Quarterly Update

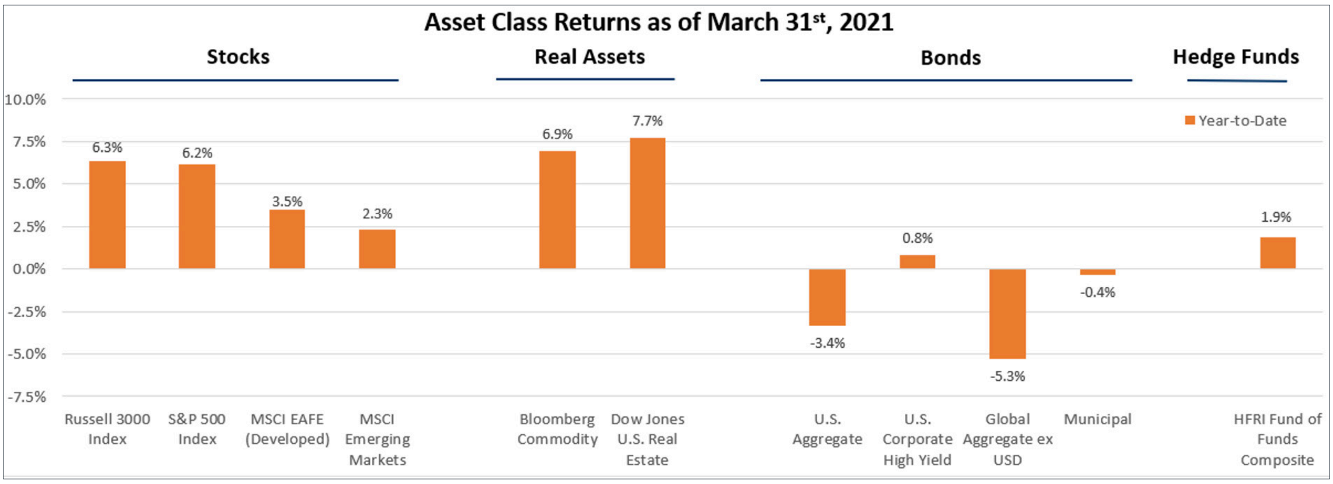
First Quarter 2021

KANDOR GLOBAL

Executive Summary

Convincing signs of a robust economic recovery and better than expected corporate earnings drove global equity markets higher during the quarter. U.S. stocks hit new records as the distribution of coronavirus vaccinations picked up speed and fiscal stimulus for Covid-19 relief and infrastructure spending promised to propel the U.S. economy. Small-cap stocks led the equity rally and were the best performing market segment. Value investors finally saw a shift in market leadership away from growth, led by cyclical sectors that had been out of favor. Value outpaced growth by the widest margin in nearly two decades. At the same time, high-profile technology stocks tumbled amid concerns about expensive valuations. Stock markets outside the U.S. gained ground but were hampered by falling currencies versus the U.S. dollar. Cyclical commodities such as energy and industrial metals also continued to claw their way back from the rout last year. Investors were disappointed as higher interest rates eroded bonds prices and other defensive assets including gold suffered large price declines.

Although risk assets were on a tear, investors did confront unforeseen developments. The first notable market event was fueled by social media postings that led retail investors using online trading platforms to attack the short positions of several prominent hedge funds. Some online brokerages halted trading in the affected stocks to stave off a market crisis. The collapse of the family office Archegos Capital, which held concentrated positions in several media companies, also rippled through the markets. The firm's bank lenders experienced significant losses, raising concerns about the build-up in financial leverage.
Investors were also concerned about rising inflation and interest rates. Inflation fears were a key driver of higher rates, but structural unemployment and slow population growth should keep price levels in check. The Federal Reserve, as well as some economic forecasters, believe that reinflation is transitory, driven by pent up demand that should soon dissipate. It is important to remember that higher interest rates have a positive impact on long-term fixed income performance as income levels increase, although in the short-term the drop in market values can negatively impact returns. Higher rates are also positive for some equity sectors, notably banks and insurance companies.

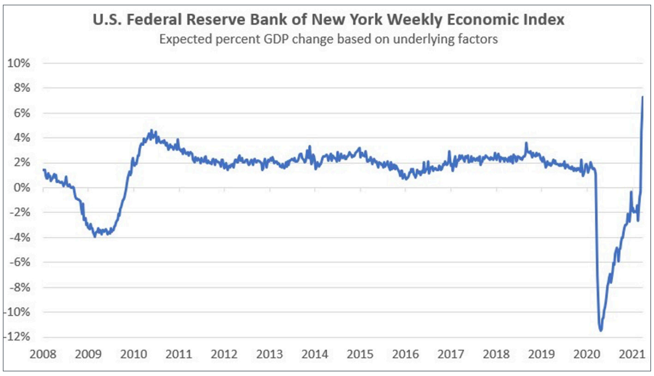


Morningstar & Hedge Fund Research, Inc. (HFRI); Bond indices from Bloomberg Barclays

Although the path to eradicate COVID-19 is promising, new strains are emerging, concerns about safety may slow vaccination rates, and some countries are lagging in their ability to contain the virus. The uncertain path of the coronavirus pandemic continues to cloud the outlook for the world economy and markets. Recent market dislocations have once again proven the downside of market timing and the benefits of a diversified portfolio with long-term asset allocation targets.

