



PENSION & WEALTH MANAGEMENT ADVISORS

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Q2 2021 - Market Commentary¹

- Inflation heated up as consumer and producer prices over the past three months surprised to the upside. Core CPI registered 3.8% in May, well above the Fed's 2.0% long-term inflation target and the highest level since 2007. Global investors began to debate when/if the U.S. Federal Reserve's FOMC would start to taper its ultra-accommodative monetary policies, which have had a large positive influence on financial asset values since March 2020.
- The primary focus of the FOMC remains the labor market and it has stated it will maintain its current policy position until there are more improvements. Employment growth was weaker than expected during the second quarter despite 9.3 million job openings. Generous unemployment benefits are partially to blame but 29 states are ending extended Federal unemployment benefits, which should bring more people back into the workforce.
- The U.S. stock market continued to hit all-time highs, powered by strong corporate earnings and the Fed's commitment to maintain its present policy stance. After the June FOMC meeting, investors reacted by transitioning back towards growth and defensive stocks and away from small cap, value, and cyclical stocks, which had led the stock market for the first five months of 2021.
- The S&P 500 Index returned +8.6% and was the best performing segment of global stocks during the second quarter. The Russell 1000 Growth Index returned +11.9% compared to +5.2% for the Russell 1000 Value Index. Non-U.S. stocks generated solid returns, but trailed U.S. stocks as new variants of C-19 outside the U.S. forced some governments to extend or restart lockdowns.
- The U.S. dollar strengthened during the quarter and was an added headwind to non-U.S. investment returns. The MSCI ACWI Ex U.S. Index returned +5.5% and the MSCI Emerging Markets Index returned +5.1% compared to the +8.2% return of the broad U.S. stock market Russell 3000 Index.
- Despite rising inflationary pressures, bond yields declined during the second quarter as more investors seemed to side with the Fed's view that rising inflation levels will be transitory. The 10-year U.S. Treasury yield dropped to 1.47%, down from its peak of 1.74% in late March.
- The BB Aggregate Bond Index returned +1.7% but is still modestly negative for the first six months of 2021. Oil prices continued to rally as global economic activity improved and OPEC and U.S. energy companies remained disciplined on supply. Oil and energy related stocks were the top performers during the second quarter.
- Cryptocurrencies had sizable pullbacks, with Bitcoin falling just over 41% during the second quarter. China forced bitcoin mining operations to shut down. Balanced portfolios had a solid quarter with the average balanced fund as measured by Morningstar returning +5.1%. Year to date gains for balanced portfolios were nearly 10.0%.

Performance Table¹

	2021		2021YTD		2020		2019		2018
S&P 500 Index (U.S. large/mega cap stocks)	8.6%	↑↑	15.3%	↑↑↑	18.4%	↑↑↑	31.5%	↑↑↑↑	-4.4%
Russell 2000 Index (U.S. small cap stocks)	4.3%	↑↑	17.5%	↑↑↑	20.0%	↑↑↑	25.5%	↑↑↑↑	-11.0%
MSCI EAFE Index (large cap int'l stocks)	5.2%	↑↑	8.8%	↑↑↑	7.8%	↑↑↑	22.0%	↑↑↑↑	-13.8%
MSCI EM Index (emerging markets stocks)	5.1%	↑↑	7.5%	↑↑↑	18.3%	↑↑↑	18.4%	↑↑↑↑	-14.6%
MSCI All Countries World Index (global stocks)	7.4%	↑↑	12.3%	↑↑↑	16.3%	↑↑↑	26.6%	↑↑↑↑	-9.4%
Bloomberg Barclays Aggregate Bond (inv. grade bonds)	1.8%	↑	-1.6%	↓	7.5%	↑↑	8.7%	↑↑	0.0%
Bloomberg Barclays Corp. High Yield (below inv. grade bonds)	2.7%	↑	3.6%	↑	7.1%	↑↑	14.3%	↑↑↑	-2.1%
Bloomberg Barclays Short-term Treasury (cash)	0.0%	↔	0.0%	↔	1.0%	↑	2.5%	↑	1.9%
Bloomberg Barclays Municipal Bond Index	1.4%	↑	1.1%	↑	5.2%	↑↑	7.5%	↑↑	1.3%
Gold	3.7%	↑	-6.8%	↓↓	25.1%	↑↑↑↑	18.4%	↑↑↑↑	-2.9%
Oil (West Texas Intermediate Crude)	23.6%	↑↑↑↑	51.7%	↑↑↑↑↑	-20.9%	↓↓↓	31.5%	↑↑↑↑↑	-25.0%
Bitcoin	-41.3%	↓↓↓	19.5%	↑↑↑	303.7%	↑↑↑↑↑	90.3%	↑↑↑↑↑	-75%
Morningstar Balanced Funds Average (50% to 70% stocks)	5.1%	↑↑	9.5%	↑↑	11.7%	↑↑↑	19.2%	↑↑↑↑	-5.8%

¹ Data sourced from Barclays, Market Watch, MSCI, Russell, Standard & Poors, Wall Street Journal and Barrons.