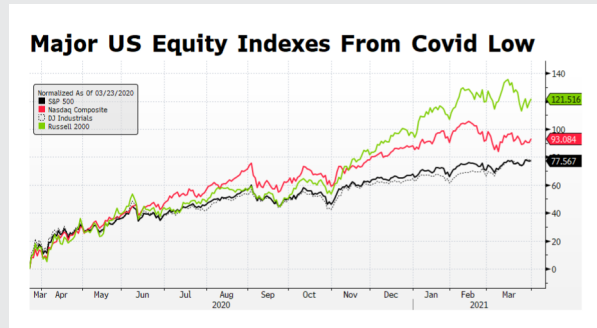


NEWSLETTER AND CAPITAL MARKETS REVIEW

MARCH - APRIL 2021

It has been just over a year since stocks around the world began to recover from the pandemic-driven sell off. Stocks in the US found their bottom around March 23, 2020. Since then, returns have been unusually strong with small cap stocks leading the way with the Russell 2000 Index up 123% and the Nasdaq Composite up over 100%. The rebound is not so surprising given the amount of fiscal and monetary stimulus that has been injected into the economy over the past year. The fiscal stimulus including the CARES Act, PPP, Consolidated Appropriations and the American Rescue Plan amount to over \$5.4 trillion, while the Federal Reserve has expanded its balance sheet by nearly \$3.6 trillion. Taken together, the stimulus efforts amount to over 43% of 2020 US GDP with even more potential fiscal plans. To place the astronomical stimulus in context, the Bureau of Economic Analysis (BEA) announced on March 25th that US GDP contracted 3.5% in the full year 2020. The BEA also announced its Q4 2020 GDP estimate indicating expansion at a 4.3% pace following Q3 growth of 33.4%. [chart courtesy Bloomberg LP (c) 2021]

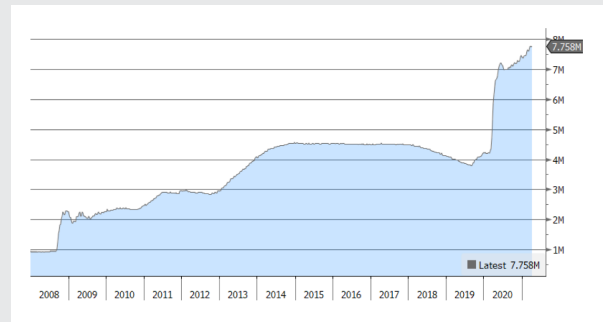


On the monetary front, the Fed's balance sheet currently stands at \$7.76 trillion. This figure will become even larger as the Federal Open Market Committee announced in the March 17th statement that it will be buying \$120 billion of Treasury (\$80 billion) and mortgage (\$40 billion) securities each month. The FOMC has also instructed the Open Market Desk to provide further support to agency-backed MBS and CMBS markets as necessary.

While the Fed's actions are startling when viewed in isolation, they are not when compared to other central bank QE. The ECB's balance sheet is about \$8.8 trillion, materially higher relative to Europe's own GDP. By comparison, the Fed does still have some flexibility going forward.

With the economy clearly on a strong path to recovery, we see continued stimulus as potentially overkill, at least in market terms, and the excess liquidity will likely produce further gains in stocks in the months ahead. Existing fiscal spending has also not been fully deployed yet, so decisions and estimates are being made based on what may happen vs. what actually is happening. Our concern is that going for more before what has already been set aside has been spent might lead to overshoot. Or, equally likely, the stimulus is imprecisely applied and ends up overstimulating areas of the economy and markets that do not need it while failing to benefit areas (lower-wage jobs, municipal finance, housing) that actually need the help.

US Federal Reserve Balance Sheet (\$Trillions)



As we have discussed for some time now in our Risk Outlook, further gains in stocks in the months ahead may be reasonable based on the blend of stimulus and QE, but for how long? Our sense is that a brutal day of reckoning will arrive once the Fed begins to taper bond purchases. Even if the Fed is as gentle on the brakes as possible, the mere breath of a possibility that the ride could be coming to an end will be a shock to the system. We have seen repeated examples of sharply negative market reactions to Chairman Powell simply not choosing his words well. Reducing QE is a positive sign that the economy and markets are strong enough to stand on their own, but the transition will not be easy.