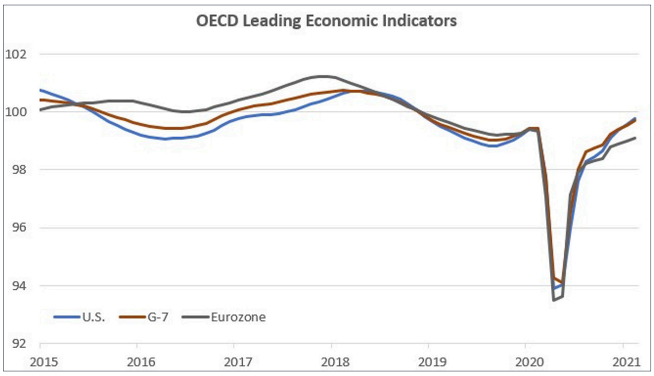
After over a year of quarantining, social distancing, and working from home, the U.S. appears to be turning the corner in terms of battling the pandemic. The pace of vaccinations accelerated throughout the quarter to the point where more than 3 million shots are being distributed daily and more than 100 million total doses have been received. Economic activity appears poised to roar back once the health crisis is more thoroughly alleviated. As it stands, most economic data was robust over the first three months of 2021. The manufacturing sector has been a source of particular strength and the respective ISM PMI printed its highest reading since 1983. Although it should be noted that some of the recovery made up for disruptions from the prior year. The easing of select social distancing requirements has also paved the way for a recovery in the services sector. So far, the labor market has made considerable strides without evoking concerns of overheating.

Despite significant progress, the economy still hasn't fully recovered all of the lost ground from the pandemic fallout. While the reopening has started, many sectors, such as travel and leisure, are still partially constrained. Many predict that once restrictions are more fully removed, pent-up demand paired with government stimulus could lead to a rapid recovery in these areas of the economy. A broadening out of the recovery could contribute to impressive GDP growth for the remainder of 2021 and into next year.



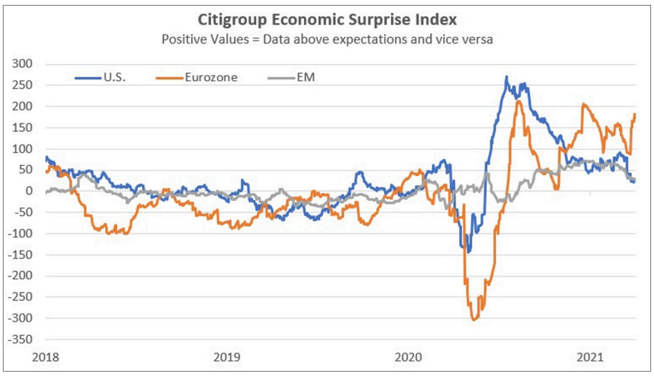
Federal Reserve Bank of New York

The Weekly Economic Index rose dramatically over the first quarter as GDP factors such as unemployment claims and gasoline sales came back meaningfully. This metric should continue rising as the economy more broadly reopens over the summer.



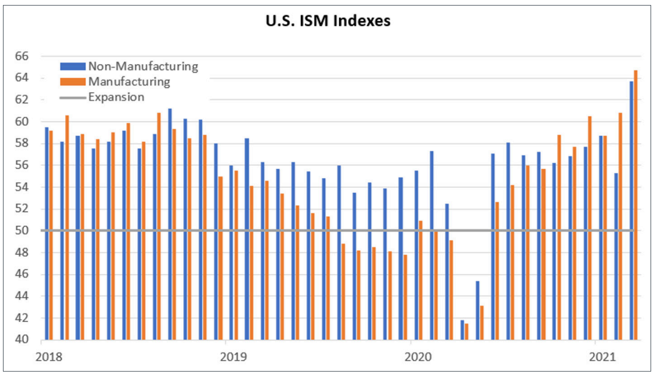
Organization for Economic Cooperation and Development

Following a steep rise from pandemic lows, leading economic indicators (LEIs) continued to improve, although at a slower pace. Recently, the U.S. has fared somewhat better relative to the Eurozone based on broader reopening amidst the vaccine rollout.



Citigroup

Economic surprise indexes have calmed somewhat after extreme volatility throughout 2020. Data within the U.S. and emerging markets has been closer to expectations, while Eurozone data has been surprising to the upside in recent prints reflecting low expectations.



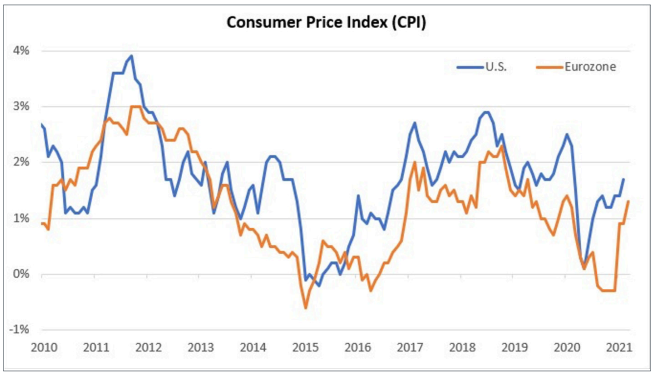
Institute for Supply Management

The ISM Indexes for both manufacturing and services reached multi-decade highs as the respective areas of the economy raced to keep up with pent-up demand. Manufacturing has been a particular area of strength and had its highest reading in March in nearly 30 years.

