

MONEYMATTERS

MARKET UPDATE

Q3
2021



DELICATE BALANCE

• ROEHL & YI •
INVESTMENT ADVISORS, LLC

DELICATE BALANCE

Strong performances and growth in GDP were seen throughout the second quarter of 2021. As the US was seemingly on its way toward a tempered and successful reopening, old and new factors hindered a comprehensive economic recovery. Among the headwinds are inflation—heightened by the nearly \$5.6 trillion in stimulus already passed with several additional legislative proposals in the works. (Source: *PIMCO*). A still-tight labor market has desperate businesses offering unprecedented wage levels, signing bonuses, and other incentives to lure resistant employees. Employers report COVID-related concerns, competition with government unemployment checks, career changes, childcare, and school closures among the reasons employees are not filling the numerous jobs available.

Some of these lingering issues were expected moving into Q2; however, what was not anticipated was the rise of the Delta variant. This newest COVID danger has reared its head and sparked fresh concerns over infection rates and fears of reinstated lockdown mandates.

States, governments, healthcare agencies, employers, and the American people are navigating the delicate balance of an already fragile economy that, if tipped too far in either direction, can dim the speed of a recovery or halt it altogether.

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MARKET RECAP

Stock Market

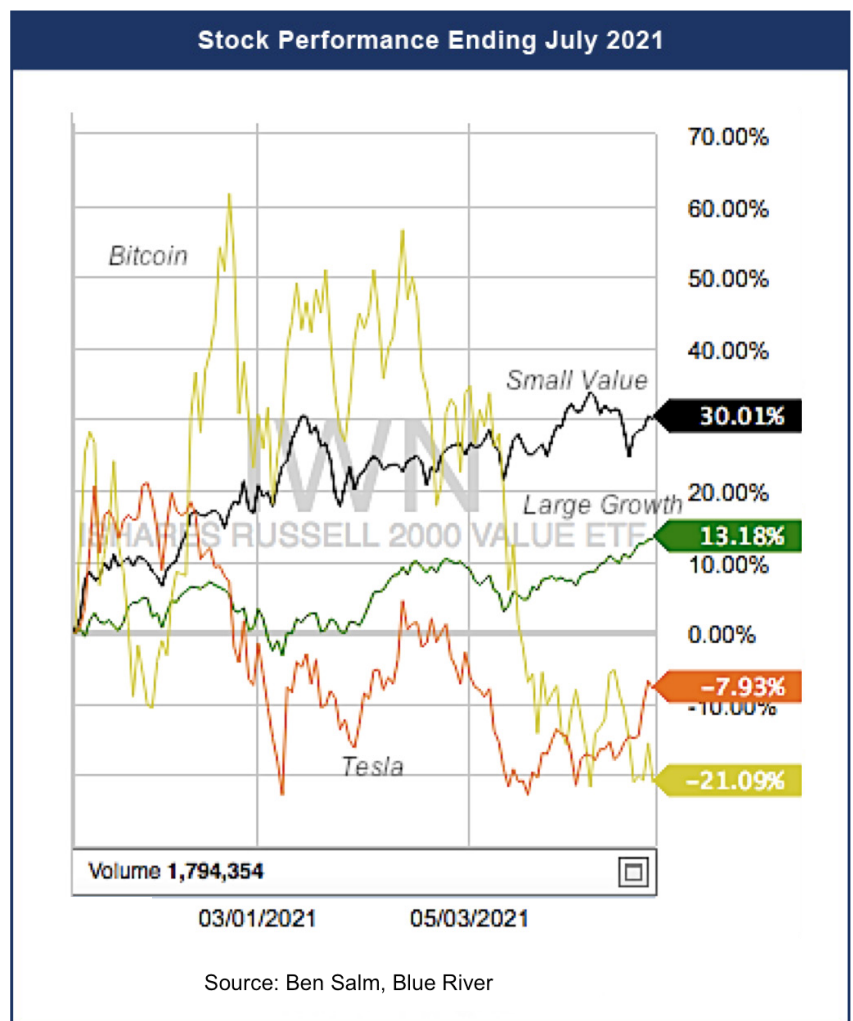
The S&P 500 set record highs in many sectors including both large-cap and Russell 2000 small-cap stocks. Large technology stocks were the clear standouts, including what's known as the FAANGM stocks (i.e., Facebook, Amazon, Apple, Netflix, Google, and Microsoft). (Source: *Blue River*).

Historically, value stocks have outperformed growth stocks by a reasonable margin, but it has been a growth story since 2009. (Source: *Morningstar Direct, FTSE Russell*). However, since November 2020 to the early part of 2021, value stocks were seen outperforming growth, and we think that shift may well continue. Bitcoin and Tesla were both down for the June-ending quarter. (Source: *Blue River*). This tide change of value trumping growth is a reminder of the importance of diversification as it is very difficult to predict such changes with any certainty.

