

2020 FIRST QUARTER INVESTMENT MARKET REPORT

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What a difference a year makes! Unlike the situation in the first quarter of 2020, U.S. stocks posted healthy gains since the start of the year, and there is optimism that the recent flurry of government checks to individual consumers, plus the huge infrastructure project on the drawing board, will give the economy a shot in the arm. Other countries are looking at the U.S. bull market with envy, and the American economy seems to have weathered its biggest challenge since at least 2008.

Just about every investment saw gains in the first quarter. The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—gained 6.49% since January 1. The comparable Russell 3000 index is up 6.35% so far this year.

Looking at large cap stocks, the Wilshire U.S. Large Cap index gained 5.80% in the first quarter. The Russell 1000 large-cap index finished the quarter with a similar 5.91% gain, while the widely-quot-

ed S&P 500 index of large company stocks has gained 5.77% so far this year.

Meanwhile, the Russell Midcap Index gained 8.14% in the first three months of 2020.

As measured by the Wilshire U.S. Small-Cap index, investors in smaller companies, experienced a dramatic 13.53% gain in the first quarter. The comparable Russell 2000 Small-Cap Index is up 12.70% in the year's first three months. The technology-heavy Nasdaq Composite Index is up 2.78% for the year, as tech stocks finally took a back seat to their peers in other economic sectors.

International investors saw far more modest gains. The broad-based EAFE index of companies in developed foreign economies gained 2.83% in the first quarter. In aggregate, European stocks are up 3.52% so far this year, while EAFE's Far East Index was up just 1.74%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, gained 1.95% in dollar terms in the first quarter.

Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT index, posted an 8.81% gain during the year's first quarter. The S&P GSCI index, which measures commodities returns, gained 15.77% in the 1st quarter.

In the bond markets, the rates on longer-term securities jumped from historically low rates to simply low rates. Coupon rates on 10-year Treasury bonds rose to a 1.67% yield, while 3 month, 6-month and 12 month bonds are now sporting barely positive yields for the first time since this time last year. Five-year municipal bonds are yielding, on average, 0.50% a year, while 30-year munis are yielding 1.79% on average.

This is obviously a big change from this time last year, when stock markets in the U.S. and abroad were reeling from a historically rapid downturn. Today, most analysts believe that the market is overvalued and many professional investors are cautious. But any move to get out of the markets when this overvaluation became evident would have meant missing huge gains in the markets,

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proving once again the folly of trying to time the market. And we are looking at a multi-trillion dollar infrastructure proposal which would inject additional life into the U.S. economy.

Better news: analysts have increased their earnings estimates for S&P 500 companies by 6.0%—which is a record—and unemployment rates have been trending lower since the start of the year. Finally, the progress of vaccination against COVID appears to be picking up, with some estimating that all adult Americans will be vaccinated in the next couple of months. A return to normalcy could be viewed as another positive sign.

The only dark clouds on the horizon—and these are really gray, not black—is the rise in longer-term interest rates. The U.S. Federal Reserve Board continues to hold down short-term rates to essentially zero, which means several things. First, we have a steepening yield curve, which is often an indicator of economic health. Second, people who invest in longer term bonds are finally getting paid something for their trouble. But higher long-term interest rates make bonds competitive with stocks for investor dollars, which could trigger a shift in investment flows which, in turn, could lead to lower stock prices.

All of this is a long-winded way of saying that it is impossible to predict whether the markets will continue the long bullish run or take a break. It is not impossible that stocks will eventually return to more normal valuations—suggesting prices at least 30% lower than they are today—but that could happen gradually, as companies boost their earnings while market returns go back down to single digits. The sudden, unpredicted appearance of the pandemic shows us how little we know about what is to come.

Sources:

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Russell index data: <http://www.ftse.com/products/indices/russell-us>

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Treasury market rates: <https://www.bloomberg.com/markets/rates-bonds>

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General: <https://finance.yahoo.com/news/stock-market-news-live-updates-april-1-2021-221233549-221423608.html>

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COMING SOON TO A RAINBOW NEAR YOU

A new app called Rainbow-Chase pulls in weather data near the phone's location and points the user in the direction where it is likely there will be a visible rainbow. It also allows the user to upload photos of the rainbows into a gallery, and post them to the Rainbow-Chase website for others to see. The app is available at the Apple App Store, under RainbowChases Weather.

The creator, Steven Businger, is a professor of the Department of Atmospheric Sciences at the University of Hawaii, and an avid fan of the rainbows in his home state. Right now, his app only works on the Hawaiian island of Oahu, but the plan is to make it available to the rest of the U.S., followed by Asia and Europe, before long. The app may also evolve to provide guidance for viewing other atmospheric optics, such as halos, coronas and brilliant sunsets.

If you don't currently live

in Oahu, then you can view the samples from the rainbow gallery, including rare double-rainbows, here: <https://rainbowchase.com/rainbow-gallery/>. And you can make a note to download this app the next time you plan a Hawaiian vacation.

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FUN FACTS

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Has your kids ever asked you a question that you don't know the answer to? And if they did, you can bet it wasn't about mathematics or history, but something only a child would wonder about, like: how much does a cloud weigh?

An article on the LifeHacker website offers some scientific (meaning: accurate) answers to off-the-wall questions that kids have posed to parents over the years. Some of them are pretty interesting to adults, too. For example:

How much does a cloud weigh? (A cloud can weigh over a million pounds.)

