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US stocks led global markets in Q2 to close First Half in double-digits

Summer 2021
Vol. 29 No. 3

The reopening of the US economy accelerated in the Second Quarter and benefited from widespread vaccine distribution, plunging COVID-19 cases, and continued historic support by the Federal Reserve as well as US government fiscal policy. As a result, the Fed raised its 2021 US GDP (gross domestic product) estimate to 7.0% at its June meeting, up from 6.5% in March.

Reopening optimism helped drive global stocks higher in Q2, led by the US. The tech-heavy Nasdaq led the charge with a 9.5% gain, which was fueled by a decline in interest rates in Q2. This was a reversal of the First Quarter, which was led by cyclical and value stocks. The benchmark S&P 500 finished not far behind with a gain of 8.2%, and along with Nasdaq hit fresh all-time highs in June. Q1 corporate earnings were very strong (+47% year-over-year, JPMorgan) and a $600 billion bipartisan infrastructure deal could bring additional fiscal support. That is in addition to the $1.9 trillion American Rescue Plan from Q1. The Dow Industrials, mid-caps and small-caps each posted solid gains of 4%+ in Q2 but notably lagged the S&P 500 and Nasdaq. Each of the major US indexes hit multiple new all-time highs in Q2, further reflecting positive investor sentiment.

The First Half of 2021, one of the strongest since 1998 for the S&P 500, finished with double-digit gains across the board for US stocks, led by the small-cap Russell 2000 gaining 17%. The S&P 400 mid-cap index finished a close second up 16.9%, while the benchmark S&P 500 rose 14.4%.

Overseas, both developed and emerging markets posted gains of 4.4%, as measured by the MSCI EAFE and MSCI Emerging Markets Index. Positive vaccine distribution and encouraging COVID-19 case numbers overseas led to reopening optimism as well and led to First Half gains of 7.3% and 6.5%, respectively.

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Q2-21 Market Quicktakes...

- US stocks again led global markets posting strong Q2 gains, as the US economy reopening gained momentum, vaccine distribution expanded rapidly and COVID cases plunged
- As interest rates fell in Q2, the tech-heavy Nasdaq and growth stocks recovered and led the US with a 9.5% gain, the S&P 500 followed with an 8.2% gain for the quarter
- Mid- and small-caps, as well as the Dow Industrials, which led in Q1, posted solid gains but notably lagged in Q2
- Developed and Emerging Foreign markets rose 4.4% in Q2 but again lagged the US
- The Fed raised its 2021 US GDP forecast to +7.0%, up from +6.5% in March 2021. While unemployment ticked up to 5.9% in June, job growth accelerated 850,000 topping estimates. The Fed signaled it could start raising rates sooner than previously expected.
- Bonds recovered in Q2 amid strong inflation readings, which the Fed described as "transitory." The benchmark Bloomberg Barclays Aggregate Bond index gained 1.9%, cutting its loss for the year to -1.3%, and the 10-year Treasury Note yield fell 29 basis points to 1.45%.

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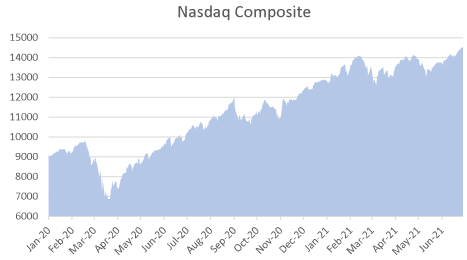
Market Snapshot

	Q-2 %	6-30-21 YTD %
Dow Jones Industrials	+4.6%	+12.7%
S&P 500	+8.2%	+14.4%
Nasdaq	+9.5%	+12.5%
Russell 2000	+4.1%	+17.0%
S&P 400	+3.3%	+16.9%
MSCI EAFE	+4.4%	+7.3%
MSCI Emerging Markets	+4.4%	+6.5%
MSCI World All-Cap	+6.9%	+12.5%
Barclays-Bloomberg Agg Bond	+1.9%	-1.3%

Nasdaq led in Q2, fueled by technology rebound



After a sluggish Q1, amid rising interest rates, increased regulatory environment, and cyclical stocks outperforming, technology stocks rebounded in Q2 as interest rates declined, propelling the Nasdaq Composite to a 9.5% gain, which led all major indexes. High growth companies typically trade at high or above market price-earnings valuations. Low interest rate environments tend to favor high growth stocks, as long-term investors are more apt to "pay up" for the strong earnings growth. Growth became more attractive again in Q2 as interest rates dipped.

