Blue Barn Wealth Newsletter – 1st Quarter 2021

The first quarter of 2021 marked a sharp rise in bond yields, a slightly more volatile equity market with a shift toward value stocks, significant progress toward COVID-19 vaccines and continued government stimulus. In addition, we have some exciting announcements within Blue Barn Wealth that we would like to share.

Updates and Announcements

Tax Deadline Delayed to May 17

Because the IRS made a series of changes to the tax code for the 2020 tax year during the 1st quarter of 2021, they decided to push the tax deadline back for the 2nd year in a row. This time the deadline was only extended 1 month. This extension also applies to contribution deadlines to IRAs and Health Savings Accounts (HSAs) but did not apply to estimated tax payments (the first quarter payment was still due April 15). If you haven't taken advantage of the opportunity to max out your IRA or HSA for 2020, we encourage you to do so. If you need help doing so, please reach out to your advisor.

American Rescue Plan Passed March 11

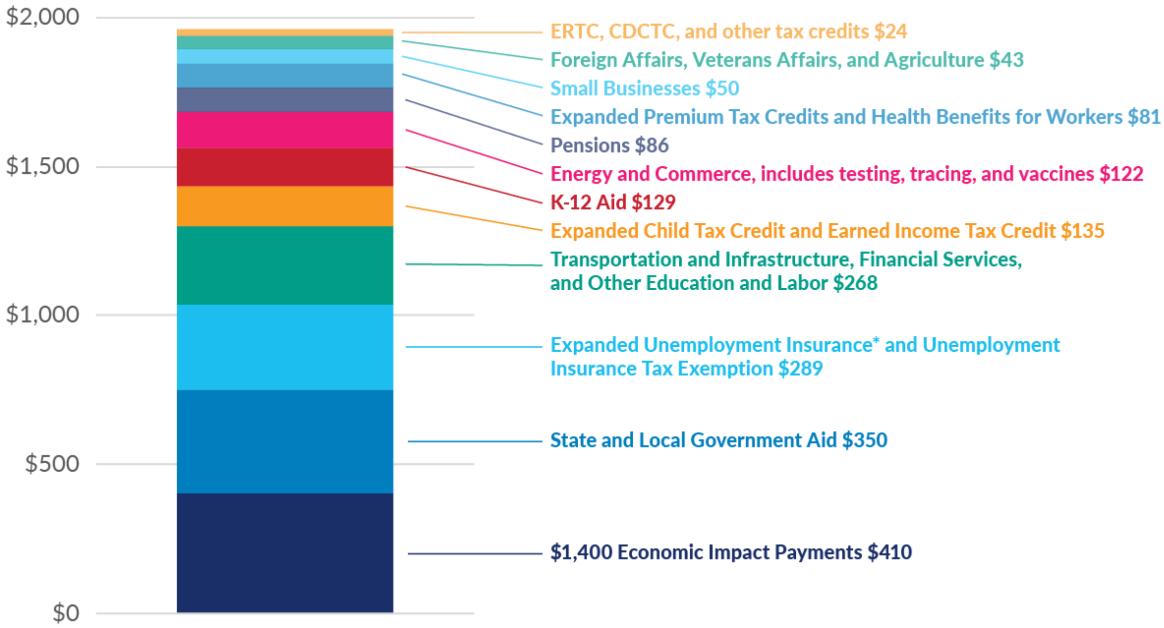
The $1.9 trillion American Rescue Plan was signed into law on March 11, 2021 after passing the U.S. House of representatives 220-211 and the U.S. Senate 50 to 49. Except for one Democratic member of the House of Representatives who voted against the bill, the voting was directly down party lines. This bill continues to provide government assistance to stimulate the economy in hopes of offsetting the negative impacts of COVID-19. Some key aspects of the bill include:

- Expanded child tax credit from $2,000 per child for children under age 17 to up to $3,000 for kids under 18 with an additional $600 for kids under 6 years old.
- Extended the allowable time period for extra unemployment benefits and made a portion of unemployment benefits not taxable.
- Provided a third round of stimulus checks of up to $1,400 for every adult and dependent with income below the phase out thresholds.
- Provided aid to state and local governments, as well as various other industries and services.

The following two charts from the Tax Foundation and the Peter G. Peterson Foundation, respectively, show the details of the new bill as well as a history of the total amount the U.S. Government has provided as direct stimulus payments to its citizens.

What's in the $1.9 Trillion American Rescue Plan Act?

