Parkside Financial
BANK & TRUST

Monthly Market Update – June 2021

Global Economy

The rally in risk assets continued despite high inflation and a more hawkish Fed as other economic news was supportive of sentiment. The monthly jobs report continued to trend upward from April's disappointing report, and while consumer spending was flat it remains well above pre-pandemic levels and is expected to remain elevated given pent-up demand. Investors also cheered a bipartisan agreement on an infrastructure framework with $579 billion in new spending. Daily virus cases in the US decreased further yet the pace of vaccinations has begun to slow while still short of goals. Worldwide, more than three billion vaccine doses have been administered, but a stark gap remains between vaccination programs in different countries. More contagious variants also continue to circulate, and regional outbreaks persist. The overall growth outlook remains positive with the anticipated summer boom on the horizon and a framework for more fiscal support in place.

The Federal Open Market Committee met in June but did not change policy rates, a widely expected outcome. Forward guidance on rates made a notable shift as the 'dot plot' now projects two rate hikes in 2023, up from none the prior meeting. While the topic of QE tapering was discussed, no clear guidance exists as of yet, and FOMC member comments show a visible disagreement around the timing of tapering and rate liftoff. For now, the Fed remains dedicated to its current rate of asset purchases, and the bank's balance sheet expanded to $8.1 trillion.

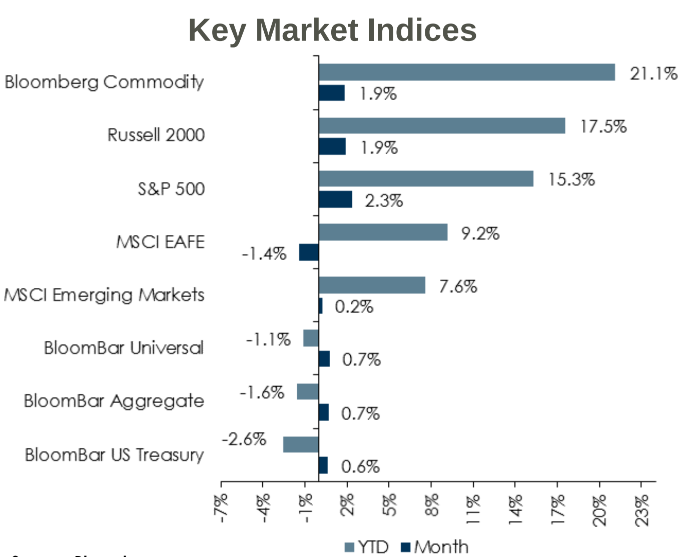
The third estimate of 1Q-21 real GDP was unchanged from the first and second, with a rate of +6.4% annualized. Upward revisions to nonresidential fixed investment, private inventory investment, and exports were offset by an upward revision to imports. The Atlanta Fed's quantitative GDP model currently forecasts continued robust growth of 7.8% in 2Q-21, in-line with analysts' consensus estimates which range from 7% - 12%.

Weekly initial unemployment claims hovered around 400,000 during the month, with the last week of the month hitting a pandemic-era low of 364,000. For the month, 850,000 jobs were added for the largest gain in 10 months, with roughly 40% of those gains coming in the leisure & hospitality sector. Unemployment ticked up to 5.9% while the labor force participation rate was flat at 61.6%. Core CPI surged to +3.8% year-over-year, with a supply/demand imbalance and base effects off pandemic lows contributing to the increase. Core PCE also rose to +3.4% year-over-year through May.

	Current	Dec-20
US GDP (%)	6.40	4.30
US Unemployment (%)	5.90	6.70
CPI (Core) (%)	3.80	1.60
Fed Funds (%)	0.00 – 0.25	0.00 – 0.25
10 Year UST Yld (%)	1.47	0.92
S&P 500 Div Yld (%)	1.35	1.57
S&P 500 P/E (Trailing)	30.31	29.92
Gold/oz.	$1,771.60	$1,895.10
Oil (Crude)	$73.47	$48.52
Gasoline (Natl Avg)	$3.19	$2.33
USD/Euro	$1.19	$1.22
USD/GBP	$1.38	$1.37
Yen/USD	¥111.11	¥103.25

Source: Bloomberg

Global Markets



Source: Bloomberg

Returns for major equity indices were mixed in June with US markets up and Non-US markets down to slightly positive as the growth outlook saw headwinds from recurrent virus outbreaks and global supply disruptions. The S&P 500, which represents large US-based entities, returned +2.3% for the month. A more hawkish fed stalled the reflation trade as Information Technology (+6.9%) was the top performing sector, followed by Energy (+4.5%), and Consumer Discretionary (+3.8%). Recent strong performers Materials (-5.5%), Financials (-3.1%), and Industrials (-2.3%) lagged. The Russell 2000, representing small cap stocks, returned +1.9% in June. Communication Services (+19.3%), Energy (+8.7%), and Health Care (+8.1%) outperformed with Materials (-5.0%), Financials (-3.4%), and Industrials (-1.0%) lagging. After outperforming for much of 2021, value stocks slipped after the Fed meeting and growth significantly outperformed value across the market cap spectrum in June.