Portfolio Positioning

Even with a few brief interruptions in areas like Tech equities, markets have continued to steadily grind higher as they digest ongoing government spending and central bank support. We maintain a small but growing overweight allocation to equities overall and modest overweight to fixed income, leaving cash underweight. Within global equities, we are overweight with respect to the US, modestly overweight to Asia x-Japan and neutral with respect to Emerging Markets. We are neutral with respect to Eurozone stocks and underweight Japan. Within fixed income, we are overweight in the US with a preference for mortgages and investment grade corporate credit. We have little to no exposure to non-US fixed income except through Green Bonds in our ESG series portfolios. All portfolios holding fixed income maintain lower duration than the benchmark.

Risk Outlook

- We have discussed the risk of quasi-regime change in Washington DC for several months, and are seeing it play out as expected so far. Any time government changes hands, even to successors within the same party, this introduces new uncertainties about legislative priorities, infrastructure, social programs, regulation and other areas influenced or outright controlled by government. One-party control of Washington might suggest a dramatic agenda, but the party advantage in the House narrowed, and Senate control rests only with the VP tie-breaker. The American Rescue Plan was enacted through budget reconciliation, and there is a lack of desire to disrupt legislative tools like the filibuster to clear the road for other priorities like an infrastructure bill. There is an outside chance of a bipartisan plan, but markets do not seem to be handicapping a high likelihood of anything significant. Therefore, the risk of disappointment is low, but there might be a positive jolt if DC surprises everyone with a bipartisan infrastructure program. More generally, we continue to anticipate smaller changes at the margin, in some cases walking back Republican priorities and in others advancing Democratic ones. We expect the market to be satisfied with stimulus plus incrementalism, and the risks will be found in targeted areas of the market and economy rather than at the headline level.
- Benign conditions do not always result in benign outcomes. As discussed elsewhere, even a slight normalization of the rate environment, which would reflect stabilizing economic conditions, could have profound effects in fixed income markets, severely dragging down assets like 30-year Treasury Bonds which are normally seen as safe harbors from risk. Wall Street has been cautioning about the risk of rising rates since the end of the Financial Crisis in 2009, but we have yet to actually have to live with those risks because a slow grind recovery followed by a series of crises including COVID have conspired to hold central bank policy where it has been – accommodative. Even a mild turn of phrase by the Fed Chair has resulted in temporary shocks in the bond and even equity markets, so we can anticipate that rising rates are not welcome in markets that have enjoyed easy money for more than a decade now. This compels us to think about risk in globally diversified portfolios differently, where the traditionally more conservative parts of asset allocations may actually represent more material risk in the nearer term.
- Big questions about the social contract will continue to play out in the months ahead. The ratio of constructive to destructive discourse and activism will weigh heavily on the impact to investors and the economy. Advancements in diversity, equity and inclusion, civil debate about justice reform, building back better and stronger as part of the COVID recovery, and improving participation in the US (and global) economy will be positive drivers. Putting that at risk, and with it capital formation and job creation, would be more violent and destructive actions that focus attention and resources away from serving and supporting the individuals and communities and their families, businesses and livelihoods who are struggling everywhere from the urban Northeast to the rural Southwest.



Risk Outlook [cont'd]

- As the “long, dark winter” as it has been variously described by public health officials comes to an end, we appear to have passed the transmission peak, albeit with signs of a coming fourth wave globally. Whether this is the byproduct of changing public policy, ramped up vaccine distribution, or personal behavioral adjustments, or likely some blend of all three, there is reason to believe the opportunity exists to begin thinking about a post peak-COVID world. We say “post peak” and not “post COVID” because we see a lack of certainty about the global community’s ability to put the coronavirus completely behind us as new variants circulate that are more transmissible and more infectious, such as the “UK” and “South Africa” strains which move more quickly and seem to beat social measures as well as the vaccines that are being deployed. At the same time, necessity being the mother of invention, businesses, schools, governments, and houses of worship are learning to function in the environment which is available to us, which means using a blend of immunization, public health programs, and behavioral adjustments like masks and social distancing to get to what may be a near-term “normal” where education, business, worship, entertainment and leisure can resume with strictures. We see the risk to achieving this near-term normal coming from strong resistance to participating in immunizations or simple lack of access to same, new and dangerous virus mutations, and other conditions which perpetuate the current Hobson’s choice of health and safety vs. education and a functioning economy.
- One of our long-term risk themes continues to be our focus on Chinese Communist Party actions which have not materially shifted for the better in the COVID era. From aggression in the Asia-Pacific region to military tension along the border with India to suppression of Hong Kong citizens’ rights and the interests of the Uighur population and the lack of contrition for their early role in failing to stop COVID-19 in its tracks, all may contribute to China-directed backlash or retaliation. There does seem to be regional coherency in the response as nearly all Pacific nations have aligned with the US against Chinese aggression. From lack of respect for intellectual property rights to involvement in global criminal drug trafficking to financial crimes and

human rights abuses bordering on genocide, the country is finding it harder to get the global community to look the other way. We view this as a risk to investment in China and investment in companies reliant on a Chinese supply chain, but likely bullish for other parts of the Asia Pacific interested in usurping China’s role as the manufacturing floor for the world.