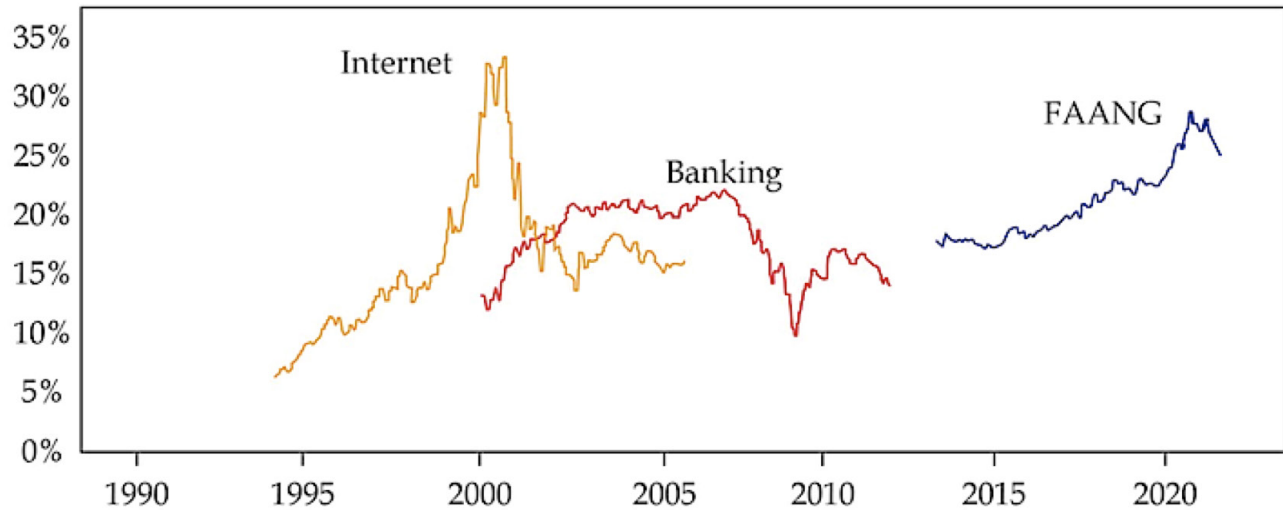
The Speculative Nature of Investing Continues

One recurring theme Roehl & Yi has observed is the “speculative” nature of investing. This speculative phenomenon shows that investor appetite for certain stocks shift significantly over time.

Between 1995 and March 2000, the Dot-com bubble was largely driven to record highs by internet stocks (e.g., Pets.com, Webvan, Worldcom, Global Crossing, etc.). From 2000 to 2007, the banking and finance industries saw shares nearly double before declining during the financial crisis. Between 2013 and 2021 we've seen large technology firms such as the FAANGM stocks almost double their share of the index before their recent modest retreat. Recently, investors' penchant for Bitcoin saw its value drop nearly 50% from a mid-April 2021 record high. (Source: *Blue River*).



Historical S&P 500 Market Cap Concentration



Source : Fabric RQ

Concentration measured as percent of total market capitalization of the S&P 500

Different factors can drive investment decisions, and we have recently observed interest from new, younger retail investors by way of commission-free apps such as Robinhood.

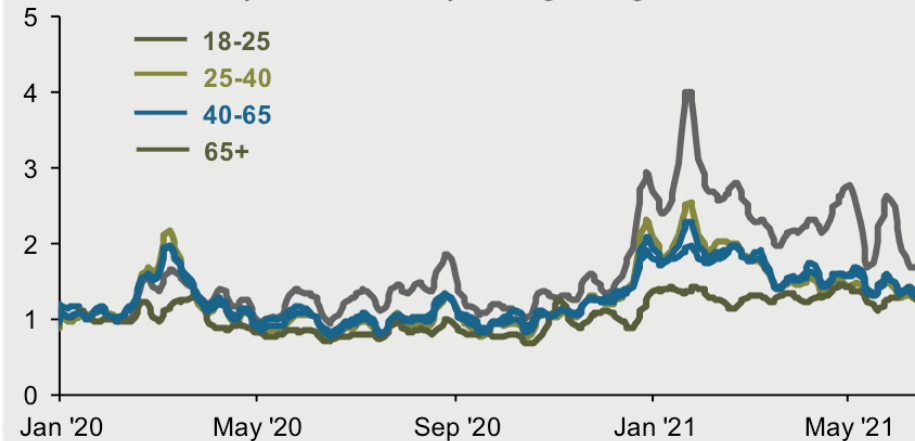
The charts on page 5 show how 18- to 25-year-olds, flush with government stimulus and unemployment checks, flooded the markets with their newfound cash. They were the most significant cause of investment flows among varying age groups.

They chased GameStop, Dogecoin, Ethereum, and other meme stocks in a speculative frenzy contributing to market volatility. For many of these first-time speculators, it did not end well. It was also peculiar that investment flows by income was the highest for those earners who made between \$0 and \$20,000. This type of speculative investing and lack of focused strategy contributed greatly to market volatility.

