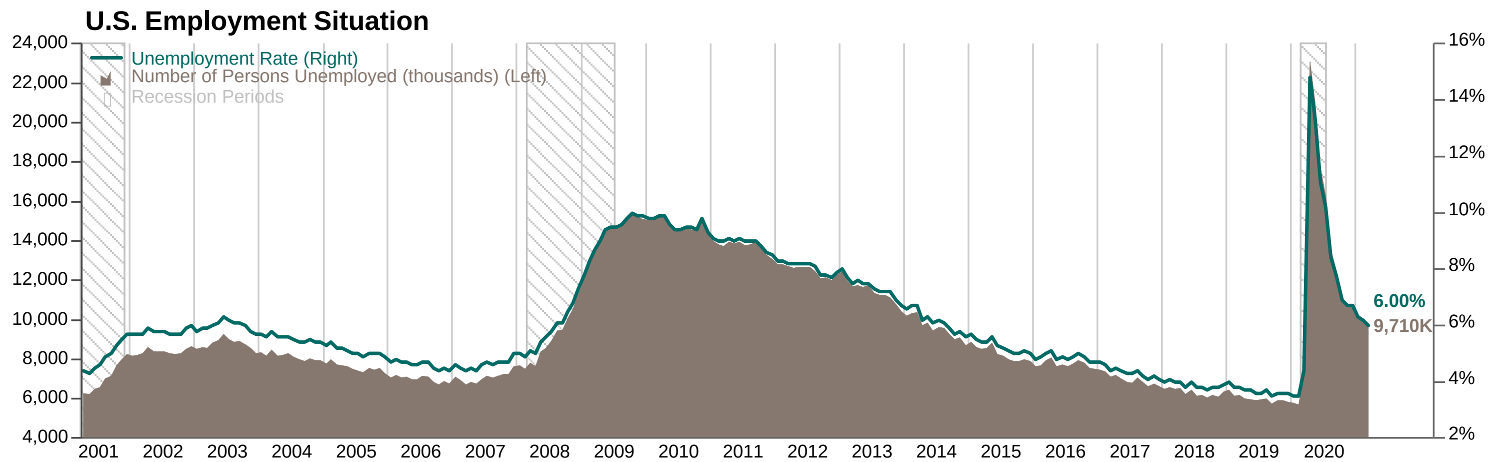


U.S. Quarterly GDP Actual / Estimates (Q/Q%)	
2Q20A	-31.4%
3Q20A	33.4%
4Q20A	4.3%
1Q21E	4.8%
2Q21E	8.0%

Data Source: FactSet consensus estimates and Federal Reserve Bank, as of 4/5/21 (green are actual reported numbers)

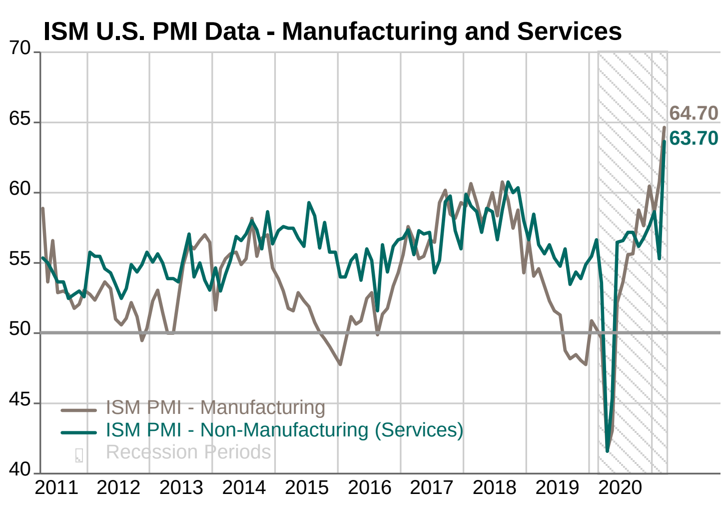
While we view the end of the pandemic and economic reopening as the key component of expected strong sustained GDP growth, the massive government stimulus over the past year first helped to soften the blow of huge job loss, and now is helping to keep consumer balance sheets strong, providing fuel for the recovery. We estimate COVID relief bills passed in March, April, and December of 2020 and March 2021 total $5.7T, which is 26.5% of 2020 U.S. nominal GDP of $21.5T. By contrast, U.S. government stimulus during the Global Financial Crisis in 2008/2009 is estimated at $1.8T, or 12.2% of 2009 GDP of $14.7T. Most developed countries have pursued similar government spending responses to the COVID-recession. According to Statista, Japan's relief packages have totaled 55% of GDP, Germany 36%, and Italy 28%. Canada has spent 19% of its GDP, the U.K. 18%, and France 12%. The long-term impact of the resulting huge increase in sovereign debt is unknown, as higher debt can help to stimulate growth over the medium-term, but increases long-term risks concerning higher interest expense crowding out other government spending and potential loss of confidence from bond investors.

