MARKET INSIGHTS

from Ziegler Capital Management

Monthly Market Commentary: July 2021

WRITTEN: JULY 1, 2021

The S&P 500 returned 2.33% in June and has returned 15.25% on a year-to-date basis as of June 30, 2021. Small cap stocks, as measured by the Russell 2000, returned 1.94% in June and are up 17.54% so far in 2021. Large Cap Growth outperformed Value in June with the Russell 1000 Growth returning 6.27% and the Russell 1000 Value returning -1.15%. However, Value leads Growth on a year-to-date basis with a return of 17.04% versus 12.98%. The Russell 2000 Growth returned 4.69% and the Russell 2000 Value returned -0.61% in May. Similar to Large Cap, Small Cap Value leads Growth on a year-to-date basis with a return of 26.68% versus Growth at 8.98%.

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, 46.1% of the United States population over 12 years old is fully vaccinated from COVID-19, with 54.0% of the population having received at least one dose as of June 28. There remains ongoing discussion on the proposed $1.8 trillion "American Families Plan" and a proposed reduced $1.2 trillion infrastructure package that focuses on bridges, roads railways, and broadband internet. Both plans need Congressional approval and are subject to further negotiation. The parties are closer to an agreement on the infrastructure package than they are on the American Families Plan. 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	June 2021	YTD	June 2021
Communication Services	19.67	2.72	48.81	18.96
Consumer Discretionary	10.27	3.81	33.84	-0.28
Consumer Staples	5.02	-0.18	17.81	-0.47
Energy	45.64	4.61	71.86	8.62
Financials	25.69	-2.96	19.15	-3.35
Health Care	11.85	2.34	3.41	7.78
Industrials	16.40	-2.21	16.20	-1.20
Information Technology	13.76	6.95	11.82	6.20
Materials	14.50	-5.30	25.08	-5.53
Real Estate	23.30	3.19	18.12	2.90
Utilities	2.38	-2.17	1.75	-0.55
TOTAL RETURN	15.25%	2.33%	17.54%	1.94%

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 third estimate released by the Bureau of Economic Analysis (BEA). While the overall rate was unchanged from the first and second estimates, upward revisions to non-residential fixed investment, private inventory investment and exports were offset by an upward revision to imports, which are a subtraction in the calculation of GDP. According to the BEA, the increase in Personal Consumption Expenditures were from increases in durable goods (led by motor vehicles and trucks), non-durable goods (led by food and beverages) and services (led by food services and accommodations). This is consistent with the increased re-opening of the country. 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. The Conference Board has increased its GDP forecast for calendar year 2021 from 6.4% to 6.6% 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 9.0% (up from 8.6%) on an annualized basis for 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 declined in May to 5.8% from the April reading of 6.1%, and the number of unemployed decreased by 496,000 to 9.3 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 61.6% was little changed in May and has remained in a narrow range of 61.4% and 61.7% since June 2020. The U.S. savings rate was 12.4% in May, decreasing from 14.9% in April. Government stimulus payments remain heavily saved and unemployment benefits continue at elevated levels in many states. 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.

