



360° Advice
Designed to Last



Crystal Ball 2021

Mid-Year | July 2021

2021 First Half Review

Strong start based on robust data, not the time to fade equities.

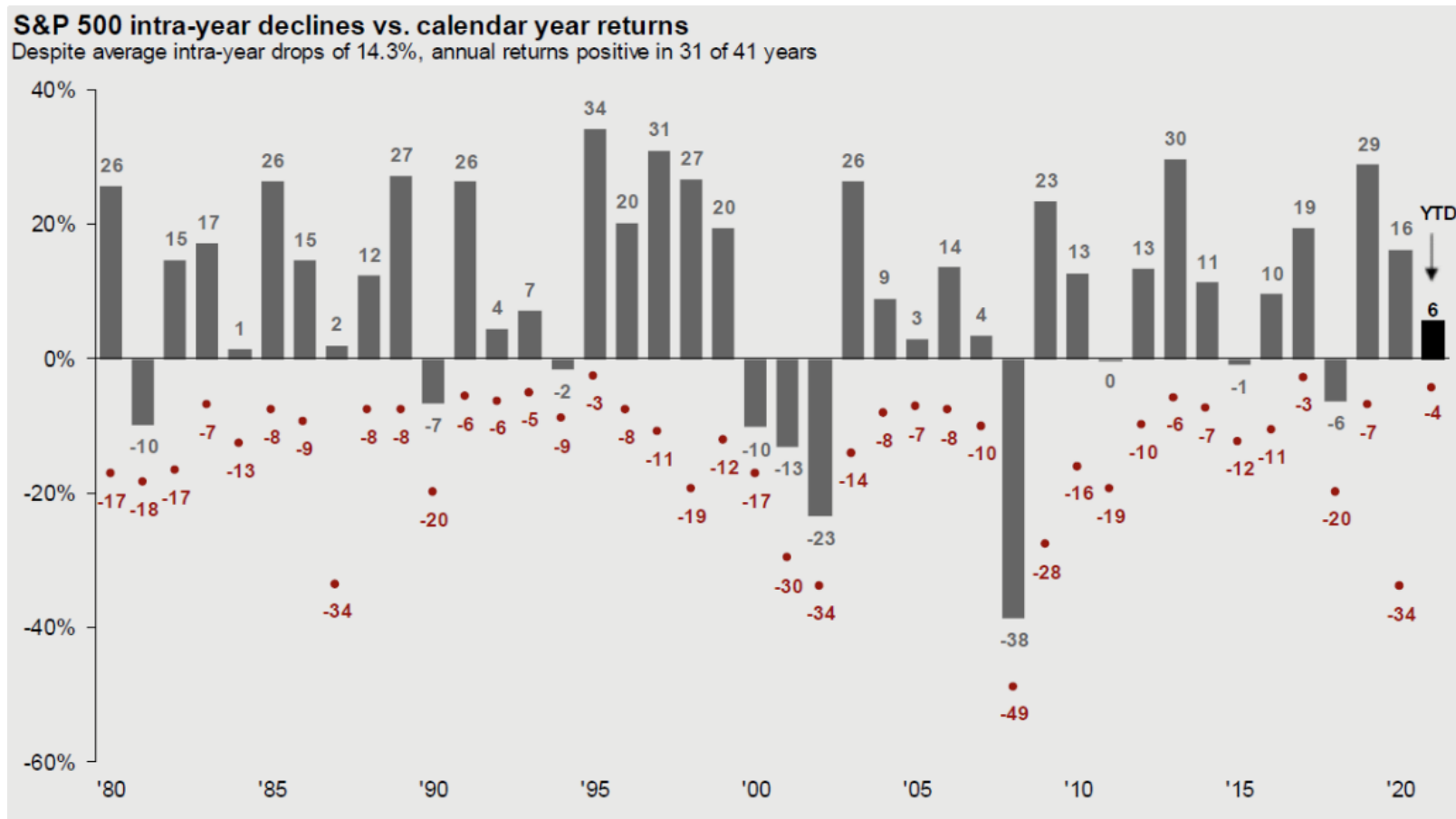
<u>Global Equities</u>	<u>2020</u>	<u>2021 YTD thru June</u>	<u>March 23rd bottom to June 2021</u>	<u>Fixed Income</u>	<u>2020</u>	<u>2021 YTD thru June</u>	<u>March 23rd bottom to June 2021</u>
ACWI (U.S. & Int'l combined)	16.8%	13.0%	96.6%	Barclay's U.S. Aggregate Bond Index	7.5%	-1.6%	4.7%
S&P 500 Index (Large Cap)	18.4%	15.3%	96.1%				
Russell 2000 (Small Cap)	20.0%	17.5%	134.0%	<u>Balanced Portfolios</u>			
MSCI EAFE (International)	8.3%	9.2%	76.9%	Morningstar Moderate Risk Portfolio	12.8%	7.3%	53.8%
MSCI Emerging Market Index (Int'l)	18.7%	7.6%	87.2%				

- The S&P 500 is off to a very strong start up 15.3% as we end the first half. This is in keeping with expectations of a solid 2021, but the swiftness and timing of the strong returns surprised us just a bit. We were hesitant to expect such success so early in the year due to concerns about a potentially contested election, challenges and uncertainty around COVID-19 vaccine distribution and unknowns about the strength of fiscal policy stimulus. All of these were resolved with better-than-feared outcomes, which resulted in a positive market response.
- With reopening risks diminished and strong earnings and economic growth underway, we are adjusting our S&P 500 price targets over the next 12 months and raising our expectations for this time period.
- While some fear that the market is at a top, we see virtually no signals of this at present. The S&P 500's fundamentals, valuation and technical price trends remain constructive. That said, given the strong rally in the first half, coupled with several wall of worry items that will remain in the headlines, we would not be surprised to see some sort of correction or pause prior to moving on to these expected higher highs.
- Items we are watching closely that would cause us to change our view are trends in inflation and rates. At present we think these risks will be successfully managed.

Past performance is not a guarantee of future results.



