Ginsburg Financial Advisors, Inc.
Personal Financial Planning & Investment Management
***Larry P. Ginsburg, CFP® Judy Hirotaka, CFP®**

phone: **(510) 339-3933**
fax: (510) 339-1611
LGinsburg@GinsburgAdvisors.com
JHirotaka@GinsburgAdvisors.com
www.ginsburgadvisors.com

SECOND QUARTER 2021 MARKET RECAP

Positive Stock and Bond Returns... What's up With That?

The Importance of Staying Balanced

Both stocks and bonds experienced gains during the second quarter of 2021. Stocks were propelled higher by accelerating corporate earnings growth as the global economy continued to reopen while bonds benefitted from moderating inflation expectations. Increased COVID-19 infection rates, due to the proliferation of the delta variant and declining vaccination rates, coupled with slower-than-anticipated job gains and a smaller scale, bipartisan infrastructure package plan helped to quell concerns that the U.S. economic recovery would lead to sustained broad-based inflation pressures. Instead, market expectations have converged with the U.S. Federal Reserve ("fed") view that recent higher inflation will be largely "transitory" and should moderate over the coming months as supply chains normalize, inventory levels recuperate, and the labor participation rate rises.

A Balancing Act

We agree with the fed's view on inflation. However, it is prudent to take a more balanced approach towards allocating client portfolios should inflationary pressures persist longer than anticipated. Within our clients' equity (stock) holdings, this means maintaining balanced exposure to cyclically-sensitive sectors and growth stocks. Cyclically-sensitive sectors, such as value and small capitalization stocks, tend to outperform during the early-to-mid stages of an economic growth cycle while growth-oriented stocks are generally less sensitive to rising inflation and changes in the business cycle. We also advocate balanced exposure to both U.S. and foreign stocks. Foreign stocks, both international developed markets and emerging markets, are generally cheaper, and foreign markets tend to be earlier in their economic recoveries. This provides the opportunity to increase the return potential of our client stock holdings over a longer period.

We have further enhanced the expected return for most of our client stock positions by incorporating a balance of high conviction, near-to-long term tactical investment opportunities. Tactical investments that have the potential to outperform the broader equity markets over the near-to-mid-term include investments in the industrials, communication services, and financials sectors. Industrials and communication services stocks stand to benefit from the approval of an infrastructure spending bill later this year and stocks in the financial sector are likely to experience improved business prospects from rising interest rates, when this eventually occurs. We expect constant innovation within the technology and healthcare sectors, the need for increased cybersecurity spending as the U.S. economy becomes more digitized, and the growth of China's middle class to provide more durable tactical return opportunities over the longer-term.

With most bond sector yields near their all-time lows and the likelihood for interest rates to trend higher, the primary role of fixed income (bonds) will be to stabilize portfolio returns so that our clients' equity holdings can grow more efficiently over time. Most client bond investments are comprised of predominately high quality bonds with relatively balanced exposure to U.S. and international government bonds (and municipal bonds when appropriate), investment grade corporate bonds, and investment grade securitized bonds. We also see an opportunity to enhance the return prospects of our client bond holdings by incorporating direct exposure to emerging market bonds if appropriate. For most clients, we have diverted capital that would otherwise have been invested in bonds to real assets and alternatives. These investments can reduce volatility through their differentiated returns streams and by decreasing the sensitivity of client portfolios to key bond risks, namely interest rate risk and credit risk. Real assets further provide relatively stable income streams and can provide a potential hedge to an unanticipated rise in inflation expectations.

U.S. Stocks Reach New Highs…Again

The Standard & Poor's 500 Index ("S&P 500"), which measures the performance of the 500 largest publicly traded companies in the U.S., rose 8.6% during second quarter 2021. A robust U.S. economic recovery, falling COVID infection rates, accelerating corporate earnings growth, and improved employment trends, helped push the S&P 500 to another all-time high at the end of the quarter. For the six months ending June 30, 2021, the S&P 500 increased 15.3%.

