MARKET INSIGHTS

from Ziegler Capital Management

Monthly Market Commentary: June 2021

WRITTEN: JUNE 1, 2021

The S&P 500 returned 0.70% in May and has returned 12.62% on a year-to-date basis as of May 31, 2021. Small cap stocks, as measured by the Russell 2000, returned 0.21% in May and are up 15.30% so far in 2021. Large Cap Value outperformed Growth in May with the Russell 1000 Value returning 2.33% and the Russell 1000 Growth returning -1.38%. Value leads Growth on a year-to-date basis with a return of 18.41% versus 6.32%. The Russell 2000 Value returned 3.11% and the Russell 2000 Growth returned -2.86% in May, and Value leads Growth on a year-to-date basis with a return of 27.47% versus Growth at 4.10%.

Headlines dominating the news are centered around the continued roll-out of COVID-19 vaccines, greater re-opening, and increased turmoil in the Middle East. According to the Centers for Disease Control, half of the United States population is fully vaccinated from COVID-19 with 60% of the population having received at least one dose as of May 26. There remains discussion on the proposed $1.8 trillion "American Families Plan" and proposed $2.3 trillion infrastructure package that includes new spending on bridges, roads, and broadband internet. Both plans need Congressional approval and are subject to further negotiation. Both parties are far apart at the present time. In total, President Biden has put forward $6 trillion in new federal spending over the next decade. To pay for his plans, President Biden's proposals include raising the top income-tax and capital-gains rates, increasing corporate taxes, and expanding the Internal Revenue Service's collections.

Returns by Sector

	S&P 500		Russell 2000	
Sector	YTD	May 2021	YTD	May 2021
Communication Services	16.49	-0.07	25.09	8.36
Consumer Discretionary	6.22	-3.81	34.22	1.77
Consumer Staples	5.22	1.77	18.37	2.03
Energy	39.22	5.77	58.21	14.87
Financials	29.53	4.79	23.29	1.78
Health Care	9.29	1.89	-4.05	-6.10
Industrials	19.03	3.14	17.61	0.30
Information Technology	6.36	-0.91	5.30	-0.86
Materials	20.91	5.22	32.40	8.99
Real Estate	19.48	1.21	14.79	-1.45
Utilities	4.65	-2.38	2.31	-2.16
TOTAL RETURN	12.62%	0.70%	15.30%	0.21%

Source: Bloomberg

ABOUT ZCM MARKET INSIGHTS

A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

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Real gross domestic product (RGDP) increased at an annual rate of 6.4% in the first quarter according to the second estimate released by the Bureau of Economic Analysis. While the overall rate of 6.4% was unchanged from the first estimate, there were upward revisions to consumer spending and nonresidential fixed investment. These upward moves were offset by downward revisions to exports and private inventory investment. Imports, which are a subtraction in the calculation of GDP, were revised upward. Aided by two rounds of stimulus during the quarter, GDP was driven by a massive 10.7% increase in consumption growth. It is now only 1% less than pre-pandemic growth levels from the fourth quarter of 2019. Business investment expanded by 9.9%, residential investment expanded by 10.8% and government expenditures increased by 6.3% on an annualized basis. GDP estimates for the second quarter are between 8% and 9% and are expected to be again driven by consumption growth. The Conference Board has increased its GDP forecast for calendar year 2021 from 6.0% to 6.4% on an annualized basis citing “a surge in consumer spending as the economy fully reopens. High and increasing vaccination rates and low new COVID-19 case numbers indicate that the reopening process may be complete for much of the country by the end of the summer”. As a part of this revised forecast, the Conference Board is projecting a GDP increase of 8.6% on an annualized basis in the second quarter of 2021.

According to the National Bureau of Economic Research (NBER), the U.S. entered a recession in February 2020 and remains there. The NBER waits to declare the end of a recession until the committee members are extremely confident that it has ended even if activity begins to rise again. As a result, the committee tends to wait until several months after expansion has occurred to declare a formal end.

According to the U.S. Bureau of Labor Statistics, the unemployment rate remained unchanged in April from the March reading of 6.1%, and the number of unemployed increased slightly to 9.8 million people. Although both measures are significantly lower than their April 2020 highs, they remain above their February 2020 pre-pandemic levels of 3.5% and 5.7 million people. The labor force participation rate of 61.7% was little changed in April although it is 1.6% lower than February 2020. The U.S. savings rate was 14.9% in April, decreasing from 27.6% in March. Government stimulus payments remain heavily saved and unemployment benefits continue at elevated levels. These increased savings will likely continue to fuel consumption and economic growth for the coming quarters. The long-term average savings rate is approximately 9% and it peaked at a stunning 32.2% in April 2020.

