Q2

Economic & Market Review

Second Quarter 2021

Gould Asset Management®

Economic Review

Second Quarter 2021

US Surges Forward in Uneven Recovery

The US economy grew at an annualized rate of 6.4% in the first quarter, largely fueled by massive fiscal stimulus and pent-up consumer demand. This reading, following a 4.3% pace in the fourth quarter, means GDP is already almost back to pre-pandemic levels. The recovery still faces challenges with unemployment, inflation, and global supply chain problems.

US companies added 850,000 jobs in June, the most in 10 months. Headline unemployment ticked up to 5.9% as more workers entered the labor force. Despite the promising trend, there are still close to seven million fewer jobs today than at the peak in February 2020.

The pace of US home sales slowed for the fourth straight month in May amid record high prices and low inventory. The median existing home price rose almost 24% from a year ago, giving pause to some would-be buyers. New home construction has been hindered by soaring lumber prices and shortages of appliances, windows, doors, and other materials.

Manufacturing activity grew modestly in June, but global shortages of semiconductors and raw materials are driving prices higher for both manufacturers and consumers. The manufacturing sector accounts for about 12% of the US economy.

Fed Pencils in Earlier Rate Hikes as Inflation Heats Up

The Federal Reserve kept its monetary policy unchanged, holding short-term interest rates near zero and continuing with its open market bond purchases. However, **most officials now expect rate hikes before the end of 2023** as economic activity and inflation accelerates.

Fed Chair Jerome Powell also discussed tapering the central bank's bond purchases but stressed that the timing remains "a ways away." The Fed wants to see employment much closer to its pre-pandemic levels before considering a tighter monetary policy.

In its latest projections, **the Fed sees higher inflation and a stronger economy** in 2021. Fed officials are projecting inflation to rise to 3.4% this year, up from its March forecast of 2.4%. Longer-term inflation expectations are still roughly in line with the Fed's target of approximately 2.0%.

Europe Enters Another Recession; Japan's Growth Also Slumps

The euro area economy entered a double-dip recession in the first quarter against a backdrop of social distancing restrictions and a slow vaccination rollout. However, **Europe's economy is expected to sharply rebound** to close out the year, as it has made significant headway with vaccinations recently.

The European Central Bank (ECB) also expects rising inflation in the short-term. However, the ECB projects inflation to remain below its long-term target for years, suggesting no monetary tightening any time soon.

Japan's economy also struggled in the first quarter, shrinking 1.0%, weighed down by weak private consumption. Like Europe, Japan's economic prospects are improving as their vaccination rollout moves into higher gear.

Steady Growth in China and Brazil; Struggles Continue in India

China has largely recovered from last year's pandemic-related slowdown. First quarter GDP grew more than 18% year-over-year. Economic growth will likely moderate for the remainder of this year. China's economy still faces challenges, including rising raw material prices and global supply chain disruption.

After its economy contracted over 7% last year, **India continues to struggle with its current wave of Covid infections.** Its recovery has been muted, especially compared to the swift rebounds seen in China and the US. Unemployment hit a 12-month high of almost 12% in May, and annual growth expectations have been revised sharply downward.

Brazil's economy grew by 1.2% in the first quarter, its third straight quarter of growth, bringing Latin America's largest economy back to pre-pandemic levels of GDP.

Market Review: Stocks

Second Quarter 2021

GOULD ASSET MANAGEMENT

Stocks Set New Highs as Vaccination Rates Climb and Economies Continue to Rebound

US and foreign stocks surged again to new highs in Q2, buoyed by strong economic growth and rising vaccination rates.

US stocks continue to lead globally, with large cap stocks rising 8.6% over the quarter, as measured by the S&P 500 index. **The index finished at a fresh all-time high**, boosted by the prospects of a bipartisan infrastructure spending bill, and has gained a remarkable 15.3% in the first six months of 2021.