Within the S&P 500, real estate (+13.1%), information technology (+11.6%), and energy (+11.3%) were the best sectors in the second quarter while industrials (+4.5%), consumer staples (+3.8%), and utilities (-0.4%), were the sectors with the poorest results. During 2Q 2021, value stocks, or shares of companies that generally have slower growth prospects and higher dividend payouts, rose 5.0% while growth stocks, or shares of companies growing sales and profits faster than the broader market, increased 11.9%. The Russell 2500 Index, a measure of domestic small and mid-capitalization stocks (U.S. companies with a market capitalization lower than $10 billion) increased 5.4% and 17.0% in 2Q 2021 and the first half ("1H") of 2021 respectively.

Foreign Stocks Continue to Trail U.S. Stocks

The MSCI EAFE Index ("Europe, Australia-Asia, and Far East"), which measures the U.S. dollar-denominated ("USD") return of medium-to-large company stocks in developed markets outside of the US and Canada, increased 5.2% during the second quarter, and developed international small-to-mid ("smid") cap stocks, as measured by the MSCI EAFE SMID Cap (U.S. dollar) Index, rose 4.4% during the same period. International developed stocks continue to trail U.S. stocks due to rising COVID infections, primarily driven by the proliferation of the "Delta" variant, which has hampered the pace of economic recoveries within these markets. During the first six months of 2021, the MSCI EAFE Index rose 8.8% while the MSCI EAFE SMID Index increased 8.1%.

Emerging markets stocks (countries with less than a $25,000 per capita income), as measured by the MSCI Emerging Markets USD Index, rose 5.1% (on a U.S. dollar-denominated basis) in 2Q 2021 and increased 7.5% year-to-date ("YTD") through June 30, 2021. Lackluster Chinese stock results (Chinese stocks account for 37.5% of the value of the MSCI Emerging Markets Index[1]) continued to weigh on emerging markets valuations with the MSCI China (U.S. dollar) Index rising 2.3% in the second quarter and +1.8% YTD. The relative performance of Chinese stocks has been hampered by the Chinese central government's crackdown on domestic technology companies to control and safeguard the collection of personal and financial information by these entities. Decelerating economic growth trends due to a slower-than-anticipated recovery in consumer spending has also served as a headwind to stock gains in the quarter and during the first six months of 2021 (consumption accounts for 56.0% of China's gross domestic product[2]). Stocks within the broader Asia Pacific region, as measured by the MSCI AC Asia Pacific ex- Japan (U.S. dollar) Index, rose 4.0% and 6.8% in the second quarter and 1H 2021 respectively.

The Power of U.S. Midstream Energy (Real Assets)

The S&P Real Asset Index rose 6.8% in second quarter 2021. The S&P Real Asset Index measures the results of securities tied to physical assets including those that can produce relatively stable income streams, such as real estate and infrastructure assets, and inflation-sensitive real assets (e.g., hard commodities, natural resources, and inflation-linked bonds). U.S. real estate and commodities were especially strong during the quarter due to their leverage to the U.S. economic recovery while global infrastructure assets trailed most other real asset categories due to a smaller-than-anticipated bipartisan infrastructure bill being considered in congress. During the first half of 2021, the S&P Real Asset Index increased 10.4%.

The Alerian US Midstream Energy Index, which measures the results of U.S. companies that gather, process, transport, and store oil and gas, increased 19.7% during the second quarter, bringing the half year mark to +45.6%. Midstream energy valuations continue to surge higher driven by the reopening of the global economy and rising crude oil and natural gas prices. New investors continue to be attracted to this sector given its relatively cheap valuations, rising cash flows, and substantially higher shareholder-friendly capital deployment activity, especially share repurchases.

Alternatives Can Preserve Principal

The Wilshire Liquid Alternatives Index, which measures the returns of investment assets/strategies that have very low correlation to traditional stocks and bonds (i.e., "alternatives"), rose 2.3% in second quarter 2021 and was up 4.5% for 1H 2021. Alternative assets continue to fulfill their goal of providing bond-like volatility with a return stream that is between what can be achieved with high quality bonds and stocks.
Their low relationship to rising interest rates also provided a viable option to owning more bonds to lower portfolio volatility while reducing credit and interest rate risk.

