

Q2 2021


**WEALTH SOLUTIONS
 CAPITAL MARKETS REVIEW**

INDEX		PERIOD ENDING JUNE 30, 2021				
	Qtr	YTD	1 Yr Return	3 Yr Return	5 Yr Return	10 Yr Return
U.S. Equity Markets						
S&P 500 TR USD	8.55	15.25	40.79	18.67	17.65	14.84
Russell 3000 TR USD	8.24	15.11	44.16	18.73	17.89	14.70
Russell 3000 Value TR USD	5.16	17.67	45.40	12.23	11.99	11.54
Russell 3000 Growth TR USD	11.38	12.71	42.99	24.47	23.31	17.54
Russell 2000 TR USD	4.29	17.54	62.03	13.52	16.47	12.34
Russell 1000 TR USD	8.54	14.95	43.07	19.16	17.99	14.90
Non-U.S. Equity Markets						
MSCI ACWI Ex USA NR USD	5.48	9.16	35.72	9.38	11.08	5.45
MSCI EM NR USD	5.05	7.45	40.90	11.27	13.03	4.28
Fixed Income						
BBgBarc US Agg Bond TR USD	1.83	-1.60	-0.33	5.34	3.03	3.39
BBgBarc US Treasury US TIPS TR USD	3.25	1.73	6.51	6.53	4.17	3.40
Real Assets/Natural Resources						
DJ US Select REIT TR USD	11.76	22.94	39.98	8.13	5.16	8.67
S&P North American Natural Resources TR	11.12	32.73	45.92	-1.77	2.03	-0.58

Past performance is not a guarantee of future results.

 **GDP (LAGGING INDICATOR)**
Q1 2021 (Third Estimate)
 Increased at annual rate of 6.4%

 **EXISTING HOME SALES**
Through May 2021
 Decreased by 0.9%

 **UNEMPLOYMENT RATE**
Through June 2021
 Decreased to 5.9% (seasonally adjusted).

 **CONSUMER PRICE INDEX**
May 2021
 Increased by 0.6% (seasonally adjusted).

COMMENTARY

The U.S. equity market gained 8.2% during the quarter as progress toward the full reopening of the U.S. economy continued, which was aided by the distribution of COVID-19 vaccines. News of an agreement in the Senate late in June to approve the infrastructure bill supported stocks through the end of the quarter.

Large-cap stocks outperformed both the mid- and small-cap segments of the market in the quarter. All capitalization segments of the market posted strong returns in the year-to-date period, with small-cap stocks outperforming mid- and large-cap stocks by 1.2 and 2.2 percentage points, respectively. Growth stocks outperformed value stocks by 6.2 percentage points in the quarter. Concerns over rising inflation and increasing interest rates decreased, leading to the favorable relative performance of growth stocks in the period. Value stocks exceeded growth stocks in the year-to-date period by 5.0 percentage points.

The energy sector posted the strongest return for the third consecutive quarter. Rising demand for oil and natural gas drove prices higher as economies around the world continue to reopen. The financial services sector has continued to produce strong relative performance in the year-to-date period. Despite a decline in longer-term interest rates in the quarter, the yield curve has steepened from where it started the year, and a steeper yield curve increases the prospects for lenders' profits on longer-term loans. The utilities' and consumer staples' sectors had the weakest relative returns for the second straight quarter. These two sectors are historically more defensive and lagged the broad market as investors generally favored more growth-oriented companies in the period.

Despite a modest decline in the U.S. dollar, international equities trailed U.S. equities in the quarter, returning 5.5%. Vaccination rates have generally trailed the U.S., and economic restrictions in many countries remain stricter than those in the U.S., resulting in a slower recovery in many non-U.S. economies.

Continental Europe returned 7.8% in the quarter, as the rollout of its vaccination programs increased and assurances for continued support from the European Central Bank aided returns in the quarter. While vaccination rates in Emerging Market countries have generally trailed those in developed market countries, the continued recovery of commodity prices was supportive to stocks in many emerging markets.

Chinese equities returned 2.3% in the quarter as the favorable outlook for a global economic recovery was largely offset by concerns regarding stricter regulation

of its large technology companies by the Communist government. Most regions produced positive equity returns during the quarter as global economic activity and outlook was supported by continued distribution of COVID-19 vaccines and reopening of economies.

Preliminary estimates from a subset of core real estate managers show a positive return of over 3% for the quarter. Over the last year, industrial and multifamily properties have performed better than holdings within the office and retail segments of the market. Most managers in the NCREIF ODCE index have maintained redemption queues, although some have increased recent payments to investors seeking liquidity. Public market REITs increased over 11% in the period, responding to improving fundamentals as COVID-19 restrictions eased.

“The big money is not in the buying or selling, but in the waiting.”

— Charlie Munger

The U.S. fixed income market returned 1.8% in the quarter. The Federal Reserve made no changes to policy at the June meeting but indicated that interest rate hikes could occur one year earlier than previously projected and that they were discussing tapering asset purchases. The Fed continues to communicate that it believes the recent higher inflation is transitory.

