

U.S. Stocks Were King of the Hill in the First Half – Q2 2021



Source: Louvre Museum

Going back, one of my favorite 4th of July traditions has been listening to Ronald Reagan's [Warriors Pledge](#) – we listen to it every year. So, as I sit here on July 4th, grilling burgers on a propane grill, admiring tone-deafening fireworks, and drinking a cold Busch Light, I was reminded of one of America's most quintessential TV shows – Mike Judge's *King of the Hill*. Not only does the show fit the narrative of my patriotic feeling today, but it hits the nail on the head for many of my other thoughts on the current state of our economy and country.

For those not familiar with the show, Mike Judge's satirical animated sitcom, *King of the Hill*, depicts the trials and tribulations of a [propane salesman](#) from Arlen, Texas, Hank Hill. The conflict in the show generally stemmed from the friction between Hank's longing for the "golden age" of America, and the [post-modern global alternative culture perpetrating its "decline."](#)

June's headline-filled meme stock rally is a prime example of what irks him the most. Now, I'm not saying that "Redditors" are affecting the sentiment of modern-day markets, well maybe I am, but I don't believe that in any way shape or form are they affecting its structural integrity. This alternative culture of investing, like most millennials, is more of a nuisance than a problem.

Like January, stocks looked through this noise, ending Q2 essentially reflecting the same sentiment with which the market started the year. We witnessed the 13th best first half on record. And as we begin the back half of 2021, we continue to believe that the path of least resistance is up from here, though we may encounter some "chop". Given the amount of monetary support, we see the risk of a material and long-lasting pullback or correction as low – though, as always, our portfolios are always prepared to capitalize if we do encounter our favorite asset class - volatility.

Stocks have been powered higher in '21 by several positives: a reopening economy, a successful vaccine implementation, trillions of dollars of stimulus, rising corporate earnings expectations and a very dovish Fed. But many of those factors were one-time hits, and while they clearly were valuable, we believe they won't be repeated in the next six months.

So, that begs the question, where do we go from here? Well, for one, over the next six months, we believe that the market will need to navigate the following issues:

1. *Will corporate margins compress given cost inflation and, more importantly, does that hurt earnings?* The upcoming earnings seasons will give us insight to what management teams are seeing in the market.
2. *Will markets have to deal with negative tax headlines?* The first half of 2021 contained nothing but positives from Washington, i.e. more stimulus and spending. But the second half will be centered around infrastructure and tax hikes, both for corporations and the wealthy.
3. *When does the Fed taper QE?* In contrast to the first half, where until last month most of the conversation around the Fed centered on its undying support for the economy, we believe that the next six months will be dominated by the tapering timeline, and if the Fed must taper sooner than expected that will cause volatility.
4. *Inflation spiked in the first half, but will it be easy for the market to continue to dismiss it as temporary?* The next six months will be a "prove it" period for the term "transitory" because if inflation metrics remain high, the "temporary" excuse that worked in the first half won't hold up in the second.

Bottom line, we are still very proactive on owning more stocks than bonds, specifically inflation-linked, cyclical, high-quality stocks. We believe that low-quality stocks, which have substantially outperformed off the market bottom, have run their course. And, if low-quality was a doneness of steak, it would be well-done, and like Hank Hill, we would ask these factors to [politely, yet firmly, to leave.](#)

Below are a few hot topic musings:

Inflation:

For over a decade now, inflation has been both tame and consistent, averaging just 1.7% over the past 10 years. If anything, a primary criticism from the market has been the inability to see inflation consistently hit the Fed's 2% target. As we've seen in the headlines over the last few months, inflation has a horrible connotation to it. When in fact, a predictable level of inflation is very healthy, as it gives consumers and businesses an incentive to spend or invest, facilitating economic growth. But like most economic reports, inflation readings have been unsteady since COVID. At its core, inflation can be traced back to one of three causes, of which, we believe that we are witnessing all three right now:

1. *Supply Issues* – Both inventories and backlogs are at 20-year lows, as the supply-chain has been significantly impacted by the COVID-induced shutdowns.
2. *Demand Issues* – The economic reopening has unleashed a flurry of pent-up demand from consumers whose spending in 2020 was held back by the pandemic. Fresh stimulus in March of 2021 further added to consumer spending power.
3. *Stimulus / Accommodative Policy* – Unprecedented levels of stimulus have caused the M2 money supply to surge 30% since the start of 2020, the largest increase in history. M2 is the amount of currency in circulation, and money printing is a depreciating force on the purchasing power of the dollar.

When you combine all of this, you get a strong CPI reading – 5.0% last month, the hottest reading since the Financial Crisis. In fact, the core CPI number was the highest reading since 1992. Given this information, you'd think it'd be big news for asset prices – it wasn't. The market has largely defied what academia's natural textbook response would be to this type of reading – stocks are at all-time highs, bond yields are down, and commodities have rolled over. Why? The market has put face value in the Fed's commentary that inflation will be transitory. To us [charcoal-using Alabamians](#), we may have a better chance at understanding [Boomhauer, Hank's fast-talking, mumbling neighbor](#), than understanding the Fed's broad definition of this word. Transitory basically states that the surge in pricing will be temporary, as this year is coming off a depressed "base", and these effects will fade later in the year, as should the current bottlenecks in the global supply chain. We'll leave it up to you on whether or not this inflation will be...transitory.

Fixed Income:

We are surprised as anyone on the recent move in rates, but we believe that it shouldn't overshadow the material risks that traditional fixed income poses for a diversified portfolio moving forward. Just remember the pain felt in Q1 2021 as the allegedly safe asset class's performance left many investors feeling worse than Hank Hill [shaking President George H. Bush's hand](#).

If you're reading this, you've definitely heard us prognosticate what we believe will be the future for traditional fixed income, as it has the potential to inject a substantial amount of longevity risk into a portfolio. It's no secret that it could be a tough environment moving forward due to rates, credit, and duration. But let's take this tangibly a step further, given the most recent move in rates - when will there be a [Meg-Lo-Mart style explosion](#) in this asset class?

We believe that we've already been given a playbook on how rates may move in the current environment. We think that the catalyst for another high-velocity rise in rates, much like we saw in Q1, could be the official announcement of a tapering process by the Fed. Look at 2013, when the Fed announced its plan to taper, the 10YR real rate jumped from negative 80bps (-0.80%) to positive 100bps (+1.00%) in a mere 5 months. This would be devastating to bonds.

So, over the most recent period, we believe that the market has granted traditional fixed income investors a get-out-of-jail free card, as the market priced in a delayed, not derailed, global re-opening due to poor jobs data, material labor shortages, and higher-than-expected vaccine hesitancy. In a nutshell, if we had a choice, we wouldn't own any traditional fixed income because we believe that it leaves you at risk of making just as much money as [Chuck Mangione's flugelhorn career- nothing](#).

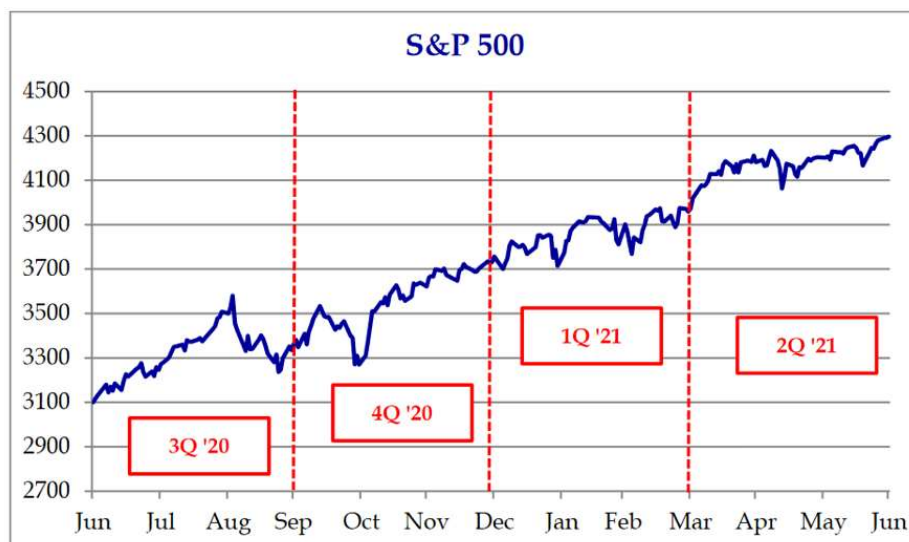
MARKET RECAP – Q2 2021

- The S&P 500 finished the first half of 2021 at a record high, gaining 15.3% - it was the second best first half since 1998 (2019 was the best, with +18.5%). Stocks were the only major asset class with positive returns in the first half, with long-term Treasury bonds (-7.9%) and investment grade corporate bonds (-1.8%) losing steam amid rising rates (10-yr yield +55bps). Gold, the best performing asset in 2020, fell 6.8%. International stocks lagged, hindered by Emerging Markets. The equal-weighted S&P 500 outperformed the cap-weighted index by 3.8%, representing the biggest 1H outperformance since 2009.

	<u>Q2 2021</u>	<u>YTD</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
S&P 500	8.55%	15.25%	40.79%	18.67%	17.65%	14.84%
NASDAQ	9.68%	12.92%	45.23%	25.72%	25.80%	19.32%
Dow Jones Industrial	5.08%	13.79%	36.34%	15.02%	16.66%	13.50%
Russell 2000	4.29%	17.54%	62.03%	13.52%	16.47%	12.34%
MSCI EAFE	5.17%	8.83%	32.35%	8.27%	10.28%	5.29%
MSCI Emerging Markets	5.05%	7.45%	40.90%	11.27%	13.03%	4.28%
Barclays Agg. Bond Index	1.83%	-1.60%	-0.33%	5.34%	3.03%	3.39%
Investment Grade Bonds	3.92%	-1.77%	2.40%	8.77%	5.09%	5.55%
High Yield Bonds	2.01%	2.60%	12.95%	6.35%	6.00%	5.35%

Source: Bloomberg. Data as of 6/30/2021. Returns over 1YR are Annualized.

