HB RETIREMENT®

FINANCIAL MARKET SNAPSHOT

Inflation: Searching for the Goldilocks Zone

MAY 14, 2021

Inflation continues to be the overwhelming concern for investors and has been the primary source of recent market volatility. A number of economists have been warning that persistently higher inflation is coming. This has generally been in the context of the effects of the American Rescue Plan Act (ARP). They argue that the ARP is too big, will overheat the economy, and will generate significantly higher inflation in the future. But two important questions often are left unaddressed in their arguments: How high is this higher inflation? And what is the mechanism generating it?

Moreover, an unprecedented level of both demand and supply factors are affecting inflation readings, which is adding a significant amount of uncertainty to the outlook relative to historical levels. At the present time, we are expecting to see some further pickup in inflation in the coming months. Part of the increase will be purely "optical" in nature as the low inflation reading from April and May of last year fall out of the 12-month calculation, a factor that boosted year-over-year inflation in March as well. In addition, as the Covid virus subsides and people resume normal activities, demand should pick up further for those goods and services that were most affected by the pandemic, pulling their prices up to more typical levels. Finally, we expect to continue seeing supply chain bottlenecks as economic activity accelerates rapidly in some sectors, which will likely contribute to temporary price pressures in selected industries, such as steel, computer chips, construction materials, appliances, and other items.

For now, we believe the debate about the persistent long-term level of inflation will continue to dominate the market narrative over the next quarter or two, and continue to be a source of market volatility.

Table 1: Notable Returns / Yields / Spreads: Feb. '21 - May '21 (YTD)
Source: Bloomberg
Note: BBG Barc = Bloomberg Barclays; 10Yr Treasury Yield figures as of the end of the month/quarter

	Ticker	Feb '21	Mar '21	Apr '21	YTD
S&P 500 Total Return Index	SPXT	2.8%	4.4%	1.3%	10.1%
Russell 1000 Growth Index	RLG	-0.1%	1.7%	-1.0%	2.5%
Russell 1000 Value Index	RLV	5.8%	5.7%	2.8%	16.6%
MSCI EAFE Index	MXEA	2.1%	1.8%	2.7%	6.4%
MSCI Emerging Markets Index	MXEF	0.7%	-1.7%	0.1%	0.6%
BBG Barc. US Agg Bond Index	LBUSTRUU	-1.4%	-1.2%	0.3%	-2.9%
10-Year Treasury Yield	USGG10YR	1.40%	1.74%	1.63%	1.65%

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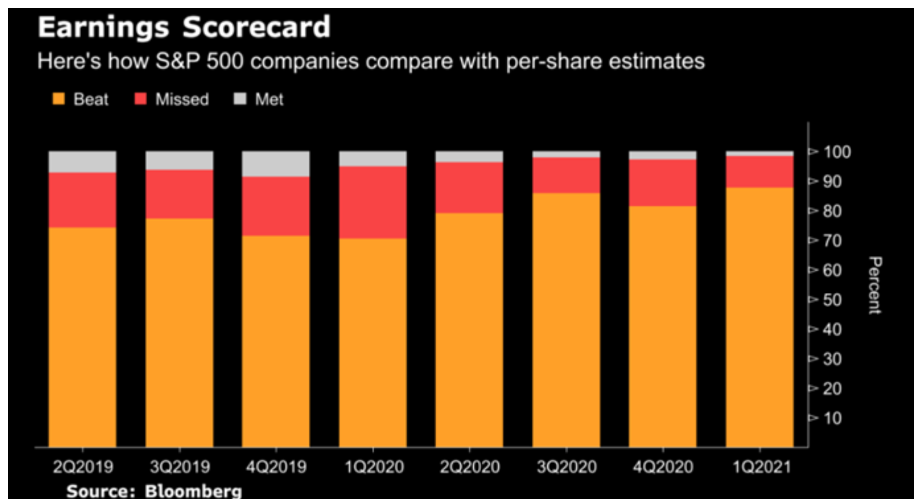
Q1 Earnings Review

Of the 426 companies in Standard & Poor's 500 that have announced earnings results in the first quarter, 88% beat analyst EPS estimates, compared with 70% for the whole season a year ago, according to data compiled by Bloomberg. About 11% have posted worse-than-expected earnings as compared with 24% a year ago.

First quarter earnings season has essentially come to a conclusion; but overall, the results were not a catalyzing factor despite reported results continuing to be better than expected. More U.S. companies are topping earnings estimates this quarterly reporting season with Financials and Technology sectors among the biggest winners. Of the 426 companies in Standard & Poor's 500 that have announced results in the first quarter, 88% beat analyst EPS estimates, compared with 70% for the whole season a year ago, according to data compiled by Bloomberg. About 11% have posted worse-than-expected earnings as compared with 24% a year ago. Companies topped revenue estimates 67% of the time, while 15% missed. That compared with 47% and 28% respectively a year ago. We note that the S&P 500 has gained ~8.6% since the start of the current earnings season .



