O'Brien WEALTH PARTNERS
ADVISORS | ANALYSTS | ADVOCATES

April 12, 2021

Dear O'Brien Client,

Welcome to Day 385 of the 15 Day Plan to Flatten The Curve. If you are anything like us, you are looking forward to a bit more in-person human contact. As we look back at the first quarter of the year it almost feels a bit mundane when compared to the roller coaster ride that was 2020. More fiscal stimulus was passed, the economic recovery continued, and further incremental progress was made in the fight against COVID. These developments were welcomed by ourselves and investors more broadly, and we hope they continue so that we can meet with you in person again soon.

Market performance during 1Q maintained its risk-on flavor that began 2Q of last year. As shown below, stocks outperformed bonds significantly – with the U.S. once again the regional winner. Unlike 2020, bond returns were generally negative as interest rates rose sharply due to higher growth and inflation expectations from investors. Alternative assets, such as real estate stocks and commodities, generally also experienced positive returns.

	1Q 2021	2020		1Q 2021	2020
U.S. Small Cap Stocks	12.7%	20.0%	Emerging Market Stocks	2.3%	18.3%
Real Estate Stocks	8.3%	-5.1%	High Yield Bonds	0.9%	6.1%
U.S. Mid Cap Stocks	8.1%	17.1%	Municipal Bonds	-0.4%	5.2%
Commodities	6.9%	-3.1%	Mortgage-Backed Bonds	-1.1%	3.9%
U.S. Large Cap Stocks	6.2%	18.4%	**U.S. Aggregate Bond Index**	**-3.4%**	**7.5%**
Global Stocks	**4.6%**	**16.3%**	Treasuries	-4.3%	8.0%
Non-U.S. Stocks	3.5%	10.7%	Investment Grade Bonds	-4.5%	9.4%
Non-U.S. Developed Market Stocks	3.5%	7.8%	Gold	-9.8%	20.9%

Past performance is no guarantee of future results. You cannot invest in an index. Source: Morningstar Direct, O'Brien Wealth Partners, as of 3/31/21.

In terms of your portfolios, stock investments rose modestly during the quarter. Your portfolios benefitted from owning more U.S. stocks than the benchmark but ultimately underperformed due to our favoring growth stocks (companies whose bulk of expected profitability is further in the future) over value stocks (expected profitability more tied to near-term events) in an environment where the near-term outlook is improving sharply.

Fixed income performance was flat to down slightly in the absolute sense, but your portfolios significantly outperformed their benchmark. The reasons were two-fold: 1) we were less exposed to the rapid rise in interest rates during the quarter, and 2) we were invested in credit-sensitive sectors, such as high yield bonds, that are not part of the benchmark and performed relatively well.

Finally, our hedged equity strategy outperformed in our alternative investment sleeve, benefitting from the strong returns in U.S. large cap stocks.

Depending on your allocations to each of those buckets overall performance was flattish to positive during 1Q, although performance relative to our benchmark lagged slightly due to that growth-over-value tilt in our equity investments. We maintain that tilt, as we believe that once this near-term economic rebound has run its course the economy will slow, making those growth companies with more profitable longer-term outlooks once again relatively more attractive.

177 Huntington Avenue, Suite 2010, Boston, MA 02115 P 617.547.6717 F 617.547.9516 www.obrienwp.com

Turning to the outlook, we once again begin by considering opportunities and risks over multiple time horizons. More often than not, when there is a difference of opinion about an economy or asset market that difference comes down to the time horizon under consideration.