- We have now had back-to-back quarters that have closed at new record highs. In fact, the last five days of the quarter had new record intraday highs – a streak not seen in over a decade. This piggybacks a year in which the US experienced a recession, a pandemic, mass protests, and a disruptive presidential election. In the first three months of the year, the 10-year Treasury note had doubled in yield, the country seemed to be well in the middle of a new mania of sorts with meme stocks, and investment banks were churning out a never-ending supply of SPACs. Moreover, the Fed was still very much in the “not thinking about not thinking” phase of central banking. A quarter later, and Bitcoin and meme stocks seem to have fallen back to the Earth (a few exceptions), 10-year Treasury yields have dropped to less than 1.5% despite higher-than-expected inflation readings, and people are legging back into growth stocks with the expectation that “peak everything” will restore FANG and high-flying tech as market leadership.



Source: Strategas, Data as of 6/30/2021

- Trend tends to be your friend, and, historically, when you have a strong first half of the year, the momentum continues with 73.3% of the readings showing a positive performing second half.

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: Raymond James, Data as of 6/30/2021

- With a +14.4% showing over the last six months, the 1H of 2021 ranks a respectable 13th historically. And now at more than 15 months off the March 2020 lows, the current advance is both longer and more potent than the only two other comparable moves (coming off the 1982 and 2009 lows). Trends are strong. As the consensus seems resigned to the return of high multiple growth, we're struck by the statistically significant (and contrarian) outflows in small-caps, Industrials, and Financials. It may be too early to play for a resumption of cyclicity without first a broader market misstep (not to mention the overhang of seasonality), but we believe it's unlikely that the recovery high in rates or cyclicity is in yet.



Source: Strategas, Data as of 6/30/2021

- Historically, when you get five winning quarters in a row, it tends to presage some volatility. As of quarter end, the S&P 500 Index has been up 5 quarters in a row. A year later up, it tends to only be up 6.6% on avg, but median is a solid 10.4% (thanks GFC). What really stands out though is the last two times this happened we saw quarterly win streaks get all the way to 9.

Five Quarter S&P 500 Index Win Streaks

Long Quarterly Win Streaks Can Produce Volatility

Quarter	Ultimate Quarterly Win Streak	S&P 500 Future Returns After 5 Quarter Win Streak		
		1 Quarter	2 Quarters	4 Quarters
Q3 1950	7	5.0%	10.4%	19.6%
Q4 1954	10	1.7%	14.0%	26.4%
Q3 1959	6	5.5%	2.6%	-0.2%
Q3 1963	11	4.6%	10.2%	17.4%
Q4 1976	5	-8.4%	-6.5%	-11.5%
Q4 1989	5	-3.8%	1.3%	-6.6%
Q3 1996	14	3.9%	6.5%	17.3%
Q2 2004	5	-2.3%	6.2%	4.4%
Q3 2007	5	-3.8%	-13.4%	-23.6%
Q1 2014	9	4.7%	5.3%	10.4%
Q4 2016	9	5.5%	8.2%	19.4%
Q2 2021	5*	?	?	?
Average		1.1%	4.1%	6.6%
Median		3.9%	6.2%	10.4%
% Positive		63.6%	81.8%	63.6%

Source: LPL Research, FactSet 07/06/21 * Streak not over yet

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

- The stock market has now doubled in a little more than 15 months. To some investors, this feels way too far way too fast. To other investors, this gain may feel quaint, especially relative to some of the enormous returns we've seen in other securities and asset classes. We're in the camp of the former. This is a huge return in such a short period of time for a market that's measured in the tens of trillions of dollars. To put this in perspective, let's look at previous periods to see how long it took the market to double. Interestingly enough, the past two bear markets are in 2nd and 3rd place all-time for fastest doubles. This bodes well for many that theorize that market cycles are speeding up, especially during and following big sell-offs, supported by fiscal and monetary policy.

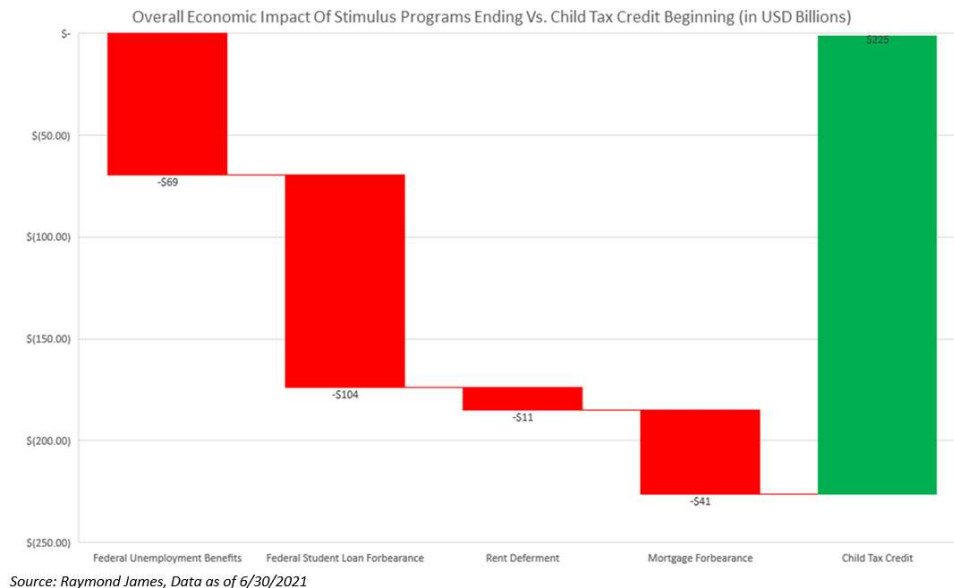
Bear Market	Bottom Date	Number of Months to Double	Number of Years to Double
-83.0%	June 1932	3	0.3
-54.5%	March 1938	63	5.3
-34.5%	April 1942	32	2.7
-26.6%	October 1946	55	4.6
-36.1%	May 1970	110	9.2
-48.2%	December 1974	61	5.1
-27.1%	August 1982	34	2.8
-33.5%	December 1987	49	4.1
-49.1%	October 2002	50	4.2
-56.8%	March 2009	23	1.9
-33.9%	March 2020	15	1.3

Source: AWOCs, Data as of 6/30/2021

- After reaching nearly \$165 on a trailing twelve-month basis for S&P 500 EPS at the end of 2019, the pandemic resulted in a near 15% drawdown in earnings and in total is expected to take just six quarters to recover. The full-year 2021 estimates from Wall Street analysts continues to move higher, now standing at \$191. But, the strong 2021 earnings are beginning to eat into 2022's growth rate, despite growth expectations falling from 16.7% at the beginning of the year to 11.7% today, however, they are still above what estimates were in the midst of the pandemic.



- Don't be So Sure Fiscal Support is Ending* - There's a lot of ways to measure this, but ultimately, the government transfer payments to consumers starting in a couple weeks should roughly offset the ending of federal unemployment, student loan, mortgage and rent deferments in 2H21. The consumer has never been this strong in the US with >\$2 trillion in excess savings, M2 at ~\$3 trillion higher than pre-pandemic trends and revolving credit ~\$200b lower. This aggregates to \$15,000+ per household in savings above and beyond traditional savings levels. And although it is skewed towards high income, the added savings appears to be across every income bracket.



- Facebook is the latest tech giant to join the \$1T market-cap club. Apple, Amazon, Microsoft, Alphabet and FB combined are now worth more than \$8.5T, almost 3x the value of the Russell 2000.



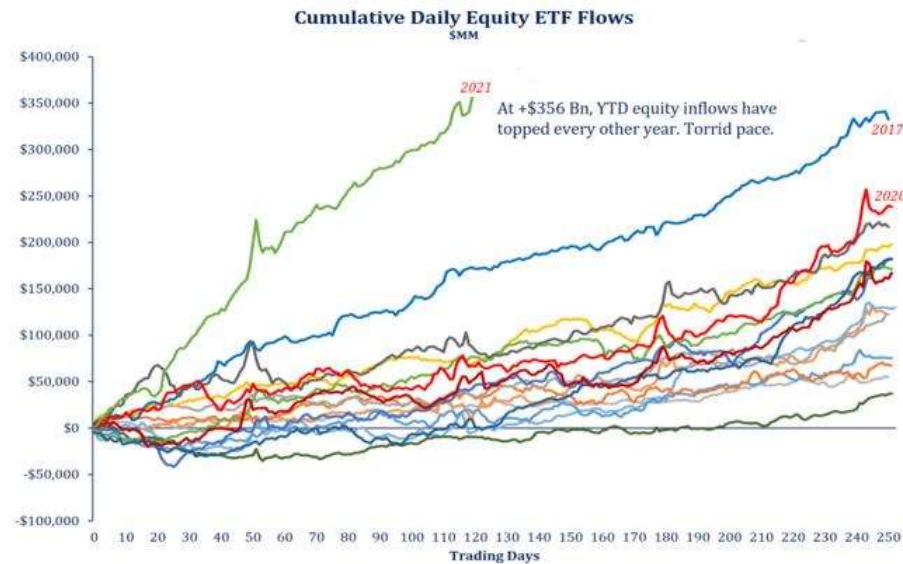
- Interest Rates** - There have only been two instances where stocks fell during a rising rate environment. In fact, the annualized returns in each of these periods where rates rose 1% or more was 10.5%, which is right around the average long-term return for the U.S. stock market. It is worth noting some of these rising rate environments did precede some nasty stock market falls. Rates raced higher in 1987 right before the biggest one-day crash in history in October of that year. And rates rose in the final couple of years in the late-1990s dot-com bubble as the Fed was trying to snuff out a speculative mania.

