LSAM LIFESTYLE ASSET MANAGEMENT

Market Commentary

July 2021

Equity and Bond Market Update

(as of July 9, 2021)

Index	YTD	1-Year
Dow Jones Industrial Average TR	+15.0%	+38.3%
S&P 500 Total Return Index	+17.2%	+40.8%
Russell 2000 Total Return Index	+16.0%	+49.7%
MSCI EAFE Index (net)	+9.3%	+30.9%
MSCI Emerging Markets Index (net)	+3.2%	+24.4%
Barclays US Aggregate Bond TR	-1.2%	-0.4%

Recent Economic Indicators

	Statistic	**Data as of**
Unemployment Rate	5.9%	Jun 2021
Gross Domestic Product (GDP)	+6.4%	Q1 2021
Consumer Price Index (CPI)	+0.6%	May 2021
Consumer Confidence (1985=100)	127.3	Jun 2021
30-year fixed mortgage rate	3.07%	7/9/2021
Housing Starts (single family)	1,098,000	May 2021
10-Year Treasury Yield	1.30%	7/12/2021

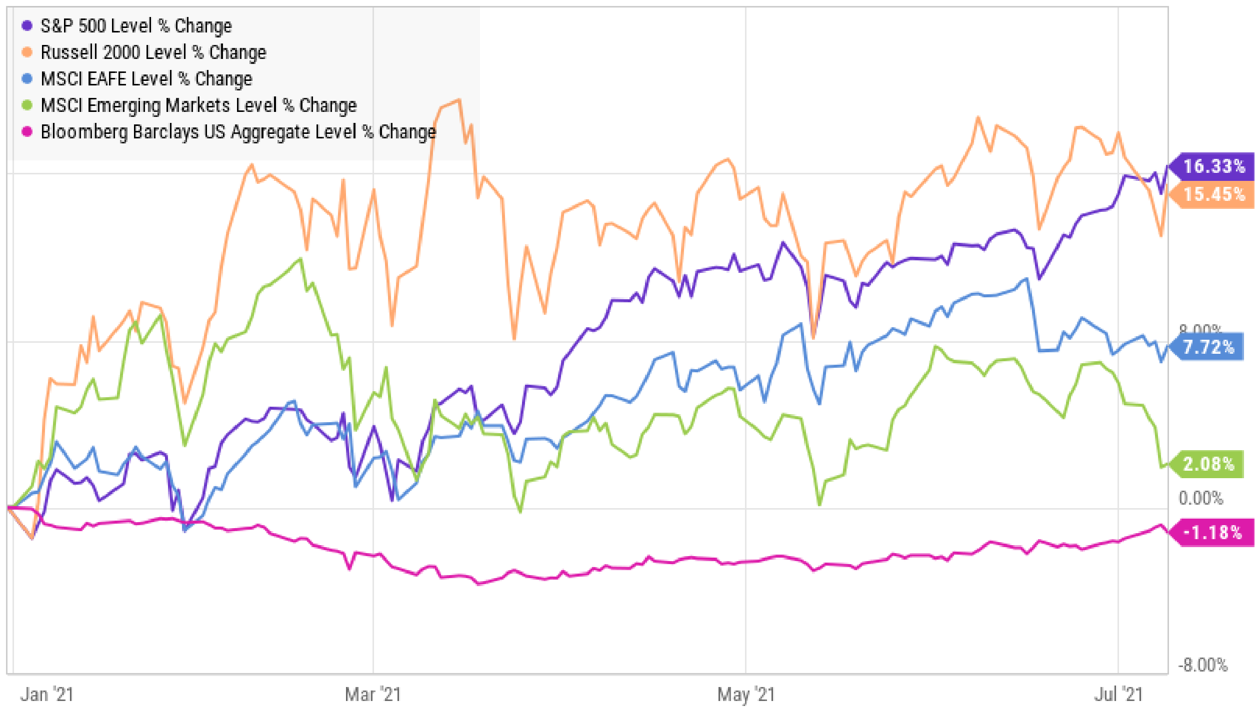
Midway through the year, we are seeing a definite separation between domestic and foreign equities, with both small-cap and large-cap U.S. stocks returning in the 15%-17% range so far this year, and foreign markets, both emerging and developed, returning between 3% to 9%, respectively. There has been a battle between large-cap value and growth stocks with both trading leadership this year, and growth stocks once again have pulled ahead over the last few days. Among small-cap stocks, however, small value has far outperformed growth by almost 20 percentage points year-to-date. So far in 2021, the energy (+39%), real estate (+25%) and financial (+25%) sectors have provided the most advances, and utilities (+3%), consumer staples (+4%) and consumer discretionary (+13%) sectors have rounded out the bottom.