What color is a polar bear's skin? (Black. And its white fur is hollow and transparent.)

Do snails have teeth? (Yes; they literally have thousands of them.)

Why don't cats like candy? (They can't taste anything sweet.)

Other interesting facts: A shrimp's heart is in its head. Human teeth are as strong as shark's teeth. Octopuses

have blue blood. A bolt of lightning can be five times hotter than the surface of the sun. There are more than one million ants for every human on Earth.

You can share with kids and pre-empt some of their questions. Or just keep these in mind in case they ask.

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GOOD NEWS FROM BAD NEWS

Many of us have been locked down for more than a year. We've cancelled vacations, restaurant visits and in-person schooling. More than 500,000 of our loved ones across the country have passed away.

Is there any good coming out of the COVID pandemic? Anything at all?

Turns out, there is. The messenger RNA immunization technology that was developed for the Moderna and Pfizer coronavirus vaccines has the potential to revolutionize the way we treat—and prevent—a wide variety of other maladies. Scientists are sequencing HIV, seasonal flu viruses and certain cancers, and identifying snippets of their RNA that could teach the body to fight them off before they can run rampant through the body.

The vaccine approach to the coronavirus uses lipid nanoparticles—essentially fat bubbles—to deliver bits of a disease's genetic material into the body, helping

the immune system spot the spike proteins they use to enter human cells. At the moment, Moderna is working on two HIV vaccine candidates: mRNA-1644 and mRNA-1574. The vaccine has been tested successfully in macaque monkeys, which developed neutralizing antibodies that bind to the proteins that HIV uses to enter cells, neutralizing the disease before it can spread. Another mRNA test has protected humanized mice against HIV infection.

Meanwhile, phase 1 clinical trials for more effective seasonal flu vaccines will start this year, and additional RNA vaccines are being developed for mononucleosis, types of lymphoma and nasal cancer. Other experimental cancer vaccines will require doctors to extract tumor samples from the patient, sequence the genome and create a specific RNA therapy that will teach the immune system to destroy the cancer cells—and only the cancer cells. Six of 10 patients in an early trial responded pos-

itively to the treatment; in two, the cancer was entirely destroyed, while four others stabilized and had no further cancer progression.

The newly-developed therapies also offer promise in fighting a number of autoimmune diseases, including multiple sclerosis, and a recent mRNA experiment suggests that mRNA treatment can be used to promote the development of blood vessels. An injection might improve outcomes in people undergoing coronary artery bypass surgery.

It is possible that some of these therapies might have happened eventually without the crash COVID vaccine projects, but almost certainly they would not have been in clinical trials this quickly. This doesn't mean we shouldn't mourn the millions of people lost to the pandemic here and abroad, but it's possible that there will be fewer deaths, and diseases, in our future.

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RETURN ON TAX INVESTMENT

You might wonder what you get in return for your tax dollars. The question isn't so far-fetched; after all, the government collects those taxes—theoretically, at least—in order to give you back a comparable value in services like police protection, education, infrastructure and a social safety net.

Are we getting what we pay for?

A recent study by the WalletHub website asked a team of experts to calculate which states offers the highest return on your tax “investment” based on different components of health, safety, the economy, education and infrastructure and pollution. Among the factors under ‘education’ were the quality of the school systems and universities, the public high school graduation rates and funding of Pre-K programs. The metrics for ‘safety’—basically police protection—included the violent crime rate per capita, property crime rate and traffic fatalities. Economy: median household income and unemployment rate. Infrastructure: the average commute time to and from work, parks and recreation opportunities, water quality and highway spending per driver. Health metrics included hospital beds per 1,000 residents, average life ex-

pectancy at birth and average health insurance premiums.

On the other end, the study looked at the tax rates of the different states—the “tax investment” that state residents were asked to make in return for the services they received.

The results? New Hampshire finished with the best “taxpayer ROI” score; its residents paid the second-lowest amount of per-capita taxes in the country, yet the state offered, according to the survey, the 9th best overall government services rank. Next came Florida, whose residents pay the fewest taxes of any state, and receive the 30th best combination of government services. South Dakota came in third: it finished 6th in overall taxes paid, and 21st in government services. Others in the top 10: Virginia (23rd in taxes paid, 3rd in services); Missouri (3rd and 38th); Ohio (12th and 26th); Texas (7th and 35th); Georgia (9th and 34th); Nebraska (24th and 12th); and Tennessee (4th and 41st).

At the bottom of the list, as you might expect, were some of the highest-taxed states. Number 50 was Hawaii, which ranked 49th in taxes paid (in other words, higher than every state but North Dakota), and just 33rd in services. California came in

second-last (45th, 37th), followed by New Mexico (37th, 49th), North Dakota (50th, 4th), Delaware (44th, 17th) Nevada (26th, 44th) and New York (43rd, 19th).

The states with the highest rated services were Minnesota (47th, 1st) and Vermont (48th, 2nd). The article further breaks down states with the best school systems (Massachusetts, Connecticut and New Jersey), the best hospital systems (Vermont, South Dakota and Iowa), the lowest violent crime rate (Maine, New Hampshire and Connecticut), and the lowest percentage of residents living in poverty (New Hampshire, Maryland and Hawaii). The worst government services “awards” went to Louisiana (50), New Mexico (49), Alaska (48), Mississippi (47), South Carolina (46) and Alabama (45).

Wouldn't it be interesting to see an assessment of the services that we get from our federal taxes, vs. what we could get if we simply paid for them on our own?