2021: 2nd Quarter Summary

"I've just closed my eyes again / Climbed aboard the dream weaver train / Driver take away my worries of today / And leave tomorrow behind" ***Gary Wright, "Dream Weaver"***

Imagine if Rip Van Winkle was a 21st century investor instead of a Colonial ne'er-do-well. Imagine, too, that he fell asleep in December of 2019 and awoke on the last day of June 2021. How would he comprehend the world he'd left just 18 months earlier? As was Washington Irving's fictional early American, he would be in a world that had experienced a contentious change of government and saw the passing of old friends and family members. If he owned stocks (as a buy-and-hold investor), he would certainly be wealthier than before his nap. The key question is, would he believe all the things that he would hear about those past 18 months with respect to the COVID pandemic, the changes in the economy and American political turmoil? Judging solely on his stock portfolio, he probably wouldn't.

Old Rip would have benefitted from the 'risk-on' trade, as stocks continued their surge in the 2nd quarter. Investors across the market-cap and regional-exposure spectrum rolled with the 'recovery' trade and again posted solid returns for the quarter and the year-to-date. Quality taxable and municipal bonds rallied in Q2, and high-yield bonds continued to attract investors. Real estate also posted a strong quarter and is shrugging off the effects of last year's pandemic panic.

Index Returns
as of 6/30/2021

Index	Q2-21	Q1-21	YTD	YEAR 2020
BbgBarclays US HY 2% Issuer Cap	2.74%	0.86%	3.61%	7.05%
BbgBarclays Municipal	1.42%	<0.35%>	1.06%	5.21%
BbgBarclays Global Aggregate	0.98%	<2.47%>	<1.52%>	5.58%
BbgBarclays US Agg Bond	1.83%	<3.37%>	<1.60%>	7.51%
U.S. STOCKS				
Russell 1000 [Large-cap Stocks]	8.54%	5.91%	14.95%	20.96%
Russell 2000 [Small-cap Stocks]	4.29%	12.70%	17.54%	19.96%
S&P 500	8.55%	6.17%	15.25%	18.40%
INTERNATIONAL STOCKS				
MSCI ACWI Ex USA NR [All Stocks]	5.48%	3.49%	9.16%	10.65%
MSCI EAFE NR [Developed Markets]	5.17%	3.48%	8.83%	7.82%
MSCI EM NR [Emerging Markets]	5.05%	2.29%	7.45%	18.31%
REAL ASSETS				
U.S. Dollar	<0.85%>	3.66%	2.78%	<6.69%>
S&P GSCI Gold Spot	3.26%	<9.47%>	<6.52%>	24.42%
Morningstar US Real Asset Index	7.69%	6.09%	14.24%	1.03%
Bloomberg Commodity	13.30%	6.92%	21.15%	<3.12%>
S&P GSCI Crude Oil Spot	24.19%	21.93%	51.42%	<20.54%>
S&P United States REIT	11.94%	8.72%	21.70%	<7.52%>
S&P Global Ex US REIT	7.55%	2.40%	10.13%	<9.34%>

Source: Morningstar, Inc. USD data with dividends and interest

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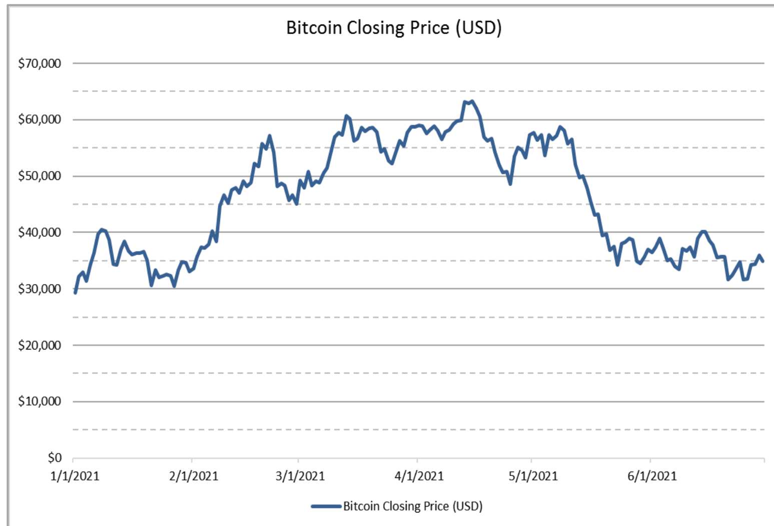
“It's all about the Benjamins baby” *Puff Daddy. “It's All About The Benjamins”*