Bond yields have also seen movement over the last few months, with the current 10-year Treasury rate at the lowest point it's seen in over 90 days at 1.30% after topping out in late March at 1.74%. For reference, we started 2021 with the 10-year Treasury rate at 0.93% and it was set at around 0.5% to 0.6% one year ago.

Assuming that COVID-19 "herd immunity" reflects that 70% to 90% of the U.S. population has either (1) received at least one dose of the vaccination, (2) has previously been infected by the virus, or (3) both vaccinated and infected, we can assume that based on CDC and other scientific data that we have reached herd immunity at roughly 75% of the population. Also, confirmed weekly COVID-19 cases and deaths since the beginning of this year are down over -95%, and still trending downward. It doesn't take much more science (actually math in this case) to conclude that domestically we are out of the virus hot zone and economic activity and equity markets have been reflecting this so far this year. It is also safe to say that the lagging performance in foreign markets may reverse over the course of the remainder of this year due to the lagging efforts at herd immunity overseas. Relative to overall population, the U.S., Canada, China, U.K., and Eurozone have all administered enough or more doses to equal their populations. The vast majority of Africa, South America, the Middle East, Russia and Australia are areas where almost no or up to 50% of doses per capita have been administered. The effects of vaccination are apparent in the aforementioned developed countries and China, as well as the adverse effects and ongoing problems in the emerging economies and Australia.

The effects of the initial spread of COVID-19, and the accompanying economic lockdowns, as well as the rapid response in approving, distributing and administering vaccines in the U.S. can easily be seen in our historic dip in GDP in the first and especially second quarter of 2020, and the swift partial recovery of GDP in the third quarter of 2020 and continued rise in fourth quarter 2020 and first quarter 2021. All of this GDP volatility was preceded by an even more rapid decline and recovery in the stock market. Up until February of this year, all major stock indices had recovered nicely, with emerging markets and small caps performing the best since the market's previous highs before the pandemic. Since then, small caps have traded sideways, emerging markets have actually pulled back, and large-cap U.S. stocks have once again dominated. Poor emerging market performance since early this year and lagging performance overall for foreign developed markets are most likely a reflection of the lagging response in these markets to COVID-19 relative to the U.S. With the U.S. already at herd immunity, foreign countries and markets should benefit while they catch up and eventually achieve similar immunity status.

Major Market Indices Price Return (YTD through July 9, 2021)



A lot of what has taken place in markets over the last 18 months has been emotionally-driven. Where equity markets are now and where they head over the next 18 months will need to be validated by and dependent on corporate earnings. All in all, long-term performance in equity markets will always be principally based on corporate earnings. To give an idea of how corporate earnings have been affected since before and during the pandemic began, quarterly year-over-year earnings in first quarter 2020 were down -49% from 2019, and second quarter 2020 were down -33.3% from 2019. The third and fourth quarters of 2020 were flat to down just a little from the same quarters in 2019. During the first quarter of this year, corporate earnings were up +143.1% compared to 2020, and second quarter earnings are currently projected to have grown over +65% from the same quarter last year. Although not timed in the same way, these quick corporate earnings collapses and recoveries can be correlated to the same quick responses in the stock market over the last 18 months. Currently, analysts are forecasting that over the next 12 months, corporate earnings will grow another +17% compared to the last 12 months, and will continue to grow by over +12% in 2022 over 2021. Take the current environment of near-zero interest rates, a Federal Reserve that is dead set on keeping rates low throughout the rest of this year and most likely through all of next year, fiscal stimulus in the form of continued and/or increased spending on items like infrastructure, it is comforting to see that current market levels are justified.

Always keep in mind that fear, panic, and optimism are not investment strategies, but rather emotions that drive short-term markets.

Please contact Lifestyle Asset Management, Inc. at (281) 612-2035 or by email at **pjackson@lsaminc.com** should you have any questions or comments.

Sources:

S&P Dow Jones Indices website (us.spindices.com)
MSCI Barra website (http://www.mscibarra.com)
The Conference Board (www.conference-board.org)
Bureau of Economic Analysis (www.bea.gov)
JP Morgan Guide to the Markets
FTSE Russell (www.ftserussell.com)
Bankrate.com (www.bankrate.com)
Bureau of Labor Statistics (www.bls.gov)
United States Census Bureau website (www.census.gov)

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