

MARKET COMMENTARY

Q2 2021 COMMENTARY

Economic Summary

At the beginning of the pandemic, the Federal Reserve (the Fed) cut short-term rates to zero and enacted emergency quantitative easing (QE) to the tune of \$120 billion per month. The Fed continues to keep the accelerator to the floor as emergency monetary policy actions remain in place. At the moment, there are numerous signs of a strong economy, including all-time high equity prices, supply shortages, more employment openings than there are people unemployed, rising inflation (Chart 1), and a hot housing market (Chart 2). But one wonders why the Fed continues to keep interest rates artificially low when the economy is roaring? Furthermore, fiscal policy remains highly stimulative too. The Biden administration is pushing for a multi-trillion dollar plus infrastructure program. This is in addition to the multiple trillions that have already been distributed to households and state and local governments. When will enough be enough?

Individuals have seen their net worth increase drastically as asset prices, including housing, financial holdings, and direct deposits from the federal government have bolstered net worth. Additionally, record low interest rates and increased housing prices have enabled households to refinance mortgages and realize additional savings. The question is, what will households do, now that Covid restrictions are lifted and net worth is so high? It seems conceivable that inflation could be an issue, and perhaps more than transitory, as pent-up savings and demand are unleashed at the same time.

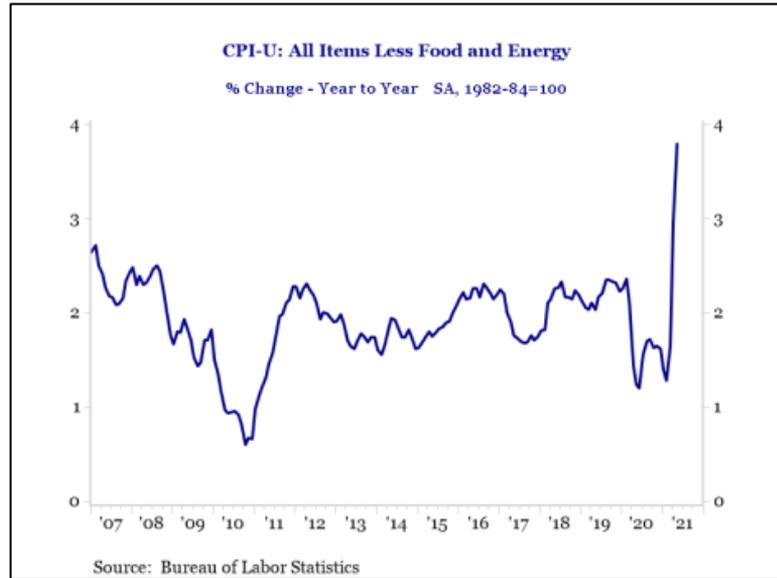


Chart 1

Source: Strategas Research Partners, "Quarterly Review in Charts", 7/1/21

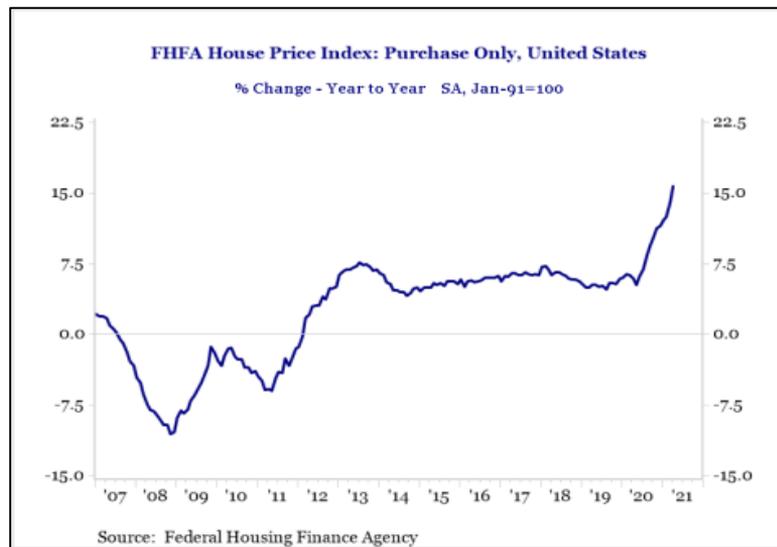


Chart 2

Source: Strategas Research Partners, "Quarterly Review in Charts", 7/1/21

The Stock Market

While the large-cap S&P 500[®] Index was up just over 15%, smaller stocks have outperformed so far this year with the small-cap Russell 2000[®] Index up nearly 18% (Chart 3). Additionally, the long-awaited outperformance of value stocks looks to be taking hold. The Russell 1000[®] Value Index was up just over 17% vs. 13% for the Russell 1000[®] Growth Index (Chart 4). The outperformance and overweighting in financials and energy were the primary drivers that led to the outperformance of the Russell 1000[®] Value Index.

Stocks are up significantly year-to-date, as are corporate earnings estimates (Chart 5). Additionally, when compared to the meager returns investors can expect from bonds, equities still look relatively attractive from both a price appreciation and yield perspective.

