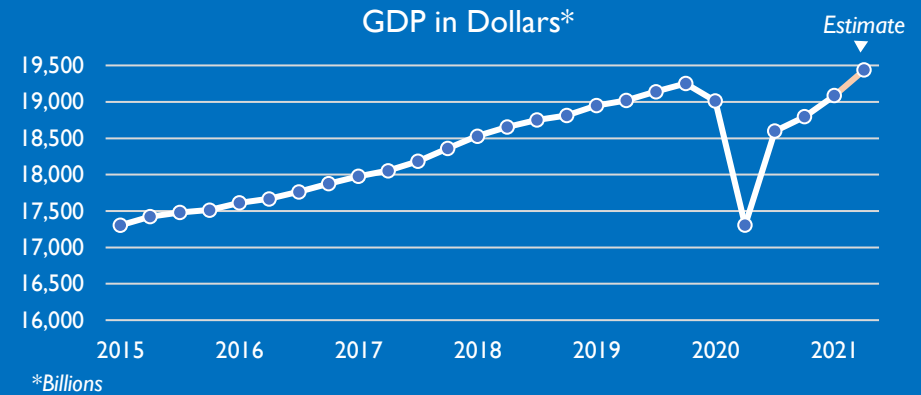


Economic Commentary

As of June 30, 2021

Other Indicators

	CPI	Unemployment	Sentiment	Crude Oil
Q2: 2020	0.7%	11.1%	72.3	\$41
Q1: 2021	2.6%	6.0%	84.9	\$64
Q2: 2021	5.4%	5.9%	86.4	\$77



PULLING

NEUTRAL

PUSHING

← **Inflation** – The Consumer Price Index rose 5.32% year-over-year in June, with core CPI (excluding food and energy) rose 4.45% year-over-year. Inflation in the US economy is primarily driven by constricted supply chains coupled with surging demand for goods and services. In addition to American families facing higher prices at the pump and in grocery aisles, increased lumber and materials costs as well as a microchip shortage have caused home and automobile prices climbing far above pre-pandemic levels. Economists differ in their opinions on whether such supply issues will even out soon or if inflation must be tackled with monetary/fiscal action.

↔ **Labor Recovery** – Jobs gains in the leisure & hospitality, education, and retail industries continued throughout the second quarter. The Unemployment Rate declined slightly from April to June, beginning the quarter at 6.1% and ending at 5.9%. At the end of the quarter, 14.4% of all employed persons in the United States teleworked at some point during the last four weeks. Average hourly earnings on private nonfarm payrolls rose by \$0.43 throughout the second quarter as workers' reservation wage – the lowest wage for which an employee will offer their services – increased. Increased demand for labor has also prompted businesses to offer signing bonuses and other guaranteed monetary incentives to attract employees in industries ranging from food service to education.

→ **Recovery** – The US economic recovery outlook remains strong, despite rising national COVID-19 case counts amidst the rapid spread of the Delta variant of the virus. Around 70% of US GDP is comprised of consumption, something Americans do well. Retail sales rose again, 0.6% in June compared to May, as Americans continue to spend money at stores, restaurants, and bars. Local legislators do not seem eager to re-introduce lockdowns or gathering restrictions, especially now that 49% of Americans are fully vaccinated against the virus.

Second Quarter Market Review

U.S. stocks rose again in the second quarter as the S&P 500 continued to set new record high levels, closing at 4,297.

