Market Commentary

As of June 30, 2021

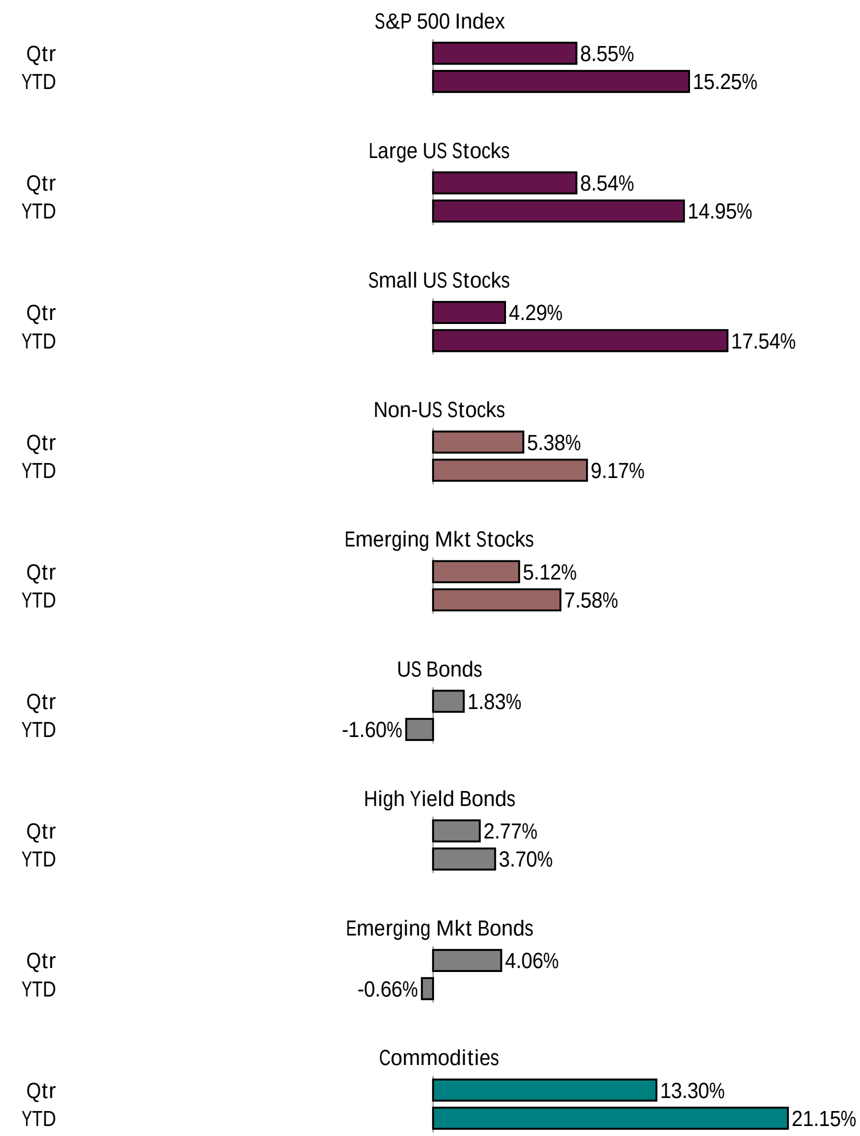
Economy & Market Review

Second Quarter 2021

Inflation - transitory or more durable? First, an inflation definition and its effects are appropriate. Inflation is the decline of purchasing power of a given currency over time. The rise in the level of prices means that a unit of currency effectively buys less than it did in prior periods. For example, an inflation rate of 2% as we've generally seen over the last few decades in the US cuts purchasing power in half in a fairly distant 35 years. However, a 4% inflation rate cuts your savings in half in only 17 years. Hence the reason people invest in risk-assets to try to outpace inflation. Extreme inflation expectations today range from those that believe we will never climb out of the disinflationary vortex to those that believe inflation is about to go on a huge ascent. Likely, the truth is somewhere in the middle and the current inflation figures have been somewhat distorted to the upside with various supply bottlenecks. The Federal Reserve (Fed) has recently hedged their transitory view of inflation when they - talked about talking about - tapering asset purchases. With the general short-term economic positives, the markets had a very good quarter and now have YTD returns that would be better than most full year time periods. As rates reversed with mixed data surrounding future growth, even bonds bounced back from their worst quarterly returns in 40 years. Investors continue to feel flush as assets increased in value, but some cast a wary eye as gas, rent and housing continue to become more expensive.