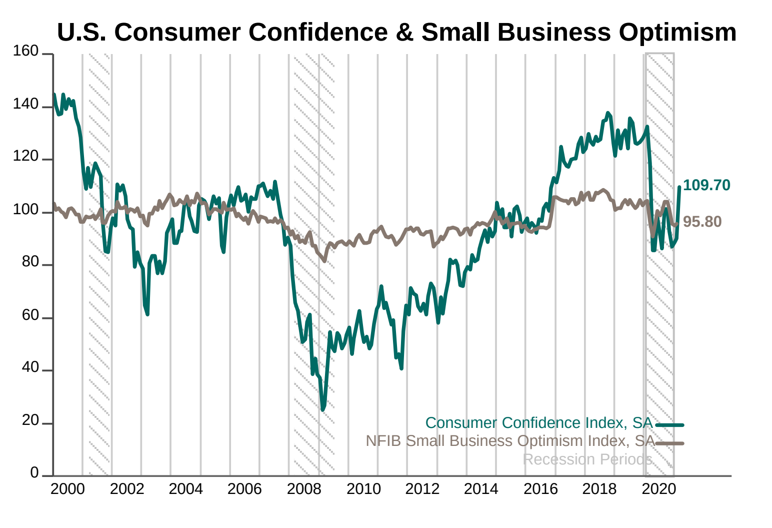
March jobs gains exceeded expectations and payroll reports for January and February were revised higher. Nonfarm payrolls surged 914,000 (K) in March and jobs gains for the prior two months were revised 156K higher. As of March 2021, 9.7M persons were unemployed, while 150.8M had jobs. The number of employed increased by 17.4M since April 2020, but remained 7.9M below the pre-pandemic level in February 2020. The March increase was the strongest monthly gain in six months and we expect monthly jobs growth to continue in the months ahead as pandemic headwinds fade. We believe that employment might not return to pre-pandemic levels until 2022, but we expect very strong jobs gains over the next several months.



Data source: FactSet as of 3/31/21

On the heels of strong jobs gains in Q1, ISM purchasing managers surveys for both manufacturing and services reached multi-decade highs, and consumer confidence is rebounding. The March ISM services reading of 63.7% was the highest in the survey's history and suggests that business executives expect strong growth trends in the second quarter. Services account for more than two-thirds of U.S. economic activity. Survey respondents also highlighted some risks however, with capacity constraints, logistics issues, and human capital resources all potentially creating challenges to sustaining growth. The March ISM manufacturing survey reached a 39-year high, as 17 of 18 polled industries reported March growth. While PMI surveys and consumer confidence are likely bolstered by the stimulus checks and other spending in the American Rescue Plan, we believe that consumers are sitting on significant pent-up demand, especially for services like leisure and hospitality. The personal savings rate (savings as a percentage of disposable income), which is reported monthly, averaged 15.5% from December to February and was above 12.1% each of the past eight months through February. From 2013 to 2019, the personal savings rate ranged from 6% to 8% consistently. In addition, consumer debt payments as a percentage of disposable income, the debt service ratio, has trended lower during the pandemic. In our view, this sets the stage for very strong consumer spending data in the months ahead. We also caution that forecasting economic data will be very difficult over the next few quarters. Generally, economic data is slow moving and Y/Y trends and seasonal patterns are predictable. But in 2020, the government-driven shutdown led to sequential and Y/Y changes like we had never seen before. We now expect the same type of changes during the recovery. It may be useful to compare 2021 data to both 2020 and 2019 to better judge how rapidly economic trends return to "normal."