Investment Flows

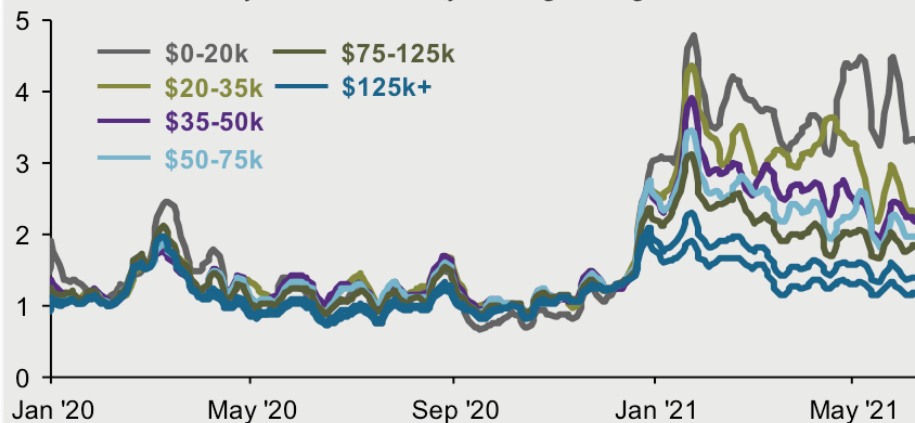
Investment flows by age

Indexed to February 28, 2020, 7-day moving average



Investment flows by income*

Indexed to February 28, 2020, 7-day moving average



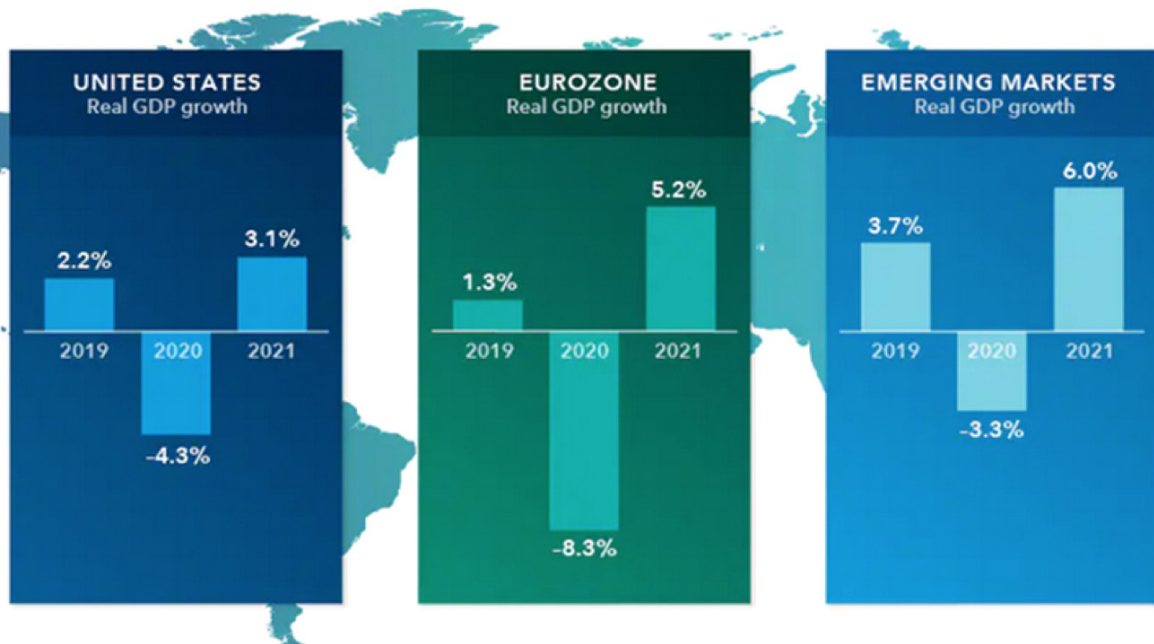
*Net income calculated using bank account net inflows.
Source: J.P. Morgan Asset Management Data Science, based on internal Chase data.
Data as of June 30, 2021.

Finally, to demonstrate the hazards of speculative investing, the Nasdaq, which rose five-fold between 1995 and March 2000 lost close to 80% of its value, peak to trough. It took nearly 15 years to fully recover, which it did in April of 2015. (Source: *Investopedia*). Long-term investing with a well-diversified portfolio has shown to be good practice to hedge against this phenomenon. It is critically important to limit significant downside losses and more important to have relatively consistent positive returns.

International Stocks

A substantial portion of the world's publicly traded companies are outside the US and over time that proportion is expected to increase along with economic growth. The International Monetary Fund projects significantly higher GDP expansion outside the US for 2021. As overseas countries expand their distribution of COVID vaccines, their economies should accelerate in growth. Where the US markets are now expensive, international markets are generally more fairly priced with more upside potential.

