Trust Company of Illinois

BUILDING YOUR FUTURE

From the desks of William M. Giffin, CEO (left) and Kevin Rice, Senior Investment Strategist (right)

RENEWED HOPE. REVIVED ECONOMY?

INTRODUCTION

The emergence from the cold of winter is always welcomed. This year the symbolism of spring is particularly poignant. After a slow and clumsy rollout of the vaccine, the pace has dramatically picked up with a meaningful percentage of the population having already received shots in the U.S. With the increase in vaccine production, supply abounds, and we are gradually approaching access by the general population.

Signs of hope are everywhere. As we find ourselves in this holy grail of a sporting season (March Madness, MLB Opening Day, The Masters), the gradual return of fans suggests a beginning of a return to life as we knew it.

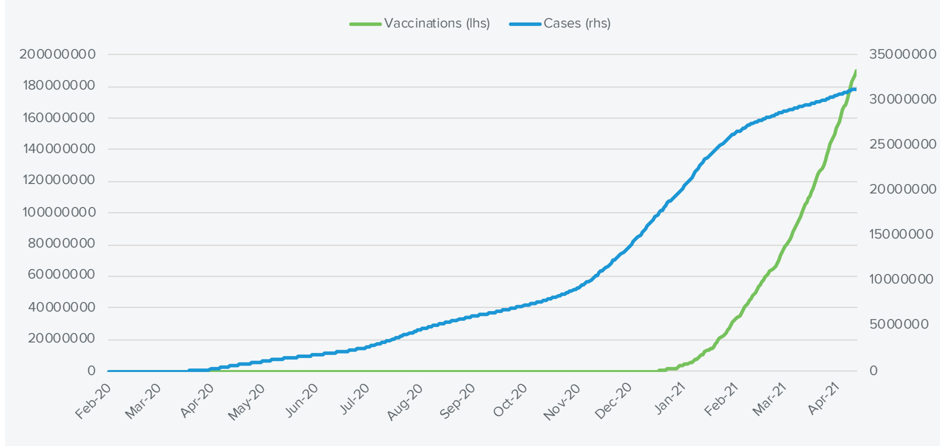
As we emerge from this extended hibernation, the massive stimulus injection is working its way through the system which should almost certainly provide new life to the economy as well.

COVID-19

With vaccines spreading through rich countries at gathering speed and lockdown restrictions weakening with the spring sunshine, it's tempting to believe that the long nightmare of Covid-19 is finally ending.

In the U.K., 58% of the adult population has received at least one dose of vaccine. In the U.S., President Joe Biden has doubled an original goal of administering 100 million shots in his first 100 days in office, which would bring the total to 200 million by the end of April (Exhibit 1).

EXHIBIT 1: COVID-19 VACCINATIONS AND CASES



Source: TC Wealth Partners, Bloomberg.

▶ *Our View*

It has now been more than a year since the pandemic triggered a nationwide shutdown, sparking an intense race for vaccines, treatments, and answers. We believe that an end to the COVID-19 crisis in the U.S. now appears to be in sight, but the path to a full recovery may still be bumpy over the coming quarters. Outside the U.S. it is a different story because new variants continue to be discovered and deaths continue to increase in places like Brazil. Another wave of infections is leading to new lockdowns in Europe.

UNEMPLOYMENT

Hiring stepped up in a major way in March, with employers adding 916,000 new jobs. More workers returned to the job market, and the unemployment rate edged down to 6.0%. While there is still a lot of ground to make up, the labor market is on track for a relatively quick recovery. The broader re-opening of the economy, growing optimism that the end of the pandemic is in sight, and a reversal of last month's unseasonably cold weather led to the surge in hiring in March.

With the recent deployment of more fiscal support, easing restrictions, and rising optimism, we expect the jobs recovery to gain further momentum in the coming months.

