Quarterly NEWSLETTER

SPRING 2021

Commonwealth Bank & Trust Company
4350 Brownsboro Road, Suite 210 • Louisville, Kentucky 40207
502.259.2500 • www.CBandT.com

Fiscal & Monetary Punch Bowls Fuel Market Melt-Up

Mark J. Kennedy, Executive VP
p: 502.259.2517 e: mark.kennedy@cbandt.com

The S&P 500 extended the rally ignited by the approval of a COVID vaccine in November 2020, finishing the first quarter at 3,973, breaking through 4,000 on April 1, and continues setting new highs to start the second quarter. The S&P 500 returned 6.17% during the first quarter, including dividends. On the fixed income front, following two strong years of returns boosted by the Fed cutting short term rates to nearly zero, the Bloomberg Barclays Aggregate bond index lost -3.37% in the first quarter as the 10-year Treasury yield rose from 0.92% to 1.75% over inflation fears. Historically low interest rates and $2 trillion in excess savings from stimulus checks are supporting high valuations for stocks and other assets. Until the economy is restored to full employment, the Fed intends to keep rates at current levels. As long as short term rates remain near zero (Zero Interest Rate Policy or "ZIRP") and the Biden administration enacts more fiscal stimulus, we believe equity markets will continue to "melt up". In our opinion, the Biden administration's $1.9 trillion COVID stimulus bill enacted in February provides more than enough stimulus to return U.S. GDP to the pre-pandemic growth trajectory. Adding the proposed $2.3 trillion physical infrastructure plan ("American Jobs Plan") and possibly another $1 trillion social infrastructure bill to existing stimulus could well lead to an overstimulated economic boom. In light of the proposed stimulus, investors have pushed the S&P 500 above 4,000. In our estimate the market is pricing in 5% to 10% higher S&P 500 EPS estimates in 2021 and 2022, which implies a booming economy. We believe, however, investors are ignoring the potential side effects related to fiscal "overstimulus" – inflation and taxes. The additional $3.3 trillion fiscal stimulus will likely lead to higher inflation risking a surge in interest rates. Furthermore, taxes to fund the massive spending plans threaten to slash corporate earnings 5% to 8% and disincentivize the flow of savings that are also fueling the market "melt up".

Please visit our Investment Commentary page for our complete Market Outlook, which includes a section on the Biden administration's proposed infrastructure plan and other expected tax plans at **www.cbandt.com/wealth-trust/resources/**

Q1 2021
S&P 500 Sector Performance

	Q1	1 Year
Healthcare	3.18%	34.04%
Consumer Discretionary	3.11%	70.29%
Consumer Staples	1.15%	28.37%
Financials	15.90%	67.32%
Communication Services	8.08%	60.87%
Information Technology	1.97%	66.61%
Materials	9.08%	78.29%
Energy	30.84%	75.14%
Industrials	11.41%	69.60%
Utilities	2.84%	19.52%
Real Estate	9.02%	32.02%

Proprietary Performance Results

Equities	1st Qtr	1 year	3 year	5 year	10 year
Focused Equity Fund[1]	15.28%	67.05%	22.24%	18.72%	14.90%
Science/Technology Fund[2]	1.44%	63.42%	25.14%	24.76%	17.60%
Aggressive Growth Fund[3]	1.92%	43.57%	13.48%	17.58%	15.30%
S&P 500	6.17%	56.35%	16.78%	16.28%	13.90%
Balanced	**1st Qtr**	**1 year**	**3 year**	**5 year**	**10 year**
Strategic Income Builder Fund[4]	7.20%	39.46%	11.12%	10.34%	8.67%
60% Russell 3000 Value, 40% Barclays Aggregate Index	5.65%	32.76%	8.99%	8.67%	8.17%
Alternatives	**1st Qtr**	**1 year**	**3 year**	**5 year**	**10 year**
Liquid Alpha Fund	-0.08%	0.36%	1.89%	0.97%	n/a
Structured Alpha LP	0.78%	0.07%	0.45%	n/a	n/a
SG CTA Index	2.53%	6.35%	2.87%	0.25%	n/a
Tax-Free	**1st Qtr**	**1 year**	**3 year**	**5 year**	**10 year**
Muni Funds Blend	-0.07%	4.67%	5.14%	3.70%	3.83%
Barclays 1-12 yr. Muni Index	-0.26%	4.54%	3.97%	2.65%	3.16%
Aquila Churchill Tax-Free Fund of KY	0.25%	3.63%	3.89%	2.62%	3.50%
Dupree KY Tax-Free Income	-0.15%	3.91%	4.32%	2.87%	3.87%