In the broad international developed markets, the MSCI EAFE index returned -1.4% for the month. At the sector level, Health Care (+3.1%), Information Technology (+2.0%), and Energy (+0.6%) were the top performers while Financials (-4.7%), Utilities (-4.3), and Materials (-2.5%) lagged. Among developed countries, Switzerland (+2.0%), Denmark (+1.7), and Israel (+1.4%) were the top performers in a month with few positive country-level returns while Portugal (-7.2%), Spain (-5.4%), and Austria (-4.7%) lagged. Most others were generally in the +0.0% to -2.0% range.

Emerging market stocks, as represented by the MSCI Emerging Markets index, underperformed US markets at +0.2%. Regional virus outbreaks continue to raise concerns in largely unvaccinated emerging markets, but higher commodity prices have provided a tailwind for some exporting countries. At the country level, Colombia (+5.6%), Brazil (+5.3%), and Russia (+4.3%) outperformed while Peru (-11.9%), Pakistan (-9.3%), and South Africa (-7.8%) lagged.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, performed in-line with equities with a +0.83% return. The energy-related Alerian MLP outperformed other equities at +5.2% while the near-month NYMEX oil returned 10.8%, approaching prices last seen in 2018. Gold was down -6.9% for its worst month in four years after the hawkish Fed shift. The diversified Bloomberg Commodity index was up 1.9%.

Global Markets (continued)

The US Treasury yield curve flattened in June as short rates rose and longer-term rates fell. The movement happened as the Fed signaled tapering and rate liftoff could happen sooner than previously anticipated. The overall UST complex had a positive return for the month at +0.6%, lifting trailing one-year returns to -3.2%. Sovereign yields outside of the US were generally lower, and the global stock of negative yielding debt rose to $13.4 trillion from $13.1 trillion.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on an absolute basis and roughly equaled on a duration-matched basis with a return of +0.7% in June. The 12-month performance remains negative with a -0.3% return. Demand remained high in June and spreads mostly tightened across market segments, with Agency MBS the exception as investors worried about the Fed tapering purchases of these securities. The net result of the yield curve movement and mixed spreads was the benchmark's yield-to-worst was unchanged at 1.50%.

The BloomBar 1-15-Year Municipal index returned +0.1% in June. Demand remains supportive, as the anticipation of higher taxes along with an improved stale/local government credit outlook have contributed to investor sentiment. Fiscal support and impressive tax revenues continue to lead the recovery in municipal credit, with aggregate state tax collections from April/May 2021 16.8% higher than the same period in 2019. Additional fiscal support continues to look likely, with a bipartisan framework for an infrastructure bill making headlines in the month.

The BloomBar US Corporate High Yield index returned +1.3% for the month. High-yield spreads tightened 28bps to 268bps, the lowest level since 2007, while the benchmark yield fell to a new all-time low of 3.75%. Default activity continued to be modest with two defaults reported for the month, totaling $3.2 billion. The TTM default is expected to have fallen to 2.0% by the end of June, and the forecast for year-end 2021 has been lowered to 1%. Emerging Market debt underperformed US High Yield in the month, as a stronger US dollar and negative sentiment stemming from regional Covid outbreaks weighed on returns.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-20
Japan	0.05	0.02
Germany	-0.21	-0.57
France	0.13	-0.34
United Kingdom	0.72	0.19
Spain	0.41	0.04
United States	1.47	0.92
Italy	0.82	0.54
Mexico	6.97	5.53
Brazil	9.09	6.91