Markets: International Stock



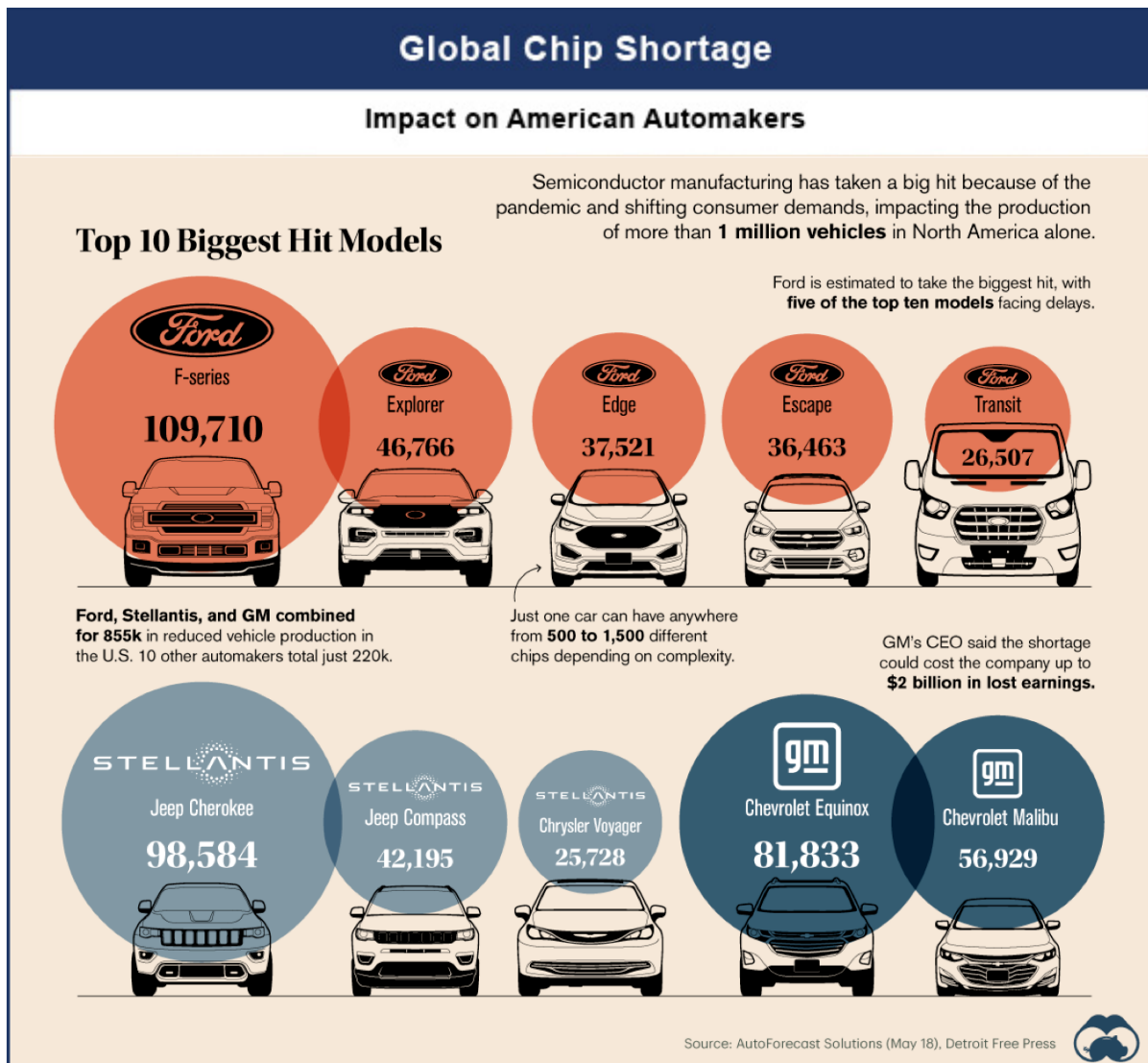
Sources: Capital Group, International Monetary Fund, World Economic Outlook, October 2020. GDP figures from 2020 and 2021 projections.

THE ECONOMY

Supply Chain Shocks Continue

Manufacturing and the labor market are continuing to face roadblocks resulting in a slowdown in the delivery of goods and services.

The semiconductor industry is seeing limited production and delays in chip manufacturing with significant consequences for many industries, particularly auto manufacturing. This has sidelined more than one million vehicles in North America alone. Modern cars are built with anywhere between 500 and 1,500 chips and American-based manufacturers, such as Ford and General Motors, are taking the hardest hits with over 855,000 vehicles left partially manufactured due to lack of chips. This circumstance caused Ford and other manufacturing companies to contemplate shutting down plants this summer.