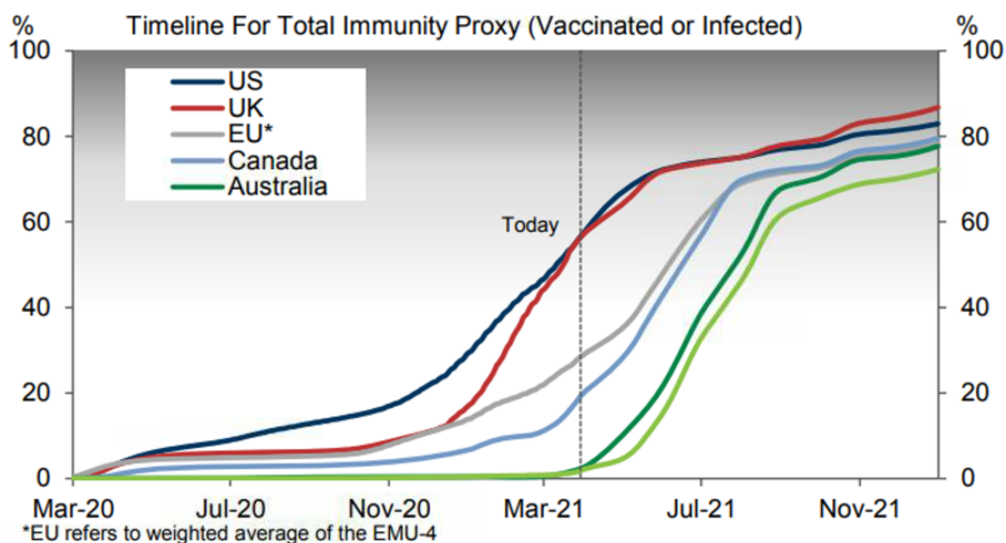
Starting with the secular (think next decade), we expect economic growth – on average – will likely be slower because population growth is slowing. When combined with today's high valuations, market returns may be more challenged than in previous decades. Our biggest concern is higher inflation, as the diversification benefits from owning stocks and bonds together tend to diminish when inflation is rising sustainably. Finally, we note that policy and political risks – be they anti-globalization pressures, rising populism, larger deficits, and/or greater regulatory intervention are probably here to stay.

Turning to our cyclical (3-5 year) outlook involves once again – but as you will see probably for the last time – our "Six Signposts on the Path to Recovery" framework. The table and comments below provide an update of our outlook for each of those signposts. Encouragingly, most of these signposts are now behind us.

Six Signposts on the Path to Recovery	Current Situation
Stabilization of coronavirus infection rate	U.S. tracking 75% immunity by June
Clarity on depth & duration of economic disruption	Economic growth surge is here
Sufficiently large global stimulus	Fiscal full steam ahead; monetary slowing
End of funding/liquidity stresses in markets	Liquidity still light, but not illiquid
Cheap asset markets	Markets are expensive but could rise further
No other Black Swan events	No recent events

Source: Goldman Sachs, O'Brien Wealth Partners, as of 3/31/2021.

From a healthcare standpoint, immunity to COVID has improved rapidly over the past several months. As shown below, estimates now suggest that between vaccinations and infections roughly 60% of the U.S. population has now been exposed to COVID and that we are on track to reach 75% exposure by June. At the same time, the number of new cases has fallen sharply from roughly 250,000 new cases a day in January to 50,000 new cases daily at the end of March.



Source: Our World in Data, John Hopkins University Centers for Civic Impact, Goldman Sachs Global Investment Research, O'Brien Wealth Partners, as of 3/29/21.

177 Huntington Avenue, Suite 2010, Boston, MA 02115 **P** 617.547.6717 **F** 617.547.9516 **www.obrienwp.com**

On the economic front, the surging rebound is here. High-frequency data, such as TSA checkpoint travel numbers, are rising sharply. These data suggest that the most COVID-impacted parts of our economy are now healing meaningfully. Moreover, the latest fiscal stimulus checks are poised to boost consumer spending by roughly 5% of GDP (annualized). Put together, the U.S. economy is on track to expand over 7% in inflation-adjusted terms in 2021, the fastest annual growth in almost 40 years.

Inflation is likely to pop in sympathy with the rebounding economy over the next several months, but that rise will probably be transitory. For inflation to rise sustainably we need higher wages as well and that seems unlikely with so much unemployment and underemployment still persisting.