▶ *Our View*

While the pandemic is not over yet, the finish line appears close, and the economy is surging forward in a last sprint toward a full reopening. With the recent deployment of more fiscal support, easing restrictions, and rising optimism, we expect the jobs recovery to gain further momentum in the coming months. The number of permanent job losers remains about half the levels of the Great Recession, but we expect numbers to be chipped away quickly.

RETAIL SALES

Retail sales fell 3.0% in February, reversing some of the 7.6% surge in January. Losses in February were broad-based but largely temporary. Vehicle sales alone dropped 4.2% during the month. Those losses were driven more by a drop in inventories than a pullback in demand. Supply chain disruptions, notably in computer chips, have forced vehicle producers to cut production in recent weeks.

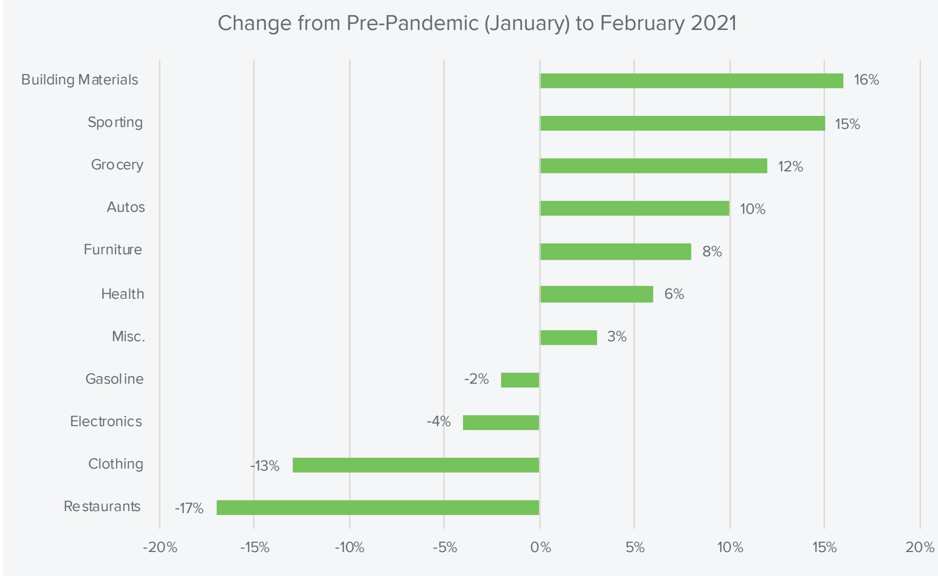
There were also sharp declines in online purchases, as well as on furniture, appliances and general spending at building and material stores. These can be directly traced to the winter storms that froze over most of the central U.S. during the month and led to widespread power failures across multiple states. Air travel in recent weeks has hit the highest level since the onset of the crisis, as euphoria over vaccines prompted more to book travel during spring breaks.

▶ *Our View*

The consumer is back with lots of support, despite a setback in February (Exhibit 2). Revisions to January retail sales suggest that more of the initial stimulus was spent than we initially thought. With another round of direct checks currently making their way to households, we believe that we will likely see another pop in the March and/or April spending data, which may be followed by another pullback.

After surging during the pandemic, goods spending is set to be volatile in the months ahead; however, the ample excess household savings should prevent it from falling off a cliff. It is services spending that we expect to pick up and drive the recovery this year as the virus situation continues to rapidly improve, hiring picks up, and consumers regain confidence in participating in in-person activities.

