Quarterly Economic Update
Second Quarter 2021

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In the first half of 2021, investors welcomed a new administration in the United States of America, saw the reopening of many countries, experienced volatility in equity markets and ended a second quarter that produced many new highs.

The S&P 500 has now gained ground for five quarters in a row. Notably, it has gained more than 5% for five quarters in a row, only the second time since 1945 that the index has been able to pull off that feat. The previous occasion was in 1954, according to Bespoke Investment Group, a time when the Fed was also trying to emerge from a period of ultralow interest rates. Needless to say, through a whirlwind of change, investors who stayed the course could have experienced a continued drive toward better economic and financial health. *(Source: Barron's 6/2021)*

"Better news on Covid, vaccinations, re-openings, economic growth, and earnings fueled the advance. Nearly equal gains were achieved in both quarters by a rotation in leadership allowing broad participation," said Jim Paulsen, Leuthold Group's Chief Investment Strategist. *(Source: cnbc.com 06/30/2021)*

On the last day of Quarter 2, the S&P 500 rose 0.1% to end at 4,297. This marked the S&P 500's 24th record close of 2021. The Dow Jones Industrial Average (DJIA) closed 210.22 points higher at 34,502, a gain 0.6%. This close was just 1% shy of its May 7 record close of 34,777.76. *(Source: marketwatch.com 7/1/2021)*

Historically, positive first halves of the year are usually followed by positive second halves. If there is a double-digit gain in the first half both the S&P 500 and the DJIA have never ended the year with an annual decline according to Refinitiv data dating back to 1950. *(Source: www.cnbc.com 06/29/2021)*

Source: bigcharts.com

MONEY RATES (as posted in Barron's 7/6/2021)		
	LATEST WEEK	**YR AGO**
Fed Funds Rate (Avg. weekly auction)[c]	**0.10%**	**0.09%**
Bank Money Market[z]	**0.07%**	**0.12%**
12-month CD[z]	**0.17%**	**0.38%**

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com)

Key Points

1 All three major indexes finished the quarter positive.

2 Continued vaccine distribution and re-openings are advancing the economy.

3 Interest rates are at near zero and are projected to increase in 2023.

4 Inflation is moving forward quicker than expected.

5 Avoid distractions and stay on path with your time horizons and risk tolerance.

6 **Call us with any questions or concerns about your personal investment strategy.**

However, amidst all the positive momentum toward recovery, there is still concern about the condition of the job market, inflation, and uncertainty about the path of the virus and the severity or impact that new strains may have. Theoretically speaking, the stock market tends to be a forward-looking mechanism, so its price can reflect an economic recovery well before it actually occurs. With COVID variants and many potential challenges still ahead, investors need to continue being watchful.

As a financial professional, it is our goal to stay apprised of the issues that we feel may directly impact you and your financial goals. We will be keeping a watchful eye on the progress of the economic recovery.

Inflation & Interest Rates

Two of the most talked about issues at the end of the second quarter were inflation and interest rates.

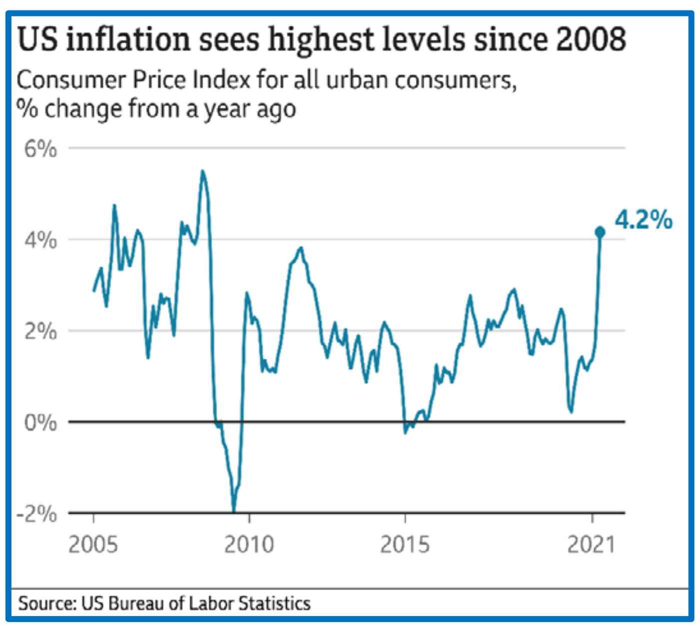
In June, the Federal Reserve held their two-day meeting and concluded that due to more aggressive inflation than expected this year, they anticipate raising interest rates sooner than previously expected. Back in March 2021, the Fed expected not to raise rates until at the earliest, 2024. At its June meeting, the Fed's latest dot-plot projections moved the timeline to potentially 2023, where there could possibly be two interest rate hikes.