Source: Visual Capitalist
July 14, 2021

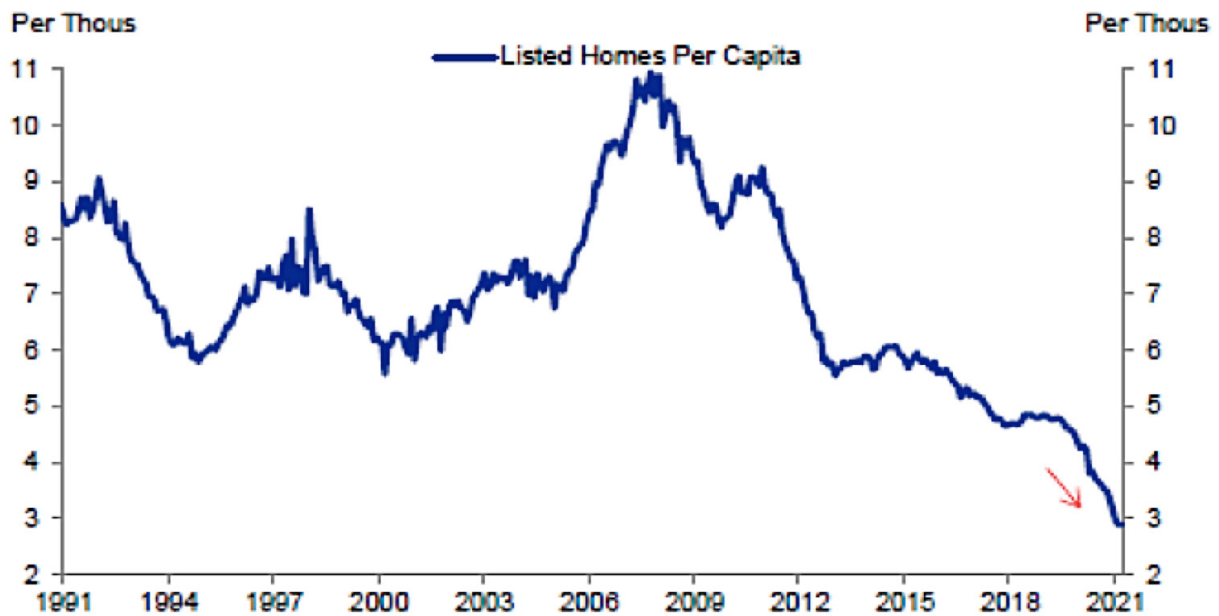
Housing Market

The demand for housing remains strong with record low mortgage rates, pent-up demand, and migration away from some states or regions due to tax, affordability, desire for more space, a different political environment, or other personal reasons. The low supply has resulted in skyrocketing prices and bidding wars and a strong residential and multi-family apartment market in new construction.

Home seekers are contending with needing to view multiple properties (up to 40 in some cases), and sellers are happily benefiting from a myriad of offers. In addition to winning bidders not only offering significantly more than the asking price, they are also agreeing to eliminate home inspections and close as-is sales. (Source: *NPR.org*)