There is no assurance that any of these investment strategies will meet its investment objective. Performance results for each strategy are computed on the strategy's overall returns. Each strategy and index includes the reinvestment of dividends. Past performance does not guarantee future results. Current performance may be lower or higher than the performance results quoted. [1] Net of management fees; Inception date 7/1/1989; performance results of SMC Capital and/or its principals as advisor from inception to 2/28/06 and as sub-advisors to CBandT since 3/1/06. [2] Inception date 12/31/2008. [3] Inception date 3/31/2006. [4] Inception date 12/31/2008.

Fixed Income

In March, the Federal Reserve left the Fed Funds rate unchanged at 0-0.25%. The renewed interest rate projections still show that FOMC members collectively expect to remain zero-bound through 2023. However, three participants now expect one rate hike next year and one expects two hikes. In December, only one expected a single hike next year. Despite this modest adjustment to the rates forecast, growth and employment expectations improved dramatically. GDP growth was revised up from 4.2% to 6.5% in 2021, from 3.2% to 3.3% in 2022, and down from 2.4% to 2.2% in 2023. The unemployment rate is now expected to be 4.5% at the end of this year, 3.9% at the end of next year and 3.5% by the end of 2023. That puts the economy at the Fed's estimate of full employment late next year and below the threshold thereafter.

On inflation, the Fed expects core PCE (Personal Consumption Expenditures) to reach 2.2% this year, 2.0% next year and 2.1% in 2023. Changes to growth, unemployment, and inflation forecasts suggest the Fed expects inflation will run a little hot thanks to strong fiscal stimulus, but not enough to require a monetary policy response. Given its new "average inflation target" policy of 2%, it will be interesting to see how the Fed reacts if inflation runs significantly above these projections over the next few years.

While uneventful this quarter, there can be no denying the Fed's significant impact on fixed income markets last year. In response to the "COVID-19 pandemic", the Fed quickly slashed its Fed Funds rate by 1.5%, with two "emergency" cuts to its 0-0.25% range in March 2020. This followed three cuts of 0.25% during the second half of 2019, as a "dovish' Fed described its actions as a "mid-cycle adjustment to policy". It is interesting to note that before these moves, the funds rate stood at 2.5%, which is now their expected longer-term median rate.

In February, fixed income markets started to reflect an inflationary backdrop. We suspect this had to do with the third round of stimulus or the $1.9 trillion package that was being introduced through the reconciliation process early that month, on top of $0.9 trillion in stimulus introduced in December. The "American Rescue Plan Act of 2021" initially passed the House on February 27 and a modified version passed the Senate on March 6 by a vote of 50–49. The final amended bill was passed by the House on March 10 and the bill was signed into law by President Biden the next day.

During February and March, the 10-year Treasury rose by 0.68%, reflecting this concern over inflation. In total, the 10-year finished up 0.83% during the quarter to yield 1.74% vs. 0.91% to start the year. With these higher rates, Treasuries returned -4.25% for the quarter, reversing over half of the 8% total return from 2020. Corporate bonds were mixed, with investment-grade bonds returning -4.65%, similar to Treasuries, but non-investment grade or "high yield" corporate bonds returned +0.85%, as spreads fell from 3.6% to 3.1% during the quarter.

Like high yield, tax-free municipal bonds were also relatively immune to higher interest rates. We believe this is due to a combination of the improved economic fundamentals, the potential for higher income taxes, and the overall supply/demand picture. There are obvious signs of improvements but municipals will also benefit from direct aid in the most recent stimulus plan. This includes $350 billion in payments to state, local and territorial governments. An additional $170 billion is earmarked to help schools reopen, with about $130 billion going to support K-12 and $40 billion to colleges and universities. We have always said that the interconnectivity of state and local governments to the federal government was a credit positive. The actions during the pandemic confirms our belief, differentiating municipals from corporate securities.