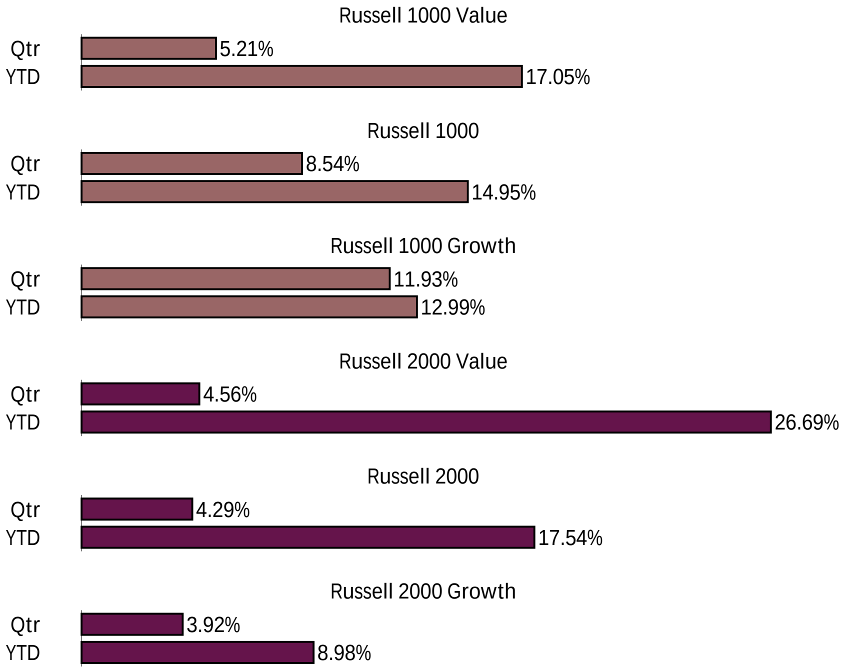
With record monetary stimulus, fiscal stimulus, and pandemic reopening activities progressing, economic growth based on gross domestic product (GDP) increased 6.4% in the 1st quarter of the year. Job reports continue to show improvement and the US unemployment rate remains steady at 5.9%, but this measure is still well above the pre-pandemic level of 3.5%. Also, the current US job openings are 9.2 million, well above recent readings. Since the US economy is approximately 70% services, the large amount of open jobs could hamper service growth going forward. Unfilled jobs may also effect inflation, if companies must pay more to attract workers then increased prices would likely pass through to consumers. Markets have become so dependent on the Fed and its decisions that any misstep or error may produce volatility in risk-assets. As the Fed continues to talk about making a very slow move to tighten the economy, risk assets still may have more life in them.