Economy: Home Sales

Existing single family homes listed for sale, per capita

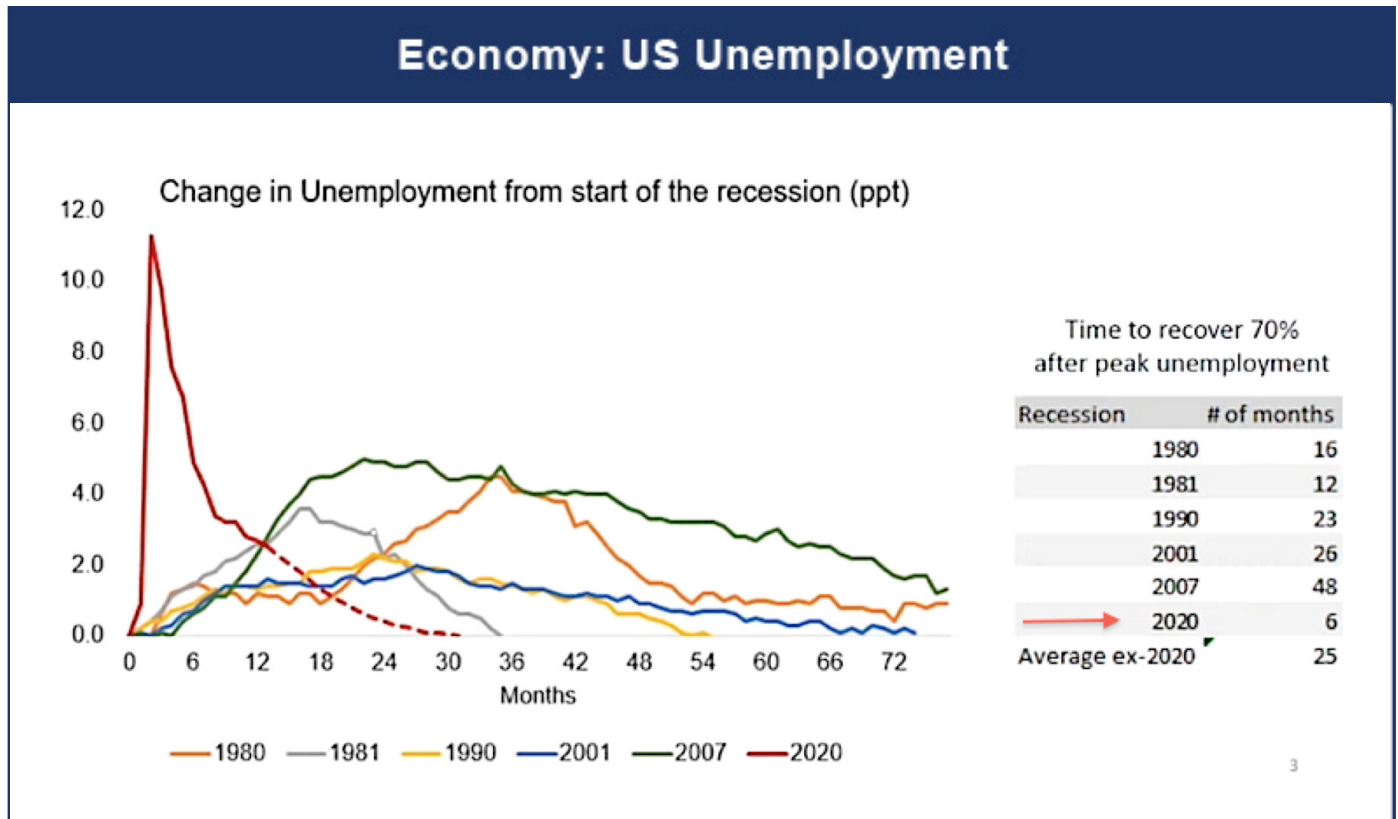


Source : DoubleLine Funds

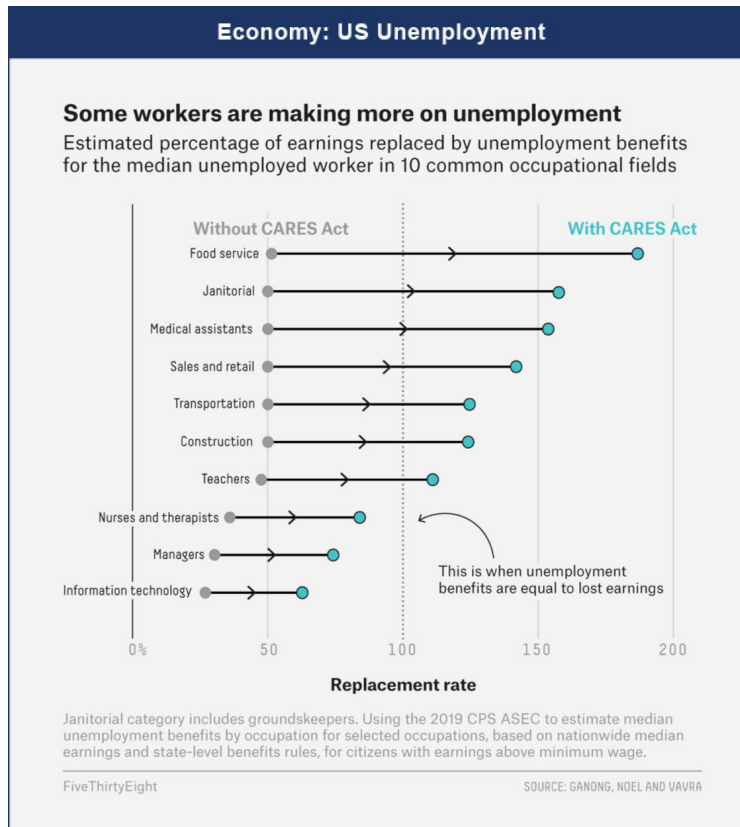
Source: Census Bureau, NAR, Goldman Sachs Global Investment Research, As of April 30, 2021.

Unemployment

During the beginning of the pandemic, we saw a very large spike in unemployment. While there has been a recovery, millions of Americans are still opting to remain home and collect government unemployment.



The US is not known for its generosity to the unemployed. The COVID-19 crisis has transformed our system for compensating jobless workers, as evidenced by replacements of prior income well in excess of 100% to near 200% for food service workers.



The level of creativity employers have used to attract workers has seldom before been seen but it is no surprise with 1.8 million workers turning away jobs. Employers are essentially left competing with the largest US employer, the federal government.

CONSIDER THE FOLLOWING SCENARIOS:

- Burger King has offered \$1,500 signing bonuses in some locations.
- A dry cleaner in Oregon employed a staff member for over 10 years. During the pandemic, the employer trimmed their hours and they qualified for unemployment. When they were able to work full-time again, they requested to be paid in cash so they could continue their unemployment benefits. The employer is caught in a bind because of the dearth of job seekers and potential loss of an experienced employee.
- A trusted caregiver to an elderly person in the Northwest worked with a family for many years. The caregiver quit and filed for unemployment. They then requested of the family to be paid in cash if their services were to be resumed.

