Quarterly Themes

Passage Wealth

Q2 2021

Quarter Recap

Capital Market Update

Capital markets were largely positive during the second quarter, with US and Global Stocks up 8.5% and 7.4%, respectively. Helping drive that performance was a stronger than expected first quarter earnings season as well as positive news early in the quarter on strong retail sales and consumer spending.

Strong First Half of 2021 For Stocks

- US and Global Stocks advanced 15.24% and 12.30%, respectively over the first half, above long-term average annual gains.
- Bonds, on the other hand, are still largely negative year-to-date with US Bonds down 1.60% and Global Bonds down 3.21%, with the year beginning in a challenging environment of increasing interest rates.

Market Total Returns[1]	Apr	May	Jun	Q2
US Stocks	5.3%	0.7%	2.3%	8.5%
US Bonds	0.8%	0.3%	0.7%	1.8%
Global Stocks	4.4%	1.6%	1.3%	7.4%
Global Bonds	1.3%	0.9%	-0.9%	1.3%

Economic News and Developments

Over the second quarter, the economic reopening continued in the US and around with world and helped fuel a broad, but gradual improvement in economic data. Though the biggest economic topic was inflation and shifts in tone from the Fed.

Inflation

- April and May's inflation reports came in higher than expected with May's CPI at 5.0% versus the year prior. Of that change, Bloomberg Economics estimated that half came from areas sensitive to the economic reopening.

The Federal Reserve's Changing Expectations

- in June, the Fed's expectations for future rate rises was moved up to 2023, and potentially two that year, which is earlier than their prior comments and drove numerous headlines, but not much of a sustained market reaction.

Key Figures

2023
Fed Expectation to Raise Policy Rates

5.0%
US Inflation, CPI Year-over-Tear
(May 2021)

-0.27%
Q2 Decline in US Government 10-Year Yield

1. US Stocks represented by the S&P 500 Index; US Bonds by the Bloomberg Barclays US Aggregate Bond Index; Global Stocks by the MSCI ACWI; Global Bonds by the Bloomberg Barclays Global Aggregate Index.
All data latest as of 06/30/21
Source: Bloomberg, Helios Quantitative Research

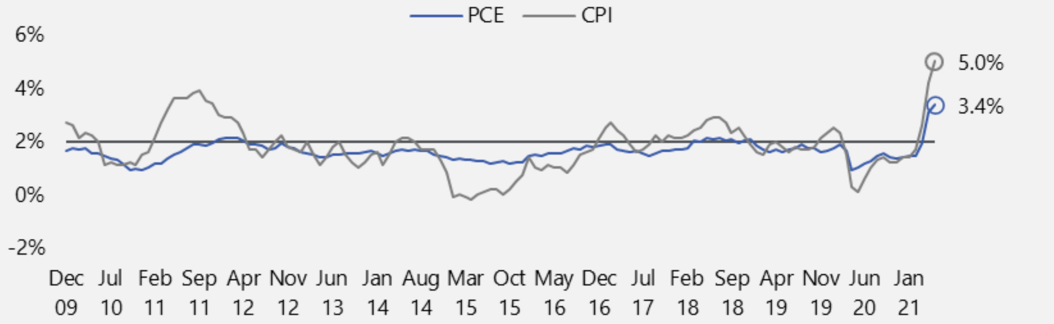
Theme A

Inflation Rises, May Yet Be Transitory

- Year-over-year inflation figures increased substantially over the quarter with the latest figures for May showing prices, measured by the CPI Index, increasing 5% over the year prior.
- The Fed largely anticipates the growth in inflation to be temporary, as stimulus and supply strains related to the economic reopening get resolved.
    - Bloomberg economics estimated that nearly 50% of May's price increase came from reopening-sensitive sectors, such as airfare, rental cars, and restaurants.
- Economists surveyed by Bloomberg expect inflation numbers to begin declining for the rest of the year and return to more "normal" ranges, in the low 2% range, by the middle of next year.