Topline summary of relief in Billions of Dollars



Note: *Subject to change pending estimate of Senate version of unemployment insurance expansion.
Source: Joint Committee on Taxation and Committee for a Responsible Federal Budget

The federal government has provided over $850 billion of direct payments to taxpayers

Round of Payment	Amount of Payment	Maximum Income to Receive Payment	Budgetary Cost (2020-2030)
First Round (CARES Act)	$1,200 per adult $500 per child	Single: $99,000 HOH: $136,500 Married: $198,000	$292 billion
Second Round (Consolidated Appropriations Act)	$600 per adult $600 per child	Single: $87,000 HOH: $124,500 Married: $174,000	$164 billion
Third Round (American Rescue Plan)	$1,400 per adult $1,400 per child	Single: $80,000 HOH: $120,000 Married: $160,000	$411 billion

Mariah completed the CFP® Certification

Mariah Lee completed the requirements to become a CERTIFIED FINANCIAL PLANNER™ professional this quarter. This is an impressive accomplishment as it required her to take university level courses in Professional Conduct and Regulation, General Principles of Financial Planning, Education Planning, Risk Management and Insurance Planning, Investment Planning, Tax Planning, Retirement Savings and Income Planning, Estate Planning, and Financial Plan Development (Capstone Course). She then had to pass a rigorous six-hour exam and obtain three years of work experience. Please congratulate Mariah when you get a chance.

Interns

We had two interns join us at the beginning of the year, Justin Ericksen and Sam Hales. Hopefully, many of you have had the opportunity to interact with them over the past few months to see for yourself how exceptional they are. Sam was hired for the semester and will be leaving to join Fidelity the end of this week we are grateful for all he has done for the firm. We are happy to have Justin remain part of the Blue Barn Wealth team and look forward to continual growth in order to provide you quality service and expertise.

Market Summary

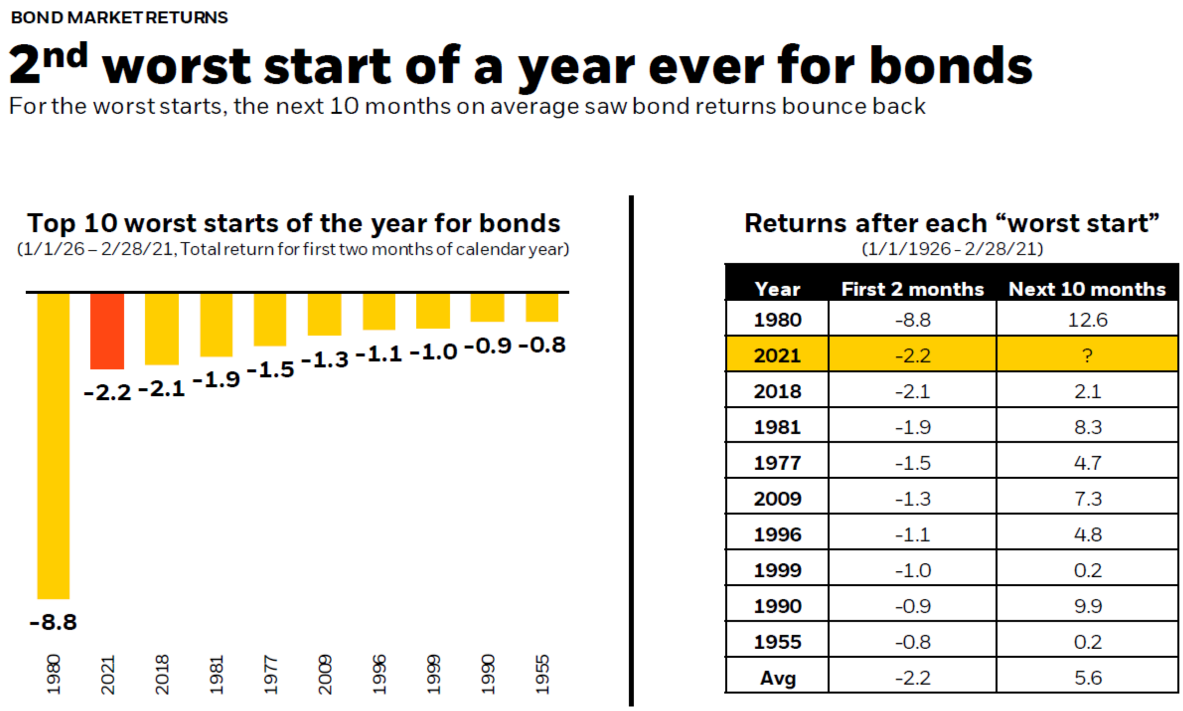
Many of the trends that began in the 4th quarter of 2020 continued for the first three months of this year with value stocks outperforming growth stocks and the financial and energy industries achieving the highest returns. In addition, there was a sharp increase in bond yields that caused the value of bonds to drop generally.