Global Market Performance



U.S. Equity Markets

U.S. Equity Style Performance

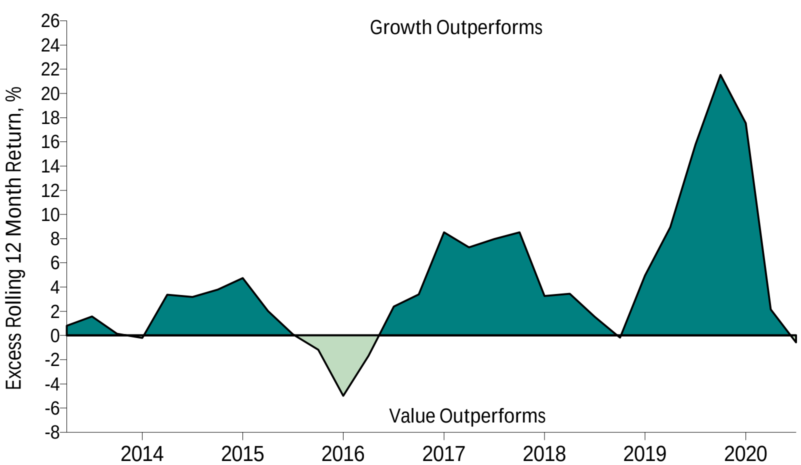


The S&P 500 Index of large cap stocks increased 8.6% during the quarter and increased 15.3% for the year. Small cap stocks as measured by the Russell 2000 Index didn't perform quite as well, up only 4.3% during the quarter, but outpaced large stocks for the last year with a 17.5% return. Growth stocks once again took a leadership position for the quarter with large and mid-cap growth performing better than their value brethren, but still trail value YTD. With a myriad of possible economic growth and inflation outcomes, it might behoove investors to have both value and growth in a portfolio.

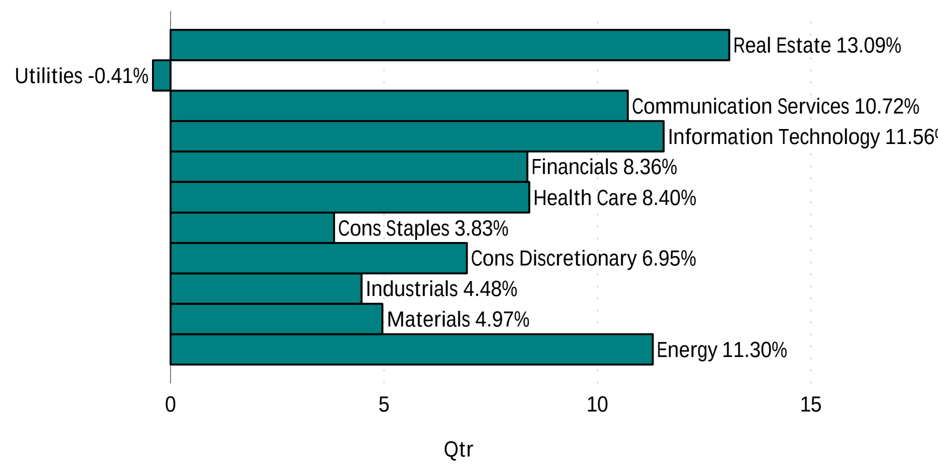
Currently at a 21.4x forward price-to-earnings multiple, domestic equity valuations are above the 5-year (18.1x) and 10-year (16.1x) metrics. In the short-term, earnings have been increasing faster than price as the ratio was over 22 last quarter, but long-term sustainability of equity returns at these multiples isn't normal historically. Any recent equity market softness has been met with “buy the dip” as that has been dependable for years.

The best performers for the quarter Real Estate, Technology, and Energy are an eclectic mix. Real Estate and Energy returns were likely driven by inflation concerns. Technology seems to represent an opposing view of future growth possibly missing expectations. Utilities, the only sector with negative performance, and Consumer Staples are both defensives that performed poorly on a relative basis.

Growth Relative to Value (Russell 1000)

