Eideard Group
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Market Commentary

2Q 2021

Market Movement Highlights

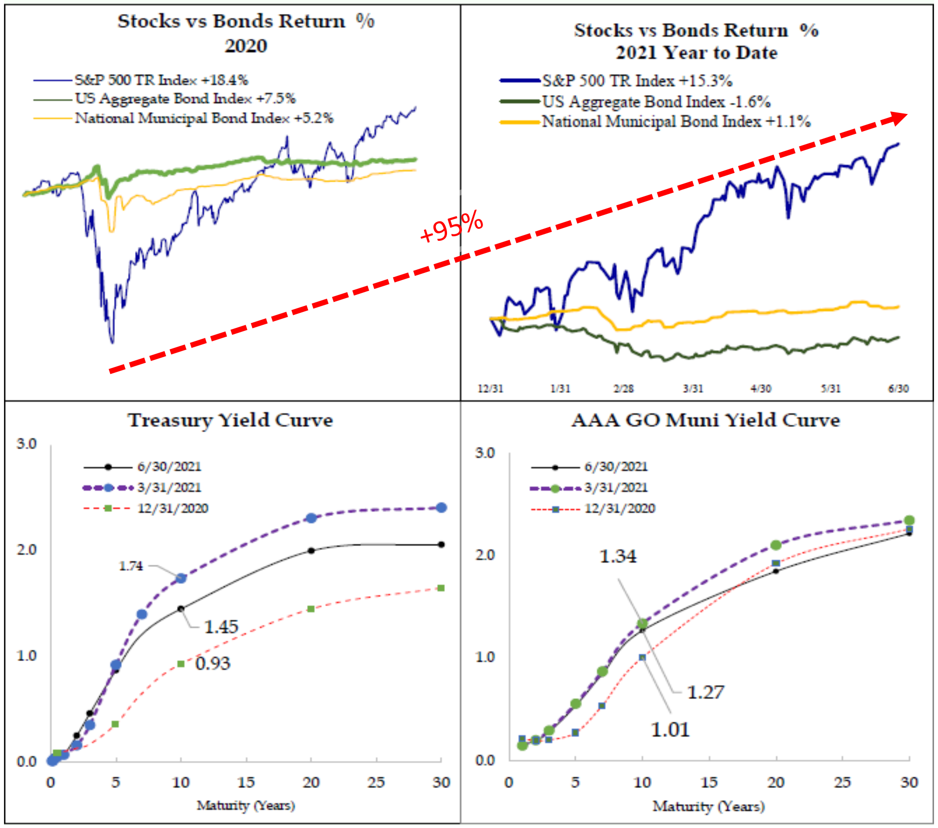
Are you fully vaccinated yet? Doing some “revenge” shopping, leaving take-out behind for in-person dining with your best friends at your favorite hangout or perhaps you’re about to board a cruise ship for the open seas?? According to a June Gallup poll, a majority of Americans (59.2%) are re-energized, thriving and optimistic! Not at all unlike the stock market!

Consensus that a V-shaped recovery would be realized has come to pass, with stocks rocketing back a whopping 95% from their 1Q20 sell-off. Stocks continued their rally into 2Q21, with the S&P 500 Index posting +8.5% on the quarter, and over +15% on the YTD. Contributing to what have become routine daily highs across US equity benchmarks, were the vaccine’s overwhelming efficacy and successful rollout across America, historic fiscal and monetary stimulus launching the “re-opening trade”, and pent-up demand, finally unleashed, leading to a robust return to strong corporate profits.

Peering under the hood, large cap value stocks (+17.0%) outperformed growth stocks (+13.0%) on the YTD, underpinned by a healthy rotation across a range of industries. Energy (+45.1%), Financials (+25.5%) and Real Estate (+23.2%) led the way in 2021, after having been the worst performing sectors in 2020. Technology, which had swooned for much of 1H21 benefited from a rotation back to growth in late Q2, posted +14.0% on the YTD. Meanwhile, small cap stocks exhibited similar patterns and even outpaced large caps at +17.5% on the YTD.

Notably, market growth was broader in scope and deeper in participation than it has been since the selloff: the S&P 500 Equal Weighted Index outperformed S&P 500 Index on the YTD (+19.2% vs. +15.3%). While both are at or near all-time highs, this suggests that growth is no longer limited to the “home alone” mega cap FAANG stocks (Facebook, Apple, Amazon, Netflix, Google).

On the international front, developed and emerging markets posted +9.2% and +7.6%, respectively on the YTD following suit with US equities, despite that vaccine shortages and uneven distribution continues to plague major regions around the world. Many of these economies are likely a year or more behind the US in full recovery.



