CAPITAL MARKET SUMMARY

For the first quarter of 2021, the S&P 500 Index® continued its ascent, gaining 6.17% for the quarter[1]. This is a strong start to a new year after a turbulent and volatile 2020 concluded with a 18.4% rise in this benchmark index[1]. The VIX® Index, an indicator of expected volatility, has continued to decline, an expected result of the market being calmer than what it exhibited in the first quarter of 2020. It now resides at 20.73 compared with 23.68 at the end of 2020[2]. This can be viewed as an expectation of near-term volatility to be approximately 10-15% lower than the same expectation when 2021 began.

Turning our attention to the sectors that comprise the broader index, we continue to see high levels of dispersion (variance between sector returns) which may be a tailwind for active equity managers compared to passive indices. Leading the way were sectors heavily laden with value-styled equities such as Energy, Financials, and Industrials which rose 30.85%, 15.99%, and 11.41% respectively[1]. While no sector posted a decline, both high growth and typically defensive sectors struggled as we saw Technology and Consumer Discretionary (higher growth sectors) up 1.97% and 3.11% while (typically defensive) Consumer Staples and Utilities rose just 1.15% and 2.8%[1]. Healthcare, Real Estate, Communication Services, and Materials all fell in the middle of the pack with returns between 3.18% and 9.08%[1]. Smaller domestic firms outside of the S&P 500 Index®, represented by the S&P 400 Mid Cap Index® and S&P 600 Small Cap Index®, rose 13.47% and 18.24% respectively resulting in exposure to these asset classes being quite beneficial to portfolios over the course of 2021's first quarter[1].

The FactSet estimate for first quarter corporate profit growth is now at 23.8%. If that comes to fruition, it will mark the highest year-over-year earnings growth in two and a half years. It is important to note the fact that at the start of the first quarter, the earnings growth prediction was 8% lower, which also offers a partial explanation for the recent equity rally. Note that this change in estimates was very close to the performance of the broader market over this timeframe. This change was caused by eight of the 10 sectors having their estimates increase. While the forward price-to-earnings ratio (forward P/E ratio) of the U.S. market is quite elevated as it is in excess of 20, estimates climbing at a similar pace kept it relatively stable throughout the quarter. Looking forward, FactSet sees year-over-year profits rising tremendously (greater than 50%) in the second quarter followed by moderation throughout the remainder of the year, resulting in full year growth of 25.9% versus 2020 profits[3].

After falling over the course of the second half of 2020, the U.S. dollar has appreciated slightly in the new year as interest rates slowly climbed. This has helped domestic stocks slightly outpace foreign counterparts. The MSCI EAFE Index® (developed international equity) gained 3.48% for the first quarter of 2021, while the MSCI EM Index® (emerging market equity) was up 2.29%[1]. Like what we saw in domestic equity, smaller capitalization firms led the way as foreign small and mid-cap equity rose 7.12%[1].

Commodities markets started to show some signs of life after many down years. While the Bloomberg Commodity Index® gained 6.92% for the quarter, its five-year annualized return is only 2.31%, not surprising given the very low levels of inflation experienced over that time period[1]. Economically-sensitive commodities posted sizeable gains over the course of the quarter as timber climbed 6.45% while copper and oil gained 13.53% and 22.51% respectively[1]. The agriculture commodity sub-index was approximately in line with broader commodities and rose 6.81% since the start of the year[1]. Finally, precious metals gave back some of what they had gained in 2020 as gold fell by 10.67% and silver retraced 9.49% of its prior gains[1].

1 *Morningstar.com (March 31, 2021)*
2 *VixCentral.com (March 31, 2021)*
3 *Factset, Earnings Insight (April 1, 2021)*

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The fixed income market sold off during the first quarter of the year with the U.S. 10-year treasury bond yield climbing from 0.92% to 1.75%[4]. Bond prices, which move inversely to interest rates, declined. This led the Bloomberg Barclay's Aggregate Bond Index® to a decline of 3.37% for the quarter[1]. The Bloomberg Barclay's Global Aggregate Bond Index®, which started at lower interest rates and is more sensitive to bond yield movements, fell slightly more at 4.46%[1]. The underperformance of both indices came mostly from government bonds. Credit-sensitive bonds and municipal bonds fared slightly better. Municipal bonds fell just 0.35% for the quarter, but this is not surprising as they gained less than taxable bonds over the course of 2020[1]. Finally, non-investment grade bonds outperformed investment grade as high yield municipal bonds, bank loans, high yield corporate bonds, and convertible bonds gaining 2.11%, 1.78%, 0.85%, and 3.04% respectively[1].

