

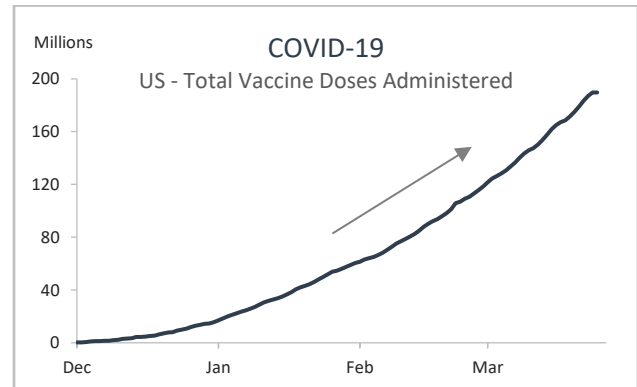
Dear friends of Arcus Capital Partners,

We hope this letter finds you well and that you are having a great start to the year. The first quarter saw a continuation of the positive momentum experienced at the end of 2020. Rapid deployment of the covid vaccine has allowed many areas of the global economy to reopen and start to unleash a wave of pent-up demand. In turn, a surge in consumer spending, optimism surrounding virus containment, and continued fiscal and monetary support should lead to exceptional global growth. This positive backdrop helped push global stocks higher during the quarter, and several domestic indexes made new all-time highs. It also provided the catalyst needed to unanchor interest rates from historically low levels. Finally, commodities rallied and were led higher by cyclical areas tied to growth. Overall, our outlook for the remainder of 2021 is constructive, and we believe the tailwinds needed for additional market upside are in place.

### I. Market & Economic Overview

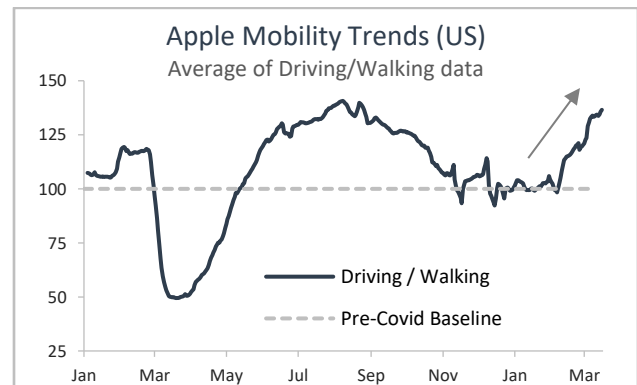
The first three months of the year started with a bang as risk assets rallied and global economic activity accelerated. The primary catalysts appear to have been the widespread deployment of the various Covid-19 vaccines and large-scale stimulus programs. Domestically, the vaccine rollout has continued to gain momentum, and as of mid-April, nearly 200 million doses have been administered (Chart 1).<sup>1</sup> This positive development has led to less restrictive lockdown measures and improving mobility trends (Chart 2). According to Chase Bank, it has also led to increased consumer spending across all age groups and categories.<sup>2</sup> These positive trends are likely to continue as the pandemic slowly recedes due to vaccinations, natural immunity, and warmer weather. As a result, the global economy should grow at an above-average pace over the coming quarters, and the US could see GDP growth near 7% during 2021.<sup>3</sup>

Chart 1



Source: Bloomberg; Arcus Capital Partners

Chart 2

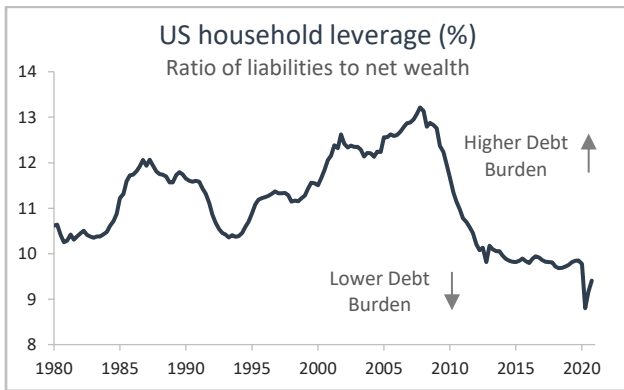


Source: Apple; Arcus Capital Partners; volume of requests for directions for driving and walking activity as compared to baseline of 1/13/2020.