The stimulus backdrop has become more mixed, but still positive. Fiscal is full steam ahead, with one if not two more infrastructure bills potentially in the works. There is much uncertainty about the ultimate shape of these proposals currently, but there is a definite need. The American Society of Civil Engineers estimates a need to invest $6 trillion in infrastructure over the next decade, but only $3 trillion is currently budgeted for[1]. Monetary stimulus is still positive but slowing – particularly the pace of new asset purchases via quantitative easing compared to 2020.

Liquidity is light, but improving, and better in bonds than stocks. Treasury market liquidity did dry up a bit during the bond market sell-off this quarter, but it has recovered materially over the past few weeks. Stock market liquidity is better than last year, but still well below average.

Asset markets are expensive. But just because markets are expensive doesn't mean they can't rise further, especially if corporate profitability is also rising (as is the case today). For what it's worth, historically expensive markets have been more of a headwind for longer-term (secular) return potential than near-term (cyclical) return potential.

The last signpost has to do with the lack of additional Black Swan – or unforeseeable extreme negative - events which cause a sharp market sell off. When the environment is changing rapidly, the potential for other things to unexpectedly go wrong rises. It has been almost a year since we have seen one of these events in the market.

These signposts lead us to still anticipate a relatively sanguine backdrop as a base case for 2021. Against that backdrop stocks will likely outperform bonds, but by a more modest pace. Light liquidity is a point of caution, as it means volatility could return if healthcare and/or economic improvements disappoint expectations.

Encouragingly, our biggest risk from last quarter – unwillingness to vaccinate – has improved noticeably. According to the Census Bureau, just 15% of U.S. adults indicate they are now unlikely to vaccinate, down from an estimated 40% entering the year.

Other risks worth monitoring vary from the potential implications of new strains of COVID, to tax changes that are likely to come with infrastructure stimulus, to potential anti-trust legislation for large technology companies, to rising signs of bubble-like characteristics in a few small aspects of the market. All of these risks represent potential downsides of varying magnitudes to our base case outlook.

We hope you are all taking care and staying healthy. If you have questions, or would like to talk, please call your Advisor or any member of our investment team.

Your O'Brien Team

---

[1] https://infrastructurereportcard.org/wp-content/uploads/2020/12/2021-IRC-Executive-Summary.pdf

177 Huntington Avenue, Suite 2010, Boston, MA 02115 **P** 617.547.6717 **F** 617.547.9516 **www.obrienwp.com**

Disclosures:

1. Registration with the SEC should not be construed as an endorsement or an indicator of investment skill, acumen or experience.
2. Investments in securities are not insured, protected or guaranteed and may result in loss of income and/or principal. Diversification does not eliminate the risk of market loss and, long-term investment approach cannot guarantee a profit.
3. This communication may include opinions and forward-looking statements. All statements other than statements of historical fact are opinions and/or forward-looking statements (including words such as "believe," "estimate," "anticipate," "may," "will," "should," and "expect"). Although we believe that the beliefs and expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such beliefs and expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements. All expressions of opinion are subject to change. You are cautioned not to place undue reliance on these forward-looking statements. Any dated information is published as of its date only. Dated and forward-looking statements speak only as of the date on which they are made.
4. Investment process, strategies, philosophies, portfolio composition and allocations, security selection criteria and other parameters are current as of the date indicated and are subject to change without prior notice.
5. In general, investment in foreign issuer securities entails additional risks such as limited transparency and accounting overview, varying frequency, availability and quality of financial information, limited enforcement opportunities by US regulators, and limited shareholder rights and/or remedies.
6. Unless stated otherwise, any mention of specific securities or investments is for illustrative purposes only. Adviser's clients may or may not hold the securities discussed in their portfolios. Adviser makes no representations that any of the securities discussed have been or will be profitable.
7. Market or market segment performance is stated for illustrative purposes only and does not reflect performance of actual client accounts. Client performance is affected by advisory fees and transaction costs.

177 Huntington Avenue, Suite 2010, Boston, MA 02115 **P** 617.547.6717 **F** 617.547.9516 **www.obrienwp.com**