TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

April 2021

Quarterly Insights

EXECUTIVE SUMMARY

US Stocks Lead All Major Regions In Q1

In the First Quarter, the domestic S&P 500 Index was up 6.17% to lead all major regions in the recovery from the pandemic. Investor enthusiasm towards aggressive fiscal spending, a massive vaccine rollout and stimulative Fed policy prevailed over fears of a covid resurgence. Spurred by US economic optimism, the 10-Year Treasury rose to a 1.74% yield. The Bloomberg Barclay's US Aggregate Bond Index fell 3.37% (when rates rise, prices fall), the second-worst bond quarter since 2003.

The Reflation Trade: What It Is & Why It Matters

Reflation is the prospect of a return to global growth after the severe economic hit from the pandemic. Ever since the strong vaccine efficacy results in early November, we have seen the "Reflation Trade": investors moving into the assets most poised to lead in an improving economic cycle. Politics (the ability of the Biden Administration to push its agenda), public health (vaccine availability) and economics (the business recovery) are driving the trade. In the stock market, small caps and cyclicals out-performed. A change is afoot. The leading stocks and sectors from previous years are not the leaders so far in 2021 and may not be the leaders going forward.

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First Quarter 2021

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Reflation Is Not The Same Thing As Inflation

Reflation is the prospect of a return to global growth after the severe economic hit from the pandemic. Ever since drug manufacturers revealed strong efficacy results for their vaccines in early November, we have seen the "Reflation Trade": investors moving into the assets most poised to lead in an improving economic cycle. In the equity market, this is a rotation to smaller cap stocks and to the cyclical sectors such as Financials and Industrials. In the bond market, the safest positioning has been inflation-protected securities and lower-duration holdings (shorter maturities).

The Reflation Trade: Three Factors Drove Stocks Up and Bonds Down in Q1

1. Politics

Economic stimulus and infrastructure spending are bullish for stocks. The American Rescue Plan Act of 2021 ($1.9 trillion) was signed into law by President Biden on March 10. Next up is the Infrastructure Bill ($2.3 trillion), which should pass shortly.

2. Public Health

"Number 1" on the Biden Administration agenda has been dealing with the pandemic. There is a massive rollout of vaccines. As the virus fears wane, there is tremendous pent up consumer demand for goods and services. The prospect of herd immunity and its positive impact on the economy is bullish for stocks.

3. Economics

In its March meeting, the Fed
- Raised its 2021 GDP growth projection from 4.2% to 6.5%
- Lowered its 2021 Unemployment projection from 5.0% to 4.5%
- Raised its 2021 Inflation projection from 1.8% to 2.4% (the US inflation rate is currently 1.7%; source: BEA)
- Indicated that even if inflation exceeds its 2.0% mandate, its zero target rate will remain through 2023
- Further committed to its open-market bond purchases (stimulates the economy via "quantitative easing")

An accommodative ("stimulative") Fed policy is bullish for stocks.

