
March 2021 Market Update

March was another strong month as a broad range of stock market indices set new all-time highs for the month. The U.S. stock market finished up 4.4% and is now up 6.9% year-to-date. International stocks were up 1.4% for the month and are up 3.8% for the year. Bonds dropped 1.2% for March and are now down 3.4% on the year. Real estate is rebounding this year, up 4.4% for the month and 8.7% for the year, outpacing overall U.S. stocks. The tables below show performance for major asset classes and Vanguard asset allocation funds. Chart 1 on the next page shows total return performance for major asset classes.

This year continues to see a reversal of performance drivers from 2020. To remind our readers, large cap growth stocks outperformed small cap value stocks by 30% after the stock market was blindsided by the coronavirus in 2020. That outperformance lasted until November 9, 2020 when Pfizer-BioNTech announced strong results for their coronavirus vaccine. Since then, small-cap value stocks have taken back much of the performance lost to large cap growth. The question now is: have we reached equilibrium? Or do we have more to go?

To answer that, we looked at two different data sources, S&P Indices and MSCI. Chart 2 on the next page details S&P's breakdown by market cap and growth/value since the end of 2018. Chart 3 details MSCI's breakdown by growth vs. value for global stocks and U.S. stocks. Note that both charts provide performance compared to the overall broad market index.

Chart 2 shows small cap value stocks rallied from down 27% in November 2020 to up 3% in mid-March 2021 before ending March down 4%. According to this chart, small cap and large cap stocks are largely back to even value. However, growth stocks have still outperformed and are not back to equilibrium compared to value stocks.

Chart 3, with history going back to 1995, reveals a continuing gap in growth performance. This is true for both global stocks (includes the U.S. and 49 other countries) and the U.S. individually.

Based on this and other analysis we believe the small-cap rally has played out and large-cap and small-cap stocks are now back to fair value. However, the growth-value trade-off persists and future return differentials are uncertain. Growth has consistently outperformed since the global financial crisis and may continue to outperform despite trading at richer levels than growth. We are still overweight growth but we have reduced the degree to which we are overweight.

Table 1: Benchmark Index Performance as of March 31, 2021

<i>Benchmark Index</i>	<i>1 Mo</i>	<i>YTD</i>	<i>12 Mo</i>	<i>5 Yr Ann</i>
U.S. Stocks	4.4%	6.9%	58.7%	16.2%
International Stocks	1.4%	3.8%	51.9%	9.8%
U.S. Bonds	-1.2%	-3.4%	0.7%	3.1%
U.S. Real Estate	4.4%	8.7%	37.5%	5.1%

Table 2: Vanguard Asset Allocation Benchmarks as of March 31, 2021

<i>Vanguard Fund: % Stock/% Bond mix</i>	<i>1 Mo</i>	<i>YTD</i>	<i>12 Mo</i>	<i>5 Year</i>
LifeStrategy Growth Fund: 80/20	2.1%	3.7%	45.3%	11.9%
LifeStrategy Moderate Growth Fund: 60/40	1.3%	1.9%	32.9%	9.8%
LifeStrategy Conservative Growth Fund: 40/60	0.6%	0.2%	21.5%	7.6%
LifeStrategy Income Fund 20/80	-0.2%	-1.5%	10.8%	5.3%

Chart 1: Year-to-Date Market Index Performance as of March 31, 2021

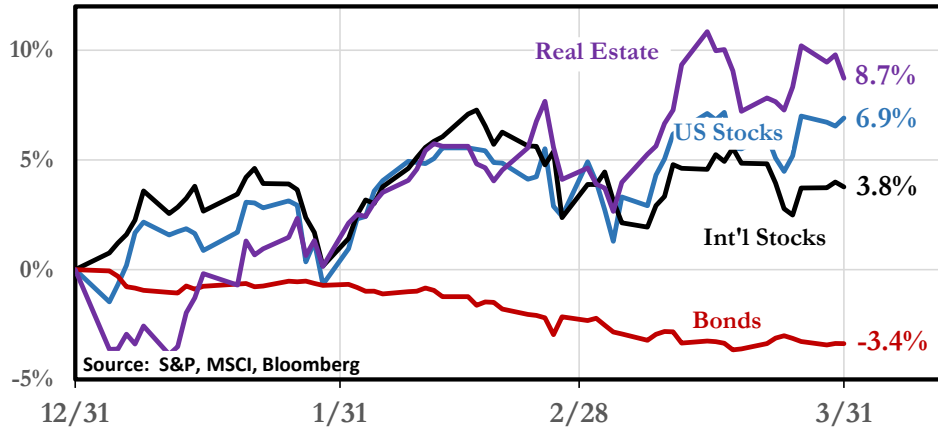


Chart 2: Total Return Relative to the Overall U.S. Market according to S&P

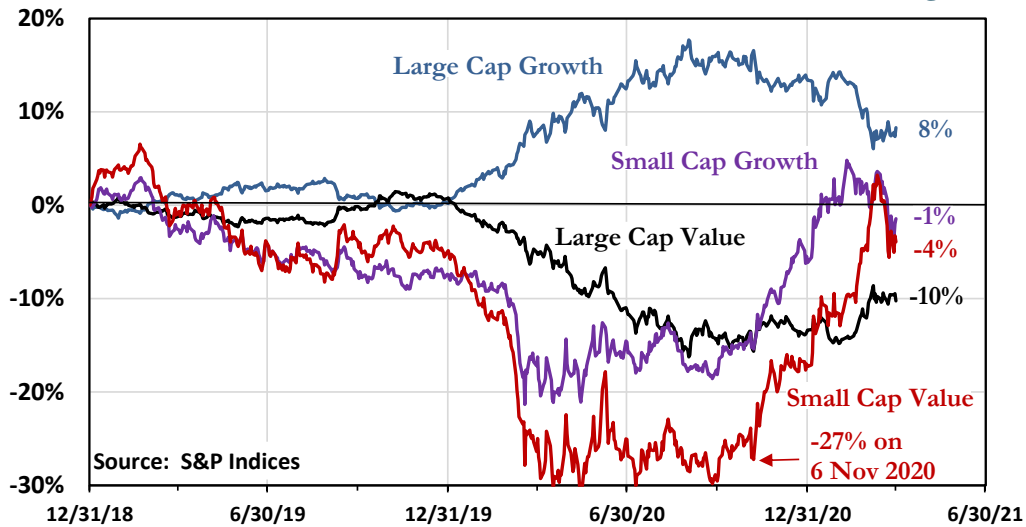


Chart 3: Total Return Relative to Overall Market according to MSCI