Economic Growth

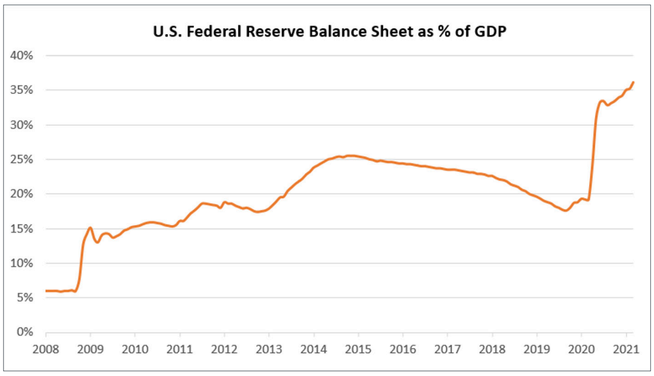
With much of the monetary toolkit already executed, governments have moved to more extensively implement fiscal policy to continue shouldering the recovery. In addition to the recent $1.9 trillion American Rescue Plan, the Biden Administration is working to introduce a more than $2 trillion infrastructure plan. More is expected to follow with the next round of aid anticipated to focus on health care, education, and childcare. Much of the aid is oriented towards lower-income households with a greater likelihood to spend, potentially leaving higher earners and corporations to pick up the tab to some extent.

While the aid has so far appeared to help the recovery, rising inflation and potential tax increases have many wondering how much is enough. Despite these concerns, the Fed has reiterated its commitment to keeping rates low through 2023 or until the economy more fully recovers. The dramatic increase in government spending has significantly expanded the federal budget to levels that might end up being higher than what was seen following World War II. Such levels of spending have few precedents in history and a lack of future efforts to rein in the deficit could stifle growth through higher inflation, interest rates, taxes, or all the above. These factors could also hinder corporate earnings from future growth, although many expect that the S&P 500 will reach a new EPS record later this year. Overall, it remains a volatile economic period within history paired with a heightened level of economic and societal change.



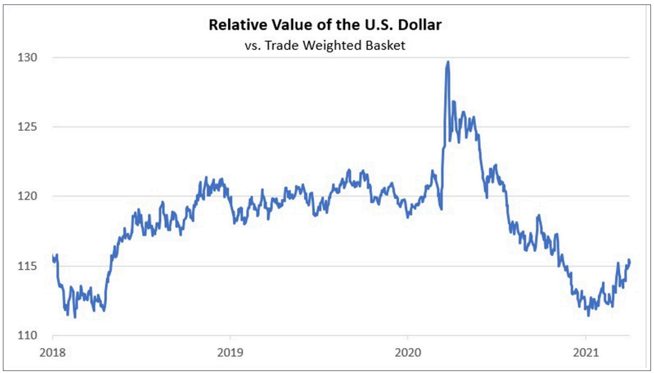
U.S. Bureau of Labor Statistics

The pandemic induced recession and a fall in oil prices initially pushed already low inflation even lower. Since the recovery has taken hold, a rise in the price of oil and other goods has pushed inflation higher. Strong growth throughout the rest of the year has the potential to push inflation figures even higher, although the Fed continues to believe that it will be transitory.



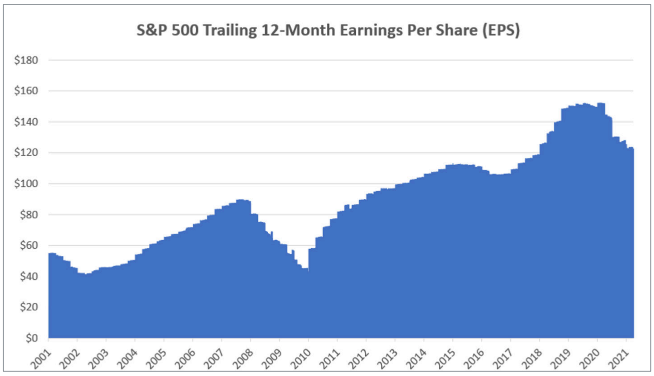
Bloomberg

Unprecedented levels of federal spending have vastly expanded the federal budget with limited signs of shrinking soon. Additional spending on infrastructure, health care, education, etc. will only add to these levels. It's important the economy transition to self-sustaining growth once the recovery further takes hold.



U.S. Federal Reserve and Bloomberg

After falling meaningfully from peaks reached during the pandemic, the value of the USD relative to a basket of other global currencies appears to have bottomed. The rise in yields from prior lows encourages capital flows and has increased the relative attractiveness of the USD recently.



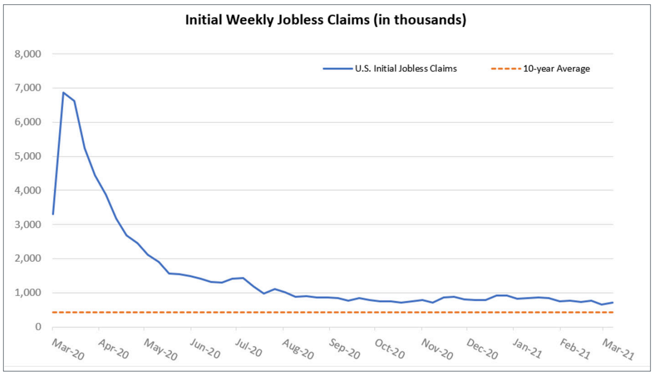
Bloomberg

Resiliency in sizeable sectors including tech, health care, and consumer staples has partially offset other negative impacts from the pandemic which should help support future earnings. Broader adoption of technology across the economy has also aided in productivity and profitability gains.