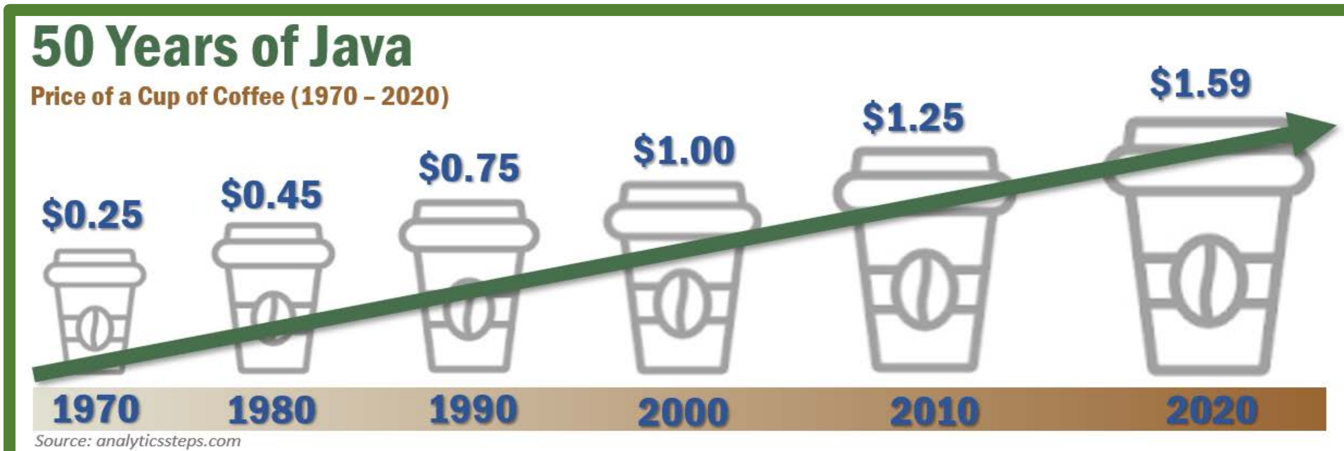
"As the reopening continues, shifts in demand can be large and rapid and bottlenecks, hiring difficulties and other constraints could continue the possibility that inflation could turn out to be higher and more persistent than we expect," Powell said during the press conference. *(Source: www.cnbc.com 06/16/2021)*

Powell also stated, "The dots are not a great forecaster of future rate moves ... it's because it's so highly uncertain. There is no great forecaster -- dots to be taken with a big grain of salt," he said. *(Source: www.cnbc.com 06/16/2021)*

The inflation expectation for 2021 was raised to 3.4%. Back in March, the Fed had anticipated a 2.4% inflation rate. Powell continued, "You can think of this meeting that we had as the 'talking about talking about' meeting, if you'd like." The sentiment of the Fed is that inflation pressures are "transitory".
(Source: www.cnbc.com 06/16/2021)

The Federal Open Market Committee (FOMC) still kept its benchmark short-term rate near zero at 0 – 0.25%. After the Fed's announcement in June, the stock market experienced a temporary drop but quickly regained losses. *(Source: www.bankrate.com 6/2021)*





Inflation is a decrease in the purchasing power of money, reflected in a general increase in the price of goods and services in an economy. For example, the prices for many consumer goods are significantly higher than they were 50 years ago. When you hear someone's grandparent say, "When I was your age a cup of coffee cost 25 cents," they are making a statement about inflation. Simply put, it is the rising cost of goods and services over time and the decrease in the purchasing power of the dollar.

Bond yield percentages also pulled back from their high. 10-year treasury yield last traded at 1.56% on June 16 after Powell's remarks.

Inflation is a real concern for savers because it eats into purchasing power and lifestyle. While we are nowhere near the last 90 years highest or lowest periods of inflation, investors still should try to at least keep pace with or exceed inflation rates.