The Stock Market Does Fine When Rates Rise
S&P 500 performance when the 10 year treasury yield rises 1% or more since 1950

Start Date	End Date	Starting Yield	Ending Yield	S&P 500
JAN '50	JUN '53	2.3%	3.1%	80.9%
JUL '54	OCT '57	2.3%	4.0%	60.7%
APR '58	JAN '60	2.9%	4.7%	40.4%
MAY '61	SEP '66	3.7%	5.2%	70.8%
MAR '67	MAY '70	4.5%	7.9%	-1.9%
NOV '71	SEP '75	5.8%	8.4%	2.8%
DEC '76	MAR '80	6.9%	12.8%	18.4%
JUN '80	SEP '81	9.8%	15.3%	11.4%
MAY '83	JUN '84	10.4%	13.6%	-1.5%
JAN '87	OCT '87	7.1%	9.5%	6.7%
OCT '93	NOV '94	5.3%	8.0%	2.2%
OCT '98	JAN '00	4.5%	6.7%	39.5%
JUN '03	MAY '06	3.3%	5.1%	39.1%
JUL '12	OCT '18	1.5%	3.2%	127.2%

Source: DFA, Data as of 3/31/2021

- *Equity inflows* - The catalysts for record ETF inflows are far reaching (e.g. major equity rally, tax efficiency, tight trading spreads), but we do wonder how much of a sentiment risk this will present during the back half of the year?



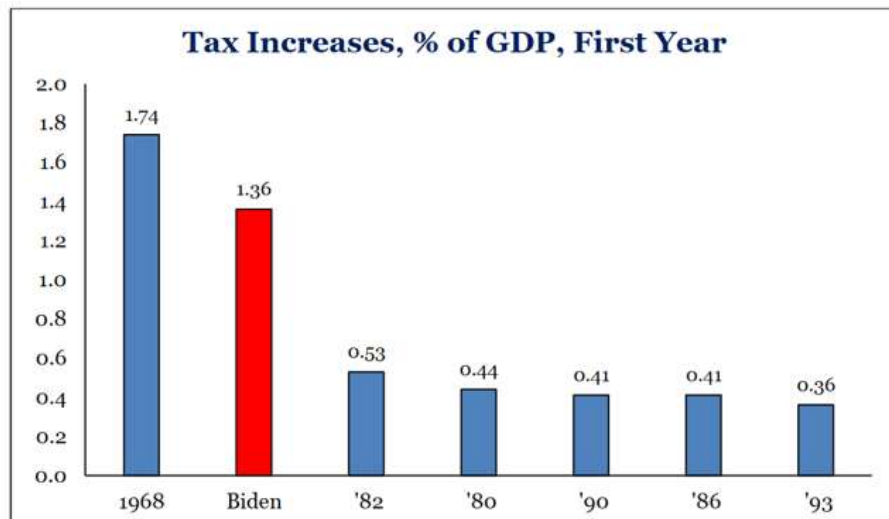
Source: Strategas, Data as of 6/30/2021

- *Stimulus Plans* - The remaining funds will likely take years to spend, as Congress set aside hundreds of billions of dollars for state governments, schools, and other non-emergency programs where spending will occur more gradually. As a result, the slowdown in coronavirus-related spending will likely be sharp this year even if Congress renews certain provisions like jobless aid and the expanded child tax credit.

Covid-Era Fiscal Stimulus			
When	What	Amount	% GDP
6-Mar-20	Coronavirus & Vaccine R&D	\$8 Billion	0.0%
18-Mar-20	Paid Sick Leave & Un. Claims	\$192 Billion	0.9%
27-Mar-20	CARES ACT	\$1.7 Trillion	7.9%
21-Apr-20	Payroll Protection Plan	\$483 Billion	2.2%
27-Dec-20	Phase 4	\$900 Billion	4.2%
11-Mar-21	American Rescue Plan	\$1.9 Trillion	8.8%

Source: Strategas, Data as of 3/31/2021

- Tax Plans** – It is important to remember that the corporate tax changes are just one part of the Biden tax plan and more details are coming out about individual income tax increases. Combined the two tax increase proposals are likely to be in the range of 1.2 to 1.4 percent of GDP. We believe Congress will water down the Biden proposals, but the final product could still finish two times higher than the top tax increases years enacted over the last 50 year period.



Source: Strategas, Data as of 3/31/2021

- Bitcoin Drawdowns** - No other commentary necessary

Bitcoin: Major Corrections From All-Time Highs (September 2010 - Today)							
Correction Period	# Days	Bitcoin High	Bitcoin Low	% Decline	% Return to New High	New High Date	# Days to New High
4/14/21 to 6/22/21	69	64802	29101	-55%	123%	?	?
1/8/21 to 1/21/21	13	41962	28845	-31%	45%	2/8/2021	18
12/17/17 to 12/15/18	363	19783	3122	-84%	534%	11/30/2020	1079
11/8/17 to 11/12/17	4	7879	5507	-30%	43%	11/16/2017	8
9/2/2017 to 9/15/17	13	5014	2951	-41%	70%	10/12/2017	40
6/11/17 to 7/16/17	35	3025	1837	-39%	65%	8/5/2017	55
3/10/17 to 3/24/17	14	1326	892	-33%	49%	4/27/2017	48
11/30/13 to 1/14/15	410	1166	170	-85%	585%	2/23/2017	1181
4/10/13 to 7/7/13	88	266	63	-76%	323%	11/7/2013	211
6/8/11 to 11/17/11	162	32	1.99	-94%	1504%	2/28/2013	631
5/13/11 to 5/21/11	8	8.45	5.58	-34%	51%	5/25/2011	12
2/10/11 to 4/4/11	53	1.10	0.56	-49%	96%	4/17/2011	66
11/6/10 to 11/10/10	4	0.50	0.14	-72%	257%	1/31/2011	86
9/14/10 to 10/8/10	24	0.17	0.01	-94%	1600%	10/24/2010	40

Source: Charlie Bilello, Data as of 6/30/2021

Asset Classes

- As shown below in the white boxes during the last 15 years, diversification generally puts you somewhere in the middle of the return spectrum. That's a feature not a bug, one we see as the first layer of portfolio protection. The idea that anyone is going to consistently overweight to next year's leading styles could be considered crazy; we see building a structure that minimizes the drag of large losers as far more realistic. From our perspective, in some years, like 2019, protection isn't necessary, but over a 20 - 30-year period all portfolios face periods of drawdown - much like we saw in 2020. We believe a proactive plan to manage those periods can be the difference between meeting future spending needs or adjusting them.

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	2006-2020
REITs	EM Equity	Fixed Income	EM Equity	REITs	REITs	REITs	Small Cap	REITs	REITs	Small Cap	EM Equity	Cash	Large Cap	Small Cap	REITs	Large Cap
35.1%	39.8%	6.2%	79.0%	27.9%	8.3%	19.7%	38.8%	28.0%	2.8%	21.3%	37.8%	1.8%	31.6%	29.8%	21.3%	9.9%
EM Equity	Comdty.	Cash	High Yield	Small Cap	Fixed Income	High Yield	Large Cap	Large Cap	Large Cap	High Yield	DM Equity	Fixed Income	REITs	EM Equity	Comdty.	Small Cap
32.6%	16.2%	1.8%	69.4%	26.9%	7.8%	19.6%	32.4%	13.7%	1.4%	14.3%	26.5%	9.0%	28.7%	18.7%	21.1%	23.1%
DM Equity	DM Equity	Asset Alloc.	DM Equity	EM Equity	High Yield	EM Equity	DM Equity	Fixed Income	Fixed Income	Large Cap	Large Cap	REITs	Small Cap	Large Cap	Small Cap	High Yield
26.9%	11.6%	-25.1%	32.5%	19.2%	3.1%	18.5%	23.3%	6.0%	0.5%	12.0%	21.8%	-4.0%	26.6%	18.4%	17.6%	7.5%
Small Cap	Asset Alloc.	High Yield	REITs	Comdty.	Large Cap	DM Equity	Asset Alloc.	Cash	Comdty.	Small Cap	High Yield	DM Equity	Asset Alloc.	Large Cap	REITs	DM Equity
18.4%	7.1%	-26.9%	28.0%	16.8%	2.1%	17.9%	14.9%	5.2%	0.0%	11.8%	16.6%	-4.1%	22.7%	16.6%	15.3%	7.1%
Large Cap	Fixed Income	Small Cap	Small Cap	Large Cap	Cash	Small Cap	High Yield	Small Cap	DM Equity	EM Equity	Asset Alloc.	Large Cap	Asset Alloc.	DM Equity	DM Equity	Comdty.
15.8%	7.9%	-33.9%	27.2%	15.1%	0.1%	16.3%	7.3%	4.9%	-0.4%	11.5%	14.9%	-4.4%	19.9%	8.3%	9.2%	18.8%
Asset Alloc.	Large Cap	Comdty.	Large Cap	Asset Alloc.	Asset Alloc.	Large Cap	REITs	Cash	Asset Alloc.	REITs	High Yield	Asset Alloc.	EM Equity	Fixed Income	Asset Alloc.	Asset Alloc.
15.4%	6.5%	-35.6%	21.5%	14.8%	-0.7%	16.0%	2.9%	0.0%	-2.0%	8.6%	10.4%	-6.8%	18.5%	7.5%	9.2%	6.7%
High Yield	Cash	High Yield	Asset Alloc.	Asset Alloc.	Small Cap	Asset Alloc.	Cash	High Yield	High Yield	Asset Alloc.	REITs	Small Cap	High Yield	High Yield	EM Equity	DM Equity
13.7%	4.8%	-37.0%	25.0%	13.3%	-4.2%	12.2%	0.0%	0.0%	-2.7%	8.3%	8.7%	-11.0%	12.6%	7.9%	7.6%	12.2%
Cash	High Yield	REITs	Comdty.	DM Equity	DM Equity	Fixed Income	Fixed Income	EM Equity	Small Cap	Fixed Income	Fixed Income	Comdty.	Fixed Income	Cash	High Yield	Fixed Income
4.8%	3.2%	-37.7%	18.9%	8.2%	-11.7%	4.2%	-2.0%	-1.5%	-4.4%	2.8%	3.5%	-11.2%	9.7%	0.5%	2.1%	4.5%
Fixed Income	Small Cap	DM Equity	Fixed Income	Fixed Income	Comdty.	Cash	EM Equity	DM Equity	DM Equity	DM Equity	Comdty.	DM Equity	Comdty.	Comdty.	Cash	Cash
4.3%	-1.8%	-43.1%	6.9%	6.6%	-13.3%	0.1%	-2.3%	-4.6%	-14.8%	1.5%	1.7%	-13.4%	7.7%	-3.1%	0.0%	1.2%
Comdty.	REITs	EM Equity	Cash	Cash	EM Equity	Comdty.	Comdty.	Comdty.	Comdty.	Cash	Cash	EM Equity	Cash	REITs	Fixed Income	Comdty.
2.1%	-15.7%	63.2%	0.1%	0.1%	-18.2%	-1.1%	-9.5%	-17.0%	-24.7%	0.3%	0.8%	-14.2%	2.2%	-5.1%	-1.6%	0.8%