Technology stocks (up 11.6% in Q2) **were back in favor** after a lackluster first quarter, **as growth stocks outperformed value.** The healthcare and financial sectors—both up 8.4% on the period—were the next best performing sectors. Year-to-date, financials (up 25.7%) lead all sectors, followed by industrials (up 16.4%).

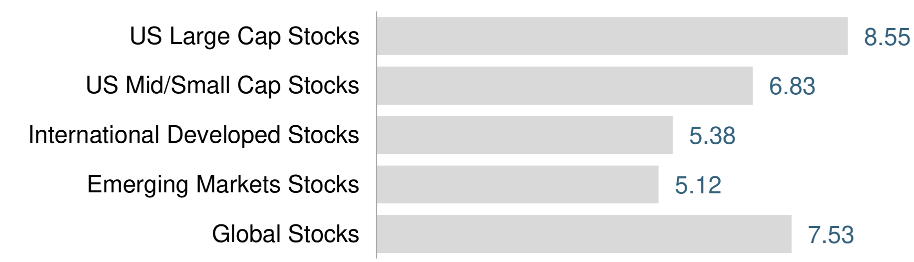
Mid and small cap US stocks underperformed large cap stocks in the second quarter (the Wilshire 4500 stock index rose 6.8%) but they remain modestly ahead (up 16.1%) of large cap year-to-date.

Global vaccination rates lagged the US, resulting in slower economic recovery abroad, and **more modest international stock returns year-to-date.** As an example, international developed stocks, as measured by the MSCI EAFE index, rose 5.4% in Q2 and are now up 9.2% in 2021.

Emerging markets tell a similar story, with the MSCI Emerging Markets index up 7.6% through June, including a 5.1% gain in the second quarter, **despite struggles to tame the pandemic in many developing countries**.

Market volatility continued its descent in 2021 despite a few short-lived upturns. After finishing Q1 around 19, close to its historical average, the VIX volatility index ticked steadily lower, dipping below 16 at quarter-end **to a level not seen since February 2020, before the pandemic.**

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Large Cap Stocks	15.25	40.79	18.67	17.65
US Mid/Small Cap Stocks	16.11	63.07	18.81	18.99
International Developed Stocks	9.17	32.92	8.77	10.79
Emerging Markets Stocks	7.58	41.36	11.67	13.43
Global Stocks	12.56	39.87	15.14	15.20

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Large Cap (S&P 500 Index), US Mid/Small Cap (Wilshire 4500 Completion Index), International Developed (MSCI Europe Australasia Far East Index), Emerging Markets (MSCI Emerging Markets Index), and Global Stocks (MSCI All Country World Index). Growth of $1,000 chart market segmentations as follows: US Stocks (Wilshire 5000 Index) and Foreign Stocks (All Country World Index ex US)

Market Review: Bonds

Second Quarter 2021

Gould Asset Management

Bonds Recover Some Ground as Interest Rates Fall; Investors Keep Watch on Inflation

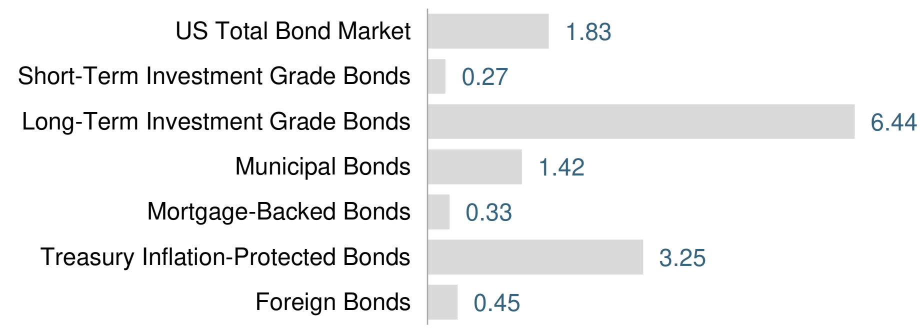
After posting their worst quarterly return (-3.4%) in nearly 30 years in Q1, **US bonds rallied in the second quarter,** with the Bloomberg Barclays Aggregate Bond index rising 1.8% **as investors weighed the prospects for inflation against a global backdrop of persistently low yields.** Year-to-date, US bonds have declined 1.6%.