EXHIBIT 2: RETAIL SALES BY RETAILER TYPE



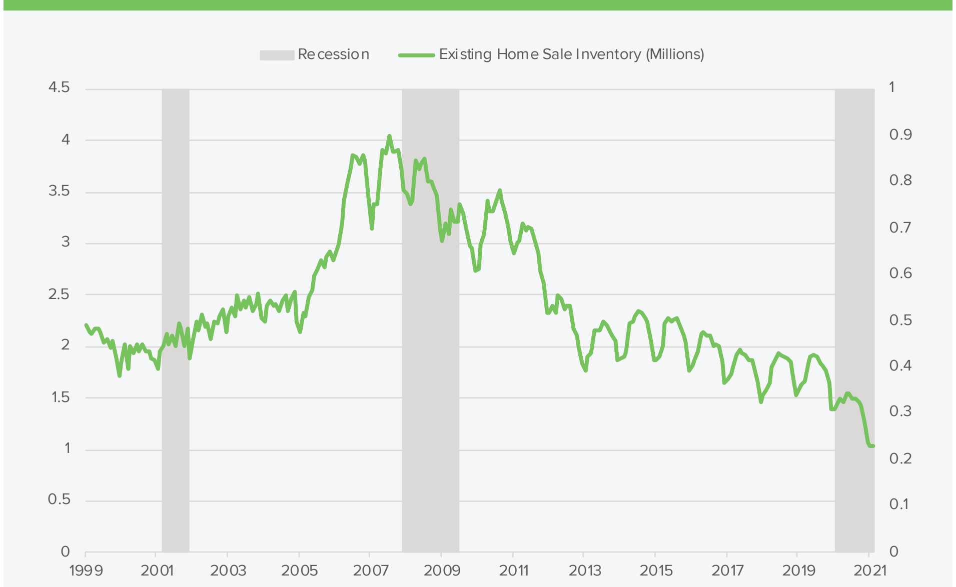
Source: TC Wealth Partners, Bloomberg.

HOME PRICES

U.S. home prices are rising at an accelerating pace. New data from the National Association of Realtors shows that the strongest housing boom in more than a decade is boosting home values. Demand for homes has surged in the past year as buyers took advantage of record-low interest rates and the pandemic prompted many households to seek bigger houses that could better accommodate remote work.

Home sales in 2020 rose 5.6% to the highest pace since 2006. The pandemic also has helped push the supply of homes on the market to record lows, a further boost to prices as potential sellers have been wary of increasing their virus exposure by letting strangers tour their houses (Exhibit 3).

EXHIBIT 3: EXISTING HOME SALE INVENTORY



Source: TC Wealth Partners, Bloomberg.

▶ *Our View*

The surge in home prices over the past year has raised concerns that the housing market is on the verge of another bubble. While that always remains a possibility, we believe home prices have been pulled higher this past year due to the imbalance of the supply and demand of existing homes rather than an increase in speculation. We feel that home price appreciation will moderate over the course of this year as fears about COVID subside and as more homeowners choose to put their homes on the market.

S&P 500 EARNINGS

Earnings in the S&P 500 grew 4% in Q4 2020, ahead of the -9.4% decline expected at the start of the quarter. Materials, IT, financials, healthcare, and communication services all grew earnings by at least 10% while the energy and industrials sectors posted the largest declines.

Revenues rose 3.2%, led by more global oriented companies that are benefiting from the weaker U.S. dollar. According to FactSet, earnings fell 11.2% in 2020, but they are forecasted to grow 23.3% in Q1 2021 and 24.2% in calendar year 2021. Early estimates for 2022 show earnings growth of 15.2%.

Analysts and companies have been much more optimistic than normal in their estimate revisions and earnings outlooks for the first quarter to date, so these earnings estimates could increase. For 2021, the highest earnings growth is projected to be in the more cyclical sectors like energy, industrials, consumer discretionary and materials.

▸ *Our View*

A positive shift in the overall earnings picture started in July last year (Exhibit 4). This improving trend in estimate revisions remained in place over the remainder of the year and appears to have accelerated over the last few months. Exhibit 4 shows the evolution of 2021 Q1 earnings growth estimates. We envision this trend of favorable revisions to accelerate over the next few months as the vaccination effort reaches a critical mass and greater 'normalcy' returns to life.

Beyond 2021, the primary risk to 2022 EPS is corporate tax reform, but the full impact on earnings is to be determined and depends on the specific tax provisions that make it to final legislation.

