QUARTERLY MARKET REVIEW

FIRST QUARTER 2021

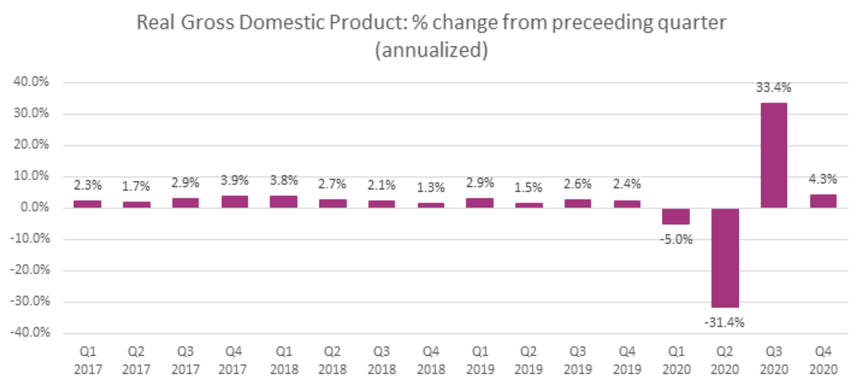
EXECUTIVE SUMMARY

Widespread vaccinations, easing business restrictions, and government stimulus packages are helping to spur the early stages of an economic boom that are leading many to draw a comparison to the Roaring 20s. The economic upturn is arriving sooner than anticipated with accelerated vaccine distribution and an additional $1.9 trillion in stimulus adding fuel to the fire. Americans are ramping up spending on in-person services, such as restaurants, gyms, hotels and salons, that were battered by the coronavirus pandemic. U.S. employers added 916,000 jobs in March and the unemployment rate ticked down to 6.0%.

Equity markets have started the new year on an upward trend after ending the prior year on a high note. Small cap markets led the way at 12.7% for the quarter, followed by the S&P 500 at 6.17%, and international developed and emerging at 3.48% and 2.29%, respectively. Bonds have seen some price volatility in the quarter as rates on the longer end of the curve have shifted higher.

ECONOMIC SUMMARY

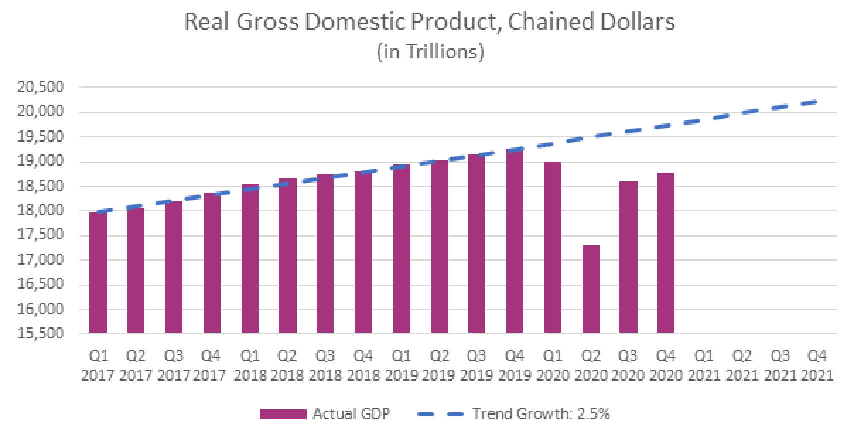
The U.S. economy continued to stage an impressive recovery in the fourth quarter of 2020 with growth of 4.3% (quarter over quarter, annualized.) Real gross domestic product (GDP) decreased 3.5% in 2020 as compared to an increase of 2.2% in 2019. The major contributor to the year-over-year decline was a reduction in the services category, including food service and accommodations, health care, and recreation, which was down 3.43% for the year.