Annual Returns and Intra-Year Declines

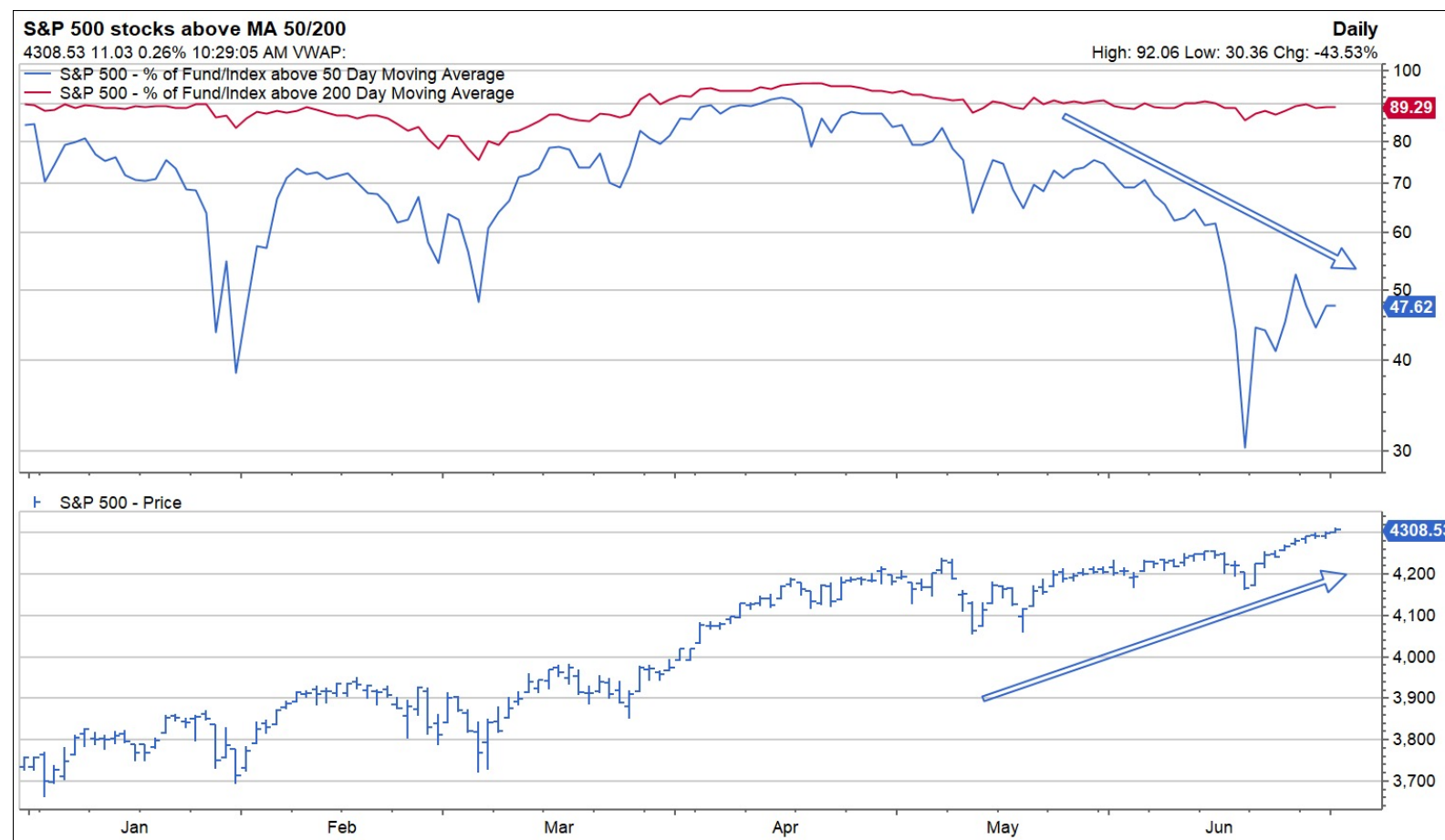


Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2018, over which time period the average annual return was 8.4%. Past performance is not a guarantee of future results.

Guide to the Markets – U.S. Data are as of March 31, 2021.

Momentum in the S&P 500 Waning

The S&P 500 marked fresh all-time highs in June with a smaller percentage of stocks pushing for higher highs. This indicates waning momentum in the index near term and could be signaling a pause or correction in the market. Still plenty of breadth in the longer-term trend with over 85% of stocks trading above their 200-day moving average.



Source: FactSet Past performance is not a guarantee of future results.



High Beta Relative to Low Beta

High beta stocks have outperformed low beta stocks in the S&P 500 indicating a continued appetite for risk.



SP5HBI
The S&P 500® High Beta Index measures the performance of 100 constituents in the S&P 500 that are most sensitive to changes in market returns. The S&P 500 Low Volatility Index is designed to measure the performance of the 100 least volatile stocks of the S&P 500 Index Volatility is defined as the standard deviation of the security computed using the daily price returns over 252 trading days. Past performance is not a guarantee of future results.

First Half S&P 500 Performance is Top 15

The first half performance is among the Top 15 first halves of all time for the S&P 500. In the 15 other years with such strong first half performance, the S&P 500 finished the second half of the year positive 73% of the time and returned 6.6%, on average.

S&P Forward Performance Following Best 1H % Changes					
	<u>Year</u>	<u>1H Perf.</u>	<u>3Q Perf.</u>	<u>4Q Perf.</u>	<u>2H Perf.</u>
1.	1975	38.8%	-11.9%	7.5%	-5.3%
2.	1987	25.5%	5.9%	-23.2%	-18.7%
3.	1983	19.5%	-1.2%	-0.7%	-1.9%
4.	1997	19.5%	7.0%	2.4%	9.6%
5.	1986	18.7%	-7.8%	4.7%	-3.5%
6.	1995	18.6%	7.3%	5.4%	13.1%
7.	1954	17.7%	10.6%	11.4%	23.2%
8.	2019	17.3%	1.2%	8.5%	9.8%
9.	1998	16.8%	-10.3%	20.9%	8.4%
10.	1976	15.6%	0.9%	2.1%	3.0%
11.	1985	14.7%	-5.1%	16.0%	10.1%
12.	1989	14.5%	9.8%	1.2%	11.1%
13.	1955	14.0%	6.4%	4.1%	10.8%
14.	1958	13.1%	10.7%	10.3%	22.0%
15.	1967	12.8%	6.7%	-0.2%	6.4%
	2021	14.4%	?	?	?
Average			2.0%	4.7%	6.6%
% Positive			66.7%	80.0%	73.3%
Historical Average			0.7%	4.0%	4.7%
Historical % Positive			62.0%	78.9%	70.4%

Source: Strategas
Past performance is not a guarantee of future results.



What We Got Right and What We Missed in the First Half of 2021

What we got right:

- Belief that S&P 500 earnings and U.S. economic growth would be healthy and support solid stock market returns in 2021.
- Inflation could very likely become a concern in 2021.
- Rates were likely to rise, and the 10-year Treasury would approach 2%.
- Domestic equities would likely outperform international equities given swifter reopening.

What we missed:

- That cyclical equities outperformance would be so strong.
- While cyclicals generated robust returns, technology would tire and not participate.



2021 Base Case

Expected Environment

- GDP growth remains healthy but moderates in the second half of 2021 and the first half of 2022. We expect 6%-7% real GDP growth through calendar 2021.
- Federal Reserve reduced bond purchased beginning in Q3 2021 but refrains from rate hikes in 2021 and first half of 2022.
- 10-year Treasury rates rise and trade in a range of 1.25%-2.5%. A major surprise could see rates rise to 3% in 2022.

Market Scenarios	Probability	S&P Level	Price Return	Total Return
Optimistic case	10%	5000	16%	18%
Base case	65%	4650	8%	10%
Disappointing case	20%	4000	-7%	-5%
Pessimistic case	5%	3400	-21%	-19%

Optimistic Case: Based on typical blow off market top. P/E of 24x on consensus earnings of \$211.

Base Case: Based on P/E's of 22.5x earnings of \$200.

Disappointing Case: Based on 19x consensus \$211 earnings

Pessimistic Case: Based on an 18x PE on earnings of \$190 and assumes a double whammy of rising inflation and no earnings growth.

These price target expectations are for the next 12 months to June 2022. For all of the scenarios outlined above, the price return is determined using a starting level of 4300 for the S&P 500, and the total return is incorporating the impact of dividends. Consensus earnings projections based on information obtained from FactSet. The environment set forth above is an estimate based upon research and formulation of estimates. There is no guarantee that any claims made will come to pass. Individuals cannot invest directly in an index.



Signs of a Market Top

Currently very few signs that we are near or at a market top.

Indicator	Current Level
1. Blow-off top	✓
2. Heavy inflow into equity market funds	✓
3. Big pick up in Merger and Acquisition activity	✓
4. Initial Public Offering activity	✗
5. Rising real interest rates	✓
6. Weakening upward earnings revisions	✓
7. Erosion in number of stocks making new highs	✓
8. Shift towards defensive leadership	✓
9. Widening credit spreads	✓