Source: Bloomberg

In Q1, the average S&P 500 member company has reported an EPS growth of ~50% y/y, or roughly double the consensus forecast. Consequently, analysts have been raising earnings estimates, with the average full-year 2021 earnings estimate for a S&P 500 constituent up 4.8% since the start of April, while average 2022 EPS estimate has increased 2.9%.

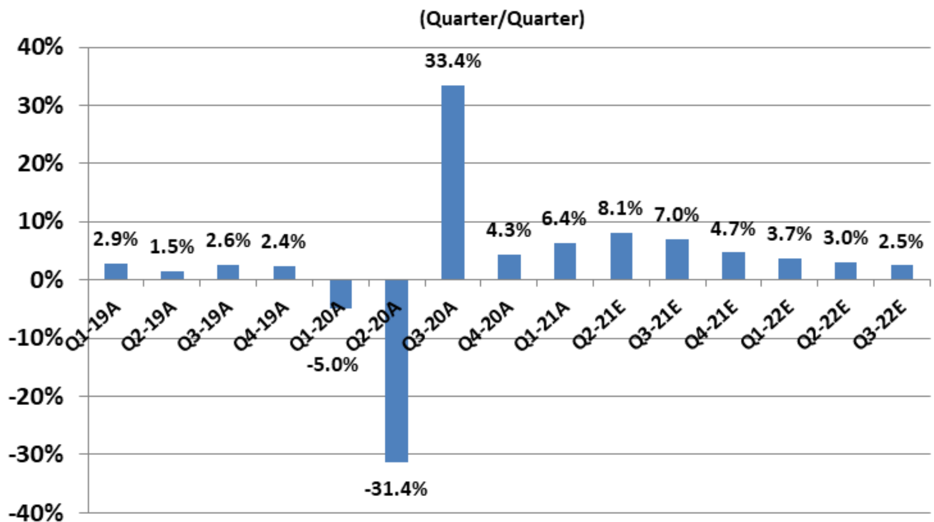
Analysts appear to be more confident in their longer-term outlook, as 1Q earnings beats have driven up growth forecasts, and the 2021 rebound is expected to morph into steady expansion into 2022. More specifically, analysts have made notable upward revisions to 2021 earnings estimates amid much stronger than anticipated Q1 earnings reports. Since the start of April, Q1 EPS forecasts have jumped nearly 18%, while Q2 is up 4.1%, Q3 +2.5% and Q4 +1.9%. Sales forecasts have also increased an average of 1.4%, 1.1% and 0.9% for the next three quarters, respectively. So far, the average S&P 500 member company has reported Q1 EPS growth of ~50% y/y, or roughly double the consensus forecast. Consequently, analysts have been raising earnings estimates, with the average full-year 2021 earnings estimate for a S&P 500 constituent up 4.8% since the start of April, while average 2022 EPS estimate has increased 2.9%.

Estimates for 2Q EPS went up most for energy, materials and communication services, and rose for nine of the 11 sectors. Likewise, 2H-2021 EPS estimates climbed for eight of the S&P 500 sectors, led by IT and communication services. Every sector except utilities recorded an increase in its EPS forecast for 2021 and 2022. Financials led the charge on 2021 adjustments, while technology is ahead in 2022 revisions.

GDP/Economic Growth

Personal consumption expenditures rose 10.7% during the Q and contributed seven (7) percentage points to the change in real GDP. The strength in personal-consumption growth stemmed not only from robust demand for goods supported by two massive waves of fiscal stimulus, but also from spending on services amid rapid reopening of the economy in many parts of the country.

On April 29th, the Commerce Department reported that gross domestic product (GDP) expanded at an annualized rate of 6.4% in the first quarter, slightly below its consensus forecast of 6.7% and up from 4.3% in Q4-2020. Personal consumption expenditures rose 10.7% during the Q and contributed seven (7) percentage points to the change in real GDP. The strength in personal-consumption growth stemmed not only from robust demand for goods supported by two massive waves of fiscal stimulus, but also from spending on services amid rapid reopening of the economy in many parts of the country. Government spending was also strong, rising 6.3% and added roughly one (1) percentage point to the change in real GDP. Business spending on equipment and software advanced 16.7% in the quarter, while spending on structures continued to decline (-4.8%).



Source: Bloomberg

The details of the Q1 report point to an even stronger outcome than the headline suggests. Real final sales of domestic product, which excludes the change in private inventories, surged 9.2% and significantly exceeding growth in the GDP gauge.

Additionally, the Conference Board reported that its index of U.S. consumer confidence in April hit its highest level (121.7) since February 2020. Earlier in the month, the Board reported that its index of global consumer confidence reached a record high, adding to signs that household spending will remain strong in the coming months.

