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Dear Atherean Wealth Management client:

Enclosed is your portfolio summary report for the quarter ending March 31, 2021, a summary of your investment objectives and target asset allocation as per our records, and an investment advisory fee statement for the second quarter of 2021. It is important that you review your investment objectives and target asset allocation and let us know if any of it is incorrect or if there are any changes to your overall financial profile or liquidity needs. For a full report of the holdings in your accounts we encourage you to refer to your statements generated by the custodian.

Fiscal and Monetary Actions

The American Rescue Plan which was passed during the first quarter of 2021 is one of the largest fiscal spending programs in the history of the United States, and the possibility of additional fiscal spending is on the horizon as other congressional spending bills, including an infrastructure bill, are currently in the works. While we believe that the proposed infrastructure spending constitutes long-term investment in the U.S. economy, we believe that other portions of the existing and prospective fiscal spending programs, particularly those which are focused on increasing consumer spending, have the potential to be stimulative to the economy only in the short run. We are concerned about the possibility of a "fiscal-monetary collision"¹ scenario where the Fed is forced to implement growth-inhibiting monetary tightening in response to inflation induced by the substantial fiscal spending measures. We are also concerned about the possibility of higher taxes, which will ultimately be needed to fund the spending measures, having a counter-acting growth-inhibiting effect on the economy.

Equity, Fixed Income and Commodity Markets

As discussed in our last letter we closely watch the traditional treasury yield curves and treasury inflation protected security (TIPS) yield curves as we believe that these curves provide strikingly accurate snapshots of anticipated economic activity. We use such snapshots of anticipated economic growth as model inputs in

¹ Economist Larry Summers referred to a possibly imminent "fiscal-monetary collision" in an interview with Bloomberg in March. He laid out three possible outcomes related to the fiscal stimulus measures currently being implemented: a one-in-three chance that we experience inflation as a result of the stimulus, a one-in-three chance that the Fed mitigates inflation via a tightening regimen but slows the economy in the process, and a one-in-three chance that the current administration and the Fed achieve their fiscal and monetary objectives of inflation-free real economic growth over the next few years.

formulating our capital market expectations for all asset classes. As of the writing of this letter the 10-year treasury yield stands at 1.63%, up from 0.93% at the beginning of the year, and the 5-year treasury yield stands at 0.86%, implying a 10-5 spread of 77 basis points. The yield on the 10-year treasury inflation protected security (TIPS) was -0.77% as of the writing of this letter, up from -1.08% at the beginning of the year, and the 5-year TIPS is currently -1.70%, implying a 10-5 TIPS spread of 93 basis points. The nominal and the real yield curves imply a high probability of moderate nominal and real economic growth in the years ahead. We will continue to monitor the treasury and TIPS yield numbers closely as substantial fiscal stimulus continues to be unleashed in the next few months and quarters, especially as relates to what this implies as pertains to real versus nominal (inflationary) economic growth. Indeed there has been a significant amount of discussion in the news recently about impending inflation over the upcoming months and years, however we believe that we have already witnessed a significant amount of inflation since the Fed began its expansion of the monetary base² in response to the pandemic over a year ago. Over the past twelve months as of the writing of this letter the S&P GSCI (S&P Goldman Sachs Commodity Index) is up over 87%, silver is up over 70%, and S&P GSCI Copper is up over 89%. Interestingly, all of these commodity-related indices and asset classes outperformed U.S. equity markets during this period with the S&P 500 up about 45% on a total-return basis during this time.

Economic Review and Outlook

Annualized output for the first quarter of 2021 was \$22.05T, a record amount of production for the U.S. economy. From a productivity standpoint the U.S. economy is reaching new highs again for the first time since before the COVID crisis began. The unemployment rate still remains slightly above its long-term average at 6.0% for March of 2021. Given the long-term economic outlook implied by real treasury yields discussed previously we believe that the current extreme increase in overall economic activity is temporary and very much dependent upon the substantial fiscal and monetary stimulus which is currently being applied to the economy.

Portfolio Management

In our last quarterly update we discussed how U.S. equity markets were at their highest valuation levels since the Internet Bubble over 20 years ago. U.S. equity markets have continued their rise throughout the first quarter of 2021 with the Shiller Cyclically-Adjusted Price-to-Earnings ratio registering a level of over 36 as of the writing of this letter. For the first quarter of 2021 the S&P 500 was up 6%, the S&P 1000 was up 15%, and the MSCI EAFE Index was up 4% on a total-return basis.

We continued our search for reasonably-priced equities throughout the first quarter of 2021 and witnessed a limited supply of opportunities. We believe that many formerly reasonably-valued small and mid-cap equities, having experienced substantial price increases throughout the fourth quarter of 2020 and the first quarter of 2021, are no longer reasonably-valued. Remarkably the S&P 1000 value index is up over 26% year-to-date as of the writing of this letter, its best performance in many years, and many of our 2020 purchases have performed well. Despite what we believe to be an overvaluation of many asset classes we continued to find attractively-priced issues in various segments of the U.S. economy. One attractively-valued industry which we have been looking at recently is the U.S. life insurance industry. This industry became out of favor during the pandemic due to low interest rates and fears related to increasing mortality-related loss reserves, with many equity issues trading at less than fifty percent of tangible book value during 2020. Early in the first quarter of 2021 we took a

² According to U.S. Federal Reserve Data, as of March of 2021 the U.S. M-2 money supply had increased almost 28% since January of 2020, just before the pandemic-induced Fed response began

position in Prudential Financial (PRU)³. Prudential is the second-largest United States-based life insurer in terms of assets, with MetLife being the largest. While the analyst community favors MetLife over Prudential⁴, we believe that PRU represents a more attractive opportunity on many measures. As discussed previously, given the current low-growth environment⁵ we are constantly on the look out for sectors, industries and shareholder-friendly companies which have demonstrated the ability to grow significantly faster than the overall economy. We believe that Prudential has demonstrated its ability to grow its assets, having doubled its asset base over the past five years, and the company plans to return about \$10B (an amount equivalent to about twenty five percent of its current market capitalization) to shareholders via dividends and stock buybacks over the next three years. PRU equity is currently trading at a fraction of tangible book value, so we expect the anticipated stock buybacks to be substantially accretive to shareholder net asset value. We believe that there are numerous tailwinds for the life insurance industry over the next few years including a more favorable interest rate environment as well as increased consumer demand for protection and longevity products.

As always, feel free to reach out via phone or email if you would like to review your portfolio, discuss your financial plan, or have any other questions or concerns.

Sincerely,

Atherean Wealth Management, LLC

³ The securities which we discuss in this letter are not necessarily allocated to all of our client accounts. Whether or not we choose to allocate a particular security to your account will depend on your risk tolerance, investment objectives and liquidity needs. Nothing printed in this letter should be construed as a solicitation or an attempt to effect transactions in securities.

⁴ As of the writing of this letter 12 out of 15 analysts covering PRU had hold ratings on the stock, while for MET 12 out of 15 analysts had rated the stock either an outperform or buy

⁵ There are numerous short-term indicators, including government data and positive trends noted in several bellwether U.S. company earnings releases and conference calls that point to a strong economy thus far in 2021. However, as we discussed previously, we believe that a significant portion of the current economic activity is temporary and predominantly due to the substantial amount of consumer spending-oriented fiscal stimulus which is currently being applied to the economy. We continue to have low to moderate real economic growth expectations and concomitantly low capital market expectations for most asset classes over intermediate-term and long-term time horizons.