April 2021

Equity markets continued to advance as the reopening of the economy picked up steam. Just as we thought might happen, growth in GDP and earnings estimates accelerated, and economically sensitive stocks significantly outperformed the rest of the market. These outperforming stocks tended to be value oriented, which has greatly benefited our portfolio returns.

The shift in market leadership can be tied to progress fighting the coronavirus pandemic. In the roughly six months since the FDA authorized multiple Covid-19 vaccines for emergency use, large-cap value indices are up approximately 30% while large-cap growth indices returned around 12%, indicating a change in market leadership that has been quite pronounced. Historically, when a shift occurs from one style to the other, the performance cycle often lasts for extended periods. With the current Covid-19 vaccination pace of 3 million people per day, the risk of a dangerous spike in cases is lowered such that the robust economic recovery should continue. Surprisingly large job creation numbers announced recently are a sign of the underlying strength of the U.S. economy, providing a favorable backdrop for equity markets. Having said that, strong GDP growth typically means higher interest rates and inflation risks, which can dampen stock markets. We have already seen the 10-year Treasury bond yield move from under 1% at the beginning of the year to over 1.7%.

We also have a new administration in Washington to consider. In the first three months in office, the Biden team passed a stimulus bill and is currently negotiating a revenue generating bill with a broad range of tax hikes being proposed. The impact of those pieces of legislation on the markets is difficult to project. One thing we know for certain is that U.S. government borrowings have escalated. The added debt appears manageable with the low interest rates we have today, however, at some point the rising cost of this debt could become problematic if interest rates continue to move higher over time.

Total returns were strong for our Equity & Dividend Plus portfolio for the quarter, and remarkably robust for the one-year period ended March 31. Cash flow from dividends and option writing was also strong. Call option premiums received were well ahead of our annual target, given that we identified more call selling opportunities than usual during the market rally. While several stocks were sold during the quarter mostly due to option exercises, we worked to reinvest these proceeds, purchasing five new stocks during the period. First Horizon, Bank of New York Mellon, Mondelez, Verizon and Lockheed Martin were added, providing additional diversification to our holdings in the Financials, Consumer Staples, Communication Services and Industrials sectors.

While portfolio returns have been elevated recently, valuations remain very reasonable, especially given the relatively low level of interest rates. The price-to-earnings ratio for your portfolio, at less than 14 times, is significantly discounted from the indices with the S&P at more than 21 times and the Russell 1000 Value over 18 times. There are certainly no guarantees in this business, but we believe the valuation discount we see in the portfolio today provides additional opportunity as we move through 2021.

For additional firm wide information please visit our website at www.fbpinc.com or call us at 1-800-851-3804. As always, we appreciate your continued interest in our firm.

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