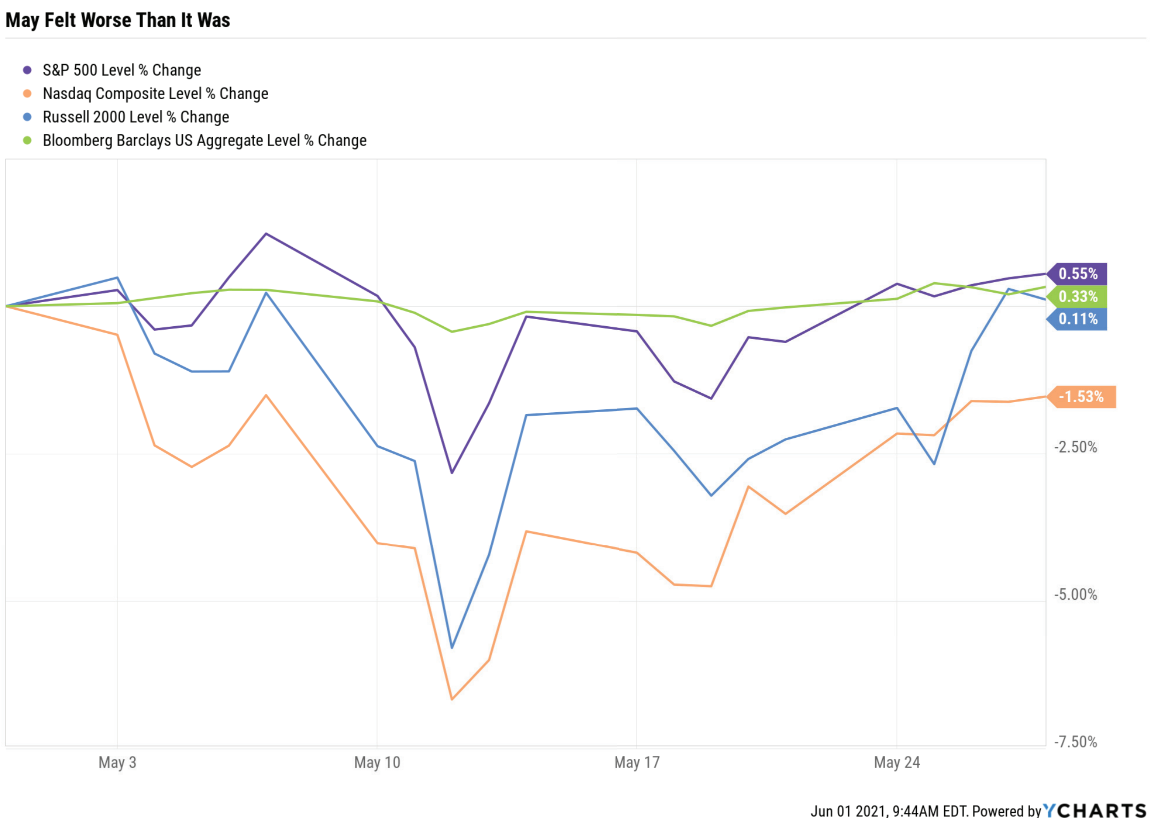
Newsletter
June 2021

GBA Financial
financial planning for retirement

COMMENTARY

Stock Market Keeps Killing us with Kindness



After a very strong month of returns in April, the stock market appeared to be heading toward the oft-predicted correction. The S&P 500 was down almost 3%, the NASDAQ Composite down almost 7% and the Russell 2000 index was down almost 6% at one point during the early trading days of the month. This downward pressure on stock prices appeared to be related to a quick rise in the 10-year US Treasury yield to around 1.7% on May 12. This unfriendly price action started to reverse mid-month (along with yields) and the S&P 500 and the Russell 2000 index finished the month slightly positive while the NASDAQ Composite finished down a modest -1.5%. So, after what appeared to be a very scary start to the month, most

S&P 500	**4,204.11**
DIJA	**34,529.45**
NASDAQ	**13,748.74**
OIL	**$66.13**/BARREL
GOLD	**$1,875.90**/OUNCE
10-YEAR TREASURY YIELD	**1.61%**
UNEMPLOYMENT	**6.10%**
GDP	**6.4%**
PPI	**6.17%** Year-Over-Year
CPI	**4.16%** Year-Over-Year