Continued federal fiscal stimulus packages have also helped spur growth by providing support to an already well-positioned consumer (Chart 3). Direct payments and extended unemployment benefits have allowed individuals to pay down debt and maintain their pre-Covid spending habits. Additionally, the Federal Reserve (Fed) has pledged to keep short-term interest rates near zero and continue providing substantial liquidity through their asset purchase programs (Chart 4). Collectively, these support measures should provide the economic stop-gap needed until the majority of the population is vaccinated.

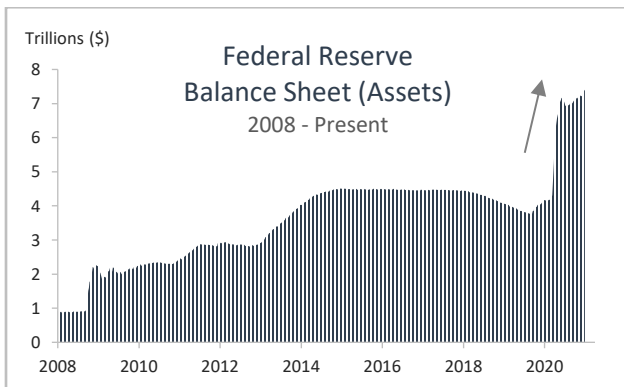


Chart 3



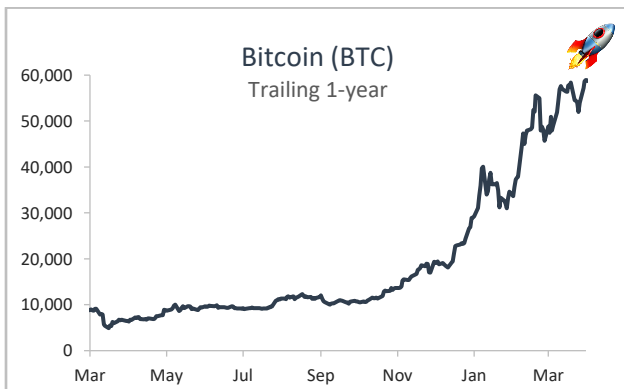
Source: Bloomberg; Arcus Capital Partners

Chart 4



Source: Bloomberg; Arcus Capital Partners

Chart 5



Source: Bloomberg; Arcus Capital Partners

For the balance of 2021, the macro outlook has improved markedly, and most regions should expand well above the pre-Covid pace. That said, there are risks worth addressing that could derail the current equity rally. The first is the proposed tax increase by the Biden administration. Unsurprisingly, Democrats want to pay for much of the recent stimulus by raising taxes on

corporations and wealthy individuals. Assuming the Biden tax plan passes, it would likely reduce the S&P 500's 2022 earnings per share (EPS) by ~6%.<sup>4</sup> This is not fatal, but it comes when valuations for most stocks are already expensive, and the market is likely to rely on earnings growth to move higher from here.

The second risk is the high level of speculative behavior currently seen in the market. Specifically, retail and institutional investors have poured large amounts of money into stocks, stock options, and cryptocurrencies (Chart 5). During the quarter, investors chased names like Game Stop (GME) as it moved from the low teens to nearly \$500/share (GME: ~\$162 as of 4/15/21).<sup>5</sup> This level of speculative investing is not new, but many experts believe it is partly due to the stimulus payments and overly accommodative Fed policy. Either way, there is a risk that the fast money that recently moved into stocks quickly leaves if the market stops rising. In turn, this could lead to a market correction and lower spending as consumers have less discretionary funds available.

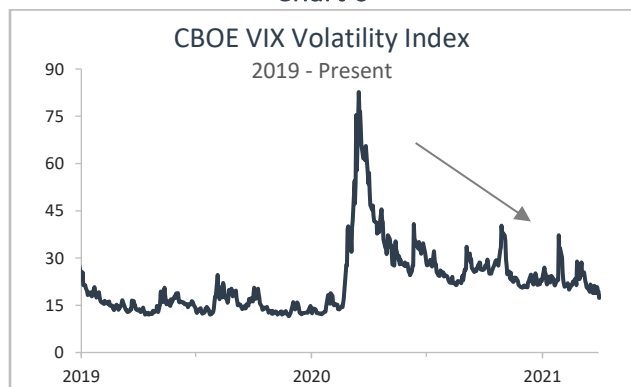
Finally, the last two potential speedbumps are inflation and a policy error by the Federal Reserve. For now, the Fed intends to leave short-term rates near zero and keep its asset purchase programs in place until inflation is consistently near the 2% level. The risk is that they lose control of inflation and are forced to remove accommodation too quickly. Unfortunately, Covid-19 strained global supply chains, which put upward pressure on input prices and manufacturing costs. Additionally, the recent fiscal stimulus packages (i.e. extended unemployment benefits) have left many employers struggling to find quality workers, requiring them to incentivize prospective employees with higher wages. If this trend continues, companies will face rising cost pressures and higher taxes, which will undoubtedly lead to lower earnings. The market is currently looking through all of these risks, but they are worth keeping in mind. **Overall, the rest of 2021 has the potential to produce strong returns within select asset classes (e.g. equities and commodities). However, we believe investors must remain selective and be willing to withstand above-average volatility.**



