

COMMENTARY

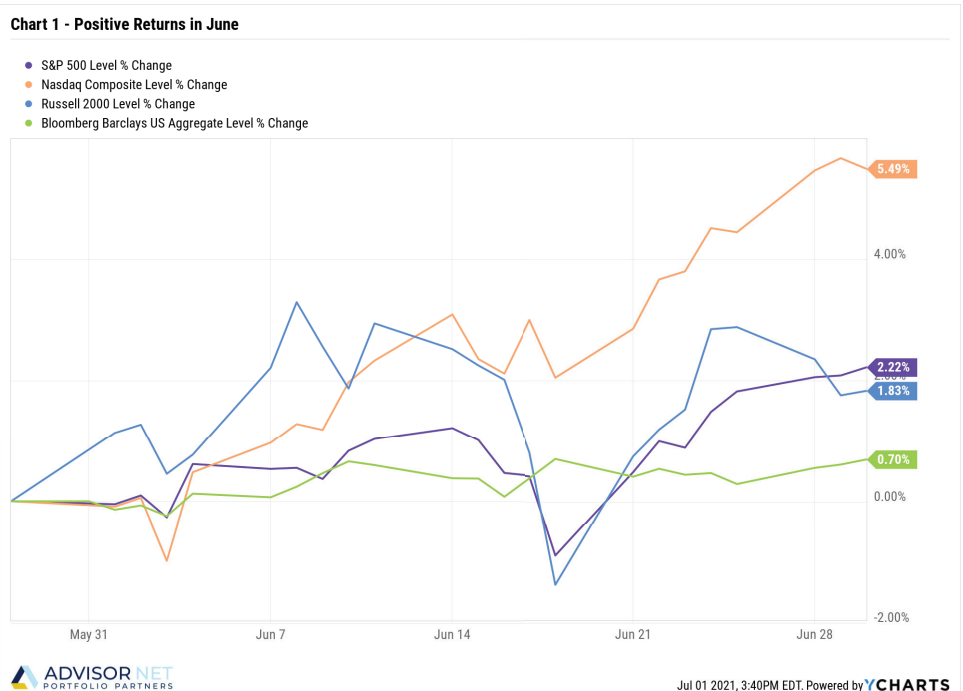
Don't Fight the Fed

Despite continued government reports of rising inflation and high levels of unemployment, the stock market was trading near all-time highs at the end of June. The growth-oriented NASDAQ Composite posted the biggest gain, but the S&P 500, Russell 2000 and the Bloomberg Barclays US Aggregate were all positive during the month as well. As we have stated in the past, we believe an accommodative stance by the Federal Reserve has been the key to the positive stock market action since the price lows of March 2020. Like all market participants, we continue to hang on every word from Fed Chair Jerome Powell and the Board of Governors. The current expectation from the market is for this accommodative stance to remain in place through 2022. Any deviation from that plan would likely apply pressure to stock prices.

CHURN AND BURN

The S&P 500 is up over 14% through the month of June, yet there has been a general sense of uneasiness by market participants for a large

portion of the year. We think one of the main reasons for this has been the persistent change of leadership that has been lurking beneath the surface of those heady returns. For example, Table 1 shows monthly returns for Large Growth (RLG), Large Value (RLV), Small Growth (RUO) and Small Value (RUJ). Although Value has dominated returns year-to-date, the data reveal that performance leadership has rotated almost every



S&P 500	4,290.65
DIJA	34,290.74
NASDAQ	14,509.85
OIL	\$72.98/BARREL
GOLD	\$1,786.70/OUNCE
10-YEAR TREASURY YIELD	1.45%
UNEMPLOYMENT	5.80%
GDP	6.4%
PPI	6.56% Year-Over-Year
CPI	4.99% Year-Over-Year

Source: ycharts.com



The 10-year US Treasury yield continued to move lower despite continued evidence of higher inflation.



The US Unemployment Rate dropped to 5.8% in May from 6.3% in April and 13.3% in May 2020.



The weekly US Initial Claims for Unemployment Insurance remains elevated at 411,000 as of June 19, 2020, showing a 6% increase from 388,000 on May 29, 2021.

month (see bottom row of Table 1). This phenomenon is what we often refer to as “market churn” or a “grinding market.” Regardless of what term is used, it can feel frustrating despite the overall positive returns.