The first quarter brought us our third major fiscal stimulus package in the form of the $1.9 trillion American Rescue Plan. Key elements of this plan are $1,400 in direct payments to qualified individuals; extension of expanded unemployment benefits with a $300 weekly supplement through Labor Day 2021; $350 billion for state and local governments; $164 billion in funding for COVID-19 vaccines, personal protective equipment, testing, and contact tracing; $55 billion for small businesses; $130 billion for schools; and a whole host of other grants, tax provisions and credits, and benefits. This brings the total price tag of U.S. fiscal stimulus related to the pandemic to over $5.5 trillion. The resulting government budget deficits are expected to push the federal debt to 102.3% of GDP by the end of the current fiscal year, up from 79.2% at the end of 2019, according to the Congressional Budget Office (CBO). The CBO forecasts the debt will grow to 107% of GDP by 2031. So far during the pandemic, direct payments to qualified individuals total $3,200 ($1,200 + $600 + $1,400). This response dwarfs any previous crisis. In the wake of the Great Depression in the 1930s, Congress passed a series of infrastructure bills, including projects like the Hoover Dam and Golden Gate Bridge, designed to boost the economy and create jobs. During the Great Recession, the United States passed two plans totaling $983 billion, less than 20% of the amount of stimulus spending thus far during the pandemic. For a more detailed look at the impact of these unanticipated expenditures, please refer to our article, "How Much Debt is Too Much?" published in January 2021.

Following the March FOMC meeting, Federal Reserve Chairman Powell indicated that the Federal Reserve expects the U.S. economy to recover more quickly than previously projected, anticipating that the COVID-19 vaccination campaign and trillions of dollars of fiscal stimulus will propel the U.S. economy to its fastest expansion in more than 30 years. Despite the rebound, and notwithstanding anticipated upward pressure on prices, the Federal Reserve board remains focused on restoring the economy to full employment. As such, they will continue to utilize the full range of tools to support the U.S. economy. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent, likely until late in 2023. Notably, the Fed materially upgraded its real GDP projection from 4.2%

Fueled by stimulus dollars, pent-up demand, and accommodative monetary policy, the economy has been on steroids since the 3Q 2020 rebound of 33.4%. The casual observer might look at the previous chart reflecting quarterly GDP and make the assumption that we are back on track as of year-end 2020. In fact, GDP remains $460 billion below where we ended 2019 and almost $1 trillion below our "trend growth" of 2.5% a year. To recover fully and be back on trend by the end of 2021, we would need year-over-year real growth of around 7.6%. Growth of this magnitude is not out of the question. There was some production disruption in the period from frigid weather in Texas and other supply-related disruptions. Despite this, the first quarter appears to be on track for growth in the range of 4-6%.



to 6.5% for 2021. Additionally, they will continue to increase holdings in U.S. Treasury and agency securities by $120 billion per month. Due to the significant ongoing level of support, the Federal Reserve balance sheet has ballooned from $4.1 trillion in January of 2020 to $7.7 trillion as of late March 2021.

EMPLOYMENT UPDATE

Job growth accelerated in March, increasing at the fastest pace since last August. The jobs recovery has gained momentum as more people are vaccinated and economic activity rebounds. The first quarter saw over 1.6 million jobs added to payrolls, with 916,000 just in March. While we celebrate this improvement, we need several more months of strong jobs growth to bring employment to pre-pandemic levels. For some perspective, there were 152.52 million employed on non-farm payrolls in the United States in February of 2020. That number dropped by 22.3 million by April and has recovered by almost 14 million to 144.1 million through March 2021 — still 8.4 million fewer people working compared to one year ago.

It is still the case that the benefits of the recovery aren't yet reaching all Americans. Several million workers are suffering the effects of long-term unemployment. The number of workers who have been laid off or unemployed for 27 weeks or more is almost four times higher than a year ago, however, total continuing claims, a proxy for the number of people receiving benefits, continues to decline. Particularly hard hit are those in the service, leisure, and hospitality industries where employment remains well below peak levels in early 2020. The recent jobs report brought some welcome news as the leisure and hospitality industry added 280,000 new jobs. There is a long way still to go as the sector remains 3.1 million jobs below February of 2020, including two million fewer jobs just in food service. Since the start of the pandemic we have also seen an overall decline in the labor participation rate, meaning that fewer persons as a percent of the total available population are either working or looking for work. Since March of 2020, the available labor pool has declined by 2.5 million workers. Labor force participation in the 25-54 age group has dropped from 83% in early 2020 to 81.1% in February. In the 55 years and older age group, participation was 40.3% prior to the pandemic and has fallen to 38.3%. The labor force did increase by 347,000 in March so we are seeing some improvement. This is welcome news since economic output is determined by the total number of workers and worker productivity, so over the long term, a decline in labor force participation could impact economic growth potential.

