MARKET OVERVIEW

Second Quarter 2021

OPAL WEALTH ADVISORS

Economic Overview

The Federal Reserve Bank of Atlanta's GDPNow model projects 7.5% GDP growth during the second quarter. Estimates of real GDP growth for calendar 2021 remain within the 6%-8% range.

Massive federal stimulus, a post-lockdown rebound in demand, a backup in global supply chains, a weaker U.S. Dollar, and rising commodity prices all combined to produce a surge in inflation during the second quarter. The most recent estimation of Core PCE (excluding food and energy) from the Bureau of Economic Analysis is 3.4%, its highest level since 1992.

The unemployment rate and total number of unemployed persons have fallen considerably from their recent highs during the pandemic but remain elevated relative to historical levels. The slack in the labor market allows the Fed latitude in monetary policy despite the notable inflationary readings.

The U.S. Consumer

The Conference Board Consumer Confidence Index has risen in each of the previous five months and stands at the end of the second quarter at 127.3, up from 120.0 at the end of May, and 109.7 at the end of the first quarter. In June, the Conference Board reported significant improvements in consumer evaluations of both business conditions and the labor market.

The Case-Shiller Home Price Index (for April) continued to track near record levels, coming in slightly higher than consensus estimates with 1.6% MoM and 14.9% YoY growth rates. Mortgage rates continued to climb, while median home-sale prices reached a record high.

The Federal Reserve

While the Federal Reserve held steady during the quarter on bond purchases, its transition to a somewhat less dovish position at the June FOMC meeting signaled that a possible tapering of purchases could be in the works, perhaps as early as this year. The Fed now forecasts at least two rate hikes by the end of 2023.

Despite inflation being well over its goal of 2%, the Fed remains firm in its view that the surge is transitory and that inflationary pressures will dissipate as the economy continues to stabilize and return to normal in the wake of the pandemic.

Markets Overview

Equity Markets

The S&P 500 Index improved on its strong start to the year with an 8.5% gain in the second quarter, while producing a total return of 15.3% for the first six months of 2021. Ten of the eleven S&P sectors posted solid returns for the quarter with utilities being the only sector to post slightly negative returns.

As the economic momentum peaks, investor focus began shifting to quality growth in June. Growth outperformed value across large and mid-cap ranges, while small growth significantly outperformed small value during the month. By market capitalization, the performance of large cap stocks (+8.5%) surpassed that of small cap stocks (+4.3%), a reversal from the previous two quarters.

Developed (+5.4%) and Emerging Markets (+5.2%) registered strong returns for the second straight quarter, despite a sell-off in Emerging Markets in May as rising US inflation renewed concerns over the timing of global monetary policy tightening.

Similar to the behavior of the styles in the U.S. equity markets during the quarter, growth outperformed value within international markets.

Fixed Income Markets

After experiencing weakness in the first quarter of the year on the back of rising inflation concerns, core bonds stabilized in the second quarter. The Barclays Aggregate Bond Index advanced 1.8% for the quarter. High quality municipal bonds also posted positive returns (+1.4%) during the same period.

US Treasury yields declined for intermediate and longer maturities over the quarter, with the 10-year falling from 1.74% to 1.47%, while the yield curve flattened.

Spreads were tighter across all credit sectors. Emerging Market Debt (+4.4%) and Investment Grade Corporates (+3.3%) produced positive returns, as did High Yield (+2.8%), albeit to a lesser extent.

Real Assets

The Bloomberg Commodity Index achieved robust performance in the second quarter, advancing by 13.3%. Energy was the best-performing index component, driven by strong performance from crude oil and natural gas as global economic activity continued to rebound after the Covid-19 pandemic.

Hawkish undertones from the June FOMC meeting impacted the greenback as the U.S. Dollar Index returned 2.9% during the month of June for its largest monthly gain since November of 2016. The rally comes after the dollar experienced a downward trend during the first two months of the quarter.

