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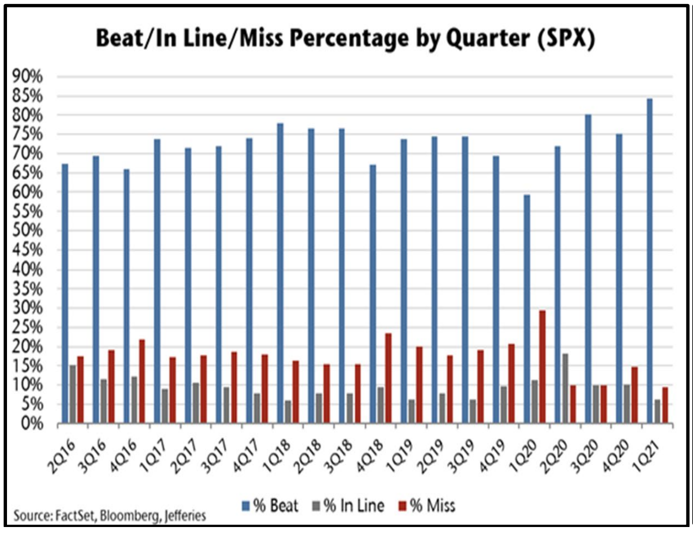
Q2 2021
MARKET & ECONOMIC REVIEW
Major Equity Market Indexes & Commentary

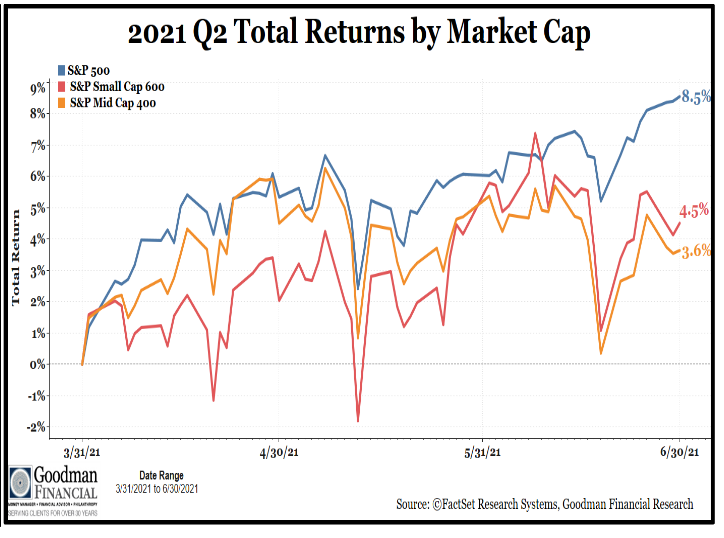
INDEX	DESCRIPTION	3/31/21	LOW CLOSE	HIGH CLOSE	6/30/21	QTD RETURN*
S&P 500	A market-capitalization weighted index of 500 large U.S companies.	3,973	3,973	4,298	4,298	+8.2%
DJIA	Dow Jones Industrial Average or "The Dow"; A price-weighted average of 30 major U.S. companies.	32,982	32,982	34,778	34,503	+4.6%
Nasdaq Composite Index	A market-capitalization weighted index comprised of over 3,000 companies, mostly in the technology and biotech industries.	13,247	13,032	14,528	14,504	+9.5%
Russell 2000	A market-capitalization weighted index tracking U.S. small-cap stocks.	2,221	2,135	2,344	2,311	+4.1%
NIKKEI 225	A price-weighted index comprised of Japan's top 225 most established companies (in Yen).	29,179	27,448	30,089	28,792	-1.3%
MSCI Emerging Markets	An index comprised of 23 MSCI indices from emerging economies including Brazil, China, India, Mexico, Russia, South Africa, and the UAE.	1,316	1,293	1,391	1,375	+4.4%
Stoxx Europe 600	An index comprised of 600 companies based in one of 18 EU countries including Austria, Belgium, Denmark, France, Germany, Ireland, Spain, and the United Kingdom (in Euro).	430	430	460	453	+5.4%

*** Excludes effects of dividends** **Sources: FactSet**

EQUITY MARKETS COMMENTARY

- Stocks had solid gains once again in Q2, extending their winning streak to five quarters in a row. Investors continue to be attracted to a U.S. economy that is in full expansion mode. This stronger than expected economic recovery is resulting in positive earnings surprises by U.S. reporting companies. As seen in the chart below (left), S&P 500 companies posted the highest percentage of beats to earnings estimates (85%) and the lowest percentage of earnings misses (10%) relative to analyst expectations in the last five years. This has provided strong support for stocks.
- After two quarters of meaningfully outperforming large-cap stocks, small and mid-cap stocks lost ground relative to large-caps in Q2. This can be seen in the chart below (right), and is largely attributable to the performance of mega-cap technology stocks (like those found in the Nasdaq Composite Index) as they regained their market leadership status. As seen in the above table, the Nasdaq Composite Index was the star of Q2, up 9.5% for the quarter.