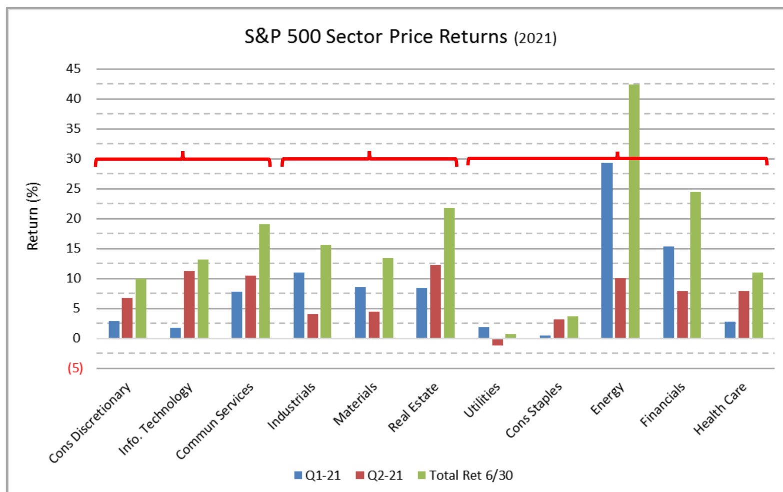
Shaking off eye-popping levels of cash flows into various parts of the bond market, U.S. stocks continued to grind higher on generally good news about vaccination rates and economic re-openings. The market that caught our eye, though, is Bitcoin (BTC). The digital asset had a full cycle's returns in just six months, basically doubling in U.S. dollar price in Q1 and then sharply retreating in Q2. Hailed as the investment at the center of an effort to remake the centralized finance system we transact in today, BTC holds many promises to investors across the spectrum. It has proven to be a lucrative speculative investment over the past several years, but we don't see it as a major portfolio holding until much of the volatility we saw in Q2 is dampened.



CoinDesk

After doubling in the first quarter, BTC and other alternative crypto ‘coins’ attracted institutional, retail and celebrity investors who drove prices to record highs. A host of issues, including climate-change concerns, helped push speculative volatility into the crypto market. Prices have fallen considerably since early May. We can see in the graph on the left why this asset is not suitable for large positions in portfolios. Its short history (twelve years) also makes it difficult to reliably model. It is certainly an investment that has spurred furious debate and bears watching.

Another issue we're following is the ‘re-opening trade,’ essentially a shift from growth stocks to value stocks as the economy enjoys a post-pandemic surge. Value-biased and smaller-cap stocks had a stellar first quarter (see large-cap data in blue below), as both are historically strong early-recovery performers. They have been beaten down in favor of the larger-cap technology trade over the past few years, and might be considered to have cheap valuations compared to growth stocks. A resurgence in the growth trade, spurred by expectations of higher economic growth and inflation going forward, pushed growth sectors to higher Q2 returns over value havens (red data).