✗ Signaling a top

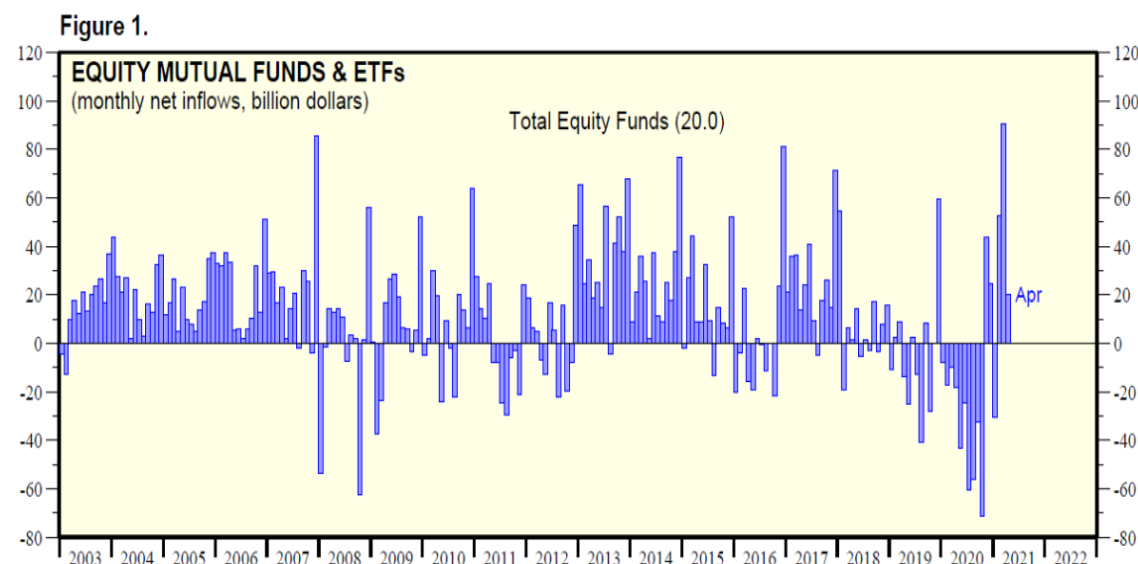
✓ Not signaling a top

○ Approaching top like levels

Equity Fund Flows

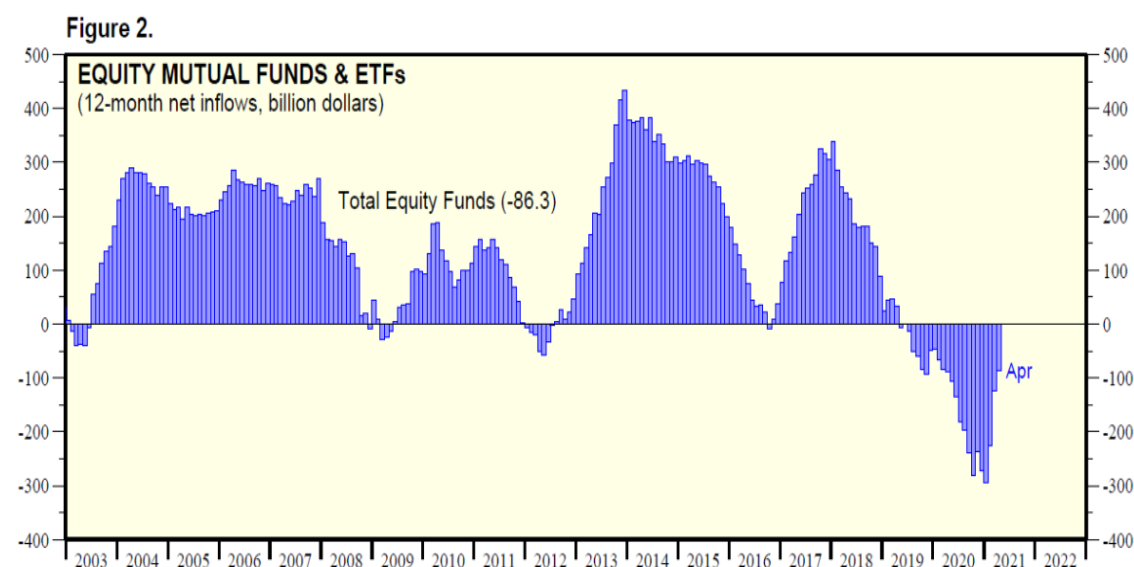
While we saw strong monthly inflows January through March, you are just starting to see yearly net equity flows perk up but are still negative. This is not indicative of euphoric buying you typically see at market tops.

Equity Fund Monthly Flows



Source: Yardeni. Past performance is not a guarantee of future results.

Equity Fund Yearly Flows



10-Year Treasury

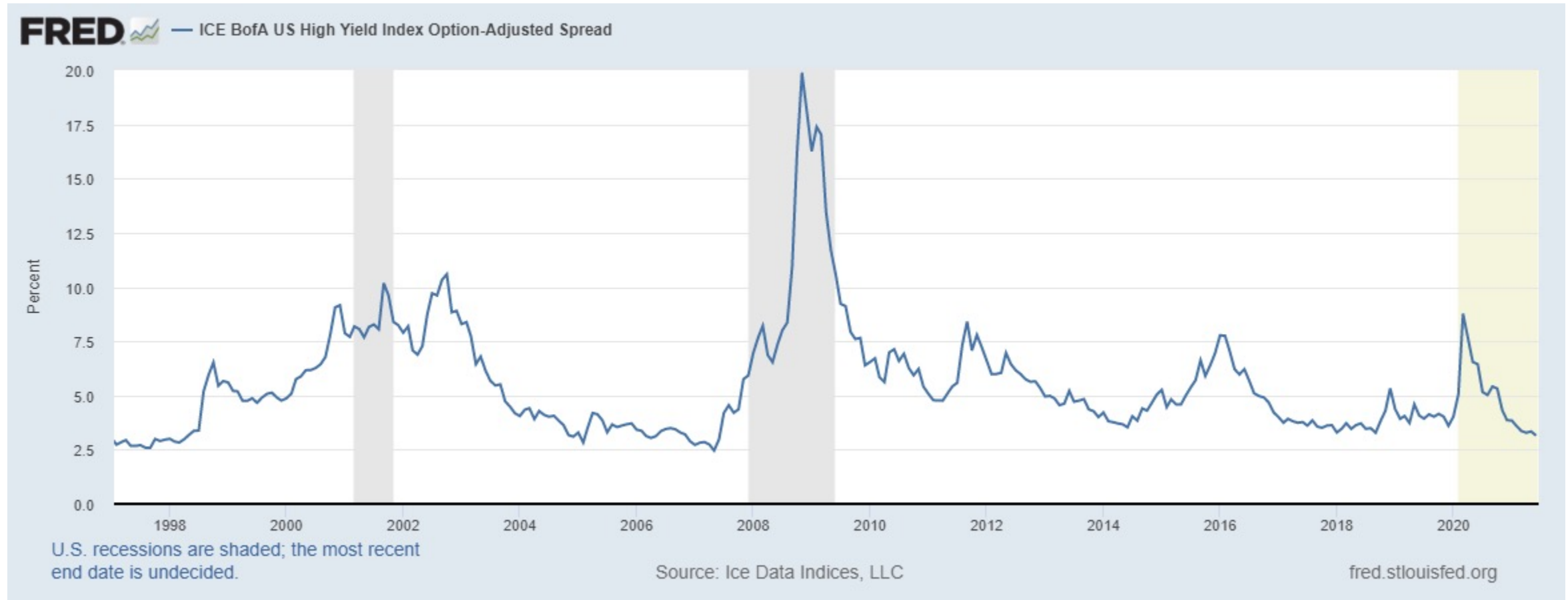
Nominal rates still low and real rates remain negative.



Source: FactSe. Past performance is not a guarantee of future results.

Credit Spreads

Credit spreads remain very low and well below pandemic highs.



The ICE BofA Option-Adjusted Spreads (OASs) are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve. An OAS index is constructed using each constituent bond's OAS, weighted by market capitalization. The ICE BofA High Yield Master II OAS uses an index of bonds that are below investment grade (those rated BB or below). Past performance is not a guarantee of future results.

Sector Leadership in the First Half

Market leadership has been in the cyclical or economically sensitive sectors with energy and financials being the strongest and the move has not been to defense with utilities and staples lagging.

Leaders:

Sector	YTD Return
Energy	46%
Financials	26%
Real Estate	23%
Communication Services	20%
Industrials	16%
S&P 500	15%

Laggards:

Sector	YTD Return
Information Technology	12%
Health Care	12%
Consumer Discretionary	10%
Consumer Staples	5%
Utilities	2%

Source: FactSet YTD Returns as of 6/30/21. Past performance is not a guarantee of future results.



Fundamentals, Valuation and Technicals Still Positive

Overall, our indicators are neutral/positive.

	Rating
Fundamentals: Data that impacts revenues and earnings	Positive
Economic Trends	+
Earnings Trends	+
Fed Policy	+
Interest Rate Trends	+
Real Rates	+
M&A/IPO activity	○
Credit Spreads	+
Valuation: How expensive stocks are	Neutral
Price Earnings	○
Dividend Yields vs Interest Rates	+
Price to Sales	○
Earnings Yield to Bond Yield	+
Technical Price Trends: Quality of trend in market	Positive/Neutral
Advance/Decline	+
Stocks above 200-day MA	+
Sentiment	○ / --
Long Term Trend	+
Sector/Individual Stock Trends	+

+ Positive
 ○ Neutral
 -- Negative

Metrics are ranked positive, neutral or negative based solely on the firm's interpretation of market data, are subject to change at the firm's discretion with no notice to you and are not a guarantee of future results. They do not take into account any individual personal, financial or tax considerations, nor are they intended to be personal legal or investment advice or a solicitation to buy or sell any security or engage in a particular investment strategy or market sector.



