

1st Quarter 2021

Client Newsletter

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair." - Charles Dickens

The last 12 months have been one of extremes. I think we've experienced every emotion as we rode the roller coaster of the Covid-19 pandemic: hope, despair, light, darkness, belief and certainly, foolishness. Last March we saw the Standard & Poor's drop -33.79%. This seems so distant now that few people even mention it anymore. Since the widespread rollout of the various vaccine protocols, the change in confirmed cases has dropped dramatically after peaking in the beginning of February. According to the CDC, most of the country is approaching the zone of herd immunity. Life is beginning to return to normal.

For the quarter, we continued to see strong returns across equity markets. The US stock market as measured by the Russell 3000 was the best performer of major markets, being up 6.35% for the quarter and 62.53% for the 12 month period.

For the first quarter there was strong outperformance of value over growth. Small value, as measured by the Russell 2000 value index, was the best performing asset class rising 21.17% in the first quarter. The worst performing asset class was the large growth stocks returning 0.94% for the quarter. This was a significant reversal of the prior quarter where the large growth stocks were the dominant asset class. Even after this significant increase in small value, the valuation dispersion between growth and value remains near record levels.

In the international developed markets the MSCI world (ex - US) was up 4.04% for the quarter. Compare this to the first quarter of 2020 when it fell -23.3%. In markets outside of the US, value significantly outperformed growth. Value stocks were up 11.68% in local currencies compared to growth stocks that were up 3.47% in local currencies. Small international developed outperformed large. This was the opposite of last quarter in that a strengthened US dollar reduced returns to US investors. For example, developed markets small-cap stocks were up 8.33% in local currency terms but only 4.88% in US dollar terms.

Emerging market stocks were positive for the quarter but they lagged the returns of the globally developed markets. In terms of the premiums, value stocks outperformed growth stocks and emerging markets and small stocks outperformed large stocks. Small-cap emerging markets in local currency terms were up 10.10% and in dollar terms were up 7.67%. Just as with other international markets the strengthening dollar reduced returns to US investors.

For the first quarter real estate investment trusts (REITS) were positive performers with US REITS significantly outperforming global REITS. US REITS were up 10.00% for the quarter while Global ex-US REITS were up 2.23%. The real estate industry was one of the most disrupted industries by the Covid-19 crisis and continues to undergo significant structural changes.

Commodities had a positive 6.92% return for the first quarter of 2021 as measured by the Bloomberg Commodity Index total return. Large increases in the price of energy led by unleaded gas at 28.95% also helped fuel the equity rally in many of the energy value stocks. Precious metals were the worst performers for the first quarter. Gold fell -9.82% while Silver fell -7.25%. As the economy continues to reopen, demand for commodities has risen significantly, particularly in the energy and materials sectors, fueling much of this performance.

Fixed income had negative returns for the quarter. Both the US bond market and the global bond markets had negative returns. The US bond market, as measured by the Bloomberg Barclays US Agg bond index, fell -3.37% for the first quarter. The Bloomberg global aggregate Bond Index fell -1.90% for the quarter. Interest rates increased across most sectors of the markets. The 10 year notes ended at 1.74%. This is a huge difference from a year ago when on March 31, 2021 the 10 year treasury yield dipped to a low of 0.46%. The real after inflation yields are now positive. Inflation remains modest logging in at 1.28%.

The increase in global bond yields over last quarter is probably the most significant story related to markets. Since December 31, 2020 yields on almost all global bonds have increased significantly with the exception of a few very short-term yields. As an example, US 10 year yields have increased 89.6 basis points in the first quarter and the five year bond increased 56.1 basis points.

Despair and foolishness are poisonous to having a successful investment experience. To extrapolate long-term investment strategies from daily newscasts is a recipe for disaster. The crisis over the past years should reinforce why we use a disciplined investment approach. A properly diversified portfolio that was judiciously rebalanced allowed us to stay invested through these periods of crisis. Avoiding short-term thinking in pursuit of long-term goals is the key to a successful investment experience.

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Index Returns*

U.S. Stocks	Quarter Return 1/1/2021 - 3/31/2021	1 Year Ending 3/31/2021	3 Years Ending 3/31/2021
US Large (S&P 500 Index)	6.17%	56.35%	16.78%
US Large Value (Russell 1000 Value Index)	11.26%	56.09%	10.96%
US Small Cap (Russell 2000 Index)	12.70%	94.85%	14.76%
US Small Cap Value (Russell 2000 Value Index)	21.17%	97.05%	11.57%
US Micro Cap Index (Russell Micro Cap Index)	23.89%	120.33%	16.57%
CRSP US Total Market Index	6.43%	62.75%	17.14%
CRSP US Large Cap Value Index	10.99%	51.35%	11.41%
CRSP US Small Cap Index	10.21%	87.68%	14.94%
CRSP US Small Cap Value Index	16.83%	89.72%	10.77%
International Stocks			
International Large (MSCI World ex USA Index)	4.04%	45.86%	6.34%
International Large Value (MSCI World ex USA Value Index)	8.33%	47.17%	2.25%
International Small Cap (MSCI World ex USA Small Cap Index)	4.88%	65.17%	6.89%
Emerging Mkts (MSCI Emerging Markets Index)	2.29%	58.39%	6.48%
Emerging Mkts Small Cap (MSCI Emerg Mkt Sm Cap Index)	7.67%	87.13%	5.19%
Bonds			
Short Term Bond (ICE BofAML US Treasury Index 1-3 Years)	-0.03%	1.69%	3.06%
Aggregate Bond (Bloomberg Barclays U.S. Aggregate Bond Index)	-3.37%	0.71%	4.65%
Alternative Investments			
BTOP 50 Index (Managed Futures)	2.52%	10.07%	3.97%

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