Higher tax rates have been proposed to offset $2 trillion in infrastructure spending. This would include higher tax rates on corporations (28% vs. 21%) and reverts the top individual income tax rate over $400k (39.6% vs. 37%). In general, supply/demand remains very favorable due to these factors. Also, continued issuance of taxable municipals to "advance" refund outstanding issues has supported tax-free returns. For the quarter, tax-exempt municipals did not reflect the significant moves in Treasuries, generating a total return of -0.35% vs. -4.25%.

From a broad-based perspective, the Bloomberg Barclays Aggregate index returned -3.37% during the quarter. This compares to a strong +7.51% return last year. The good news is that the overall yield on the index increased to 1.61%, up from 1.12% to start the year. Historically, the "starting-point" yield has been a strong predictor of future/multi-year annual returns. Although this became disjointed in recent years, particularly during the pandemic.

Entering the year, we stated that "We know that the returns of the last few years are "not repeatable", unless a significant amount of U.S. debt begins to trade at "negative yields", a concept we first discussed in 2016. Not totally out of the question, but a low probability, as effective vaccines are being rolled out here and around the world. Additionally, we believe there will be significant progress towards "economic" normalcy by the end of this year."

So once again we reiterate our 1%-3% annualized return estimates for investment-grade fixed income over the next 3-5 years, with a bias towards lower returns if rates approach more historical levels.

Focused Equity

For the first quarter and the twelve months ending March 31, the strategy returned 15.28% and 67.05%, respectively, versus a 6.17% and 56.35% gain for the S&P 500 Equity Index. Since inception, the strategy has outperformed the S&P 500's annual return of 15.21% by 0.91% with an annualized gain of 16.12%. The fund has achieved these results taking on meaningfully less risk than the S&P 500 with a beta of 0.86, thus producing annualized alpha (the amount of risk-adjusted performance greater than the benchmark) of 2.87 since inception (12/31/2008).

Strategy Update: For over a decade, the Focused Equity fund has delivered strong investment results and delivered alpha vs. the S&P 500 by investing in quality companies. The portfolio is concentrated (~40 holdings) and focused on large and mid-cap companies that have sustainable advantages over their competitors, allowing them to consistently grow cash flows, and compound above market returns for shareholders. In early 2020 after a year of diligence, we strategically allocated almost half of the fund to Emergent Capital Advisors (ECA) a fund of external managers that follow a similar investment process, but focus on specific industries. Combining the two strategies increased long-term returns and reduced risk. The ECA managers complement and enhance returns by including a broader universe of strategies and stock selection candidates. The firms tend to include smaller capitalization companies, as well as special situations and event-driven opportunities. Some of the managers run long/short portfolios, reducing overall risk for Focused Equity and enhancing risk-adjusted returns. An example of the benefits from combining ECA holdings with Core Focused Equity holdings is included in the Leaders section below.

Leaders: One of the ECA managers, Hestia, had a record quarter returning +270%, while making stock market history for our fund holders. A 4% holding in Hestia drove the 15.3% return for Focused Equity in the quarter vs. 6.2% for the S&P 500. Hestia made a long-term investment in GameStop (GME) almost two years ago and actively urged management to exit its costly real estate footprint and enhance its online presence, calculating these moves could send the stock from its $4 purchase price to $10 to $15, which it achieved by the end of 2020. Hestia's portfolio manager, Kurt Wolf, recruited other investors including a management team from Chewy, the online pet retailer. Wolf and the team were named to the board in January. The headline making Reddit trading phenomenon started shortly thereafter and bid up GME almost to $500 in February. As a board member, however, Wolf and Hestia were not free to sell shares until Wolf exited the board in early April. Nevertheless, Hestia's GME return represented a 40+ fold increase over the original investment and the small position created outsized gains for Focused Equity. Meanwhile, CB&T's Core Focused Equity holdings delivered strong gains for the year. Over the last twelve months, size, quality growth, and specifically FANMAG continued leadership throughout the COVID crisis and subsequent recovery, as PayPal (PYPL, +153.76%), Cheesecake Factory (CAKE, +123.43%), Micron Technology (MU, +96.12%), Apple (AAPL, +93.62%), Alphabet (GOOGL, +77.54%) and Facebook (FB, +76.58%) produced the largest returns.