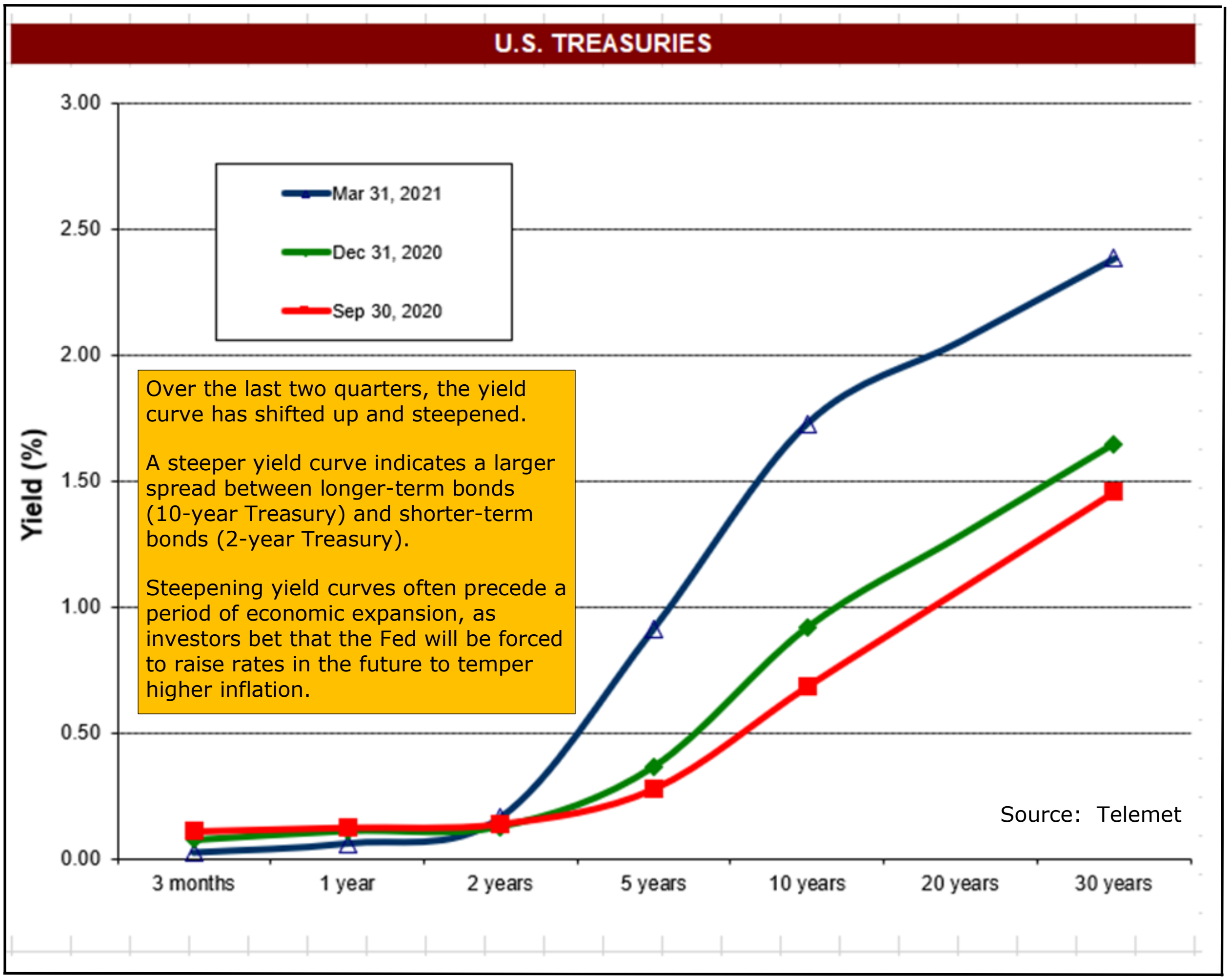
Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, March 2021