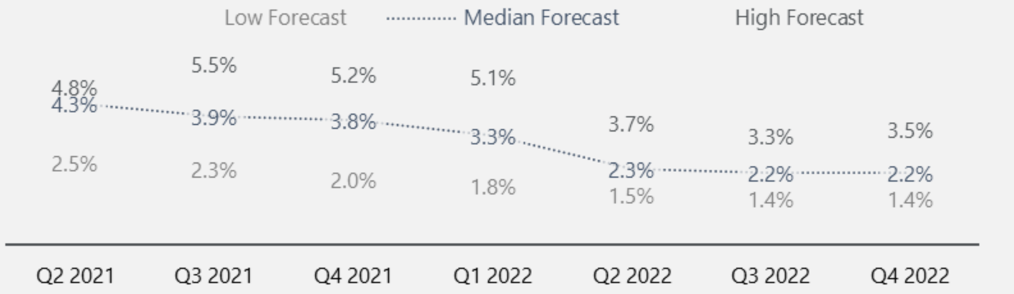
Inflation Metrics Versus 2% Fed Target

Year-over-year, December 2009 to May 2021



Median Forecasts Call for Inflation Coming Down From Here

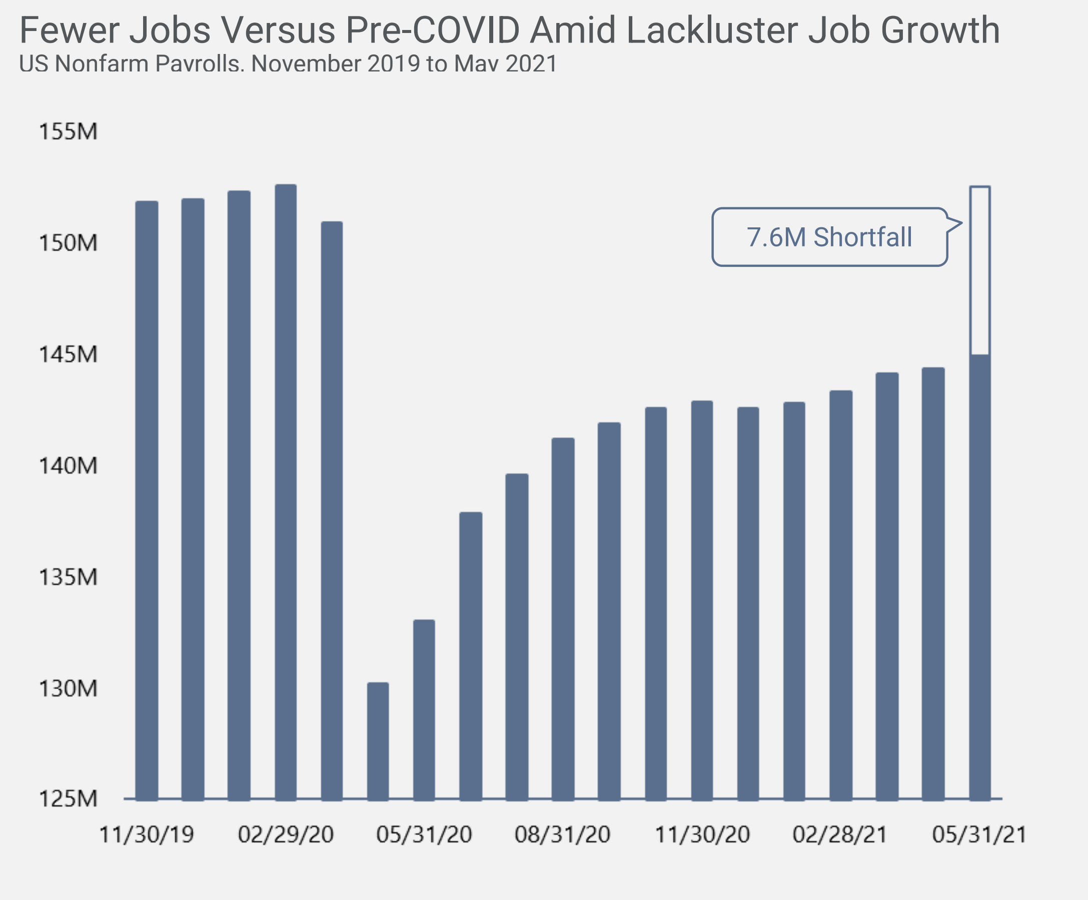
Q2 2021 to Q4 2022 Inflation Expectations from Bloomberg survey of Economists



All data latest as of 06/30/21
Source: Bloomberg, US Bureau of Labor Statistics, Helios Quantitative Research

Theme B

Tight Labor Market with Room to Grow



- Despite the US economy having 7.6M fewer jobs compared to the pre-COVID peak in February, labor market conditions are tight with a large number of open positions and reports of employers struggling to fill those roles.
- The growth in jobs in April and May were lackluster compared to expectations of economists surveyed by Bloomberg, despite there being high numbers of job openings and voluntary quitting.
- Anecdotal evidence across the media suggest a mix of health and childcare concerns have mixed with enhanced unemployment benefits and wage concerns as to why more people have yet to return to the workforce and employers struggle to fill open positions as the economy continues to reopen.