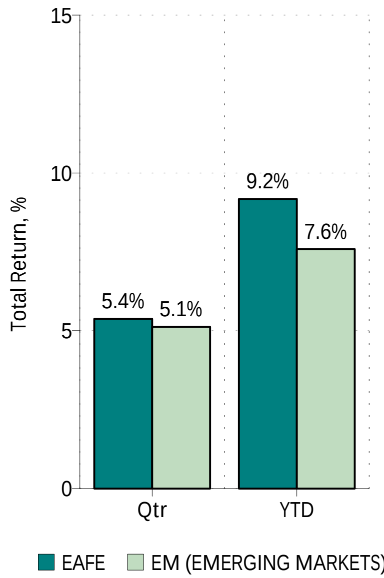


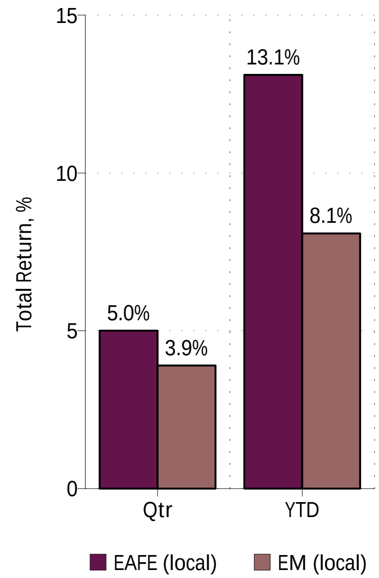
U.S. Equity Sector Performance (S&P 500)



International Equity Markets

Non-U.S. Equity Performance

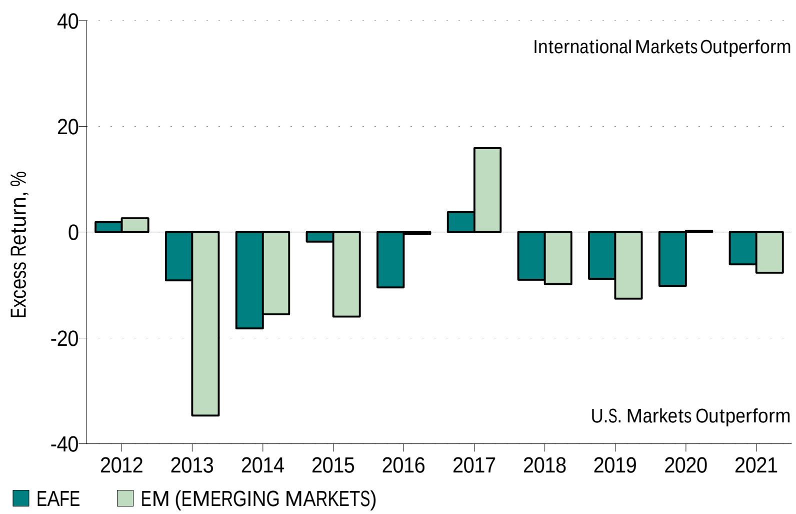




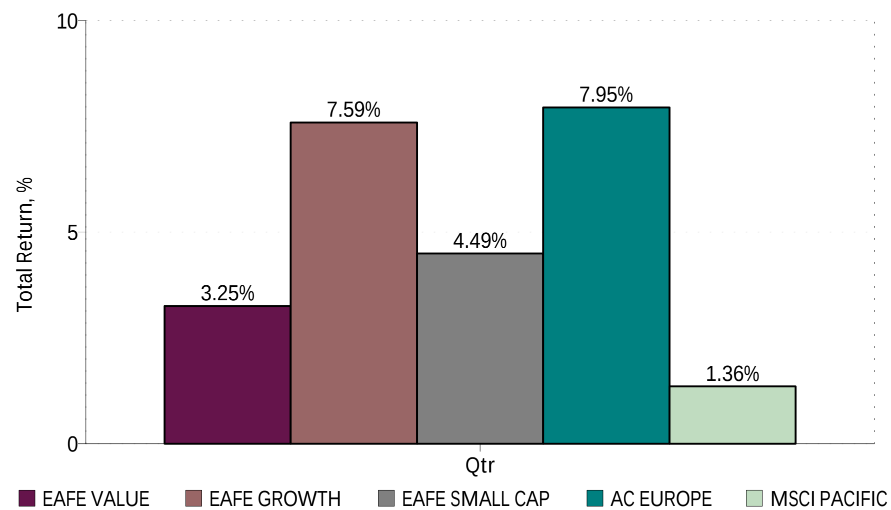
Developed equity markets (MSCI EAFE Index) again lagged US markets by over 3.1% during the quarter and also produced lower returns YTD. The MSCI EAFE Index was up 5.4% during the quarter. International growth stocks outperformed value just as they did in the US. From a geographic perspective, Europe did much better than the Pacific region. Value oriented sectors play a larger role in non-US markets with Materials, Energy, and Financials as the largest sectors. Whereas, the US has much more Technology, Communication Services, and Health Care. A value oriented, cyclical rally benefits stocks outside of the US.