Consumer spending has risen robustly this year, partly reflecting pent-up demand. Spending has been buoyed over the course of the recovery by significant federal fiscal support in the form of extended unemployment insurance benefits and economic impact payments. In real terms, the level of consumer spending on goods is about 16% higher than it was before the pandemic, while that on services is still about 5% below. This isn't surprising, since many things classified as services involve high physical contact.

Consumer spending has risen robustly this year, partly reflecting pent-up demand. Spending has been buoyed over the course of the recovery by significant federal fiscal support in the form of extended unemployment insurance benefits and economic impact payments. In real terms, the level of consumer spending on goods is about 16% higher than it was before the pandemic, while that on services is still about 5% below. This isn't surprising, since many things classified as services involve high physical contact. Hard-hit sectors in the economy like hospitality and leisure remain weak but they have recently shown improvement. Looking forward, surveys conducted by the Cleveland Fed indicate that many higher-income consumers expect to increase their spending on high-contact services that they have avoided over the last year. In addition, many households have accumulated savings, which will support additional spending this year. In fact, the personal savings rate increased to 21% in Q1 versus 13.0% in Q4-2020. Overall, the Q1 economic rebound has allowed real GDP to recuperate 91% of the pandemic-induced plunge.

The notable headwind to growth during the quarter was a significantly larger than expected drag from inventory draw-down. Gross private domestic investment declined 5.0%, dragged down almost entirely by the change in inventories, which shaved off about 2.6 percentage points from growth (almost a full percentage point more than economists estimated).

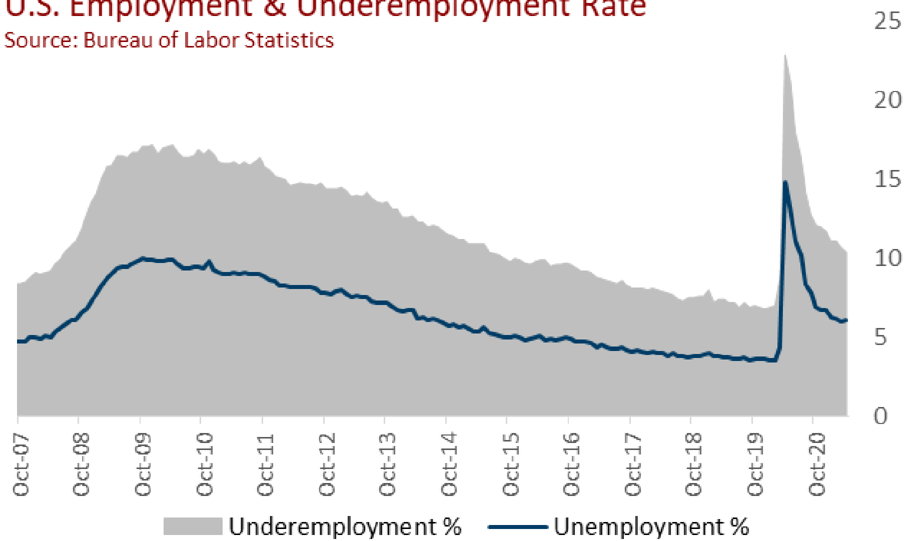
U.S. Economic Forecasts in April 2021

Consensus results from a survey conducted by Bloomberg of 71 economists from April 1-8, 2021:

- The U.S. economy will expand 6.2% in 2021, 4.1% in 2022 and 2.4% in 2023;
- Chance of a recession happening over the next 12 months is 11%, according to 36 respondents (unchanged from last month's survey result);
- Q1 2021 GDP forecast at +5.4% q/q versus prior survey +4.8%;
- Q2 2021 GDP forecast at +8.1% q/q versus prior survey +6.8%;
- 2021 CPI forecast at +2.5% y/y versus prior survey +2.3%;
- 2022 CPI forecast at +2.1% y/y versus prior survey +2.1%, and;
- Fed funds rate upper-bound at 0.25% at Apr. 28 meeting, current rate is 0.25%.

The Labor Market – Improving, Confounding and Sending Mixed Signals

A Labor Department report released on May 7th showed that the U.S. added only 266,000 jobs in April, well below the median projection of one million in a Bloomberg survey and missing all economist estimates. While restaurants and leisure companies added 331,000 jobs, manufacturing and retail payrolls fell slightly. One potential reason for the more moderate employment gain relates to bottlenecks in the nation's supply chain. For instance, motor vehicle production has been severely hampered by shortages of semiconductors. The jobs report showed manufacturing payrolls declined 18,000 in April, driven by a sharp fall in jobs at automakers. In contrast, average hourly earnings rose 0.7% in April from a month earlier, to $30.17. The wage data for April suggests that the rising demand for labor associated with the recovery from the pandemic may have put some slight upward pressure on wages.



Source: Bloomberg

The unemployment rate rose slightly, from 6.0% to 6.1%, and March job gains were also revised lower. After an initial shock, market participants interpreted the report to suggest at least two things: 1) the Fed will likely feel assured that it's still not time to start talking about tapering asset purchases, and 2) it may be a temporary blip in the economic recovery as the extended unemployment benefits may be providing a disincentive for people to return to work.