Outlook

June left longer term trends still intact, but equity market momentum began to fade. The rotation in internal market leadership away from reflationary plays was notable. 2021 is certainly following the playbook that the second year of a recovery is much more difficult than the first. That said, we expect a robust recovery in the U.S. labor market in the back half of 2021, taking with it an increasing likelihood that the Fed begins tapering in early 2022. We see booming goods sectors beginning to normalize from the massive surge in the early stages of the recovery with growth rolling and broadening out into service sectors as the global economy continues to recover from the pandemic. Fiscal policy, while poised for dramatic contraction in 2022 remains somewhat unclear in the short run as significant tax and spend proposals are currently being negotiated. Lastly, while inflation is garnering much attention, we believe most pricing pressures and market dislocations rooted in supply chain issues, labor market distortions, school closures, reduced immigration, and Covid shutdowns are fleeting and will not result in sustained inflation pressures.

This leaves us maintaining a relatively constructive view of the overall equity market with close monitoring of Fed policy, fiscal policy, and Covid trends. Within equity markets, we recommend an overweight to international equity markets, particularly Europe, relative to the U.S., over a 12-18 month horizon. We feel fixed income investors should maintain a modestly short duration and remain neutral on credit sectors and we have become more bearish on the broad commodity market maintaining the opinion that the majority of the gains in commodities are behind us.

Charts of the Quarter

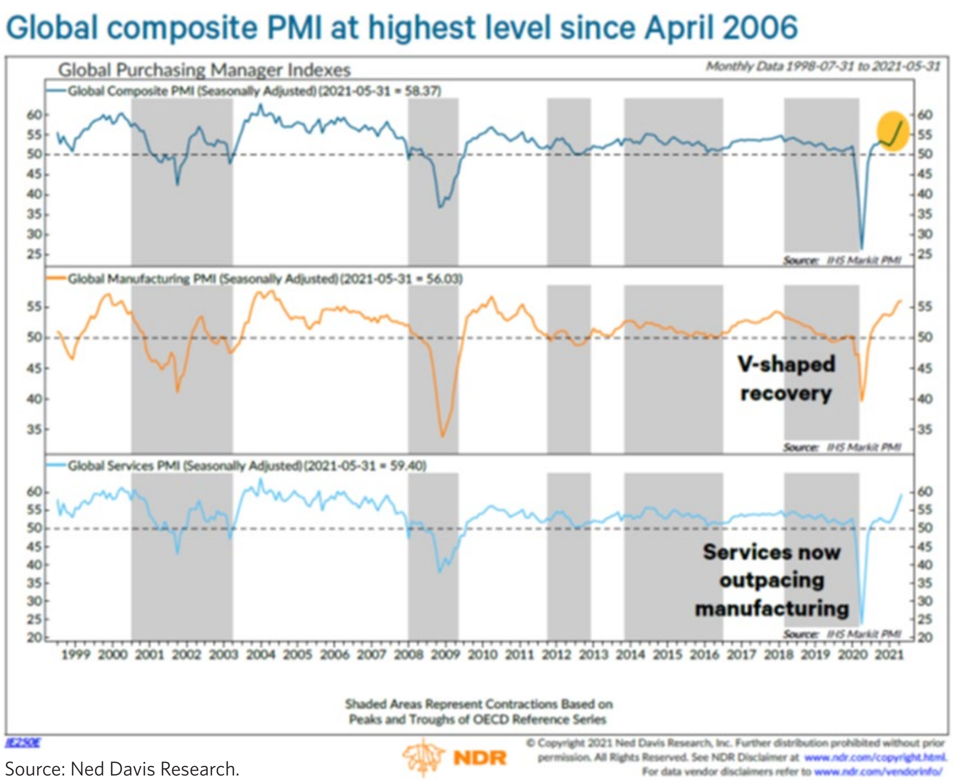
S&P Posts One of Best First Halves in History

S&P Forward Performance Following Best 1H % Changes

	Year	1H Perf.	3Q Perf.	4Q Perf.	2H Perf.
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.

Global Growth Continues to Accelerate



Source: Ned Davis Research.