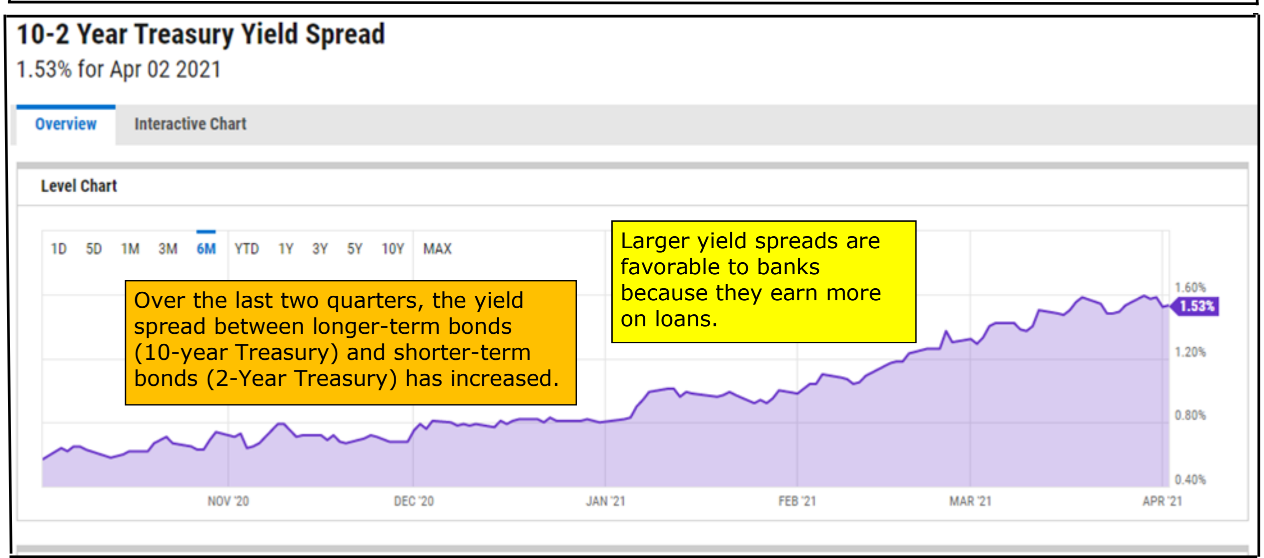
Percent

Variable	Median[1] 2021	2022	2023	Longer run
Change in real GDP	6.5	3.3	2.2	1.8
December projection	4.2	3.2	2.4	1.8
Unemployment rate	4.5	3.9	3.5	4.0
December projection	5.0	4.2	3.7	4.1
PCE inflation	2.4	2.0	2.1	2.0
December projection	1.8	1.9	2.0	2.0
Core PCE inflation[4]	2.2	2.0	2.1	
December projection	1.8	1.9	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	0.1	0.1	0.1	2.5
December projection	0.1	0.1	0.1	2.5

Why The Reflation Trade Drove Bonds Down In Q1

Stimulative Fed policy is boosting longer maturity (10-year and longer) Treasury bond yields while at the same time keeping shorter maturity (2-year and shorter) Treasury bond yields constant. The bond market sees economic expansion and a greater likelihood that the Fed will ultimately be forced to raise its zero target rate. Consequently the longer maturity bond yields considerably rose. As rates rise, bond prices fall. The Bloomberg Barclay's US Aggregate Bond Index fell 3.37% in Q1, with the longer maturity bonds falling double digits. This was the second-worst quarter for bonds since 2003.

