SECOND QUARTER 2021

Matt's Market Update

IN THIS REPORT

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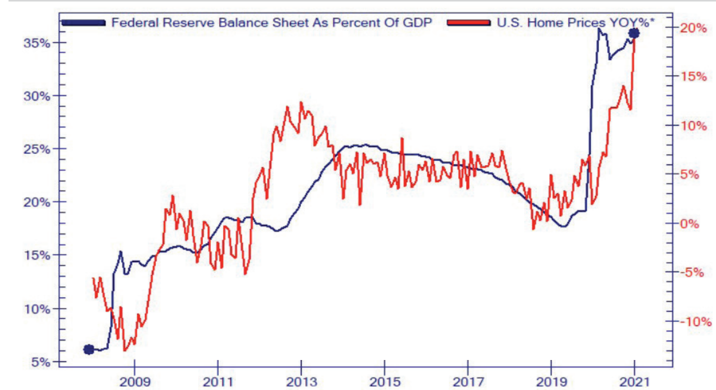
Market Review

Global equities posted broad-based gains in Q2 once again led by the U.S. markets. The S&P 500 gained +8.55% for the quarter and has now posted gains greater than 5% in five straight quarters. The NASDAQ index was the market leader in Q2 with a gain of +9.49%, while the Dow Jones Industrial Average (+5.08%) and Russell 2000 (+4.29%) showed positive results as well. Keeping with recent trends, foreign equities rose along with those in the U.S., but returns lagged as the MSCI ACWI ex US index gained +5.48%. In a reversal of the Q1 trend, growth strategies outpaced value and this was especially evident within the U.S. large-cap sector as the Russell 1000 Growth index outpaced the Russell 1000 Value index by more than 6%. Bonds rallied in Q2 as interest rates declined across the curve. The Bloomberg Barclay's Aggregate Bond index gained +1.83%, but remains in the red for 2021.

The biggest question for markets in the second half of the year will be to what extent the rise in inflation is "transitory," as the Fed has repeatedly told us. The Fed currently believes that the recent surge in inflation readings as the economy recovers from the Covid-19 downturn will be temporary. Current market trends may suggest otherwise. The U.S. Consumer Price Index (CPI) rose by more than 5% year-over-year in both May and June, well above the Fed's target of 2%. Rising prices in the red-hot housing market are excluded from the CPI index and instead a measure called Owner's Equivalent Rent (essentially a measure of how much in rental income the owner could receive) is substituted. This is based on the government's assessment that housing is an investment and not a consumption item. It's interesting to note that housing price appreciation was factored into the CPI back in the 1970s. Imagine if today's CPI readings included the +23% gain in national housing prices over the past month. As you'll note from the chart on this page, housing prices have tracked very well with the increase in the Fed's balance sheet since the '08 crisis. Like equities, the housing market is heavily influenced by monetary stimulus. To be fair, temporary factors related specifically to the opening of the economy may be having undue influence on the CPI, notably higher prices for airfares, hotels, used vehicles and rental cars. If the Fed's temporary inflation thesis is correct, we should see moderation in the CPI readings later this year.

FEDERAL RESERVE BALANCE SHEET VS U.S. HOME PRICES



**Average of Existing Homes, New Homes & Zillow Composite*
Source: Lohman Econometrics, National Assoc. of Realtors, Census Bureau, Federal Reserve, Bloomberg

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Innovation & Technology

Long-term investors in growth companies have been handsomely rewarded. Consider the trailing 10-year return for the Russell 1000 Growth index (+17.87%) vs. the Russell 1000 Value (+11.61%). More specifically, the S&P 500 Information Technology sector index has trailing 10-year return of +21.99%. Massive structural shifts in the global economy over the last decade have supported the secular rise in technology stocks and valuations. These shifts include the low interest rate environment, rising global debt levels, aging demographics and low inflation based on globalization. Can this level of superior performance for growth companies continue? While there are certainly no guarantees, the prospects for innovative growth companies seem very strong. Below is just a sample of the themes that growth fund managers are pursuing in their portfolios today. For patient investors who can withstand the inevitable volatility over long time horizons (aka retirement plan investors), betting on continued innovation seems prudent.