Cheesecake Factory, Inc. (CAKE)
1/1/2021 – 3/31/2021

Laggards: Outperformance by growth stocks through the first three quarters of 2020 was driven by valuation multiple expansion, but as treasury rates rose in the first quarter of this year, P/E multiples were adjusted downward. Core Focused Equity technology stocks including positions in Advanced Micro Devices (AMD, -15.30%), Apple (AAPL, -7.80%), Amazon.com (AMZN, -5.00%), Adobe Systems (ADBE, -4.95%) and Salesforce (CRM, -4.79%) were hardest hit. No Focused Equity holding held for a year lost money in the last twelve months, but slower-growth consumer staples companies including Mondelez (MDLZ, +19.55%), Pepsico (PEP, +21.29%), and defense contractor Lockheed Martin (LMT, +11.95%) were the largest relative detractors for Core Focused Equity over the last twelve months. A small position in Ryanair (RYAAY, -40.0%) within the ECA portfolio was the biggest laggard for the last twelve months. Given its small position size, the discount European airline created a -0.30% loss for Focused Equity.

Strategic Income Builder

Equity income, or "value" investors, continued to outperform "growth" as COVID and economic data point to a much quicker and more robust re-opening and recovery. During the quarter, the Russell 3000 Value returned 11.9% during the quarter vs. only 1.2% for its "Growth" counterpart. However, value still lagged growth over the last 12 months by nearly 6%, or 58.4% vs. 64.3%. Since 2019, a significant gap of almost 25% remains, with total returns of 15.1% vs. 39.9%, respectively. Unfortunately, with this run, the dividend yield for the Russell 3000 Value has fallen to about 2%, from 3.5% last March, and around 2.5% at the end of 2019.

Interest-rates also reflected the re-opening optimism and inflationary fears. In the quarter, the 10-year Treasury yield increased to over 1.7% from 0.9%, impacting fixed income returns. For example, corporate bonds were not immune to this selloff returning -4.7% for the quarter. Although, the high-yield index had a quarterly return of +0.9%, as spreads tightened and its yield remained around 4.2%.

For the quarter, the strategy (SIB) returned +7.20% vs. +5.65% for its weighted benchmark (60% Russell 3000 Value & 40% Barclay's US Aggregate). 12-month results demonstrate the substantial recovery since the pandemic's onset, at +39.46% and +32.76% for its benchmark. Since inception (1/1/09), the SIB strategy has returned an annualized +9.92%, outpacing its benchmark return of +9.26% by 0.66%. The yield generated from the strategy has consistently exceeded that of its benchmark. On a risk-adjusted basis, the strategy has generated a positive alpha of +0.94% annualized with a volatility beta of 0.96. The success of the portfolio is the result of an attractive mix of income producing securities, asset class and sector allocations, and tactical positions in global markets.

For the quarter, our equities returned +11.16% compared to the Russell 3000 Value return of +11.89%. Our large-cap bias impacted returns again this quarter. Over 12-months, our equities outperformed at +58.91% vs. +58.38%, respectively. The strategy continued to benefit from an overweighting in stocks, and we finished the quarter with nearly 69% equities. Dividend yield for the portfolio ended the quarter at 2.70%, or roughly 0.70% higher than the Russell 3000 Value and 1.25% more than the S&P 500.

Financials (+18.0% portfolio returns), Consumer Discretionary (+30.8%), and Energy (+25.5%) added the most in terms of overall investment gains during the quarter. Of the larger sectors, Healthcare (+4.3%) and Technology (+3.8%) produced limited returns through March.

Ford Motor (F +49.5%) and General Motors (GM +38.0%) were standouts within consumer discretionary. Both automotive companies discontinued their dividends around this time last year, given the uncertainties surrounding the pandemic. Ford and General Motors were previously yielding 6.5% and 4.5% as of their last dividend declaration dates in early 2020. Given its strength, we exited our position in Ford mid-March, but maintained our position in General Motors throughout the quarter. Bloomberg is reflecting that GM will restore its quarterly dividend per share of $0.38 in July, per its dividend forecasting model. But nothing is visible on Ford's dividend reinstatement at this time.