Charts of the Quarter

Global Growth Continues to Accelerate (cont'd)

Growth Is Peaking, But At A Very High Level

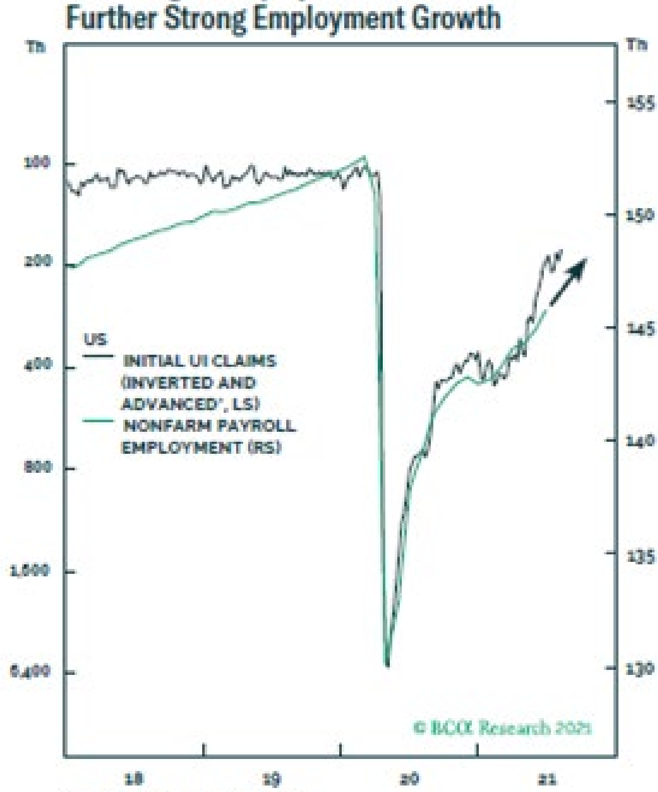
BLOOMBERG SURVEY OF ECONOMISTS GDP GROWTH EXPECTATIONS	2021*				2022*				2021**	2022**
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
US	4.2%	9.2%	7.1%	5.1%	3.5%	3.0%	2.6%	2.3%	6.6%	4.1%
EURO AREA	-3.2%	5.7%	10.0%	5.3%	3.2%	2.8%	2.4%	2.0%	4.5%	4.3%
UK	-7.8%	21.6%	10.0%	5.3%	3.6%	2.8%	2.4%	2.4%	6.8%	5.4%
JAPAN	-5.1%	0.6%	4.0%	3.9%	2.7%	1.6%	1.6%	1.1%	2.6%	2.5%
CANADA	6.5%	2.5%	9.2%	6.0%	3.8%	3.0%	2.5%	2.3%	6.2%	4.0%
AUSTRALIA	4.1%	3.2%	3.6%	3.4%	3.2%	3.2%	3.2%	2.8%	5.1%	3.2%
G7***	0.4%	7.8%	7.8%	5.0%	3.3%	2.7%	2.4%	2.1%	5.6%	4.0%
G7*** EX. US	-3.6%	6.4%	8.6%	4.8%	3.1%	2.4%	2.1%	1.8%	4.5%	3.9%

* QUARTERLY RATE OF CHANGE, ANNUALIZED.
** ANNUAL RATE OF CHANGE.
*** INCLUDES US, CANADA, JAPAN, GERMANY, FRANCE, ITALY, AND THE UK.
SOURCE: BLOOMBERG FINANCE L.P.

Source: Bank Credit Analyst.

