Global Market Commentary: Second Quarter 2021

Markets Perform Well in Second Quarter

Global equity markets had a choppy second quarter, but when the final Wall Street-bell chimed on June 30th, global markets had turned in solid performance numbers on their way to new record highs.

For the second quarter of 2021:

- The DJIA started the quarter at 33,153 and ended at 34,502 for a gain of 4.1%;
- The S&P 500 started the quarter at 4,020 and ended at 4,298 for a gain of 6.9%;
- NASDAQ started the quarter at 13,480 and ended at 14,504 for a gain of 7.6%; and
- The Russell 2000 started the quarter at 2,254 and ended at 2,311 for a gain of added 2.5%.

But many are glossing over the numbers from the second quarter and are focusing on how the market performed for the first six months of the year – and those numbers are eye-popping, as:

- The DJIA is up 12.9% YTD;
- The S&P 500 is up 14.7% YTD, which is its best first half of the year since 1998 (which was the height of the dot.com bubble);
- NASDAQ is up 12.6% YTD; and
- The Russell 2000 is up 17.0% YTD.

The themes that drove the markets in the second quarter were plentiful: with inflation worries, sooner-than-expected rate hike concerns, better-than-expected corporate earnings, rising consumer confidence, red-hot housing, rebounding economic data and rising oil prices all competing for attention.

Further, we saw that:

- Volatility, as measured by the VIX, trended down in the second quarter, starting slightly over 17 and ending the month at 15.47.
- West Texas Intermediate crude rose again in the second quarter, ending north of $75/barrel, for a three-month gain of $15/barrel, a level not seen since 2018. Further, WTI has climbed more than 50% in six months, having started 2021 at $48/barrel.

Market Performance Around the World

Investors were thrilled with the quarterly performance around the world, as 34 of the 35 developed markets tracked by MSCI were positive for the second quarter of the year. And of the 40 developing markets tracked by MSCI, 34 of them were positive too.

Index Returns	2Q2021
MSCI EAFE	+4.37%
MSCI EURO	+5.51%
MSCI FAR EAST	-0.27%
MSCI G7 INDEX	+7.38%
MSCI NORTH AMERICA	+8.58%
MSCI PACIFIC	+0.95%
MSCI PACIFIC EX-JAPAN	+3.95%
MSCI WORLD	+4.87%
MSCI WORLD EX-USA	+3.40%

Source: MSCI. Past performance cannot guarantee future results

So far, the first six months of the year has witnessed a steady market rise, but there were also some rather odd moves that had everyone buzzing:

- Bitcoin exploded and doubled to $60k and then cratered back down to $30k.
- Lumber prices went crazy and then came back down to earth, dropping 40% in the month of June alone to end the second quarter about where they started the year.
- Meme stocks like GameStop and AMC took off again (and are still pretty high). AMC started the year at about $2/share and skyrocketed to over $54/share while GameStop went from about $17 to over $200.

Despite a few spikes of volatility throughout the second quarter, U.S. equity markets continued their surge from the last two quarters and continued reaching new highs.

Yes, there were some negative economic data points along the way and yes, the rise in interest rates is generally a headwind for stocks, but the markets kept marching forward as companies reported better than expected earnings and positive earnings surprises.

Sector Performance Rotated in 2Q2021

The overall trend for sector performance for each of the first six months and the first and second quarters was good, but the performance leaders and laggards did rotate throughout, suggesting that a sector rotation might be underway.

For perspective, recall that this time last year, the second quarter of 2020 ended with every single one of the S&P 500 sectors painted green.

Further:

- Q32020 ended with 10 of the 11 positive;
- Q42020 ended with all 11 sectors positive; and
- Q12021 ended with all 11 sectors positive.

For the second quarter of 2021, 10 of the 11 sectors were painted green. Here are the sector returns for the shorter time periods:

S&P 500 Sector	1Q2021	2Q2021
Information Technology	+2.04%	+11.90%
Energy	+28.22%	+8.24%
Health Care	+3.92%	+7.15%
Real Estate	+9.76%	+11.22%
Consumer Staples	+1.25%	+1.51%
Consumer Discretionary	+2.93%	+8.47%
Industrials	+11.68%	+4.17%
Financials	+16.88%	+7.73%
Materials	+9.00%	+3.64
Communication Services	+8.87%	+10.79%
Utilities	+3.56%	-1.41%

Source: FMR

Reviewing the sector returns for just the second quarter of 2021, we saw that:

- 10 of the 11 sectors were painted green for the second quarter;
- The Energy sector turned in another stellar quarter, driven by the price of oil jumping another $15;
- The Financials sector had another wonderful quarter, helped by the Federal Reserve's stance of keeping rates low through at least 2023; and
- The differences between the best performing and worst performing sectors in the second quarter narrowed relative to the first quarter, as the Energy sector's return was about 12x greater than the Utilities sector's quarterly return.