Current Wall of Worry Items

What investors worry about in the headlines:

- New strains of coronavirus
- Inflation on the rise
- Peak economic data?
- Fiscal and monetary policy bobbles
- Regulatory risks...FTC & DOJ investigations

What we worry about:

- Economic growth
- Employment
- Earnings
- Interest rates
- Credit spreads

Wild Cards:

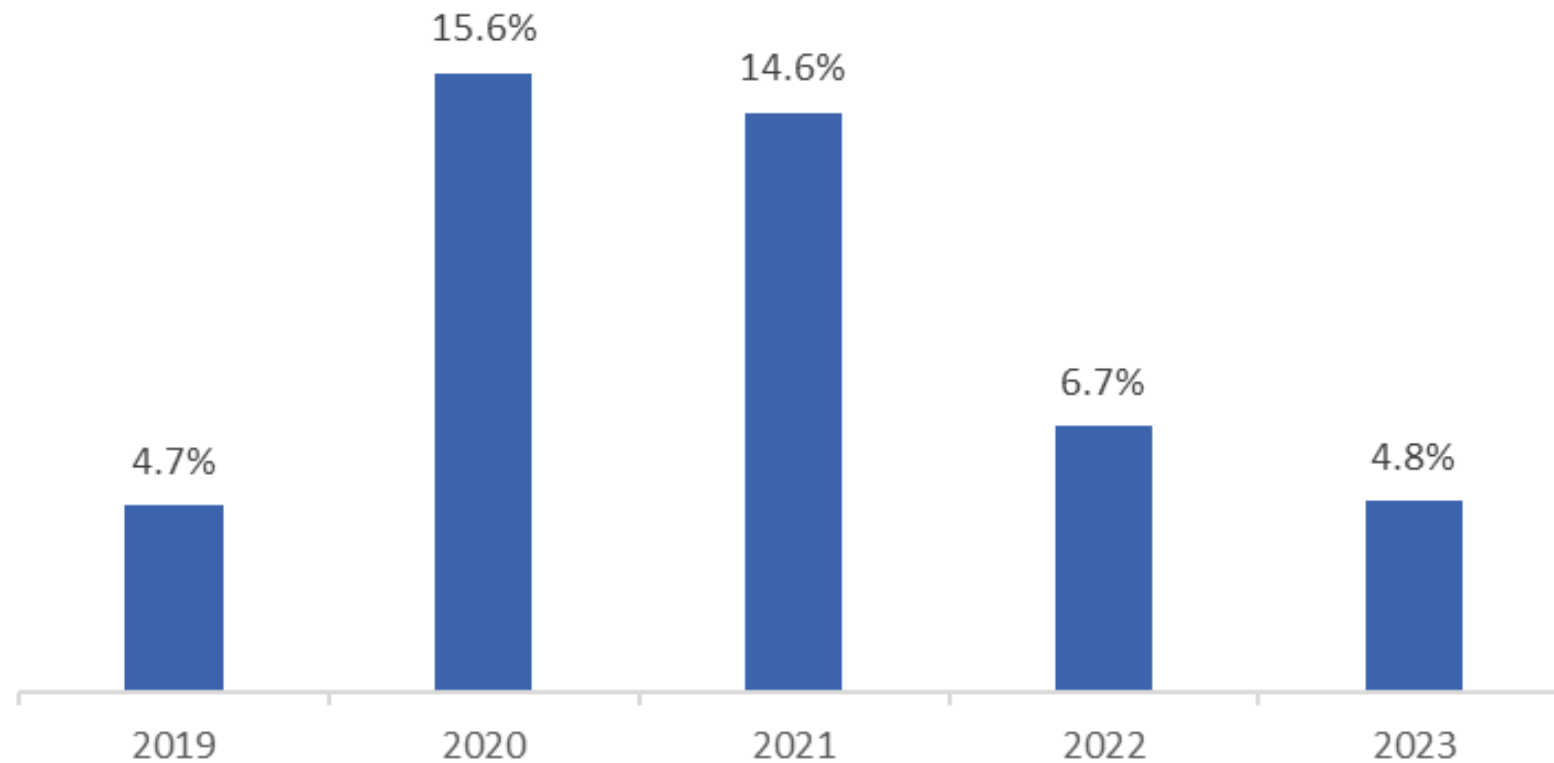
- Geo-political risks; Russia, China, Iran



Fiscal Policy Cliff

Stimulus falling to lower levels, but economy is reopening.

US Budget as a % of GDP

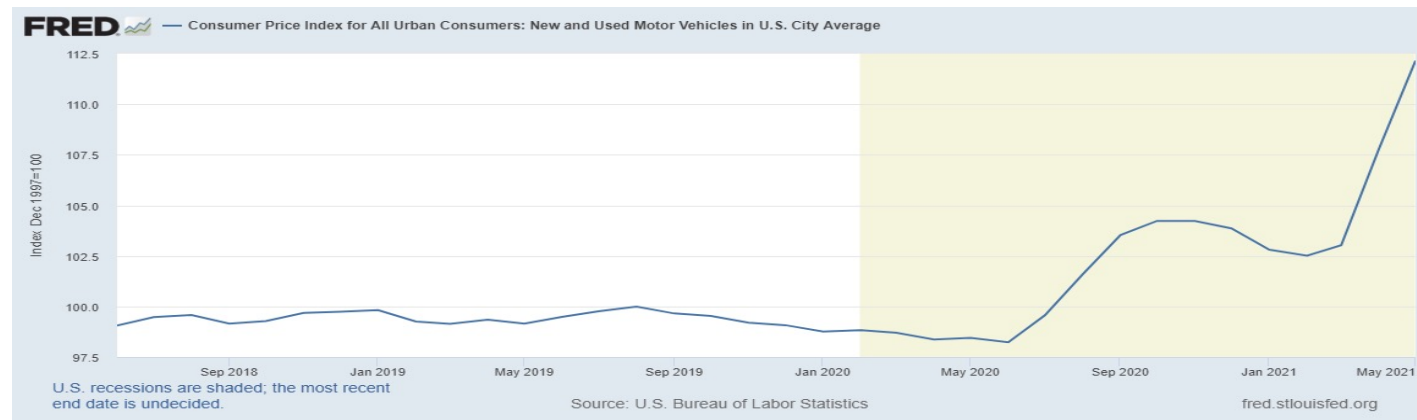
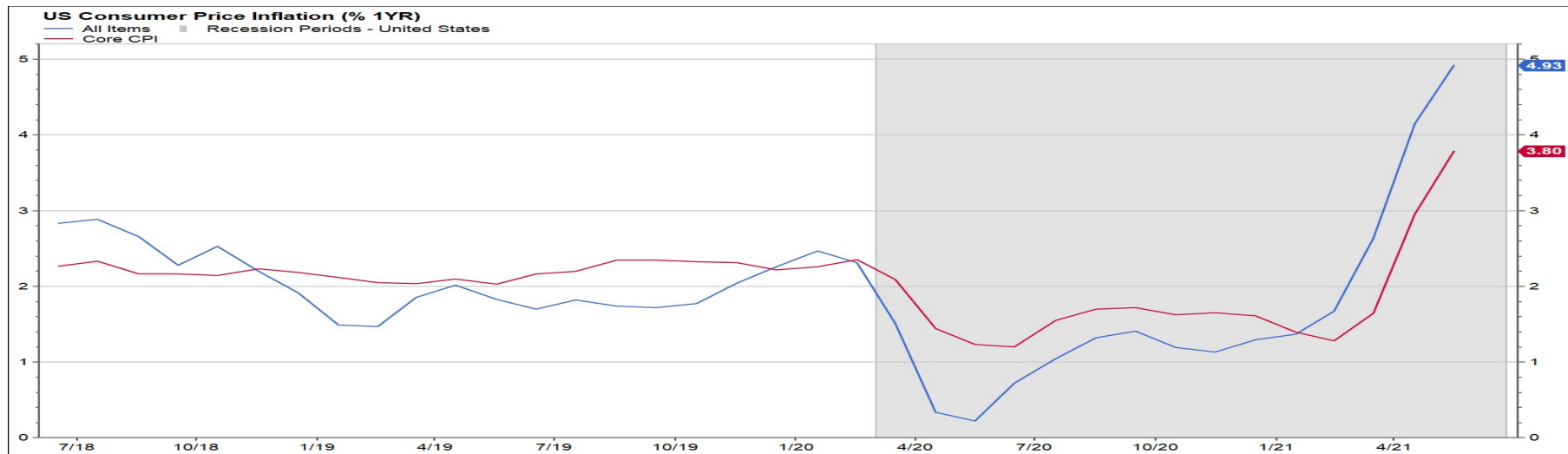


Source: Data from Bloomberg Finance. Years 2021-2023 are estimates based on Bloomberg surveys.