The first two months of 2021 marked the second worst start of the year ever for bonds with core bond returns down 2.2% as shown in Chart 1 from BlackRock. The month of March continued the decline as the Barclays U.S. Aggregate Bond Index ended the quarter down 3.4%. The loss in value was a result of the rise in yields. The 10-year U.S. Treasury yield started out the year at 0.93% and ended the quarter at 1.74%.

The rise in bond yields was due to inflation concerns. With the COVID vaccine rolling out and more of the economy opening, there is concern that the large amounts of government stimulus combined with low interest rates could lead to higher levels of inflation. If inflation became a problem, the Federal Reserve could possibly raise rates to try and contain the increase in prices. The Fed has tried to signal that they will maintain lower rates for a while longer and are okay with inflation exceeding their 2% target rate until the economy fully recovers. This along with mixed economic data has seemed to resolve some of the concerns as the 10-year U.S. Treasury yield has dropped to 1.58% over the first three weeks of April.

If history remains consistent, bond returns over the remainder of the year should reverse course and start to rise. In all the 9 other worst starts of the year for bonds, bond returns over the final 10 months of the year were positive, with the average return over the 9 periods being 5.6%. Although we recognize the sensitivity of bond values to expected rising interest rates, we still view fixed income as a valuable stabilizing factor in your portfolio.

Chart 1: Worst bond returns first two mos. of year and return over following 10 mos.