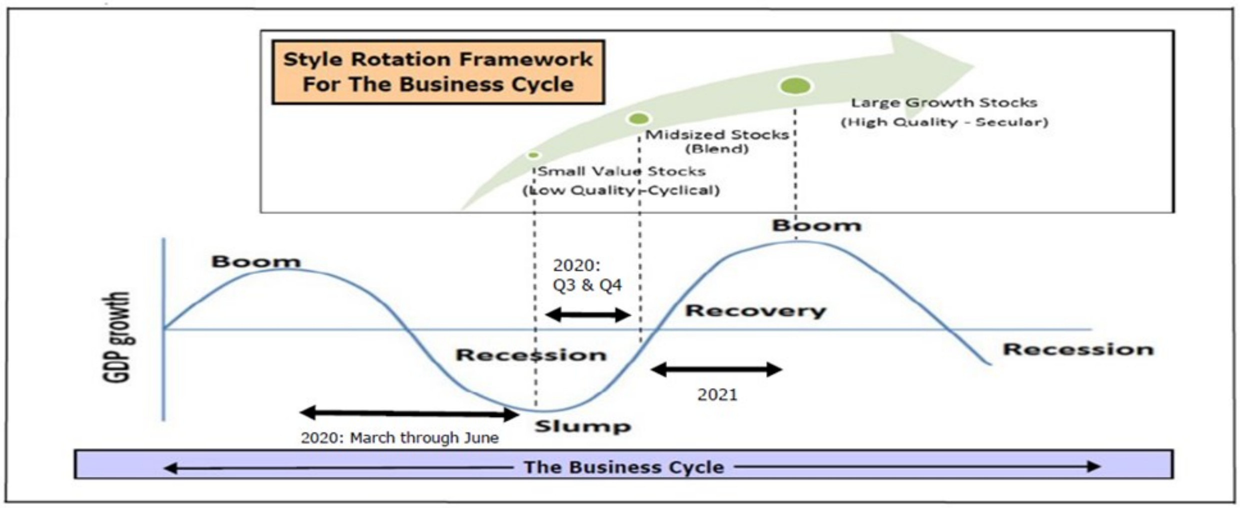




The Reflation Trade: Key Stock Trends In Q1

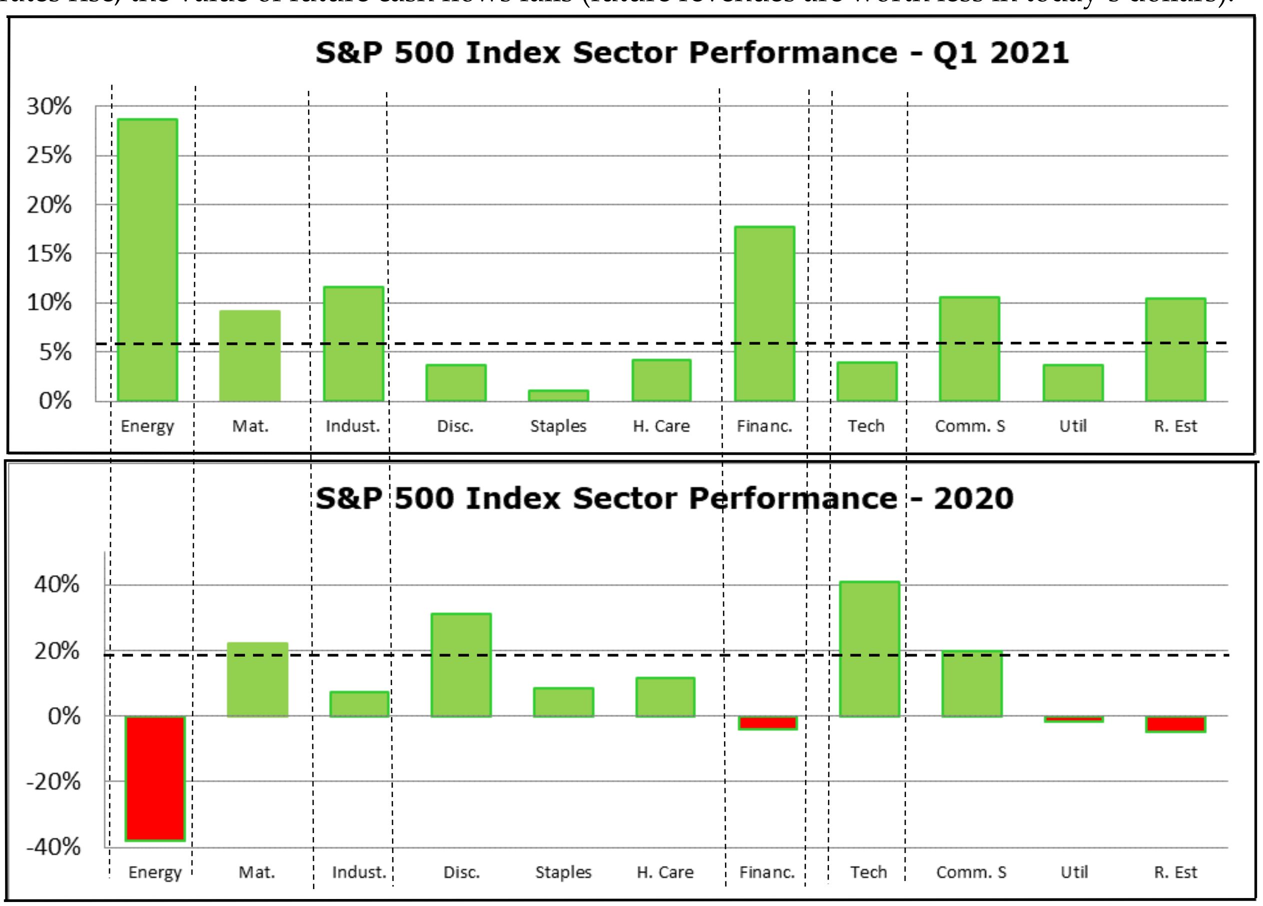
Small Cap Out-Performance

The Russell 2000 Index (small cap stocks) was +12.44% in Q1 as compared to the S&P 500 Index (+6.17%). This is what we expect during a recovery phase in the business cycle.



Cyclical Sector Out-Performance

Energy, Financials (buoyed by a steepened yield curve) and Industrials (momentum of an improving economy) led in Q1 - these were laggards in 2020. Technology, the 2020 leader, was dampened by rising rates. When rates rise, the value of future cash flows falls (future revenues are worth less in today's dollars).



The Reflation Trade Has "Opened Up The Playing Field" For Stock Selection

In 2020, the four largest-cap stocks in the S&P 500 Index contributed a staggering 78% of the index returns. Without holding Apple, Amazon, Microsoft and Facebook at the index weight or higher, it would have been very tough to exceed S&P 500 Index performance. Fortunately, we held all four and out-performed.

In Q1 2021, these same four stocks contributed absolutely nothing to the S&P 500 Index return. Technology (Apple, Microsoft) was a lagging sector. Discretionary (Amazon) was also a lagging sector.

We believe the reflation trade has a broad implication for stock selection. The playing field has opened up. There are investment opportunities beyond the largest cap stocks as evidenced by Q1 2021 performance attribution. This does not mean that we want to avoid exposure to these high quality stocks going forward - it means that we may pare back exposure. Indeed, we have already done so in the past. As the economy continues to improve, there is literally a world of opportunities for stocks.

