Crossvault Capital Management, LLC
7373 Broadway, Suite 107
San Antonio, Texas 78209
ph 210-223-6929
fax 210-223-5852

C R O S S V A U L T

1Q2021

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The first quarter of 2021 was dynamic and full of change for the markets. The rapid rise in the rate of the 10- year Treasury caused a decline in the share prices of many growth stocks, and a surge in the share prices of companies believed to benefit in a rising rate environment. Alternative investments like Bitcoin, and non-fungible tokens rose as well, with individual investors as well as institutions lending validity to some of these speculative assets. There is a commonly held theory that the recent stimulus checks going to individuals will be invested in stocks, as well as these more speculative investments. While the Federal Reserve recently reiterated its commitment to keep short term interest rates low, inflation fears, the prospect of a "hot" economy, as well as the unprecedented amount of monetary and fiscal policy actions, drove the longer end of the curve to steepen. A steep yield curve is probably the best positive leading indicator for economic growth. At quarter end the 10-year Treasury yield was 1.74%, which was up from a record low of .52% recorded on August 4 of 2020. The equity markets closed the quarter with the Dow +7.8%, the S&P +5.8%, and the NASDAQ +2.8%.

Exactly one year ago this month, we went into a pandemic induced recession. The economy was contracting and the stock market, as measured by the S&P 500, was down 35% at its March low. It was the fastest bear market ever, and it then ushered in another bull market. Based on the history of vaccine development, we were initially told that it would be at least 3-5 years before we would have a viable, FDA approved vaccine. As of the end of March 2021, the U.S. is vaccinating 2.5 million Americans every day with at least one dose of several vaccines that are approved and available. These vaccines have an unprecedented 94%-96% efficacy. It is nothing short of a miracle. Due in part to the success of the vaccine, the consensus for GDP growth this year ranges anywhere from 4.2%-6.5% reflecting a strong recovery from the economic shut down. As a result, sentiment has shifted somewhat, away from companies that benefit from work at home and lock downs, to companies that benefit from the reopening of the country. The unemployment rate has continued to improve and the housing market remains strong with record high prices, in spite of the recent rise in interest rates. It is only lack of inventory that has caused some real estate markets to see a decline in sales. It is not a lack of demand.

As with any major dislocation or crisis, new companies and new secular themes have emerged from the virus induced crisis. At Crossvault we consistently watch for change and opportunity. As a result, we have added exposure to companies that supply electric vehicle makers, and we have increased our exposure to industrials and materials. In addition, we continue to see value and promise in technology, with a particular focus on software, cloud computing and financial technology. We firmly believe that some of the structural changes that have taken place during the pandemic will remain in place for the foreseeable future. While higher interest rates may portend higher inflation which could negatively impact some equity prices, we view the recent rise in rates as a relative positive. For us it is indicative of a thriving economy and the promise of future growth.

We look forward to scheduling meetings or calls at your convenience to review your account and the quarter.

Laura Ehrenberg-Chesler | Marilou Moursund, CFA | Sarah Calvert Doerr

Crossvault Capital Management, LLC
7373 Broadway, Suite 107
San Antonio, Texas 78209
ph 210-223-6929
fax 210-223-5852

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