The 10-year US Treasury yield fell 0.29% on the period, from 1.74% on March 31 to 1.45% at quarter end. Short-term interest rates (3-month and 2-year rates) rose slightly, **so the yield curve flattened at both ends**. Foreign bond yields remain negative or barely above zero in many parts of the world, one factor perhaps keeping a lid on US interest rates.

In this environment, **long-term US government bonds** (up 6.4%) **performed well, as did Treasury-Inflation Protected Securities (TIPS),** which rose 3.3%. **Market-derived inflation expectations reached a level not seen since 2013,** as the 10-year breakeven inflation rate climbed to 2.5% in May.

High yield bonds (bonds having lower credit quality) **continue to benefit from the strength of the economic recovery.** High yield gained 2.7% in the second quarter and is now up 3.6% on the year, earning it the top spot among fixed income sectors in 2021. **Municipal bonds recovered well,** rising 1.4% in Q2 and putting them back in positive territory (up 1.1%) for the year.

Returns for the Quarter (%)



Period Returns (%)

**Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Total Bond Market	-1.60	-0.33	5.34	3.03
Short-Term Investment Grade Bonds	-0.30	0.40	3.70	2.18
Long-Term Investment Grade Bonds	-4.64	-1.86	9.92	5.45
Municipal Bonds	1.06	4.17	5.10	3.25
Mortgage-Backed Bonds	-0.77	-0.42	3.78	2.27
Treasury Inflation-Protected Bonds	1.73	6.51	6.53	4.17
Foreign Bonds	-6.00	3.06	2.81	1.28

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Total Bond Market (Bloomberg Barclays US Aggregate Index), Short-Term Investment Grade (Bloomberg Barclays US Govt/Credit 1-5 Year Index), Long-Term Investment Grade (Bloomberg Barclays US Govt/Credit Long Index), Municipal (Bloomberg Barclays Municipal Index), Mortgage Backed (Bloomberg Barclays US MBS Index), Treasury Inflated-Protected (Bloomberg Barclays US TIPS Index), and Foreign (Citi World Govt Bond Non USD Index).

Market Review: Alternatives

Second Quarter 2021

GOULD ASSET MANAGEMENT®

Alternatives Continue Strong Run in 2021, Led by Energy, Commodities, and REITs

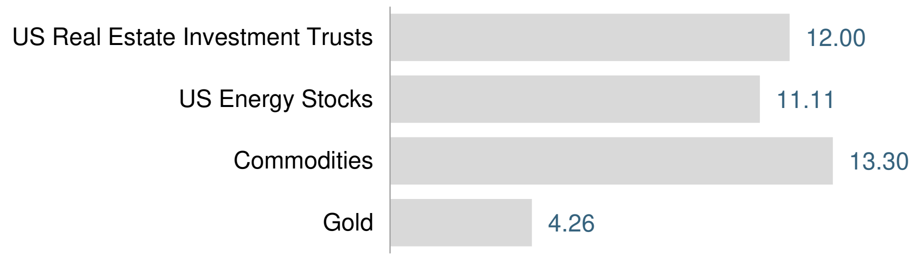
Alternative investments posted another strong quarter, with many of the asset classes benefiting from a buoyant stock market and a continued resurgence in economic activity.

Real estate investment trusts again outpaced the broad market, rising 12.0% in the second quarter and putting year-to-date returns at 21.8%. **The strong economic recovery in 2021 stoked demand for real estate,** while low interest rates further support the sector, keeping financing costs low and spurring new development.