- Accelerating and likely permanent changes to consumer behavior and global supply chains that in many cases were already under way and have been amped up by CoV-2 are likely to create further near- and long-term disruption but also opportunity as more local, sustainable and safe sources of goods and services emerge. 2020 has fundamentally reordered what it means for businesses to be resilient and what is required to operate reliably and efficiently under a variety of externalities. In main street terms, the “old ways” are not coming back and markets will need to process and reorient capital around the new order.



ESG Considerations

Over the last few years, there have been waves of convulsive social upheaval that have given rise to everything from social media hashtags to fully formed and incorporated movements to address issues ranging from racial division and equal justice to climate change to the treatment of women in the workplace.

Historically, companies have tended to stay on the sidelines unless the issue at hand was so overwhelmingly broad-based (apartheid South Africa) it pulled in the entire business community or so specific it only touched a single company (child labor in an apparel company's supply chain, for instance). Even so, the impulse generally has come from outside the company, from customers or shareholders as examples, where maintaining neutrality or failing to act on a specific controversy could do tangible and lasting damage to a brand or a marketplace. Left to its own devices, a company would tend to focus on its cars or laundry soap and not try to imbue the product or the company with any set of values other than speed, style, cleanliness, efficiency, low cost or whatever quality Madison Avenue proposed would sell the most product to the most consumers.

More recently, we have seen companies become more responsive to a wider array of stakeholders, listening not just to customers and management but employees, suppliers, shareholders, lenders, partners, communities, regulators, legislators, interest groups, academics and others. The narrow view is that the company's exclusive responsibility is to its owners and its balance sheet and that all of these other voices are distractions or distortions. In reality, these other voices have always had a meaningful effect on the company's performance and value, and management is just doing a better job now of identifying and managing what historically were written off as inconsequential externalities.

There is certainly a branding or marketing angle in many cases where getting on the right side of an issue can help endear the company to its desired market. This has been true for both very progressive and very conservative companies and causes. Where there is an intersection of internal values and beliefs with the priorities of the marketplace, companies may attempt to walk the high wire and try to appeal to their core constituency while not driving off the part of the market that may appreciate the product or service but not the mission or message. There have been some conspicuous cases where companies focused too much on the

marketing opportunity and not the issue itself and managed to upset everybody – both stakeholders who do not agree with the messaging, and stakeholders who would have agreed but found the approach crass and insincere.

Fundamentally, we are observing corporate leadership teams "reading the room" and appreciating that there is a convergence of interests between the company and its stakeholders. A company like Coca Cola or Delta, even as an oligopoly, is not going to improve the P&L and share price by remaining silent on concerns about voter disenfranchisement when the community in which they operate and the broader community to which they sell flexes their economic muscle and says "not acceptable". The competition can also gain an advantage by simply standing back with arms folded. Pepsico, also selling flavored sugar water and snacks to the same customers at the same prices, benefits by simply not being headquartered in Atlanta. Coca Cola's leadership would be bad operators doing nothing and ceding market space to a company not facing the same headwinds.

There are those who say that companies should stay out of politics or stay out of social or environmental issues, but companies are inexorably bound up in all of these. Politics has a lot to do with how business-friendly their operating environments are; social issues impact how companies recruit talent and build communities of customers; and environmental issues directly impact operating risks and costs. Professor Michael Porter of Harvard Business School and Mark Kramer, who with Porter founded impact advisory firm FSG, famously co-authored a seminal piece in the Harvard Business Review on creating Shared Value. In Professor Porter's own words: "Companies could bring business and society back together if they redefined their purpose as creating "shared value"—generating economic value in a way that also produces value for society by addressing its challenges. A shared value approach reconnects company success with social progress. Firms can do this in three distinct ways: by reconceiving products and markets, redefining productivity in the value chain, and building supportive industry clusters at the company's locations." Companies will not always get it right, but being responsive to stakeholder concerns shows a degree of awareness of externalities that really are shared-value internalities, and demonstrates a nimbleness and adaptability that will serve them well in increasingly competitive markets.