Ford Motor Co. (F)
1/1/2021 – 3/31/2021

Quarterly fixed income returns were -2.16% vs. -3.37% for the Bloomberg Barclays Aggregate Bond Index. Our credit-based funds and particularly high yield performed very well during the quarter. Like equities, 12-month results show the substantial recovery, at +7.03% vs. +0.71% for the Aggregate index. Fixed income allocation ended the quarter at 23.5% of the balanced portfolio.

Our risk-reducing alternatives also performed well, returning +4.6% and +16.7% for the quarter and 12-month period. Alternative investments were 5.6% of the combined portfolio, to close out the first quarter.

Science & Technology Strategy

The Science & Technology growth fund (SciTech) returned +1.4% in the first quarter, a modest start to the year following a +45.0% return in 2020. Lower quality, value companies started to rally in November after vaccines were approved. Value stocks continued to rally in 1Q21 on reopening optimism, which weighed on SciTech's relative performance given the fund's preference for innovative higher quality growth stocks. The S&P 500 gained 6.2%, but the S&P 500 Growth index posted a 2.6% return during the first three months of 2021. Over the trailing 12 months, SciTech returned +63.4%, outpacing the S&P 500 (+56.4%) and the S&P 500 Growth Index (59.4%). Stock picking continues to drive the longer term outperformance for SciTech versus broad market indices. Over the last five years, the fund has gained an annualized 24.8% versus 19.3% for the S&P Growth and just 16.3% for the broader S&P 500. SciTech has exhibited better risk-adjusted returns than its S&P 500 Growth benchmark with a Sharpe Ratio (measure of return versus risk) of 1.13 versus 1.04.

Leaders: The fund's biggest gainer in 1Q21, on a weighted basis, was Alphabet (Google, GOOG/GOOGL); the position gained about 17.7% for the quarter and ended March comprising 8.2% of the fund. From a thematic standpoint, the semiconductor space represented a source of outperformance to start the year. The global demand outlook remains strong, fabrication capacity remains constrained, and we own some of the best/leading companies in the ecosystem. ASML Holding (ASML +26.6%) and Micron Technology (MU, +17.3%) were the top two percentage gainers for SciTech during the quarter, while Taiwan Semiconductor (TSM, +8.9%) also outperformed.

Laggards: On the other end of the mega-cap tech spectrum, Amazon (AMZN, -5.0%) and Apple (AAPL, -7.8%) were two of the three biggest drags on fund returns in Q1. AMZN and AAPL were both early pandemic safe havens that have mostly traded sideways since the Vaccine Value rally started in November. We believe both remain well positioned to compound for years to come based on the strength of Amazon's Cloud, media and retail businesses and Apple's ecosystem of consumer products. We gave back profits in some of our speculative high growth plays that were subject to idiosyncratic events. Sarepta Therapeutics (SRPT, -56.3%) announced an anticipated drug trial for a new Muscular Dystrophy drug failed to meet its endpoint. Shares of leading edge, machine data miner, Splunk (SPLK, -20.3%), remained weak as it transitions its business model from recognizing upfront software licensing and support revenue, to offering cloud-based subscriptions that generate monthly revenues. SciTech profited from similar software companies (including Adobe) that made this transition, but the stocks fell during the transition year as year/year revenue growth optically declined, before reaccelerating the following year and the stocks reached new highs.

Small Cap

The Small Cap Value Composite returned 13.49% for Q1 versus 21.17% for the Russell 2000 Value index. For the last 12 months, the composite return is 72.96% vs benchmark return of 97.05%.

One top contributing holding in the Portfolio during Q1 was Avaya Holdings Corp. (AVYA; +46%; +114 bps), a provider of communications networks for companies in on-premise, cloud, and hybrid formats. Shares rallied as Q1 revenue and EBITDA beat consensus estimates and full year 2021 EBITDA guidance was increased due to AVYA's "very strong pipeline." Revenues grew for the third straight quarter from the strength of the Avaya Cloud Office product, recently launched in partnership with RingCentral. This product generates monthly subscription revenue per user, which dramatically increases the predictability of the business. We maintained the position during the quarter. Another large contributor during the quarter was Atkore Inc. (ATKR; +75%; +113 bps), a manufacturer of branded electrical products that protect and frame electric circuitry primarily in the non-residential construction and renovation markets. ATKR announced a blowout quarter where net sales in Q1 grew +14% year over year with EBITDA +76% year over year (margin +940 bps). Results were driven by higher average selling prices within PVC electrical conduit, as increased demand was coupled with industry supply constraints. Another positive contributor was Comfort Systems USA Inc. (FIX; +42%; +89 bps), an installer and servicer of HVAC and electrical systems for commercial and industrial customers. FIX announced good Q4 results in line with expectations. Revenue declined a modest -3% year over year against difficult comps as the company lapped some large projects in its Electrical business in 2019. However, the company's accretive acquisitions and gross profit margins expanded +120 bps on improved business mix, driving EBITDA +6% higher year over year. We maintained the position.