EXHIBIT 4: EVOLUTION OF S&P 500 EARNINGS PER SHARE ESTIMATES FOR 2021

Source: TC Wealth Partners, Bloomberg.

AMERICAN RESCUE PLAN ACT OF 2021

Nearly a year after the first major stimulus package was passed, the American Rescue Plan Act of 2021 was officially signed into law by President Joe Biden on March 11. Biden's signature came just days before the enhanced federal unemployment benefits (established by previous stimulus packages) were set to expire. The stimulus package includes another round of stimulus checks, an extension of unemployment programs through early September, funding for vaccine distribution, and money for state and local governments.

Markets are realizing that a buoyant U.S. economy also means higher inflation. This has led to bouts of selloffs in the markets.

▸ *Our View*

When the package was first announced in February, global markets were upbeat. But now, markets are realizing that a buoyant U.S. economy also means higher inflation. This has led to bouts of selloffs in the markets. We expect volatility to remain high as investors continue to gain a better understanding of the impact of the stimulus on the market and inflation.

AMERICAN JOBS PLAN

On March 31 President Biden unveiled his American Jobs Plan, a $2.2 trillion jobs and infrastructure plan. Of the $2 trillion, around $558 billion appears to go to traditional heavy infrastructure projects like highways, transit, water, and sewer. Another $374 billion would go to high-tech areas, such as broadband, grid modernization and clean energy and storage, and electric vehicle-related spending. Another $378 billion would go to the building and upgrade of residential and non-residential structures.

R&D and manufacturing incentives would total $480 billion, and $500 billion would be dedicated to caregiving and workforce development. The plan would be paid for with corporate tax increases that the Administration says would fully offset the 10-year cost after 15 years.

▶ *Our View*

Economists and politicians from both sides of the U.S. political spectrum have long advocated a revamping of infrastructure. Based on what we know so far, President Biden's plan could enable the economy to grow more rapidly over the long term and lift living standards without triggering worrisome inflation. Passing the bill without sizable Republican backing will require Democrats to support it almost unanimously. Narrow margins in the House and the 50-50 split in the Senate mean Democrats cannot lose a single vote in the Senate and no more than three in the House.

Unlike the $1.9 trillion coronavirus relief bill that President Biden recently signed into law, lawmakers do not face a looming deadline to pass this package. We believe the Biden plan serves as a general framework that lawmakers will need to translate into legislation and will likely undergo several changes before it is signed.

INTEREST RATES

Much has been made about the recent spike in interest rates that has hurt high growth stocks. After driving markets higher over the past few years, these long duration growth companies are seeing valuations come down largely due to the higher discount rate used for valuing future cash flows. As rates move higher, the future value of those cash flows declines. While rates are still low by historical standards, it is the pace with which they have risen in 2021 that has caused concern.

▶ *Our View*

The Federal Reserve (Fed) is not contemplating near-term tightening, and interest rates are still very low on a historical basis. We continue to believe that rates will remain range-bound moving forward, and they are likely currently at the higher end of that range. While future rate-related panics are likely, we expect rates to remain low for some time as central banks globally look to maintain support and until economies fully recover. The speed of the moves in interest rates has been more worrisome than the overall level. If yields continue to climb as fast as they have during the past six months, we believe it could begin to weigh on economic growth.

> *The Fed expects that a bump in inflation this year will be short-lived and could increase to 2.4% before slowing to 2% next year.*

FEDERAL RESERVE

The Fed kept rates anchored near zero and maintained the current pace of asset purchases, following the conclusion of the March Federal Open Market Committee meeting. The Fed expects that a bump in inflation this year will be short-lived and could increase to 2.4% before slowing to 2% next year. Fresh concerns that the Federal Reserve will let inflation accelerate sparked a selloff in most risk assets and caused yields on Treasuries to jump during the first quarter.