CAPITAL MARKET OUTLOOK

With one quarter of 2021 in the rearview mirror, we saw a continuation of the trend that concluded 2020: a rotation away from growth-styled large cap equity toward smaller and more value-styled firms. This shift was clearly demonstrated by the Russell 1000 Value Index® more than doubling the return of its growth variant, and the small cap S&P 600 Index® nearly tripling the return of the large cap S&P 500 Index® over the quarter. Barring an unexpected event, we foresee this environment continuing for some time. History tells us that concurrent fear and optimism typically are a good backdrop for financial markets. They provide the ingredients for the market to climb the often referred to "wall of worry."

The fear surrounding today's market environment emanates from concerns about asset price valuation as well as potential recurrences of the coronavirus that has been enveloping the world. While the virus fear is mostly self-explanatory, the asset price valuation component is evidenced in many different areas of the economy. Nearly everywhere we look, we see asset prices at near historical highs. Housing, represented by the Case-Shiller Index, is at all-time highs and up more than 10% nationally during the past year[1]. The S&P 500 Index® is at its highest level of forward price-to-earnings (P/E ratio) since 1998[2]. Similarly, the bond market is quite close to its highest price level achieved in the summer of 2020 as bond yields, which move inversely to bond prices, hover near historical lows[3]. Finally, we see a boom in alternative "assets" such as cryptocurrency and non-fungible tokens or NFTs. Investors are paying enormous sums of money for ownership rights to such digital assets. This rapid growth is clearly indicative of something. Whether it is a temporary "digital assets bubble" or the nascent rise of a new asset class is something that only time will tell.

While fear may dominate one side of the equation, on the other, optimism abounds. Causes for this optimism include expectations for the highest annual U.S. GDP growth since 1984[4,5]. Additionally, the unemployment rate, which spiked to historically high levels over the summer of 2020, has already fallen to a level that previously took us more than six years to achieve after the 2008 financial crisis[6]. Another factor is the massive government spending currently underway. For comparison purposes, in 2008-2009, the U.S. spent approximately 4.5% of its GDP on stimulus. To stave off economic uncertainty caused by coronavirus, the stimulus spending increased to around 12% of GDP in 2020 and is expected to be another 13% of GDP in 2021[7]. Even after adjusting for inflation, this new spending is more than five times the size of what we experienced in the previous recession. Finally, we have bond yields and the corresponding discount rate. Contrary to the technology bubble in 1999-2000, bond yields are close to zero instead of near 6%. This has driven up the equity risk premium, or percent return delivered by earnings that is required by investors above and beyond the yield of a government bond, to over 5%[7]. When valuations were high during the technology bubble at the turn of the millennium, this statistic was hovering near zero percent and even ticked below zero briefly[7]. We believe that current valuations can be maintained if interest rate movements

4 CNBC.com. U.S. 10 Year Treasury. (April 1, 2021)

1 S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index. (March 30, 2021)
2 Yardeni.com. Selected PE Ratios (April 5, 2021)
3 CNBC.com. U.S. 10 Year Treasury (April 9, 2021)

4 Macrotrends.net. U.S. GDP Growth Rate 1961-2021 (April 9, 2021)
5 Federal Reserve Open Market Committee. Summary of Economic Projections (March 17, 2021)
6 Federal Reserve of St. Louis. Unemployment Rate. (April 9, 2021)
7 BCA Research. Global Investment Strategy. Second Quarter 2021 Strategy Outlook (March 26, 2021)

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remain muted, keeping this earnings yield at an elevated level. If it should fall significantly, bonds will appear more attractive to investors and we could see equity price multiples contract.

Put together we find the market in a precarious position, possessing robust fundamentals that typically would lead to above average performance, but a variety of identifiable circumstances that if they should come to pass, could abruptly turn sentiment in the opposite direction.