Symbol	Name	Sector	Market Cap ($ billions)	Total Return (%)	Index Weight (%)	2021 Q1 Performance Impact (%) (see Note 1)	
AAPL	Apple	Technology	$2,051	-8.65%	6.10%	-0.56%	
AMZN	Amazon	Discretionary	$1,558	-5.84%	4.63%	-0.29%	
MSFT	Microsoft	Technology	$1,782	6.36%	5.30%	0.36%	
FB	Facebook	Comm Services	$838	8.33%	2.49%	0.22%	
					18.52%	-0.27%	
		S&P 500 Index:	$33,618		S&P 500 Index:	6.17%	
				Attribution:	4 Stocks	-0.27%	(0.04)
					496 Stocks	6.44%	1.04
						6.17%	1.00

Note 1: Performance Impact Of An Individual Stock = (Total Return) * (Index Weight) * (1 + S&P Perf. Q1 2021)

Symbol	Name	Sector	Market Cap ($ billions)	Total Return (%)	Index Weight (%)	2020 Performance Impact (%) (see Note 1)	
AAPL	Apple	Technology	$2,256	82.31%	6.74%	6.57%	
AMZN	Amazon	Discretionary	$1,634	76.26%	4.88%	4.41%	
MSFT	Microsoft	Technology	$1,682	42.53%	5.03%	2.53%	
FB	Facebook	Comm Services	$778	33.09%	2.33%	0.91%	
					18.98%	14.42%	
		S&P 500 Index:	$33,472		S&P 500 Index:	18.40%	
				Attribution:	4 Stocks	14.42%	0.78
					496 Stocks	3.98%	0.22
						18.40%	1.00

Note 1: Performance Impact Of An Individual Stock = (Total Return) * (Index Weight) * (1 + S&P Perf. 2020)

US Stocks Lead All Major Regions In Q1

In the First Quarter, the domestic S&P 500 Index was up 6.17% to lead all major regions in the recovery from the pandemic. Investor enthusiasm towards aggressive fiscal spending, a massive vaccine rollout, and stimulative Fed policy prevailed over fears of a covid resurgence.