A large negative contributing holding in Q1 was Cannae Holdings Inc. (CNNE; -11%; -47 bps). One of our most successful investments in recent years, CNNE underperformed in Q1 as its two largest equity investments, DNB (-4%) and CDAY (-21%), declined during the quarter following COVID-19-impacted earnings results. Given our favorable view of DNB and CDAY fundamentals, the considerable opportunity embedded in the Paysafe and Alight transactions, the potential for the remaining Bill Foley-led SPACs to find high quality targets, and the stock's attractive discount to our assessed value, we added to our position during the quarter. Another poor performer was Air Transport Services Group Inc. (ATSG; -7%; -37 bps), the premier lessor of Boeing 767 freighter aircraft essential to support e-commerce. Results for Q4 2020 and 2021 adjusted EBITDA guidance were in line with our expectations and continue to bode well for ATSG's longer-term outlook as more 767 leases are being contracted and deployed. More notably, major lease customer Amazon (AMZN) converted its first tranche of warrants into a cash purchase of shares, resulting in ~19.99% ownership of ATSG pending regulatory approval. Given the stock's attractive discount and long-term success in the Portfolio, we took advantage of the pullback to add to our position. Another bottom contributor during the quarter was Premier Inc. (Cl A) (PINC; -3%; -8 bps), a healthcare GPO and data analytics provider. PINC lagged despite Q2 2021 revenue and EBITDA exceeding consensus estimates as well as the introduction of FY 2021 guidance above expectations. In August 2020, the company completed a GPO contract simplification that led to a one-time reduction in EBITDA estimates, which makes year-over-year comps difficult until August 2021. Like ATSG, we took advantage of the pullback to add to our position.

Avaya Holdings Corp (AVYA)
1/1/2021 – 3/31/2021

Kentucky Municipals –1Q 2021

Quarterly bond issuance by Kentucky municipalities rose to $926 million from $670 million in the previous quarter. Competitively awarded deals were $305 million with negotiated deals of $621 million. Deal size was reasonably strong, averaging $18.2 million with 51 new issues in total. Bank-qualified (BQ) issuance was only $34 million or under 4% while non-BQ issuance was the majority, coming in at $601 million or 65%. The remaining $221 million (24%) were "federally" taxable municipal issues, and $70 million (8%) of AMT tax-subject bonds. Nationally, taxable muni issuance is now a significant portion of supply (~30%) as borrowers "advance" refund existing debt at a lower cost. Visible KY supply is reasonable with $276 million on the calendar in coming months and issuers should continue to benefit from very low interest rates.

Issuers of note included the Kentucky Asset/Liability Commission that issued $115 million in general fund revenue bonds. Moody's assigned and confirmed their rating of A1 with a "stable" outlook. This is important as this Moody's rating flows through to many KY issuers tied to appropriation at the state level. For example, KY school bonds reflect this rating and many do not apply for their own "underlying" rating. The A1 (Stable) KY appropriation level rating has been applicable since July 2017, when it was dropped a single notch from its previous Aa3 rating. The proceeds will be used to refund outstanding General Fund Floating Rate Project Notes 2007 Series' A & B. The prior bonds performed very poorly in the '08-09 financial crisis, as they did not have a firm "put" at par to the remarketing agent. Some of these floating rate bonds traded as low as 55 cents on the dollar or $55, so we suspect investors will be very happy to receive $100, or par, once these are "called" in May.