Treasury Yields

During the quarter, longer-term Treasury yields moved sharply higher, with the yield on the benchmark 10-year U.S. Treasury note jumping from 0.93% to 1.74%, its highest level since early 2020. At quarter's closing, the 10-year treasury yield was 1.456% and the 30-year treasury yield was 2.08%. *(Source: cnbc.com 06/30/2021)*

Interest rates are still at or near all-time lows and rates of 0 to 2% will not help many investors reach their goals. Also, during periods of rising interest rates, bond prices fall. Interest rates are critical when creating a diversified and balanced portfolio, therefore, investors need to pay attention to interest rate movements.

Investor's Outlook

With the swift distribution of vaccines and the subsequent lifting of restrictions, the economy is seeing a dramatic uptick and is positioned to recover even more in the coming months. While equity markets are still looking favorable, all eyes are on inflation. This may cause some volatility in stocks.

Although history is just data and cannot be predictive of future events, as mentioned earlier, historically, a positive first half of the year has traditionally brought a positive second half.

Blackrock, one of the world's largest asset managers in their midyear report noted that, "We remain constructive on U.S. stocks as the economic restart gains pace. Yet as the cycle evolves, investors will increasingly divert their attention toward the potential party spoilers. A chief concern is inflation, and whether the rising prices seen in some pockets of the economy are transitory or the first signs of an enduring new regime. We expect fears of inflation will be enough to stoke volatility in stocks, even amid Fed assurances of continued accommodation. Similarly, tax policy may become a volatility trigger as lawmakers debate the proposal". *(Source: Blackrock.com 7/1/2021)*

Russell Investments in their mid-year outlook, stated, "We still like the pandemic-recovery trade that favors equities over bonds''. However, they did caution that, "We're watching indicators for whether the inflation spike becomes an issue for the Fed." They concluded that, "We expect strong economic growth in the United States through the second half of this year". *(Source: RussellInvestments.com 7/1/2021)*

Seeking Alpha in their midyear outlook shares, "A chief concern is inflation, and whether the rising prices seen in some pockets of the economy are transitory or the first signs of an enduring new regime." They also remind us that equity markets are forward looking and they share that inflation and taxes could bring market volatility in this year's second half. *(Source: Seeking Alpha.com 6/25/2021)*

Investors understand that it is not what you make, but what you keep, so another area we will be paying careful attention to is proposed new tax policy. With interest rates still near ultra-low levels, investors need to examine the use of equities in their portfolios. With equities at or near all-time highs, investors need to fully understand their personal timelines and risk appetites. **Our role as financial professionals is to help find the right balance for our clients so they can pursue their goals.**

Caution is still the principal notion for investors.

We still advise to proceed with caution. Regardless of how equities are performing, investors should always focus on their personal objectives and long-term goals. Even when investing for the long-term, there is no guarantee that market volatility will decrease, stabilize, or increase over any timeframe. While you cannot control the return on investment you will see, there are three things you can control, and of which should be your main focus:

1. **Your risk tolerance**
2. **Your time horizon**
3. **Your behavior.**

Our advice is not one-size-fits-all. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations. If you would like to revisit your specific holdings or risk tolerance, please call our office, or bring it up at our next scheduled meeting. **If you ever have any concerns or questions, please contact us!**

We are here for you!

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The S&P 500 is an unmanaged index of 500 widely held stocks that is general considered representative of the U.S. Stock market. The S&P 500 is an unmanaged index of 500 widely held stocks that is general considered representative of the U.S. Stock market. The modern design of the S&P 500 stock index was first launched in 1957. Performance prior to 1957 incorporates the performance of the predecessor index, the S&P 90. Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. Past performance is no guarantee of future results. CD's are FDIC Insured and offer a fixed rate of return if held to maturity. Due to volatility within the markets mentioned, opinions are subject to change without notice. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed.

There is no guarantee that a diversified portfolio will enhance overall returns or out outperform a non-diversified portfolio. Diversification does not protect against market risk.

Sources: cnbc.com; marketwatch.com; bankrate.com; cnbc.com; Barron's; blackrock.com; russellinvestments.com; seekingalpha.com; Contents provided by the Academy of Preferred Financial Advisors, 2021