Employment and Consumer

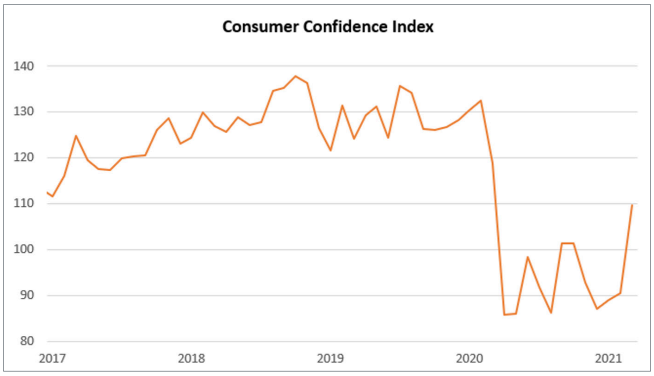
important to understand the recovery thus far is only partial implying a long road lies ahead to reach full employment. The monthly unemployment rate has continued to positively surpass expectations falling to 6% in March. Although the downwards trend is relatively positive given the past year, the rate is still elevated compared to its pre-pandemic level below 4%. A large part of the future recovery that awaits is focused in sectors that may face challenges as the pandemic continues to play out.
These include leisure, hospitality, travel, retail, and food services industries. Another factor that is hidden by the current unemployment rate is the drop in the labor force participation rate. An estimated four million people have left the workforce during the pandemic and thus are not counted as being unemployed. If they were still part of the labor force, they would likely impact the unemployment rate while looking for work or add to the already inflated figure. To continue supporting the labor market, the government recently passed the $1.9 trillion American Rescue Plan Act that provided up to $1,400 direct relief payments to qualified Americans. The stimulus plan also extended the $300 weekly unemployment stipends through September 6th and provided a tax break on $10,200 in unemployment benefits. Given all factors to consider, economists anticipate a strong jobs market recovery through the rest of 2021 carrying into 2022.

Average wage growth has remained elevated due to the pandemic's unforeseen consequences. In large part, the hardest-hit areas which had the greatest contribution to the unemployment rate came from mostly low-wage jobs, and naturally the average economic wage in effect then skewed upwards. As the affected sectors reopen slowly, their employment bases may also recover slowly. Interestingly, the U.S. cities whose employment figures fared the best were Salt Lake City, Austin, and Kansas City due to their lower costs of living, quieter lifestyle, and job opportunities that appealed to migrants from more populated areas. On the contrary, the most negatively affected cities were Las Vegas, New York, and Los Angeles due to their dense populations amidst the spread of COVID-19.



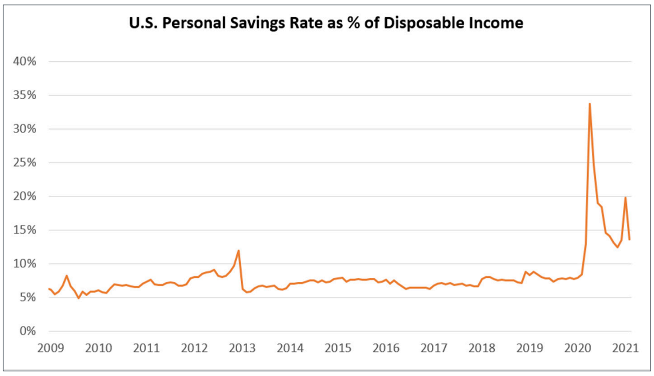
Labor Department

Weekly jobless claims have increasingly slowed their descent and have not re-spiked as businesses determined how to coexist during a pandemic.



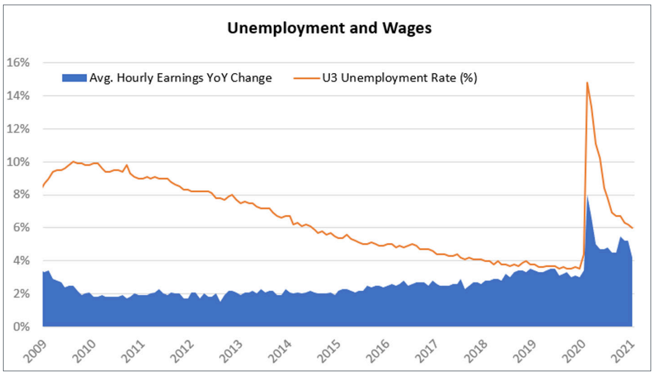
Conference Board

Consumer confidence rose for the third consecutive month and reached its highest level since March 2020. This may be indicative of future consumer optimism.



U.S. Bureau of Economic Analysis

The personal savings rate remains elevated compared to the past. Consumers were spooked in the first quarter as the pandemic raged in select areas, and even saved some or all of the recent fiscal stimulus payments.



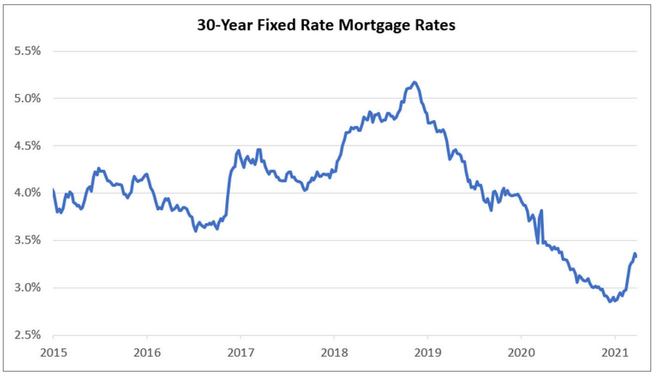
U.S. Bureau of Labor Statistics

Unemployment continues to trend downwards but work remains to reach the sub-4% level last reached before the pandemic started. Achieving full employment is a primary goal of the Federal Reserve.

