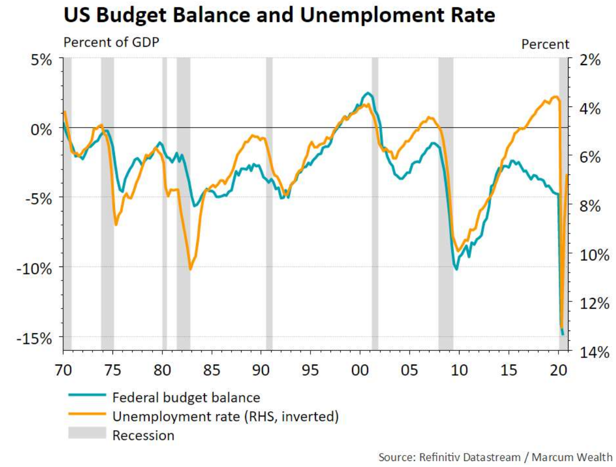
Strategy Newsletter – 1st Quarter 2021

- Fiscal stimulus will boost economy. The vaccine rollout is key.
- Small caps flex muscles while emerging markets quietly stage a bull market run.
- Treasury yields start to rise while investors search for returns in credit.
- REITs starting to become cheap relative to the broad market.

Economy

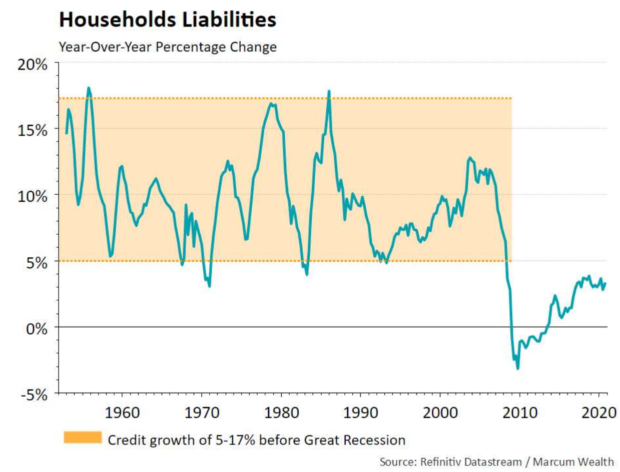
Another relief bill passed at the end of December. It extended the Payment Protection Program, unemployment benefits, and much more. This is the playbook for combatting a recession. As seen below during recessions, the deficit increases as unemployment rises.



Democrats gained control of the Senate after the Georgia runoff. With this, a larger spending package in 2021 becomes likely. While many fear a large tax increase, it seems unlikely. Taxes would drain funds from the economy just as it regains its footing. By evidence of the last year, each party is quite comfortable running budget deficits. Many people fear rapid inflation and rising interest rates due to these policies. Yet similar policies in Japan the last two decades brought a weaker currency instead.

The private sector already has so much debt on its balance sheets. Creating greater demand to jumpstart the economy makes sense. This is one reason the $3 trillion fiscal package was passed as the pandemic began in March 2020.

An example of slow credit growth is below. Prior to 2008, household debt grew between 5% and 17% annually. Since then, it has not hit 5%. This new lower level is healthy for households not spending beyond their means. But the "paradox of thrift" in aggregate slows growth for the overall economy.



One bright spot over the last year was the housing sector. Home mortgage loans grew at 5.5%, the fastest pace since 2007.

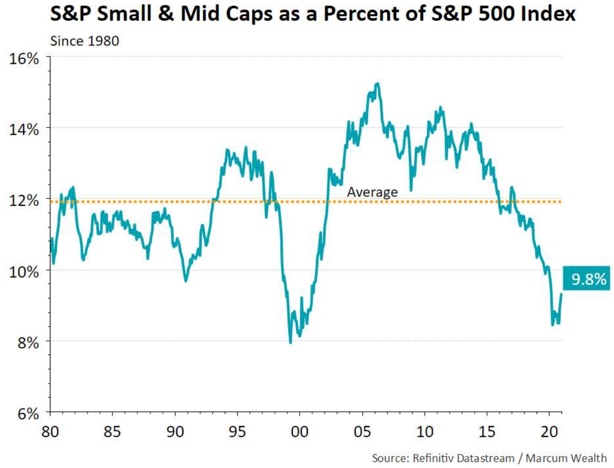
While all the spending helps, the rollout of the vaccine will be a key factor to getting back to "normal" according to economists. The second half of 2021 is the earliest that seems possible at this stage.