Emerging markets (EM) have marginally underperformed developed international. The MSCI Emerging Markets Index was up 5.1% for the quarter. Europe and EM remain behind the US with regards to economic recoveries. Recoveries may play out as the vaccine rollout improves and markets may perform well ahead of those improvements in economic activity. As central banks continue injecting more liquidity into systems, that's a very supportive monetary policy backdrop for risky assets. Although tensions between the US and China may place a limitation on near-term growth.

Non-U.S. Equity Returns Relative to U.S. (S&P 500)

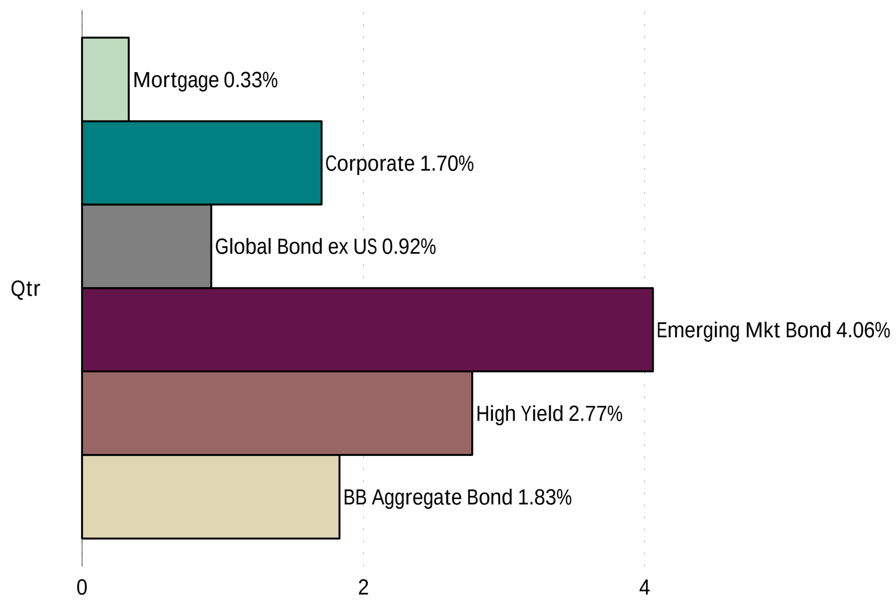


Style and Regional Non-U.S. Equity Performance



Fixed-Income Markets

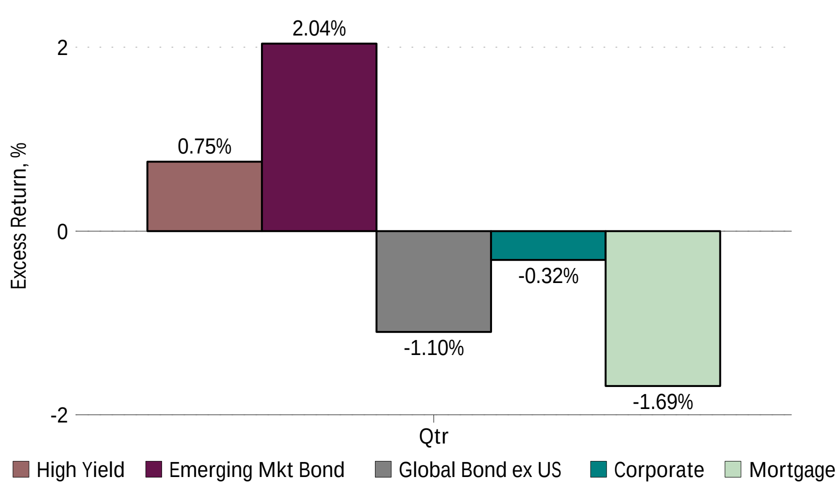
Fixed Income Performance



In 1972, Sammy Davis Jr. sang a song called “The Candy Man”. It has reminiscent lyrics that might apply to the current day Fed's perceived ability to “make the world taste good” or the systemic monetary “drugs” they have delivered. In an economy with so many distortions, timing the next down cycle is very difficult. Even though bonds appear extremely expensive, the Fed may have no choice but to keep rates low with the amount of debt the government and the economy are supporting.