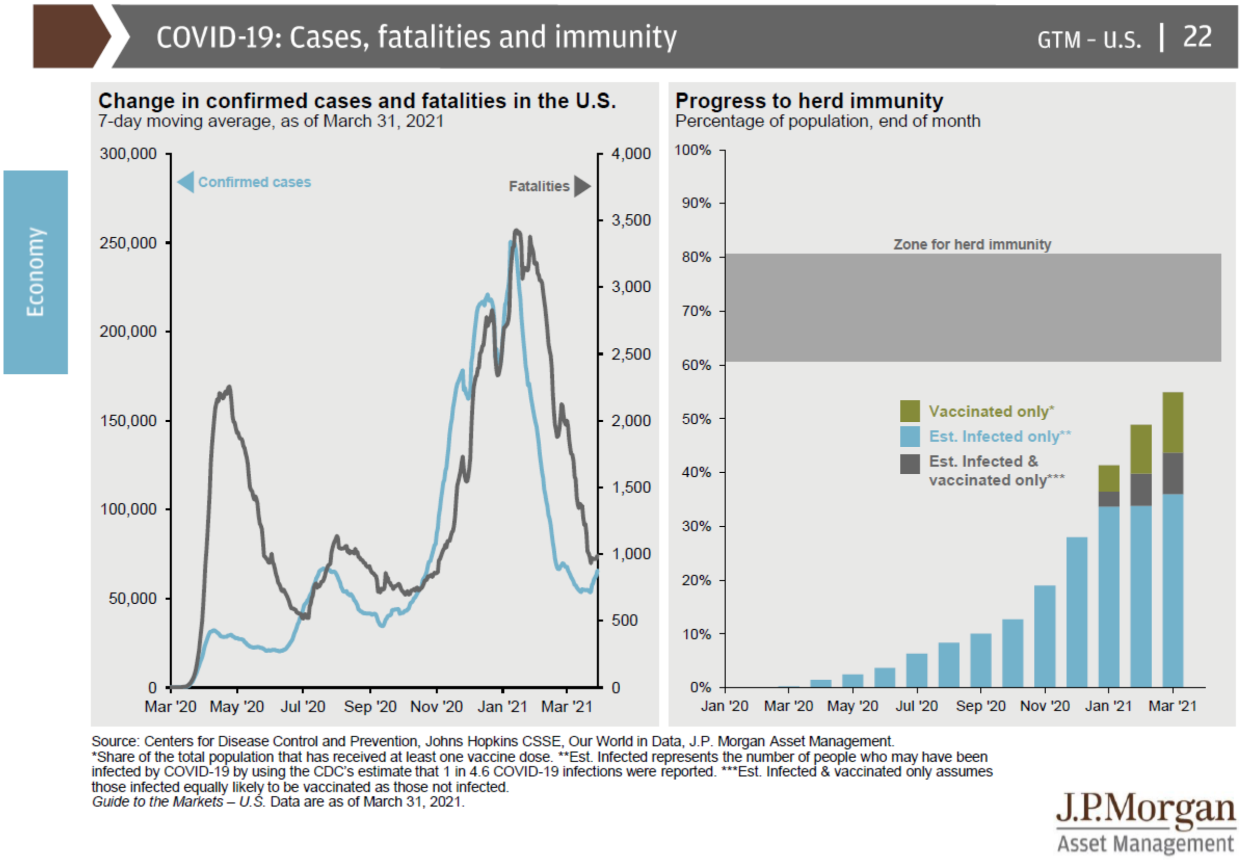


Year	First 2 months	Next 10 months
1980	-8.8	12.6
2021	-2.2	?
2018	-2.1	2.1
1981	-1.9	8.3
1977	-1.5	4.7
2009	-1.3	7.3
1996	-1.1	4.8
1999	-1.0	0.2
1990	-0.9	9.9
1955	-0.8	0.2
Avg	-2.2	5.6

Source: Morningstar as of 2/28/21 U.S. bonds represented by the IA SBBI US Gov IT Index before 1979 and the BbgBarc U.S. Agg Bond TR Index after 1979. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

As for equities, it seems that the primary driver of current stock market returns remains the impact of COVID-19. Chart 2, created by JP Morgan, shows the 7-day moving average of confirmed COVID-19 cases as well as COVID related fatalities. As of March 31, the 7-day moving average of confirmed cases had dropped to just over 50,000 and that of fatalities had dropped to 1,000. This is a marked improvement over just a few months ago. The chart also shows the progress in the United States toward achieving herd immunity which is when 60-80% of the population has either had the virus or been vaccinated. By their measure, the country was around 55% by the end of March. We expect this trend to continue and that people will gradually become more comfortable with the level of risk that remains, allowing many of the existing restrictions to be removed and economic activity to continue to increase.

Chart 2: COVID-19 Confirmed Cases, Fatalities and Progress toward herd immunity.



As can be seen from JP Morgan Charts 3 and 4, the announcement of the vaccine has drastically shifted the returns of industries within the United States and countries throughout the world. For the first 11 months of 2020, Energy, Airlines, REITS, Hotels, and other travel industries had the lowest returns of all sectors and since November 6, 2020 when the vaccine was announced, they have had the very best returns. The gray bars in Chart 3 show the returns from 12/31/2019 through 11/6/2020 and the green bars show from 11/9/2020 to 3/31/2021.

Similarly, Chart 4 compares the equity market performance of individual countries and regions for all of 2020 up through November 6 and then from November 6 through March 31, 2021. China, which had the highest return by far before the vaccine announcement, has reversed course and since had the worst. The United States had the 2nd highest return through November 6 but is in the middle of the group for the last 5 months.

