BULLS&BEARS

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Third Quarter 2021

Rotational Churn

The first half of 2021 has been a story of economic reopening and strong risk asset returns. The second quarter brought a much different tone than the first in the way of stock market leadership. While first quarter equity performance was led higher by cyclical and value-oriented sectors such as financials and energy, the second quarter was a different story.

Over the course of the quarter, long-term U.S. Treasury rates declined with the 10-year Treasury coming down by approximately 30 basis points. Future inflation expectations also started to come down as lumber prices have fallen 64% from their peak, and other commodities are off their highs as well. Much of this has been contributed to a recent hawkish tone by the Federal Open Market Committee, as an updated Dot Plot now shows 13 of 18 Fed governors predicting two rate hikes by the end of 2023. All this combined sparked peak growth worries from investors in which the Fed raises rates prematurely due to inflation concerns, slowing economic growth. This scenario allowed growth stocks to lead during the quarter as a low-rate, low economic growth environment is one in which they thrive, like they did in the 10 years prior to the pandemic.

Though we do expect cyclical assets to outperform through the remainder of the year and into 2022 as economic growth surprises to the upside. We do eventually believe secular growth names will retain long-term leadership as we get further from the pandemic recovery.

Inflation, Inflation, Inflation

The hottest topic of discussion thus far in 2021 has been inflation. From top asset managers, to "mom and pop" investors, to Jerome Powell the chair of the Federal Reserve, the top question that they've all asked, answered, or discussed has been whether the current high levels of inflation that we're currently seeing in the economy are here to stay.

First, the inflation outlook is not a return to the 1970s. The outlook is likely closer to what we've seen since the end of the Great Recession, sub 2% though it likely runs a little higher, between 2-3% over the next few years. The surge in prices has not just been this year versus the same time last year. You're seeing it month on month. The rapid reopening, the large fiscal stimulus, the very accommodative monetary policies across the globe are starting to fuel upward trajectories of inflation that ultimately will surprise. They'll be higher and a little longer than the Fed would like. But again, not a return to the 1970s.

Variant Recovery

Wave three of COVID-19 is appearing in several countries, the U.S. among them. The dominant variant, referred to as "Delta," is allowing the virus to spread rapidly. With vaccination programs incomplete, public officials around the world may have to consider renewed restrictions. The pandemic, and its impact on the global economy, is still very much with us.

As COVID-19 vaccine availability has come to countries around the globe at varied speeds, so too has the global recovery. At the beginning of the year, what was expected by many to be a synchronized global recovery, has varied depending on vaccine distribution and inoculation rates.

Developed countries and specifically ones that had pharmaceutical companies that brought high-quality vaccines to market, like the U.S. and U.K, have higher inoculation rates and thus far are further along with their recovery. Emerging countries, such as India and Brazil, are still really fighting the pandemic. Those countries have low inoculation rates, and their recovery has somewhat been put on hold. We do expect these countries to eventually get to their recovery as they raise inoculation rates and there may be investment opportunities when this takes place.

Please contact us at 1-855-829-7192 if we may be of assistance.

Market Indicators

6/30/21	Year-to-Date Change
S&P 500	15.25%
NASDAQ	12.92%
Russell 2000	17.54%

Interest Rates	12/31/20	6/30/21
10-Year Treasury Note	0.92%	1.47%
3-Month Treasury Bill	0.079%	0.05%

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