Inflation

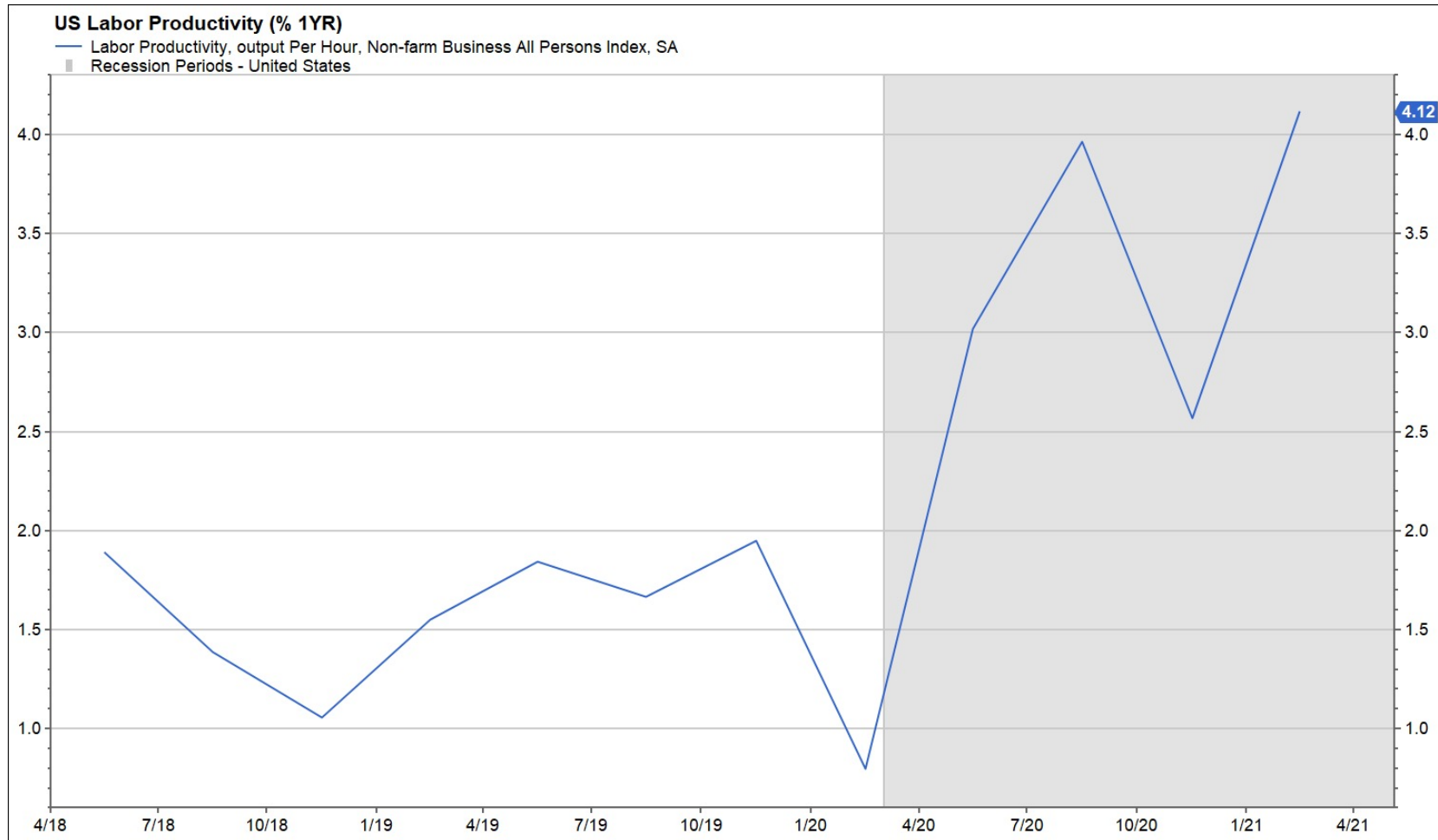
Inflation has accelerated but from low levels and influenced by transitory items.



Source: FactSet
Source: fred.stlouisfed.org

Labor Productivity and Unit Labor Costs

If labor productivity remains strong, inflation is not a concern.

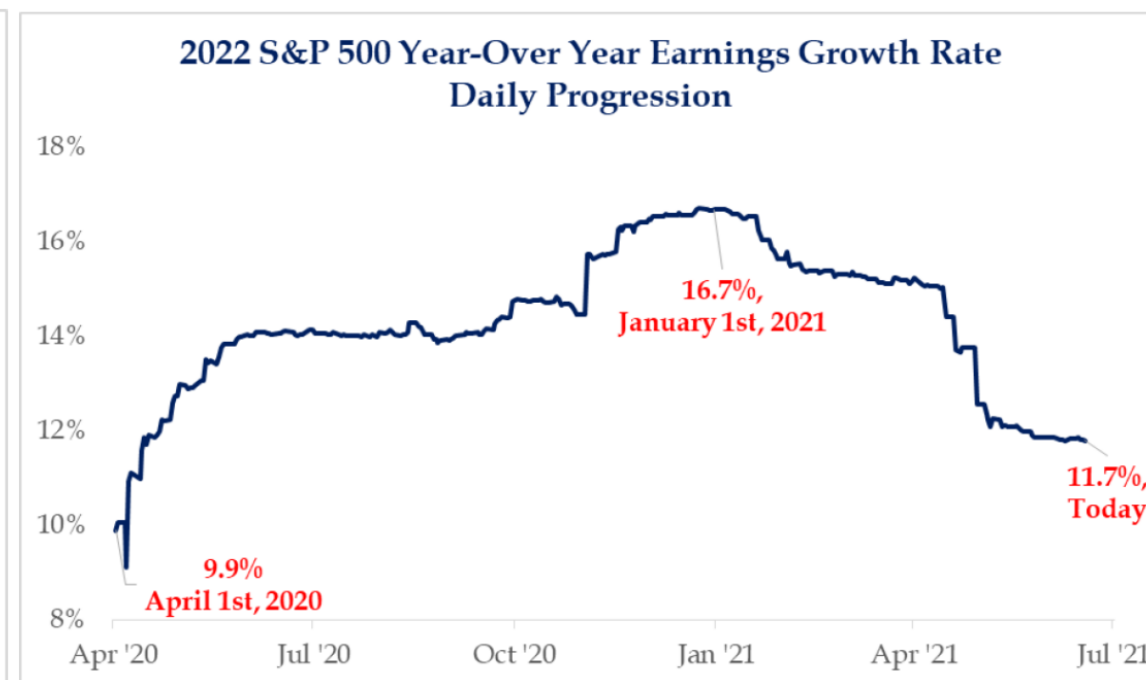


Source: FactSet



Earnings Trends

Due to a swifter than expected recovery, analyst expectations for earnings growth for the S&P 500 have been pulled forward from 2022 into 2021. Projections for 2021 have gone from 11% at the beginning of the year to 36% currently while earnings growth expectations for 2022 have declined from 17% to a still strong 12%.