Source: JPMorgan Asset Management; Guide to the Markets, Data as of 6/30/2021

- The Dollar's Impact on Asset Class Returns** - A weak dollar would benefit foreign stock market companies and funds held by U.S. investors. Those who own international stocks are subject to currency fluctuations, so if the dollar falls, that means your foreign stocks are worth more once they're converted to our currency. One of the biggest reasons international stocks have badly lagged U.S. stocks in recent years is because the dollar has been so strong.

The Dollar's Impact on Asset Classes

Average Annual Returns, 1974-2019

Asset Class	Years When the Dollar is Up	Years When the Dollar is Down
GOLD	-0.8%	17.6%
S&P 500	10.8%	12.9%
FOREIGN STOCKS	2.0%	18.6%
EMERGING MARKETS	2.7%	22.5%

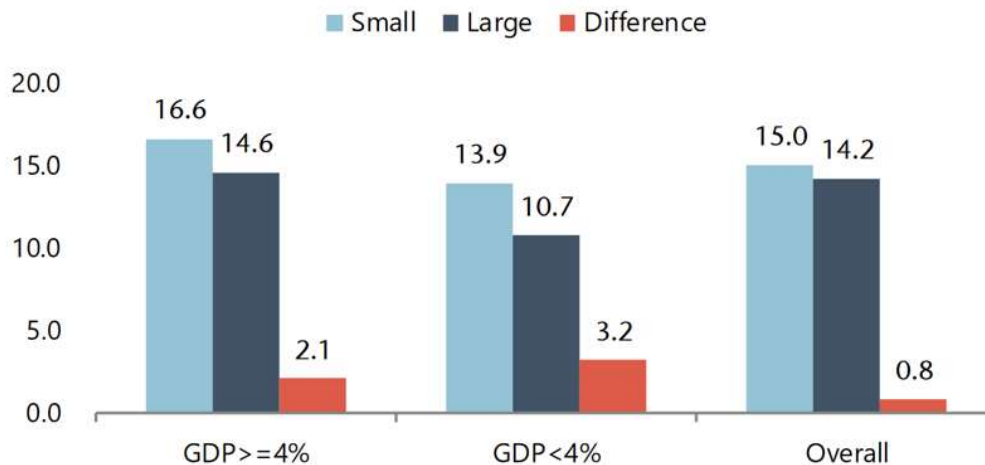
Source: Bernstein, Data as of 12/31/2019

- In Q2 2021, Large Caps outperformed Small Caps with the S&P 500 rallying 8.55% vs. 4.29% for the Russell 2000. Since the March 23, 2020, equity bottom, the equal weighted S&P 500 has outperformed the market cap weighted by 18.34% compared to 48% in early 2000s and 28% in post-GFC early cycle. The Russell 2000 has outperformed the S&P 500 by 37.60% since March 23, compared to 45% in the early 2000s and 27% in post-GFC early cycle.



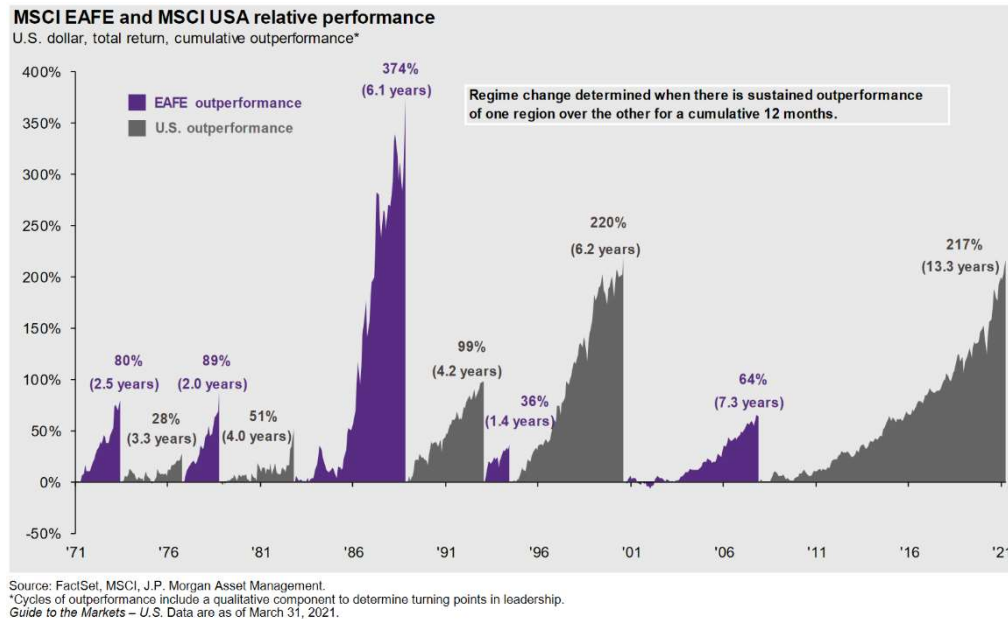
Source: Bloomberg, Data as of 6/30/2021

- From our observations U.S. small cap stocks, which are not as well capitalized and thus more dependent on an economic rebound, tend to outperform when GDP > 4%.



Source: Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business; Jefferies
Source: Data as of 3/31/2021

- The Decade of International** - As the first quarter passes and earnings season gets underway, estimated growth (by Strategas) currently for 2021 is expected to be 35% for the MSCI EAFE compared to 25% for the S&P 500. For 2022, growth is expected to be comparable currently, but with pending tax increases in the U.S., it's possible that earnings growth could be stronger for the EAFE in 2022 as well.



Equity Attribution

- For what has been popularly described as a highly rotational market, the Consumer Staples and the Utilities never got the memo. Both sectors have been the antithesis of “rotational,” offering zero relative advantage all year and again finishing last week at fresh relative lows. It is curious given the move in rates (1.77% on 3/30 to 1.42% on 6/30), particularly given their reputation as bond proxies and defensives. The market sure seems intent on flushing out the bond bears here, but if rates were going back to 1.00% and staying there, wouldn’t market leadership look different? That’s our thinking here at Aptus. The only “defensive” group showing any modest signs of life is Health Care right now, with the equally-weighted sector recently finding its way to the 3-month relative high list vs. the S&P.

S&P 500 Sectors (Total Return)	1Q'20	2Q'20	3Q'20	4Q'20	2020	1Q'21	2Q'21 (sorted)	YTD
Real Estate	-19.2%	13.2%	1.9%	4.9%	-2.2%	9.0%	13.1%	23.3%
Technology	-11.9%	30.5%	12.0%	11.8%	43.9%	2.0%	11.6%	13.8%
Energy	-50.5%	30.5%	-19.7%	27.8%	-33.7%	30.9%	11.3%	45.6%
Communication Services	-17.0%	20.0%	8.9%	13.8%	23.6%	8.1%	10.7%	19.7%
S&P 500 Total Return	-19.6%	20.5%	8.9%	12.1%	18.4%	6.2%	8.5%	15.3%
Health Care	-12.7%	13.6%	5.9%	8.0%	13.4%	3.2%	8.4%	11.9%
Financials	-31.9%	12.2%	4.4%	23.2%	-1.7%	16.0%	8.4%	25.7%
Discretionary	-19.3%	32.9%	15.1%	8.0%	33.3%	3.1%	6.9%	10.3%
Materials	-26.1%	26.0%	13.3%	14.5%	20.7%	9.1%	5.0%	14.5%
Industrials	-27.0%	17.0%	12.5%	15.7%	11.1%	11.4%	4.5%	16.4%
Staples	-12.7%	8.1%	10.4%	6.4%	10.7%	1.1%	3.8%	5.0%
Utilities	-13.5%	2.7%	6.1%	6.5%	0.5%	2.8%	-0.4%	2.4%

Source: Strategas, Data as of 6/30/2021

- The Russell 2000 (+17.5%) outperformed both the Russell Midcap (+16.3%) and Russell 1000 (+14.9%) in 1H '21, though lagged in Q2 (+4.3% vs. +7.5% and +8.5% respectively). Energy was the top-performing sector across small (+71.5%) and mid-caps (+51.2%), followed by other cyclical/reopening sectors (Consumer Discretionary, Financials, and Real Estate). Defensives (Utilities, Staples, Health Care) and Tech lagged the most within both size segments. We continue to believe the economic backdrop and relative valuations support a preference for small caps over large caps in the 2H.