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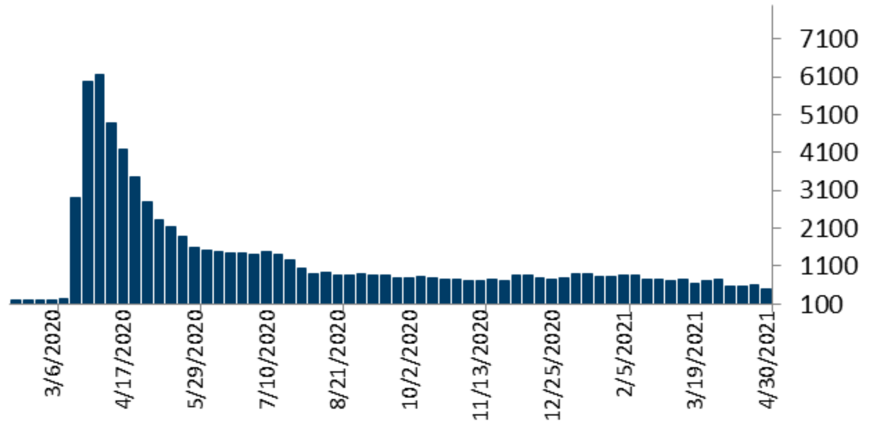

Source: Bloomberg

In a contrasting view of labor market health, weekly initial jobless claims for the week ending May 1 declined by 92,000 to 498,000 (consensus 530,000), which is the lowest level since March 14, 2020. The total number of continued weeks claimed for benefits in all programs for the week ending April 17 decreased by 404,509 to 16,157,024 versus 17,847,707 in the same week a year ago. Labor force participation, a measure of the percentage of Americans either working or looking for work, rose to 61.7% in April from 61.5%, likely supported by increased vaccinations that helped fuel the re-openings of many retail establishments, restaurants and leisure-facing businesses. The key takeaway from the report is the downtrend in initial claims is consistent with an economy that is reopening and necessitating more hiring activity.

Job Openings Surge

Job openings reached a record 8.1 million at the end of March, reflecting a widening gap between open positions and workers willing and able to take those roles. Data from job search site Indeed.com separately showed job posting continued to rise in April, ending the month 24% higher than February 2020's pre-pandemic level.

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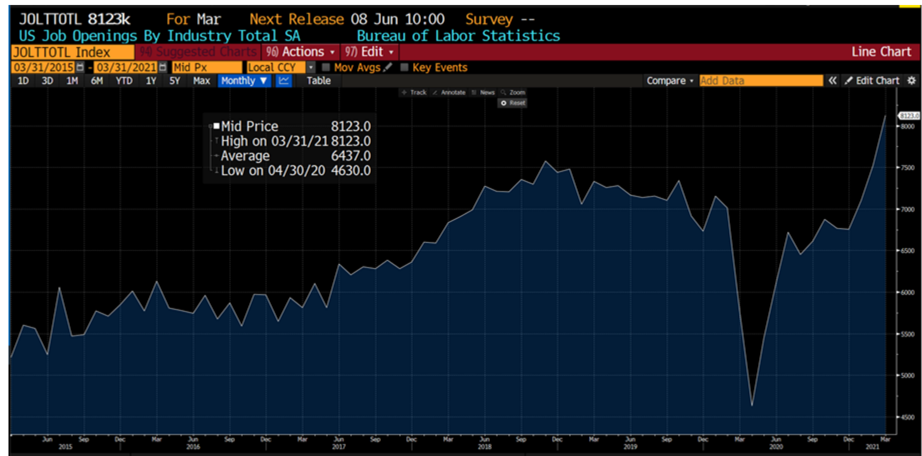

Source: Bloomberg

The number of job openings appears at odds with April's lackluster hiring figures. Earnings and hours worked also rose in April, and the rate at which workers quit their jobs – a proxy for confidence in the labor market – increased *to 2.4%* in March, matching a record high.

A lack of available workers for restaurants could also reflect that prospective employees found better-paying jobs at warehouses and other employers. Average wages in the warehouse industry were more than $22 an hour in March, and there were about 350,000 jobs available in the broader transportation, warehousing and utilities sector. Some unemployed workers may not have the skills or desire to take available jobs in fields such as manufacturing, which added 134,000 available jobs in March, or construction, which added 72,000. Openings in accommodation and food service rose by 185,000 in March to nearly one million. However, average hourly wages in that sector, $16.63 an hour in March, was in line with what many people receiving unemployment benefits receive, and workers often start at lower wages. A $300 enhancement to weekly jobless benefits and a nearly 18-month extension of payments for some workers expire in early September.