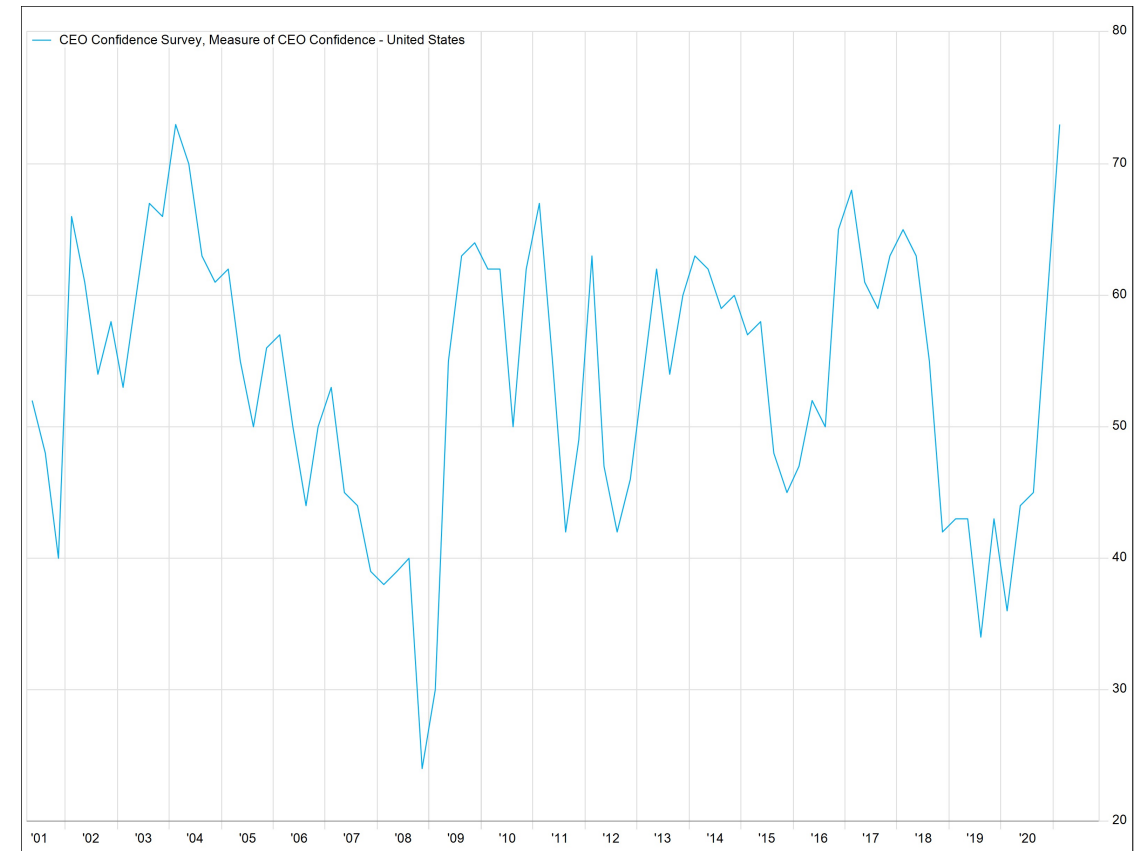
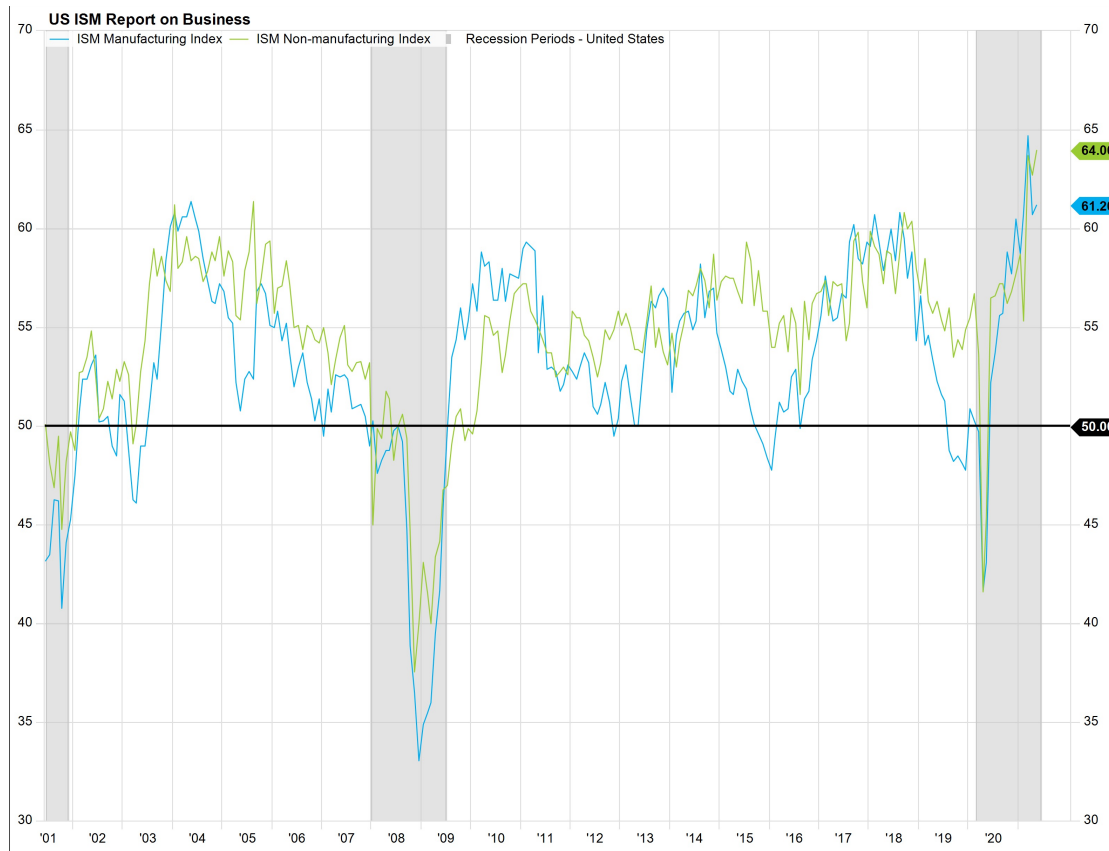


Source: Strategas



Economic Trends

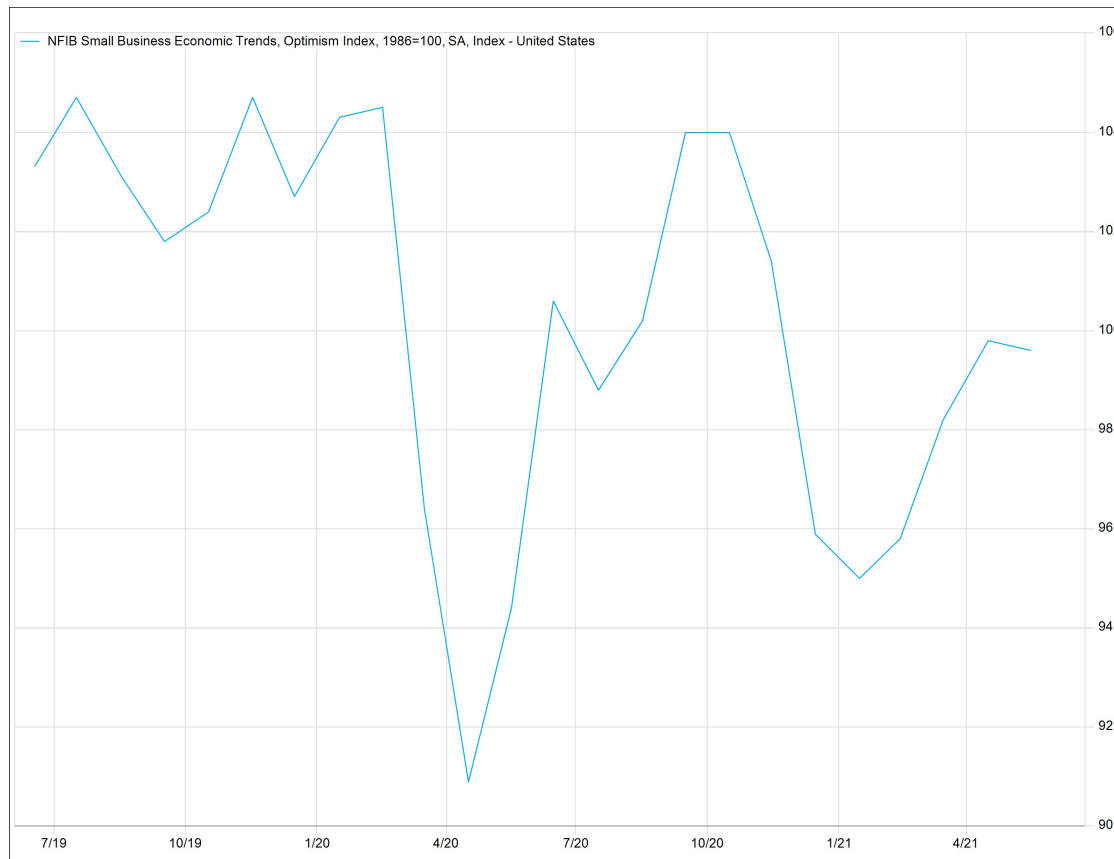
After such strong growth, some of the economic data is peaking, but we expect it to remain at healthy levels.