Those ranges are the epitome of sector rotation. And the numbers empirically identify the importance of asset allocation and diversification for all investors.

Asset Class & Style Performance

The second quarter and first six months of 2021 were good for almost all investors, with most of the major asset classes and styles turning in very respectable – and most importantly green – numbers across the board.

For the quarter, Commodities continued their red-hot pace, Global REITS continue to perform very well and Growth overtook Value for the quarter – although it still lags on a YTD basis.

Index Returns	*2020*	*YTD*	*2Q 2021*
Global REITS	-10.4%	18.1%	9.9%
Value	-0.4%	15.1%	4.9%
DM Equities	16.5%	13.3%	7.9%
Growth	34.2%	11.3%	11.0%
Commodities	-3.1%	21.1%	13.3%
Global Agg	9.2%	-3.2%	1.3%
Small Cap	16.5%	15.1%	5.1%
MSCI EM	18.7%	7.6%	5.1%

Source: Barclays, Bloomberg, FactSet, FTSE, MSCI, J.P. Morgan Asset Management. DM Equities: MSCI World; REITs: FTSE NAREIT All REITs; Cmdty: Bloomberg UBS Commodity Index; Global Agg: Barclays Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSCI World Small Cap. All indices are total return in local currency. Past performance is not a reliable indicator of current and future results.

Inflation Worries

One-third of the way into the month, the U.S. Bureau of Labor Statistics announced that the Consumer Price Index increased 0.6% in May after rising 0.8% in April.

But maybe more importantly, the BLS reported that the overall inflation rate rose to 5% this past year, which is the largest 12-month increase since a 5.4% increase for the period ending August 2008.

But that 5% annual inflation figure masks a huge range among the individual components of inflation, as:

- The index for full service meals rose 4.1% over the last 12 months, the largest 12-month increase since October 2008
- The household furnishings and operations index increased 1.3% in May, its largest monthly increase since January 1976
- The index for new vehicles rose 3.3% over the past 12 months, its largest 12-month increase since November 2011
- The index for used cars and trucks increased 29.7% over the past year
- The index for motor vehicle insurance rose 16.9% over the past year
- The energy index rose 28.5% over the past 12 months
- The gasoline index rose 56.2% since May 2020, the largest 12-month increase since the period ending April 1980

More Inflation Worries

Then 5 days after the U.S. Bureau of Labor Statistics published CPI data, Wall Street received the Producer Price Index, which calculates and represents the average movement in selling prices from domestic production over time (the PPI is different from the CPI in that it measures costs from the viewpoint of industries that make products, whereas the CPI measure prices from the perspective of consumers).

- The Producer Price Index for final demand increased 0.8% in May, seasonally adjusted. Further, final demand prices rose 0.6% in April and 1.0% in March.
- But on an unadjusted basis, the final demand index advanced 6.6% for the 12 months ended in May
- This was the largest increase since 12-month data were first calculated in November 2010.

Enter the Fed

A few days before the official start of summer on June 21st, Wall Street's eyes and ears were on the Federal Reserve, and as expected, the FOMC made no changes to the fed funds rate or the pace of asset purchases.

But what was surprising, at least to some, was that the Fed seemed to signal two rate hikes by the end of 2023. Prior to this week's meeting, expectations were for no rate hikes through 2023 and one or two rate hikes in 2024..

But even more troubling to those who want rates kept low is that seven members of the FOMC indicated that they expected a rate hike next year.

Federal Reserve Chair Jerome Powell seemed accommodative in his remarks following the FOMC policy statement, but it was St. Louis Fed President Bullard who sounded more hawkish in an interview when he acknowledged that he was one of the seven calling for a rate hike next year.

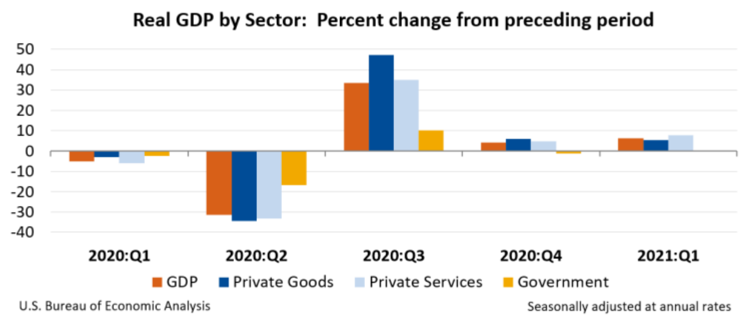
GDP Jumps 6.4%

On June 24th, the Bureau of Economic Analysis reported that real gross domestic product (GDP) increased at an annual rate of 6.4% in the first quarter of 2021. For perspective, in the fourth quarter, real GDP increased 4.3 percent.