In describing their ratings rationale, Moody's said "The A1 rating is based on the credit quality of the Commonwealth of Kentucky (issuer rating Aa3 stable), which will provide lease payments to cover debt service on the bonds. The rating is one notch lower than the commonwealth's issuer rating, reflecting the essentiality of the original financed project as well as the moderately strong legal structure, in which the funds pledged to pay the bonds are subject to appropriation."

The S&P Municipal Bond Kentucky Total Return Index outperformed the national market somewhat during the quarter, returning +0.08% vs. -0.35%. For 2020, that KY bond index returned +5.05%, or just off the +5.21% return for the Bloomberg Barclays Municipal Index. According to S&P, its yield-to-worst (YTW) rose slightly to 1.24%, vs. 1.20% to start the year, and a record low of 1.02% this February. For comparison, the Bloomberg Barclays Municipal Index has a yield-to-worst of 1.18%, so the state's yield advantage is now only 0.06%. This spread "tightness" suggests the market is comfortable with KY's credit fundamentals in general.

Like the national market, the S&P KY Municipal Index declined over 10% at its trough last March during the pandemic induced selloff. A peak yield of 3.87% demonstrates the buying opportunity last year during the height of the stress, and we actively took advantage of those dislocations. This included tactical purchases within accounts that do not normally purchase tax-exempts.

Kentucky Legislative Update – (Republican Lawmakers Plunge Into Veto Overrides in Kentucky- Associated Press 3/30/21-Excerpts)

Republican lawmakers swept aside the Democratic governor's vetoes of bills to change retirement benefits for new teachers and potentially shield legislative records from public scrutiny. Shortly after gaveling in after a nearly two-week break, the GOP-dominated legislature turned to sweeping aside a stack of vetoes by Gov. Andy Beshear. The override votes spanned hours, from early afternoon and continuing into the late night. Some of the overrides stripped away parts of the governor's executive authority, shifting the power to statewide Republican officeholders. It continued a theme throughout the contentious legislative session. The governor has hinted he expected more court challenges to some vetoed bills if they become law. Beshear and Republican legislative leaders already are waging a court fight over previous measures that threatened to invalidate the governor's executive orders to try to slow the spread of COVID-19.

Lawmakers reconvened with two days left in their 30-day session. The House and Senate, both with GOP supermajorities, voted to override Beshear's veto of a bill to create a "hybrid" pension tier blending defined benefit and contribution components for new Kentucky teachers hired starting in 2022. It would mean that teachers hired starting next January would be required to contribute more toward their retirement benefits. The bill would not affect teachers already enrolled in the retirement system. Opponents said the measure would hamper efforts to recruit people into teaching. Democratic Rep. Tina Bojanowski said the measure would make it necessary for new teachers to "work longer, pay more and end up receiving fewer benefits in the long term." Supporters said the measure was needed to relieve some pressure on the state's public pension plan for teachers. In defending the bill Monday, Republican Rep. C. Ed Massey said education groups were involved as the bill was crafted. "To say that this is against teachers is just a false narrative."

In a major showdown, the legislature overrode the governor's veto of a bill to allow a form of scholarship tax credits to pay for private school tuition in several of the state's most populated counties. Many public school advocates opposed the proposal. Meanwhile, Democrats also denounced a series of override votes on bills meant to reduce some of the governor's authority, calling it a "power grab" by Republicans.

Lawmakers still faced a potentially long agenda as they headed into the final day of the session on Tuesday. Some high-profile bills that haven't yet cleared the legislature were still pending. Those include proposals to curb no-knock police warrants and shield businesses from pandemic-related lawsuits.

The biggest question was whether lawmakers would decide how to allocate more of the massive infusion of federal money coming to state government from the pandemic aid measure championed by President Joe Biden. Beshear has been negotiating with legislative leaders on the matter. Beshear offered a multi-layered plan for spending about $2.4 billion in federal pandemic aid being funneled to the state, including nearly $700 million in direct aid to small businesses and low-income Kentuckians. If lawmakers don't reach final decisions on how to spend the federal money, it could create a need for a special legislative session later in the year to make those decisions.