Of course, not only do we anticipate above-average GDP growth over the coming year, but other factors which tend to support market valuations are also present. The federal reserve is maintaining its commitments to providing liquidity, market demand (bond purchases), and low interest rates. Furthermore, on the health front, we are seeing declining hospitalizations in the United States and other countries where the COVID-19 vaccination rates are high, specifically in countries where the infection rate was previously elevated. The CDC is now estimating that over 75% of Americans have some protection (either through exposure or vaccination), and that of people over the age of 75, nearly 75% of them have received their first vaccine dose[8]. Mortality for COVID-19 is far lower for those who received a single dose (of one of the two-dose vaccines) than those who are unvaccinated[9].

Other circumstances that Vicus Capital is currently monitoring include potential inflation, the interest rate movements associated with inflation, as well as domestic policy such as taxation, regulation, or other legislation.

Most Americans born after the 1970s are unfamiliar with inflation being a large factor in their lives. Of course, this was not always the case. While the causes of inflation have long been debated[10], we believe that the current spending will induce inflation. The relevant question is, "When?" Typically, inflation has not reached elevated levels without a combination of rising prices and a psychological understanding that prices may keep rising. When suppliers believe that rising prices will persist, they may withhold their product under the assumption that they can sell at a higher price in the future. This can become a self-fulfilling prophecy that builds until the psychology changes. So, what are the inflation arguments? Put simply, you have an increased monetary supply, low interest rates, high asset prices (wealth), and supply concerns in various industries all on the side of rising inflation. However, while monetary supply has been increased notably, the velocity of money or how quickly it moves through the economy has dropped to historically low levels[11]. Additionally, while interest rates are low, there is also significant slack in labor markets. Until labor markets are tight, it will be difficult to see high levels of pressure on wages to rise, a major component in any high inflation scenario. Finally, there are supply concerns in some industries such as construction, transportation (fuel), food, and of course, toilet paper which have driven prices up by varying amounts. But other parts of the economy that are seeing reduced demand include travel/transportation, conventions/events, lodging, and entertainment. So, while we do expect inflationary pressures to surface at some point, they are likely to remain subdued for the time being as we continue to proactively monitor the situation.

So, how have portfolios been positioned to take advantage of the circumstances that we have described? There are a couple of levers that we have pulled. First, we reduced the duration of our fixed income allocations. Many of our models saw an additional fund in the fixed income allocation that is used to satisfy this goal. We also made the decision to overweight smaller capitalization equities. Specifically, we are overweighting small cap stocks and, in some models, tilting large cap equity exposure toward the smaller firms within the large cap space. We expect the results from this to be a lower sensitivity to interest rates which should be helpful if rates continue to rise, and a slightly greater exposure on the equity side to cyclical firms that may be more poised to benefit from a recovery or are trading at lower valuations.

To sum up the situation, the battle between fear and optimism will be waged in financial markets over the coming quarters. When a side gets the upper hand,

8 *First Trust. COVID-19 Tracker. (April 8, 2021)*
9 *CNBC.com. Berkeley Lovelace, Jr. One dose of Pfizer or Moderna vaccines was 80% effective in preventing Covid in CDC study of health workers. (March 29, 2021)*

10 *Bloomberg. How the Fed is Bringing an Inflation Debate to a Boil. Ben Holland, Enda Curran, Vivien Lou Chen, and Kyoungwha Kim. (August 25, 2020)*
11 *Federal Reserve of St. Louis. Velocity of M2 Money Stock (April 9, 2021)*

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robust rallies or corresponding corrections could ensue. Because of this, we will not be surprised to see bouts of volatility occurring throughout the year. While the second quarter is expected to show enormous growth in comparison to a very weak Q2 2020, the economy's recovery should slow after that point[12]. Additionally, as the current stimulus runs its course throughout the spring and potentially even the summer, markets could find resistance against going higher as participants try to figure out what will be the next reason for optimism. If neither side has the upper hand, we expect a slow grind higher as the market climbs the aforementioned "wall of worry."