Housing and Commercial Real Estate

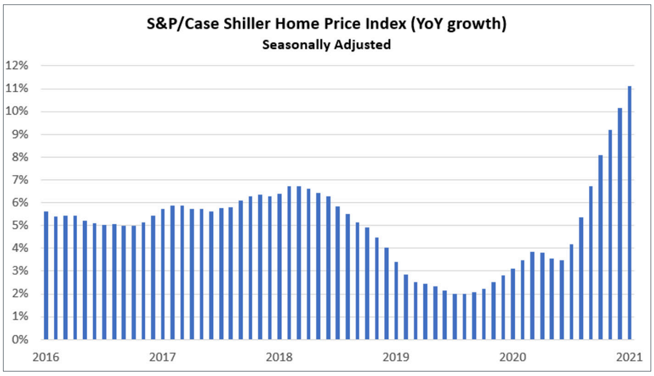
Strength in the residential portion of the real estate market has continued throughout 2021. Several factors including historically low interest rates, a desire for more space, and limited supply have fueled some of the highest price increases seen in decades. Home sale activity nationally is also robust, reaching the highest level since before the Global Financial Crisis. While nearly all domestic markets are realizing rising prices amidst heightened demand, select areas of the country, particularly in the south, are regularly seeing multiple bids on homes and closing prices well over ask. While this could be a celebration for sellers, it's also a challenge to first-time buyers trying to enter the market. This is especially true for millions of millennials who are entering their core stage for homeownership.

The commercial portion of the market remains a mixed bag, although select beaten down sectors are showing signs of recovery. Within office, companies interested in their employees returning to physical space are starting to take advantage of bargain lease rates. Many employers are embracing a hybrid model which would likely translate to less need for space in the future and potentially increase the appeal of office space located outside of city centers. Interestingly, several notable technology companies, such as Amazon.com and Google were early to commit to returning to the office later this year. After having potentially the most difficult time throughout the pandemic, the travel & leisure industry is starting to show signs of life. As vaccinations accelerate, the pace of travel is increasing and the hotel industry is preparing to handle what they hope is extensive pent-up demand. Industrial properties, especially those related to logistics and e-commerce fulfillment, are one of the few types of commercial properties that have benefitted from the pandemic. With the pandemic pulling e-commerce demand forward by several years, the need for logistics space near densely populated areas has never been greater.



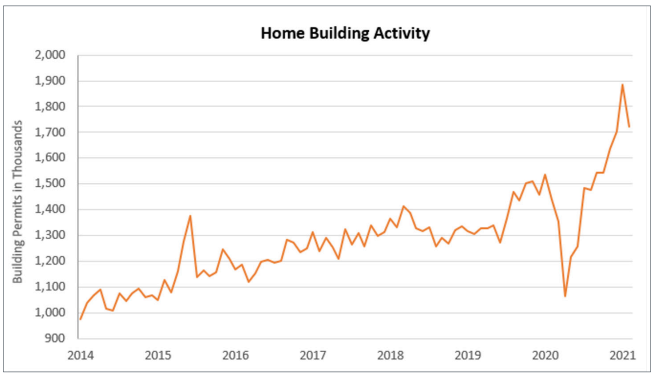
Mortgage Bankers Association

After reaching historic levels, mortgage rates have risen from lows. While the pace of increase was quick, mortgage rates remain well below pre-pandemic levels and continue to support the housing market.



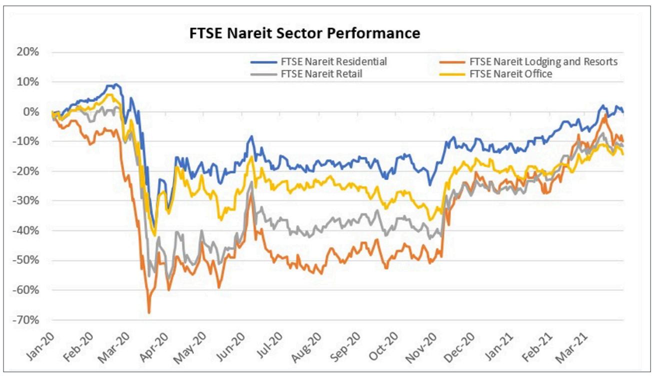
S&P/Case Shiller

The confluence of limited supply, elevated demand, and low mortgage rates has contributed to the fastest pace of home value increases since coming out of the housing centric, Global Financial Crisis.



U.S. Bureau of the Census, U.S. Department of Housing and Urban Development

While home building activity leapt up dramatically, it is still struggling to keep up with household formation. Recent limitations in supplies and weather have dampened activity over a portion of the first quarter.



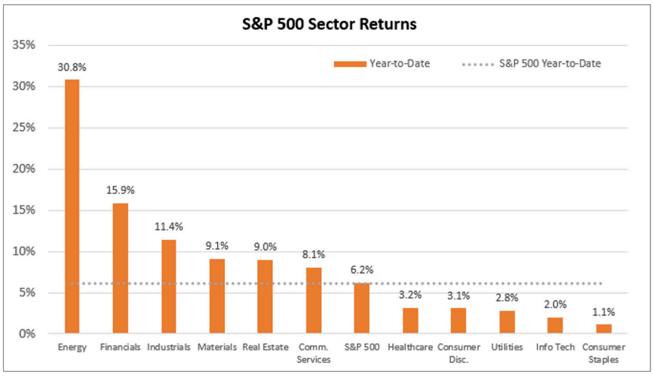
Nareit

Performance across different segments of the real estate market continued to be varied, although the gap among the various areas has narrowed. Overall, the residential sector has weathered the period the best.