ASSET ALLOCATION OUTLOOK

LAST QUARTER			THIS QUARTER	
WE BELIEVED →	**ACTIONS TAKEN →**	**RESULTS**	**WE BELIEVE →**	**ACTIONS WE ARE TAKING**
DOMESTIC EQUITIES			**DOMESTIC EQUITIES**	
We believe that small and mid-cap stocks will continue to out perform large cap stocks in the next 6-12 months.	We increased model weights in 1Q21.	**Large Cap +6.2% underperformed small +12.7% and mid-cap +8.1%. Small and mid-cap indices outperformed the S&P 500 for the last 12 months 94.8% and 73.6% vs. 56.3%, respectively.**	We believe that small and mid-cap stocks will continue to out perform large cap stocks in the next 6-12 months as earnings recover, but the gap in performance will be less pronounced.	We are maintaining model weights in 2Q21.
INTERNATIONAL EQUITIES			**INTERNATIONAL EQUITIES**	
As the dollar remains lower, we believe that EM should continue to outperform and developed international will have a period of catch up to U.S. indices. We expect active managers with skillful security selection will outperform indices.	We increased our international and EM allocations in 1Q21.	**International equities (+3.5%) and EM (+2.3%) underperformed U.S. large cap as the dollar rallied in the quarter and vaccination progress grew stronger in the U.S. versus other countries. Our developed international and EM selections underperformed their benchmarks during the quarter, but outperformed benchmarks for the last 12 months.**	As the dollar declines and remains lower, we believe that EM should continue to outperform. We believe developed international will have a period of catch up to U.S. indices, but it may not start until 2H21 due to vaccine / re-open delays. We expect active managers with skillful security selection will outperform indices.	We are maintaining our international and EM allocations in 2Q21.
FIXED INCOME			**FIXED INCOME**	
The Fed will keep rates low until 2023. Returns likely between 1% and 2% for core investment grade bonds.	We expected the 10-year to rise above 1.0% on stimulus expectations, so we lowered the duration of our fixed income portfolios.	**The BBG Aggregate lost -3.37%. Local currency international and emerging market bonds lost -4.46% and -7.50%, respectively. Our fixed income selections outperformed the benchmark in aggregate in 1Q21 and for the last 12 months.**	The Fed will keep rates low until 2023. We think the 10-year treasury will remain between 1.5% and 2.0%. Returns likely between 1% and 2% for core investment grade bonds.	We are maintaining lower duration for our fixed income portfolios.
We think munis are equally attractive as investment grade bonds, considering the risks.	We started reducing an overweight to munis during the quarter and expect to exit the position in April and May as gains become long term.	**Munis outperformed core bonds in the quarter (-0.35% vs. -3.37%) on an absolute basis and tax-effective basis. Our fixed income selections outperformed the benchmark in 1Q21 and for the last 12 months.**	We think munis are equally attractive as investment grade bonds, considering the risks.	We expect to exit the overweight position in April and May as gains become long term.
ALTERNATIVE ASSETS			**ALTERNATIVE ASSETS**	
We believe volatility will remain elevated as the vaccine is rolled out, the economy re-opens and new stimulus and tax policy are introduced.	We maintained a 10% allocation to alternative strategies.	**Our alternatives funds, which are designed to mitigate risk and have zero structural stock market exposure were close to flat for the quarter as stocks rallied and bonds sold off.**	We believe volatility will remain elevated as the vaccine is rolled out and new stimulus and tax policies are introduced.	We are maintaining model weights in 2Q21.
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Investment Research & Portfolio Management: *Darrell R. Wells; Robert R. Hawkins, CFA; Brian S. Stivers; John M. Fidler; Erik N. Evans, CFA; Spencer E. Joyce, CFA; Christopher J. Beneke, Pete M. Ward; William T. Husband; Steven D. Gray, CFA |* ***Trust & Estate Administration:*** *Jack M. Combs, Jr.; Mary Beth Byron; Michael R. Motsinger ; Mark J. Kennedy; Beth A. Russell; Chad Turner; Christopher A. Nunnelley; Maria Quinn; Nancye W. Olt; Robin A. Barnett; Hanna Spoelker |* ***Private Banking, Family Office and Brokerage Services:*** *Susan L. Roberts; Wendy O'Banion; H. Alex Campbell; Toby K. Nutt; Brian Cohoon, CFP®, CRPC®, AIF; Christine S. Gandara, Heather M. Hardin; Sam Ronald; Jill H. Cooper*