Labor Markets Still Not Fully Healed Yet US Consumer Remains Confident

Declining Unemployment Claims Point To Further Strong Employment Growth

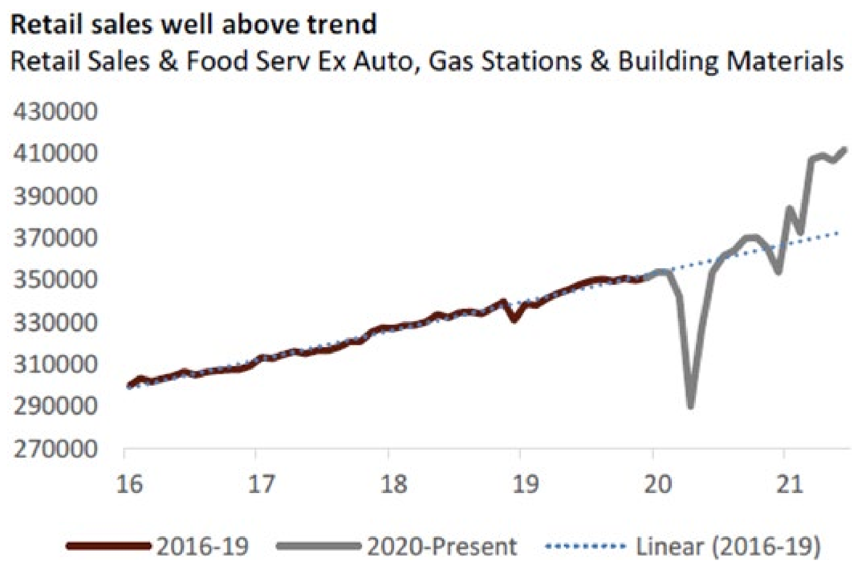


*SHOWN ADVANCED BY 4 WEEKS.

Source: Bank Credit Analyst.

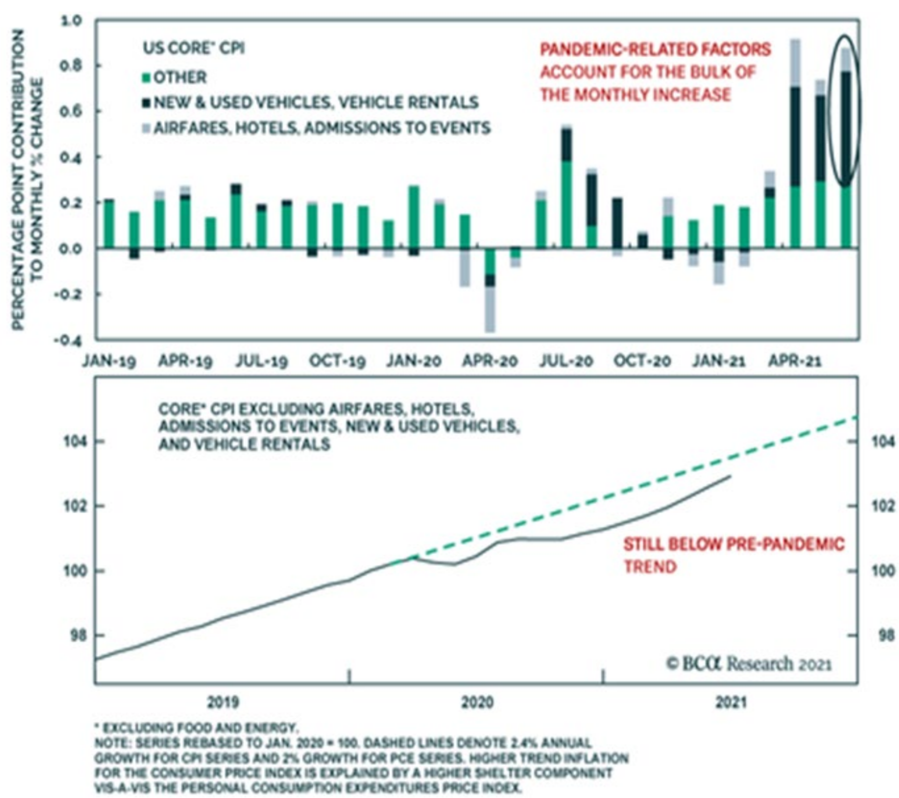
Charts of the Quarter

Labor Markets Still Not Fully Healed Yet US Consumer Remains Confident (cont'd)



Source: Renaissance Macro Research, Haver Analytics..