Chart 3: Returns by Industry before and after vaccine announcement

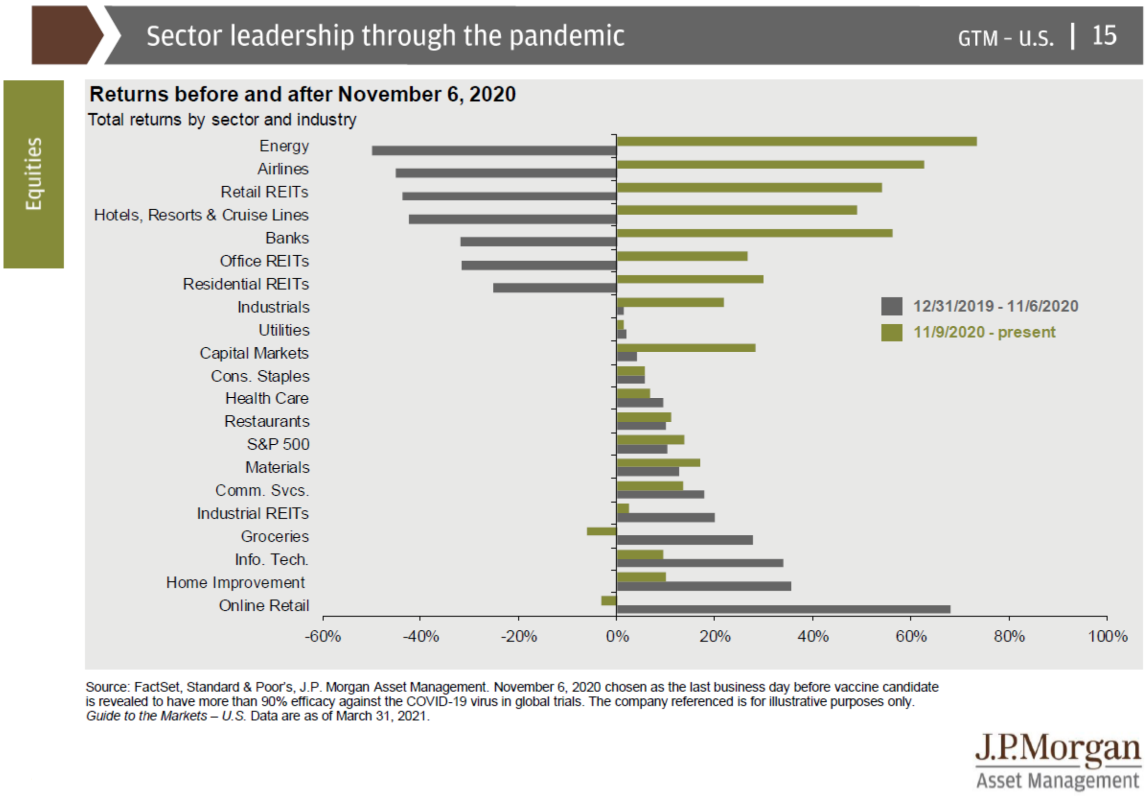
