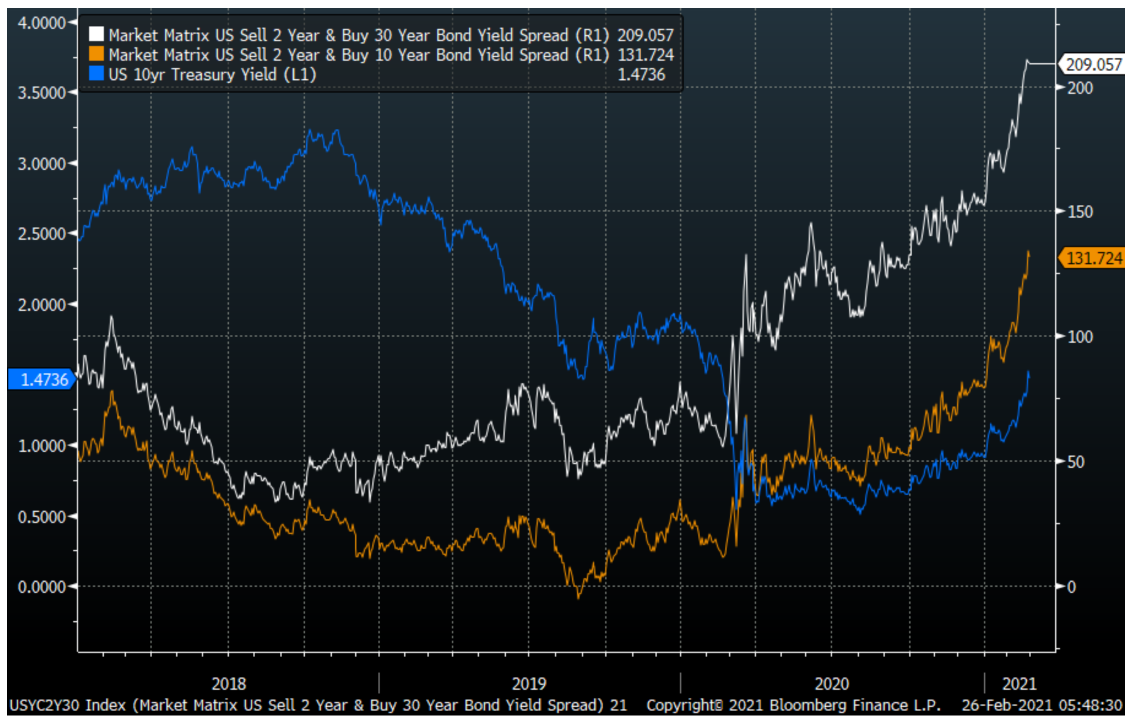
FROM THE DESK OF ERIK OROS

FEBRUARY 2021

Over the past week, the structural underpinnings of the nascent, nearly one year old bull market, have come under attack. A violent move higher in long term treasury rates, with the 10-year treasury bond yield rising at one point over 50 basis points in just four weeks, has tested the mettle of the market whose reliance on cheap credit, liquidity, and relative value had propelled indices to all-time highs. Ironically, it has been robust growth expectations for US GDP growth in 2021 that have fueled the unorderly treasury market rout. Higher long term interest rates pose the most acute risk to high-growth stocks where valuations have reached levels not seen since the dot-com era.

Prior to a failed seven-year treasury auction on Thursday February 25, 2021, global bond yields had been moving higher in an orderly fashion. This allowed investors to grapple with these effects incrementally and rotate into the reflationary trades we have oft discussed, financials, value stocks, and commodities. However, violent moves higher in rates as we saw on the 25th call into question the "TINA" narrative which has been the enduring tailwind for equity markets even as nominal rates climbed. The prospect for normalized yields more akin to what we have seen over the past few decades, creates competition for stocks and importantly interrupts the march of multiple expansion that had been the key driver of upward movement in prices.