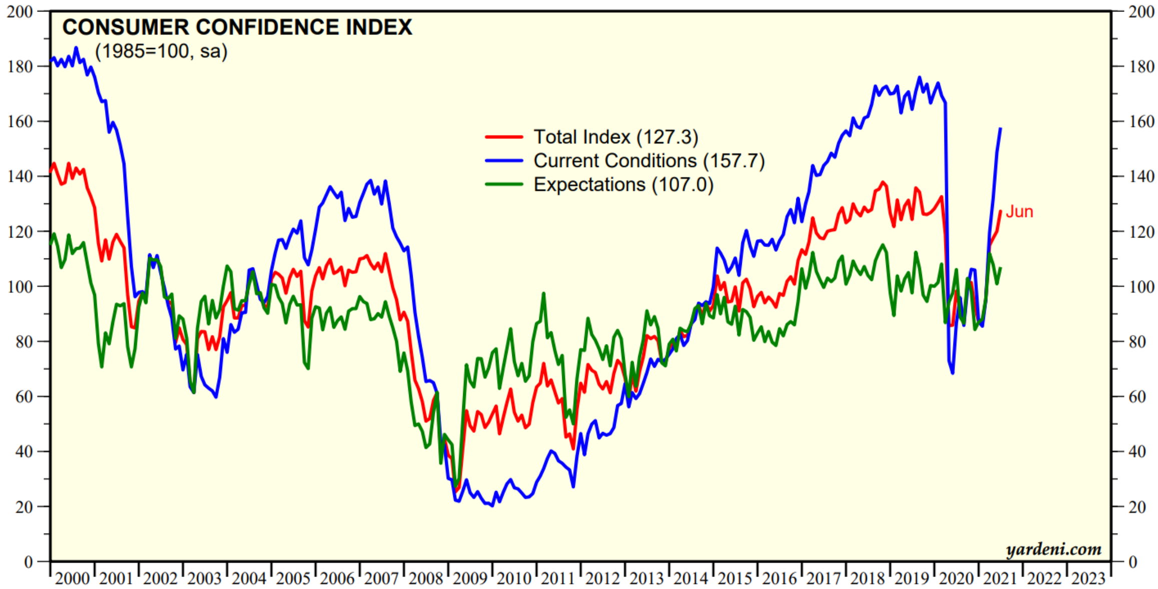
The Federal Reserve's June statement noted the progress on vaccinations has reduced the spread of COVID-19, further citing this progress with strong policy support supporting strengthened economic activity and employment. The Fed has noted that inflation has risen, citing transitory factors as the driver. 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 remains committed to increasing 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. At their June 15-16 policy meeting, the Fed began discussing when and how to reduce or taper asset purchases as an initial step toward weaning the economy off such support. Scaling back mortgage bond purchases earlier than Treasuries was discussed as the market deals with rapidly increasing home prices in much of the country.

With sizable returns since November, small cap stocks, as measured by the Russell 2000, have returned 51.22% for the trailing eight months through June 30, 2021. In comparison, large cap stocks, as measured by the S&P 500, have returned 32.77% over the same time frame. Value stocks have led Growth stocks over this same period with the Russell 1000 Value returning 37.86% versus the Russell 1000 Growth at 30.28%. This pattern was also seen in small cap stocks with the Russell 2000 Value returning 63.09% versus the Russell 2000 Growth returning 40.17%. In contrast, Growth stocks outperformed Value considerably in calendar year 2020 in both large (by 35.71) and small (by 30.00%).

West Texas Intermediate (WTI) finished June at $73.47 a barrel, increasing from April's closing price of $66.32 a barrel. WTI has increased over 57% so far in 2021 after beginning the year at $48.40 a barrel. Over the past year, WTI has increased over 83%. WTI is significantly higher than April 2020's close at $18.84 per barrel during the Saudi/Russia price war.

Consumer Confidence increased in June to 127.3 from an upwardly revised 120.0 in May, its fourth consecutive month of gains. It is at its highest level since the beginning of the pandemic in March 2020. The Present Situation Index (based on consumers' assessment of current business and labor market conditions) increased to 157.7 from 148.7 in May. The Expectations Index (based on consumers' short-term outlook for income, business, and labor market conditions) improved to 107.0 in June from an upwardly revised 100.9 in May based on increased optimism on short-term business conditions and short-term financial prospects. The consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence & Sentiment



The U.S. Bloomberg Barclays Aggregate Index returned +0.70% in June and has returned -1.60% on a year-to-date basis as of June 30, 2021, on the heels of a 7.51% return in 2020. The 10-Year U.S. Treasury ended June at 1.47% after ending May at 1.60% 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 80 basis points (2-year- 0.12% and 10-year- 0.92%). As of June 30, the spread is 122 bps with the 2-Year increasing in yield 13 bps (0.25%) and the 10-Year increasing 55 basis points (1.47%). Option Adjusted Spreads (as represented by the Bloomberg Barclays Corporate Index) ended June at 80 basis points, 4 basis points tighter than May. Spreads peaked in 2020 at 373 basis points on March 23 concurrent with the equity market lows.

The Volatility Index (VIX) fell in June and ended the month at 15.62, down slightly from the end of May reading of 16.76. The VIX was fairly muted for the month other than a small increase on June 20 as stocks sold off for the fifth consecutive day after hawkish comments by the Fed. 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 considerably 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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