Period	Length of Period	Small Caps		Large Caps		Excess
		Cumulative	Annualized	Cumulative	Annualized	
05/32-02/37	4.8	1045.7	67.1	343.3	36.8	30.3
05/40-05/46	6.1	521.8	35.6	166.9	17.8	17.8
01/64-12/68	5.0	210.2	25.9	49.8	8.6	17.3
12/74-06/83	8.6	1089.1	33.8	236.3	15.3	18.5
10/90-02/94	3.4	138.6	29.8	66.1	16.4	13.4
03/99-03/06	7.1	144.2	13.6	6.1	0.9	12.7
02/09-11/15	6.8	292.7	22.5	215.4	18.6	3.9
3/18/20 to ?	1.3	136.4	95.6	89.3	64.5	31.2
Average	5.4	443.2	38.6	143.9	21.0	17.6

Source: Jefferies, Data as of 6/30/2021

- Given the run since Vaccine Day, Cyclical took a pause this past month, though still outperforming Bond Proxies by 12.3% year-to-date.

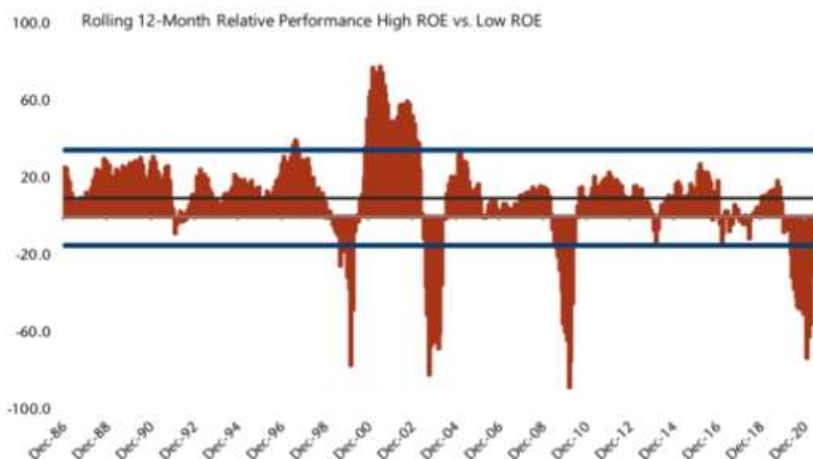
The Cyclical lagged in June and marginally over the course of the quarter



Source: Jefferies, Data as of 6/30/2021

- Risk factors were the best performing factor group in 1H, rising ~30% vs. 18.5% for the equal-weighted S&P 500, while Quality was the worst performing group (+15%). Similarly, High Quality stocks ("B+ or better" in S&P Quality ranks) lagged Low Quality stocks ("B- or worse") by 5%. With that said, we believe that the high beta/risk rally is already in the rear-view mirror. In Q2, Quality was the best performing group (+9.2% vs. +6.0% for Risk). Amid peak stimulus and an approaching Fed taper, we expect the decade-high discount for High Quality vs. Low Quality stocks will narrow.

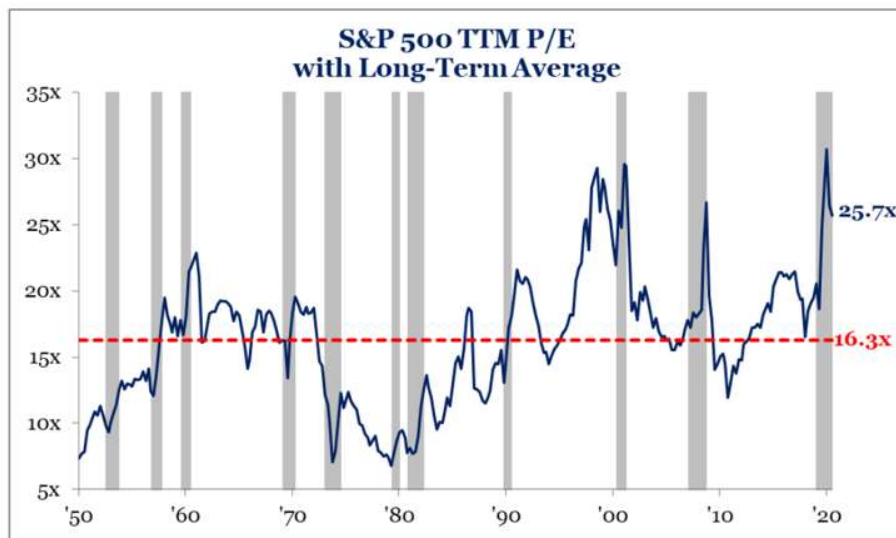
Lower quality continues to drive performance...



Source: Jefferies, Data as of 6/30/2021

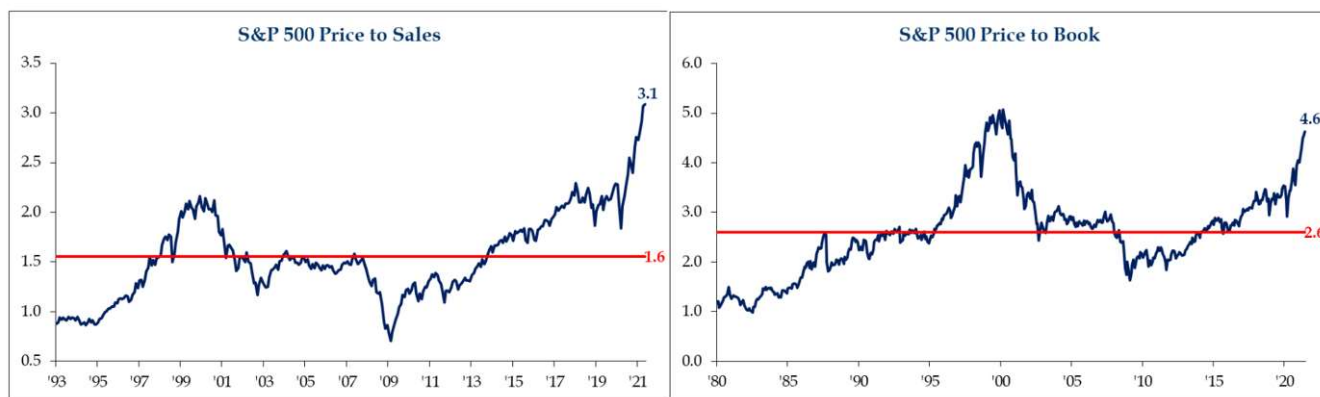
Equity Valuations

- Earnings Valuations Did Come Down, As Cyclical Earnings Grew** - Historically, the price to earnings ratio spikes during recessions and falls as earnings recover following a recession. Over the last three cycles this has occurred at the beginning of a longer bull-market for equities rather than at the end. Based on this logic, it would appear there is still time for the current run in equities, although the path may not be a straight line upward. In June, P/E multiples expanded for large and mid-caps but contracted for small caps as "E" continued to outpace "P". Consensus now expects nearly 100% earnings growth for small caps this year vs. ~35% for large caps. 2022 growth is also expected to be higher in small (mid-teens vs. low-teens for large). The Russell 2000 forward P/E compressed to 17.7x from 17.8x, the lowest since October (more on this later).



Source: Strategas, Data as of 6/30/2021

- Valuations Appear Stretched** – The price-to-sales ratio for the S&P 500 is now trading at 3.1x - nearly double the historical average. Price-to-book shows the same thing. In fact, based on data going back to 1980, a price to book ratio of 4.6x currently is only exceeded by levels previously seen during the dot com bubble, when it reached 5.1x. Based on these measures alone, stocks would appear to be rather expensive currently.



Source: Strategas, Data as of 6/30/2021

- But Don't Forget About the Relative Opportunity Set** – Relative to the alternative options for investors, equities continue to remain attractive – especially versus bonds. Another way to measure valuations in the fixed income world is take the bond price (\$100) and divide it by the 10-Year Treasury Yield to get a “P/E” multiple. The graphic below shows how expensive bonds are compared to history. Keep in mind those bond earnings come with zero potential for growth... and you thought tech was expensive! Furthermore, the equity risk premium currently stands at 246bps compared to a historical average of 63bps. While it has come in some recently, the forward prospects for earnings remain strong suggesting the measure should continue to hold true.