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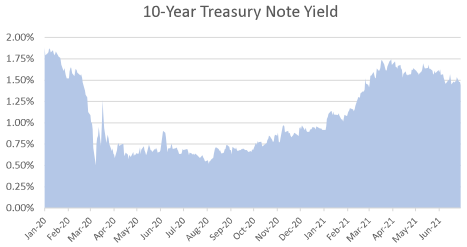
Interest rates fell in Q2 despite inflation data



After surging in Q1 on reopening optimism and rising inflation concerns, interest rates dipped in Q2. While the Fed held interest rates near-zero at its June meeting and noted that inflation remained "transitory," it did project that it could start raising interest rates sooner than previously expected. Nonetheless, the benchmark 10-year T- Note yield dipped 0.29% in Q2 to close at 1.45%.

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Q2-21 Market Review Continued...

The Fed took center stage at its June meeting pivoting its policy message and Chair Powell retired the oft-used phrase "not even thinking about thinking about raising interest rates." Additionally, the Fed projected two rate hikes in 2023, one more than previously in March. Following the Fed's June meeting, one Fed president projected it could start raising interest rates sooner than previously expected and as early as late 2022. Still, interest rates fell sharply in Q2 from the inflation led highs hit in Q1 as the Fed eased inflation fears noting recent "hot" economic numbers as "transitory." The benchmark 10-year Treasury Note yield fell 29 basis points in Q2 to 1.45%, as the yield curve flattened a bit. The Barclays-Bloomberg Aggregate Bond Index gained 1.9% in Q2 and cut its loss for the year to 1.3%.

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The Outlook

The Year of Transitions continues with positive momentum both economically and from a COVID-19 global health perspective. Economies around the global continue to reopen with pent up demand, while vaccine distribution and COVID case reduction remains encouraging. Our market and investment posture continues to be cautiously optimistic for the Second Half of 2021 and the *return to normal* appears more in grasp should vaccine and health trends continue on course. Again, amid the many encouraging positives, we urge investors to not get complacent with risk.

Point by Point

- Positive Second Half of 2021 for the market but not a repeat of First Half performance
- Plenty of Stimulus: With the additional $600 billion in spending bipartisan infrastructure plan (which still must be passed by Congress and signed into law), the $1.9 trillion American Rescue Plan from Q1, and continued Fed monetary support, economic growth projections remain exceptionally strong for 2021 at +7.0% and +3.3% for 2022 (Fed)
- Q2 Corporate Earnings have been very strong and Q2 earnings growth for the S&P 500 is expected to be 69%+ year-over-year, according to FactSet, the highest level since Q4 2009
- Valuations remain stretched; a pullback/consolidation would not be a surprise; volatility expected to increase in Q3 but refrain from changing course
- Two biggest risk factors: a surprise change in Fed policy and the COVID-19 Delta variant among the unvaccinated in the US and overseas
- Maintain diversification, discipline, and keep your focus long-term
- Refrain from chasing returns and making large portfolio changes
- Maintain regular contributions and a rebalancing program

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Summer 2021 Action Plan

Welcome to the New Wealth Asset Advisor! While smaller, the **New WAA** remains your *Guide to Successful Investing*:

- More Focused for Quick Reading
- Expands the extensive resources of our Investment Partners
- More interaction with our website with Quick Links
- Direct Mutual Fund and Annuity Models 100% supported Online at our website (see page 3 for Quick Link & password)

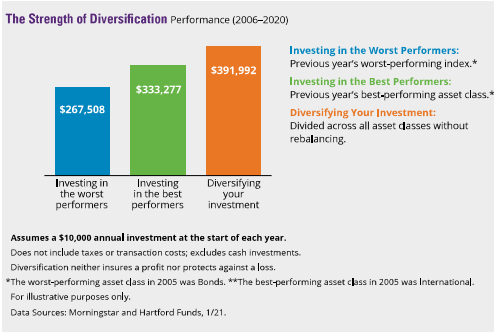
The Big Picture

The Strength of Diversification

Many investors make their investment decisions by looking in the rear-view mirror. As a result, they may miss out on future potential returns if they consistently purchase sectors that produced the best results in the recent past. Not only are past returns no guarantee of future results, but if most of an upward cycle is already represented in a performance claim, then past results can actually be contrary indicators of near-term potential.