Equity Index Performance

Index	Q1 2021	2020
S&P 500 (Domestic)	**6.17%**	**18.40%**
MSCI EAFE (Foreign) *	**3.48%**	**7.82%**
MSCI Emerging Markets	**2.29%**	**18.31%**
MSCI EMU (European Monetary Union)	**4.66%**	**7.89%**
MSCI Japan	**1.57%**	**14.48%**

* Europe, Australia and the Far East

US Dollar Strength Contributed To Regional Out-Performance

Spurred by US economic optimism, the 10-Year Treasury (Constant Maturity) rose 81 basis points in Q1 to finish with a 1.74% yield. In contrast, the Euro Area 10-year government bond yield was negative 0.4% and the Japanese 10-year government bond yield was zero (source: The Economist, March 27).

Relatively favorable yields attract foreign investment and foreign currencies are converted to US Dollars. As demand for the US Dollar increases, the US Dollar appreciates. Indeed this is what happened in Q1. The US Dollar appreciated 4.55% versus the Euro and 7.22% versus the Japanese Yen.

Issue	Name	Last	Net %	Net % 7	Net % 30	Net % 90	Net % 180
USD to Currency							
BPB	USD to British Pound Spot FX	0.7231	-0.32%	-1.00%	0.61%	-1.35%	-6.87%
CDB	USD to Canadian Dollar Spot FX	1.2566	0.06%	-0.08%	-0.71%	-1.38%	-5.44%
CNB	USD to Chinese Yuan Spot Price FX	6.5654	0.21%	0.65%	1.53%	0.69%	-3.30%
DKB	USD to Danish Krone Spot	6.3194	-0.31%	0.40%	2.26%	4.49%	-0.34%
HKB	USD to Hong Kong Dollar Spot	7.7765	0.03%	0.10%	0.26%	0.31%	0.35%
JYB	USD to Japanese Yen Spot FX	110.6000	-0.09%	1.62%	3.47%	**7.22%**	4.81%
MPB	USD to Mexican Peso Spot FX	20.3142	-0.53%	-2.71%	-1.72%	2.21%	-7.10%
OXB	USD to Australian Dollar Spot FX	1.3151	-0.05%	-0.09%	2.00%	1.29%	-5.59%
RRB	USD to Russian Ruble Spot FX	76.2900	0.92%	-0.40%	2.81%	2.82%	-0.99%
SFB	USD to Swiss Franc Spot FX	0.9415	-0.20%	0.61%	2.82%	6.81%	2.44%
SGB	USD to Singapore Dollar Spot	1.3443	-0.02%	-0.15%	1.11%	1.69%	-1.39%
YEB	USD to Euro Spot FX	0.8499	-0.29%	0.40%	2.27%	**4.55%**	-0.23%

Source: Telemet

Portfolio Strategy Considerations

We currently have roughly 85% domestic exposure and an average market cap lower than the S&P 500 Index.

Looking ahead (barring a covid resurgence), we are considering the following:

- Raising our foreign exposure
- Further lowering our average market cap
- Further rotating to cyclical sectors

Bonds Fall Hard In Q1

The Barclay's Capital US Aggregate Bond Index, a broad-based representation of bond performance, fell 3.37% in the First Quarter, following a 7.51% rise in 2020. Longer term bonds such as 10-Year Treasurys fell double digits! This is not what risk-averse investors expect from the bond component of their portfolios.