Relief for businesses may be in sight as federal unemployment benefits are set to expire on September 6, 2021. Roughly two dozen states have chosen to end coverage early, which includes \$300 weekly bonus checks. (Source: *Cnet.com*)

Inflation

The Consumer Price Index has experienced its largest 12-month increase in 13 years, reaching 5% by the end of June 2021, compared to 1.2% by the end of 2020. (Source: *Blue River*)

With higher lumber prices and used cars running parallel to the cost of new, it seems as if inflation is accelerating. As unemployment benefits come to an end, the economy fully reopens, and supply moves closer to meeting demand, we may see inflation soften to a new equilibrium level.

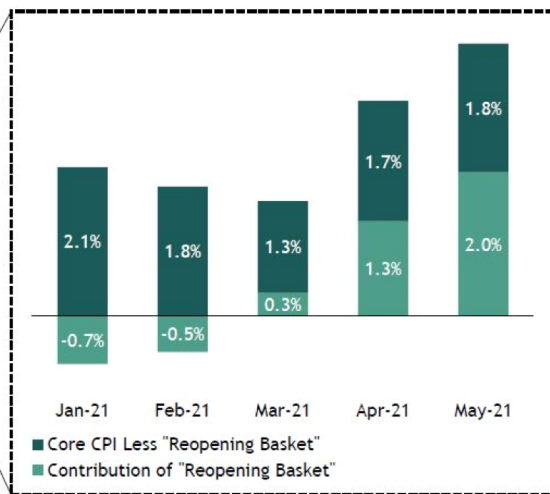
Inflation

Goods and services related to the reopening of the economy comprise more than half of core CPI growth

Core CPI Growth (All Items Less Food and Energy)
(YoY change)



Core CPI Growth and Contribution by the "Reopening Basket" of Goods / Services⁽¹⁾
(YoY change)



1. "Reopening Basket" is calculated using the weighted average growth of the following components of the Consumer Price Index, adjusted for the relative importance of each component to the overall index, as defined by the BLS: "Transportation Services, Recreation Services, Personal Care Services, Apparel, New Vehicles, and Used Cars and Trucks."

Source: Blackstone Investment Strategy calculations, Bureau of Labor Statistics, and Haver Analytics, as of May 31, 2021.

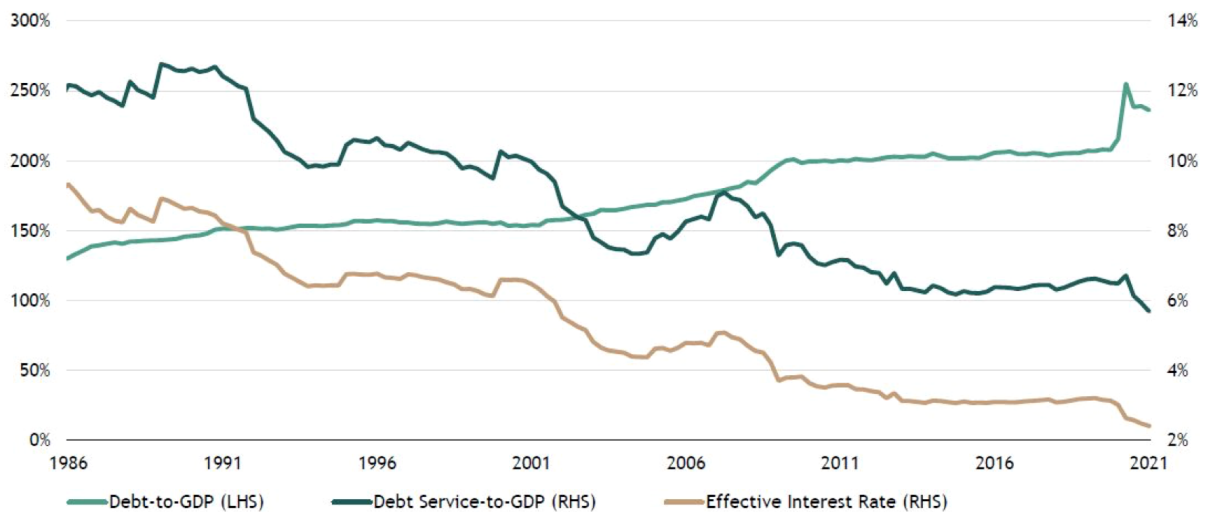
Roehl & Yi believes the US does not have the resources to continue stimulus at the levels seen or proposed. In June 2021, the debt reached nearly \$28.53 trillion dollars, over two trillion more than a year earlier. (Source: *Statista 2021*). Proposed tax increases on corporations and higher income earners cannot match the massive debt increases. Something will have to give—tax increases on all Americans, less spending, cuts to entitlements, reduced standards of living, or some combination.