One topic that has been gaining in momentum is the inflation conversation. Part of the balancing act with stimulus, both fiscal and monetary, is that the desired increase in demand and spending can generate higher inflation. Inflation is broadly defined as a general upward trend in the overall price level for goods and services in an economy. The two main causes of escalating inflation are when demand pulls prices higher and/or when rising costs are pushed through the pipeline to the consumer. In today's environment, we are likely to see some of both factors come into play. On the demand side, we have stimulus payments, accumulated savings, and pent-up demand likely to drive prices higher, especially where supply chains are still constrained. So far signs of inflation are not evident in the Personal Consumption Expenditure Index (PCE), which is favored by the Federal Reserve as a benchmark for consumer inflation. Year over year, the index has increased 1.6% through February. Some early signs are showing in producer prices as the Producer Price Index (PPI) rose 2.8% year over year through February. A burst in demand for consumer goods is adding pressure to already strained supply chains, with a series of serious disruptions—including the aforementioned weather disruption in the south and the recent six-day blockage of the Suez Canal—set to worsen shortages and further push up prices. The core PPI index, which excludes the more volatile components of food and energy, was up 2.5%.

ECONOMIC STRENGTH

Economic signals have been mixed in recent months as some weather-related and some supply-chain-related disruptions are evident in the data. New orders for U.S. manufactured durable goods fell 1.1% in February after ten straight months of increases. Business confidence has been steadily growing since June of last year. The ISM Purchasing Managers Index (PMI), which reflects the performance of the manufacturing sector including new orders, output, employment, and delivery times, jumped to the highest level since December 1983 in March. The improvement in operating conditions was the fastest in several years amid stronger client demand, but data also highlighted the continued struggle to meet increasing rates of demand due to coronavirus impacts limiting availability of parts and materials. Recent conversations with our business clients reflect that there are significant delays, especially with overseas shipping. Regional indicators like the Chicago PMI reflect continued strengthening as the barometer hit a level not seen since July 2018 in March. Business confidence remained historically upbeat, as manufacturers expect output to rise over the coming year due to stronger new order inflows and an anticipated end to the pandemic.

While business confidence has been strong since fall, consumers have been slower to get comfortable with the impending end of the pandemic. That trend reversed in March as many households welcomed the third wave of relief checks and continued progress on vaccine distribution helped to boost the Conference Board's measure of U.S. consumer confidence to the highest level since March of last year. The improvement reflected increased optimism in both the present situation and the expectations index. Similarly, the University of Michigan consumer sentiment index made the largest one-month increase in morale since May 2013. This improvement bodes well for our consumer-based economy. Consumer spending, which accounts for more than two-thirds of U.S. economic activity, dropped 1.0% last month after rebounding 3.4% in January. U.S. consumer spending declined by more than expected in February as a cold snap impacted many areas in the U.S. and the boost from a $600 stimulus checks diminished, though the decline is likely temporary. $1,400 stimulus checks are hitting bank mailboxes and bank accounts in March and are likely to provide some fuel. Private-sector data on restaurant visits, hotel bookings, and airline travel all show a steady pickup in spending in recent weeks.

As a whole, consumer net worth was up 10% in 2020 and is now at an all-time high of $130 trillion. And, due to less travel and other discretionary spending, the level of personal savings is $1.3 trillion higher than when we entered the pandemic.