## II. US Equities

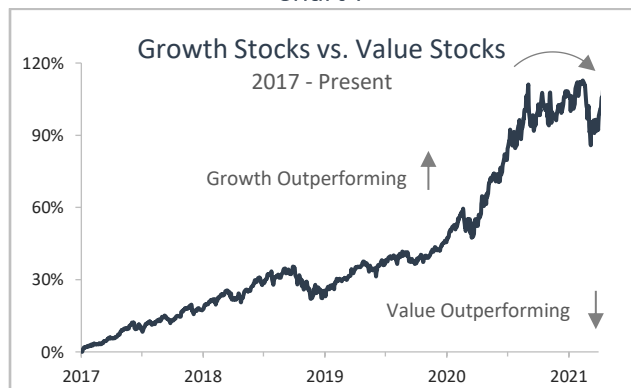
During the quarter, domestic stocks made new all-time highs on the back of a firming macro backdrop. The S&P 500 index finished the quarter up **6.17%**, and the smaller capitalization Russell 2000 index was up **12.69%**.<sup>6</sup> The market continues to be bolstered by improving data, the vaccine rollout, and strong monetary and fiscal policy stimulus. This has led to reduced volatility and encouraged investors to allocate more capital to equities (Chart 6). Additionally, as the domestic economy reopens, the sectors most negatively impacted by the pandemic have recently taken a leadership role. In fact, the multi-year trend of growth stocks (e.g. Amazon) outperforming value stocks (e.g. Chevron) may finally be turning a corner (Chart 7). Assuming activity data improves further, the value trade has the potential to continue working.

Chart 6



Source: Bloomberg; Arcus Capital Partners

Chart 7



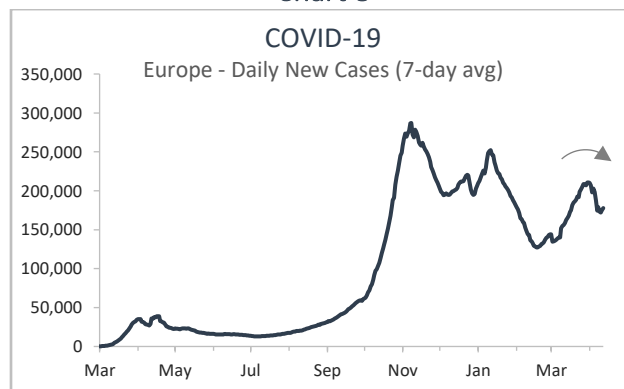
Source: Bloomberg; Arcus Capital Partners; Growth represented by the Russell 1000 Growth ETF (IWF); Value represented by the Russel 1000 Value Index (IWD).

From here, domestic equities are well-positioned and should benefit from several factors, including but not limited to the eventual end of the pandemic, additional stimulus, the economic reopening, and a healthy consumer. All of this should lead to better earnings growth, which will support equity valuations trading above their long-term average. As previously noted, higher cost pressures and rising corporate taxes are risks; nevertheless, the current environment supports the case for owning equities, especially areas tied to the reopening (i.e. value). **We maintain a favorable US equity outlook and think value stocks will finally turn a corner relative to growth.**

## III. International Equities

Foreign stocks moved higher with their US counterparts as global growth data continued to improve. International developed (MSCI EAFE) stocks finished the quarter up **3.61%**, while emerging markets (MSCI EM) rallied **2.21%**.<sup>7</sup> Similar to US equities, non-US shares have benefited from the vaccine rollout and a recent decline in covid cases (Chart 8). As the latest infection waves pass, recently affected areas should see less stringent lockdown measures and an ever-increasing sense of optimism surrounding the global economic reopening. Like the US, cyclical sectors tied to economic growth reaccelerating should benefit the most. As of now, green shoots are already appearing, and global data will likely improve further over the coming months as restrictions are lifted (Charts 9 & 10). These positive aspects should support additional earnings growth and share prices for non-US stocks.