1. **E-commerce.** While U.S. investors may take this for granted, only 14% of global retail sales transacted on-line in 2019 according to Jennison Associates. The Covid-19 crisis accelerated global adoption of e-commerce penetration to over 20% in the U.S. in May of 2020. A massive growth opportunity remains as firms with a global presence expand their market share.

2. **Robotics and Artificial Intelligence.** Advanced manufacturing technologies are reshaping the traditional factory to bring products to market faster than ever before. As supply chains are re-built post crisis, expect a new wave of growth to take hold.

3. **Healthcare & Technology.** A wide variety of urgently needed therapies are being developed through advanced data platforms. Innovations in pharmaceuticals, genetic testing and non-invasive surgery are racing to meet the demand from an aging global population.

4. **Enterprise Technology.** The pandemic has seen a rapid acceleration in the digital transformation of business. Technology infrastructure is more nimble, flexible and secure. Cloud computing is commanding a growing share of corporate IT budgets as businesses want increased connectivity to their employees, suppliers and customers.

5. **Mobile Internet.** Our phones and mobile devices are doing so much more these days than reading emails and browsing the web. We're shopping, listening to podcasts, video streaming, online gaming and managing our finances.

STICK TO A LONG-TERM PLAN

Wealth Management Corner

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Over the past year and a half, the stock market has been "interesting" to say the least. We have seen significant volatility both positive and negative. It is no wonder it has left many investors a bit anxious when it comes to their retirement accounts. When it comes to Investing for your retirement, it should not be about a short-term outlook. Realistically, it is about having a game plan that you can live with over a long time. In this piece, we will look at a few strategies to keep in mind when it comes to investing for retirement.

One of the biggest components for retirement savings is compounding growth. It is the "snowball" effect. In its basic form, compounding grows on any reinvested earnings. Here's how it works: Hypothetically, let us say you invest $1,000, and that money earns a 6% annual return. At the end of a year, the $60 you earned is added to your $1,000; that would give you $1,060 in your account. If you earn 6% again the next year, you are earning 6% of $1,060 rather than $1,000, as you did in the first year. That adds $63.60 to your account instead of $60. Like a snowball rolling downhill, the value of compounding grows the longer you leave your money in the account. In effect, compounding can do some of the work of helping to build a nest egg for you and the longer you leave the money at work for you the more exciting the numbers can potentially get.

If your workplace retirement plan contributions are made pretax, as most folks are, compounding really becomes a powerful force. Not having to pay taxes from year to year on either your contributions or any compounded earnings helps your retirement savings grow even faster (though you will owe taxes on that money when you start withdrawing from your account). The value of compounded tax-deferred dollars is one of the main reason you may want to participate in a tax-advantaged retirement account. In addition, if you participate in a work place retirement, you are automatically using an investment strategy called "dollar cost averaging*". With dollar cost averaging, you contribute into the plan from payroll deferrals and you acquire share(s) of the underlying investment(s) by investing a fixed dollar amount at regularly scheduled intervals over time. When the price is high, your investment buys less; when prices are low, the same dollar investment will buy more shares. The purpose of the strategy is to attempt to lower your downside risk as well as over time trying to lower your average cost per share the average market price during that time.

Another Another area to focus on is asset allocation**. You want to have a strategy to decide how to invest your dollars over several categories of investments, usually referred to as asset classes. A basic asset allocation would likely include at least stocks, bonds, and cash or cash alternatives such as a money market fund. The term "asset classes" also may refer to subcategories, such as particular types of stocks or bonds.

Asset allocation is important for two reasons. First, the mix of asset classes you own is a large factor—some say the biggest factor by far—in determining your overall potential investment portfolio performance. Second, by dividing your portfolio among asset classes that historically have not responded to market volatility in the same way at the same time, you can help minimize the effects of market fluctuations. If your investments in one class are performing poorly, assets in another class may be doing better and may help stabilize your portfolio.