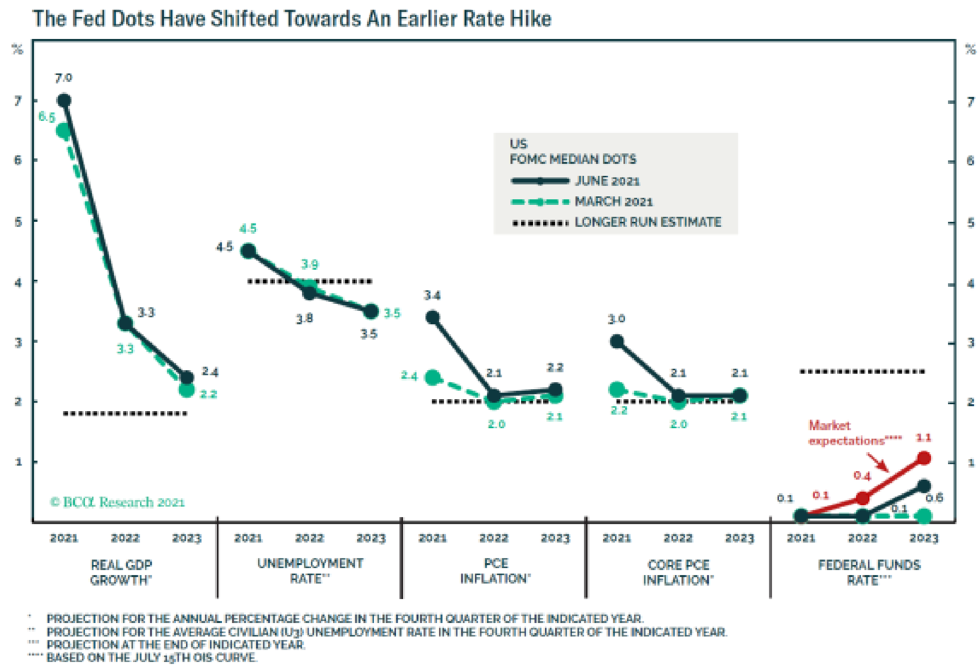
Surprising Inflation Data Increases Likelihood of Fed Policy Error



Source: Bank Credit Analyst.

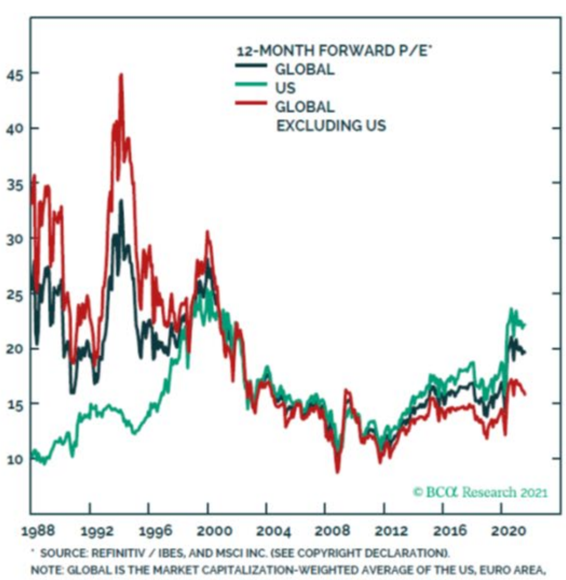
Charts of the Quarter

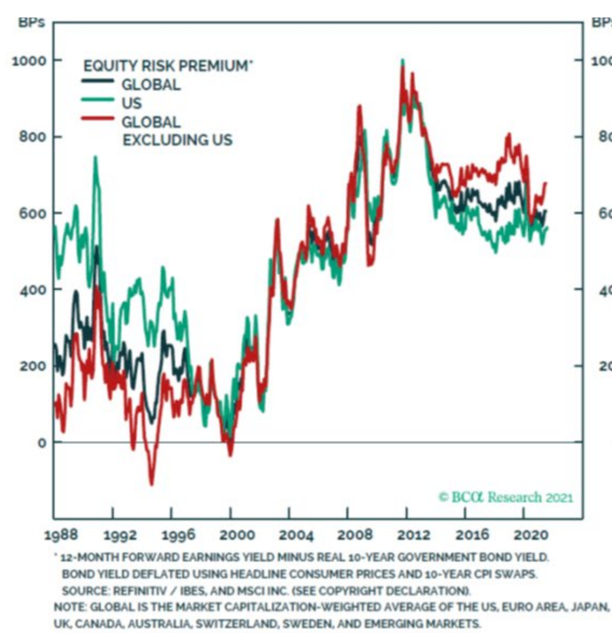
Surprising Inflation Data Increases Likelihood of Fed Policy Error (cont'd)



Source: Bank Credit Analyst.

Global Valuations Remain High in Absolute Terms
Yet Attractive Relative to Rate Environment





Source: Bank Credit Analyst.

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