PARKSIDE INVESTMENTS

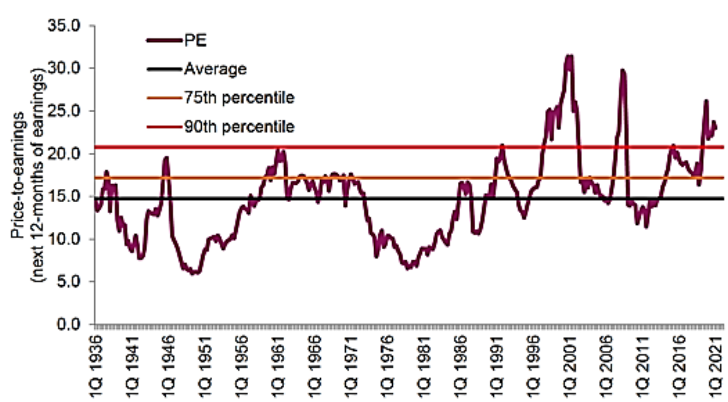
Market Review and Outlook

Global equity markets delivered an encouraging start to 2021, as each of the major indices posted positive returns during the first quarter—notching their fourth consecutive quarter of gains. With investors pricing in a broader economic reawakening in the U.S. amid climbing vaccination rates, the S&P 500 Index recorded a handful of new highs and closed the first quarter up 6.2%. Europe, Japan and other regions experienced slower vaccination rollouts and mixed success in their prolonged battles against COVID, leading to softer economic activity and more muted market gains relative to the U.S. Nonetheless, developed international equities (EAFE) and emerging markets (EM) still posted solid first-quarter returns of 3.6% and 2.3%, respectively.

Stocks have been on an unprecedented run since the short-lived COVID-19 bear market bottomed just over a year ago, with the S&P 500 now up 81% from its low on March 23, 2020. Initially the market's rebound was predominantly driven by a narrow group of large-cap technology stocks that thrived in the stay-at-home economy. The gains more recently, however, have been broader based—with the beaten-down economically sensitive sectors (energy, financial, industrials and materials) leading equities higher in 2021. This market rotation has been fueled by an improving economic narrative, as an increasingly vaccinated population is expected to return to gyms, theaters, brick-and-mortar retail, restaurants, hotels and sporting events—providing a material boost to the economy.

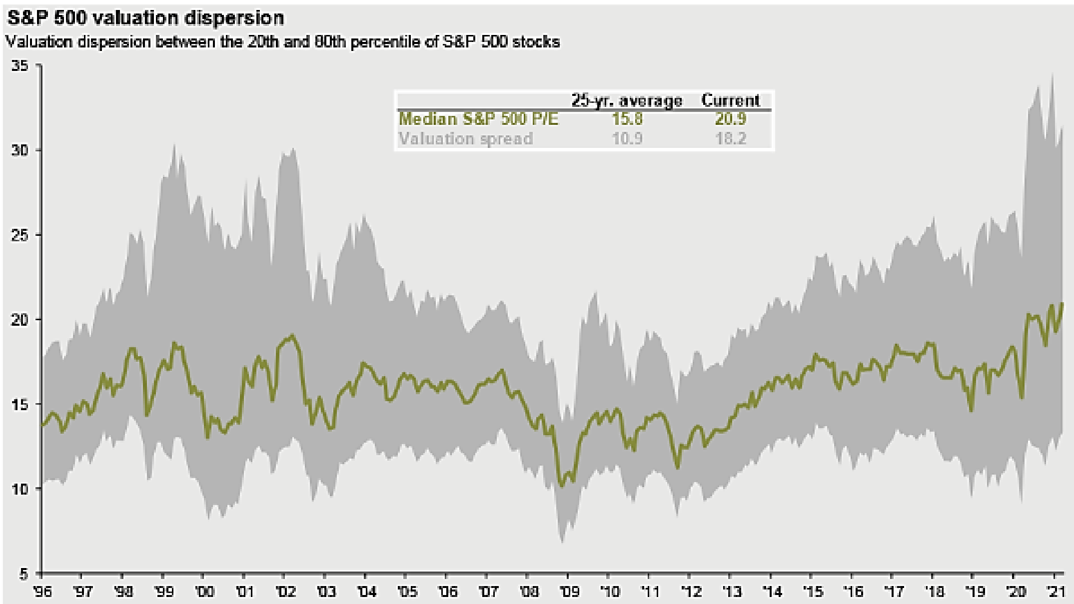
At the same time the U.S. is advancing towards economic normalization, massive fiscal assistance is being injected into the economy through stimulus payments and more generous unemployment benefits. This could lead to a significant acceleration in consumption (particularly once restrictions are fully lifted), adding even more fuel to economic activity in the coming quarters. The Federal Reserve is now projecting real gross domestic product (GDP) will increase 6.5% in 2021 (up from its December projection of 4.2%). This would mark the highest GDP growth the U.S. has reported in over 35 years and nearly three times the post-financial crisis annual expansion rate—which averaged 2.3% from 2010-2019.