▶ *Our View*

Market experts all seem to be on the same page with the expectation for higher inflation in 2021 due to the huge amount of U.S. and global monetary and fiscal stimulus. Inflation in the U.S. is expected to top the Fed's 2% target over the next few months, largely due to low year over year comparisons from the early days of the COVID pandemic. We believe inflation will remain contained in 2021 and bond yields will be rangebound. Experts have predicted higher inflation for 12 years and we will believe it when we see it.

DOMESTIC EQUITIES

U.S. equities finished solidly higher in March, with the Dow Industrials and S&P 500 broadly outperforming the tech-heavy Nasdaq Composite and the small-cap focused Russell 2000. The benchmark S&P 500 ended the first quarter with its strongest monthly performance since November, capping its fourth consecutive quarterly gain since its near-20% pandemic-induced quarterly loss a year ago. Moreover, economically sensitive cyclicals and value groups notably outperformed growth and momentum for the month and quarter.

▶ *Our View*

While valuations are meaningfully elevated versus historical norms, the current environment is unlike anything our generation has ever seen. Massive fiscal stimulus and stronger vaccine rollout are larger and faster than what we expected just three months ago at the start of 2021.

With the increase in vaccines enabling the economy to open further, we believe that companies should be able to grow their earnings even more, offering further catalysts for their stock prices. We continue to expect volatility to be more the norm versus exception this year as equities are likely to be swayed by the tug-of-war between COVID-19 vaccine optimism and virus case growth.

INTERNATIONAL EQUITIES

Developed international equity returns for the quarter were strong (8.17%) but trailed those generated in the U.S. (9.10%). European equities gained nearly 9% during the period, supported by the trade deal between the U.S. and China as well as better economic data from Germany. Emerging markets, which showed strength during the fourth quarter of 2020 as geopolitical risks eased, continued that trend and produced a gain of nearly 12%. China, the index's largest constituent, rose nearly 15% as markets reacted positively to the U.S.-China trade agreement.

▶ *Our View*

We believe the backdrop for international equities remains generally positive. We expect global monetary policy to remain extremely accommodative and provide support for international equities, as will a weaker U.S. dollar. Europe's relatively slow vaccine rollout and smaller fiscal stimulus means it continues to lag the U.S. in terms of economic performance. However, its pace of vaccinations is increasing, putting the region on track for an economic reopening by the third quarter.

We expect global monetary policy to remain extremely accommodative and provide support for international equities, as will a weaker U.S. dollar.

We expect emerging market economic growth to be strong in 2021, boosted by the recovery in the global economy. While China-U.S. tensions continue to linger in the background, we believe that there will not be any further escalation from the new U.S. administration during these early stages of the economic recovery.

FIXED INCOME

U.S. Treasuries, as measured by the Bloomberg Barclays U.S. Government Bond Index, declined in March falling 1.51% and -3.37% for the quarter. Likewise, long-term U.S. government bonds fell more aggressively as Treasury yields rose to new 52-week highs. The Bloomberg Barclays U.S. Government Long-term Bond Index fell 4.96% in March and slumped 13.39% on a quarterly basis.

In other fixed-income assets, investment-grade bonds of all types (as measured by the Bloomberg Barclays U.S. Aggregate Bond Index) outperformed relative to purely safe-haven government debt, by declining to a lesser degree – down 3.4% in the first quarter. Municipal bonds outperformed other investment-grade bonds last quarter, down just 0.35%. Risk appetites extended into the new year for non-investment grade high-yield debt as the Bloomberg Barclays U.S. Corporate High Yield Index rose by 0.85% in the first quarter.

▶ *Our View*

The fixed-income environment grew more challenging in 2020 with Treasury yields finishing the year at 0.93%. We believe that active management is crucial right now in fixed income because starting yields are very low. The main risk is higher inflation that could lead to higher interest rates. Inflation should increase naturally in 2021, but we do not expect it to move beyond 2% on a sustained basis.