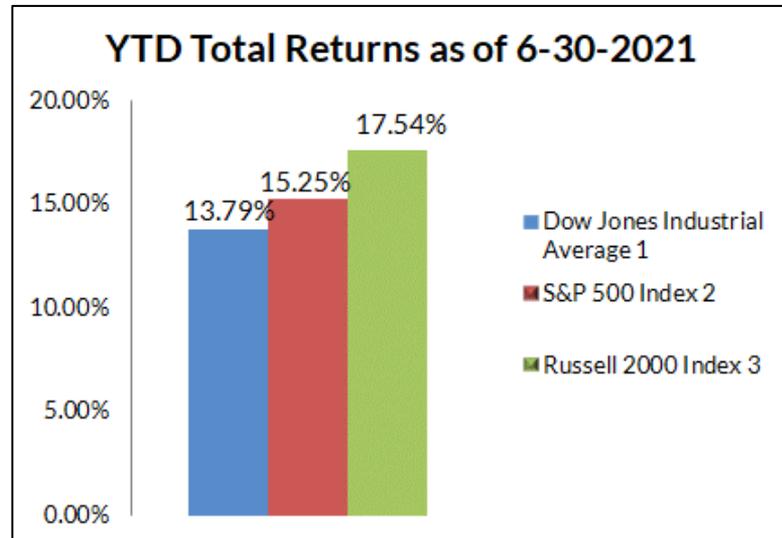


Chart 3
 Source: Morningstar Direct

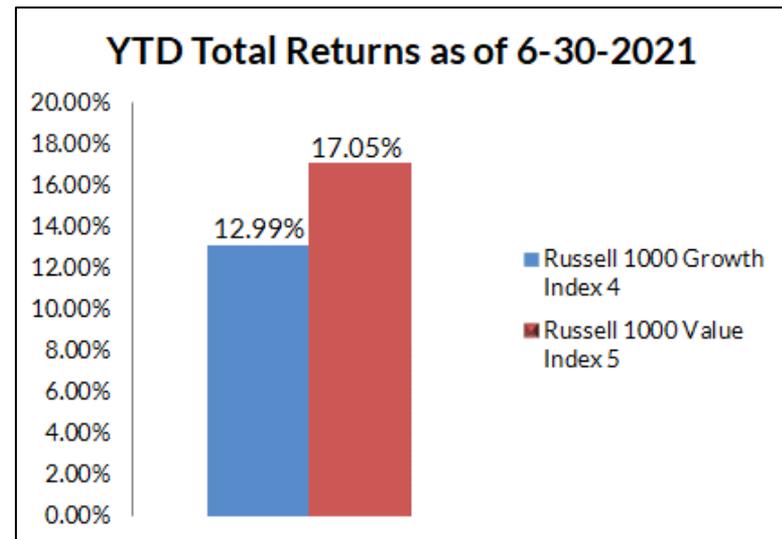


Chart 4
 Source: Morningstar Direct

¹The Russell 1000[®] Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000[®] companies with higher price-to-book ratios and higher forecasted growth values. ²The Russell 1000[®] Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. ³The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. ⁴The S&P 500[®] Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general. ⁵ The Russell 2000[®] Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000[®] Index. You cannot invest directly in an index.

Past performance does not guarantee future results.

The Bond Market

Interest rates decreased during the quarter after a rapid run-up in the first quarter (Chart 6). Investors are digesting how the extreme use of monetary and fiscal policy will affect the economy long term. Inflation shocked investors on the upside, as readings came in over expectations. The Fed has said that inflation will be transitory, as supply and demand imbalances correct themselves. Regardless, monetary and fiscal policy of this magnitude has never been unleashed on an economy. Therefore, higher inflation is in the works, possibly sooner than most investors think.

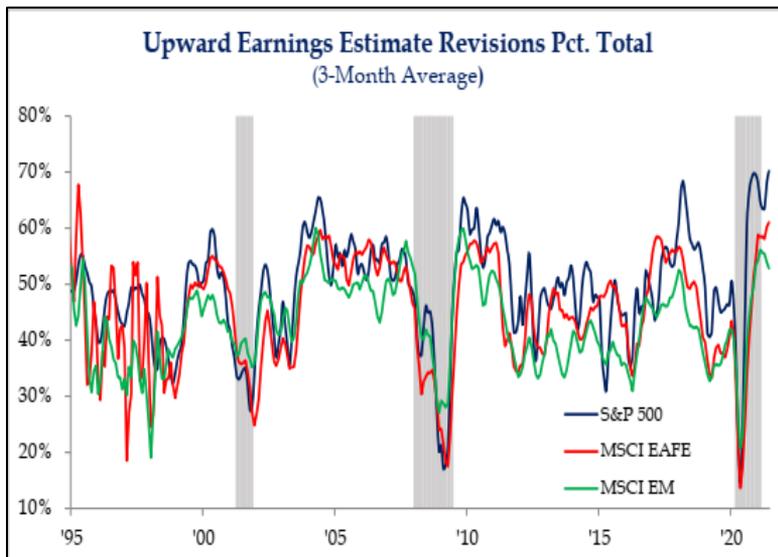


Chart 5
 Source: Strategas Research Partners, "Quarterly Review in Charts", 7/1/21



Chart 6
 Source: Strategas Research Partners, "Quarterly Review in Charts", 7/1/21

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