The robust pickup in economic activity should provide a supportive backdrop for corporate profit growth in the coming quarters. Earnings for the S&P 500 Index are expected to reach $175 per share in 2021, which would be 25% above 2020 profits and 8% higher than the 2019 earnings peak. With the S&P 500 Index now 20% above its pre-pandemic high and trading at lofty forward P/E multiple of 23x, it could be argued that equity prices have already fully accounted for this healthy economic and earnings growth outlook. That view is underpinned by the fact that the S&P 500's forward P/E ranks in the 93rd percentile of quarterly valuation multiples going back to the 1930s.



Source: Bloomberg, Richardson Wealth

In aggregate, the market admittedly looks expensive relative to historical levels, but beneath the surface there are many pockets where valuations are more reasonable. In fact, about 30% of S&P 500 constituent members are trading below their individual 10-year average P/E ratio. Moreover, the elevated multiples of high-flying stocks are masking inexpensive areas of the market and skewing the overall market multiple higher. This is driving the widest dispersion between the market's cheapest and most expensive stocks in over two decades, creating an opportune environment for active stock selection.



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management (data as of March 31, 2021)

As we've noted in the past, ultra-low interest rates provide some justification for elevated equity valuation multiples overall (and particularly for growth stocks)—because the prevailing below-average discount rate being used to value companies' future cash flows enhances their worth in today's dollars. The caveat to that rationale, however, is that it is predicated on interest rates staying low; any subsequent rise in rates would cause valuation multiples to contract.

The most likely threat to the market right now is a material increase in interest rates. It's reasonable to assume the combined effect of rebounding economic activity and unprecedented fiscal stimulus will put upward pressure on inflation, which could force the Fed to tighten policy and push interest rates higher. Whether that inflation pressure proves to be cyclical (short term) or structural (persistent) is likely to influence the trajectory of the market in the coming quarters, as will the degree of risk investors are willing to tolerate in a rising rate environment.

One has to look no further than the Reddit-fueled "meme stock" rally and special-purpose acquisition company (SPAC) frenzy this quarter to surmise that subsets of the market have become over extended with the influx of liquidity flowing into equities. Pundits with a skeptical view of equities have been trying in vain to predict when these frothy areas could drag down the broader market in earnest, but rising vaccine distribution rates, extraordinary fiscal and monetary stimulus, and a full economic reopening all provide solid tailwinds that could continue to push stocks higher in 2021.

With the market's historic run in recent months, it is possible that equities have already fully priced in these favorable conditions and are effectively "pulling forward" future returns. As such, investors should be prepared for more measured equity returns over the medium term and the potential for a near-term correction. Stocks remain the most attractive asset class longer term in our view though, so we will likely use any short-term pullbacks as an opportunity to selectively allocate additional capital into equities.

Core Portfolio

During the quarter, we initiated a new portfolio position in Kraft Heinz.

Kraft Heinz is the third-largest food and beverage manufacturer in North America (behind PepsiCo and Nestle) and the fifth-largest player in the world. The company's stock has struggled since the ill-structured/timed merger of Kraft and Heinz in 2015, due in part to an increasingly competitive and rapidly changing marketplace. The rise of the e-commerce channel has lowered the barrier of limited physical shelf space for new entrants, at a time when consumers are increasingly willing to experiment with unfamiliar food/beverage brands (particularly as people shift toward more organic and healthier options). However, Kraft's sales soared during COVID lockdowns, proving that consumers still have an affinity for the brand-name products found on their local supermarket shelves. The pandemic-boost was likely (hopefully) a one-time catalyst, but we believe that food-at-home consumption could prove sticky and lead to higher sales for the company going forward—especially if the increased work-from-home movement proves durable. Coupling this trend with the new management team's pre-pandemic operating efficiency and profit margin improvements, we expect Kraft to generate respectable top- and bottom-line growth over the medium term. The combined result of healthy profit expansion and a subsequent narrowing of Kraft's relative valuation discount to its peers could translate into compelling returns for shareholders.