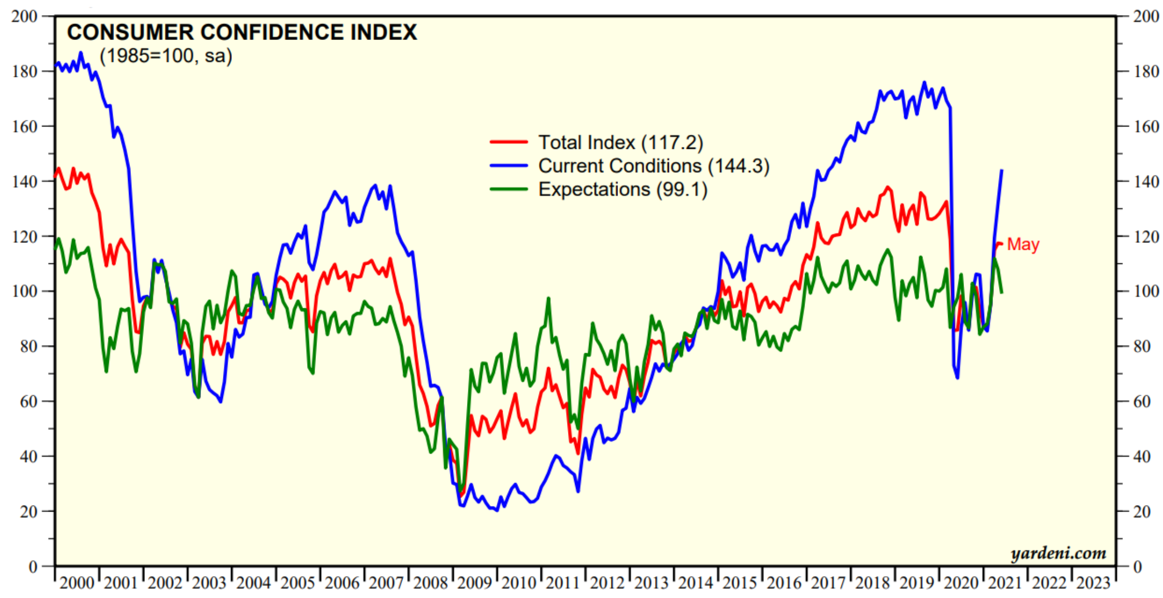
Minutes from the Federal Reserve’s April 27 and 28 meeting indicated that a strong pickup in economic activity would warrant discussions about tightening monetary policy by reducing asset purchases at future meetings. Fed Chairman Powell further stated that the recovery remains “uneven and far from complete” and the economy was still not showing the “substantial further progress” standard the committee has set before it will change its policies at the present time. The Fed has noted that inflation has risen, citing transitory factors as the driver. They expect to maintain an accommodative monetary policy stance until their objectives are achieved. Their goals remain to have maximum employment and inflation at the rate of 2% over the longer run. The target Fed Funds rate remains 0-0.25% and it is expected to remain there for the foreseeable future. The Federal Reserve is continuing to increase Treasury holdings by at least $80 billion per month and agency mortgage-backed securities by at least $40 billion per month until additional progress has been made toward their goals of maximum employment and price stability.

With what we consider to be sizable returns since November, small cap stocks, as measured by the Russell 2000, have returned 48.37% for the trailing seven months through May 31, 2021. In comparison, large cap stocks, as measured by the S&P 500, have returned 29.75% over the same time frame. Value stocks have lead Growth stocks over this same period with the Russell 1000 Value returning 39.48% versus the Russell 1000 Growth at 22.60%. This pattern was also seen in small cap stocks with the Russell 2000 Value returning 64.12% versus the Russell 2000 Growth returning 33.90%. In contrast, We feel Growth stocks outperformed Value considerably in calendar year 2020 in both large (by 36.69) and small (by 30.00%).

West Texas Intermediate (WTI) finished May at $66.32 a barrel, increasing from April's closing price of $63.49 a barrel. WTI has increased over 37% so far in 2021 after beginning the year at $48.40 a barrel. Over the past year, WTI has increased over 75%. WTI is significantly higher than April 2020's close at $18.84 per barrel during the Saudi/Russia price war.

Consumer Confidence was relatively unchanged in May at 117.2 from April's reading of 117.5. It is around its highest level since February 2020. The Present Situation Index (based on consumers' assessment of current business and labor market conditions) increased to 144.3 from 131.9 in April. The Expectations Index (based on consumers' short-term outlook for income, business, and labor market conditions) fell from 99.1 in May from 107.9 in April based on less upbeat expectations about the job market. The consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence & Sentiment



The U.S. Bloomberg Barclays Aggregate Index returned +0.33% in May and has returned -2.29% on a year-to-date basis as May 31, 2021, on the heels of a 7.51% return in 2020. The 10-Year U.S.

Treasury ended May at 1.60% after ending April at 1.63% and beginning the year at 0.92%. While it remains lower than the 2020 beginning reading of 1.92%, it has increased dramatically since hitting an all-time low of 0.54% in July 2020. The spread between 2-Year U.S. Treasury and 10-Year Treasury began the year with a spread of 79 basis points (2 year- 0.12% and 10 year- 0.91%). As of May 31, the spread is 146 bps with the 2-Year increasing in yield 2bps (0.14%) and the 10-Year increasing 69 basis points (1.60%). Option Adjusted Spreads (as represented by the Bloomberg Barclays Corporate Index) ended May at 84 basis points, 4 basis points tighter than April. Spreads peaked in 2020 at 373 basis points on March 23 concurrent with the equity market lows.

The Volatility Index (VIX) fell in May and ended the month at 16.76, down slightly from the end of April reading of 18.61. The VIX jumped mid-month to 27.59 during a brief spout of volatility tied to inflation and market valuation fears that quickly subsided. The VIX has fallen since peaking at 37.21 during the volatility from the well-publicized trading activity in fundamentally questionable retail companies. It remains lower than the March 16, 2020 peak of 82.69 and is now slightly below the long-term average of approximately 20.

We actively monitor the capital markets and are prepared to respond accordingly. As we have stated in the past, we continue to advise our clients to adhere to their long-term plans and objectives.

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