CURRENT POSITIONING

We have stated previously that we believe the weight of the evidence suggests the S&P 500 index will return +10% to 12% for 2021. As a result, we continue to be more heavily invested in equities relative to our base models. This simply means that the performance of our allocation models should benefit if stocks continue to rise. In addition, we have a shorter duration in our fixed income allocations compared to their respective benchmarks. This positioning intended to address the prospect of inflation and rising rates. Although our portfolio construction process is more complex than that, we believe these are the main concepts to understand at this point the market cycle.

WHAT MATTERS IS THE LONG RUN

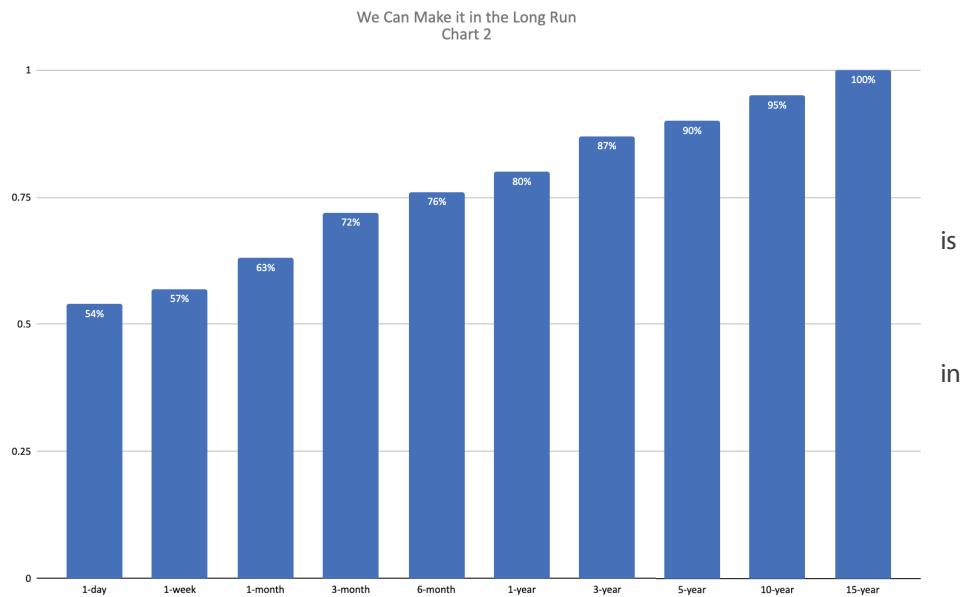
We finish each of our monthly letters encouraging our clients to stay focused on their long-term objectives. The reason we say that is because the probability for positive stock market returns increases with time. As a matter of fact, according to research from Goldman Sachs Asset Management, there is a 100% chance for positive stock returns over any rolling period of 15 years. (See Chart 2). We think this is the proper framework to utilize to create significant long-term wealth and we make our investment decisions accordingly.

Stay focused on your long-term objectives. Thank you for your trust and support.

Table 1 – MARKET LEADERSHIP CHURNING IN 2021

	Jan	Feb	March	April	May	June	YTD
RLG - Russell 1000 Growth	-0.78	-0.11	1.65	6.76	-1.47	6.21	12.55
RLV - Russell 1000 Value	-1.07	5.84	5.69	3.87	2.14	-1.30	15.88
RUO - Russell 2000 Growth	4.81	3.27	3.2	2.17	-2.9	4.65	8.78
RUJ - Russell 2000 Value	5.21	9.24	5.04	1.97	2.97	-0.77	25.77
Market Leadership	Small	Value	Value	Large	Value	Growth	Value

Source: www.ycharts.com and Portfolio Partners



INDEX	3 mo	1 yr	3 yr	5 yr
S&P 500	8.95%	40.79%	18.67%	17.65%
MSCI EAFE	5.03%	32.92%	8.77%	10.79%
BAR AGG BOND	1.43%	2.63%	4.23%	2.34%

Source: Morningstar Direct



The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of large-cap U.S. equity securities that are classified as "growth" based on a multi-factor analysis.

The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of small-cap U.S. equity securities.

The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of large-cap U.S. equity securities that are classified as "value" based on a multi-factor analysis.

The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of small-cap U.S. equity securities.

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. The Nasdaq is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks and is also used to refer to the Nasdaq Composite, an index of more than 3,000 stocks listed on the Nasdaq exchange. The NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index. The MSCI EAFE index is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted. The Bloomberg Barclays US Aggregate Bond Index, which was originally called the Lehman 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 debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.

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