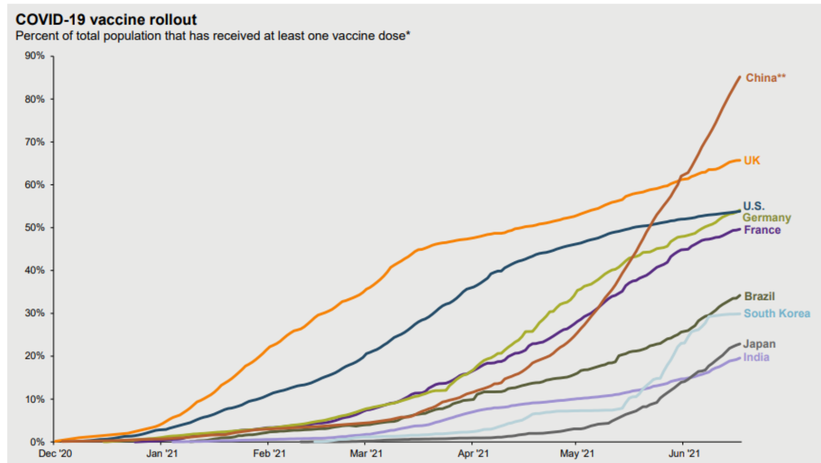


Morningstar, Inc.

Stocks, regardless of category, are driven by earnings and valuation. Last year's unloved sectors – financials, energy, and real estate – have rallied nicely thus far and posted strong returns in both full quarters. These three categories have compelling reasons for their rebound, yet still face challenges going forward. We think improving growth will provide them with a positive impetus. Regardless of current valuations, we still see strong economic growth ahead and recommend discrete exposure to both value and growth segments of the market. We see this theme playing out in foreign markets as well, which have more exposure to traditional value sectors and less technology exposure than U.S. markets.

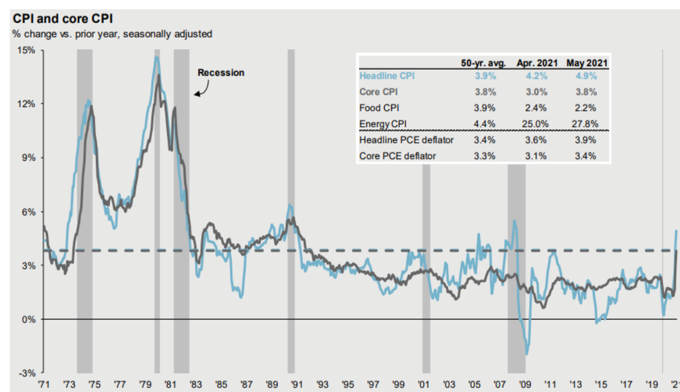
“Why do we never get an answer / When we're knocking at the door?” ***The Moody Blues, “Question”***

The two pressing questions we see right now are, where are we in battling the coronavirus and what’s going to happen with inflation (which affects growth and interest rates)? As the Moodys sang, we don’t have answers for those questions, but we have some ideas.

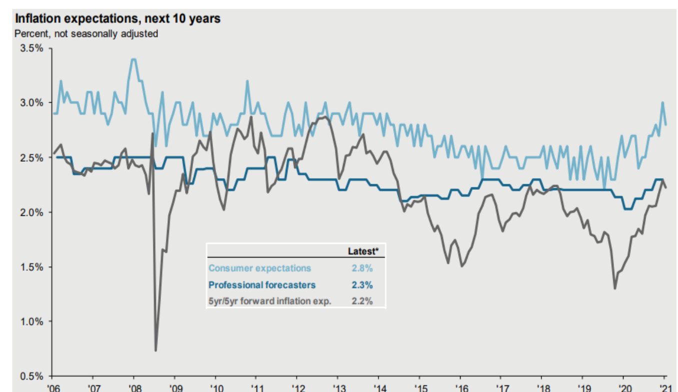


This graph represents vaccine rollout (at least one dose) in key countries. Clearly, there is a lot of work to be done in distributing and administering vaccines around the globe. Recent U.S. data indicate at least one of the U.S. vaccines provides support in combatting the Delta variant strain that is more potent than the original virus and which has ravaged India and spread to other countries. While we expect further progress in vaccinations and economic growth in developed economies, our expectations are tempered by the slow vaccine rollout and the lack of uniform preventative messaging and measures in many countries.