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Inflation – In Search of the Goldilocks Zone

We saved the best for last. The market is desperately trying to figure out what the appropriate amount of inflation should be going forward. Presently, nobody knows the answer! Moreover, investors tend to look more at their rearview mirror rather than the road ahead of them. In behavioral finance, that's called "recency bias." Recency bias is the tendency to place too much emphasis on experiences that are freshest in our memories – even if they're not the most relevant or reliable. In the investing world, recency bias can be hard to avoid. Clients tend to display recency bias when they make decisions based on current events, expecting that those events will continue into the future.

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It can lead them to make sub-optimal decisions, such as buying hot investment trends at the top of the market or selling securities during a market downturn. In contrast, our investment process attempts to avoid this by following the data, rather than the news.

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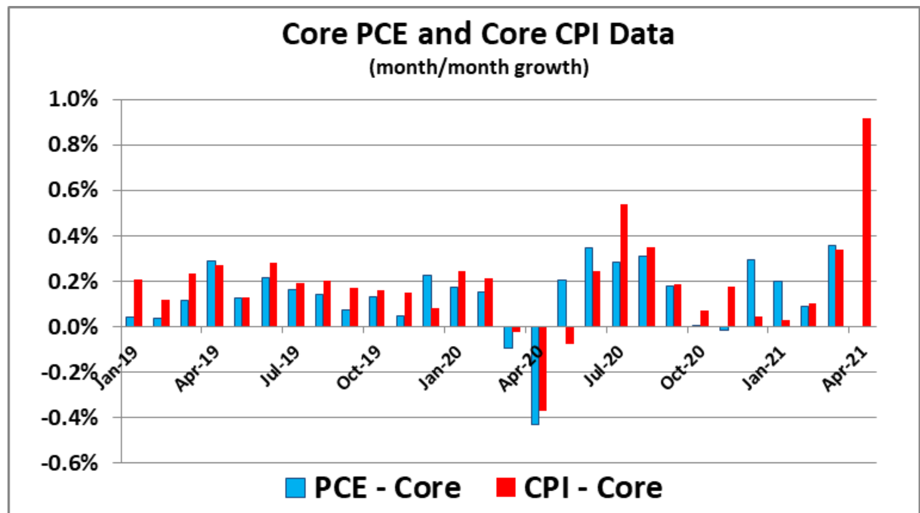

Source: U.S. Bureau of Labor Statistics and U.S. Bureau of Economic Analysis

Additionally, supply chain constraints are affecting the speed at which companies can ramp production back to pre-pandemic levels. While demand has quickly increased, it's going to take longer to increase production to meet that demand, particularly given the length of the pandemic.

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A number of economists have been warning that persistently higher inflation is coming. This has generally been in the context of the effects of the American Rescue Plan Act (ARP). They argue that the ARP is too big, will overheat the economy, and will generate significantly higher inflation in the future. But two important questions often are left unaddressed in their arguments: How high is this higher inflation? And what is the mechanism generating it?

The Bear Case on Inflation

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Inflation certainly wasn't spiraling upward prior to the pandemic, when the unemployment rate was at a historically low 3.5%. Furthermore, given the low inflation experienced over the past 15 years, inflation expectations have likely drifted noticeably below 2%. For example, the 10-year Treasury rate is about 1.6% today. That low rate can hardly reflect outsized inflation expectations on the part of financial market participants. Even with the increases we've seen in recent weeks, inflation compensation priced into Treasury rates over the 5- to 10-year horizon are still noticeably below where they were in 2012 and 2013, a period when one might argue that inflation expectations were more aligned with the Fed's 2% target.

Consumer Price Index Data – Looking Under the Hood!

On May 12th, the Labor Department reported the CPI jumped 4.2% in April from a year earlier, up from 2.6% for the year ended in March. On a month-to-month basis, which strips out the effect of price declines in April 2020, the early days of the pandemic, prices rose a seasonally adjusted 0.8% last month. Compared with two years ago, overall prices rose a more muted 2.2% in April, on an annualized basis.

Recent increases in the US CPI have largely been driven by increased in fuel and energy prices. In fact, the energy index rose 25.1% over the past 12 months while the gasoline index rose 49.6% over that same time period, which is its largest 12-month increase since the period ending January 2010. However, the recent surge in fuel and energy prices isn't expected to continue and showed signs of subsiding in April.

Besides easy y/y comparable, what's been driving the increase in the CPI?

As the table below shows, more recent increases in the US CPI have largely been driven by increased in fuel and energy prices. In fact, the energy index rose 25.1% over the past 12 months while the gasoline index rose 49.6% over that same time period, which is its largest 12-month increase since the period ending January 2010. However, the recent surge in fuel and energy prices isn't expected to continue and showed signs of subsiding in April. On a month-over-month basis, the energy index decreased slightly, as a decline in the index for gasoline in April more than offset increases in the indexes for electricity and natural gas.