All data latest as of 06/30/21
Source: Bloomberg, US Bureau of Labor Statistics, Helios Quantitative Research

Theme C

Government Yields Decline in the Quarter

- Despite headline-grabbing inflation reports and broadly improving economic data, yields on most US Government Bonds declined over the quarter, with the 10-year coming down to 1.47%, from 1.74% at the start of the quarter and 1.92% when we entered 2020.

- This likely signals the market agrees with the Fed's view of inflation as transitory over the next few quarters and broadly linked to stimulus and economic reopenings, rather than an indication of a broader trend to be worried about.

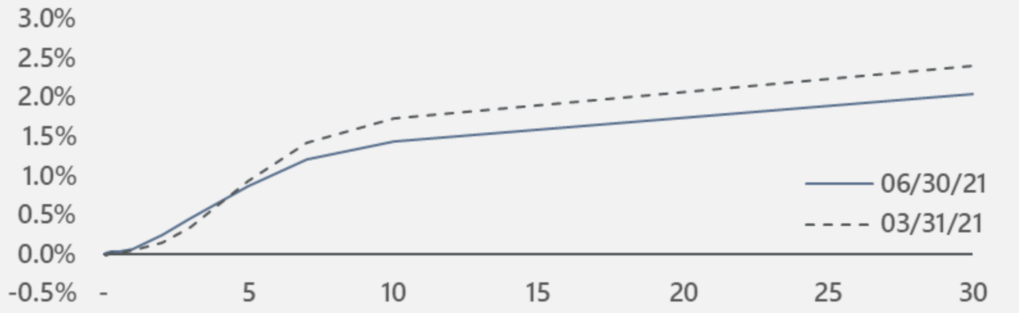
- The Fed made comments over the quarter regarding moving forward potential rate increases into 2023, earlier than previously thought, giving the market renewed confidence the Fed would be able to contain interest rates.

Despite Inflation Talk, Yields Decline

US Government 10-Year Yield, December 31, 2019 to June 30, 2021

With the Decline Happening Across Much of the Yield Curve

US Government Yield Curve, March 31, 2021 vs. June 30, 2021



All data latest as of 06/30/21
Source: Bloomberg, Helios Quantitative Research

Notable Mentions

SUPPLY CHAIN

Strains within global supply chains became very evident, and problematic, over the course of the quarter, helping drive prices upward in several categories.

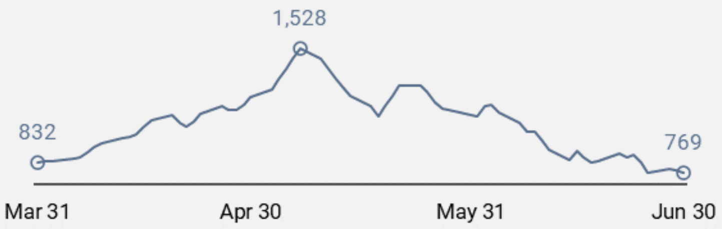
As the economy reopened, shortages of components needed to manufacture, and ship, goods worldwide were in short supply as producers were caught flat-footed at the speed of recovery in the first half of the year. While some shortages have been severe, most economists expect the issues to be resolved over the next months.

Supply chain pressures are still a problem due to workforce shortages, manufacturing group says

LUMBER

As anyone who tried to build something over the quarter can tell you, lumber prices skyrocketed in April and May, and rapid home building and supply shortages created the perfect storm escalating prices.

Prices remained elevated for much of the quarter before quickly falling as more supply became available and speculators were squeezed out of their positions, ending the quarter slightly below where it began.



INFRASTRUCTURE

The Biden administration and a group of bipartisan senators agreed to an infrastructure plan to the tune of $1.2 trillion over eight years.

This figure is down from the roughly $2.3 trillion in the initial proposal by the administration but still calls for significant investment in roads, bridges, transport, and broadband. It would be funded by leftover funds in other stimulus programs, Strategic Petroleum Reserve oil sales, and increased tax enforcement by the IRS.

THE WALL STREET JOURNAL.

POLITICS

Biden, Senators Agree to Roughly $1 Trillion Infrastructure Plan

Source: CNBC, Bloomberg, The Wall Street Journal, Helios Quantitative Research

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