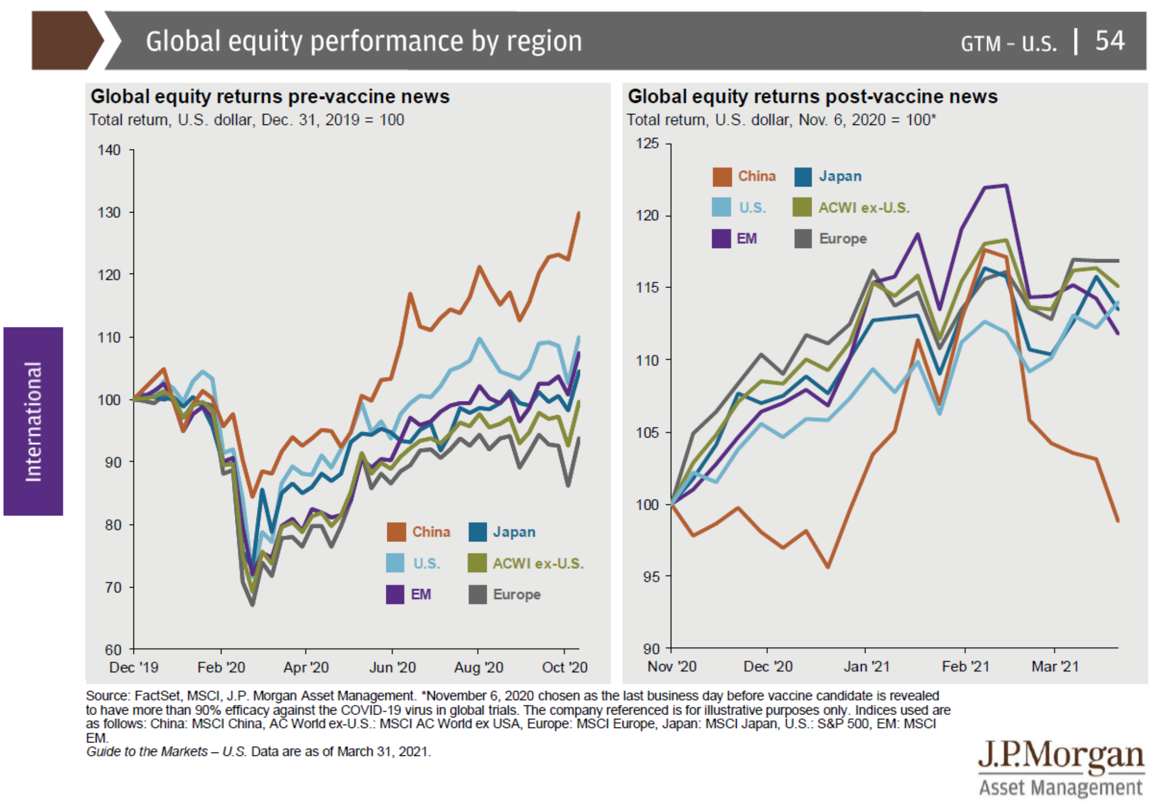
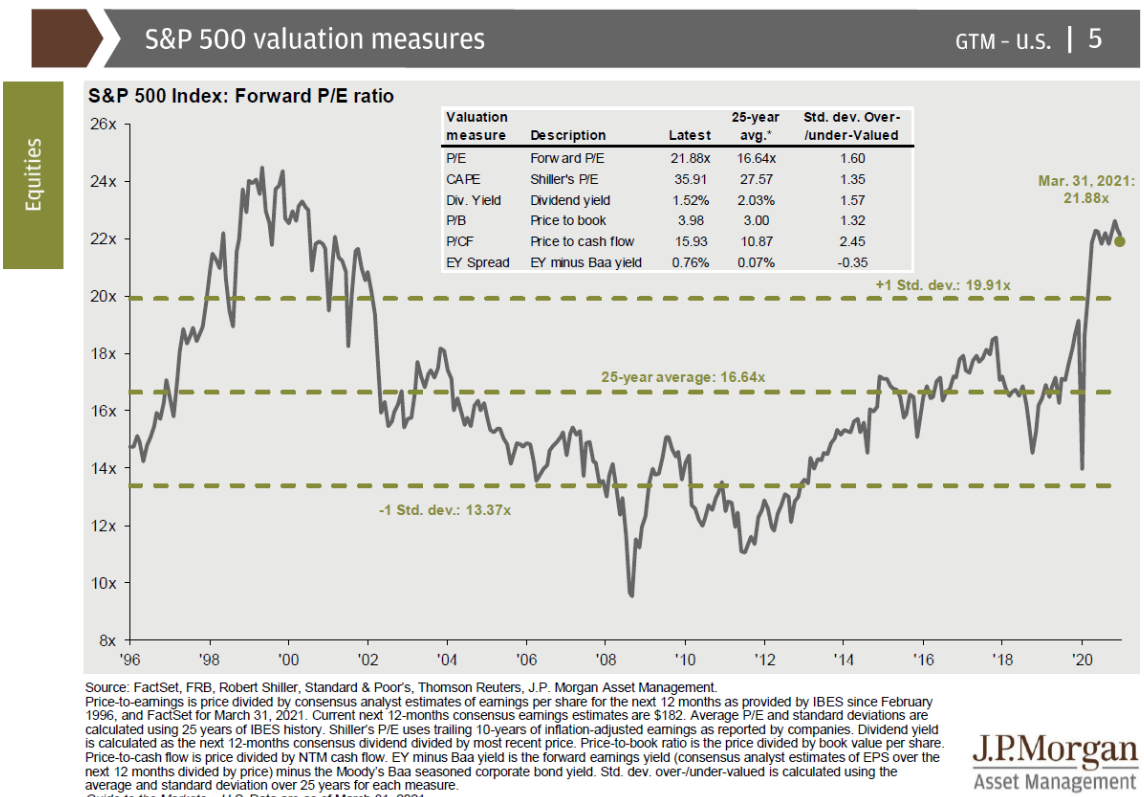


