MAPLE CAPITAL MANAGEMENT

MARKET COMMENTARY

MARCH 2021

Index Total Returns as of 9/30/20	QTD	YTD	12 M
Domestic Equities			
S&P 500	4.38	6.17	56.33
DJIA	6.78	8.29	53.78
Nasdaq	0.48	2.96	73.47
Russell 2000	1.00	12.69	94.82
International Markets			
MSCI EAFE	2.30	3.48	44.57
MSCI EM	-1.51	2.29	58.39
Fixed Income			
US Treasury	-1.54	-4.25	-4.43
US Credit	-1.59	-4.45	7.88
Municipal Bond Index	0.62	-0.35	5.51
US Corporate High Yield	0.15	0.85	23.72

Quarter in Review

- Equity markets are rallying as the economy begins the process of normalizing after the unprecedented shutdowns of 2020.
- Loose monetary policy has now been assisted by massive fiscal policy to provide a boost to all segments of the economy.
- Some of Maple's picks did not work as well this quarter, but that should be expected. We invest for the long term, not one quarter, and we believe in the merits of our selections.

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Markets Rise as Cases Fall

Equity markets turned in solid returns again this quarter as the U.S. made significant progress with the vaccination effort. Now that most local restrictions on economic activity have either already been lifted or will be soon, more businesses will be hiring and returning to a post-pandemic normal. The new fiscal stimulus of $1.9T also gave investors reason to cheer since it provides the consumer, state/local government, and small business sectors with the means to spend, and the spending will be spread out over many months.

Bond yields rose significantly during the quarter and once again the action was predominantly in five year and longer maturities. We view this development favorably since yields should no longer reflect the emergency-like conditions of 2020 now that a clear path forward for economic recovery is in sight. Bond yields are rising for all the right reasons --- economic activity is improving, fiscal policy is taking the baton from monetary policy, and financial conditions are supportive for a broad-based recovery.

In terms of an economic outlook, rarely has there been greater certainty. Above-trend growth is the widespread expectation for 2021 due to the recent new stimulus and also the tremendous pent-up demand for all manner of goods and services. If even just some of the new infrastructure proposals from the Biden administration are implemented, the robust growth could stick around longer. The 13+ point jump in the Conference Board's monthly index of consumer confidence reflects this optimistic outlook. On March 30, this index rose to its highest reading in a year, no doubt in reaction to the swift vaccination progress and the fiscal stimulus which has started to hit bank accounts. Higher vaccination rates in the second quarter should lead to further gains in consumer spending as the home-bound venture out once again.

Another fairly certain outcome is for higher inflation that will be reflected in these next few months' data for which there is an obvious explanation: base effects. Many prices of products and services plunged last year --- think oil and auto insurance --- due to the pandemic and the sudden shut-down of the economy. As those large price cuts fall out of the year-ago comparisons, the year-over-year figures will appear large (the "base"), but a longer term look will reveal no big increase. Anticipation of this jump in inflation is widespread but the tendency to extrapolate recent data, combined with the sheer size of the latest economic relief package, has caused many to raise alarm over the rising inflation, even though it hasn't even appeared yet! We do not anticipate the trend to persist and expect it to be transitory, much like Fed Chairman Powell expressed in his recent appearance in Congress.

Inflation will require more than a few one-time price hikes in order to become a sustained trend, and the supply bottlenecks now evident due to the pandemic should soon give way to more normal supply-demand patterns. Much of the financial media claim a 1970s-style inflation will soon develop since it makes for a good headline, but it should be remembered how many seminal events were required for that episode to occur: the end of the gold standard, high war-time spending, wage and price controls, expensive "New Deal" social spending, and the oil crisis, to name just a few. All of these occurred before globalization and the myriad innovations that make today's economy much more dynamic compared to the '60s and '70s

Not only did it take a lot to create the inflation of that era, but a glance at the countries experiencing rapid inflation today is also instructive --- Venezuela, Zimbabwe, Sudan, and Lebanon lead the way. None of these countries features the deep trade relationships or robust markets for goods and services of the developed world. And let's not forget the Amazon effect, which provides price transparency for consumers and continues to drive prices lower for many goods and a growing number of services. For these and other reasons too dense for this piece, we do not expect a run-away inflation problem in the U.S. any time soon.

On the equity side, the somewhat narrow rally of 2020 has become a more broad-based one. Energy, for example, performed well after two rough years, while information technology took a breather and lagged the broad market. Cyclically exposed sectors of the market outperformed secular growth in general. We expect these kinds of short term relative performance gaps to emerge from time to time but we invest with a longer term view and do not rotate in and out of holdings for short term gain or seek to exploit short term fads.

One curious side effect from the pandemic is the notion that some investors have had more time on their hands and a greater inclination to trade on so-called "advice' from various on-line sources. Much of this advice seems to be what we would term faddish in nature, or fashionable ideas on products, services, or companies that may or may not have much investment merit. Rest assured we are not swayed by such fashions as we prefer to leave the speculative ideas to others.

Final thoughts: There is much change afoot in Washington. As always, not all of the proposals will come to fruition, particularly those that require tax increases or further deficit spending. But thanks to the inoculation effort, the country is able to focus once again on "bread and butter" issues, some of which may result in new growth opportunities for companies and industries. After such a difficult year due to the health crisis, it is exciting to see a scientific break-through allowing a return to normal, and hopefully some of the new techniques can be applied to more types of transmissible diseases. Perhaps the exuberance in financial markets has been expecting this all along.

Pandemic: Tremendous progress is being made with the vaccination effort. That statement goes a long way in explaining the favorable equity market returns in the first quarter. With the prospects for herd immunity now in sight, the economy is displaying broad-based strength even in service-oriented areas that were so heavily impacted by the pandemic. It now seems possible that this topic may finally play a less prominent role in our communications going forward.

Domestic market performance overview: The S&P 500 was up 6.17% for the quarter, a solid start to the year by any measure. Treasury yields remained tame in the short end but rose considerably, 58 to 87 basis points, on the five-to-thirty-year points on the yield curve. Once again, lower risk spreads for non-Treasury bonds tamed this rise in yields, although not enough to keep total returns in positive territory. The Bloomberg Barclays U.S. Aggregate Bond Index total return was -3.37% for the quarter, a dismal result. However, this back-up in rates is very good news for any new purchases in your account due to the higher yields now available.

Foreign market performance overview: Developed international markets lagged U.S. markets to start the year, with the MSCI EAFE Index gaining 3.48% for the quarter. Developing markets performed worse than their developed brethren: the MSCI Emerging Markets Index posted a total quarterly return of 2.29%, perhaps due to the recent strength of the U.S. Dollar and the relative weakness of the Chinese equity market. The relatively weaker vaccination progress in most other countries (Israel and the U.K. being two notable exceptions) may

Maple Capital Management update: We are pleased to announce the hiring of a new client service professional, Sara Fox, who joined us on April 12. This addition to our team is an indicator of our continued growth as a firm and our commitment to providing you with the high level of service you've been accustomed to. Please join us in welcoming Sara aboard.

All of us at Maple Capital hope you and yours are remaining safe and on the path to greater flexibility in your daily lives. We appreciate the ongoing confidence and trust you place in us.

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