MURRAY
INVESTMENT MANAGEMENT

2nd Quarter 2021 Update

Equity markets continued to produce strong returns during the 2nd quarter as an improving economy and accommodative fiscal (government spending) and monetary (Federal Reserve) policies drove markets higher. The S&P 500 was up 8.55%, the Russell 2000 (small caps) was up 4.29% and the MSCI EAFE (International index) was up 5.17% during the quarter.

	2Q21	YTD
S&P 500 (large cap)	8.55%	15.25%
MSCI EAFE (International index net return)	5.17%	8.83%
Rusell 2000 (small cap)	4.29%	17.54%
Russell 3000 Growth	11.38%	12.71%
Russell 3000 Value	5.16%	17.67%

As the Covid vaccine has become more widely available and economic activity has picked up, prices have started to rise, and inflation concerns have been dominating headlines. There is a widespread debate about whether the inflationary numbers are 1) temporary due to supply / demand disruptions that will normalize or 2) more permanent in nature.

The U.S. Federal Reserve plays an active role in this inflation debate as one of the Fed's primary objectives is to keep prices in check. With prices rising, the Fed indicated during the quarter that they may have to raise interest rates sooner (2023) than originally expected (2024). Since the low interest rate environment has driven some of the market gains that we have seen, it will not be surprising if the market pulls back and becomes more volatile if/when the Fed signals that it will raise rates. We experienced this volatility in mid-September when the market pulled back around the time of the Fed's announcement. Investors will be highly focused on the Fed in the coming months.

Interest rates fell during the quarter, and the broad fixed income market (Barclay's Aggregate) was up 1.83%. Interest rates remain at historically low levels, and as such, the fixed income space is somewhat limited as an investment opportunity. I am largely using cash in the fixed income allocation for most portfolios while continuing to look for better opportunities as rates rise.

Overall, the economy is improving, and the following 3 factors have helped drive equity markets higher and should continue to be positive influences for the second half of the year:

1. Strong consumer spending and improving economic conditions as the COVID-19 vaccine is more widely adopted and economies move toward a more normal environment.
2. Additional fiscal stimulus from the federal government (Infrastructure Bill)
3. Extremely low interest rates that leave investors with few investment alternatives other than equities.

On the other hand, some areas of concern include inflation, rising interest rates, potential COVID issues and the speculative behavior that we are seeing in some areas of the market such as cryptocurrencies, special-purpose acquisition companies (SPACs), meme stocks and nonfungible tokens (NFTs). In addition, there are some valuation concerns since the economic rebound could possibly already be priced into equity markets.

Overall, the U.S. economy and corporate earnings will likely continue to improve throughout the year, which should be good for equity markets. On a tactical basis, I like the international space which could benefit from the Covid vaccine becoming more universally available, the value investing style and small cap securities. Strategically, I am continuing to focus on longer-term trends and maintaining diversified, balanced portfolio that are constructed in a manner that is consistent with clients' risk tolerance and long-term goals and objectives.

Sources: Morningstar, Treasury.gov
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 6/30/2021. Except as noted, index returns are total returns.

www.murrayinvestment.com | 713.850.7444 | sammurray@murrayinvestment.com