A Balanced Approach

Investing in a diversified portfolio across a variety of asset classes may be a wiser approach than simply investing in the previous year's winners or losers, since the returns of poorly performing assets classes are often offset by asset classes that are performing well.



Source:
Hartford Funds
"Beyond Investment Illusions"
P3320_0321 222252

Market Barometer

Index PE Ratios and Yields — 6-30-21

Index:	P/E*	Fwd P/E+	Dividend Yield%
Dow Jones 30 Industrials	29.18	20.12	1.82%
Dow Jones Utilities	22.28	23.22	3.05%
S&P 500	37.26	22.52	1.35%
NASDAQ 100	37.25	29.21	0.70%
Russell 2000 (Small-Cap)	NA	32.05	0.94%

*Trailing 12 months Price Earnings Ratio - WSJ
+Forward 12 months Price Earnings Ratio Estimates - Birinyi Associates

Economic and Market Indicators — 6-30-21

Measure:	Latest	Change
Gross Domestic Product (GDP)	+6.4% Q1	+2.1% Q4-20
Fed 2021 Real GDP Projection	+7.0% Jun	+0.5% Mar
Unemployment Rate	5.9% Jun	+0.1% May
Inflation Rate (12mo CPI-Consumer Price Index)	+5.0% May	+0.8% Apr
Consumer Confidence	127.3 Jun	+7.3 May
Index of Leading Indicators	114.5 May	+1.3% Apr
Volatility Index (VIX - S&P 500)	15.83 Jun	-18.4% Mar
US Dollar Index	92.43 Jun	-0.1% Mar

Source: WSJ, Barron's, StockCharts.com, Federal Reserve, BLS

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Financial Insights...

The following are insightful articles, brochures, and presentations from our trusted Investment Partners and other resources, which are All Client Approved.

*Use the **Quick Links** on the titles below (must be connected to the Internet) to view using Acrobat Reader, or other common multimedia applications.*

*Visit the **NSI Resource Center** at our website often for new Videos and Presentations on Estate, Retirement, Investment, Money, Lifestyle and much more!*

NEW!

2021 Social Security Reference Guide

Source: MFS Funds

The 2021 Social Security Reference Guide from MFS may be the most comprehensive Social Security primer we've run across. From Full Retirement Age, Requirements to Qualify, Average and Maximum Benefits (including spousal and survivor benefits), and Medicare, this Guide and Worksheet has it all for those approaching retirement.

NEW!

Media Replay

Source: Hartford Funds

From the COVID -19 pandemic and the 2020 presidential election, to geopolitical events and market volatility, media headlines can cause investor anxiety and lead to poor investment decisions and mistakes. This classic Hartford Funds brochure is updated through 2020 and provides valuable insight into thinking long-term and staying on course.

NEW!

In Case You Missed It: AllianzGI converted to Virtus Funds

Source: Virtus Funds | AllianzGI Funds

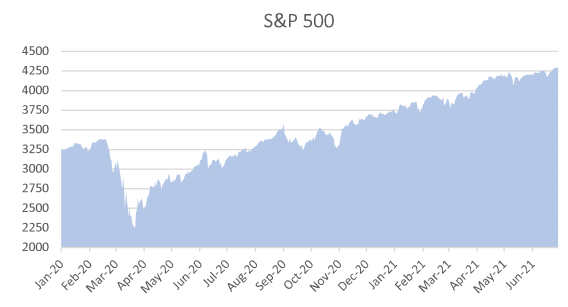
In July 2020, **Virtus Funds** and **AllianzGI Funds** announced a partnership, which was fully integrated in 2021. Virtus Funds Models now contain the fully integrated funds. **Virtus Funds charge a $20 per year fee for accounts**. Talk to your Nelson Advisor about alternatives.

All Content is CLIENT APPROVED. Most presentations are in Adobe Acrobat, Microsoft PowerPoint, or HTML 5 formats, which may require downloading the applicable program or player to view.

Investor Note:

Mutual Fund and Variable Annuity investment strategies, which include investing in specific sectors, foreign securities (both developed and developing markets), high yield securities, or small and medium sized securities may increase the risk and volatility of the funds/sub-accounts. Changes in interest rates may affect the performance of fixed income (bond) funds; if rates increase, bond values decrease and vice versa. Investors should consider the investment objectives, risks, and charges and expenses of the Mutual Fund and/or Variable Annuity carefully before investing. The Mutual Fund prospectus (and summary prospectus, if available) and Variable Annuity prospectus contains this and other information. Please read carefully before investing. A Mutual Fund prospectus and Variable Annuity prospectus and contract can be obtained by calling your Nelson Rep at 800-345-7593 or the Mutual Fund and/or Annuity company directly.