As the economy continues to slowly open and we regain components of our daily lives halted due to the coronavirus, Vicus Capital will continue to monitor portfolio allocations and potential adjustments to be positioned as well as possible for the coming environment. Specifically, we will watch inflation, Federal Reserve policy and interest rates, valuations, and sector dispersion when considering alterations to our portfolio positioning. Regardless, with many positives and negatives clashing against one another, we continue to believe that broad diversification will complement our recommended positioning (shorter duration fixed income and a preference for smaller capitalization equity) and help lead to successful long-term outcomes.

12 *FactSet Earnings Insight (April 1, 2021)*

ECONOMIC PERSPECTIVES

Economic Growth & Profits

- Real gross domestic product (GDP) for the fourth quarter of 2020, according to the Bureau of Economic Analysis (BEA), came in at an annualized rate of 4.3 % which is slightly above the 4.1% prior estimate. Looking at the whole of 2020, GDP declined 2.4%. This is far better than what was expected last year at this time. We believe that the year-over-year GDP growth will continue to look attractive for the coming quarters as we "lap" the Covid-19-affected time periods[1].
- Regarding how corporations fared, the BEA stated that, "Profits from current production decreased $31.4 billion in the fourth quarter, in contrast to an increase of $499.6 billion in the third quarter[1]."

Interest Rates

- The Federal Reserve remains committed to maintaining its accommodative monetary policy with the hallmarks of low interest rates and sizeable asset purchases of both treasury bonds and mortgage-backed securities. The most recent statement from the Federal Open Market Committee reiterates their prior statement that "The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals[2]."
- The Federal Reserve continues to reinvest all principal and interest from owned securities[2]. Due to the new method of inflation targeting by the Federal Reserve whereby they will permit inflation to run above their 2% target, we expect that they will continue their liquidity and stimulative programs for the foreseeable future.

1 *U.S. Department of Commerce: Bureau of Economic Analysis - Gross Domestic Product: 4rd Quarter 2020 (March 25, 2021)*

Employment

- Total non-farm payroll employment rose by 916,000 in March which reduced the official unemployment rate to 6.0% from its 6.7% level when we looked at this after the fourth quarter of 2020. The labor force participation rate held steady at 61.5%, 1.8% lower than this time last year[3].
- In a sign of reopening, the leisure and hospitality industries led job gains with an increase of 280,000 employed persons, construction also saw notable growth with a gain of 110,000 on employment rolls[3].
- The average workweek for all employees on private, nonfarm payrolls continued to show steady gains as it rose slightly to 34.9 hours. This is 0.5 hours greater than the average for the same period in 2019. Simultaneously, the average hourly earnings declined by 4 cents

2 *U.S. Federal Reserve - Federal Reserve Issues FOMC Statement (March 17, 2021)*
3 *U.S. Department of Labor: Bureau of Labor Statistics - The Employment Situation, March 2021 (April 2, 2021)*

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per hour to $29.96. However, this is still well above the $28.74 average from last March[3].

- The broader U-6 measurement of unemployment fell again to 10.7% on a seasonally-adjusted basis. While higher than last year at the same time, it is still far below its peak which was more than 20% in April and May[3].

Inflation

- According to the Bureau of Labor Statistics, the Consumer Price Index for All Urban Consumers (CPI-U) rose 0.4% in February on a seasonally-adjusted basis after gaining 0.3% in January. In prior months, we saw the index gain only 0.1% in October and has been increasing more quickly since that time[4].
- The CPI-U increased by 1.7% over the last 12 months before seasonal adjustment[4].
- The Core-CPI, a popular indicator that looks at all items except food and energy, rose 0.1%. This indicates that much of the recent gain in the CPI-U index was caused by prices rising in the energy sector. Over the prior 12 months, the Core-CPI lags the CPI-U by 0.4%. Interestingly, this is caused by inflation of food rather than energy as over this longer timeframe, energy commodities only rose 1.6% while food inflation was 3.6%[4].