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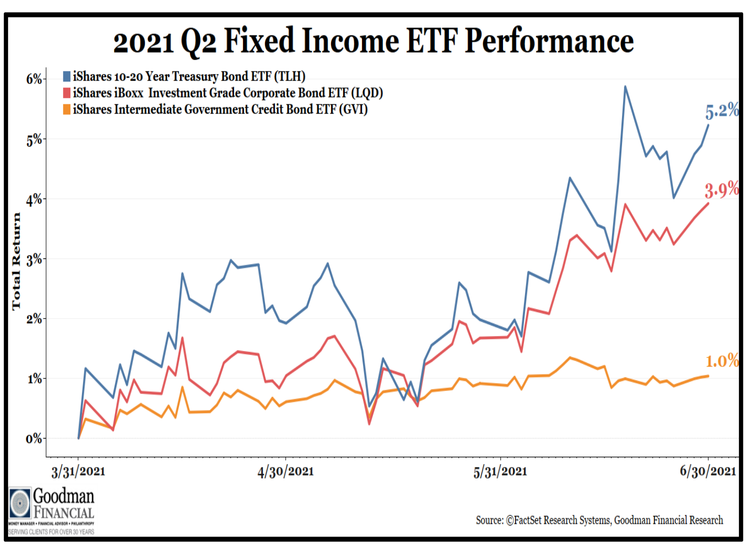
Q2 2021
MARKET & ECONOMIC REVIEW
Fixed Income Rates & Commentary

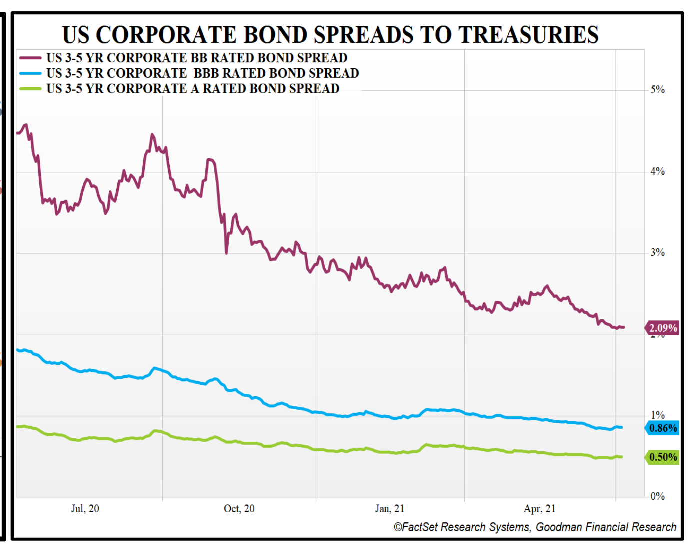
DESCRIPTION	3/31/21	6/30/21	QTD CHANGE IN BASIS POINTS*	DESCRIPTION	3/31/21	6/30/21	QTD CHANGE IN BASIS POINTS*
Federal Funds Target Rate	0.00%-0.25%	0.00%-0.25%	0	15 Yr. Mortgage Rate	2.45%	2.34%	-11
90 Day Treasury Bill	0.03%	0.05%	+2	30 Yr. Mortgage Rate	3.17%	3.02%	-15
2 Yr. Treasury Note	0.16%	0.25%	+9	Prime Rate (U.S.)	3.25%	3.25%	0
10 Yr. Treasury Note	1.74%	1.45%	-29	LIBOR (3 Month)	0.19%	0.15%	-4
30 Yr. Treasury Bond	2.41%	2.06%	-35	5-Year CD	0.30%	0.27%	-3