March 2021 Capital Market Review

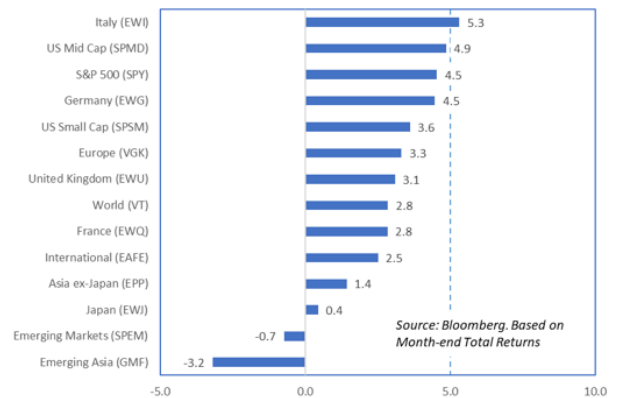
We view the continued rise in global stock markets as reassuring and even a little surprising in light of rising interest rates, particularly in the US. The downside is that bond market conditions remain challenging in this rising-rate environment.

Equity Markets

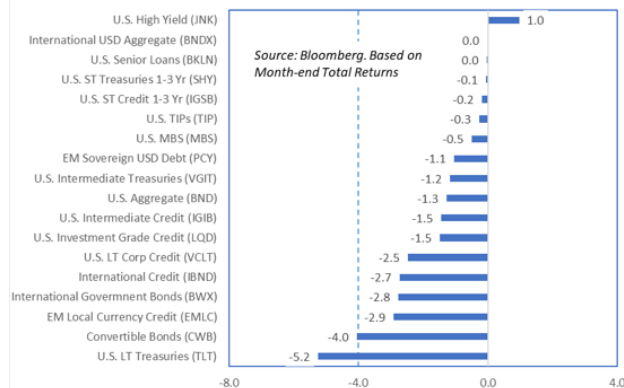
Global equities built on February gains climbing 2.8%. Gains reached across the entire developed world with key European markets outperforming. Europe's showing is encouraging because it may signal optimism in otherwise challenging economic circumstances.

Outperformance in the US continued with Large, Mid and Small Caps among the world's top performers in March. Emerging Markets continued to be adversely impacted by Chinese shares. Of note, the Shanghai Shenzhen CSI 300 fell 5.4%.

Global Equity ETF Performance
March 2021



Global Bond ETF Performance
March 2021



Bond Markets

The benchmark US 10-year Treasury Bond yield's continued ascent (rising from 1.41% to 1.74% by month end) was a major headwind for nearly all segments of fixed income. The only exception was US High Yield.

The US Dollar continued to recover, tacking on 1.48% in March, which placed further downward pressure on international fixed income for US-based investors.



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Diversification and strategic asset allocation do not guarantee a profit nor protect against a loss in declining markets. All investments are subject to risk, including the loss of principal.

The information contained herein is based upon the data available as of the date of this document and is subject to change at any time without notice.

Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risk, credit risk, the risk of issuer default, liquidity risk and market risk. These risks can affect a security's price and yield to varying degrees, depending upon the nature of the instrument, and may occur from fluctuations in interest rates, a change to an issuer's individual situation or industry, or events in the financial markets. In general, a bond's yield is inversely related to its price. Bonds can lose their value as interest rates rise and an investor can lose principal. If sold prior to maturity, fixed income securities are subject to gains/losses based on the level of interest rates, market conditions and the credit quality of the issuer.

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An investment in small/mid-capitalization companies involves greater risk and price volatility than an investment in securities of larger capitalization, more established companies. Such securities may have limited marketability and the firms may have more limited product lines, markets and financial resources than larger, more established companies.

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ETFs included in portfolios may charge additional fees and expenses in addition to the advisory fee charged for the Selected Portfolio. These additional fees and expenses are disclosed in the respective fund/note prospectus. For complete details, please refer to the prospectus.

For additional information regarding advisory fees, please refer to the Fee Summary and/or Fee Detail pages (if included with this report) and the program sponsor's/each co-sponsor's Form ADV Part 2, Wrap Fee Brochure or other disclosure documents, which may be obtained through your advisor.

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