CONCLUSION

All of us at TC Wealth Partners/ Trust Company of Illinois are so appreciative to serve you through this unprecedented time in the history of our country and the world. We will continue to keep you updated with our views as new events unfold. We urge you to keep a long-term perspective, review your financial plan and have conversations with your advisor about plotting your course. Please take care and be safe—and enjoy the hope of spring. ■

EXHIBIT 5: MARKET PERFORMANCE

S&P 500 SECTORS	Q1-2021	YTD	1Yr	3Yr	5Yr	10Yr
Utilities	2.84%	2.84%	27.31%	12.04%	8.85%	11.19%
Real Estate	9.02%	9.02%	40.59%	12.30%	7.74%	8.09%
Materials	9.08%	9.08%	86.87%	13.99%	14.15%	9.42%
Information Technology	1.97%	1.97%	74.86%	28.54%	27.42%	20.49%
Industrials	11.41%	11.41%	77.74%	12.11%	13.66%	12.10%
Health Care	3.18%	3.18%	39.42%	15.09%	13.32%	15.53%
Financials	15.90%	15.90%	77.94%	9.71%	15.42%	11.97%
Energy	30.84%	30.84%	83.65%	-5.48%	-0.47%	-1.60%
Consumer Staples	1.15%	1.15%	30.77%	12.13%	7.94%	11.57%
Consumer Discretionary	3.11%	3.11%	77.33%	19.81%	17.75%	17.40%
Communication Services	8.08%	8.08%	67.46%	18.78%	10.19%	10.42%
DOMESTIC EQUITY INDEXES	**Q1-2021**	**YTD**	**1Yr**	**3Yr**	**5Yr**	**10Yr**
Russell 3000	6.34%	6.34%	70.44%	17.11%	16.49%	13.72%
Russell Midcap	8.14%	8.14%	82.75%	14.72%	14.58%	12.38%
Russell 1000 Growth	0.94%	0.94%	70.13%	22.80%	20.85%	16.57%
Russell 1000 Value	11.24%	11.24%	63.76%	10.94%	11.63%	10.91%
NASDAQ	2.96%	2.96%	81.47%	24.60%	23.29%	18.28%
S&P 500	6.17%	6.17%	63.55%	16.77%	16.14%	13.84%
FIXED INCOME INDEXES	**Q1-2021**	**YTD**	**1Yr**	**3Yr**	**5Yr**	**10Yr**
Global Aggregate ex. US	-5.29%	-5.29%	7.03%	1.15%	2.18%	1.33%
US Aggregate	-3.37%	-3.37%	0.60%	4.65%	3.11%	3.44%
Treasury	-4.25%	-4.25%	-4.80%	4.09%	2.24%	2.90%
High Yield	0.85%	0.85%	25.04%	6.84%	8.06%	6.46%
TIPs	-1.47%	-1.47%	6.82%	5.68%	3.88%	3.40%
Municipals	-0.35%	-0.35%	7.56%	4.91%	3.48%	4.54%
Asset Backed Securities	-0.16%	-0.16%	4.11%	3.68%	2.57%	2.51%
Mortgage Backed Securities	-1.10%	-1.10%	-0.08%	3.75%	2.42%	2.84%
Commercial Mortgage Backed Securities	-2.10%	-2.10%	4.86%	5.26%	3.60%	4.05%
INTERNATIONAL EQUITY MARKETS	**Q1-2021**	**YTD**	**1Yr**	**3Yr**	**5Yr**	**10Yr**
MSCI World	5.04%	5.04%	61.03%	13.45%	14.12%	10.47%
MSCI ACWI	4.66%	4.66%	61.30%	12.67%	13.96%	9.69%
MSCI ACWI ex US	3.55%	3.55%	54.26%	7.05%	10.77%	5.41%
MSCI EAFE	3.61%	3.61%	49.30%	6.61%	9.94%	6.07%
MSCI EM	9.07%	9.07%	50.29%	7.61%	9.49%	7.59%
MSCI Europe	8.50%	8.50%	40.15%	7.88%	8.41%	7.51%
MSCI Asia Pacific	2.31%	2.31%	55.41%	8.61%	13.21%	7.25%
MSCI North America	5.68%	5.68%	66.79%	17.08%	16.29%	13.22%
MSCI EM Asia	2.01%	2.01%	64.70%	9.79%	15.14%	6.86%
MSCI EM Latin America	-5.27%	-5.27%	57.29%	-5.76%	4.43%	-3.92%
MSCI EM Europe & ME	8.12%	8.12%	54.62%	0.00%	6.18%	-1.12%

Source: TC Wealth Partners, Bloomberg.