Chart 4: Returns by country before and after vaccine announcement.



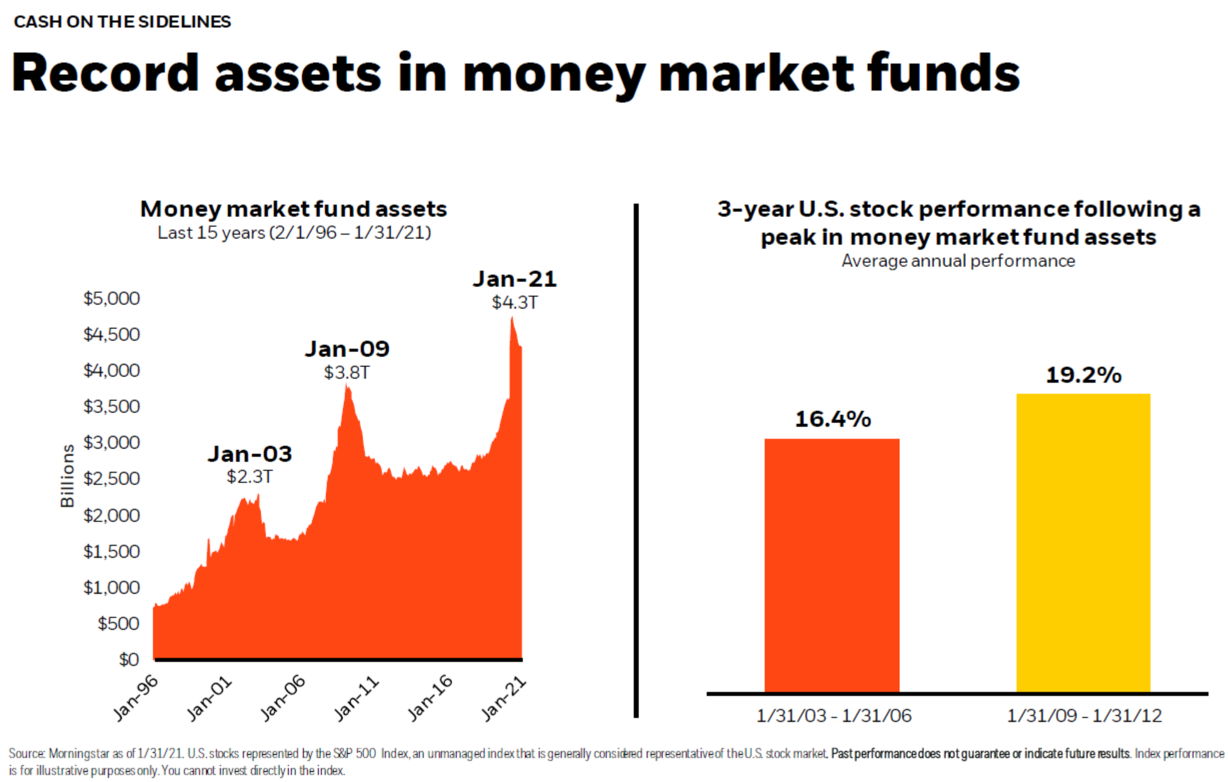
Now we turn to where we see markets today and how it affects our view on investments moving forward. Fixed Income returns, as mentioned previously, will likely level off and start to increase for the rest of the year with interest rates settling around current levels. Equities are a little more complicated. Chart 5, another JP Morgan chart, shows the forward price to earnings ratio for the S&P 500 going back to 1996. This is the ratio of the price level currently being paid for the stocks in the S&P 500 divided by the expected combined earnings of those stocks over the next 12 months. Since 1996, the average forward P/E ratio has been 16.6x. The current forward P/E ratio is 21.9x which is close to levels seen during the technology bubble in the late 1990's. It is important to keep in mind, though, that there are two things that can affect this ratio, 1) the price level going up or down, and 2) earnings going up or down. The current earnings level for many companies in the S&P 500 is low due to COVID restrictions. As the economy returns, earnings expectations should increase which would cause this ratio to drop. If there is not a significant increase in earnings, we would not expect prices to continue to rise significantly from here.

Chart 5: S&P 500 Forward P/E Ratio since 1996



With that said, Chart 6 from BlackRock, provides some insight into how much money is sitting on the sidelines looking for an opportunity to invest. It also shows the average annual 3-year return in U.S. stocks that followed peaks in 2003 and 2009, with returns of 16.4% and 19.2% respectively. The money waiting in money markets will eventually look for investments that can yield higher returns, which when that occurs, there will be additional fuel to drive market prices higher.

Chart 6: Assets in Money Market Funds



We continue to recommend that our clients remain fully invested according to their overall risk tolerance and take opportunities of market turbulence to rebalance portfolios into attractive opportunities. The last 5 months confirms that industries such as energy and financials and styles such as value, do not stay down forever and will eventually have their opportunity to lead out. Thank you for being a valued client and allowing us the privilege of serving you.