Investors are currently in the midst of another big move in the bond market. The steepening of the yield curve that occurred in the first quarter has been unwound somewhat as the long-end of the curve continues to fall fairly dramatically. As a recent recap, the US 10-year Treasury went from a yield of 0.91% at year-end to a yield of 1.75% at the end of March. Now, the 1.75% yield seems lightyears away with the 10-year yield recently hitting 1.25%. The bond market believes economic growth may be fleeting once the pandemic reopening is complete. Following the worst quarterly return since 1981, the Bloomberg Barclays Aggregate Bond Index bounced back with a return of 1.8%. All fixed income segments ended the quarter with positive returns as riskier bond sectors (Emerging and High Yield) performed the best. High Yield Corporates benefited from tighter spreads and low default rates related to the improved economic situation.

Excess Performance to Treasuries



Yield Curve

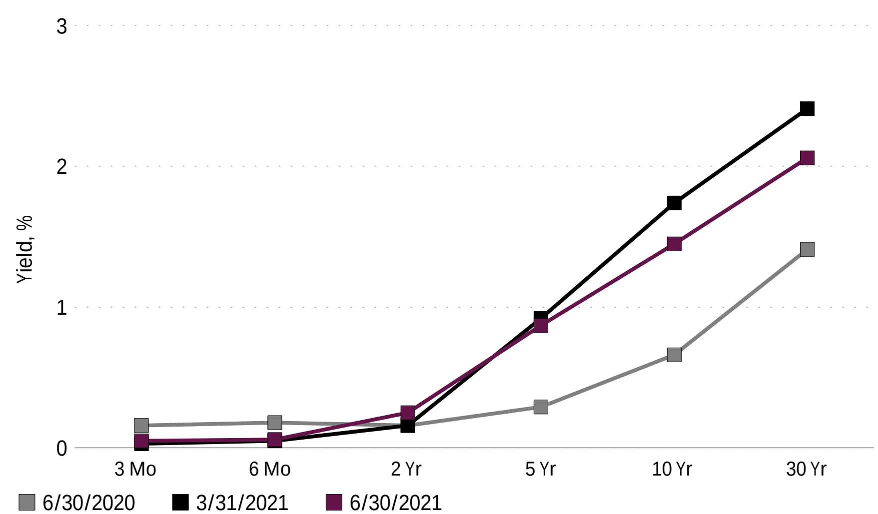
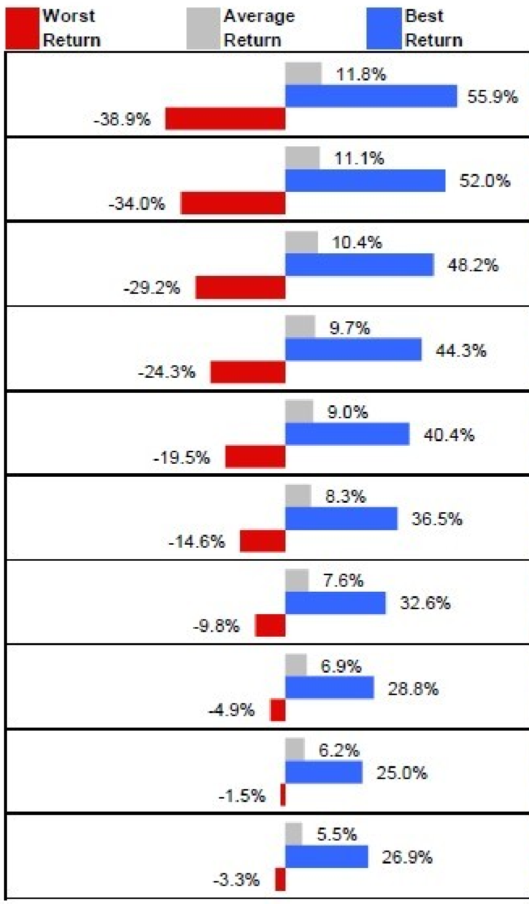