***One basis point is equal to 1/100th of 1% or 0.01%** **Sources: FactSet, Wall St. Journal, U.S. Treasury**

FIXED INCOME COMMENTARY

- With the exception of shorter-dated treasuries, it was a good quarter for bonds. As seen in the above table, the 10-year treasury bond yield dropped by a considerable 0.29% (29 bps), recovering part of the 0.82% (82bps) increase seen in Q1, which was the largest quarterly increase since Q4 2016. This decrease was very supportive for longer-dated bonds. This can be seen in the chart below (left), which shows Q2 performance for various bond exchange traded funds (ETFs). As seen, the iShares 10-20 Year Treasury Bond ETF (TLH) led the way, up 5.2% for the quarter. Meanwhile the ETF that represents our bond benchmark, the iShares Intermediate Government Credit Bond ETF (GVI), was only up 1.0% for the quarter, while intermediate investment grade corporate bonds as represented by the LQD ETF were up 3.9% in Q2.
- As seen in the chart below (right), the spread of corporate interest rates to U.S. treasuries (i.e., corporate credit spreads), have been on a slow grind lower the past year, allowing corporate bonds to post superior returns relative to treasuries of like maturities. That decline continued during Q2, though at a more moderate pace. This has provided a nice tailwind to our fixed income portfolios, which have benefitted from this decline. Unfortunately, corporate credit spreads are now approaching historically low levels and are now probably close to bottoming out.





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Q2 2021 MARKET & ECONOMIC REVIEW

U.S. Economic Commentary

INDICATOR	DESCRIPTION	3/31/21	6/30/21	QTD CHANGE*
Weekly Initial Claims for Unemployment Insurance (in Thousands)	The number of new filings for unemployment insurance benefits. Most economists believe claims below 300,000 indicate a healthy labor market environment. **Claims dropped this quarter as supplemental unemployment benefits began to expire in many states and as millions of jobs openings are waiting to be filled.**	719	364	-49%
Unemployment Rate	The percentage of total labor force that is unemployed but actively seeking employment. The U.S. Federal Reserve targets a long-run unemployment rate of between 4.5% and 5%. **The unemployment rate continues to grind lower. Per FactSet, economists expect the rate to fall below 5% by year-end.**	6.0%	5.9%	-10 bps
Average Weekly Earnings	The average weekly salary earned by private, nonfarm employees. **Wages are back to growing again, after falling some in 2020. This wage growth bodes well for consumer spending.**	$1,046	$1,055	+0.7%
Index of Consumer Sentiment	This index is published by the University of Michigan and reflects consumer attitudes towards the state of the economy. **Given the strength of the economic recovery and lower unemployment, the increase in sentiment is not too surprising. That said, it remains lower than last year's high reading of 93.2.**	84.9	85.5	+0.7%
ISM Purchasing Managers Index (PMI®)	This index represents economic activity in the manufacturing sector. Any value above 42.9 represents economic expansion. **The PMI recovery stalled after having risen for 10 months in a row. This is mostly due to supply chain issues and higher costs.**	64.7	60.6	-6.3%
Existing Home Sales (in Millions) *	This data is provided by the National Association of Realtors®. It is a seasonally adjusted annualized rate and reflects completed transactions in houses, townhomes, and condominiums. **The fall in home sales this quarter is due more to a lower inventory of homes for sale than to any reduction in demand.**	6.22	5.80	-6.8%
US Capacity Utilization: Manufacturing *	The ratio of production capacity being used to produce finished products compared to the total capacity available. **Utilization picked up from last quarter as manufacturers work to catch up to strong demand.**	72.9%	75.8%	+4.0%

***These items are as of 5/31/21, the date of the most recently published statistics**
Sources: FactSet, Federal Reserve Bank of St. Louis, The University of Michigan, U.S. Census Bureau, U.S Department of Labor, Institute of Supply Management

U.S. ECONOMIC HEALTH

- The number of green arrows in the accompanying table reflects the ongoing strength of the U.S. economic recovery currently underway. Any indicators of weakness seen in the economy are mostly due to severe supply chain disruptions that have caused some manufacturing lines to shut down from both the lack of components and hard to find workers. As seen in the chart below (right), U.S. companies are desperate to hire workers as they currently have an eye-popping 9.3 million job openings.
- Per FactSet, economists now estimate that we will see a strong real GDP growth rate for 2021 of 6.5%, a significant increase from the 4.0% rate those same economists were estimating at the start of 2021. Economists predict that U.S. GDP will grow a further 4.0% in 2022.
- As seen in the chart below (left), housing prices are on fire, with year-over-year price increases of over 10%, levels last seen in the 2005-2008 housing boom. Most of us have heard anecdotal stories of homes selling in days with multiple offers over the asking price. Due to low interest rates, a new-found demand for home ownership, and a depleted inventory of homes for sale (see the decline in existing home sales in the above table), a buying frenzy has taken hold. This has also resulted in the lowest levels of homeownership affordability since the housing boom peaked in 2008. This will likely act to ultimately cool the market.