Debt - to - GDP

Debt – to – GDP has almost doubled since 1986, while the effective interest rate has fallen from 9.3% to 2.4%

U.S. Total Nonfinancial Debt and Debt Service

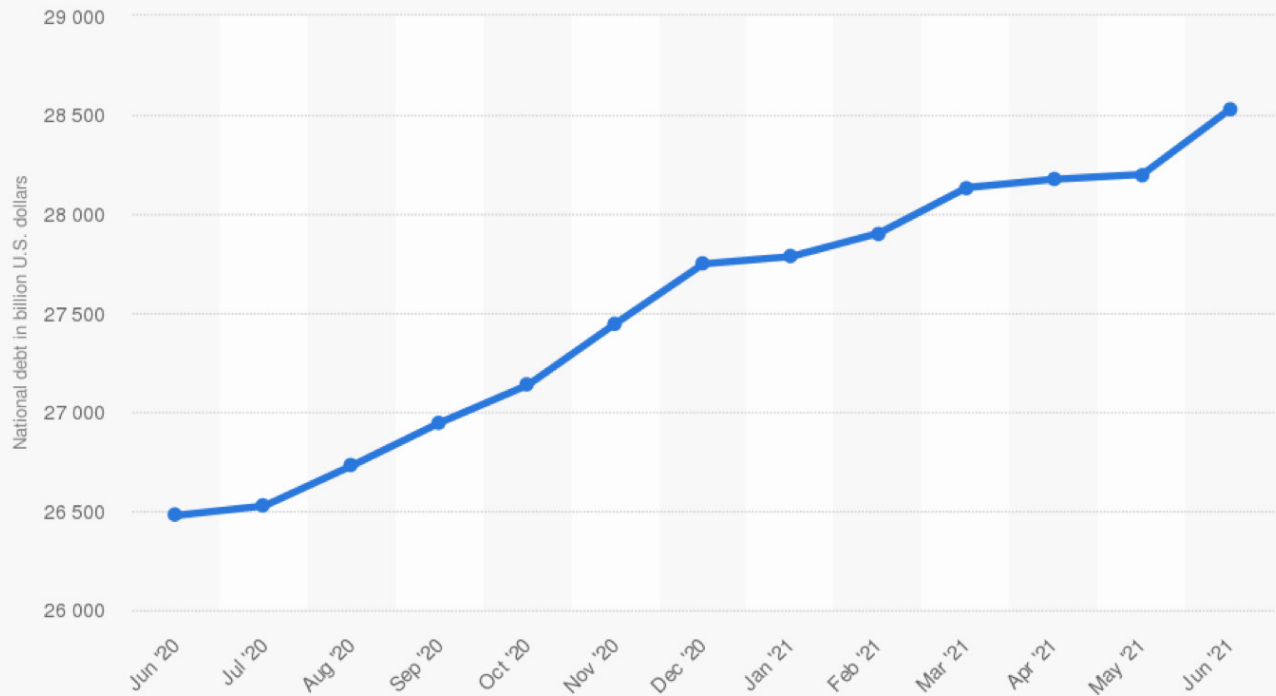
(seasonally adjusted)



"Nonfinancial" includes the federal government, nonfinancial corporations, and household and nonprofit organizations.
Source: Federal Reserve, Bureau of Economic Analysis, and Blackstone Investment Strategy, as of March 31, 2021.

Economy: US Debt

Public debt of the United States of America from June 2020 to June 2021, by month (in billion U.S. dollars)



Source
US Department of the Treasury
© Statista 2021

Additional Information:
United States; June 2020 to June 2021

FINAL THOUGHTS

At present, markets continue to be volatile and interest rates remain near recent historic lows. We will all watch inflation closely to see if it is truly transitory or will result in longer-term issues, such as threatening to slow the economy.

WHAT SHOULD YOU DO AS AN INVESTOR?

One of the hardest parts of investing is patience and discipline. During periods of uncertainty, and in times of seemingly greater risk, aim for striking a balance.

CONSIDER THESE FOUR THINGS:

- Focus on diversification. Roehl & Yi believes in broad global diversification across various asset classes. In this low-interest-rate environment, it is necessary to be thoughtful and diversify within the fixed income area.
- Be prudent in your approach to stock investing and stay within your tolerance for risk.
- Make sure your investment portfolio is aligned with your financial goals and, if it is, don't worry about it or envy the neighbor who says they hit it big on Bitcoin or some hot IPO. Chances are they lost big on other bets they didn't mention.
- Invest in asset classes appropriate to supporting your financial plan.

THE R&Y PROMISE

Roehl & Yi believes in hiring the investment managers that are the right fit for our clients' needs.

As always, we are grateful for your continued trust in Roehl & Yi and ask that your first phone call is to us if you have any questions or concerns about your investments. May you and your family experience happiness and good health.



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