Category	NOV	DEC	JAN	FEB	MAR	APR
All Items	0.20%	0.20%	0.30%	0.40%	0.60%	0.80%
Food and Beverages	0.00%	0.30%	0.10%	0.10%	0.10%	0.40%
Housing	0.30%	0.20%	0.00%	0.20%	0.30%	0.50%
Equivalent Rent	0.10%	0.10%	0.10%	0.30%	0.20%	0.20%
Apparel	0.70%	0.90%	2.20%	-0.70%	-0.30%	0.30%
Transportation	0.30%	0.70%	1.10%	1.10%	2.70%	2.50%
Vehicles	0.00%	-0.40%	-1.00%	-0.30%	0.50%	4.60%
Motor Fuel	0.50%	5.20%	7.40%	6.40%	9.10%	-1.40%
Medical Care	-0.20%	-0.10%	0.40%	0.30%	0.10%	0.10%
Educ and Commun	0.10%	0.10%	0.00%	0.10%	-0.10%	3.10%
Special Indices						
Core	0.20%	0.00%	0.00%	0.10%	0.30%	0.90%
Energy	0.70%	2.60%	3.50%	3.90%	5.00%	-0.10%
Services	0.20%	0.00%	0.00%	0.30%	0.40%	0.60%

Source: https://www.bls.gov/news.release/pdf/cpi.pdf

Brent crude oil spot prices averaged $65 per barrel (b) in March, up $3/b from February and up $33/b from March 2020, the onset of the Covid-19 pandemic in the United States. Rising Brent prices in March continued to reflect expectations of rising oil demand as both Covid-19 vaccination rates and global economic activity have increased, combined with ongoing crude oil production limits from members of the Organization of the Petroleum Exporting Countries (OPEC) and partner countries (OPEC+). However, the US Energy Information Administration (EIA) forecasts that Brent prices will likely average $65/b in the second quarter of 2021, $61/b during the second half of 2021, and $60/b in 2022.

Moreover, a relative few items are currently driving the CPI increase. The index for used cars and trucks rose 10.0% in April, which was the largest 1-month increase since the series began in 1953, and it accounted for over a third of the seasonally adjusted "all items" increase. The food index increased in April, rising 0.4% as the indexes for food at home and food away from home both increased.

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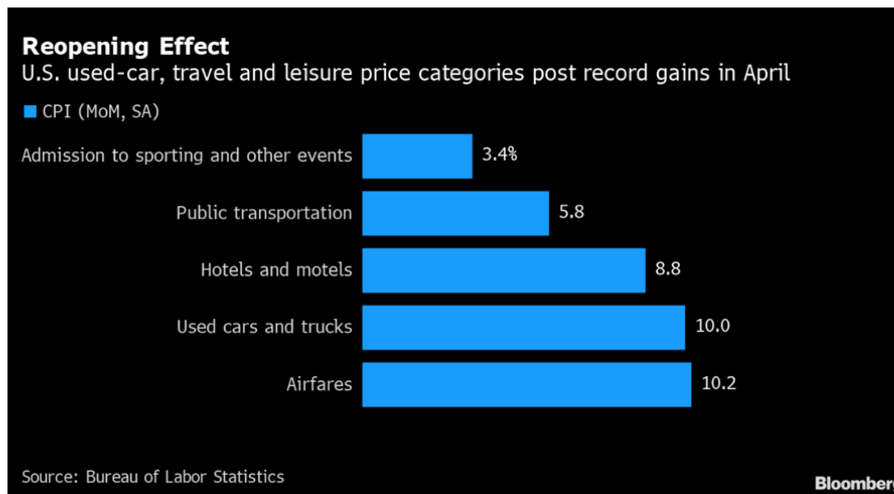
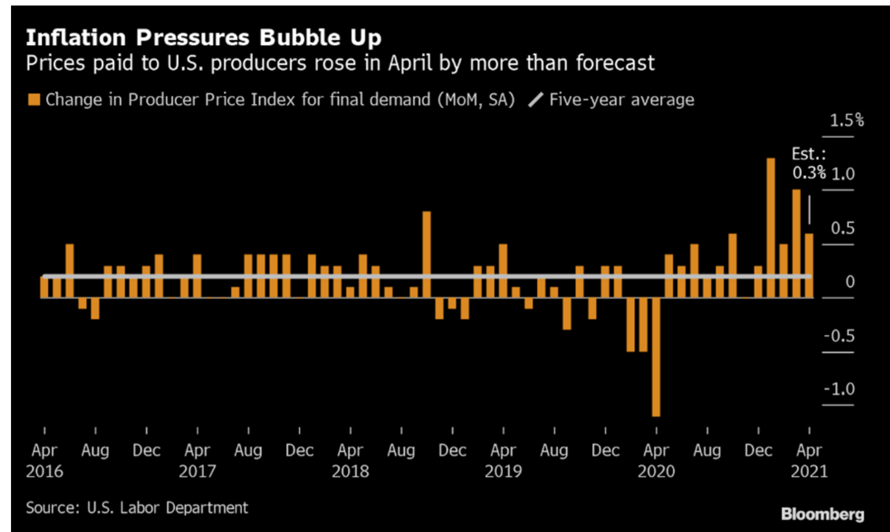


Source: Bloomberg

Both airfares as well as prices at hotels and motels also posted record gains. The index for airline fares also rose sharply in April, increasing 10.2%. The indexes for recreation and for household furnishings and operations each increased 0.9% in April after rising 0.4% in March. The motor vehicle insurance index continued to rise, increasing 2.5% in April. The index for car and truck rentals increased sharply in April, rising 16.2%. The index for new vehicles rose 0.5 percent in April after being unchanged in each of the last 2 months.