Source: Bloomberg

Indices Report (Periods Ending June 30, 2021)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	2.33	15.25	40.79	18.67	17.65	14.84	10.73
Russell 1000	2.51	14.95	43.07	19.16	17.99	14.90	10.89
Russell 1000 Growth	6.27	12.99	42.50	25.14	23.66	17.87	13.53
Russell 1000 Value	-1.15	17.05	43.68	12.42	11.87	11.61	8.01
Russell 2500	1.18	16.97	57.79	15.24	16.35	12.86	10.25
Russell 2000	1.94	17.54	62.03	13.52	16.47	12.34	9.51
Russell 2000 Growth	4.69	8.98	51.36	15.94	18.76	13.52	10.89
Russell 2000 Value	-0.61	26.69	73.28	10.27	13.62	10.85	7.90
Wilshire 5000 Cap Wtd	2.51	15.45	44.24	18.89	17.96	14.76	10.85
MSCI ACWI	1.35	12.56	39.87	15.14	15.20	10.48	8.17
MSCI ACWI ex US	-0.62	9.45	36.29	9.88	11.59	5.93	5.33
MSCI EAFE	-1.10	9.17	32.92	8.77	10.79	6.38	4.89
MSCI EAFE Local Currency	1.40	13.11	27.63	8.02	10.52	8.59	5.16
MSCI EAFE Growth	0.06	7.07	31.39	12.85	12.89	8.15	6.37
MSCI EAFE Value	-2.27	11.10	34.22	4.37	8.43	4.45	3.27
MSCI Emerging Markets	0.21	7.58	41.36	11.67	13.43	4.65	6.97
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	-0.15	-0.08	0.07	2.69	1.60	1.20	2.17
BloomBar US Aggregate	0.70	-1.60	-0.33	5.34	3.03	3.39	4.43
BloomBar Gov't Bond	0.62	-2.51	-3.10	4.66	2.19	2.78	3.87
BloomBar US Credit	1.50	-1.28	2.99	7.42	4.63	4.92	5.61
BloomBar 10 Yr Municipal	0.19	0.57	3.66	5.33	3.26	4.39	4.86
BloomBar US Corp High Yield	1.34	3.62	15.37	7.45	7.48	6.66	7.53
FTSE World Govt Bond	-1.06	-4.75	0.76	3.59	1.66	1.42	3.36
BloomBar Global Aggregate	-0.88	-3.21	2.63	4.23	2.34	2.05	3.71
BloomBar Multiverse	-0.82	-2.95	3.19	4.34	2.57	2.23	3.85
Real Assets							
NCREIF Property	0.00	1.72	3.65	4.27	5.39	8.41	6.73
NFI ODCE Net	0.00	1.89	3.29	3.35	4.86	8.21	5.08
FTSE NAREIT US Real Estate	2.61	21.96	38.02	10.10	6.31	9.41	7.07
Bloomberg Commodity	1.85	21.15	45.61	3.90	2.40	-4.44	-3.00
Cash and Equivalents							
US T-Bills 90 Day	0.00	0.02	0.09	1.34	1.17	0.63	1.09

Disclosures and Legal Notice

The views expressed herein are those of Asset Consulting Group (ACG). They are subject to change at any time. These views do not necessarily reflect the opinions of any other firm.

This report was prepared by ACG for you at your request. Although the information presented herein has been obtained from and is based upon sources ACG believes to be reliable, no representation or warranty, express or implied, is made as to the accuracy or completeness of that information. Accordingly, ACG does not itself endorse or guarantee, and does not itself assume liability whatsoever for, the accuracy or reliability of any third party data or the financial information contained herein.

Certain information herein constitutes forward-looking statements, which can be identified by the use of terms such as “may”, “will”, “expect”, “anticipate”, “project”, “estimate”, or any variations thereof. As a result of various uncertainties and actual events, including those discussed herein, actual results or performance of a particular investment strategy may differ materially from those reflected or contemplated in such forward-looking statements. As a result, you should not rely on such forward-looking statements in making investment decisions. ACG has no duty to update or amend such forward-looking statements.

The information presented herein is for informational purposes only and is not intended as an offer to sell or the solicitation of an offer to purchase a security.

Please be aware that there are inherent limitations to all financial models, including Monte Carlo Simulations. Monte Carlo Simulations are a tool used to analyze a range of possible outcomes and assist in making educated asset allocation decisions. Monte Carlo Simulations cannot predict the future or eliminate investment risk. The output of the Monte Carlo Simulation is based on ACG’s capital market assumptions that are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. Capital market assumptions based on other models or different estimates may yield different results. ACG expressly disclaims any responsibility for (i) the accuracy of the simulated probability distributions or the assumptions used in deriving the probability distributions, (ii) any errors or omissions in computing or disseminating the probability distributions and (iii) and any reliance on or uses to which the probability distributions are put.

The projections or other information generated by ACG regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Judgments and approximations are a necessary and integral part of constructing projected returns. Any estimate of what could have been an investment strategy’s performance is likely to differ from what the strategy would actually have yielded had it been in existence during the relevant period. The source and use of data and the arithmetic operations used for calculating projected returns may be incorrect, inappropriate, flawed or otherwise deficient.

Past performance is not indicative of future results. Given the inherent volatility of the securities markets, you should not assume that your investments will experience returns comparable to those shown in the analysis contained in this report. For example, market and economic conditions may change in the future producing materially different results than those shown included in the analysis contained in this report. Any comparison to an index is for comparative purposes only. An investment cannot be made directly into an index. Indices are unmanaged and do not reflect the deduction of advisory fees.

This report is distributed with the understanding that it is not rendering accounting, legal or tax advice. Please consult your legal or tax advisor concerning such matters. No assurance can be given that the investment objectives described herein will be achieved and investment results may vary substantially on a quarterly, annual or other periodic basis. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.