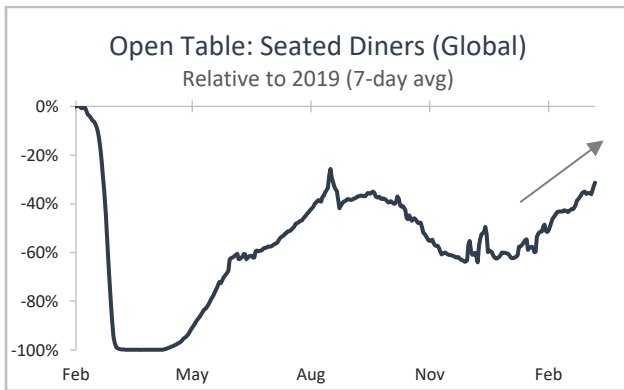
Chart 8



Source: OpenTable.com; Arcus Capital Partners

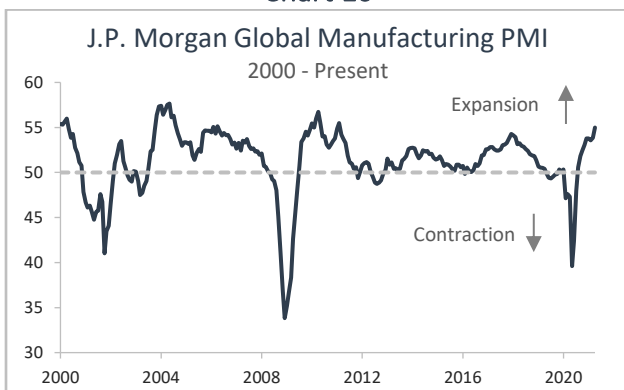


Chart 9



Source: OpenTable.com; Arcus Capital Partners; data includes seated diners from online, phone, and walk-in reservations.

Chart 10



Source: J.P. Morgan; Arcus Capital Partners

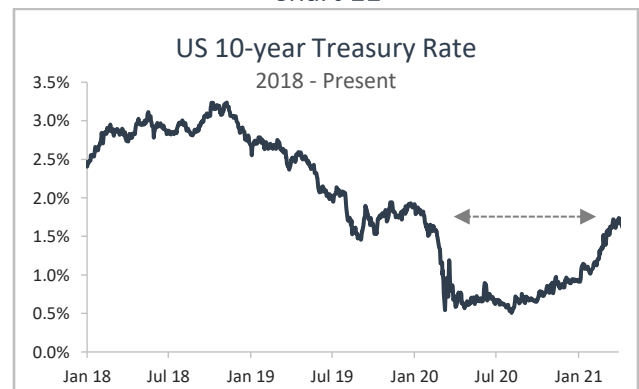
As the year progresses, non-US equities have additional upside potential and should continue to benefit from the post-pandemic recovery. Like the growth vs. value trend mentioned above, foreign equities have underperformed domestic stocks for an extended period. Nevertheless, a combination of firmer data, a falling US dollar, and more attractive valuations could lead to a period of outperformance. Finally, central banks and governments outside of the US remain committed to providing policy support for the foreseeable future. **For all of these reasons, we maintain a longer-term bullish view on non-US markets.**

#### IV. Fixed Income

Longer-term interest rates rose rapidly during the quarter as inflation expectations increased to multi-year highs. The 2-year and 10-year US Treasury yields ended the quarter at **0.16%** and **1.74%**, respectively.<sup>8</sup> As economic data normalizes, interest rates should continue to rebase higher over

