



## MARKET UPDATE

QUARTER 2, 2021

Equities continued to climb in response to strong economic growth and reduced concerns regarding inflation, which may be more transitory rather than a start of a long-term trend necessitating rapid interest rate increases from the Federal Reserve Board.<sup>i</sup>

With corporate earnings strong and projected to continue rising, employment growth continues to be a challenge with many employers still struggling to find workers to fill openings. The difficulty in finding workers and continued supply-chain shortages remain a headwind for the economy, but all things considered, these are good problems to have.<sup>ii</sup>

For the quarter, domestic large company stocks (S&P 500) increased 8.55% while small company stocks (Russell 2000) increased 4.29%, with growth stocks faring better than value stocks in most market capitalizations. The weakest sectors within the economy were utilities and consumer staples, while technology, energy, and telecom were stronger sectors by comparison.<sup>iii</sup>

The U.S. dollar depreciated modestly against most major foreign currencies during the quarter. A decrease in the value of the U.S. dollar enhances returns when investing in foreign securities while an increase in the dollar's value reduces returns for U.S. investors holding foreign securities. For the quarter, the MSCI EAFE Index (in U.S. dollars) increased 5.17% while the MSCI EAFE Index (in local currency) increased 4.79%.<sup>ii</sup>

The demand for U.S. Treasuries increased modestly during the quarter, pushing yields lower with higher bond prices (bond yields move inversely to bond prices). The yield on 10-year Treasury bonds started at 1.69% on April 1 and declined to 1.45% by quarter-end. For the quarter, the Barclays U.S. Aggregate bond index (a blended composite) increased 1.83%.<sup>ii</sup>

On June 16, the Federal Reserve's Open Market Committee maintained the target range for the federal funds rate to between 0% and 0.25%. It does not seem likely that the Fed will raise short-term interest rates in 2021, but all indications suggest that the likelihood of rate hikes in 2022 are high.<sup>iv</sup> Despite what appears to be a certainty of rising rates coming in 2022 and beyond priced into the financial markets, the magnitude of rate increases over the long term have moderated with lower inflation expectations than previously expected.<sup>v</sup>

Taking the long view, we continue to believe diversified portfolios and disciplined investment strategies can continue to provide opportunities for those investors looking for growth. I welcome your input and as always, should you have any questions or concerns. If there is a change in your investment time horizon or financial circumstances, please contact me at your convenience.

Written by North Star Resource Group

*(Average Annual Returns chart on next page)*

AVERAGE ANNUAL RETURNS FOR PERIODS ENDING 6/30/2021						
INDEX	2ND Q	YTD	1 YR	3 YRS	5 YRS	10 YRS
S&P 500	8.55%	15.25%	40.79%	18.67%	17.65%	14.84%
Russell 2000	4.29%	17.54%	62.03%	13.52%	16.47%	12.34%
MSCI EAFE (U.S. dollars)	5.17%	8.83%	32.35%	8.27%	10.28%	5.89%
Barclays US Aggregate Bond	1.83%	-1.60%	-0.33%	5.34%	3.03%	3.39%
BENCHMARK COMPOSITES	2ND Q	YTD	1 YR	3 YRS	5 YRS	10 YRS
Aggressive Growth	6.60%	14.23%	43.99%	14.95%	15.72%	12.02%
Growth	5.62%	10.89%	33.93%	13.30%	13.29%	10.43%
Conservative Growth	4.84%	7.47%	23.53%	11.63%	10.78%	8.81%
Income and Growth	3.85%	4.25%	14.69%	9.57%	8.15%	6.98%
Income	3.01%	1.36%	6.70%	7.87%	5.79%	5.47%

Source: Morningstar Direct

You cannot invest directly in an index. Past performance is not indicative of future results. The S&P 500 Index measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the Index's performance directly proportional to the company's value. The Russell 2000 Index measures the total return of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX and NASDAQ. Investments in smaller company and micro-cap stocks generally carry a higher level of volatility and risk over the short term. The MSCI EAFE Index is the Morgan Stanley Capital International Index and is designed to measure the total return of the developed stock markets of Europe, Australia and the Far East. Investment risks associated with international investing, in addition to other risks, include currency fluctuations, political and economic instability and differences in accounting standards when investing in foreign markets. The Barclays US Aggregate Bond Index is a market-weighted index that includes U.S. government, corporate, and mortgage-backed securities, rated investment grade or higher, with maturities up to 10 years. The Benchmark Composite returns are a weighted average of index data comprised in the following manner. Aggressive Growth is 45% S&P 500, 25% Russell 2000 and 30% MSCI EAFE. Growth is 35% S&P 500, 20% Russell 2000, 25% MSCI EAFE and 20% Barclays US Aggregate Bond. Conservative Growth is 30% S&P 500, 10% Russell 2000, 20% MSCI EAFE and 40% Barclays US Aggregate Bond. Income and Growth is 20% S&P 500, 5% Russell 2000, 15% MSCI EAFE and 60% Barclays US Aggregate Bond. Income is 15% S&P 500, 5% MSCI EAFE and 80% Barclays US Aggregate Bond. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any funds or stocks in particular, nor should it be construed as a recommendation to purchase or sell a security. Past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested. Diversification does not guarantee against loss. It is a method used to manage risk. Tracking Number 3519262 / DOFU 7-2021

<sup>1</sup> Akane Otani. "Stocks Close Out Record Half, But Unease Grows Over Risks" Wall Street Journal, July 1, 2021:A1

<sup>2</sup> Justin Lahart. "Manufacturers Have Good Problems" Wall Street Journal, July 1 2021:B10

<sup>3</sup> Morningstar Direct

<sup>4</sup> Wesbury, B., Stein, R., "The Fed is Committed to Low Rates", First Trust, <https://www.ftportfolios.com/Commentary/EconomicResearch/2021/6/16/fed-hawks-hatch>, Accessed 5 July

<sup>5</sup> Sam Goldfarb. "Treasury Signal Waning Exuberance" Wall Street Journal, July 1, 2021:B1