Equity

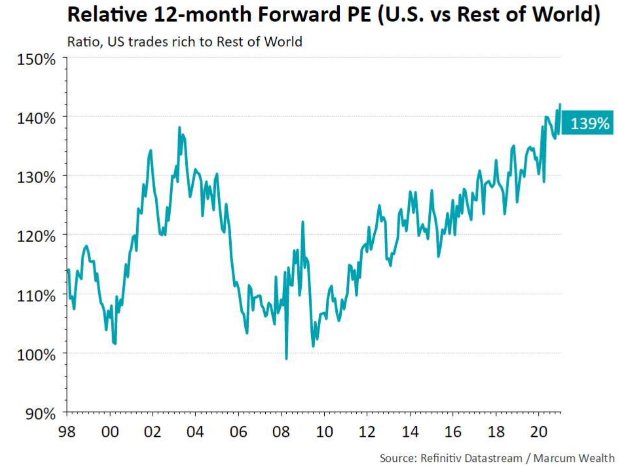
Many investors worried about the U.S. Presidential election and its risk to markets. Investors exhaled as the event passed and vaccine news came out shortly after. The majority of gains in the quarter came in November and December.

US Equity	4Q 2020
Large Cap Stock	
S&P 500	12.1%
Small & Mid Cap Stock	
S&P 400 Mid Cap	24.4%
S&P 600 Small Cap	30.9%
All Cap Style Indices	
S&P 1500 Value	15.8%
S&P 1500 Growth	11.6%
International Equity	**4Q 2020**
MSCI EAFE	16.1%
MSCI EAFE Value	19.3%
MSCI EAFE Growth	13.1%
MSCI Europe	15.7%
MSCI Japan	15.3%
MSCI Emerging Markets	19.8%

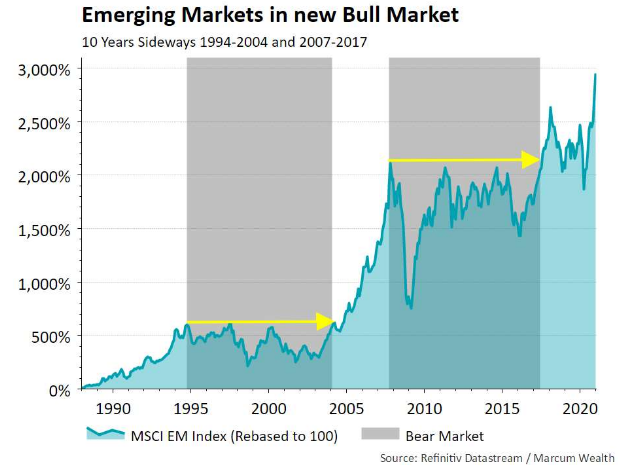
Small caps were the biggest winner during the quarter. Coming out of recessions, small caps usually outperform large caps. Rotations to more cyclical sectors boosted returns. We reached an extreme this year seen only previously in 1999-2000. The weighting of small and mid-caps compared to large caps fell to 9%.



International and emerging markets also outperformed U.S. markets during the quarter. The weaker dollar was a tailwind to this. The relative valuation of forward earnings hit the highest level ever. It is matched only by the 2002 to 2003 period. International equities went on to outperform for the next four years.



After a decade of flat returns from 2008 to 2017, emerging markets quietly entered a new bull market. Long periods of sideways price action followed by increases have been the pattern. Since 1989, when MSCI began the index, the two bull market periods lasted four to six years. The markets increased in price 400% to 500% during these periods.