Meanwhile, reflecting on fixed income, the broad bond market stabilized and was yawn-fully quiet in 2Q. The US Aggregated Bond Index posted a YTD -1.6% return after bouncing back +1.8% in Q2. This from its -

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3.4% deficit in Q1. The yield curve flattened over Q2 as short rates spiked, while longer rates fell suggesting that the bond market was warming up to the Fed's view that the current spike in inflation is transitory. Municipal bonds represented by Bloomberg Barclays Municipal Index posted a respectable +1.4% in 2Q and +1.1% on the YTD, delivering solid comparative outperformance against all other fixed income asset classes in 2021. Despite what are still historically low levels, US treasuries and municipal bond yields remain among the top in the developed world.

Looking Forward

- **Inflation.** Despite that the economy is most likely to continue booming in the near future, it is also clear that its momentum has spurred inflationary pressures. The ongoing debate as to whether the spike is transitory or more permanent is central to how the markets are likely to react over the next 12-18 months. While we don't pretend to know what will happen, we do see three possible scenarios playing out; (1) a solid recovery occasioned by an meaningful uptick in employment resulting in a rebalancing of mismatched supply and demand sooner than later. In this situation the Fed is off the hook and likely to avoid accelerated tightening. (2) Labor participation remains stagnant, the mismatch continues, and further fiscal stimulus exacerbates the problem leading to an overheated economy. This would require the Fed to respond. Tighten too quickly, the markets react and the economy swoons. Wait too long, inflationary pressures worsen and the Fed must be swift in containing it. And finally (3) a scenario where the Delta variant expands, derails current momentum and regional lockdowns are re-visited. Obviously, in this situation the Fed maintains its easy policy and continues its bond buying program. For now the Fed is simply in a wait and see mode!

- **Stock market tailwinds continue.** For now, accommodative government and central bank policy continue to provide support for equities, though it could moderate from what we witnessed in the 1H21. However, fundamentals and hence corporate earnings remain strong as the economy continues to be driven by a happier, healthier and financially armed US consumer. Notwithstanding, there's always the possibility that near term inflationary pressures could manifest itself in some noticeable volatility perhaps even a short-term correction sometime over the 2H. As always, our best precautionary advice is to stay invested but check your allocation and ensure you have enough liquidity on hand to satisfy your current operating needs. If you have any questions or wish to confer, please don't hesitate to call to us.

- **Municipal bonds are well positioned as economic reopening unfolds.** Having significantly outperformed Treasuries on the YTD (+1.1% vs. -2.6%), tax exempts should continue to benefit from a strong rebound across numerous sectors, including airports, education and transportation. With over $60B of cash inflows in the muni space, investor demand (fearing potential tax hikes) remains robust. On the supply side, issuance has been modest through 1H21 making the space relatively rich! Meanwhile, credit quality has been markedly enhanced by direct aid from the 2020 CARES Act and the 2021 American Rescue Plan. As one of our go-to municipal bond managers opined "……when states like Illinois get upgraded, you know things are looking up!"

- **Crypto Currency.** The Crypto currency trade seems to have cooled off a bit, as the price of Bitcoin had fallen by half (-48%) from its all-time high less than two months ago. Meanwhile, long-awaited crypto currency ETFs have yet to be approved by the SEC, as headline news of ransomware hacks remain fresh --- hackers demanding ransom in crypto. The question remains, will central banks ever lend legitimacy to the currency?

As the curtain falls on the first half of 2021 we wish everyone our best for a safe and enjoyable summer season!

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July 19, 2021

Major Market Indexes Total Returns 2021

Market Indexes	2Q	1Q	YTD
NASDAQ Composite	9.7%	3.0%	12.9%
Dow Jones Industrial Average	4.6%	7.8%	12.7%
S&P 500 (US large cap)	8.6%	6.2%	15.3%
Russell 2000 (US small cap)	4.3%	12.7%	17.5%
MSCI EAFE (Developed Intl.)	5.4%	3.6%	9.2%
MSCI Emerging Markets	5.1%	2.3%	7.6%
Bloomberg National Municipal Bond	1.4%	-0.4%	1.1%
Bloomberg US Treasury Bond	1.8%	-4.3%	-2.6%
Bloomberg US Aggregate Bond	1.8%	-3.4%	-1.6%
Bloomberg US Corporate Bond	3.6%	-4.6%	-1.3%
Bloomberg US Corporate High Yield	2.7%	0.9%	3.6%
Alerian MLP Index	21.2%	22.0%	47.8%
WTI Crude Oil	24.2%	22.0%	51.6%
Gold	4.3%	-9.0%	-5.1%

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