Source: Strategas, Data as of 6/30/2021

- And Don't Lose Sight of Growth** – A likely better barometer for earnings growth this upcoming quarter is comparisons to 2Q'19. Even so, earnings growth for the aggregate index is expected to be strong, coming in at about 10%, with the materials leading the way. The other sectors expected to improve the most compared to 2Q'19 are the growth-oriented sectors of Health Care, Technology, and Communications. With easier comps this quarter, investors will likely shift their focus toward any clues as to what to expect in 2022 regarding earnings. At least initially, we suspect hints for the sustainability of the recovery will be the focus; however, the ever-changing landscape in Washington could lead management to discuss possible legislative action and its impact on earnings.



Source: Strategas, Data as of 6/30/2021

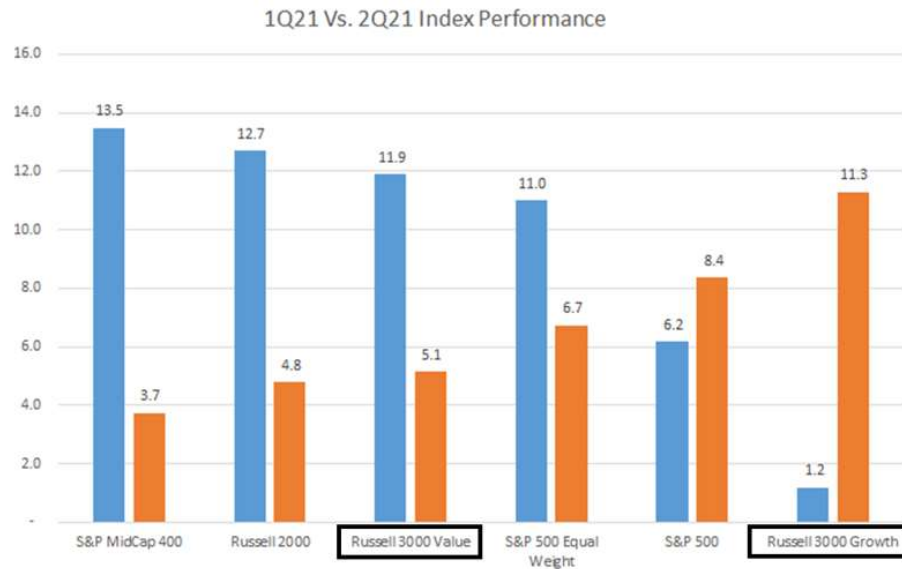
- Small caps remain historically cheap vs. large caps, and the discount widened in June: the relative forward P/E of the Russell 2000 vs. Russell 1000 fell to 0.82x from 0.84x, its lowest since Nov. Historically, small caps trade at a 3% premium to large caps. And even on most other measures, the relative multiple of small vs. large caps remains below history.



Source: BofA, Data as of 6/30/2021

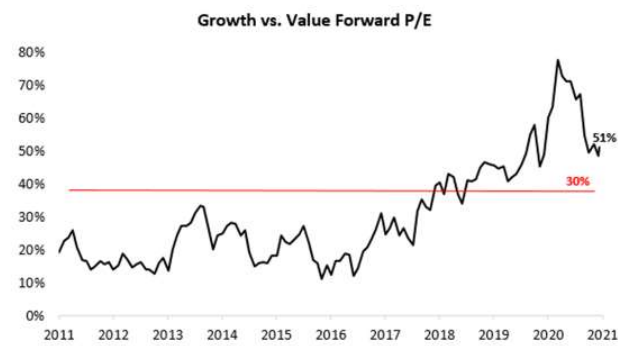
Equity Styles

- The style trade has been whipped around in 2021 by bond yields, and now stands at a tie according to Russell style indices. As we suggested in our 2021 thematic expectations, we expected value to outperform growth, albeit with a small spread. Like most, we didn't expect the meltdown in yields to support growth stocks as much as they did in Q2. The Russell 1000 Value outperformed the Growth index by 3.3% in 1H '21 (the best 1H since 2016) but finished well below the peak 13.6% lead it had as of May with Growth stocks rebounding in June (+6.2% vs. -1.3% for Value in June).



Source: Raymond James, Data as of 6/30/2021

- Growth stocks' (Nasdaq) P/E relative to those of value (S&P 500 Value) are still too high, in the context of an economic environment which massively favors cyclical EPS revisions. There is more relative multiple compression to come if the economy takes off and real rates pop.



- *Valuations Continued* - The Russell 1000 Value outperformed the Growth index by 3.3% in 1H (the best 1H since 2016) but finished well below the peak 13.6% lead it had as of May with Growth stocks rebounding in June (+6.2% vs. -1.3% for Value in June). With this, you saw relative valuations spread out back to year-end levels.



Source: BofA, Data as of 6/30/2021

- *Value / Growth Rotation* - The average Value run lasts 33 months, but it has been as short as one month and as long as 109 months. The length of the Value cycle usually corresponds to the length of the economic and profits recovery. At the beginning of the year, earnings for Value (Low P/E) stocks were forecast to grow by 8% over the next two years vs. 20% for Growth (High L-T Growth) stocks. Today, consensus forecasts 11% growth for Value stocks and 10% growth for Growth stocks.



Source: BofA, Data as of 6/30/2021

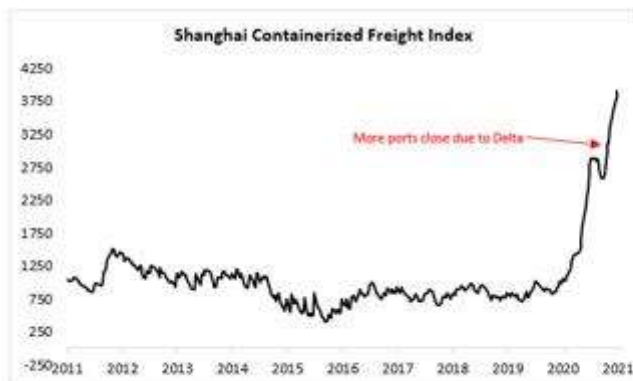
Fixed Income

- The story of the quarter was the bullish tone in fixed income, after an eye-opening rise in rates to start the year. The second quarter largely rewarded investors with duration exposure, although the entire fixed income asset class rallied. Duration outperformed credit although credit spreads continued to tighten throughout the quarter and year. We believe this is pointing to a strong economic recovery. If there was one less spectacular sub sector within fixed income, it was mortgages which have massively benefited from the Fed's \$40bn a month asset purchase program (QE). As the market begins to anticipate a Fed Taper, the spread compression mortgages experienced relative to Treasuries (mostly due to Fed purchases) began to ease. We believe the Fed will first taper mortgage purchases due to the roaring housing market. Investors with short duration portfolios underperformed long duration portfolios in Q2 although are still outperforming YTD.

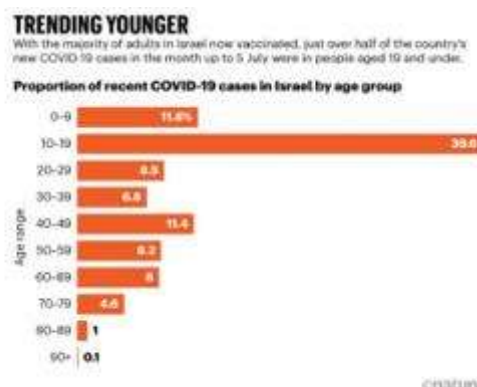
	Q2 2021	YTD	1-Year	3-Year	5-Year	10-Year
Barclays Agg. Bond Index	1.83%	-1.60%	-0.33%	5.34%	3.03%	3.39%
Investment Grade Bonds	3.92%	-1.77%	2.40%	8.77%	5.09%	5.55%
High Yield Bonds	2.01%	2.60%	12.95%	6.35%	6.00%	5.35%
Barclays Gov't 1-5YR	0.10%	-0.47%	-0.32%	3.29%	1.78%	1.59%
Barclays Intermediate Tsy.	0.62%	-1.14%	-1.18%	3.96%	1.93%	2.16%
Barclays Long-Term US Tsy.	6.46%	-7.92%	-10.58%	7.99%	3.13%	6.66%
Treasury TIPS	3.25%	1.73%	6.51%	6.53%	4.17%	3.40%
U.S. MBS	0.33%	-0.77%	-0.42%	3.78%	2.27%	2.64%

Source: Bloomberg. Data as of 6/30/2021. Returns over 1YR are Annualized.

- Economic Data Affecting Yields** - There was a large bullish tone in bonds this quarter - very different sentiment than what we saw to begin the year. From an economic perspective, optimism was ripe in March of this year – strong growth, increased sloping yield curve, etc. The nominal 10YR yield reached 1.7% at one point (from 0.9% in December 2020) and the real 10YR rate rose to -0.6% (from -1.1%). Yet, given the fall in yields during the quarter, the market ultimately correctly portended premature optimism. Economically speaking, we blame a slew of factors for this. Rewind back to March 2021. We did not expect bad jobs data and material labor shortages. We did not expect a fire in a major semiconductor manufacturing facility. We did not expect high vaccine hesitancy. We did not expect the Delta variant. We did not expect more China port restrictions, leading to exacerbated global shipping bottlenecks. When the 10YR nominal treasury ended the quarter around 1.25%, the yield reflected the reality that the 2H21 global economy will be less strong than we had expected, as the services economy remains restricted and supply constraints persist.



