W A I N W R I G H T   I N V E S T M E N T   C O U N S E L , L L C

FINANCIAL MARKETS HIGHLIGHTS

Second Quarter 2021

What a difference a year makes. Twelve months ago many stores, restaurants, and entertainment & sporting venues were shuttered and desperately trying to stay afloat. Flash forward to May of this year and many states have rolled back (almost) all COVID-related restrictions, and near-normalcy has returned as U.S. vaccination rates hover near 50%, led by states such as Massachusetts (62%) and New York (54%). With the pandemic under control, President Biden and Congress have turned their attention to policies and agendas that were previously tabled.

As the first quarter ended, President Biden unveiled the "American Jobs Plan," a $2 trillion infrastructure proposal that includes $621 billion for transportation infrastructure (*i.e.,* bridges, roads, public transport, airports, and electric vehicle development), $400 billion to care for elderly and disabled Americans, $300 billion for improving potable water infrastructure, and $580 billion for American manufacturing, amongst other things. At the time there was much speculation regarding the proposal's size and funding. The months since have seen a great deal of debate amongst lawmakers, but to date there has been no formal vote of any plan, although that could change in the coming weeks.

While Washington is gridlocked, the stock market continues to advance to new highs. The Dow Jones Industrial Average, comprised of 30 prominent companies, hit an all-time high in May before retreating slightly to close the quarter. The S&P 500 closed the quarter at an all-time high, having returned +8.6% during the quarter and +15.3% for the year's first half. Quarterly gains were led by Technology (+11.6%), Energy (+11.3%), Communication Services (+10.7%) and Health Care (+8.4%) stocks. Energy stocks have rebounded sharply in 2021, gaining over 45%, outpacing all other S&P sectors by more than 20 percentage points.

The NASDAQ 100 also closed the quarter at an all-time high, led by a rebound in the *FAANG* stocks. For example, Apple, Amazon and Netflix were up +12.3%, +11.2% and +1.3% during the quarter, respectively, having been down during the first quarter.

Almost all stocks performed well during the quarter, but growth-oriented equities performed particularly well, regaining their momentum which faltered a bit vis-à-vis value stocks during the first quarter. The broad, Russell 3000 Growth Index gained +11.4% during the quarter, while the Russell 3000 Value Index returned +5.2%. From a market capitalization standpoint, there was a complete reversal in performance during the quarter, as large company stocks outpaced mid and small company stocks by a substantial margin.

Internationally, the vaccination rate in developed economies is increasing (~60% in the U.K., ~50% in Europe) and developed economies are reopening faster than emerging economies. This trend is partially reflected in the performance of the MSCI EAFE Index of international, developed country stocks and MSCI Emerging Market Index, which returned +5.2% and +5.1% during the quarter, respectively. A notable exception is Japan, however, where the Nikkei returned -1.1% (US dollar terms), related partly to a slow vaccination rollout (~15% of the population) and concern regarding Tokyo's upcoming Olympic games.

The Federal Reserve's Open Market Committee ("FOMC") met in June and, for the 15th consecutive month, left the short-term Fed Funds rate at a range of 0.00 – 0.25%. However, Committee Members central tendency regarding future Fed Funds rates, in 2022 and most notably 2023, shifted during the quarter. The FOMC's much-discussed "Dot Plot" indicated seven members (up from four in March and one in December) believed a 2022 rate hike was likely, and a majority of members (up from minority in March) believed that 2023 rate hikes would be called for. The Committee's median economic growth forecast for 2021 was +7.0%, up from the +6.5% gain anticipated in its March projections. GDP projections from the meeting revealed that growth is expected to continue through 2022 and 2023 (+3.3%

Selected Index Returns (%) as of June 30, 2021 (Source: Morningstar Direct). 3, 5, 10 year returns are annualized.

	May	Apr.	Jun.	QTR	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	5.34	0.70	2.33	8.55	15.25	40.79	18.67	17.65	14.84
S&P 400	4.50	0.20	-1.02	3.64	17.59	53.24	13.17	14.29	12.40
Russell 2000	2.02	3.11	1.94	4.29	17.54	62.03	13.52	16.47	12.33
Wilshire U.S. REIT Index	8.03	1.35	2.64	12.05	21.03	28.73	5.81	2.21	5.18
MSCI EAFE	3.01	3.26	-1.13	5.17	8.83	32.35	8.27	10.28	5.89
MSCI Emerging Markets	2.49	2.32	0.17	5.05	7.45	40.90	11.27	13.03	4.28
Barclays Aggregate Bond	0.79	0.33	0.70	1.83	-1.60	-0.33	5.34	3.03	3.39
Barclays High Yield	1.09	0.30	1.34	2.74	3.62	15.37	7.44	7.48	6.66

and +2.4% expected, respectively), and the Committee maintained a 4.5% unemployment rate projection for 2021. Most notably, the Fed raised expectations for 2021 inflation. The Personal Consumption Expenditures (“PCE”) price index increased to 3.4% in June from 2.4% in March. Federal Reserve Chairman Powell addressed inflationary pressures recently, stating that a “perfect storm of very strong demand and weak supply … these effects have been larger than we expected.”

The 10 Year U.S. Treasury Bond yield fell to 1.44% at quarter-end, down 30 basis points from the first quarter, continuing to surprise many analysts focused on the strength of the U.S. economy, inflationary pressures, and the previously noted messaging from the FOMC. All suggest upside to longer-dated interest rates, but global demand for U.S. Treasuries remains robust, outweighing these factors. Accordingly, the Bloomberg Barclays Aggregate Bond index returned +1.8% during the quarter (bond prices move inverse to bond yields). The Bloomberg Barclays High Yield Index, which holds below investment grade credit, returned +2.7% during the quarter, a beneficiary of robust economic activity.

The housing market boom is starting to fatigue. Mortgage demand fell in recent weeks, as home price appreciation seems to be pricing out many buyers. Mortgage applications to purchase new homes declined 17% year over year, to its slowest pace since May of 2020. Lumber futures followed suit, crashing -42% in June, the worst month since 1978. The saying goes that the cure for high commodity prices is high commodity prices, and it certainly rang true in this case as many home renovations, additions and new builds simply did not “pencil out” with sky-high lumber costs.

In sum, it was a good quarter. The Wainwright team wishes you good health, a pleasant summer, and is available to answer any questions.

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