Quarterly Outlook

APRIL 2021

Tandem ETF Portfolios® Tandem Collective Funds®

First Quarter 2021

Investment Markets

Investors' optimism over the vaccine rollout and its promise of a return to normalcy was held in check by concerns over rising long-term interest rates and inflation in the first quarter of 2021. Economic data continued to steadily improve, however, as did corporate earnings, spurring a surge in stocks that was more broadly inclusive than the tech-dominant rally of 2020.

Corporations are lean, credit is stable, and the banking system is sound, creating a "goldilocks" environment for investors.

Stocks dropped sharply in February after a rapid rise in the 10-year Treasury yield spooked investors. The drama was short-lived, though, and stocks eventually finished with all sectors of the S&P 500 producing positive returns in the quarter. The market was led by the most economically sensitive sectors, Energy, Financials, and Industrials. In a reversal of last year's market trend, small and medium-sized companies were the leaders in the first quarter, while the S&P 500 and Nasdaq were the laggards. Stock-market volatility decreased from the elevated levels experienced last year, but Treasury-market volatility has been on the rise as the bond market recalibrates or "normalizes" interest rates for the improving economy.

Index/Instrument	Category	Q1 Total Return	Last 12 Months Total Return (as of 3/31/2021)
S&P 500	Large-capitalization stocks	6.17%	56.33%
S&P 400 Midcap	Mid-capitalization stocks	13.47%	83.44%
S&P 600 Small Cap	Small-capitalization stocks	18.23%	95.26%
NASDAQ 100	Large-capitalization stocks	1.76%	68.88%
Russell 2000 Index	Small-capitalization stocks	12.69%	94.82%
MSCI World ex USA	Developed markets international stocks	4.18%	46.69%
MSCI Emerging Market	Emerging markets international stocks	2.21%	58.85%
Bloomberg Barclays US Aggregate Bond Index	Investment-grade US bonds	-3.37%	0.71%
Bloomberg Barclays US Treasuries	US government bonds	-4.25%	-4.43%
Bloomberg Barclays US Investment Grade Corps	US investment-grade corporate bonds	-4.65%	8.73%
Bloomberg Barclays US Corporate High-Yield Bond Index	US corporate high-yield bonds	0.85%	23.72%
Bloomberg Barclays US MBS Index	US mortgage-backed securities	-1.10%	-0.09%
Bloomberg Barclays Global Aggregate Bond Index	Global investment-grade bonds	-4.46%	4.67%
Bloomberg Barclays Global High-Yield Bond Index	Global high-yield bonds	-0.95%	24.74%
Bloomberg Barclays US Convertibles	US convertible bonds	2.02%	77.04%

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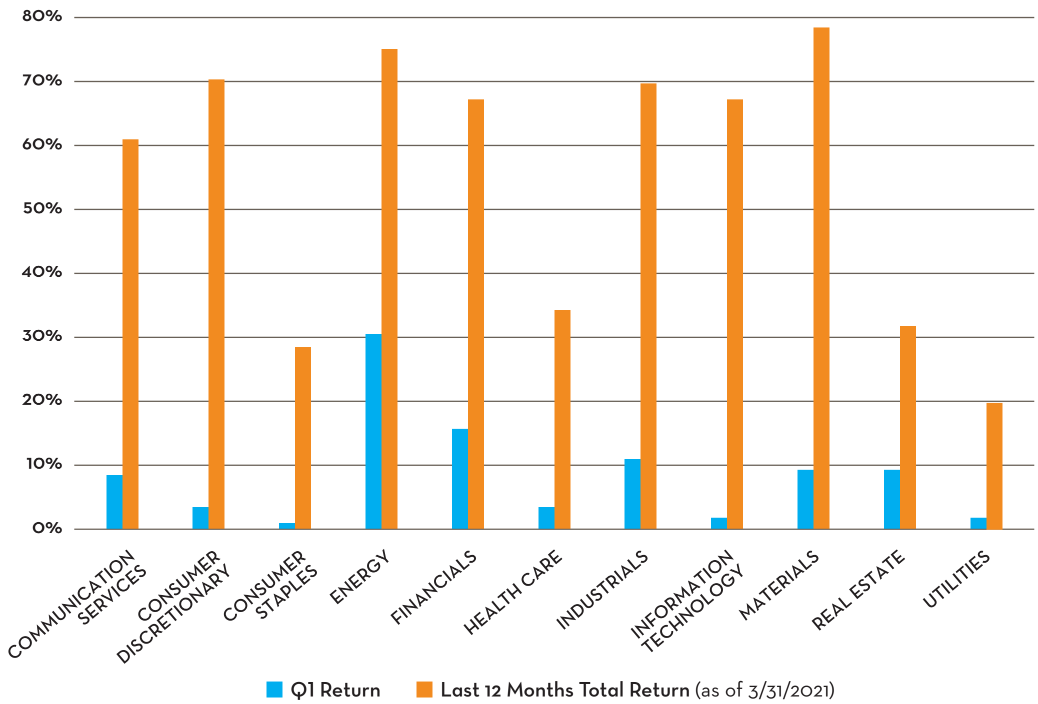
The increase in yields hit high-multiple or expensive stocks the most and pushed bond returns into negative territory for the quarter (bond yields and prices move inversely), with the exclusion of high-yield and convertible bonds.

S&P 500 Sector Returns



FED and Interest Rates

Despite upgrading the economic forecast for GDP from 4.2% to 6.5% for the year at the March meeting, Federal Reserve Chair Powell continues to project near-zero interest rates through 2023. In order to draw more workers into the labor force, the Fed will allow the economy to experience some above-target (>2%) inflation – considered cyclical, not persistent - before reversing course. Both employment and inflation are far from the Fed's objectives, but the committee is intently focused on helping those left behind during this recession.

GDP and Jobs

Ultra-easy monetary policy along with extensive federal government fiscal policy is expected to produce GDP north of 6% this year, the highest annual growth in decades, with some economists projecting close to 10% growth. Similar growth is expected for the world economy. US consumers have savings and are poised to spend. Corporations are lean, credit is stable, and the banking system is sound, creating a "goldilocks" environment for investors. Additionally, while the manufacturing economy has remained persistently strong throughout the past year, the service economy is now accelerating to new highs as more people get vaccinated and move about more freely. And after slowing early in the year, job growth surged in March, adding nearly a million jobs and reducing the unemployment rate to 6%. Economists expect similar monthly job gains in the

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coming months. Still, the underemployment rate (which includes those working part-time but would prefer full-time employment) remains just above 10%, so there remains considerable progress to be made on employment.

The Biden administration started its term by delivering a $1.9 trillion pandemic relief bill. The passage of the proposed infrastructure bill, called the American Jobs Plan, will likely be more complex to enact. Key themes include bolstering US competitiveness against China, clean energy and transportation, power infrastructure, manufacturing and R&D, and care for the elderly. The package is expected to be paid for with increased corporate taxes and will face serious opposition and partisan battles. An increase in the corporate tax rate does pose a risk to stocks, but as Fed Chair Powell noted once again at the March conference, the key for longer-term prosperity will be a “healthy” focus on investment – including in people skills, plant, equipment, and software. The market would welcome a responsible fiscal package, as monetary policy has its limits.

We look forward to the continued reopening of the economy in the year ahead, and the historic growth expected both here and around the world, including the opportunity for an improved labor market. While rising interest rates do pose a risk to investment market returns, they are still quite low (by historical standards) and very supportive of the current investment landscape.