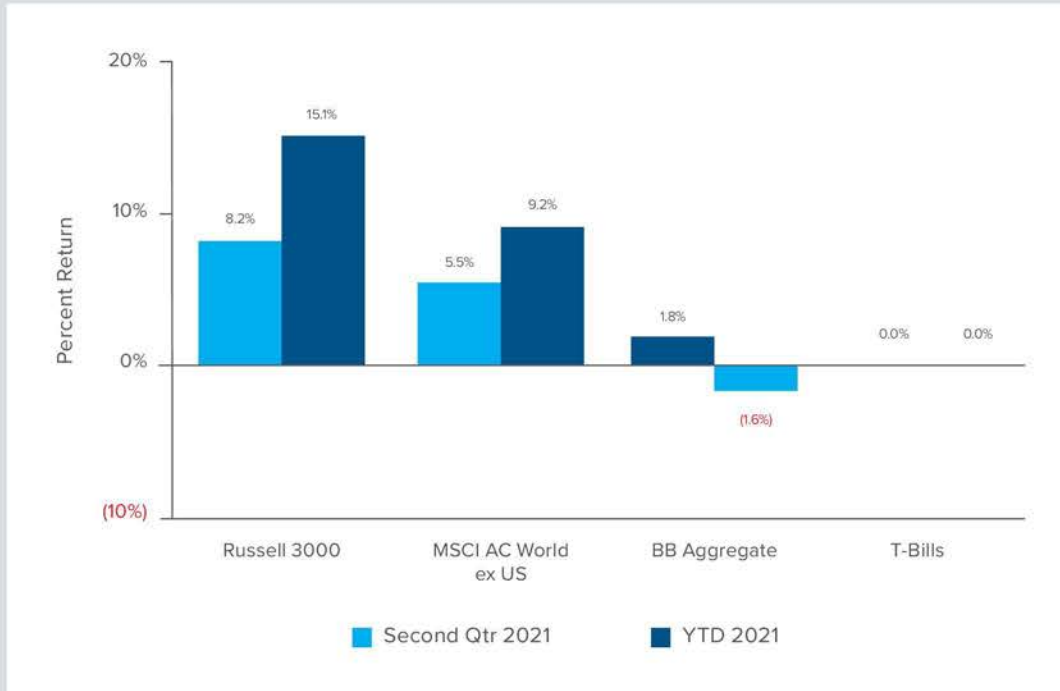
The 10-year treasury yield declined from 1.74% to 1.45% during the quarter and U.S. government issues rose 1.7% as a result. Investment grade credits advanced 3.3%, while non-investment grade corporate bonds rose 2.7%. Agency mortgages and other securitized bonds experienced positive results but were more muted than other spread sectors.

TIPS increased 3.3%, which outperformed nominal treasuries in the quarter as inflation expectations increased. The breakeven inflation rate implied in 10-year U.S. TIPS ended the quarter at 2.32%. The realized annual CPI was 5.0% through May 2021. The annualized number is elevated due to the impact of the lockdown on prices during the first half of 2020.

Municipal bonds rose 1.4% in the quarter due to robust investor demand and strong tax revenues. Developed non-U.S. government bonds increased 0.4% in the quarter. Emerging market bonds experienced positive results in the quarter, ranging from 2% to 4%.

MAJOR CAPITAL MARKET RETURNS

U.S. Stocks—Russell 3000, Non-U.S. Stocks—MSCI AC World ex US,
Fixed Income—Barclays Aggregate, and U.S. Treasury Bills



Source of statistics not otherwise specifically cited within this newsletter: Strategic Capital Investment Advisors.

Definitions of the indexes shown here can be found at mfinwealth.com/index-and-statistics-definitions.

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The S&P 500 Total Return is a commonly used measure of common stock performance of 500 leading companies in leading industries of the U.S. economy.

The Russell 3000 index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. It is market-capitalization weighted.

The Russell 3000 Value index measures the performance of the broad value segment of the U.S. equity value universe. It includes Russell 3000 index companies with lower price-to-book ratios and lower forecasted growth values. It is market-capitalization weighted.

The Russell 3000 Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes Russell 3000 index companies with higher price-to-book ratios and higher forecasted growth values. It is market-capitalization weighted.

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 and includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity securities. It is a subset of the Russell 3000 index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership.

The MSCI ACWI Ex USA Index captures large and mid-cap securities exhibiting overall growth style characteristics across 22 of 23 Developed Markets countries. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend.

The MSCI Emerging Markets index measures the performance of the large and mid-cap segments of emerging market equity securities. It is free float-adjusted market-capitalization weighted.

The Barclays Aggregate Bond index measures the performance of investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS.

The Barclays US TIPS index measures the performance of rules-based, market value-weighted inflation-protected securities issued by the U.S. Treasury. It is a subset of the Global Inflation-Linked Index (Series-L).

The DJ US Select REIT index measures the performance of publicly traded real estate investment trusts (REITs) and REIT-like securities. The index is a subset of the Dow Jones US Select Real Estate Securities Index (RESI). The index is designed to serve as proxy for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate.

The S&P North American Natural Resources index measures the performance of U.S. traded securities that are classified under the Global Industry Classification Standard (GICS) energy and materials (sector) excluding the chemicals (industry) and steel (sub-industry).

SOURCES

GDP

> bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm

Existing

> nar.realtor/research-and-statistics/housing-statistics/existing-home-sales

Unemployment

> bls.gov/news.release/empsit.toc.htm

Consumer Price Index

> bls.gov/news.release/cpi.toc.htm

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