Source: Bloomberg

The PPI tracks changes in production costs, but also reflects the impact of supply bottlenecks and shortages tied to the pandemic recovery have caused many commodity prices to surge. At the same time, labor costs have begun to modestly rise. About two-thirds of the April advance in the final demand index can be traced to a 0.6% increase in prices for final demand services. Prices for final demand goods also climbed 0.6% in April, after rising 1.7% in March. Leading the April advance, the index for final demand goods less foods and energy increased 1.0%. Prices for final demand foods moved up 2.1%. In contrast, the index for final demand energy fell 2.4%.

Are Producer Price Increases Flowing Through to the Consumer?

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Some of the increase in producer prices are flowing through to consumers and some are not. One of the major questions the market is currently grappling with is just "how much?" To answer that question we might consider recent data from Asia. A dive into China's producer price data makes one thing clear – the world's factory floor is putting a damper on global inflation pressures, not contributing to the inflation scare. Chinese producers have been absorbing significant pressures from higher prices of materials – acting as a sort of shock absorber to the externally-driven surge in global commodities prices.

- To be sure, China's producer prices have shot up and it is, after all, a major exporter. It's natural that buyers of Chinese goods may be paying higher prices – a source of inflation.
- As a midstream producer in global value chains, China has in recent years absorbed considerable overshoots in prices of materials – to the upside and downside.
- This time around, the difference between changes in producers' input and output prices, as well as relatively subdued consumer prices, suggest China is taking much of the sting out of the rise in material prices.
- Competitive market structures, particularly in downstream sectors and export industries, mean it's tough for producers to raise prices to transmit the inflationary pressures coming from higher material prices.

China's producer price index has an obvious correlation with prices of global commodities such as crude oil, iron ore and copper. This is because China is a major buyer in global markets -- as a processing and manufacturing center in global value chains, China relies on imported materials for production.

- In the first four months of 2021, China imported 382 million tons of iron ore, 180 million tons of crude oil and 7.9 million tons of copper ore.
- This means costs of China's manufacturing goods are heavily affected by global commodity prices.
- Estimates, based on 2016-2020 data, suggest that around 70% of the changes in China's PPI can be explained by these commodities.

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- Manufactured producer goods in the PPI basket -- essentially an output price index -- rose 5.4% from a year earlier in April. That was significantly less than a 9% jump in producers' input prices. These data suggest that 40% of the rise in materials may have been absorbed by Chinese producers.
- It's also clear in the data on crude oil and related downstream products. As crude oil accounted for 9.3% of China's imports in the first four months of 2021, the biggest share for any single commodity, this is an important gauge. China paid 1.6% more for each ton of imported crude oil in the January-April period this year than it did a year earlier. But the export price of refined oil declined by 8.8% over the same period.
- The steel sector offers another example. In the first four months of 2021, China's import prices of iron ore soared 72% year on year, but export prices of steel products rose just 15.4%. That suggests nearly 80% of the rise in iron ore prices was absorbed by Chinese steel mills. Iron ore is the second largest single commodity in China's imports, with a 7.3% share.

Our Current Inflation Outlook and Near-Term Expectations

An unprecedented level of both demand and supply factors are affecting inflation readings, which is adding a significant amount of uncertainty to the outlook relative to historical levels. At the present time, we are expecting to see some further pickup in inflation in the coming months. Part of the increase will be purely "optical" in nature as the low inflation reading from April and May of last year fall out of the 12-month calculation, a factor that boosted year-over-year inflation in March as well. In addition, as the Covid virus subsides and people resume normal activities, demand should pick up further for those goods and services that were most affected by the pandemic, pulling their prices up to more typical levels. Finally, we expect to continue seeing supply chain bottlenecks as economic activity accelerates rapidly in some sectors, which will likely contribute to temporary price pressures in selected industries, such as steel, computer chips, construction materials, appliances, and other items.

Keep in Mind the Fed's Stated Policy with Respect to Inflation!

At the present time, we are expecting to see some further pickup in inflation in the coming months. Part of the increase will be purely "optical" in nature as the low inflation reading from April and May of last year fall out of the 12-month calculation, a factor that boosted year-over-year inflation in March as well. In addition, as the Covid virus subsides and people resume normal activities, demand should pick up further for those goods and services that were most affected by the pandemic, pulling their prices up to more typical levels. Finally, we expect to continue seeing supply chain bottlenecks as economic activity accelerates rapidly in some sectors, which will likely contribute to temporary price pressures in selected industries.