"The increase in real GDP in the first quarter reflected increases in personal consumption expenditures (PCE), nonresidential fixed investment, federal government spending, residential fixed investment, and state and local government spending that were partly offset by decreases in private inventory investment and exports. Imports increased."

The release included estimates of GDP by industry, or value added – a measure of an industry's contribution to GDP. In the first quarter,

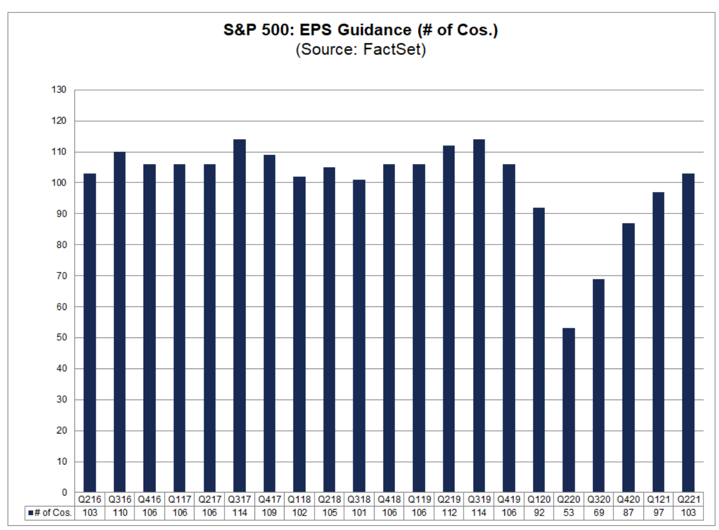
- Private goods-producing industries increased 5.4%;
- Private services-producing industries increased 7.7%;
- Government increased 0.2%; and
- Overall, 17 of 22 industry groups contributed to the first-quarter increase in real GDP.



More Positive Earnings Guidance

Research firm FactSet reported on June 28th that 103 S&P 500 companies have issued EPS guidance for the quarter, which is above the five-year average of 100. Further: "of these 103 companies, 37 have issued negative EPS guidance and 66 have issued positive EPS guidance.

The number of companies issuing negative EPS guidance is well below the five-year average of 63, while the number of companies issuing positive EPS guidance is well above the five-year average of 37."



"If 66 is the final number of S&P 500 companies issuing positive EPS guidance for the quarter, it will mark the highest number of S&P 500 companies issuing positive EPS guidance for a quarter since FactSet began tracking this metric in 2006. The current record is 59, which occurred in the previous quarter (Q1 2021)."

Red Hot Housing Market

Late in the month, the National Association of Realtors announced that existing-home sales decreased for a fourth straight month in May. Further, only one major U.S. region recorded a month-over-month increase, while the other three regions saw sales decline. However, each of the four areas again registered double-digit year-over-year gains, which is not surprising given the state of the real estate market and the economy in general this time last year.

According to the release from the NAR, total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – dropped 0.9% from April to an annual rate of 5.80 million in May. But sales in total were up a stunning 44.6% from just one year ago (May 2020).

The NAR further reported that:

- The median existing-home price for all housing types in May was $350,300, up 23.6% from May 2020 ($283,500), as every region registered price increases.
- This is a record high and marks 111 straight months of year-over-year gains since March 2012.
- Total housing inventory at the end of May amounted to 1.23 million units, up 7.0% from April's inventory and down 20.6% from one year ago (1.55 million).
- Unsold inventory sits at a 2.5-month supply at the present sales pace, marginally up from April's 2.4-month supply but down from 4.6-months in May 2020.
- Properties typically remained on the market for 17 days in May, unchanged from April and down from 26 days in May 2020.
- Eighty-nine percent of the homes sold in May 2021 were on the market for less than a month.

Regional Home Prices

For the second straight month, only the Midwest experienced higher sales from the prior month.