JANUARY TCI GUIDED PORTFOLIO CHANGES

As the plan's investment manager, Trust Company of Illinois is responsible for the prudent selection, monitoring, and replacement of the investment funds within the TCI Guided Portfolios offered in your retirement plan.

After careful review, the Investment Committee voted at their December meeting to reduce the fixed income allocation and increase the small cap and emerging market allocations in the TCI Balanced Portfolio. In the TCI Growth Portfolio, the committee voted to reduce the fixed income and infrastructure allocations and increase the small cap and emerging market allocations. Finally, in the TCI Stock Focused Portfolio the committee voted to reduce the U.S. large cap and infrastructure allocations and increase the small cap and emerging market allocations.

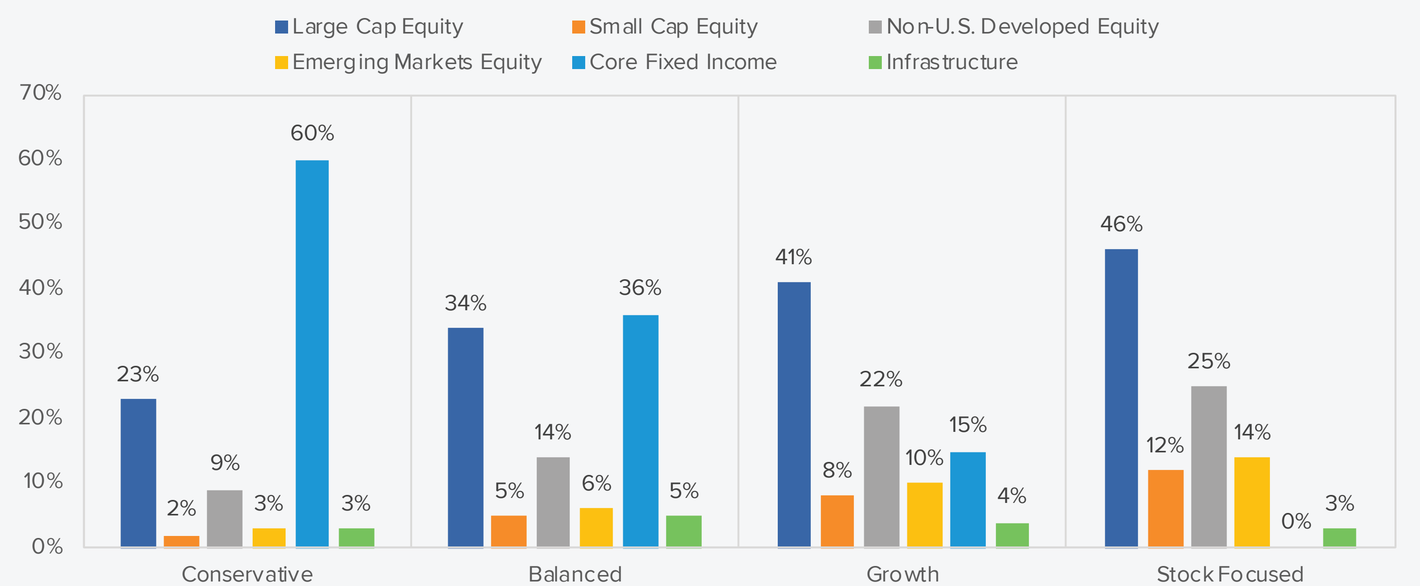
FIXED INCOME VIEWS

Fed officials expect to leave rates near zero at least until 2023 as they try to get the economy back to full strength after the pandemic-induced recession. The Investment Committee believes the central bank's actions will keep Treasury yields low across the curve for an extended period; therefore, in our view, the yields that fixed income offer are not attractive to us at this time. We do believe that core fixed income still offers principal protection and the yields, although low, still provide income.