Keep in mind that last August, the FOMC revised their long-run strategy statement. First, they stated that their employment goal is broad-based and inclusive and that their aim is to eliminate shortfalls of employment from their assessment of its maximum level. The term "shortfalls" is significant. In the past they've characterized their employment mandate in terms of eliminating deviations from some long-run normal level of employment. Under the new framework, the FOMC will not be concerned about high employment—or low unemployment—unless it is also associated with undesirable inflationary pressures.

With regard to their price stability objective, they've indicated they want to achieve inflation that averages 2% over time. This averaging is important in order to center longer-term inflation expectations at 2% and thus achieve their target on a persistent basis. Therefore, since inflation has been running persistently below 2%, they might need to have inflation overshoot their goal moderately for some time to bring the average back to 2%!

What are Fed forecasters looking for? According to the March Summary of Economic Projections (SEP), the median FOMC participant sees core inflation rising to 2.2% by the end of 2021 and then slowing to 2.0% next year before moving up slightly to 2.1% in 2023.

Implications for Our Portfolios

From a portfolio management perspective, we remain cautiously optimistic on equity capital markets as we progress into 2021, with potential catalysts that include: 1) a successful Covid vaccine rollout, 2) continued fiscal stimulus, 3) an accommodative Fed and, perhaps most importantly, 4) an improving labor market.

We believe that the continuation of a "catch-up" trade into the back half of 2021 is likely, and that value equity could outperform growth equity over this time period. We note that a handful of U.S. large-cap tech names (FAANG) accounted for a disproportionate share of the market gains in 2020. Consequently, we believe that as the economy reopening accelerates in the second half of the year, the rally could broaden to economically sensitive investments that have lagged, including cyclical sectors, small-cap stocks and international equities.

We also continue favor high-quality asset classes (US large-cap and mid-cap) and remain constructive in tilting the portfolio in that direction. While we like Technology, Communication Services, Consumer Discretionary longer-term, we believe that incremental exposure to select segments within the Industrials, Financials and Materials sectors is currently warranted given our belief that they will potentially benefit from a broadening economic recovery.

Please be aware that the S&P 500 index, through the May 13th, 2021, was up 16.6% year-to-date. Annualizing that rate would imply that the broad-based index would be up nearly 50% for the full year. That historically high level of return isn't incorporated into our base case! As such, we anticipate that it's going to continue to be a bumpy ride in equity markets, particularly over the next 3-6 months as the inflation debate continues to be a headline topic in the press. We believe that most of the press coverage will amount to noise rather than news. Despite this, we continue to see a path where equity markets will benefit form a return to "normalcy."

At the present time, we are staying the course with regard to the asset allocation—favoring value over growth. Furthermore, we can see a scenario where growth equity could participate in the back half of 2021 and into 2022, if inflation concerns abate prompted by post pandemic supply chain constraints being steadily and positively resolved. Unprecedented times such as these not only validate but mandate a disciplined investment process!

At HB Retirement, we remain committed to our disciplined and repeatable investment process, which is based both on top-down, macro analysis coupled with bottom-up, fundamental research. As such, we intend to follow the data and adjust our outlook and portfolios accordingly. Consequently, at the present time, we are staying the course with regard to the asset allocation—favoring value over growth. Furthermore, we can see a scenario where growth equity could participate in the back half of 2021 and into 2022, if inflation concerns abate prompted by post pandemic supply chain constraints being steadily and positively resolved. Unprecedented times such as these not only validate but mandate a disciplined investment process!

Important Disclosures: *This material is not intended as ERISA, tax or investment advice and is not an offer to sell a security or a recommendation, to buy a security. If you are seeking investment advice specific to your needs, such advice services must be obtained on your own, separate from this educational and informational report. This summary is based exclusively on an analysis of general market conditions and does not speak to the suitability of any specific proposed securities transaction. To determine which investments may be appropriate for you, consult your financial advisor prior to investing.*

All opinions and views mentioned in this report constitute our judgments as of the date of writing and are subject to change at any time. We will not advise you as to any change in figures or views found in this report.

Our judgement or recommendations may differ materially from what may be presented in a long-term investment plan. Investors should consult with an investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

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

Stock investing involves risk including loss of principle.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Precious metal investing involves greater fluctuation and potential for losses.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

High yield/junk bonds (grade BB or below) are not investment grade securities and are subject to higher interest rate, credit, and illiquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

The MSCI EAFE Index is a free float –adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia.

The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing the major sectors of the U.S. economy.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment grade fixed-rate bond market, including both government and corporate bonds.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.

Economic and other investment forecasts set forth may not develop as predicted and there can be no guarantee that strategies mentioned will be successful.

All indices are unmanaged and may not be invested into directly.

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