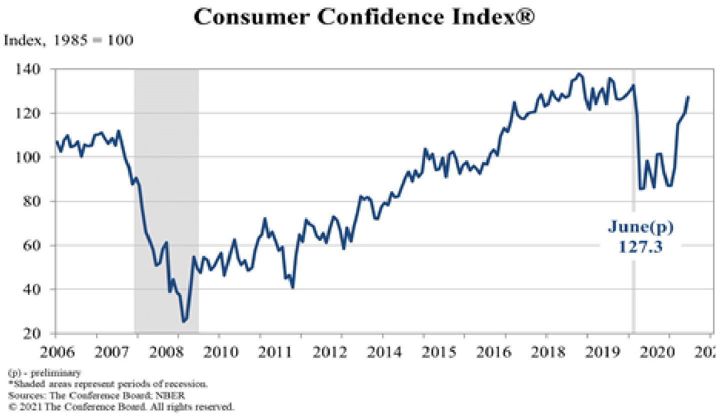
- Existing-home sales in the Northeast decreased 1.4% in May, but the annual rate of 720,000 is a 46.9% jump from a year ago. The median price in the Northeast was $384,300, up 17.1% from May 2020.
- Existing-home sales in the Midwest rose 1.6% to an annual rate of 1,310,000 in May, a 27.2% increase from a year ago. The median price in the Midwest was $268,500, an 18.1% increase from May 2020.
- Existing-home sales in the South declined 0.4%, posting an annual rate of 2,590,000 in May, up 47.2% from the same time one year ago. The median price in the South was $299,400, a 22.6% jump from one year ago.
- Existing-home sales in the West fell 4.1%, recording an annual rate of 1,180,000 in May, a 61.6% climb from a year ago. The median price in the West was $505,600, up 24.3% from May 2020.

Consumer Confidence Leaps

Also late in the month, the Conference Board announced that its Consumer Confidence improved in June, following gains in each of the previous four months.

The Index now stands at 127.3 (1985=100), up from 120.0 in May.

- The Present Situation Index – based on consumers' assessment of current business and labor market conditions – rose from 148.7 to 157.7.
- The Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – improved to 107.0, up from 100.9 last month.

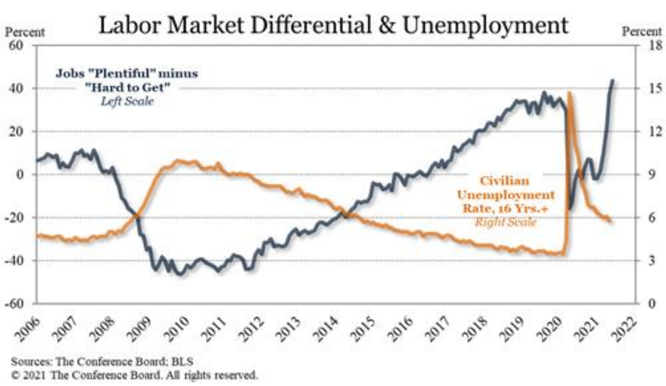


Appraisal of current business conditions improved:

- 24.5% of consumers said business conditions are "good", up from to 19.9%.
- 19.5% of consumers claimed business conditions are "bad", down from 20.6%.

Assessment of the labor market also improved:

- 54.4% of consumers said jobs are "plentiful", up from 48.5%.
- 10.9% of consumers claimed jobs are "hard to get", down from 11.6%.



Optimism about the short-term business conditions:

- 33.3% of consumers expect business conditions will improve, up from 31.0%.
- 25.7% of consumers expect more jobs to be available in the months ahead, down from 27.7%.
- 18.6% of consumers expect their incomes to increase, up from 16.2%.

Hoping for a Good Second Half

Optimistic investors are pointing out that the S&P 500 has only generated better first-6-month numbers 16 times since 1950.

Further, when the market has returned at least 12.5% in the first six months, its average return for the next six months was 9.7% – and it was positive in 12 out of those 16 years.

First Six Months Indicator

If The S&P 500 Index Is Up >12.5% YTD After Six Months, The Bulls Usually Smile

	S&P 500 Index Returns	
Year	YTD Return At End Of June	Return Rest of Year
1954	17.7%	23.2%
1955	14.0%	10.8%
1958	13.1%	22.0%
1967	12.8%	6.4%
1975	38.8%	-5.3%
1976	15.6%	3.0%
1983	19.5%	-1.9%
1985	14.7%	10.1%
1986	18.7%	-3.5%
1987	25.5%	-18.7%
1989	14.5%	11.1%
1995	18.6%	13.1%
1997	19.5%	9.6%
1998	16.8%	8.4%
2013	12.6%	15.1%
2019	17.3%	9.8%
2021	14.4%	?
	Average	7.1%
	Median	9.7%
	% Positive	75.0%
	Average Year	4.7%
	Median Year	5.0%
	% Positive All Years	70.4%

Source: LPL Research, FactSet 06/30/2021 (1950 - Current)
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
[redacted]

Although past performance is never a guarantee of future results, we can still hope that the trend continues.

Sources:[bls.com](bls.com); [bea.gov](bea.gov); nar[.realtor](nar.realtor); conference-board.org; factset.com; msci.com; fidelity.com; msci.com; nasdaq.com; [wsj.com](wsj.com); morningstar.com