The housing market has been red hot since late last summer as more time at home drove demand for more space. The third and fourth quarters saw surging demand and prices, with prices rising at the fastest pace in 15 years due to fierce competition for a limited supply of homes. Numbers have cooled in the first quarter but that is mostly due to a shortage of inventory. According to the National Association of Realtors' data, housing inventory at the end of February fell by nearly 30% year over year to 1.03 million units, a new record low in data that extends back to 1982. Affordability also likely plays into the decline with mortgage rates creeping higher and home prices on the rise. The S&P CoreLogic Case-Shiller 20-city home price index in the U.S. jumped 10.1% from a year earlier in December of 2020. New home prices have been driven higher by increasing raw materials costs.

ELSEWHERE IN THE WORLD

Global growth contracted by -3.5% in 2020, .9% better than projected in the previous International Monetary Fund forecasts, reflecting stronger-than-expected momentum in the second half of 2020. Although vaccine approvals have raised hopes of a turnaround in 2021, renewed waves and new variants of the virus pose potential concerns for the outlook. Despite a high degree of uncertainty, the global economy is expected to grow 5.5% in 2021 and 4.2% in 2022. The strength of the recovery is projected to vary significantly across countries, depending on access to medical care, effectiveness of fiscal and monetary policy support, and economic strength entering into the crisis. Advanced economies, including the U.S., Euro Area, Japan, United Kingdom, and Canada are projected to grow at a 4.3% pace. Emerging markets are forecast at 6.3%, boosted by strong growth expected in China and India.

Key Rates

	3/31/2020	12/31/2020	3/31/2021
2-yr U.S. Treasury	0.25%	0.12%	0.16%
10-yr U.S. Treasury	0.67%	0.92%	1.73%
30-yr Fixed Mortgage Rate	3.58%	2.91%	3.26%
Fed Funds Target Rate (upper)	0.25%	0.25%	0.25%
U.S. Dollar Index	99.01	89.92	93.23
Crude Oil	$20.28	$48.41	$59.16
Gold	$1,590	$1,903	$1,714
Unemployment Rate	4.40%	6.70%	6.00%

Source: *The Wall Street Journal*

Over the past six months, Europe's economy has been highly bifurcated. While manufacturing has expanded at an increasingly rapid pace, activity in the larger services sector has declined. Overall, in the previous five months, the net result in many countries with service-dominated economies was a contraction in output. The European Union saw a 7.2% decline in GDP over the previous year. Emerging markets and developing economies declined 2.4%. China's economy, the only country to post a gain in 2020, expanded at 2.3%, the slowest pace in more than four decades. China has set its 2021 economic growth target at more than 6%.

MARKET COMMENTARY

The stock market continued to rise through the first quarter, although there was some consolidation in sectors that saw outsized performance in 2020. The S&P 500 is up 6.17% through March 31. Year-to-date sector performance definitely has favored value sectors that underperformed in 2020 (pink bars). Through the end of the first quarter, the best performing sector was energy with a return of 30.9% (blue bars). Financial stocks rose by 16% followed by industrials at 11.4%, and materials at 9.1%. There are no sectors that are negative through March, although some of last year's top-performing sectors, including technology, consumer discretionary, and communication services, have let the foot off the gas so far in 2021. This is evident in the tech-heavy Nasdaq Composite which is up 2.95% through the end of the quarter but 6.8% off its peak in February.

Small cap stocks continued on the strong run that started in the 4th quarter of 2020 when the Russell 2000 was up 31.37%. The 1st quarter return was 12.7%. This outperformance syncs up with the strong returns in financials and industrials, which are more heavily weighted in the small-cap index. The Russell 2000 did retrench from the high of the quarter, which was +19.57% in mid-March.

On March 23, 2021, we "celebrated" the one-year anniversary of the 2020 market trough. Leading up to that date, the equity markets saw declines ranging from -30.43% for the S&P 500 to as low as -39.73% for the Russell 2000. After a one-year rally with few pullbacks of consequence, the trailing one-year return for the S&P 500 was up +80.7%, the Russell 2000 +124.3%, and international developed and emerging markets up +67.14% and 78.31%, respectively.