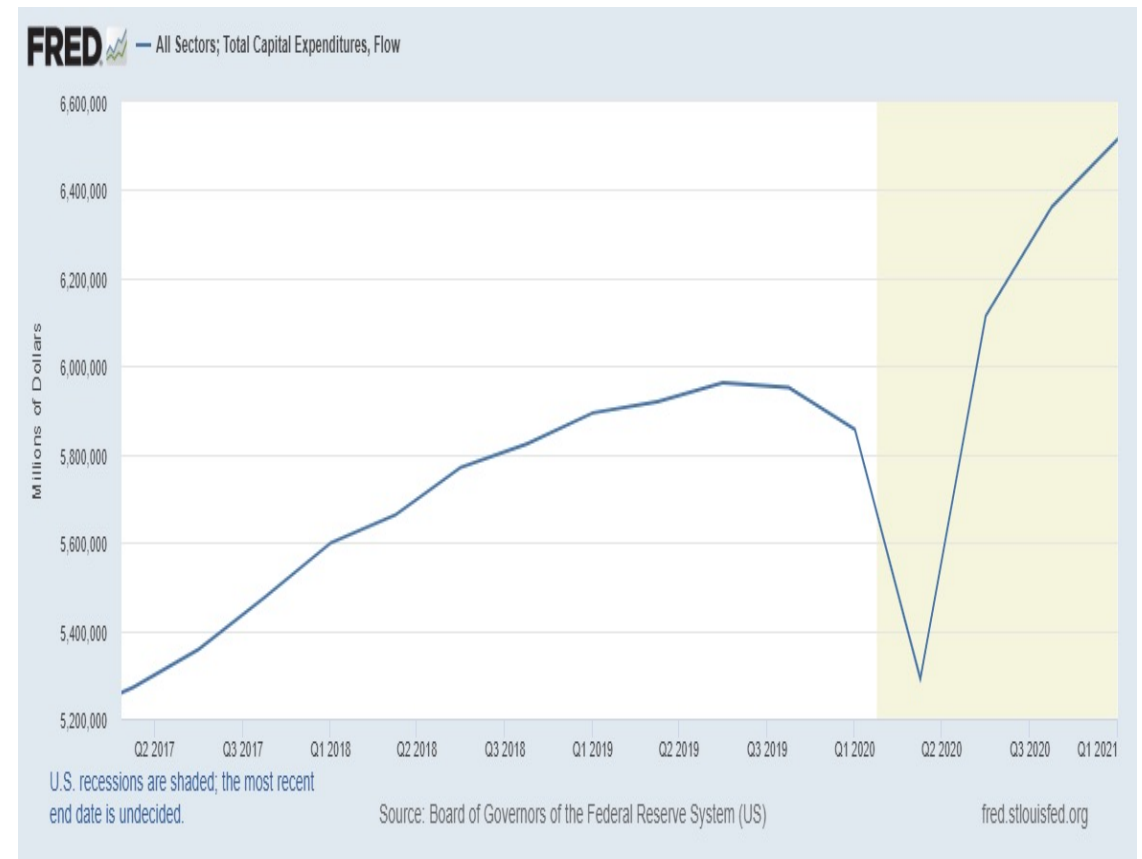
Source: FactSet

Economic Trends

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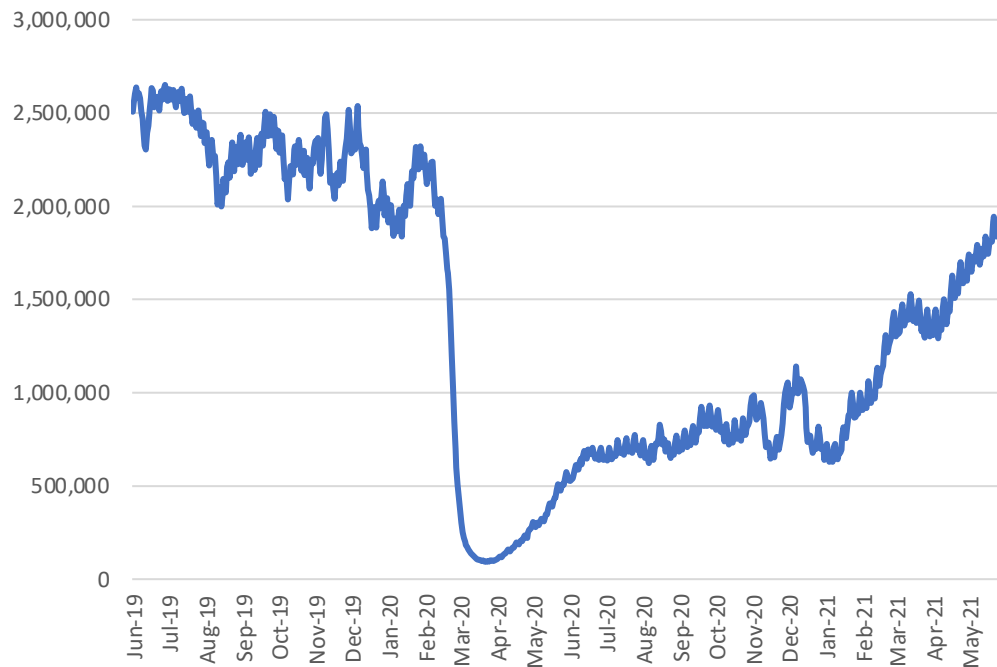
Source: FactSet
Source: fred.stlouisfed.org



Economic Trends

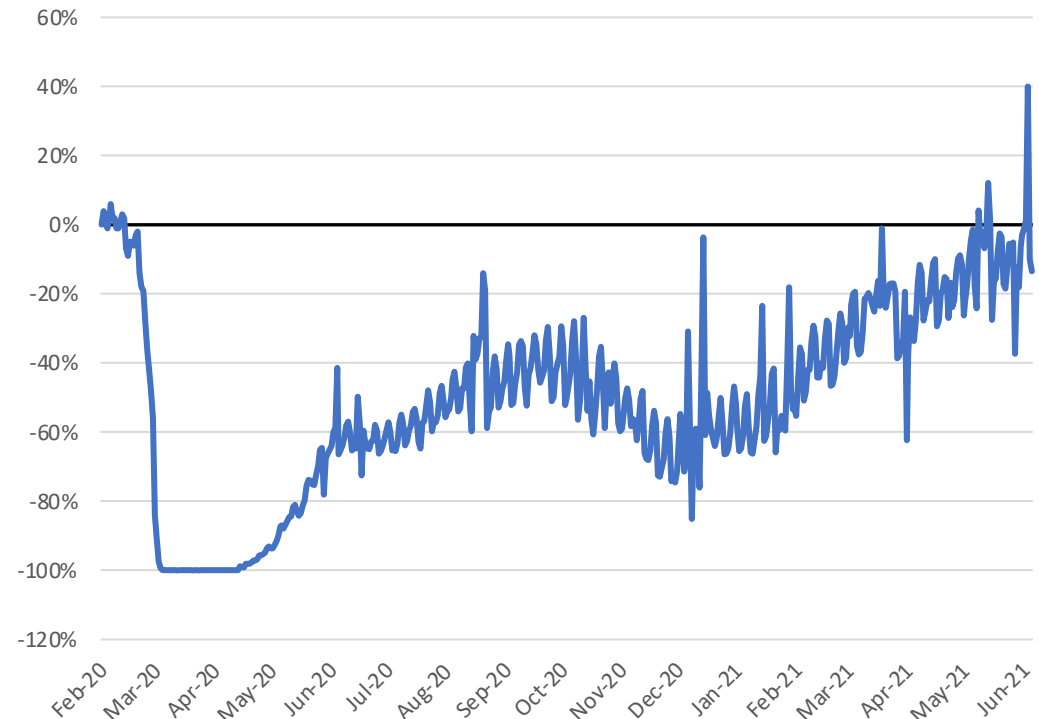
Consumer activity data clearly has recovered.