Yield Curve Steepening

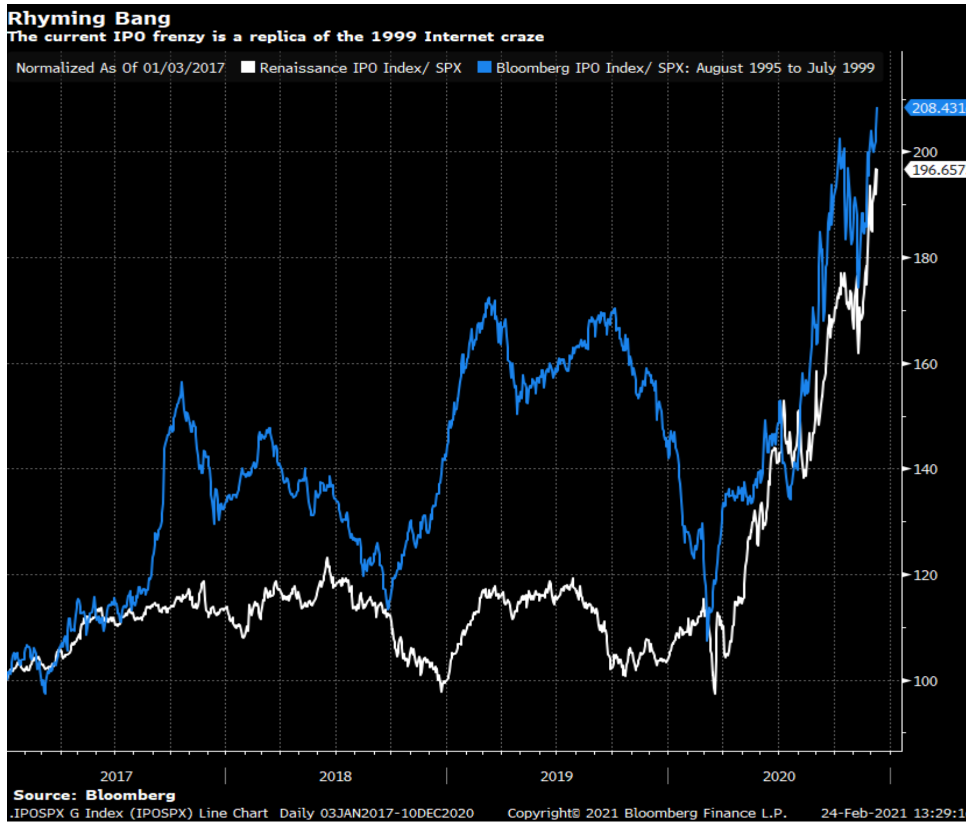


*Past performance does not guarantee future results.

Paired with stretched valuations and rampant signs of market excess, the effects of perhaps a new paradigm of higher rates poses a real threat to global equities. An insatiable demand for initial public offerings, special purpose acquisition companies, and speculation in cryptocurrency/ meme-stocks has continued to flash warnings of speculative excess akin to bubbles of the past century. Higher yields pose an acute risk to continued exuberance, as the low interest rate environment has proven critical to providing the liquidity and demand for such "innovative" companies whose value is

most tied to the future. If rates continue to climb, it is likely that investor attention will shift towards current period earnings, not simply potential.

IPO Frenzy



*Past performance does not guarantee future results.

There are however structural forces that are likely to provide a headwind to a continued march higher in global bond yields. While the inflationary pressures of an accelerating economy, continued fiscal packages, and a reopening of the service economy are acute, the deflationary pressures of technology have been well documented and have likely become more engrained as the pandemic has accelerated focus on such factors. Global bond investors continue to be starved for yield and will welcome a more orderly move higher with increased demand for cheaper credits. It is also possible that continued turbulence could spark central bank intervention. While conventionally, monetary authorities have focused their attention on short term interest rates, which their traditional tools are most well designed to address, unconventional intervention in the long end of the curve is not without precedent.

From an allocation standpoint, the endurance of a high-rate paradigm poses unique challenges. Our focus on value and more economically sensitive sectors of the economy that will benefit from operating leverage will continue but as growth comes increasingly under pressure, we remain vigilant for opportunities that may arise from market dislocations.

Maintaining a flexible and opportunistic framework will be critical in the coming months.

Robert Amoruso, CEO

Erik Oros, CIO

GIDEON STRATEGIC PARTNERS
1411 5TH STREET, SUITE 306
SANTA MONICA, CA 90401
INFO@GIDEONSP.COM
PHONE: 310.579.9560

This material is provided for informational purposes only. It is not an offer or solicitation to buy or sell any securities.

This report was prepared by Gideon Strategic Partners LLC and reflects the current opinion of the firm, which may change without further notice. This report is for informational purposes only and is not intended to replace the advice of a qualified professional. Nothing contained herein should be considered as investment advice or a recommendation or solicitation for the purchase or sale of any security or other investment. Opinions contained herein should not be interpreted as a forecast of future events or a guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client's portfolio. Economic factors, market conditions, and investment strategies will affect the performance of any portfolio and there are no assurances that it will match or outperform any particular benchmark.

Commentary regarding the returns for investment indices and categories do not reflect the performance of Gideon Strategic Partners LLC or its clients. Historical performance results for investment indices and/or categories generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results.

Investors cannot invest directly in an index.

The indices referenced herein have been selected because they are well known, easily recognized by investors, and reflect those indices that the Investment Manager believes, in part based on industry practice, provide a suitable benchmark against which to evaluate the investment or broader market described herein.

Although certain information has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness. We have relied upon and assumed without independent verification, the accuracy and completeness of all information available from public sources.

Past performance does not guarantee future results, which may vary. The value of investments and the income derived from investments will fluctuate and can go down as well as up. A loss of principal may occur.

Securities and Investment Advisory Services Offered Through M Holdings Securities, Inc. A Registered Broker/Dealer and Investment Advisor, Member FINRA/SIPC. Gideon Strategic Partners LLC is independently owned and operated. 3469889.1