4 U.S. Department of Labor: Bureau of Labor Statistics - Consumer Price Index, February 2021 (March 10, 2021)

Risks and Observations

- With 2020 now behind us, we look forward to the resumption of our daily lives and desired activities. Markets seemed to figure this out first as evidenced by their robust rally to all-time highs just months after declining more than 30%.
- Market gains have driven price ratios to levels above historical averages. The S&P currently trades at a 22.2 forward price to earnings ratio (P/E Ratio). This is higher than we have seen since 2002. However, markets did spend a significant period of time at these levels. It should also be known that the average ratio over the past 40 years is just 15.3, about 30% below the current level[5]. On the other hand, there are differences between the current and prior experiences at these levels. Previously, interest rates were 4-7% versus 0-2% currently. This differential in interest rates could imply that the current valuation is not as concerning as it might appear at first glance.
- We also want to reiterate the following observation from our prior commentary. While the Federal Reserve, at some point, will reduce their level of economic support, it is not expected any time soon. Their guidance of allowing inflation to exceed their 2% target before raising rates gives us confidence that we have some time yet before that happens. We previously noted that we may choose to lower our portfolio's duration, and thus, its sensitivity to interest rates. We have now taken that action, but will continue to monitor markets and events as we decide whether we should lower it further or soon shift back to a more neutral stance on interest rate movement.

5 Yardeni Research. Stock Market Briefing: Selected P/E Ratios. (April 5, 2021)

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Index Returns Table

Index	Total Return (%) 3 Mo (Mo-End) USD	Total Return (%) 1 Yr (Mo-End) USD	Total Return (%) Annualized 3 Yr (Mo-End) USD	Total Return (%) Annualized 5 Yr (Mo-End) USD
DJ Industrial Average TR USD	8.29	53.78	13.61	15.99
S&P 500 TR USD	6.17	56.35	16.78	16.29
S&P 400 Mid Cap TR USD	13.47	83.46	13.40	14.37
S&P 600 Small Cap TR USD	18.24	95.33	13.71	15.60
MSCI KLD 400 Social GR USD	7.04	58.80	18.12	16.88
MSCI EAFE NR USD	3.48	44.57	6.02	8.85
MSCI EM NR USD	2.29	58.39	6.48	12.07
Barclays U.S. Agg Bond TR USD	-3.37	0.71	4.65	3.10
Barclays Global Agg Bond TR USD	-4.46	4.67	2.80	2.66
S&P GSCI Spot	14.15	82.91	1.05	7.64
S&P Target Risk Cons. TR USD	-0.11	16.83	6.99	6.50
S&P Target Risk Mod. TR USD	0.80	21.79	7.71	7.50
S&P Target Risk Aggr. TR USD	4.27	43.53	10.36	11.37
Source: Morningstar® as of March 31, 2021				

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI U.S. Broad Market Index is comprised of nearly 100% of the total market capitalization of U.S. stocks traded on the NYSE and the NASDAQ. The S&P 500 Index is a market capitalization free-float adjusted index of the prices of 500 large capitalization common stocks traded in the United States. The S&P 400 Mid Cap Index serves as a barometer for the U.S. mid-cap equities sector and includes stocks with total market capitalization that ranges from roughly $750 million to $3 billion. The S&P 600 Small Cap Index covers a broad range of U.S. small cap stocks and is weighted according to market capitalization covering about 3-4% of the total market for U.S. equities. The MSCI KLD 400 Social Index is a free float-adjusted market capitalization index designed to target U.S. companies that have positive environmental, social, and governance (ESG) characteristics. The MSCI EAFE Index is a market capitalization weighted index and is designed to measure the equity market performance of developed markets (Europe, Australasia, and Far East) excluding the U.S. and Canada. The MSCI EM NR USD Index is a free-float adjusted market capitalization index that is designed to measure the equity market performance in the global emerging markets. The Barclays Aggregate Bond Index is a market-capitalization weighted index that is considered to be representative of U.S. traded investment grade bonds. The Barclays Global Aggregate Bond Index includes government securities, mortgage-backed securities, asset-based securities and corporate securities to simulate the universe of bonds in the market. The S&P GSCI Spot is a composite index of commodity sector returns which represents a broadly diversified, unleveraged, long-only position in commodity futures. The S&P Target Risk series of indices comprise multi asset class indices that correspond to a particular risk tolerance with varying levels of exposure to equities and fixed income intended to represent stock and bond allocations across a risk spectrum. The market indices referenced are unmanaged. You cannot invest directly in an index.