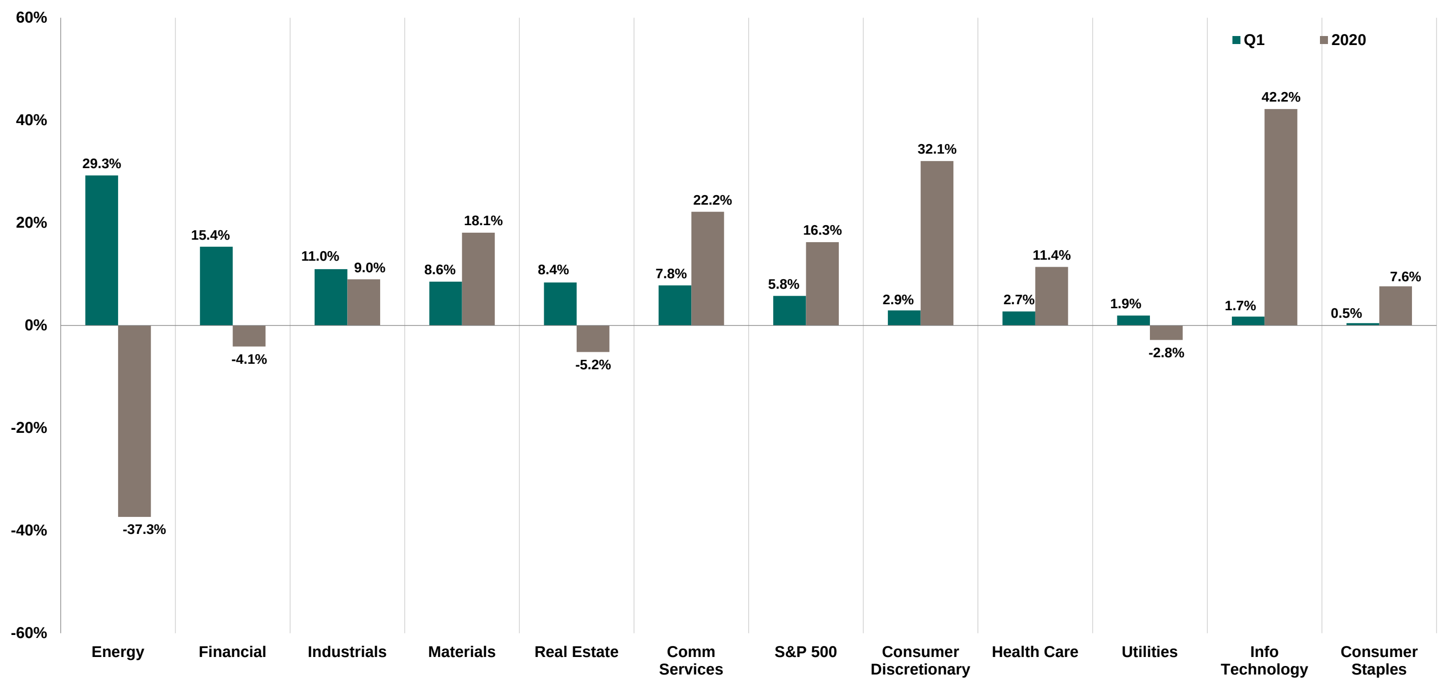




Data for ISM PMI and the Consumer Confidence Index through 3/31/21; data for the NFIB Small Business Optimism index through 2/26/21

The S&P 500 moved to record highs in Q1 despite relative underperformance of the Technology sector, the market's largest sector by market capitalization. Technology dominated market returns in 2020 and was the top performing S&P 500 sector for three of the past four years, growing to comprise 27.0% of the total market capitalization of the index as of 4/6/21. The next two largest sectors were Health Care and Consumer Discretionary, comprising 12.7% and 12.6%, respectively. Sector returns through Q1 2021, for now, answered one investor question entering the year, which was, "can the market rally continue without leadership from Technology and tech-centric large cap leaders?" While all eleven S&P 500 sectors traded higher in Q1, Technology was the just the 10th best performer and lagged the S&P 500's 5.8% price gain. Quarterly gains were led by Energy, Financials, Industrials and Materials, all cyclical sectors that should benefit from a strong post-recession economic rebound. That was the story of Q1, in our view, a broad recovery that included many companies across a wide range of industries. Six of the eleven sectors beat the S&P 500 index in Q1, while only four beat the index for all of 2020. While the S&P 500 can trend higher without Technology leadership, other sectors must continue to outperform, and lower or negative returns from such a large component of the index would limit the potential upside of the overall market. Our equity outlook continues to favor cyclical sectors but we support sector diversification in portfolios. We also have an overweight in Health Care as we see attractive valuations, and pent-up demand for delayed elective procedures and routine doctors' visits.