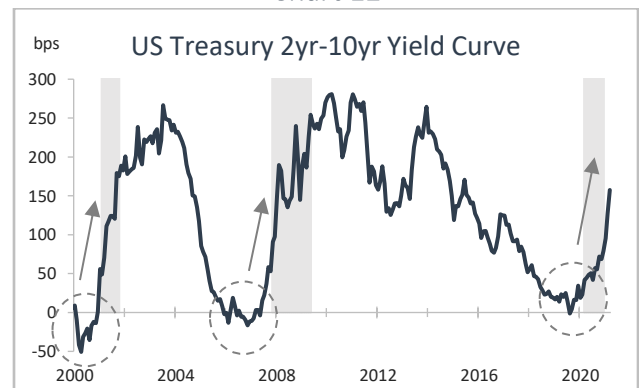
the coming quarters. As of now, the US 10-year rate has moved back to the pre-covid levels last seen in early 2020 (Chart 11). The yield curve (2-yr minus 10-yr yield) also continues to steepen and should rise further (Chart 12). This reaction within the rates markets points to an expectation for continued growth over the coming year or two. Finally, inflation expectations have reset higher from very depressed levels (Chart 13). This updated view is likely the result of the large-scale fiscal stimulus programs, the negative impact covid has had on global supply chains (i.e. higher input prices), and higher commodity prices (e.g. oil). None of these factors are likely to reverse in the near term, which could lead to inflation finally meeting the Federal Reserve's 2% target. Assuming this occurs, the Fed may start tapering their asset purchase program ahead of schedule. Although this is unlikely to happen until late-2022, it is worth tracking due to the equity market's consistent ability to discount forward expectations.

Chart 11



Source: Bloomberg; Arcus Capital Partners

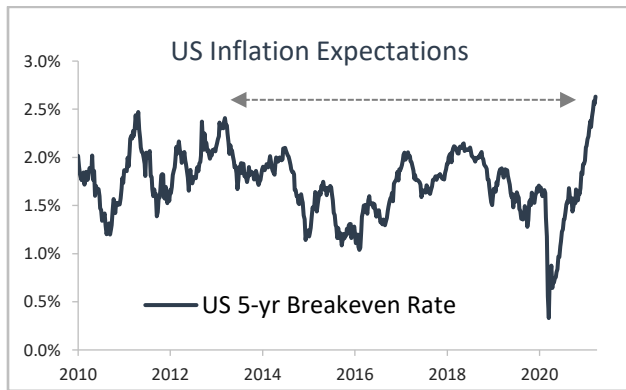
Chart 12



Source: Bloomberg; Arcus Capital Partners; NBER; grey area denotes a recessionary period.



Chart 13



Source: Bloomberg; Arcus Capital Partners

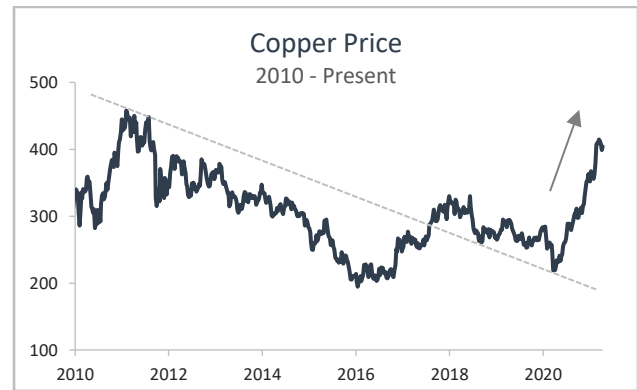
At the index level, rate-sensitive bonds experienced downward pressure from rising rates. The Barclays Aggregate Bond Index ended down **-3.37%**, and the tax-free Barclays Municipal Bond Index finished off by **-0.35%**.<sup>9</sup> Within credit, spreads continued to grind tighter, and the Bloomberg High Yield Index finished the quarter up **0.85%**.<sup>10</sup> Bank loan prices increased, and the S&P/LSTA Leveraged Loan Index ended up **1.78%**.<sup>11</sup> **For the next few quarters, interest rates remain biased upward, and we still prefer credit sectors over rate-sensitive bonds.**

## V. Commodities

Commodities rallied during the first quarter alongside other risk assets. The Bloomberg Commodity TR Index finished the quarter up **6.92%**.<sup>12</sup> The favorable price action resulted from energy and base metals benefitting from stronger demand tied to improving macro conditions (Chart 14 & 15). These areas are highly correlated to global growth and could see continued strength. On the other hand, the precious metals saw renewed weakness due to the stronger dollar and higher interest rates. That said, gold and silver are very oversold and could be due for a bounce.