Chart of the Quarter

Risk & Reward
January 1950 - June 2021
Rolling 1 year returns using monthly data (846 observations)



Portfolio Mix:	Year Ending 6/21	Worst Return	Average Loss	Average Return	Average Gain	Best Return	Percent Negative	Standard Deviation	Returns Exceeding Inflation
Stocks 90% No Bonds Cash 10%	36.7%	-38.9%	-9.5%	11.8%	17.1%	55.9%	20%	14.7	74%
Stocks 80% Bonds 10% Cash 10%	32.5%	-34.0%	-8.2%	11.1%	15.6%	52.0%	19%	13.1	74%
Stocks 70% Bonds 20% Cash 10%	28.3%	-29.2%	-7.2%	10.4%	14.0%	48.2%	17%	11.5	75%
Stocks 60% Bonds 30% Cash 10%	24.2%	-24.3%	-6.1%	9.7%	12.4%	44.3%	15%	10.0	75%
Stocks 50% Bonds 40% Cash 10%	20.0%	-19.5%	-5.0%	9.0%	11.0%	40.4%	12%	8.5	75%
Stocks 40% Bonds 50% Cash 10%	15.8%	-14.6%	-3.6%	8.3%	9.6%	36.5%	10%	7.1	75%
Stocks 30% Bonds 60% Cash 10%	11.6%	-9.8%	-2.3%	7.6%	8.4%	32.6%	7%	5.8	75%
Stocks 20% Bonds 70% Cash 10%	7.4%	-4.9%	-1.5%	6.9%	7.2%	28.8%	3%	4.9	76%
Stocks 10% Bonds 80% Cash 10%	3.2%	-1.5%	-0.6%	6.2%	6.3%	25.0%	1%	4.5	74%
No Stocks Bonds 90% Cash 10%	-1.0%	-3.3%	-0.9%	5.5%	6.0%	26.9%	7%	4.7	65%

Risk is the probability of your return being different than your expected outcome. The quandary: many investors want better-than-market returns while assuming little risk. But returns are a function of the risks assumed. In other words, risk and return go hand-in-hand.

The above represents what varying portfolios look like in terms of risk and the rewards they offer. We don't know what the possible outcomes will be due to uncertainty. Risk can be quantified while uncertainty is a lack of visibility into the future. Past Performance does not guarantee future results.