Remember that during any given period of market or economic turmoil, some asset categories and some individual investments historically have been less volatile than others have. You can manage your risk to some extent by diversifying your holdings among various classes of assets, as well as different types of assets within each class. Taking steps that can help manage the amount of volatility you experience can help you stay with your game plan over the long term.

In conclusion, you want to control what you can and implement a game plan. Avoid the impulse to change your investment strategy with every news headline or investing tip from a relative or coworker. Timing the market correctly is very difficult; even professionals find it a challenge. Most people fare better by having an investment game plan that is in line with their financial plan and retirement goals.

Our Portfolio Strategy & Allocation Outlook

We added one new fund holding in a number of our retirement and private client portfolios in Q2. The strategy seeks to hedge against inflation risk by investing in a blend of inflation-related asset classes. The goal being to help preserve and grow purchasing power, enhance portfolio diversification, and guard against market shocks across varying inflation environments. Unlike conventional stocks and bonds, inflation-related assets tend to have a positive correlation with inflation as measured by the Consumer Price Index (CPI). Inflation is clearly on the rise according to the CPI as these readings for both May and June have registered greater than 5% year-over-year growth. The fund maintains a long-term strategic portfolio allocation of 45% TIPS (Treasury Inflation Protected Securities), 20% broad commodity index, 15% emerging markets fixed-income and 10% in gold. This level of diversification helps reduce the risk of any individual segment being out of favor during a generally positive environment for inflation hedging assets.

We view patience as the best investor attribute right now. In the first half of the year, we've witnessed gains that most investors would be very happy with on a full-year basis. The run-up in stock prices is reflected in valuations well in excess of historical averages. For example, the forward P/E ratio on the S&P 500 is 21.4X at the end of Q2. This compares to a thirty-year average P/E of 16X. The consensus market forecast for S&P earnings growth this year is +35%, with +12% earnings growth in 2022. In other words, stocks are seemingly priced for perfection. This is partially justified by the continued low level of interest rates and a Federal Reserve that insists on providing emergency levels of monetary support to the market. The bottom line is that there are no easy shots on goal at the moment. Therefore, we'll be patient and wait for opportunities to arise. One potential event to keep on your radar is the August Fed meeting in Jackson Hole. While all Fed meetings are heavily scrutinized, this meeting in particular is speculated to have announcements related to a plan for pulling back on future monetary stimulus. For a stock market that thrives on stimulus, any discussion of less monetary support (even years into the future), may be the catalyst for what we believe is a long overdue correction in prices.

Please let us know if you'd like to discuss your personal investing and financial planning needs.

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Market Scoreboard

Index Returns (%)	Q2 2021	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	8.55	15.25	40.79	18.67	17.65	14.84
DJIA	5.08	13.79	36.34	15.01	16.67	13.49
NASDAQ	9.49	12.54	44.19	24.52	24.54	17.99
Russell 2000	4.29	17.54	62.03	13.52	16.47	12.33
MSCI ACWI Ex USA	5.48	9.16	35.72	9.38	11.08	5.45
Barclays Aggregate Bond	1.83	-1.60	-0.33	5.34	3.03	3.39

Source: Morningstar

S&P 500 TR: A market capitalization-weighted index of 500 widely held stocks often used as a proxy for the large-cap segment of stock market.

Russell 2000 TR: Consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 7% of the Russell 3000 total market capitalization often used as a proxy for the small-cap segment of the stock market.

Barcap Aggregate Bond TR: The Barclays Capital Aggregate Bond Index is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. The index includes Treasury securities, Government agency bonds, Mortgage-backed bonds, Corporate bonds, and a small amount of foreign bonds traded in U.S.

MSCI EAFE NR USD: Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes that collectively represent many of the major markets of the world.

DJ US Industrials TR USD: Computed by summing the prices of the stocks of 30 U.S. companies and then dividing that total by an adjusted value--one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies.

NASDAQ: Measures the performance of all issues listed in the Nasdaq Stock Market and is often used as a proxy for the large-cap technology segment of the U.S. stock market.

DJ/UBS Commodity: The DJ-UBSCI is composed of futures contracts on physical commodities and is often used as a proxy for broad-based exposure to the commodity markets.

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