Equities remain at the strategic target weight within the Marcum Wealth Asset Allocation Frameworks.

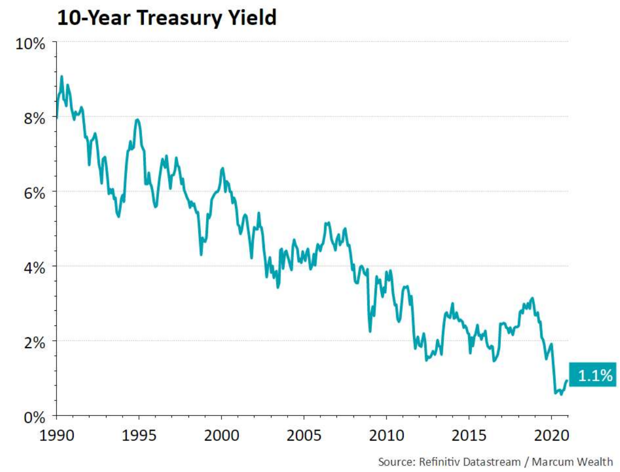
Fixed Income

The 10-year Treasury rose during the quarter from 0.68% to 0.91%. Credit spreads tightened across sectors propelling, bond indices higher.

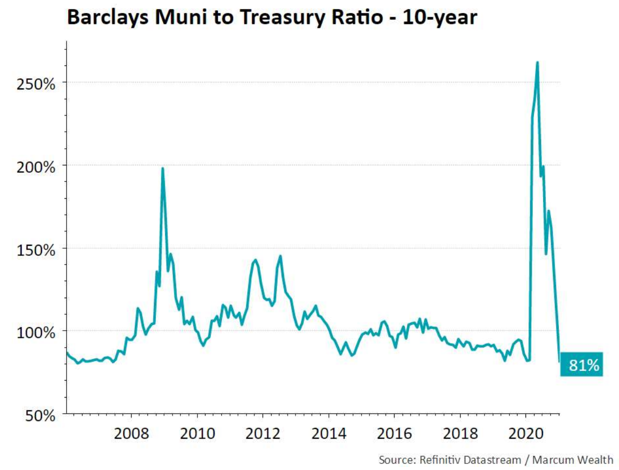
Fixed Income	4Q 2020
Barclays U.S. Aggregate Bond	0.7%
Barclays Corporate Inv. Grade	3.1%
Barclays High Yield Bond	7.5%
Barclays Global ex. U.S. Treas.	6.3%
Barclays Municipal Bond	2.0%
Barclays TIPS	2.3%

With more fiscal spending on the way, there is more concern about inflation spoiling the party. The Fed's new framework allows for inflation to overshoot its 2% target to make up for its shortfalls during recessions. Some market participants think the Fed may be tested before calendar year 2023. This is the year until which the Fed pledged to keep interest rates on hold.

Upward pressure on interest rates is a possibility. Seasonally, interest rates tend to rise into the spring. One explanation is because people seek liquidity from bonds to pay taxes. Economic data also tends to outperform expectations early in the year. The 10-year Treasury looks to be drifting upwards and could put pressure on bond portfolios.



Municipal bonds rallied during the quarter and now yield much less than comparable Treasuries. The illiquidity in March 2020 created interesting opportunities in ETFs due to redemptions. The yield per year of duration is at its lowest point ever. The Barclays 5-year Municipal Bond Index yields 0.6%. Most managers have duration of around 5 years. It will be interesting to see if more demand comes at these record low yields.



Credit spreads continue to tighten across corporate and securitized sectors. The search for yield across the globe continues to provide inflows into domestic bonds. Even after hedging for currencies, it makes sense for European and Japanese pensions to look at the U.S. for yields. A cyclical rise in interest rates is possible, though the long-term trend remains lower for longer.

The Frameworks maintain holdings in bonds across corporate securities, mortgages, and emerging markets. The bond portfolio remains diversified. It has attractive yields and shorter duration than the benchmark indices. The Asset Allocation Frameworks have weightings slightly below targets within fixed income overall.