Source: Wall Street Journal, Barron's, BankRate.com, Morningstar **6-30-21**



Domestic Markets 6-30-21

Index:	Close	1-YR%	YTD%
Dow Jones 30 Industrials	34502.51	+33.7%	+12.7%
Dow Jones Transportation	14880.79	+62.6%	+19.0%
Dow Jones Utilities	876.07	+11.6%	+1.3%
DJ Total Stock Market	44904.32	+41.6%	+14.5%
S&P 500	4297.50	+38.6%	+14.4%
S&P 400 (Mid-Cap)	2696.12	+51.2%	+16.9%
S&P 600 (Small-Cap)	1374.84	+67.7%	+22.9%
Nasdaq Composite	14503.95	+44.2%	+12.5%
Russell 2000 (Small-Cap)	2310.55	+60.3%	+17.0%
BB Aggregate Bond	2253.64	-0.3%	-1.6%

Foreign Markets 6-30-21

Index:	Close	1-YR%	YTD%
Tokyo Nikkei Stock Avg.	28791.53	+30.2%	+4.9%
Shanghai Comp. (China)	3591.20	+18.7%	+3.4%
London FT 100-share	7037.47	+14.3%	+8.9%
Frankfurt Xetra DAX	15531.04	+26.7%	+13.2%
Paris CAC 40	6507.83	+32.1%	+17.2%
S&P/TSX Comp. (Canada)	20165.58	+30.0%	+15.7%
MSCI EAFE Index	2304.92	+29.5%	+7.3%
MSCI Emerging Mkt Index	1374.64	+38.1%	+6.5%
MSCI World All-Cap Index	2546.07	+38.9%	+12.5%

Bond Yields & Key Interest Rates 12-31-20 6-30-21

Benchmark:	Yield/Rate	Yield/Rate
30 Year Treasury Bond Yield	1.65%	2.06%
10 Year Treasury Note Yield	0.93%	1.45%
5 Year Treasury Note Yield	0.36%	0.87%
2 Year Treasury Note Yield	0.13%	0.25%
Bank Money Market Yields (*6-28-21)	0.09%	0.03%*
1 Year Certificates of Deposit (*6-28-21)	0.22%	0.17%*
Prime Rate	3.25%	3.25%
Federal Funds Rate	0.0-0.25%	0.0-0.25%
Discount Rate	0.25%	0.25%

Morningstar Fund Averages 6-30-21

Investment Style/ Objective:	1-YR %	YTD%
Large-Cap Growth (L-C G)	+41.6%	+12.4%
Large-Cap Blend (L-C B)	+40.5%	+14.9%
Large-Cap Value (L-C V)	+43.0%	+17.5%
Mid-Cap Growth (M-C G)	+48.2%	+21.3%
Mid-Cap Blend (M-C B)	+50.4%	+17.0%
Mid-Cap Value (M-C V)	+55.9%	+21.3%
Small-Cap Growth (S-C G)	+55.7%	+12.4%
Small-Cap Blend (S-C B)	+60.2%	+20.2%
Small-Cap Value (S-C V)	+71.0%	+26.8%
Financial Funds (Fin)	+61.5%	+23.6%
Technology Funds (Tech)	+53.9%	+12.3%
Communications (Comm)	+44.3%	+14.0%
Natural Resources Funds (NatR)	+63.7%	+20.8%
Health Funds (Health)	+30.2%	+8.0%
Utilities Funds (Util)	+18.7%	+4.2%
Real Estate (REITs)	+36.8%	+20.4%
Foreign Funds- Lg Blend (Fgn)	+33.8%	+9.1%
Emerging Market (EMkt)	+41.8%	+8.7%
Precious Metals Funds - Equity (Prec)	+11.8%	-4.7%
Long-Term Bond (Long-Term)	+3.2%	-2.1%
Intermediate Core Bond (Int-Term)	+0.8%	-1.2%
Short-Term Bond (Short-Term)	+2.6%	+0.4%
Multi-Sector Bond (MS-Bond)	+9.2%	+1.9%
Inflation-Protected Bond (Infl-Prot)	+7.0%	+2.0%
High Yield Bond (HYld)	+14.7%	+3.6%
World Bond (Wld Bd)	+1.3%	-2.3%
World Allocation (Wld-Alloc)	+8.1%	+8.6%

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