

~ Prevailing Winds ~

A Quarterly Market Update

June 30, 2021

Quarterly Recap:

The economy and financial markets remained in full rally mode during the second quarter. An aggressive vaccination campaign has allowed many people to resume a life that is much closer to "normal". In some respects, the return to normalcy has created its own problems in terms of labor shortages, supply chain disruptions, and price increases. The lesson learned in recent months is that restarting the economy and everyday life will be a process, not a single event.

Quarter Ending June 30, 2021

Equity Indexes	Close	% Change
DJIA	34502.51	4.6%
S&P 500	4297.50	8.2%
NASDAQ	14503.95	9.5%
Treasuries	Close	Change
10-Year Yield	1.45%	-0.29
2-Year Yield	0.25%	0.09

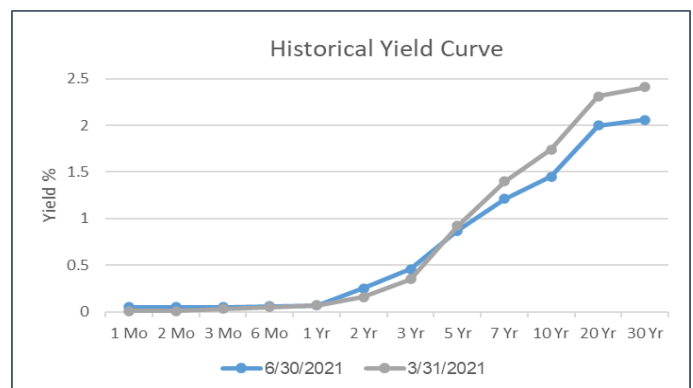


The Stock Market:

Despite the many unknowns, investors are generally inclined to maintain or increase their focus on the equities. Some continue to favor the fastest growing, higher risk investments. Others are putting money toward companies with lower relative risks and may be well poised to benefit from continued economic expansion and infrastructure spending. So far, there has not been a clear "winner" of this debate. What does seem clear, is that investors have been unphased by market volatility and uncertainty. The question remains is at what point might this change?

The Bond Market:

Conventional wisdom dictates that interest rates should rise in anticipation of a recovering economy and surging inflationary concerns. Most would assume that rapid increases in job growth and commodity prices would force short and long term interest rates higher. This has not been the case during the second quarter. In fact, long term interest rates actually dropped! There is an old expression- "Don't fight the Fed". While there have been a few scary moments, most are accepting the Fed's position that the rise of inflation is transitory and not systemic.



Looking Ahead:

The celebrations of July 4th provided a reason to take note of our collective accomplishments in recent months. Indeed, investors have benefited by placing their faith on the long term resiliency of economic growth and corporate profits. Investing is always more challenging when one looks at shorter term risks. Going forward, the idea that inflation is "transitory" will surely be tested. Unknown risks such as the Delta Covid variant or a shift in fiscal or monetary policy all have the potential for disrupting our dreams for an uneventful summer.