S&P 500 Sector Performance – Year-to-Date (price returns)

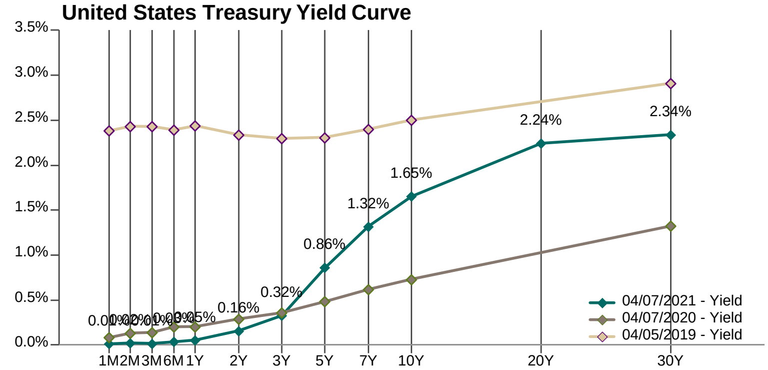


Data source: FactSet as of 3/31/21

We believe that long-term interest rates could continue rising in 2021, as economic growth surges and inflationary expectations simmer. The economic recovery story has driven long-term interest rates higher since the fall of 2020, but short-term rates have remained low as the Federal Reserve Bank intends to keep its overnight fed funds rate near zero to support the economic recovery. In addition, the Fed will allow inflation to run above its 2.0% target to achieve an average of 2% over time. The Fed watches the monthly PCE deflator as its inflation indicator; that number rose to 1.6% in February, up from 1.2% in December, but remains well below the 2.0% goal. Many companies have discussed emerging trends of higher commodities prices and wage pressures, leading many investors to expect inflation above 2.0%. Fed Chair Jerome Powell agrees but believes the impact will be transitory. When we look at the historical relationship between the 10-year and 2-year Treasury yield following recessions, we believe that 10-year yields can trend higher, and we would not be surprised to see a 2.0% yield sometime this year. Rising interest rates create headwinds for equity valuations, but 2.0% on the 10-year would still be below its 2.4% yield on 4/2/19. Most at risk from higher interest rates, would be the higher P/E multiple growth stocks.

U.S. 10-Year / 2-Year Treasury Spread

United States Treasury Yield Curve



Data source: FactSet as of 4/7/21

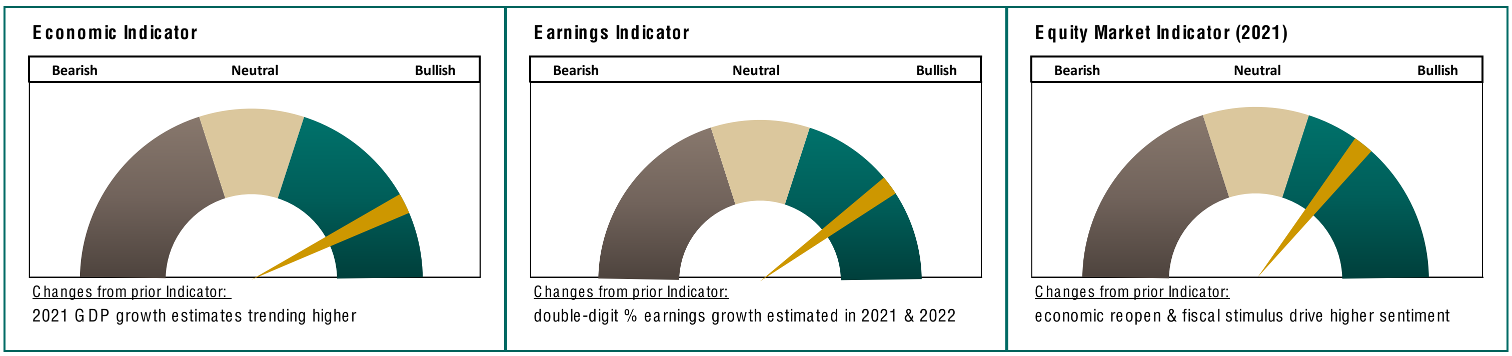
Our S&P sector recommendations are updated below.