Index Trailing Returns

Source: Morningstar

Table 1: Broad Index Trailing Returns as of 03/31/2021

Asset Class	Index	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Fixed Income							
Core Bond	BBgBarc US Agg Bond TR USD	-3.37	-3.37	0.71	4.65	3.10	3.44
Cash Equivalent	BBgBarc US Treasury Bill 1-3 Mon TR USD	0.02	0.02	0.09	1.42	1.12	0.58
Inflation Protected Bonds	BBgBarc US Treasury US TIPS TR USD	-1.47	-1.47	7.54	5.68	3.86	3.44
Floating Rate Bonds	BBgBarc USFRN 5- Yr TR USD	0.18	0.18	4.32	2.30	2.20	1.58
High Yield Bonds	BBgBarc High Yield Corporate TR USD	0.85	0.85	23.72	6.84	8.06	6.48
International Bonds	FTSE WGBI NonUSD USD	-6.42	-6.42	5.65	0.88	1.99	1.11
US Equity							
Large Cap	S&P 500 TR USD	6.17	6.17	56.35	16.78	16.29	13.91
Large Cap	DJ Industrial Average TR USD	8.29	8.29	53.78	13.61	15.99	13.09
Large Cap	Russell 1000 TR USD	5.91	5.91	60.59	17.31	16.66	13.97
Mid Cap	Russell Mid Cap TR USD	8.14	8.14	73.64	14.73	14.67	12.47
Small Cap	Russell 2000 TR USD	12.70	12.70	94.85	14.76	16.35	11.68
Small Cap	S&P SmallCap 600 TR USD	18.24	18.24	95.33	13.71	15.60	12.97
Real Estate	FTSE Nareit All Equity REITs TR USD	8.32	8.32	34.24	10.78	7.19	9.35
Commodities	Bloomberg Commodity TR USD	6.92	6.92	35.04	-0.20	2.31	-6.28
North American Natural Resourc	S&P North American Natural Resources TR	19.44	19.44	72.43	-1.49	2.29	-2.26
Global Natural Resources	S&P Global Natural Resources TR USD	11.81	11.81	67.72	5.46	11.36	1.12
International Equity							
International Developed	MSCI EAFE NR USD	3.48	3.48	44.57	6.02	8.85	5.52
International Developed	MSCI ACWI Ex USA NR USD	3.49	3.49	49.41	6.51	9.76	4.93
Emerging Markets	MSCI EM NR USD	2.29	2.29	58.39	6.48	12.07	3.65

Table 2: US Growth vs Value Trailing Returns as of 3/31/2021

Asset Class	Index	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Large Cap	S&P 500 Growth TR USD	2.12	2.12	59.43	20.58	19.35	16.16
Large Cap	S&P 500 Value TR USD	10.77	10.77	50.37	11.83	12.31	11.15
Large Cap	Russell 1000 Growth TR USD	0.94	0.94	62.74	22.80	21.05	16.63
Large Cap	Russell 1000 Value TR USD	11.26	11.26	56.09	10.96	11.74	10.99
Mid Cap	Russell Mid Cap Growth TR USD	-0.57	-0.57	68.61	19.41	18.39	14.11
Mid Cap	Russell Mid Cap Value TR USD	13.05	13.05	73.76	10.70	11.60	11.05
Small Cap	Russell 2000 Growth TR USD	4.88	4.88	90.20	17.16	18.61	13.02
Small Cap	Russell 2000 Value TR USD	21.17	21.17	97.05	11.57	13.56	10.06
Small Cap	S&P SmallCap 600 Growth TR USD	12.27	12.27	86.77	15.07	16.87	13.75
Small Cap	S&P SmallCap 600 Value TR USD	24.17	24.17	103.29	11.97	14.03	12.07

Table 3: S&P 500 Sector Trailing Returns as of 3/31/2021

Asset Class	Index	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Large Cap	S&P 500 TR USD	6.17	6.17	56.35	16.78	16.29	13.91
Large Cap	S&P 500 Sec/Commun Services TR USD	8.08	8.08	60.88	18.79	10.15	10.41
Large Cap	S&P 500 Sec/Cons Disc TR USD	3.11	3.11	70.29	19.81	17.87	17.50
Large Cap	S&P 500 Sec/Cons Staples TR USD	1.15	1.15	28.38	12.14	8.21	11.64
Large Cap	S&P 500 Sec/Energy TR USD	30.85	30.85	75.16	-5.48	-0.75	-1.55
Large Cap	S&P 500 Sec/Financials TR USD	15.99	15.99	67.50	9.78	15.67	12.11
Large Cap	S&P 500 Sec/Health Care TR USD	3.18	3.18	34.04	15.09	13.61	15.61
Large Cap	S&P 500 Sec/Industrials TR USD	11.41	11.41	69.61	12.13	13.72	12.23
Large Cap	S&P 500 Sec/Information Technology TR USD	1.97	1.97	66.61	28.54	27.64	20.50
Large Cap	S&P 500 Sec/Materials TR USD	9.08	9.08	78.29	13.99	14.31	9.46
Large Cap	S&P 500 Sec/Real Estate TR USD	9.02	9.02	32.03	12.31	8.10	10.02
Large Cap	S&P 500 Sec/Utilities TR USD	2.80	2.80	19.42	12.01	8.92	11.27