SMALL CAP VIEWS

Smaller companies tend to get most of their revenue from within America's borders. The Investment Committee believes that this geographic concentration makes them a great proxy for the U.S. economy. With the rollout of the Covid-19 vaccine we believe that the economic outlook and outlook for small companies has brightened. Adding to our appeal of small-cap stocks is that they currently look inexpensive when compared with their counterparts. When comparing valuations of the Russell 2000 with those of the large-cap Russell 1000 index the relative discount for small-

EXHIBIT 6 : TCI GUIDED PORTFOLIOS - NEW ALLOCATIONS



caps in recent months was the largest since 2001. The Investment Committee believes that as this valuation discount narrows there will be an opportunity for small caps to perform well.

EMERGING MARKETS VIEWS

Most emerging markets entered the year with strong expectations for economic and earnings growth. Economic growth figures have been trimmed, but the declines forecasted for 2020 are shallower than the developed world, especially across Asia. Earnings estimates are also expected to fall far less than developed markets as many countries in Asia never shut down or have had better success dealing with Covid-19. With the rollout of the Covid-19 vaccine the Investment Committee believes that emerging markets will be another principal beneficiary of a vaccine-led global economic upswing in 2021. We also believe that a flat to weaker U.S. dollar and more stable trade policy under a Biden administration should help emerging markets in 2021.

INFRASTRUCTURE VIEWS

The Investment Committee still believes that infrastructure provides diversification to the TCI Guided Portfolios but currently believe there are more attractive small cap and emerging market opportunities.

APRIL – ADDITIONAL TCI GUIDED PORTFOLIO CHANGES

From the March downturn through the end of 2020, growth stocks delivered a 1.5x greater return than their value counterparts. So far in 2021, the tables have turned, and value stocks are pulling away to lead the market while the growth sector is nearly flat. The extreme dispersion between value and growth stocks stands near historic levels. With the accelerating distribution of coronavirus vaccines, more stimulus and a jump in bond yields, the Investment Committee believes that the valuation dispersion between value and growth is likely to narrow.

The Investment Committee does not believe that this is the end of the growth/value performance cycle, especially not a sustainable reversion. We believe that many of the strong growth companies that the portfolios continue to own will likely continue to perform well in the future and believe that value stocks offer significant upside potential at this time.

After careful review, the Investment Committee voted and approved to remove the Fidelity New Advisor Insights fund in the Conservative, Balanced, Growth and Stock Focused Guided Portfolios. The committee also voted and approved to reduce the allocation to Dodge & Cox Income fund by 2% in the Conservative, Balanced and Growth portfolios. The proceeds of this trade were used to purchase the Smead Value Fund in the Conservative, Balanced, Growth and Stock Focused portfolios. Smead's investment philosophy is based on three core tenets: 1) valuation matters dearly, 2) approach all investments as business owners on behalf of their clients, 3) seek out high-quality businesses. The strategy seeks to invest in companies with these qualities during extremes of pessimism with a long-term time horizon, which leads to a low turnover strategy. The portfolio is concentrated, generally holding 25-30 stocks. ■

EXHIBIT 7: TCI GUIDED PORTFOLIOS – EQUITY STYLE ALLOCATION CHANGES

VERSION	Style	Conservative	Balanced	Growth	Stock Focused
Old	Growth	8%	12%	17%	20%
	Value	16%	24%	32%	38%
	Blend	77%	63%	51%	42%
New	Growth	10%	16%	21%	23%
	Value	16%	25%	33%	39%
	Blend	74%	59%	46%	38%

Trust Company of Illinois

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