U.S. Fixed Income (U.S. Bonds) Rallies on Abating Inflation Concerns

The Bloomberg Barclays US Aggregate Bond Index ("Barclays Agg"), a measure of high-quality U.S. bonds of all types (i.e., "core bonds"), rose 1.8% in 2Q 2021. Investment grade corporate bonds, as measured by the Bank of America Merrill Lynch U.S. Corporate Bond Index outperformed U.S. Treasury bonds rising 3.6% during the quarter versus +1.8% for the Bloomberg Barclays Aggregate Treasury Index. Prices of investment grade bonds of all types benefited from a shift in inflation expectations near the end of the quarter towards the fed's view that recent inflation will be largely transitory. This means the financial markets have become more comfortable with the notion that the Fed will not need to raise interest rates soon to combat sustainably rising, broad-based inflationary pressures. Tightening of credit spreads, the yield differential between a treasury bond and a nontreasury bond of the same maturity and a measure of overall bond risk sentiment, further benefited corporate bond prices during the quarter. For the first six months of 2021, the Barclays Agg is down 1.6%.

The S&P National Municipal Bond Index, which is designed to measure the returns of the investment grade, tax-exempt bond market, increased 1.5% in 2Q 2021, which pushed the YTD return for national municipal bonds to +1.1%. Investment grade municipal bonds continue to outpace high quality (taxable) bonds (on a tax-adjusted basis) due to improving credit fundamentals (e.g., rising tax revenues as the U.S. economy reopens) and fiscal stimulus support provided by the $1.9 trillion American Rescue Plan passed in March, which included sizable aid to state and local governments. The increased likelihood of the approval of an infrastructure spending package, and the prospect for rising taxes to pay for this legislation, has also increased demand for tax-exempt income provided by municipal bonds.

International Fixed Income (Foreign Bonds)

Outside of the U.S., the Bloomberg Barclays International Aggregate Bond USD ("U.S. Dollar") Index, a measure of international developed markets investment grade bonds of all types, increased (in US dollar terms) 0.9% in 2Q 2021. During the quarter, the S&P International Government Bond Index was up 0.6% while the S&P International Corporate Bond Index rose 1.6%. YTD, the Bloomberg Barclays International Aggregate Bond USD Index is down 4.4% with the S&P International Government Bond Index and the S&P International Corporate Bond Index down 5.9% and 3.0% respectively during the same period. International developed market government bond results have been negatively impacted by a general weakening in currency valuations relative to the U.S. dollar throughout the course of this year. Demand for these bonds have also been impacted by the market's preference for higher-yielding U.S. Treasury bonds and a tightening of monetary policy conditions by the Bank of Canada and the Bank of England.

The Bloomberg Barclays Emerging Markets Aggregate Bond Index, which measures the results of U.S. dollar-denominated debt of emerging market government and corporate issuers, increased 3.0% in second quarter 2021 and are up 0.6% YTD. Despite slower vaccination rates and uneven economic recoveries within emerging markets, USD-denominated emerging market bonds continued to outpace global high quality bonds during 1H 2021. Extremely low short-term interest rates in developed markets have fueled capital flows into emerging markets bonds as investors search for yield. The rise in commodity prices to levels not seen since mid-2015[3], has also improved the outlook for several emerging market economies that rely on commodity exports.

Staying Balanced For Now

The rebound in economic growth will continue to drive stock prices while bond returns will remain tenuous given low current yields and the prospect of rising rates. While we anticipate inflationary pressures to moderate over the coming months, we are maintaining balanced exposure within our clients' diversified stock and bond holdings to reduce volatility should inflation become problematic. We will consider emphasizing more "directional" investment opportunities upon more concrete evidence on the trajectory of the post-COVID U.S. and global economic recovery and the implications on future inflation trends.

We Want to Help You Attain Your Financial and Personal Goals!

The general information in this report is not intended to reflect our specific recommendations for any client portfolio. Please contact us with any questions to discuss your personal goals and your investment portfolio.