Key US Interest Rates	December 31, 2020	March 31, 2021	Change
Federal Reserve Board Funds Target Rate	0 - 0.25%	0 - 0.25%%	0 basis points
2-Year Treasury (Constant Maturity)	0.13%	0.16%	+ 3 basis points
5-Year Treasury (Constant Maturity)	0.36%	0.92%	+ 56 basis points
10-Year Treasury (Constant Maturity)	0.93%	1.74%	+ 81 basis points

How We Averted Losing Money In The Bond Portfolio

Our bond portfolio was flat in Q1. This may not sound exciting, but it is very exciting! Achieving a greater than 3% out-performance in bonds in one quarter is highly unusual. Here is the performance attribution:

Security/Fund/ETF	WEIGHT	DURATION	QUALITY	YTM	RETURN	WEIGHTED RETURN
SPDR DoubleLine Emerg Mkts Fxd Inc ETF	4.95%	4.57	BBB	1.89%	-1.84%	-0.09%
FlexShares Disciplined Duration MBS ETF	27.44%	2.78	AAA	1.08%	-0.74%	-0.20%
SPDR Blackstone Senior Loan ETF	14.97%	2.5	B	4.02%	0.92%	0.14%
iShares MBS ETF	19.83%	2.01	AAA	1.25%	-1.38%	-0.27%
Cash	2.51%	0	AAA	0.30%	0.05%	0.00%
iShares 0-5 TIPS Bond ETF	30.30%	2.49	AAA	0.73%	1.24%	0.38%
WEIGHTED AVERAGE (TriVant Portfolio)		**2.52**	**AA**	**1.47%**		**-0.05%**
Barclay's Aggregate Bond Index (AGG)		**6.29**	**AA**	**1.49%**	**-3.37%**	**-3.37%**

There were three keys to our significant bond out-performance.

1. Low Portfolio Duration

Duration is a measure of bond price sensitivity to interest rates. For example, a duration of 1.00 indicates that the bond price will fall 1.00% if interest rates rise 1.00%. The AGG, with a duration measure of 6.29, fell 3.37% in Q1 as rates rose - the index was highly sensitive to rising rates. Our portfolio had a weighted duration of only 2.52, which considerably insulated the portfolio from rising rates and falling bond prices.

2. Inflation Protection

For quite a while, we have felt it was important to have inflation protection in the bond component of our portfolio. This paid off in Q1. Roughly one-third of our portfolio is in low-duration (0-5 year) TIPS (Treasury Inflation Protected Securities). With positive inflation growth, the market value of the TIPS will increase, as will its semi-annual coupon payments. Our TIPS holding was up 1.24% in Q1.

3. Floating Rate Interest Protection

We purchased SPDR Blackstone Senior Loan ETF (symbol: SRLN) in mid-December. SRLN has floating rate interest protection. When interest rates rise, the SRLN yield is automatically adjusted upward. SRLN was up 0.92% in Q1.

This section was originally published in 2019. Since that time, the following changes have occurred that further strengthen the potential appeal of Roth Conversions:
1. The Regular IRA Required Minimum Distribution (RMD) Age Was Raised From 70.5 to 72
2. Non-Spouse Inherited IRAs: Entire Proceeds Must Now Be Taken By Recipients Within 10 Years
3. Greater likelihood of future tax increases given current stimulus and infrastructure spending

Roth IRA Conversions: A Potentially Worthwhile Maneuver

One of the primary benefits of a Roth IRA is that you don't pay income tax when you withdraw funds (subject to a few rules). With a Regular IRA, you pay income tax when you withdraw funds. Because it is the best tax-advantaged account, the US government doesn't make it easy - you cannot contribute to a Roth IRA if your income is too high. However, a Roth Conversion is a legal way to sidestep income limits by converting traditional IRA assets into Roth IRA assets. This is not a tax dodge - you have to pay taxes on the money you convert to a Roth IRA. But it may make sense to consider.