Source: ycharts.com

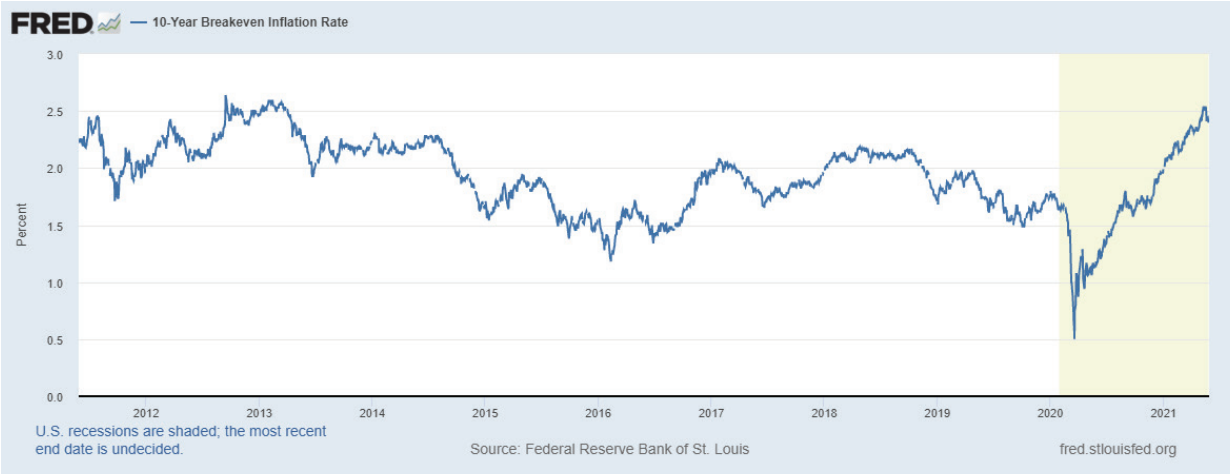
The CDC removed the mask mandate for indoor and outdoor activities!

Approximately 50% of population has received at least one dose of vaccine and 40% are fully vaccinated.

The US Inflation Rate (reported monthly) jumped to 4.16% in April compared to 2.62% in March.

major stock indices were back near all -time highs by the end of May. (See Chart 1)

EMBRACE THE GRIND



As we mentioned above, the negative price action in stocks to start the month appeared to be linked with a rise in interest rates. Interest rates tend to rise when the market is anticipating economic growth and rising prices for goods and services (also known as inflation). This can be good for stock prices. Or bad. The market can be fickle when it comes to economic growth, prices and interest rates. The market likes economic growth, but not too much; price inflation, but not too much. Even rising interest rates can be good; but (you guessed it) just not too much.

This may be where we find ourselves today. The market has been anticipating improving economic growth as massive amounts of stimulus have been injected into the market along with a re-opening of the economy that is helping to drive corporate profits. This has been very good for the stock market; however, we now appear to be working through the calculus of improving economic growth, rising prices and rising interest rates. This condition can lead to churning (or choppy) stock market action like we witnessed in May. This is not unexpected and we have seen this before in our 25+ years of experience. We have prepared for this situation and continue to execute our plan.

INFLATION FEARS ARE NOT A SECRET

One of the most common themes we have heard during the last month is a concern about pending inflation. This is a great topic and we thought we would highlight one way we can consider market expectations for inflation. The 10-year breakeven inflation rate is the difference between the 10-year US Treasury yield and the inflation-adjusted yield of the 10-year US Treasury Inflation Protected Security, also known as a 10-year TIPS. This gives us an idea of the current market expectations for inflation over the next 10 years. This breakeven rate has been steadily rising since about March 2020 to the highest level since early 2013 (Chart 2). This could be a signal that the market has already discounted much of the expected inflation. We will continue to watch but feel our bond portfolio is positioned appropriately at this time.

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

INDEX	3 mo	1 yr	3 yr	5 yr
S&P 500	10.72%	41.02%	17.79%	17.14%
MSCI EAFE	9.10%	39.02%	8.73%	10.29%
BAR AGG BOND	0.25%	4.47%	4.38%	3.11%

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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