S&P 500 Sector Recommendations - April 2021

GICS Sector	S&P 500 Weight by Market Cap	WM Research 2021 Outlook	Notes	Change
Technology	27.0%	marketweight	leadership has waned, still growth and defensive qualities	
Health Care	12.7%	overweight	political pressure remains, elective procedures to ramp, valuations attractive	
Consumer Discretionary	12.6%	marketweight	consumer helped by stimulus, now job growth is key, recovery upside	
Financials	11.3%	overweight	stress tests positive, expect new buybacks/dividends; positive yield curve	
Communications Services	11.1%	marketweight	look to market leaders, ad spending to improve with GDP	
Industrials	8.8%	overweight	attractive valuations, global recovery and infrastructure spending a plus	
Consumer Staples	6.1%	underweight	safe haven in down market, but will lag the recovery, some good values	
Materials	2.7%	marketweight	benefits from global recovery and infrastructure spending	
Energy	2.7%	marketweight	recent pause after huge six-month gains, oil demand improving	
Utilities	2.6%	underweight	valuations high, some can benefit from renewable energy	
Real Estate (REITs)	2.5%	marketweight	will participate in recovery, relative beneficiaries of higher tax rates	

Data source: D.A. Davidson Wealth Management Research as of 4/7/21.

Wealth Management Research Investment Cycle Gauge



Source data: D.A. Davidson & Co. as of 4/8/21

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between $200 million and $5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publically traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

Other Disclosures:

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on “forward” consensus estimates expected over the next 12 months (NTM).

The yield of the 10-year U.S. Treasury bond is a widely followed barometer of the current U.S. interest rate environment.

S&P 500 earnings growth reflect the year over year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

Non-residential fixed investment is an indicator of U.S. corporate capital expenditures (capex), measured by the amount spent on structures, equipment, and software. Seasonally adjusted annual rate (SAAR) is used to normalize data by adjusting for seasonal changes in business and economic data for a more accurate comparison between different time periods

The ISM Purchasing Managers' Index (PMI) is an indicator of the outlook for the manufacturing (PMI – Manufacturing) and services (PMI – Services) sectors of the economy. The index is based on a wide survey of company executives in these sectors. A reading above 50 indicates expectation for expansion compared to the previous month; a reading below 50 suggests contraction. Seasonally adjusted (SA) is used to normalize data by adjusting for seasonal changes in business and economic data for a more accurate comparison between different time periods. United States and Euro Zone data is provided by IHS Markit, Japan data is provided by Nikkei, United Kingdom data is provided by the Chartered Institute of Procurement & Supply, and China data is provided by Caixin.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury bonds, indicating the relationship between the interest rate and the time (“term”) to maturity.

The yields of the 10-year and 3-Month U.S. Treasury bonds are widely followed barometers of the current U.S. interest rate environment. The spread is the difference in interest rates between the two securities.

U.S. Personal Consumption Expenditures (PCE) is an indicator of the growth in consumer spending.

Country GDP estimates are aggregated and redistributed by FactSet. This does not constitute investment advice or recommendations of any kind. Estimates data is provided for information purposes only. IMF-Global GDP estimate is the International Monetary Fund’s World Economic Outlook last published on 10/2/19.

The U.S. Dollar Index (DXY) is an index that measures the value of the U.S. dollar relative to a basket of foreign currencies, primarily those of trade partners. An increase in the DXY indicates the U.S. dollar has appreciated relative to the currency of its trade partners; a decrease in the DXY indicates the U.S. dollar has depreciated relative to the currency of its trade partners.