We invite you to visit our website at www.ginsburgadvisors.com. Here you will learn more about our services, client value proposition, and our team. The site also has a useful "Resources" section where you can access our previous market commentaries, watch informative videos, download our latest staff contact list, and access useful financial calculators and web links. Please be sure to check our website periodically, as we will be updating the functionality of the site to include a client portal and other useful applications.

We welcome the opportunity to discuss your goals and the most appropriate strategy to attain them. We are also honored to speak to any of your friends, associates, or relatives should they have an interest in our financial planning or investment management services.

Please stay healthy and safe!

References:

[1] MSCI Emerging Markets Index (USD) Factsheet as of 06/30/21. www.msci.com
[2] The World Bank. Final consumption expenditure (% of GDP) for 2019. data.worldbank.org
[3] PIMCO Blog 05/28/21: "Emerging Markets Through the Looking Glass: Signs of Growth Potential Post-Pandemic". global.pimco.com

---

however, we make no representation as to its completeness or accuracy. The opinions expressed are as of the date published and may change without notice. Any forward-looking statements are based on assumptions, may not materialize, and are subject to revision.

All economic and performance information is historical and not indicative of future results. The market indices discussed are not actively managed. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

The return and principal value of bonds fluctuate with changes in market conditions. If bonds are not held to maturity, they may be worth more or less than their original value.

Index descriptions:

-Alerian Midstream Energy Index. The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMNA) and on a total-return basis (AMNAX).

-Bank of America Merrill Lynch U.S. Corporate Bond Index- BofA Merrill Lynch US Corporate Index – ETF Tracker. The Index is an unmanaged index comprised of U.S. dollar denominated investment grade corporate debt securities publicly issued in the U.S. domestic market with at least one-year remaining term to final maturity.

-Bloomberg Barclays Emerging Markets Aggregate Bond Index- The emerging markets bond index (EMBI) is a benchmark index for measuring the total return performance of international government and corporate bonds issued by emerging market countries that meet specific liquidity and structural requirements. Despite their increased riskiness relative to developed markets, emerging market bonds offer several potential benefits such as portfolio diversity as their returns are not closely correlated to traditional asset classes.

-Bloomberg Barclays International Aggregate Bond USD ("U.S. Dollar") Index- The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

-Bloomberg Barclays US Aggregate Bond Index, or the Agg, is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.

-Credit Suisse Liquid Alternatives Index- The Credit Suisse Liquid Alternative Beta Index (CSLAB), which aims to reflect the performance of the global hedge fund industry, finished up 0.58% in

August. The Event Driven strategy was the strongest performer for the month, and finished up 1.39% in August, and up 7.87% year-to-date

-MSCI China (U.S. dollar) Index- The MSCI China Index captures large and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g., ADRs). With 711 constituents, the index covers about 85% of this China equity universe.

-MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada.

-MSCI EAFE SMID Cap Index captures mid and small cap representation across Developed Markets countries around the world, excluding the US and Canada. With 2,865 constituents, the index covers approximately 28% of the free float-adjusted market capitalization in each country*

-MSCI Emerging Markets Index stands for Morgan Stanley Capital International (MSCI), and is an index used to measure equity market performance in global emerging markets.

-Russell 2500 Index is a broad index, featuring 2,500 stocks that cover the small- and mid-cap market capitalizations.

-S&P (Standard & Poor's) 500. A market capitalization-weighted index of 500 widely held stocks often used as a proxy for the US stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies. Since mid-1989, this composition has been more flexible and the number of issues in each sector has varied.

-S&P International Corporate Bond Index- S&P International Corporate Bond Index is an investable index of non-U.S. Dollar corporate bonds issued by non-U.S. investment grade issuers. The index seeks to measure the performance of corporate bonds issued in the non-U.S. Dollar G10 currencies

-S&P National AMT-Free Municipal Bond Index is a broad, comprehensive, market value-weighted index designed to measure the performance of the investment-grade tax-exempt U.S. municipal bond market. Bonds issued by U.S. territories, including Puerto Rico, are excluded from this index.

-S&P Real Assets Index is the first index of its kind designed to measure global property, infrastructure, commodities, and inflation-linked bonds using liquid and investable component indices that track public equities, fixed income, and futures.