Equity Markets

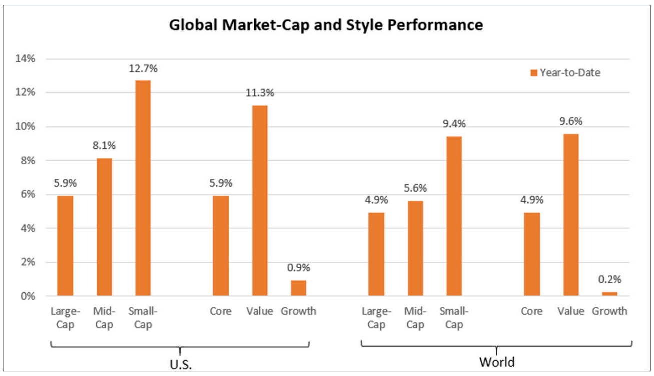
Equities continued their ascent thus far this year, as many individual names and indices set new high watermarks. The benchmark S&P 500 Index, rose another 6.2% in the first quarter to piggyback on last year's strong rebound. Based on current forward price-to-earnings ratios, stocks appear quite expensive, arguably even overvalued based on which metrics are evaluated. However, investors should realize that companies' earnings are likely to continue their growth trajectories as the global recovery continues, and these P/E ratios could contract somewhat. Specific styles and sectors of the market have become concentrated, paving a path for investors to diversify a little bit away from such areas into more cyclical ones poised to do well during an economic recovery. Within sectors, the cyclical ones shone as energy and financials led them all and rose about 31% and 16% respectively. The laggard was consumer staples rising only 1% for the quarter, although all sectors had positive returns in the apparent risk-on environment. Value dominated growth and small-cap stocks beat both large- and mid-cap stocks, a byproduct of the progressing global recovery.

Internationally, markets performed well. Developed outperformed emerging, as emerging markets were dampened by rising U.S. interest rates. Similar to the U.S. and consistent with the global recovery, value beat growth and small-cap companies beat large- and mid-caps. Given what transpired last year throughout global markets, sectors, and styles, maintaining adequate diversification in investment portfolios has never been more prudent. This is also true without knowing the future path of stock prices sitting at historically high price multiples, even as economies continue to reopen and earnings recover.



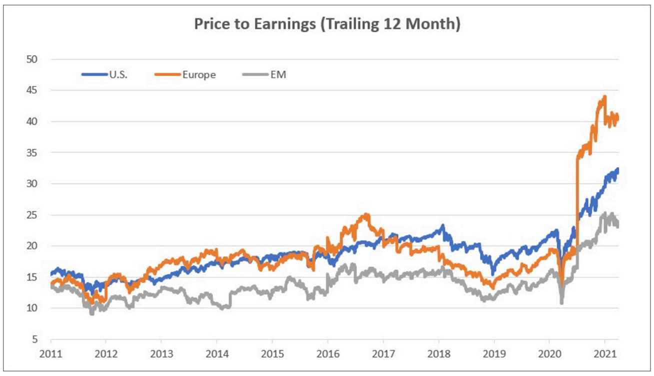
Bloomberg

All sectors produced positive returns with energy leading the way, rising more than 30%. This sector shift is typical of a recovery phase of an economic cycle. Energy and financials were two of the three negatively performing sectors for all of last year but thrived as vaccinations progressed and both commodity prices and rates rose.



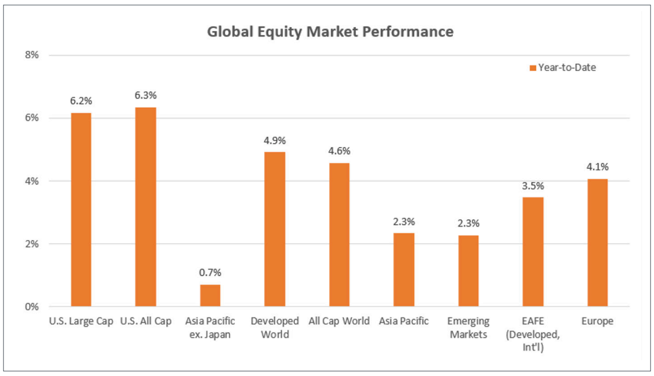
Bloomberg; U.S. indices from Russell and World indices from MSCI

In stark contrast to last year, value has thus far outperformed growth around the world. Small-cap stocks have also beaten large-caps as the pandemic continues but businesses reopen nonetheless. Companies and municipalities are reopening methodically when they deem it is appropriate.



Bloomberg

Trailing 12-month price-to-earnings ratios are elevated as prices have risen and earnings remain depressed. These higher valuations may positively reflect future optimism towards an earnings and growth recovery.



S&P and MSCI

In a continuation from last year, most equity markets produced positive returns over the quarter. The U.S. had some of the highest returns thus far, but to some people, emerging markets appear attractive going forward given lower trade tensions and potential for a weaker dollar.