As for inflation, the left graph below indicates that, in line with history, inflation has spiked up after the recession. The issue confronting investors and policymakers is the *source* of inflation (prices, wages, or both), and the stickiness of each. Some current price increases are expected to be transitory (e.g. fuel), others are unknown (products with semiconductors). Costs that cannot be easily passed to consumers will result in deteriorating margins and potentially higher prices. The right graph details the recent history of inflation expectations and forecasts; notably, the 5-year forward expectations are still around 2.5%. This is a higher level than we’ve recently experienced, but far from the crippling levels of the 1970s. The Fed has indicated that they expect current elevated price levels to be transitory, which indicates lower rates for longer. Our thinking is that the pre-COVID disinflationary trends are still in place: aging boomers are retiring and cutting/shifting spending, globalization of goods and supply chains will remain in place for some time, and continued technology advancements in the workplace will displace/shift workers.



	50-yr. avg.	Apr. 2021	May 2021
Headline CPI	3.9%	4.2%	4.9%
Core CPI	3.8%	3.0%	3.8%
Food CPI	3.9%	2.4%	2.2%
Energy CPI	4.4%	25.0%	27.8%
Headline PCE deflator	3.4%	3.6%	3.9%
Core PCE deflator	3.3%	3.1%	3.4%



	Latest*
Consumer expectations	2.8%
Professional forecasters	2.3%
5yr/5yr forward inflation exp.	2.2%

“Don'cha know, ain't nothing like the real thing, baby / Ain't nothing like the real thing” ***Marvin Gaye & Tammi Terrell, “Ain't Nothing Like The Real Thing”***

We still see a TINA (‘there is no alternative’) trade favoring equities remaining in place for some time. We also think growth will moderate next year, but there will not be a U.S. recession for some time. We do expect a market correction at some point, as the FOMO / hope trade is strong and more money may flow

to stocks as yields continue to drop. Many of the cyclical recovery themes we follow also point to potentially better returns for investors in foreign stocks, which are not as technology focused as the U.S. Finally, we still expect strong growth for the next 12 to 18 months, but also see additional COVID variants and uneven vaccination regimes as challenges to global growth, as well as a market retrenchment, as concerns on the farther horizon.

As we close the books on a strong second quarter, it’s a good time to remind ourselves that investing is a marathon, not a sprint. Many of the market-moving events discussed today will be small footnotes in the future. We think about your investments over long time periods and apply proven portfolio-management principals to achieve accretive long-term results, including choosing the right asset allocation based upon your specific situation. As different segments of your portfolio grow, we rebalance your assets back to your target allocation to minimize risk. This means short-term market events do not dictate our investment policy, which in turn allows us to help clients achieve financial security in their retirement. Finally, the most important thing is to have a plan and review it often to make sure you’re on track to reach your goals.

As always, if you have any questions please feel free to contact us.

-Your Wealth Management Team at JJ Burns & Company

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The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Barclays US Corporate High Yield 2% Issuer Capped Bond Index is an issuer-constrained version of the flagship US Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index wide on a pro rata basis. The Barclays U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Barclays US Municipal Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed tax-exempt bond market. The index includes state and local general obligation, revenue, insured, and pre-refunded bonds. The Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Returns hedged to various currencies are published for multi-currency indices.

The Morningstar® US Real Asset Index is a diversified portfolio of four different asset classes that have historically displayed high sensitivity to inflation. Real assets are defined as TIPS, commodity futures-based strategies, real estate investment trusts, and inflation-sensitive equities such as upstream commodity stocks and master limited partnerships

The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. The S&P Global ex US REIT index is a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets, excluding the United States. The S&P 500® index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. The S&P GSCI is designed as a benchmark for investment in the commodity markets and as a measure of commodity market performance over time. It is also designed as a tradable index that is readily accessible to market participants.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 23 Emerging Markets (EM) countries. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. The MSCI Emerging Markets Index captures large and mid-cap representation across 23 Emerging Markets (EM) countries.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. The index currently represents 20 commodities, which are weighted to account for economic significance and market liquidity.