US energy stocks (up 11.1% in Q2) **continued to soar,** returning 11.1% in Q2 and 45.2% since the start of the year. **Gains in crude oil and natural gas prices are fueling the sector as demand for energy ramps up** amid the global economic recovery. Commodities, which have a significant energy component, also benefited, rising 13.3% on the quarter and 21.2% on the year. Commodities saw gains in industrial metals, as well as agricultural components such as coffee and sugar.

After a disappointing first quarter (down 10.6%), **gold regained some ground in Q2** (up 4.3%). **In a volatile quarter, gold rose 11%, only to retreat after the Fed signaled potential earlier tightening** at its June meeting. Gold is down 6.8% year-to-date.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Real Estate Investment Trusts	21.80	38.05	10.14	6.32
US Energy Stocks	45.22	49.85	-5.71	-0.17
Commodities	21.15	45.61	3.90	2.40
Gold	-6.77	-0.28	12.98	6.78

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Real Estate Investment Trusts (MSCI US REIT Index), US Energy Stocks (S&P 500 Energy), Commodities (Bloomberg Commodity Index), and Gold (London Bullion Market Association Gold P.M. Price). Gold spot price data obtained from Federal Reserve Economic Data.

Market Summary

Index Returns

Gould Asset Management

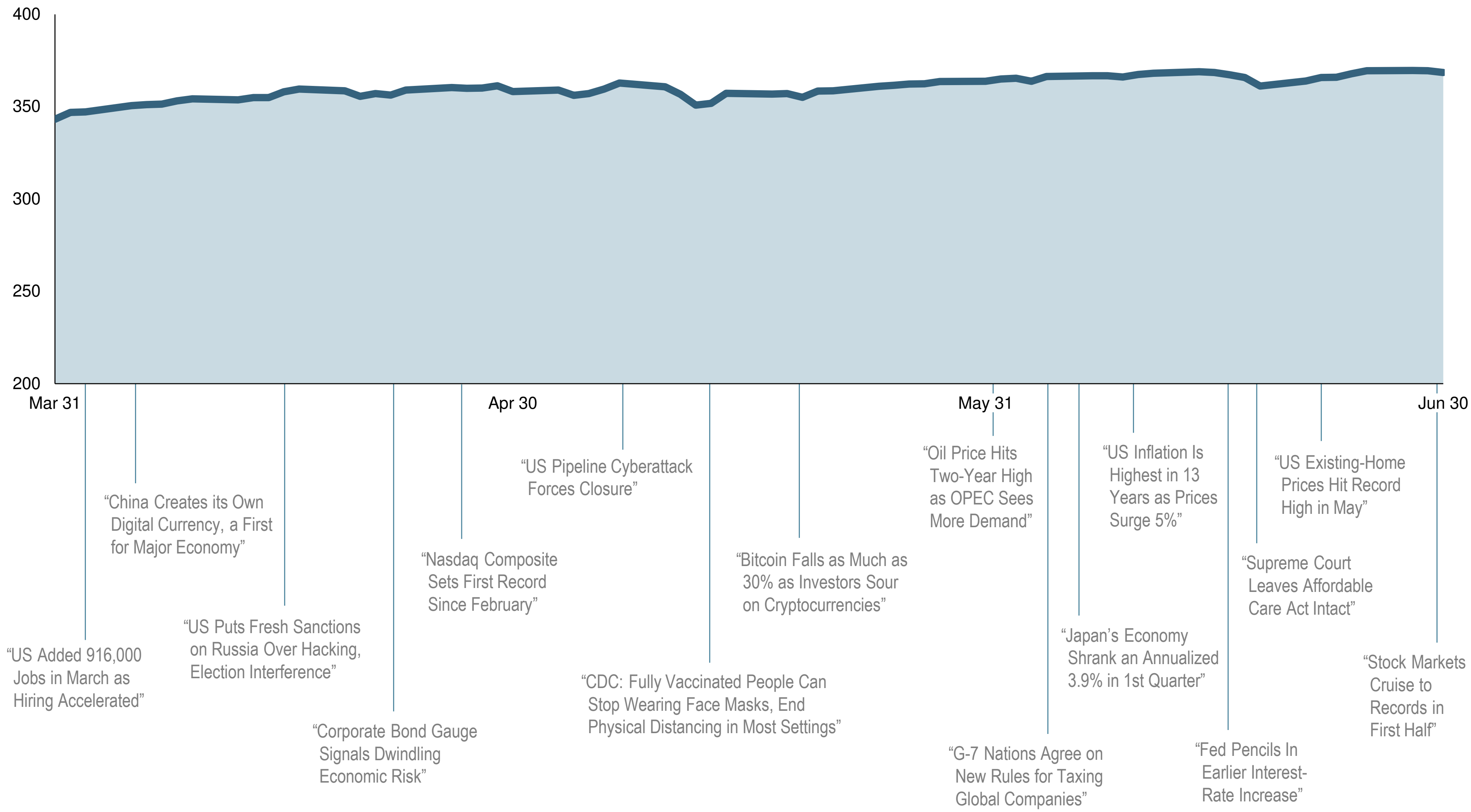
Q2 2021	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
	STOCKS				BONDS/DOLLAR	
	8.55%	6.83%	5.38%	5.12%	1.83%	-1.13%