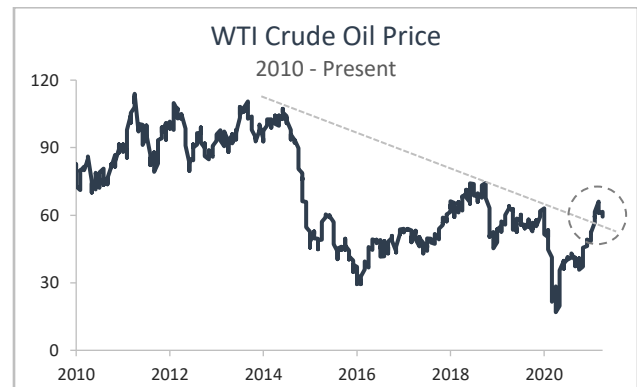
The US dollar index (DXY) rallied but it was not enough to derail the commodity index's positive momentum. Right now, the dollar is retesting the underside of a multi-year trendline but is likely to resume its downtrend over the coming quarters (Chart 16). This weakness and elevated global demand should help to boost the broad commodity complex and lead to higher prices.

Chart 14



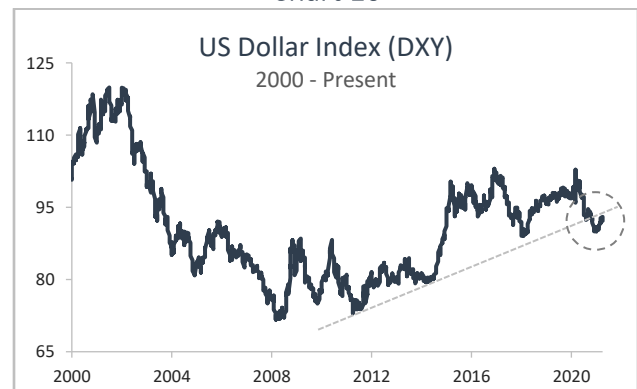
Source: Bloomberg; Arcus Capital Partners

Chart 15



Source: Bloomberg; Arcus Capital Partners

Chart 16



Source: Bloomberg; Arcus Capital Partners

**Overall, the commodity complex and stocks linked to the space remain attractive. Cyclical commodities should continue to benefit from the global reopening and strong demand. Precious metals are oversold and could benefit from a weaker USD or investors attempting to hedge any unforeseen risks.**



## VI. Looking Ahead

We maintain our constructive outlook for global equities for the remainder of 2021 but with a more selective view. As noted, improving earnings, large-scale stimulus programs, and firming economic data should outweigh looming risks. That said, over the last twelve months, many sectors have rallied significantly and may already reflect much of the positive news (e.g. electric vehicles). On the other hand, several industries tied to the reopening of the global economy still trade below their pre-covid levels. Areas such as energy should benefit as individuals get vaccinated and start traveling again for work and pleasure. Additionally, as growth picks up and inflationary data appear, interest rates are likely to continue higher at the longer end (e.g. 10-30 year rates). This price action will not bode well for rate-sensitive bonds such as Treasuries and high-quality corporate bonds. However, it should

act as a tailwind for financials that benefit from improving economic activity and higher rates. Finally, commodities have continued their recent trend of outperformance after years of poor returns. Assuming covid is brought under control, and the global economy reopens, commodities should perform well and act as a natural hedge against inflation. Looking ahead, we remain focused on locating attractive investment opportunities and continue to believe investors must stay patient and keep a long-term view.

As always, we are available to discuss these items and address any other questions you may have. Thank you for the trust you place in our firm.

Sincerely,

**Arcus Capital Partners**

---



**Sources:**

1. Bloomberg
2. J.P. Morgan
3. J.P. Morgan
4. Strategas
5. Bloomberg
6. Bloomberg
7. Bloomberg
8. Bloomberg
9. Bloomberg
10. Bloomberg
11. Bloomberg
12. Bloomberg

**Important Risk and Disclosure Information**

This commentary is furnished for informational purposes only and is not investment advice, a solicitation, an offer to buy or sell, or a recommendation of any security to any person. Managers' opinions, beliefs and/or thoughts are as of the date given and are subject to change without notice. The information presented in this commentary was obtained from sources and data considered to be reliable, but its accuracy and completeness is not guaranteed. It should not be used as a primary basis for making investment decisions. Consider your own financial circumstances and goals carefully before investing. Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward looking statements are not indicators or guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification strategies do not ensure a profit and cannot protect against losses in a declining market. All indices are unmanaged, and investors cannot invest directly into an index. You should not assume that an investment in the securities or investment strategies identified was or will be profitable.