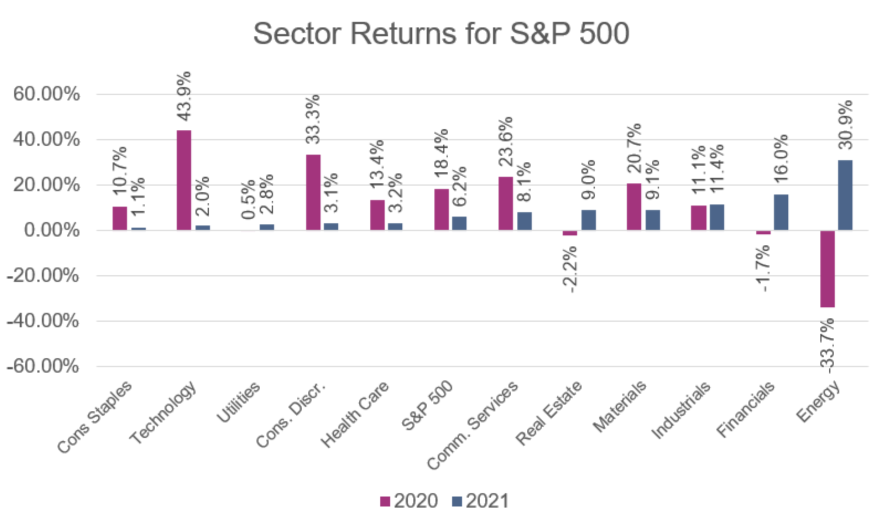
U.S. Equity Returns

2020

	Value	Blend	Growth
Large	2.8%	18.4%	38.5%
Mid	5.0%	17.1%	35.6%
Small	4.6%	20.0%	34.6%

1Q 2021

	Value	Blend	Growth
Large	11.3%	6.2%	0.9%
Mid	13.1%	8.1%	-0.6%
Small	21.2%	12.7%	4.9%



The 4Q 2020 earnings season concluded the majority of companies (79%) beating the consensus estimates for earnings and 67% beating revenue estimates. Further economic recovery, positive vaccine developments, and a weaker dollar were tailwinds for 4Q earnings. Earnings grew in technology and health care, while financials, energy, and industrials continued to lag.

Growth stocks have outperformed over the last 10 years by a margin of 16.7% versus 11.2%. In fact, in 2021 the performance differential of 35.7 percent was the largest since the inception of the Russell growth and value indices in 2000. To date in 2021, we have seen some rotation into value sectors with value outperforming growth year to date across all size categories.

Global markets have continued to underperform the United States in 2021. Returns to date have been stronger in local

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401 Charmany Drive
Madison, WI 53719

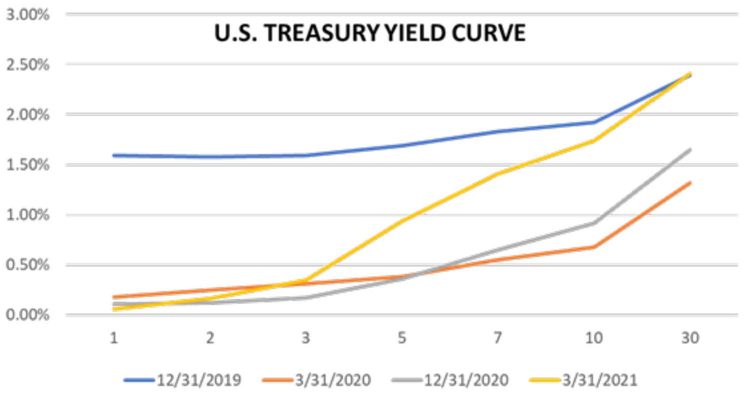
Southeast Wisconsin:
18500 W. Corporate Drive
Brookfield, WI 53045

Northeast Wisconsin:
3913 W. Prospect Avenue
Appleton, WI 54914

Kansas City Metro:
11300 Tomahawk Creek Parkway
Leawood, KS 66211

currency but translated to lower returns due to a stronger U.S. dollar. Developed international returns before currency effects were 7.7% — 3.6% in U.S. dollars. This is the reverse of what occurred in 2020, when a falling U.S. dollar provided a tailwind for returns.