Source: Jefferies Trading Desk, Data as of 6/30/2021

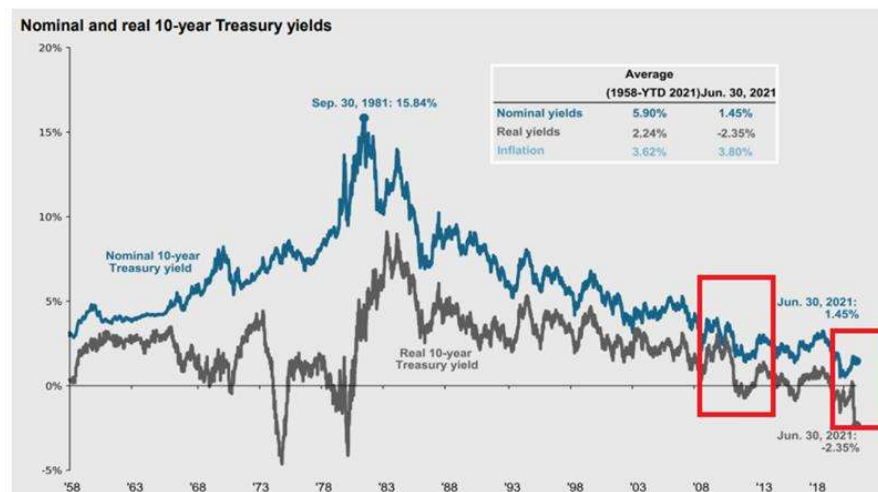


- Fed's Actions Manipulating Yields** - The Fed is continuing to purchase \$80b/month in treasuries even though treasury issuance is plunging as the economy recovers and stimulus checks are behind us. Since the pandemic started, the Fed purchased 54% of treasuries through 2020, but this has increased to 58% today, and is moving higher as treasury issuances decrease. This means the Fed is becoming much more influential in the market, in our opinion, driving down yields near term. But once QE tapering is priced into the bond market, this is likely to reverse as the bond market has to price in a future in which the Fed is 0% of treasury purchases, and yields should go higher, quickly, just as they did in 2013.



Source: Raymond James, Data as of 6/21/2021

- Yields Moving Forward** - Real yields are negative... very negative. This implies that after accounting for inflation, investors are losing purchasing power of their dollars. We've seen the playbook of the Fed Taper back in 2013 where real rates went from negative to positive, pushing nominal yields higher. We believe that as the Fed Tapers, real yields will be pulled higher and in turn drive nominal yields to a more normalized level.



Source: JPMorgan Asset Management: Guide to the Markets, Data as of 6/30/2021

- *Move in Rates* - Q2 saw a sizeable retracement of the massive move in yields. (On 8/4/2020 10-year Treasury yields bottomed out at 0.508% and moved up to 1.74% on 3/31/21). In Q2 we saw 10-year yields in a steady state of decline ending the quarter at 1.46% (the move has continued into Q3 where the 10 year is now sub 1.30%).



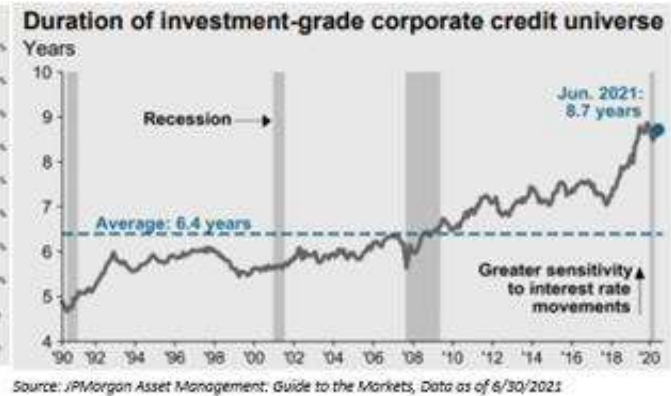
Source: Bloomberg, Data as of 6/30/2021

- *Move in Rates* - Two big takes from the recent move down in rates. The last two significant instances of rising yields (2003 to 2006 and 2016 to 2018) saw their fair share of rate drawdowns along the way. This isn't a straight-line business! In saying that, with credit spreads remaining firm, we believe it continues to signal for strong growth.

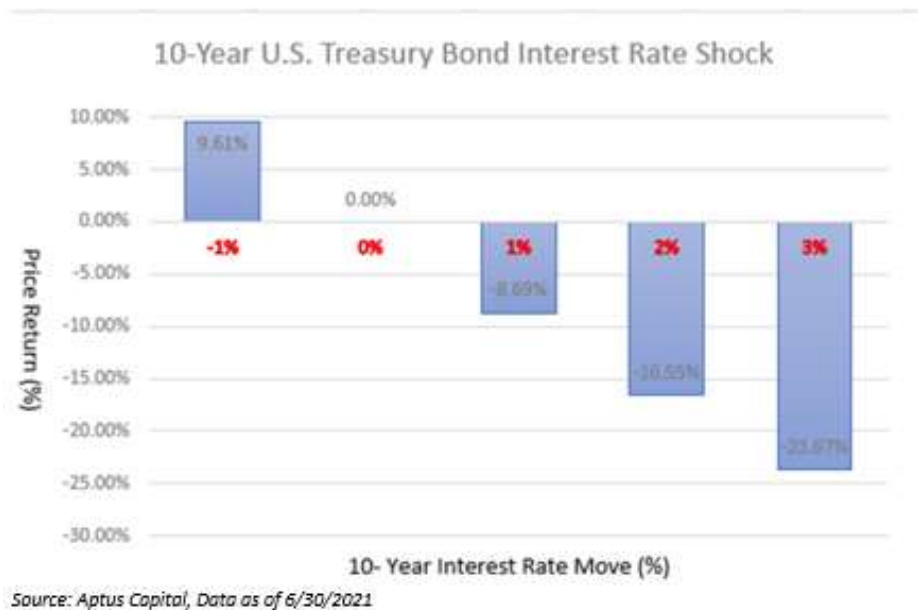


Source: Strategas, Data as of 6/30/2021

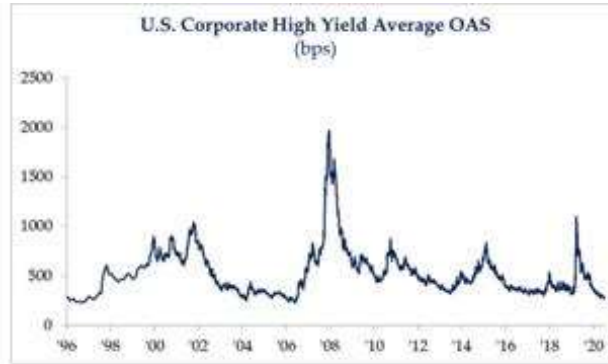
- The income portion of total return from fixed income securities continues to decrease. We believe that this not only buffers volatility during a rising rate environment but also limits price return potential if interest rates drop (starting from a lower base). Total Returns of bonds, if interest rates fell to 0%, have never been lower. Regarding duration, they continue to extend, increasing interest rate risk.



- With yields on the lower end of the spectrum, the cushion (or re-investable dollars) available to offset the price effect from rising rates continues to decrease. We believe this will continue to be a major headwind to bond investments.



- *High-Yield Stress* - We see a continuation of spreads moving tighter in the High Yield market. Tighter credit spreads continue to indicate a continuation of solid economic growth. 3- Year Annualized forward returns as measured across different High Yield (credit) spreads look awful low. Higher spreads indicate more compensation for credit risk.



Source: Strategas, Barclays Capital, Data as of 6/30/2021

Percentiles	All Periods (1/1994 - 3/2016)	
	Credit Spread (bps)	Annualized 3-Year Returns
Max	1,833	26.1%
90%	794	13.5%
75%	655	11.3%
50%	477	8.6%
25%	329	4.2%
10%	288	0.3%
Min	235	-7.6%
Number of Observations:		267

Source: Barclays Capital

High (wide) Credit Spread Periods

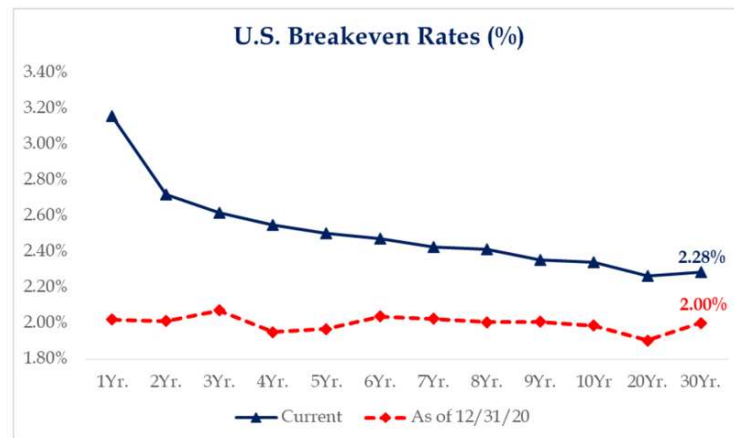
Economic Review

- Historical Inflation** - Inflation has been both tame and steady for the past decade, averaging just 1.7% over the past 10 years. If anything, a primary criticism has been the inability to see inflation consistently hit the Fed's 2% target. A low level of predictable inflation is good, as it gives consumer and businesses an incentive to spend or invest, facilitating economic growth. But like most economic reports, inflation readings have been unsteady since COVID, which brought a brief period of deflation at the onset followed by a rapid rise in inflation in the first half of 2021.



Source: Bureau of Labor Statistics, Data as of 6/30/2021

- Inflation Moving Forward** - We believe that much of the market thinks that inflation expectations are at peak levels. The 10-year breakeven rate rose steeply to 2.6% in mid-May, owing to concerns over the potential for spiraling inflation. We are not arguing that inflation will be historically weak. Current expectations of a 2.3% 10-year breakeven rate is not weak – and we do expect the 10-year breakeven rate to remain above 2.0% for the foreseeable future. We are, however, arguing that inflation spiraling out of control will not occur, as temporary supply issues will eventually be resolved. We expect strong, but healthy, inflation expectations (i.e. 10 year breakeven rate >2%), alongside strong and healthy economic growth.