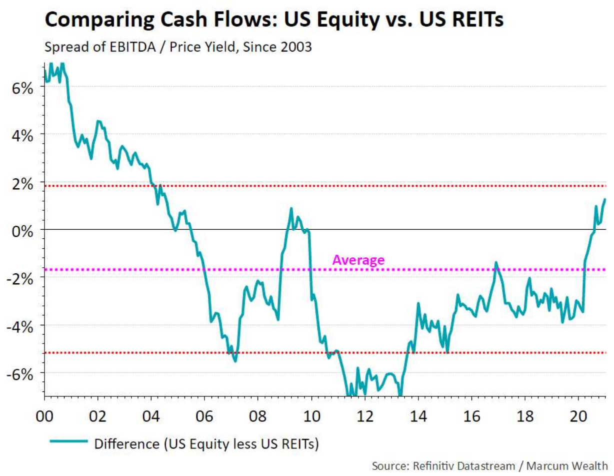
Real Estate

REITs turned in a positive quarter despite the negative headlines across the commercial real estate sector.

Real Estate	4Q 2020
Wilshire U.S. REIT	10.6%
Wilshire Int'l REIT	19.0%

Still, REITs lagged the broad U.S. equity market in 2020. The office, retail, and hospitality sectors were hit hard during the pandemic. The work from home trend weighed on office assets. Hotels were clearly hurt by the lack of travel. Retail has been in a long-term decline due to too much supply.

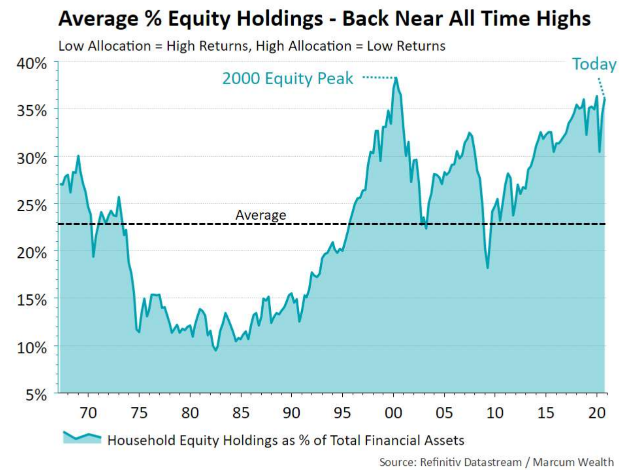
Due to this and the climbing U.S. broad market valuations, REITs are beginning to look cheap. REITs have an earnings yield above the average compared to the last 20 years. This was a precursor to REITs outperforming in the years ahead during the early 2000s and in 2009.



The Asset Allocation Frameworks continue to maintain equal weight exposure to REITs.

Summary

The momentum in the economy and the markets is positive as we enter 2021. More stimulus, market liquidity, and bullish investor sentiment all provide a solid backdrop. One thing to watch is how much households now hold in equities. This metric is at the high end of the historical range. Expectations for equity returns should be tempered over the long-term. Still, volatility will likely produce opportunities.



Marcum Wealth Asset Allocation Frameworks

	Income	Conservative	Balanced	Moderate	Growth
Asset Class	Strategic	Strategic	Strategic	Strategic	Strategic
Equity	**20%**	**35%**	**50%**	**65%**	**80%**
U.S. Equity	12%	21%	30%	39%	48%
International Equity	6%	11%	15%	20%	24%
Emerging Markets Equity	2%	4%	5%	7%	8%
Fixed Income	**77%**	**62%**	**47%**	**32%**	**17%**
US Fixed Income	69%	56%	42%	29%	15%
Global Bonds	8%	6%	5%	3%	2%
Real Estate / REITs	**3%**	**3%**	**3%**	**3%**	**3%**

The risk designations are relative only to the five Strategic Allocation targets and do not represent comparisons with any other investment or risk of the overall strategies.

Important Disclosure Information

benchmarks/indices may be more or less volatile than your Marcum accounts; and, (3) a description of each comparative benchmark/index is available upon request.