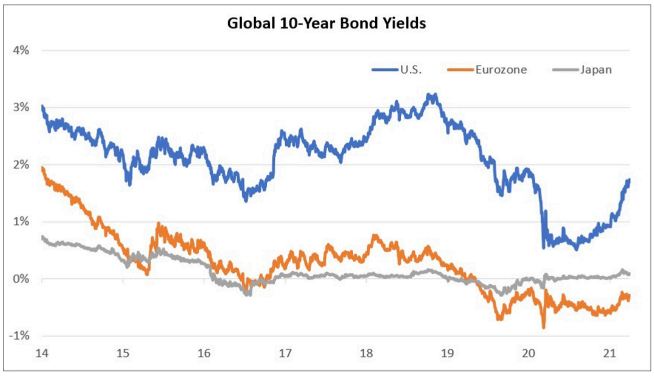
Fixed Income Markets

Global bond markets declined for the quarter following a sharp spike in U.S. interest rates that quickly spread to other countries. Fears that fiscal stimulus spearheaded by the Biden administration and a robust rebound in economic growth would trigger inflation were behind the pullback. Higher inflation expectations and positive employment data also prompted concerns the Fed would be forced to hike rates earlier than expected. Bond yields rose despite the efforts of major central banks to keep policy rates low and to provide liquidity through bond purchase programs. Narrow spreads and low yields continue to limit return potential in the fixed income markets.

Rising rates were a headwind for high quality and long duration bonds. Taxable and municipal high yield bonds and bank loans experienced strong demand and narrowing credit spreads, allowing these segments to outperform. Default rates seem to have peaked around 6%, much lower than had been forecasted. The outlook for robust growth and higher relative yields caused the U.S. dollar to rise against most currencies. Emerging markets debt was pounded by tumbling currencies and economic turmoil in Brazil and Turkey. Municipal bonds outperformed taxable bonds for the quarter, but still suffered a small loss. Healthy investor demand and limited supply balanced the negative impact of rising rates. The rating agencies have taken most municipal bonds off negative credit watch. Despite high valuations, limited new supply, concerns over higher tax rates, additional federal government stimulus and improving credit fundamentals should be a tailwind for the sector.

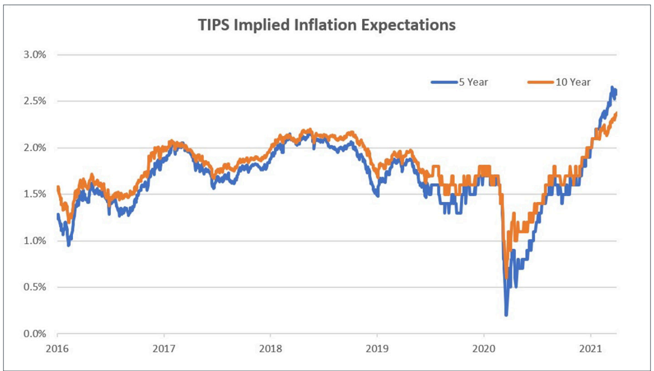
Barclays Capital

Credit spreads continued to fall during the quarter, rewarding investors who have taken on credit risk. Spreads across the credit spectrum are at historic lows, far off the peaks seen at the height of the coronavirus crisis. High yield corporate default rates are below 2% and are expected to decline further.



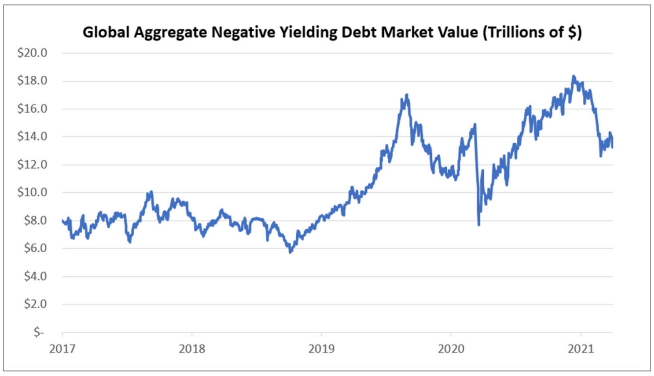
Bloomberg

Yields in most major bond markets declined or were stable during the quarter. The U.S. yield curve modestly flattened despite higher growth and inflation expectations. Bond investors seem to be sanguine about the threat of long-term inflation and aggressive action by the Fed to normalize rates.



Bloomberg

TIPS implied inflation declined during the quarter despite higher growth forecasts and rising inflation. Investors appear to believe current inflation levels are transitory. Indications the Fed would more aggressively pull back monetary stimulus and slow the economy also tempered breakeven rates.



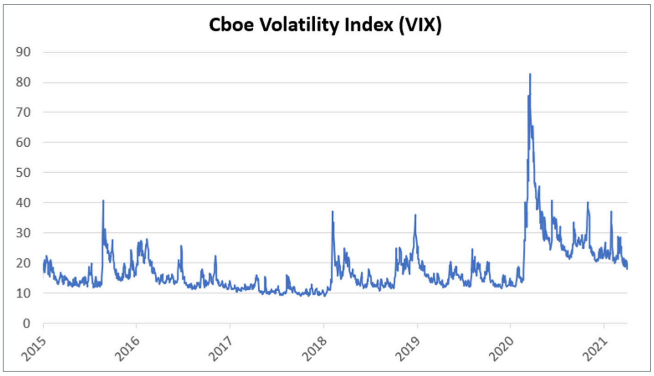
Bloomberg Barclays

The share of global bonds with negative yields modestly declined during the quarter. Germany is now the only major bond market with debt yields below zero. The shift towards positive rates as real yields and inflation normalize is considered healthy for bond markets.