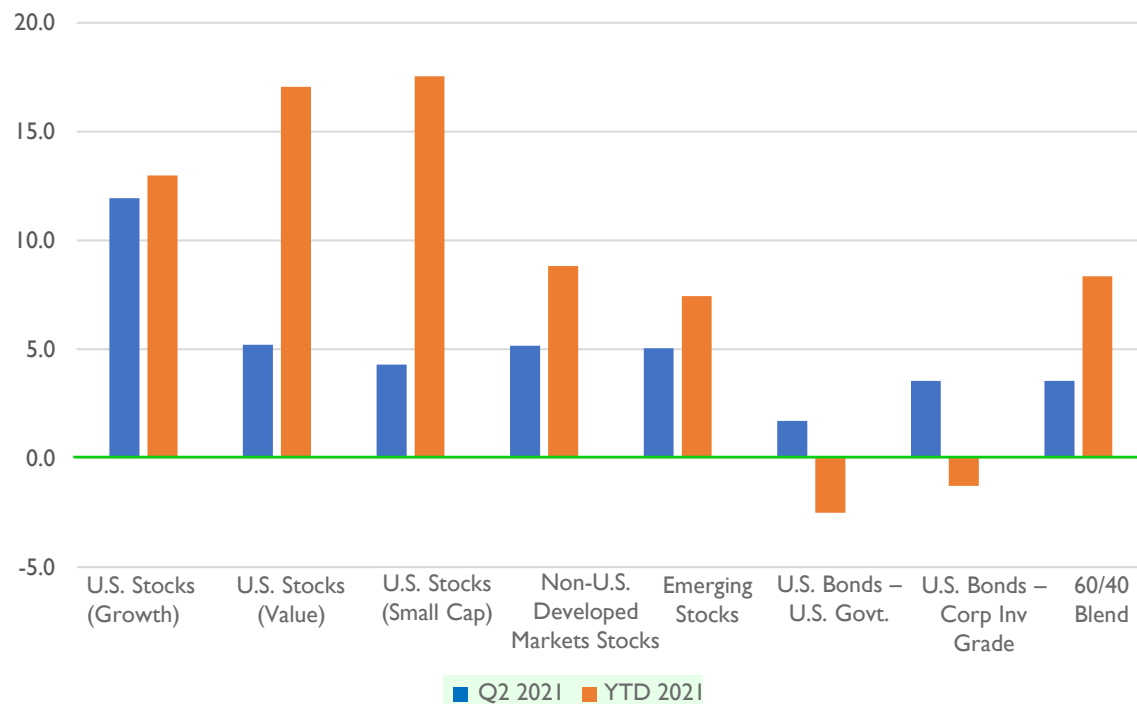
The S&P 500 rose 8.55% over the quarter. Large-Cap Growth stocks outperformed Value, reversing the trend of the prior two quarters. The Small-Cap Russell 2000 Index rose only 4.29% and still leads Large-Cap year-to-date.

Within the S&P 500, the top sectors were a mix. Energy outperformed again, and Technology recovered as well. The top contributors to the S&P 500's return were the familiar mega-tech names: Microsoft, Apple, NVIDIA, Amazon and Facebook.

Energy prices generally have a larger effect on consumers than they do on investors, as the Energy sector is less than 3% of the S&P 500.

Top detractors were mixed, including Intel, Disney, and Boeing.

- In the U.S., the trends of the prior two quarters reversed, as large cap and growth (and specifically technology/internet related stocks) outperformed.
- Outside the U.S., developed and emerging markets were close to even; developed markets lead modestly year-to-date.
- Within U.S. fixed income markets, interest rates on U.S. treasury bonds declined, creating positive returns. Most active core fixed income managers have outperformed U.S. Aggregate Index funds so far this year.



Asset class returns are represented by the following indexes: Russell 1000 Growth and Value, and Russell 2000 Index (U.S. Stocks), MSCI EAFE Index (Non-U.S. Developed Stocks), MSCI Emerging Markets Index (Emerging Market Stocks), Bloomberg Barclays U.S. Government Index (U.S. Bonds - Govt), and Bloomberg Barclays US Corporate Bond Index (U.S. Bonds - Corp IG). The Blend is 60% S&P 500/40% US Aggregate.

Drivers of Capital Markets Returns

- ▶ Fixed income investments are debt instruments typically issued by governments and corporations. They pay a scheduled fixed amount of interest until maturity, at which time the principal is repaid. Investors in fixed-income instruments are **lenders**.
- ▶ Corporations can also raise capital by selling shares, also known as equity. Equity investors share in a company's success or failures over time. Investors in equity are **owners**.

The price of the S&P 500 Index as of June 30, 2021, was 4,297.50.

Returns to Lenders

Inflation ↑ 5.4%

- June's CPI level was up 5.4% from June of 2020. The CPI declined modestly from February through July of 2020, producing an "easy" comparison in June of 2021. But the 2-year annualized increase was still 3.0%, higher than recent trends.

Interest Rates ↓ 0.28%

- The yield of a 10-year U.S. Treasury bond declined from 1.74% on March 31 to 1.45% on June 30.

Credit Spreads ➡ -0.01%

- The yield of a generic BBB-rated corporate bond fell to 129 basis points from 130 basis points one quarter ago. The yield spread measures the yield of 10 – 15-year corporate debt compared to Treasury Bonds of equal maturities.

Returns to Owners

Growth (GDP)

1Q: 2021	2Q: 2021
4.3%	7.5%*

- Second quarter real growth of GDP will likely continue to reflect the reopening of many areas of the economy. The range of current estimates is wide, reflecting uncertainty about both nominal growth and inflation.

Profitability

2021E	2022E	%Change22E
\$191.07	\$212.82	11.4%

- The consensus estimate of 2021 earnings for the S&P 500 rose 8.5% during the second quarter. The estimate for 2022 was 11.4% above 2021.

Valuation

2021E P/E	2022E P/E
22.5	20.2

- At June 30, the price of the S&P 500 was 22.5x its estimated 2021 earnings – about the same ratio as March 31, as earnings estimate increases matched the rise in stock prices.