Since Jan. 2001	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
Avg. Quarterly Return	2.3%	3.2%	1.7%	2.9%	1.2%	0.3%
Best Quarter	20.5% **Q2 2020**	30.3% **Q2 2020**	25.8% **Q2 2009**	34.8% **Q2 2009**	4.6% **Q3 2001**	7.1% **Q1 2020**
Worst Quarter	-21.9% **Q4 2008**	-27.9% **Q1 2020**	-22.7% **Q1 2020**	-27.6% **Q4 2008**	-3.4% **Q1 2021**	-5.8% **Q2 2009**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2021, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2021



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

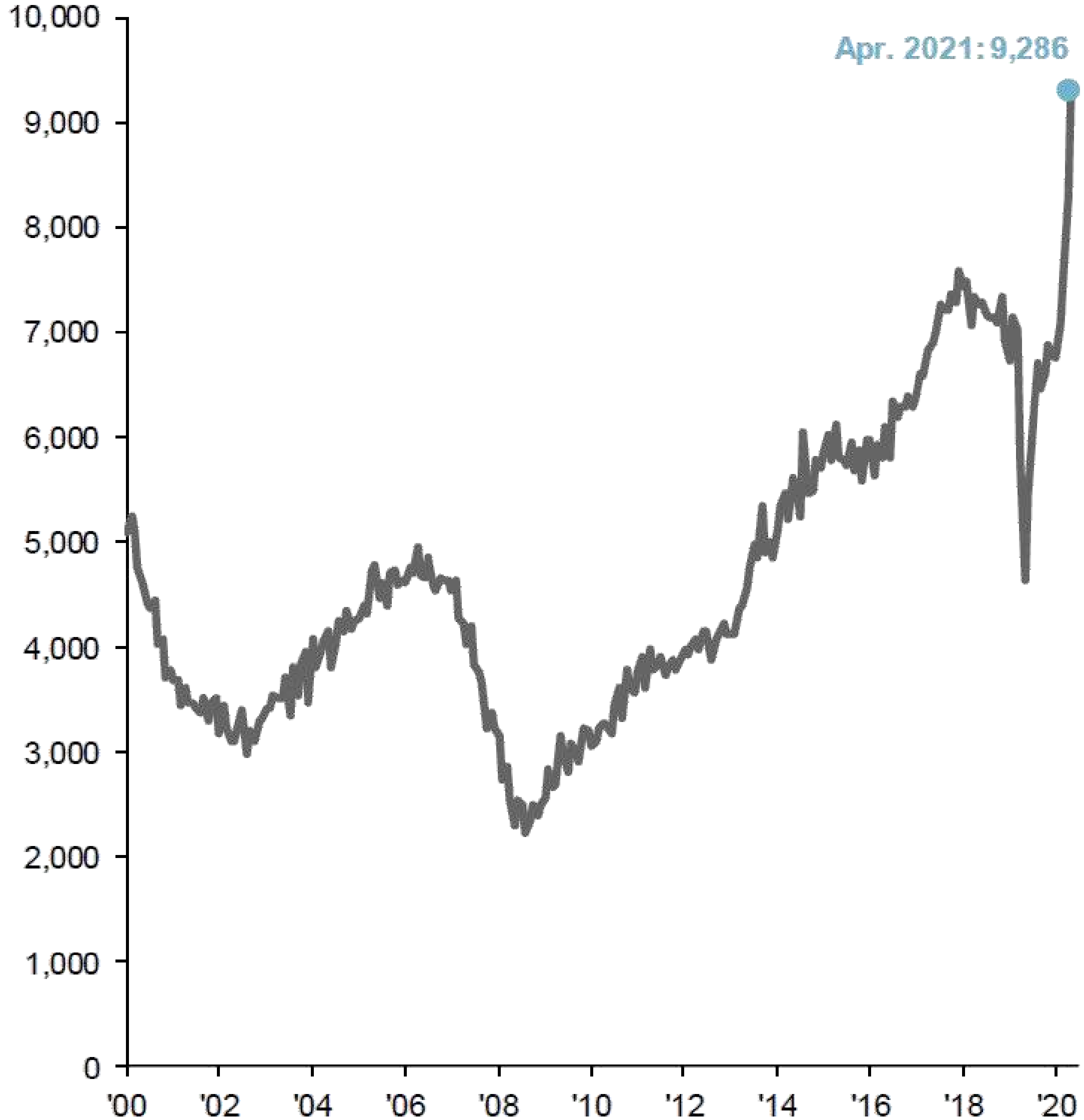
Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

