

Current Investment Strategy and Themes

- *Equity markets continue to gain ground, but returns are focused in the inflation sectors of the market.*
- *Small-cap value and commodity markets giving counter signals to interest rates on inflations.*
- *Little opportunity in bonds, broaden equity market exposure, retain volatility hedges.*

The Markets in Review: May 2021

- The S&P 500 index is called the bellwether index for a reason. It has proven over the long-term to be best measure of equity market direction, health, and depth. But unlike the bellwether sheep leading the flock, the S&P 500 is not always the leader; it may be going in the same direction, but it is not the leader. The S&P 500 posted another positive month in May rising 0.7%. The year-to-date return of 12.67% is already better than average annual return for stocks. But for the first time in several years the S&P 500 is no longer the leader and best indicator of opportunity and return.
- As a capitalization-weighted index, the largest stocks will always have a disproportionate impact on the index's return. The percentage change in the S&P 500 over any period is not the "average" change in the price of stocks. The percentage change is the change in aggregate value of all the stocks in the S&P 500. The ten largest companies in the S&P 500 currently account for almost 27% of the total value of all the stocks in the index. At the end of 2018, the ten largest accounted for only 21% of index. The total value of the S&P 500 rose from approximately \$21 trillion to \$37 trillion in less than three years. The increased size and dominance on the market and economy is just one of the reasons the political world has decided to reexamine both the tax and regulatory framework. This cap-effect is one of the reasons the S&P 500 is not always the best measure of the depth of the market or broad health of the market.
- In May, it appeared the S&P 500 did lead the US market higher as the 0.70% return was greater than the small-cap return of 0.21%. But the small-cap market continues to undergo a growing performance differential in the small-cap stocks that are considered growth stocks versus those considered value stocks. Since the fall of 2021, the value component of the small-cap stocks have surged in the market. Investors perceive small-cap value stocks as the prime beneficiary of the dual effects of this part of the economic recovery cycle and the threat of re-emerging inflation.
- Small-cap value stocks rose another 3.11% in May. They have produced a 27.47% year-to-date gain, far surpassing the 12.62% return of the S&P 500 and just 4.10% gain of the R2000 small-cap growth index. The small-cap value universe is a collection of overlooked cheap companies or very economically sensitive money-losing companies. These riskier stocks with a combination of high financial and operating leverage are leading the small value market higher.
- While the small-cap value and commodity markets reflect investors' inflation expectations, the bond market is not in agreement. The Barclays Aggregate bond index has only fallen slightly in 2021 as rates have remained steady or risen slightly which is unexpected given the inflation fears.

Key Market Indicators				
Bullish	Favorable	Neutral	Cautious	Bearish
	May	YTD	Last 12	Current
Equities	2021	2021	Months	View
U.S. Large Cap	0.70%	12.62%	40.32%	Favorable
U.S. Small Cap	0.21%	15.30%	64.56%	Neutral
International Developed	3.26%	10.07%	38.41%	Favorable
Emerging Markets Equity	2.32%	7.26%	51.00%	Neutral
Fixed Income				
U.S. Aggregate	0.33%	-2.29%	-0.40%	Cautious
U.S. Government	0.34%	-3.11%	-3.61%	Cautious
U.S. Corporate	0.72%	-2.74%	3.32%	Neutral
U.S. High Yield	0.30%	2.25%	14.96%	Cautious
Non-U.S. Developed	1.09%	-4.02%	6.45%	Cautious
Emerging Market Debt	2.44%	-2.20%	9.27%	Bearish
Alternatives				
REITs	1.02%	18.85%	38.61%	Neutral
Commodities	2.70%	21.43%	56.83%	Neutral
Managed Futures	1.96%	13.94%	19.78%	Neutral
Hedge Funds	0.38%	3.34%	13.54%	Favorable

Source: Morningstar, data as of 5/31/2021

Economic Sector Returns: May and YTD 2021



Source: Morningstar

Important Disclosures

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Index definitions:

“U.S. Large Cap” represented by the S&P 500 Index.

“U.S. Small Cap” represented by the Russell 2000 Index.

“International” represented by the MSCI Europe, Australasia, Far East (EAFE) Net Return Index.

“Emerging” represented by the MSCI Emerging Markets Net Return Index.

“U.S. Aggregate” represented by the Bloomberg Barclays U.S. Aggregate Bond Index.

“U.S. Government” represented by the Bloomberg Barclays U.S. Government Bond Index.

“U.S. Corporate” represented by the Bloomberg Barclays U.S. Credit Bond Index.

“U.S. High Yield” represented by the Bloomberg Barclays U.S. Corporate High Yield Index.

“Non-U.S. Developed” represented by the S&P International Treasury ex U.S. Index.

“Emerging Market Debt” represented by the JP Morgan GBI-EM Global Core Index

“REITs” represented by the FTSE North American Real Estate Investment Trust (REIT) Equity REITs Index.

“Commodities” represented by the Dow Jones Commodity Index .

“Managed Futures” represented by the Credit Suisse Managed Futures Index.

“Global Macro” represented by the Credit Suisse Global Macro Index

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