While the Federal Reserve officially continues to project no short-term rate hikes in the near future, markets on the longer-end of the curve are increasingly pricing in higher growth and inflation, resulting



in a steepening yield curve. The yield on the benchmark 10-year U.S. Treasury note, a key driver of interest rates across the economy, closed out the quarter at 1.73% after bumping up to 1.77% late in the quarter. That represents an increase of .81% from the end of the year but remains lower than the 1.9% yield at the end of 2019. Due to rising rates, and after posting total return of 7.51% in 2020, the Bloomberg Barclays Aggregate bond index is off by -3.37% in the first quarter. Indices on the shorter end of the scale are little changed as the Federal Reserve has kept rates on the short end, pegged near zero. The spread between the 10-year and the 2-year has widened to almost 1.6%, the widest margin since July of 2015.

European interest rates are the lowest around the globe. Germany, Switzerland, Netherlands, and France all have a negative 10-year government bond yield. Negative yields are intended to stimulate growth by lowering the cost of debt. In the case of negative interest rates, the borrower is actually paid to borrow. On the flip side, deposit rates are also negative so that savers are penalized and lose money on funds parked in a bank account. Other countries not in negative territory are still relatively low, with the United Kingdom at .83% at the top end.

Index Returns	2020	1Q 2020
S&P 500 Index	18.40%	6.17%
Russell 2000	19.96%	12.70%
MSCI EAFE Index	7.82%	3.48%
MSCI Emerging Markets Index	18.31%	2.29%
Bloomberg Barclays U.S. Aggregate Bond	7.51%	-3.37%
Bloomberg Barclays U.S. Treasury 1-3 Year	3.16%	0.05%
Bloomberg Barclays U.S. Treasury 5-7 Year	8.48%	-3.57%
Bloomberg Barclays Municipal Index	5.21%	-0.35%
Bloomberg Barclays U.S. Corporate High Yield	7.11%	0.85%
S&P GSCI Gold Index	20.95%	-9.81%
Bloomberg Commodity Index	-3.12%	6.92%

Source: Morningstar Direct

PORTFOLIO AND OUTLOOK

We cruised into 2021 with a modest overweight to equities due to appreciation across all of our models. Our allocation to mid and small cap also aided our performance. These two factors have led to modest outperformance versus the peer group benchmarks for all of our portfolios through February.

Domestic equity market valuations appear rich at 22 times forward earnings but should see some improvement as earnings are adjusted upward. As mentioned, consensus estimates have remained overly pessimistic as the majority of companies beat on both the top and bottom line in the 4th quarter. A potential risk to that scenario is the proposed corporate tax increases that would reduce earnings. The S&P dividend yield, currently at 1.5%, is no longer a check in the plus column for stocks as the 10-year bond yield stands slightly higher at 1.7%. Headwinds aside, stocks still appear attractive relative to bonds based on the scenario of a steepening yield curve.

As policymaker's attention shifts from the immediate issue of the pandemic to the longer-term priorities like infrastructure spending, we will very likely see some tax reform. On March 31, President Biden announced a more than $2 trillion infrastructure spending plan aimed at revitalizing U.S. transportation infrastructure, water systems, broadband, and manufacturing, among other goals. This plan would be implemented over eight years and would be primarily funded by an increase in the corporate tax rate to 28%. Additionally, we will most probably see proposals impacting individual taxpayers, most significantly those earning in excess of $400,000 a year. We have a close eye on these discussions to assess how it will impact our clients and also what strategies, like the acceleration of capital gains in 2021, might be beneficial.

It is wonderful to see the green shoots of spring and equally exciting to see glimpses of increased normalcy in our lives as vaccinations become more widespread. Personally, I am excited to attend a sporting event, a theatre production, or just eat in a restaurant with good friends! As we continue to see signs of recovery, perhaps we can all take a cue from the entrepreneurs, who dove head-first into new businesses throughout 2020. The U.S. Census Bureau says that, by mid-December, there were more than 1.5 million new business applications in the United States, up 82 percent in the third quarter compared with 2019. That kind of optimism is what our country needs as we approach the rest of 2021.

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