Alternative Markets

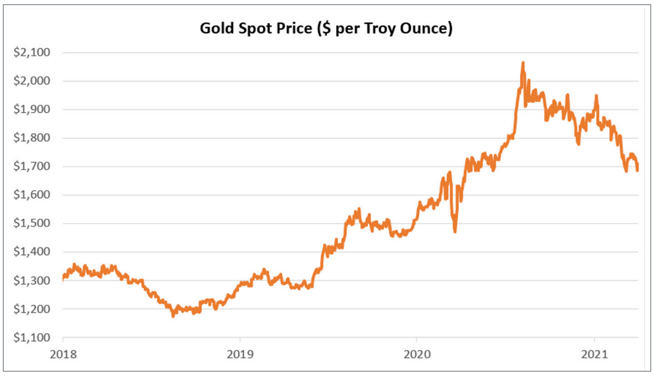
Hedge funds had another solid quarter, led by equity hedge and event driven strategies. So far, 2021 has seen the best hedge fund results in over 20 years according to Hedge Fund Research (HFR). Equity-oriented strategies benefited from price momentum in energy and technology stocks and a favorable stock picking environment with wide dispersion across stocks. Event-driven strategies benefited from the healthy supply of distressed debt and the improving M&A environment. Tactical global macro traders took advantage of volatility in oil prices and interest rates while thematic strategies struggled with the changing economic landscape.

After coming to a near standstill during the pandemic, private equity deal activity continued to rebound. Recent private equity exits through IPOs has surged and is now on par with strategic acquisitions which historically has dominated exit activity. Investor demand for SPAC IPOs, as well as high yield debt, is a tailwind for the private equity and credit investments. Credit dispersion in private credit, while at historically low levels, has made the available universe more robust than in the public bond markets.



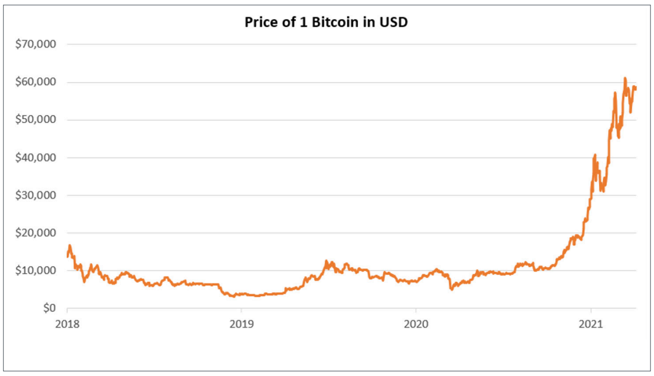
Cboe, Bloomberg

Expected stock market volatility, as measured by the VIX Index, was muted for much of the quarter, raising alarms that investors are too complacent about stock market risks. Concerns over new COVID variants and hawkish comments from the Federal Reserve sparked temporary spikes into the high 20's.



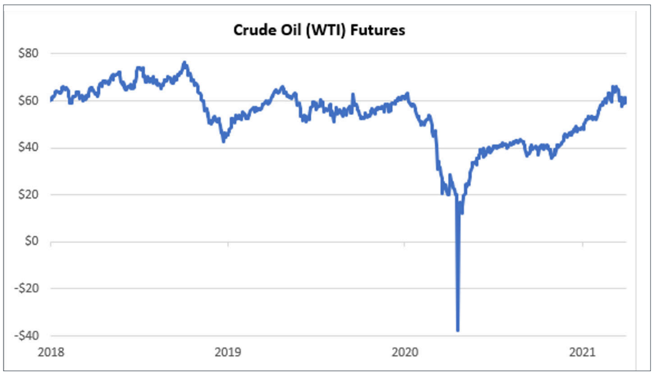
Bloomberg

After plummeting earlier in the year, the price of gold rose modestly during the quarter. Other precious metals, such as platinum and silver, continued to see large declines. As economic recovery gained a foothold, demand for "safe-haven" assets such as gold has been muted.



Bloomberg

The price of Bitcoin, as well as other digital currencies, lost almost half its value after hitting an all-time high in mid-April. Government regulatory scrutiny, a setback in institutional usage and short-term selling pressure as investors raised cash for tax payments were potential drivers of the price declines.



U.S. Energy Information Administration

WTI crude oil spiked 24% during the quarter, propelled by rebounds in transportation and travel, reaching its highest price since 2018. Other energy commodities like natural gas experienced similar gains. Disagreement between OPEC and other oil producers over supply targets set off recent price volatility.

Capital Market Returns

	Third Quarter	Year-to-Date
Cash and Fixed Income		
U.S. Treasury Bills	0.0%	0.2%
Barclays U.S. Aggregate Bond Index	-3.4%	0.7%
Barclays Municipal Bond Index	-0.4%	5.5%
Barclays Global Aggregate ex. USD	-5.3%	7.2%
Hedge Funds and Alternatives		
Bloomberg Community	6.9%	35.0%
DJ U.S. Real Estate	7.7%	34.9%
HFRX Global Hedge Fund	1.9%	23.8%

	Third Quarter	Year-to-Date
U.S. Equity		
Russell 3000	6.3%	62.5%
S&P 500	6.2%	56.4%
Russell 2000	12.7%	94.8%
International Equity		
MSCI ACWI ex. U.S.	3.8%	51.9%
MSCI EAFE (Developed)	3.5%	44.6%
MSCI Emerging Markets	2.3%	58.4%

Morningstar & Hedge Fund Research, Inc. (HFRI)

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