Labor Demand

Second Quarter 2021

JOLTS Job Openings

Total nonfarm job openings, thousands, seasonally adjusted



This chart shows total nonfarm job openings from a recent Job Openings and Labor Turnover Survey (JOLTS). Job openings surged by close to one million in April to hit 9.3 million, the highest level since records began in December 2000.

Labor demand has been exceptionally strong as businesses attempt to meet pent-up consumer demand following economic reopening. Millions of unemployed Americans are still looking for jobs, however, illustrating the mismatch between the available labor pool and available job openings.

Source: Conference Board, National Federation of Independent Business, U.S. Department of Labor, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of June 30, 2021.

Inflation

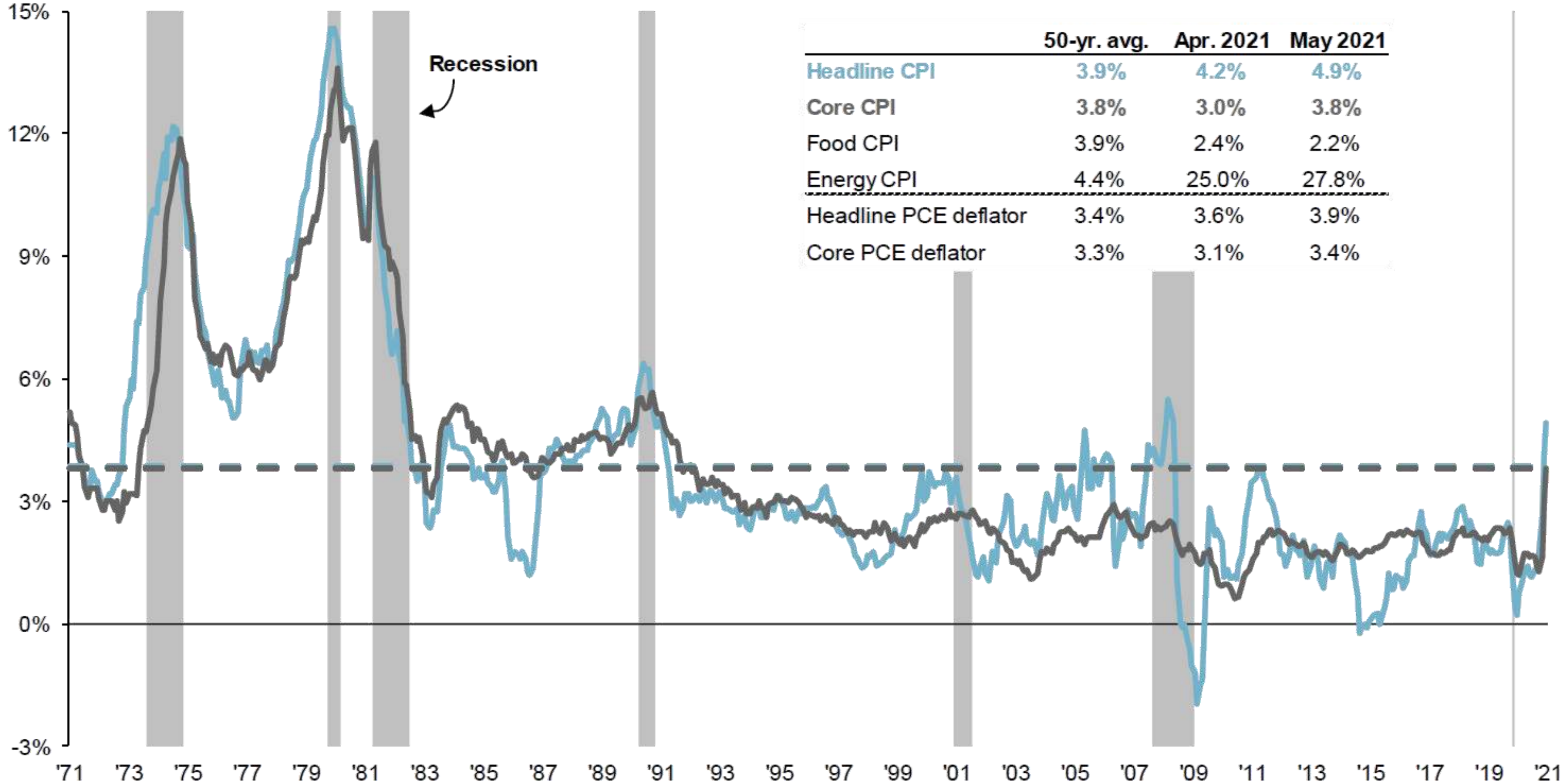
Second Quarter 2021

GOULD ASSET MANAGEMENT

The chart below shows both headline and core Consumer Price Index (CPI) – a measure of inflation – over the past 50 years. Core CPI excludes food and energy prices, which tend to be the most volatile components of inflation. Note the recent spike in inflation to a level at or even above the 50-year average (the dashed line). The Fed expects rising inflation this year along with a stronger economy, but longer-term inflation expectations are still roughly in line with the Fed's target of 2%. The inset table shows the long-run average CPI along with the two most recent readings. Also shown is headline and core Personal Consumption Expenditure price deflator, another measure of price changes in the economy.

CPI and core CPI

% change vs. prior year, seasonally adjusted



	50-yr. avg.	Apr. 2021	May 2021
Headline CPI	3.9%	4.2%	4.9%
Core CPI	3.8%	3.0%	3.8%
Food CPI	3.9%	2.4%	2.2%
Energy CPI	4.4%	25.0%	27.8%
Headline PCE deflator	3.4%	3.6%	3.9%
Core PCE deflator	3.3%	3.1%	3.4%

Source: BLS, FactSet, J.P. Morgan Asset Management. CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations. *Guide to the Markets – U.S.* Data are as of June 30, 2021.