We exited our holdings in Discovery, Facebook, J.P. Morgan and the SPDR S&P Biotech ETF.

Discovery is a media company that traditionally used cable operators to broadcast its non-scripted content, but has more recently entered the crowded streaming landscape with the launch of Discovery+. We've long believed the market significantly underappreciated the value of Discovery's content and its ability to remain relevant amidst the secular trend in cord cutting. While we continue to like the company's business prospects, the stock had been on a tear in recent months and reached a valuation level that we felt fully priced in its medium-term growth prospects—especially as the streaming market gets more competitive. Thus, we decided to sell our stake in the company and use the proceeds to invest in opportunities that offer more attractive price appreciation potential.

Facebook's base of roughly 3.0 billion active users provides the company with an unmatched and valuable asset for advertising and content targeting. That said, the company's business has come under intense scrutiny of late. Policymakers have taken Facebook to task for allowing extremism and misinformation to be disseminated across its platform, while other government bodies have filed antitrust lawsuits against Facebook. Additionally, calls for more personal data ownership and heightened privacy protections continue to intensify, which could limit revenue expansion and increase operating costs for the company. Given these risks, we believe Facebook's near-term growth may be constrained and the shares could be susceptible to a correction. We decided to exit the stock as a result, preferring instead to monitor the potential impact of these developments from the sidelines.

J.P. Morgan is an exceptionally well-managed bank, with best-in-class business lines that consistently rank tops among the industry. Its operating success has not been lost on the market though, as the bank's stock now trades at a historically high price-to-book ratio and at a significant premium to its peers. While we continue to like J.P. Morgan's business prospects, we believe its peers have an ability to close the valuation gap in the coming years and generate more attractive shareholder returns. Therefore, we sold our position in the company in order to reallocate the funds into our other bank holdings—Citigroup and Truist Financial.

The SPDR S&P Biotech ETF invests in a diverse portfolio of biotechnology companies. While we think a number of these biotech firms are likely to play a pivotal role in addressing the world's future healthcare needs, valuations in the space climbed to overheated levels during the quarter. With interest rates likely to move higher, we viewed the lofty valuations of biotech firms as particularly vulnerable to a pullback—as the present value of their very distant earnings will be worth considerably less when discounted at higher interest rates. We sold our stake in the fund as a result, but we would consider reinvesting in the space at more attractive valuations.

Fixed Income

The yield curve continued to steepen during the first quarter of 2021, with the 10-year Treasury yield increasing swiftly from 0.93% at the beginning of the year to 1.74% by quarter end—spurred by the improved economic growth outlook. Meanwhile, the short end of the curve remained anchored by the Federal Reserve's policy of keeping its target Federal Funds Rate near zero.

Given that long-term interest rates fell to all-time lows during the pandemic, it's expected (and appropriate) to see rates increase and the yield curve steepen as economic growth picks up. Depressed international interest rates could cap the 10-year yield below 3.0% for the foreseeable future, but that still leaves plenty of room for domestic yields to run higher (putting downward pressure on bond prices) as the economy continues to gain steam. Therefore, we maintain our cautious view on longer duration bonds and continue to seek safety over yield by investing in securities at the shorter and intermediate portion of the interest rate curve.

New Employee

We are pleased to announce that Nelson Greene is joining Parkside in the new position of Wealth Advisor. With most recent experience at TD Ameritrade and several industry leading financial technology firms, Nelson will utilize his nine years of financial services experience to enhance our firm's growth and communications.

Final Thoughts

As always, thank you for your continued confidence and trust in us as stewards of your capital. We look forward to meeting with you in person again in the not-too-distant future. In the interim, please do not hesitate to contact us with questions or comments.

Parkside Investments, LLC

April 9, 2021

Please contact your Parkside representative at 312/778-7700 if there are any changes to your financial situation or objectives, or if you wish to modify any restrictions on your account.

Parkside Investments, LLC maintains a business continuity plan and periodically reviews the plan for disaster preparedness. In an emergency, news updates will be posted to our website www.parksideinv.com until the critical situation has been resolved. You may also contact us through our individual phone lines and e-mails or by our main phone 312/778-7700 and e-mail address info@parksideinv.com. Your calls and e-mails will automatically forward to other devices away from our offices.