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Annualized Return
					Small Cap Stocks 21.31%	Emerging Mkt Stocks 37.75%		Large Cap Stocks 31.43%			
	Emerging Mkt Stocks 18.63%				High Yield 17.49%	International Stocks 27.77%		Small Cap Stocks 25.52%	Gold 24.61%		
	International Stocks 17.39%				Large Cap Stocks 12.05%	Large Cap Stocks 21.69%		International Stocks 22.13%	Large Cap Stocks 20.96%		
	Large Cap Stocks 16.42%		Large Cap Stocks 13.24%		Commodities 11.77%	Small Cap Stocks 14.65%		Emerging Mkt Stocks 18.90%	Small Cap Stocks 19.96%	Commodities 21.15%	-4.47
Real Estate 15.99%	Small Cap Stocks 16.35%		Real Estate 12.49%		Emerging Mkt Stocks 11.60%	Gold 12.66%		Gold 18.43%	Emerging Mkt Stocks 18.69%	Small Cap Stocks 17.54%	12.36
Gold 8.93%	High Yield 15.58%	Small Cap Stocks 38.82%	US Bonds 5.97%		Real Estate 8.76%	60/40 Blended Index 12.07%		60/40 Blended Index 16.50%	60/40 Blended Index 12.24%	Large Cap Stocks 14.95%	14.81
US Bonds 7.84%	60/40 Blended Index 11.09%	Large Cap Stocks 33.11%	60/40 Blended Index 5.51%		Gold 8.10%	Intl/EM Bonds 10.41%		High Yield 14.41%	International Stocks 11.13%	International Stocks 9.45%	6.05
Intl/EM Bonds 5.88%	Real Estate 10.94%	International Stocks 15.78%	Small Cap Stocks 4.89%	Real Estate 15.01%	60/40 Blended Index 7.85%	Real Estate 7.62%		Intl/EM Bonds 9.98%	Intl/EM Bonds 7.90%	Emerging Mkt Stocks 7.58%	4.53
High Yield 4.38%	Intl/EM Bonds 10.60%	60/40 Blended Index 14.85%	High Yield 2.50%	Large Cap Stocks 0.92%	Intl/EM Bonds 5.77%	High Yield 7.48%		US Bonds 8.72%	US Bonds 7.51%	60/40 Blended Index 7.28%	7.85
Large Cap Stocks 1.5%	Gold 8.26%	Real Estate 13.94%	Intl/EM Bonds 2.08%	US Bonds 0.55%	International Stocks 5.01%	US Bonds 3.54%	Real Estate 8.35%	Commodities 7.69%	High Yield 6.17%	Real Estate 6.12%	10.00
60/40 Blended Index 0.49%	US Bonds 4.22%	High Yield 7.42%	Gold 0.12%	60/40 Blended Index 0.11%	US Bonds 2.65%	Commodities 1.70%	3-month T-Bills 1.87%	Real Estate 5.35%	Real Estate 1.17%	High Yield 3.70%	6.67
3-month T-Bills 0.1%	3-month T-Bills 0.11%	3-month T-Bills 0.07%	3-month T-Bills 0.03%	3-month T-Bills 0.05%	3-month T-Bills 0.33%	3-month T-Bills 0.86%	US Bonds 0.01%	3-month T-Bills 2.28%	3-month T-Bills 0.67%	3-month T-Bills 0.02%	0.61
Small Cap Stocks (4.18)%	Commodities (1.06)%	US Bonds (2.02)%	Emerging Mkt Stocks (1.82)%	Intl/EM Bonds (2.42)%			Gold (0.93)%		Commodities (3.12)%	US Bonds (1.60)%	3.49
Commodities (13.32)%		Emerging Mkt Stocks (2.27)%	International Stocks (3.44)%	Small Cap Stocks (4.41)%			High Yield (2.26)%			Intl/EM Bonds (2.55)%	3.68
International Stocks (13.33)%		Intl/EM Bonds (4.13)%	Commodities (17.01)%	High Yield (4.64)%			Intl/EM Bonds (3.17)%			Gold (6.59)%	2.18
Emerging Mkt Stocks (18.17)%		Commodities (9.52)%		International Stocks (5.25)%			60/40 Blended Index (3.71)%				
		Gold (27.33)%		Gold (12.11)%			Large Cap Stocks (4.78)%				
				Emerging Mkt Stocks (14.60)%			Small Cap Stocks (11.01)%				
				Commodities (24.66)%			Commodities (11.25)%				
							International Stocks (13.78)%				
							Emerging Mkt Stocks (14.25)%				