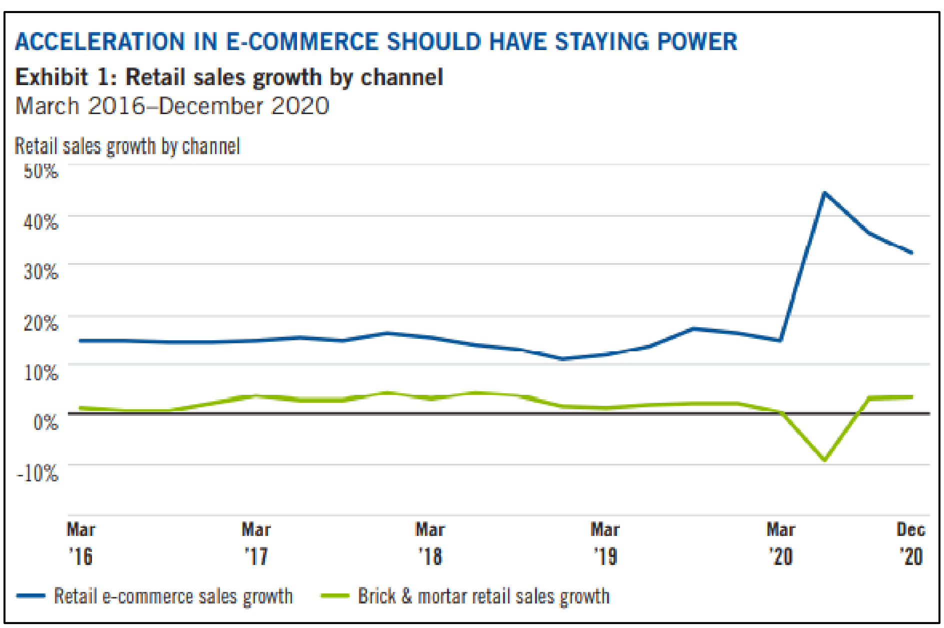
Talbot Financial – First Quarter 2021 Review

Please find attached your Talbot Financial first quarter 2021 portfolio review to supplement your monthly account statements from Schwab. The report provides a performance summary of your investment portfolio compared to the S&P 500 Total Return Index (“Index”), Talbot Financial’s benchmark, and lists your investment portfolio holdings by industry sector.

The first quarter of 2021 provided us with a preview of a post-COVID-19 pandemic period. The U.S. equity markets benefitted from the rollout of vaccines, economic growth and strong corporate profits. As a result, the Index returned 6.2% for the first quarter. Rebounding from the market low in March 2020, the Index return for the trailing one-year period was 56.3%.

First quarter Index performance was led by the Energy, Financial, Industrial, and Basic Material Sectors. These sectors have historically been the most economically sensitive industries and often experience the quickest rebound coming out of a recession. We do favor the Financial Sector, which includes banks and insurance companies, given the balance sheet strength and high return of capital to shareholders of the companies we own in the sector. Conversely, we own very few companies in the Energy and Basic Materials Sectors due to lower quality balance sheets, sub-par cash flow generation and limited ability to return capital to shareholders.

The Technology Sector was the laggard for the first quarter within the Index with a return of 2.0%. Our bullish long-term view on cutting-edge companies within the technology industry has been advantageous to investment portfolio returns over time and we remain steadfast in our view that the sector will benefit from a worldwide digital transformation. The following chart from the U.S. Census Bureau illustrates the increased and sustained opportunity for e-commerce leading companies over traditional brick & mortar retail sales:



As we look forward, the tailwinds driving the U.S. economy suggest solid near-term growth. Daily vaccination rates continue to increase, small businesses are slowly ramping back up and the unemployment rate continues to improve. Further, numerous indicators suggest tremendous pent-up consumer demand just as the second stimulus checks are now reaching many households. Against this backdrop, U.S. Gross Domestic Product (GDP) is projected to grow at almost 7% in 2021, a growth rate not seen in almost forty-years. The strength of the recovery suggests the economy should continue to grow through 2022 and into 2023.

It is worth noting the recent economic growth has created a short-term rise in inflation and longer-term interest rates. We believe the rise in both inflation and interest rates is temporary as supply chains shut down during the pandemic and have not opened as rapidly as the economy has rebounded. As supply chains catch up to the economy, inflation and interest rates should subside. Given the strong correlation of long-term interest rates to inflation, the easing of inflationary fears should translate to less pressure on rising long-term interest rates.

The sum-total of the recent and forecasted stimulus plans approximates to $6 trillion, or roughly 25% of U.S. GDP. The theory is that these plans will be funded over time by both higher taxes and growth in taxes from an expanding economy and rising GDP. The primary tenet of one proposed tax increase includes raising the corporate tax rate from 21% to 28%. Such an increase would only represent about a 4% impact to the S&P 500 Index's corporate earnings per share estimates. Importantly, a rise in the corporate rate to the highest indicated level of 28% would remain well below the 35% rate in place prior to 2017.

Overall, our investment outlook is global growth trends and unprecedented fiscal stimulus will foster an environment for further increases in equity valuations in companies positioned to benefit from economic expansion.

We would welcome the opportunity to review your portfolio either by phone or on a Zoom conference. Please contact us for a review, or to answer any questions you may have about your portfolio.

Best Wishes,

Talbot Financial, LLC

www.talbotfinancial.com