

Index Name	QTD Return	YTD Return
Dow Jones Industrial Average	5.08%	13.78%
Barclays U.S. Aggregate Bond	1.83%	-1.60%
S&P 500 (Large Co. index)	8.55%	15.25%
MSCI EAFE (Int'l Equity index)	5.17%	8.83%
Russell 2000 (Small Co. index)	4.29%	17.54%

Market Commentary

Relative to Q1 of 2021, Q2 was decidedly anticlimactic! However, the positive news for investors was the market continued to rally and did so in a clearly undramatic fashion. Volatility was muted, new stock market records were set, and late in the quarter interest rates fell allowing bond markets to stage a recovery. All in all, it was a great quarter for investors. Diversified portfolios continued to surge ahead, and virtually all sectors of the market gained ground during the quarter.

Despite solid performance across all asset classes, larger U.S. and international companies reasserted their dominance during the second quarter. The S&P 500 was up approximately 8.5% during the quarter. Small cap stocks also had a strong quarter, up over 4% bringing their total return to nearly 18% on a year-to-date basis. International stocks also performed well during the quarter. The MSCI EAFE was up over 5% and is now up nearly 9% in 2021. Smaller capitalization companies overseas were also up during the quarter and have performed in line with larger capitalization companies thus far in 2021. Emerging markets are slightly behind but are also performing well this year, with the MSCI EM index up 5% during the quarter and 7.5% through June.

So, what's not to like? The market is up, interest rates are low, the pandemic is on the ropes (at least in the U.S.), unemployment has fallen. In short, the second quarter was full of good news. The challenge, if there is one, is that perhaps the news was a bit too good. As we look toward the remainder of 2021, we are concerned that both the broader economy and the stock market have borrowed significantly from future growth prospects. The market is priced for perfection. The latter part of the second quarter was largely dominated by economic commentary debating the stickiness of inflation and the impact of the continued "reopening" trend on the U.S. and global economy.

Despite our concerns, we believe the most likely scenario remains one in which U.S. equities end the year above their June 30 close; however, we also anticipate increased volatility and a probable correction during the third quarter.

Market Highlights

- For YTD 2021, both equity & fixed income securities performed well.
- In Q2 2021, U.S. large capitalization stocks were the leading sub-asset class, with the S&P 500 up 8.6%.
- The markets will continue to focus on the inflation debate, but should end the year positively.

Market commentary provided in partnership with Cornerstone Management, Inc.