5-day rolling average of TSA travel numbers



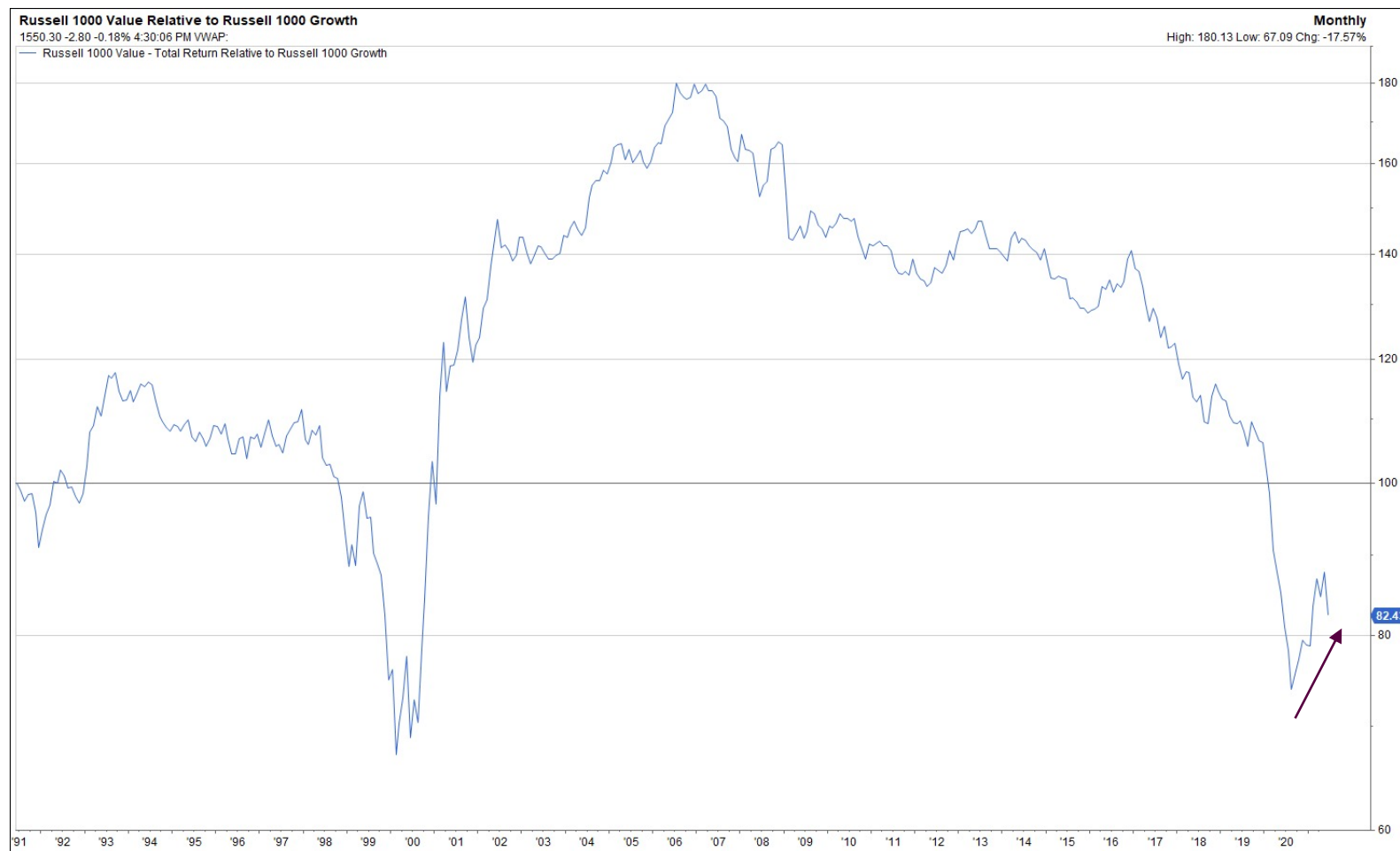
Source: TSA.gov
Source: opentable.com

OpenTable seated diner growth over 2019 baseline



Value Vs. Growth

Value recently outperformed because of strong performance of financials and cyclicals. Going forward, we believe that drivers remain present in growth stocks, and balance is appropriate.



Source: FactSet Past performance is not a guarantee of future results.



Domestic Vs. International

The MSCI EAFE index has a cyclical or economically sensitive tilt, which could see it outperform the S&P 500 near term especially given that the rest of the world is behind the U.S. in vaccine distribution and reopening.

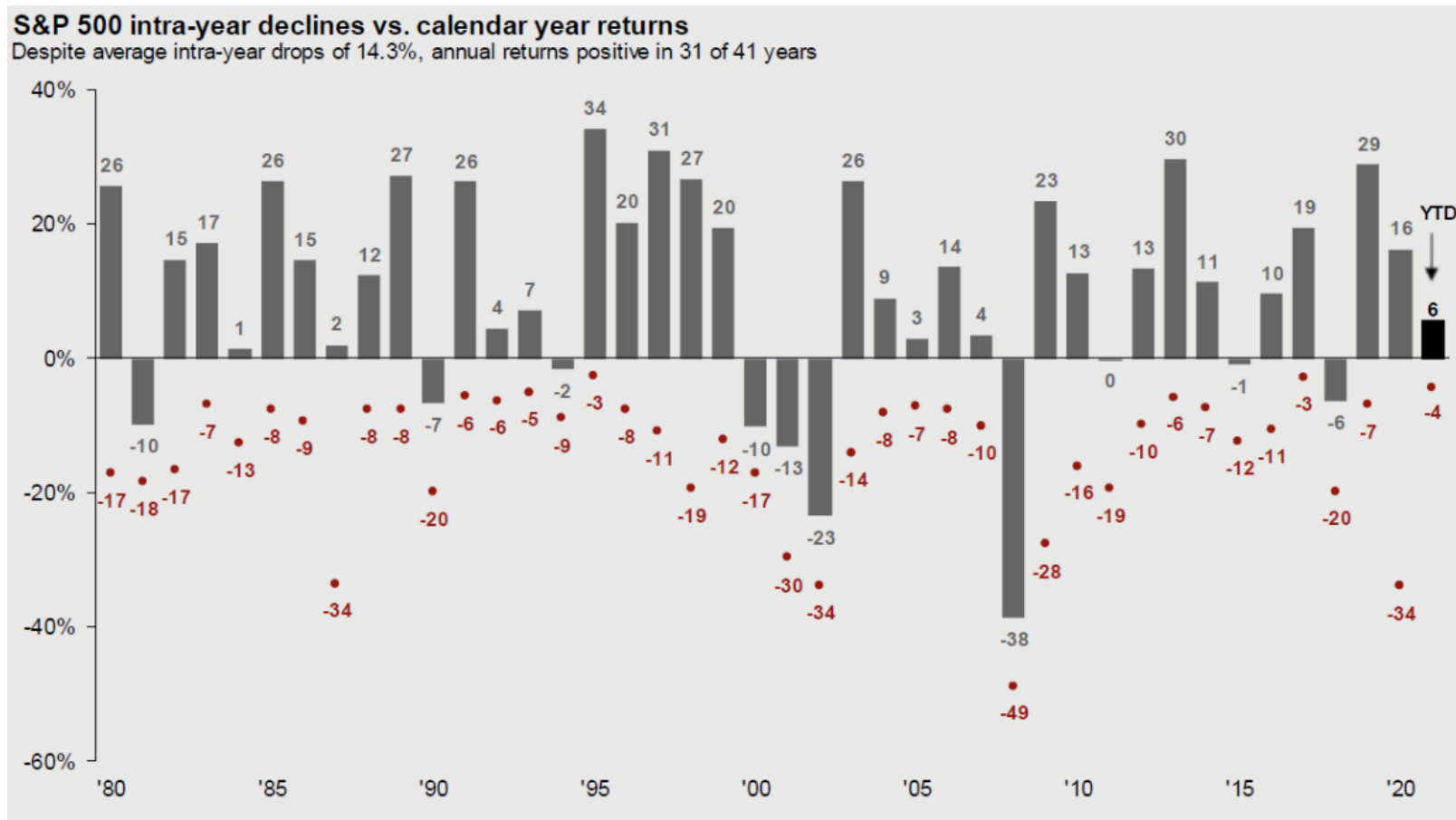
Sector Weightings:

	S&P 500	MSCI EAFE
Information Technology	27.2%	10.1%
Health Care	13.0%	12.3%
Consumer Discretionary	12.3%	11.2%
Financials	11.2%	16.9%
Communication Services	11.2%	5.0%
Industrials	8.6%	13.8%
Consumer Staples	5.8%	11.2%
Energy	2.9%	3.5%
Real Estate	2.6%	2.9%
Materials	2.6%	8.4%
Utilities	2.5%	3.4%

Source: Bloomberg as of: 6/23/2021; MSCI EAFE being represented by iShares MSCI EAFE ETF



Annual Returns and Intra-Year Declines



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2018, over which time period the average annual return was 8.4%. Past performance is not a guarantee of future results.
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Index Disclosures

ACWI – US & International - The MSCI ACWI Index captures large and mid-cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. With 2,829 constituents, (as of June 28, 2019), the index covers approximately 85% of the global investable equity opportunity set.

S&P 500 - The S&P 500 Index is a market-value weighted index provided by Standard & Poor's and is comprised of 500 companies chosen for market size and industry group representation.

Russell 2000 - The Russell 2000 index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks. It is a market-cap weighted index.

The Russell 1000® - Value Index measures the performance of the large cap value segment of the US equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values.

The S&P 500 - Low Volatility Index is designed to measure the performance of the 100 least volatile stocks of the S&P 500 Index. Volatility is defined as the standard deviation of the security computed using the daily price returns over 252 trading days.

The S&P 500® - High Beta Index measures the performance of 100 constituents in the S&P 500 that are most sensitive to changes in market returns. Sensitivity is measured by the beta of an individual stock.

The Russell 1000® - Growth Index measures the performance of the large- cap growth segment of the US equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values.

MSCI EAFE - The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

MSCI Emerging Market Index - The MSCI Emerging Markets Index consists of 24 countries representing 10% of world market capitalization.

Barclays U.S. Aggregate Bond Index - The index provides a measure of the performance of the U.S. dollar denominated investment grade bond market, which includes investment grade government bonds, investment grade corporate bonds, mortgage pass through securities, commercial mortgage backed securities and asset backed securities that are publicly for sale in the United States.

The Morningstar Target Risk Index family is designed to meet the needs of investors who would like to maintain a target level of equity exposure through a portfolio diversified across equities, bonds and inflation-hedged instruments. The Morningstar Moderate Target Risk Index seeks approximately 60% exposure to global equity markets.

Individuals cannot invest directly in an index. Index returns do not include fees and expenses. Past performance is not indicative of future results.

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