1. A Roth Conversion May Make Sense In Terms Of Tax-Efficiency

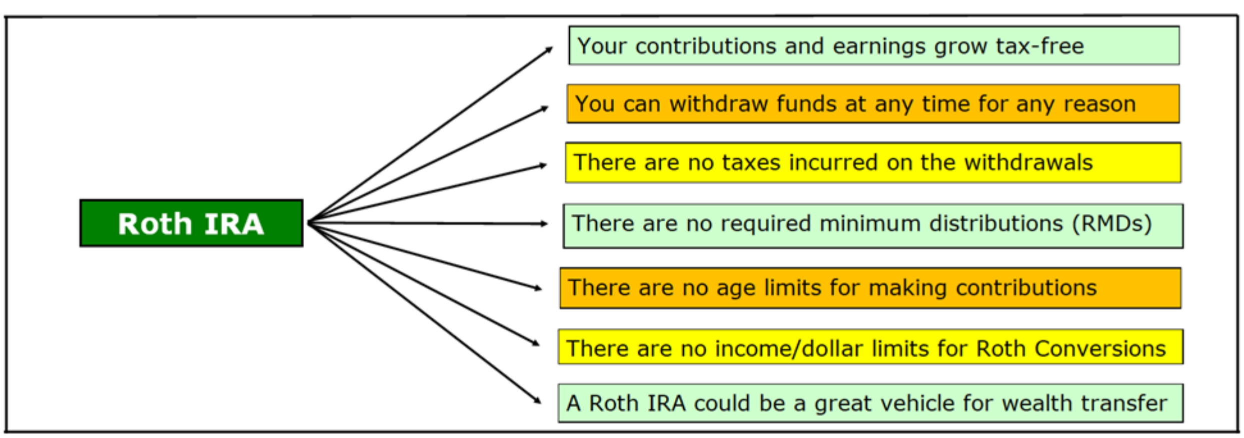
You want to pay as little income tax as possible. A Roth Conversion may allow you to make smart tax moves that will save money in the long term. If you anticipate significantly-lower income in a certain year (and increasing in subsequent years), you could plan a conversion for the low-income year. You may be in a lower tax bracket the year you convert. If the IRS announces a tax rate increase(s) to go into effect for the following year(s), a conversion in the current year would save income tax.

Converting to a Roth IRA will guarantee that you will owe no additional income tax on the converted funds - and any money those funds will earn before you withdraw them - during retirement. The balance in your Roth IRA will be what you can access in retirement without having to consider taxes. The added flexibility of a Roth IRA income source may help smooth out your taxes in retirement.

2. A Roth Conversion Has No Caps On Income Or Conversion

There is no cap on your level of personal income in determining your eligibility to do a Roth Conversion. You can convert as long as you pay the appropriate tax on the conversion. Also, there is no cap on the dollar amount you can convert - but bear in mind what we call "tax bracket creep". Your taxable income increases when you withdraw funds from your Regular IRA account. Watch out if you get pushed into a higher tax bracket (see IRS schedule and/or consult your tax professional).

3. Maximizing Your Roth IRA Is Excellent Financial Planning



Please contact us for further information and assistance.

We made several portfolio adjustments in Q1. The rationale for these moves included a style rotation towards the reflation trade and paring back some highly appreciated positions to take profits. These adjustments lowered the average market cap of the portfolio at a time where small cap out-performed.

We bought Ametek Inc (symbol: AME; $30 billion market cap), a diversified industrial conglomerate with about $5 billion in annual sales. Its electronic instruments segment caters to the process, aerospace, power and industrial end markets. Its electromechanical segment provides automation solutions, thermal management systems, specialty metals, and electrical interconnects. We also bought Constellation Brands (symbol: STZ; $45 billion market cap), the largest multi-category alcohol supplier in the US. The company is anchored by its portfolio of Mexican beers (including Corona and Modelo). Finally, we bought La Francaise Des Jeux SA Ordinary Shares (symbol: LFDJF; $9 billion market cap), the sole operator of France's more than 80 national lottery games and a large player in sports betting.

We sold Novartis AG ADR (symbol: NVS; $194 billion market cap), a Swiss-based giant global diversified healthcare company, because we felt its future revenues would likely be stagnant. We pared back Visa Inc (symbol: V; $455 billion market cap), the largest payment processor in the world, because of its exceptional performance. This was also our rationale for paring back Chipotle Mexican Grill Inc (symbol: CMG; $40 billion market cap), the largest player in the $16 billion domestic fast-casual Mexican restaurant category. CMG was up 266% since we initially bought it in January 2017.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

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