Source: Strategas, Data as of 6/30/2021

- *The Impact of Inflation on Investment Returns* - A primary focus for long-term investors should be the growth of purchasing power of their investment; stocks have as good of a track record in accomplishing this goal, relative to other asset classes. With that said, stocks post higher nominal returns in periods of low inflation than in high inflation, even before factoring in the erosion that inflation causes to real returns.

S&P 500 When CPI > 5%										
Year	1973	1974	1975	1977	1978	1979	1980	1981	1990	AVERAGE
CPI	8.9%	12.2%	7.0%	6.8%	9.0%	13.3%	12.4%	8.9%	6.1%	9.4%
	-14.3%	-25.9%	37.0%	-7.0%	6.5%	18.5%	31.7%	-4.7%	-3.1%	4.3%

Source: Aptus Capital, William Bernstein, Fama-French, Damodaran. Data as of 6/30/2021

- *Payrolls* – There has been significant improvement in the labor market over the last year, but this metric remains key as we move past the large fiscal boost in 2020/21. In June, the economy added 850K jobs with 2/3rd of the job gains in leisure & hospitality and education. On a more minor basis, the weekly jobless claims data (a new cycle low at 364,000 in the last week of the quarter) along with surging job openings indicate continued strength. This report itself may not be enough to change anyone's mind, but having previewed the discussion about removing emergency accommodation, we believe the Fed can continue on its set path.



Source: Strategas, Data as of 6/30/2021

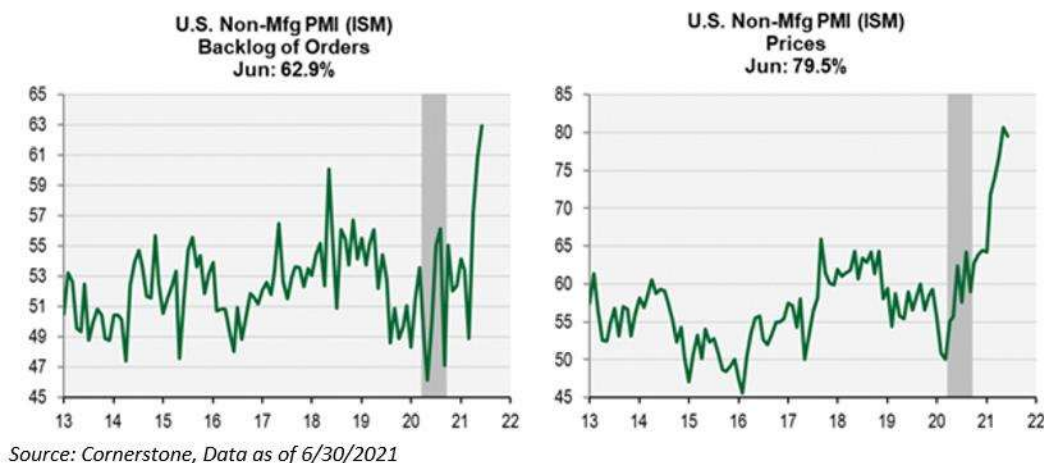
- *Economic Data is Hotter than a \$2 Pistol* – Economic growth is hot. Consider:
 - Q2 GDP could reach double-digits, setting the stage for the best full-year of economic growth since Reagan's first term.
 - Retail sales are up 50% compared to last year.
 - Car sales are up 110% from last year and are only held back by a lack of inventory from chip shortages.
 - This spring, personal income reached its highest monthly increase on record.
 - Purchasing manager surveys are at, or near, all-time highs.

- Supply Shortages** - COVID has created an unprecedented economic situation, which has led to transient supply hiccups. The services economy was turned off like a light switch – and now it is turning on like a light switch. The goods economy has been overwhelmed with demand, while labor and logistics issues due to COVID have made meeting that demand difficult (thereby driving up prices). Enhanced unemployment benefits (which have rolled off in many states and will roll off in all states in September) and complicated childcare logistics (schools out of session) – both uniquely due to a health driven crisis – have made jobs growth lag what appears to be imminently explosive economic growth.

	3/31/2021	4/30/2021	5/31/2021	6/30/2021
ISM Mfg PMI (SA)	64.7	60.7	61.2	60.6
New Orders (SA)	68.0	64.3	67.0	66.0
Production (SA)	68.1	62.5	58.5	60.8
Employment (SA)	59.6	55.1	50.9	49.9
Supplier Deliveries (SA)	76.6	75.0	78.8	75.1
Inventories (SA)	50.8	46.5	50.8	51.1
New Orders - Inv	17.2	17.8	16.2	14.9
Customers' Inventories (NSA)	29.9	28.4	28.0	30.8
Prices (NSA)	85.6	89.6	88.0	92.1
Backlogs (NSA)	67.5	68.2	70.6	64.5
New Export Orders (NSA)	54.5	54.9	55.4	56.3
Imports (NSA)	56.7	52.3	54.0	61.0

Source: Bernstein, Data as of 6/30/2021

- Demand Strong** - The ISM Service Index fell from May's record high but remains elevated. Analysts continue to expect strength in services as re-openings continue. Components were generally weaker across the board this past month, though still incredibly high: Employment fell 6.0%, New Order slipped 1.8%, and Business Activity was down 5.8%. According to the survey respondents, tight labor market conditions are still a major problem. Order backlogs rose 2.2%, while the prices paid index remained very elevated at 79.5%, underscoring the persistent effects of supply chain disruptions.



The Backdrop for 2H 2021:

The Good:

- **Better Economic Data** - Economic data, which lags the stock market, hit rock-bottom last year, but we believe signs of a recovery have continued to appear, most notably with the recent Non-Farm Payroll and ISM data. Considering the fifth round of stimulus from Congress passed earlier this year, consistent declines in unemployment and the potential for an infrastructure bill, we believe sustained increases in consumer spending and job stabilization should be expected – both keys to the continued emergence from the pandemic-induced recession. Moreover, the consumer continues to sit on record amounts of cash.
- **Better than Anticipated Earnings** – After reaching nearly \$165 on a trailing twelve-month basis for S&P 500 EPS at the end of 2019, the pandemic resulted in only a 15% drawdown in earnings – it is expected to only take 6 quarters to recoup the damages. We remain optimistic, as we continue to see the full-year 2021 estimates from Wall Street analysts continues to grind higher, now standing at \$191, well above the 2019 level.
- **Health of the Consumer** – We believe the aggregate consumer is flush with cash, and once pent-up demand can safely be unleashed, the U.S. economy is set to rip higher. While we know that the cruel nature of the pandemic has had an adverse financial impact on many (particularly those less fortunate), in aggregate, the consumer coffers are presently funded. U.S. bank deposits are up more than \$3 trillion from a year ago, while credit card balances are down 12% over the past year.

The Bad:

- **Fed Tapering Misstep** – Towards the end of Q2, the yield curve paused its steepening. Now, it is up to the Fed Chair Jerome Powell to recognize the level of flattening. This means caution in communication if the Powell Fed is to avoid the mistakes of the Yellen Fed, namely inverting the yield curve and slowing the flow of liquidity to main street by redirecting said liquidity towards Wall Street. We believe that tapering could offset this flattening.
- **Threat of the Delta Variant Causing Another Potential Shutdown** - After a significant decline in COVID-19 cases in the U.S. earlier this year, variants of concern (VoCs) continue to be a risk, as there have been strains, i.e., “P.1 Variant”, that are more contagious than the original strain.

The Ugly:

- **Possible Policy Errors Through Fiscal Tightening (Taxes) in 2022** - The lags associated with the long-term benefits of infrastructure spending are notoriously long and variable. Tax increases, on the other hand, tend to be retroactive and immediate. From a market perspective, the fear is that a fiscal drag sterilizes the positive impacts of reopening and already passed stimulus, leading to an economic environment more consistent with the period of secular stagnation after the GFC.
- **Faster-than-Expected Inflation** – The magnitude of the policy actions used to counteract deflation may, in the end, be hugely inflationary. Higher-than-expected inflation tends to be a major headwind to equity valuations. Right now, 5YR inflation breakeven figures are above the Fed’s 2% target. For markets, how the Fed chooses to address inflation is as important as the inflation itself.

Disclosures

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The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 11.2 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 4.6 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

The Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market. To be eligible for inclusion in the Index, the security's U.S. listing must be exclusively on The Nasdaq Stock Market (unless the security was dually listed on another U.S. market prior to January 1, 2004 and has continuously maintained such listing). The security types eligible for the Index include common stocks, ordinary shares, ADRs, shares of beneficial interest or limited partnership interests and tracking stocks. Security types not included in the Index are closed-end funds, convertible debentures, exchange traded funds, preferred stocks, rights, warrants, units and other derivative securities.

The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

*The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries*around the world, excluding the US and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.*

The MSCI Emerging Markets Index captures large and mid-cap representation across 26 Emerging Markets (EM) countries. With 1,387 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.*

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and collateralized mortgage-backed securities.

The Russell Midcap® Index measures the performance of the mid-cap segment of the US equity universe. The Russell Midcap® Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap® Index represents approximately 31% of the total market capitalization of the Russell 1000® companies. The Russell Midcap® Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap opportunity set.

The iShares iBoxx \$ Investment Grade Corporate Bond ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, investment grade corporate bonds. The iShares iBoxx \$ High Yield Corporate Bond ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, high yield corporate bonds.

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