**QUARTERLY MARKET COMMENTARY: 2021-Q2**

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It is remarkable that we have already moved through the first half of 2021, and yet, the passage of time appears to be moving slowly as we continue to monitor economic indicators for clarification on the global path of recovery. Two persistent issues remain at the forefront of discussions: inflation and the Delta variant of COVID. Even the occasional headline mentioning either topic has not been enough to drive a significant downturn in U.S. markets. We did experience a mild decline during the second quarter, but amazing market resilience prevented the Dow Jones Industrial Average from breaking below 33,000 before revisiting all-time highs. Technical analysts should be pleased with the confirmation of such a near-term support level. As fundamentalists, we do appreciate recent market patterns, but our focus remains on financials. Anticipating another round of positive earnings reports, we expect fundamentals to continue to strengthen, providing additional support to slightly overbought valuations.

As U.S. markets approached recent highs during the second quarter, the driving factors slightly changed. “Growth” oriented sectors found strength after a slow start in 2021, while certain “Value” sectors took a breather after their remarkable run-up so far this year. In addition to Energy maintaining its leadership among 2021 sector returns, we remain positive on two other sectors within the Value category: Financials and Utilities. While writing this commentary, recent earnings reports from various financial companies have far exceeded expectations, lending to a strong case for continued upside potential. We also anticipate strength in the Utility sector later in the economic recovery timeline involving the normalization of U.S. manufacturing. As our economy stays on track, we remain somewhat underweighted to foreign equities realizing the global economic recovery from pandemic challenges will most certainly be uneven attributed to differing COVID policies and vaccination availability.

Many questions remain unanswered for financial professionals as new challenges continue to emerge due to the unprecedented environment for capital markets. Typical correlations that have existed for decades do not currently hold true, making projections difficult. An example would be the relationship between employment data and Gross Domestic Product (GDP) growth. One needs to look underneath the tip of the iceberg to see why unimpressive employment reports have not created a drag on GDP results. Upon closer analysis, it can be noted that additional unemployment benefits may have prevented a significant slowdown in the velocity of money during the nationwide shutdown. Although we believe that recovering employment results will have a positive influence on GDP growth, it will not be to the extent expected by many on Wall Street. This perspective should alleviate some concerns regarding an overheated economy with higher interest rates.

Our attention remains directed to two significant factors that can tip the balance on inflation: infrastructure spending and proposed taxes. It appears the yield on 10-year Treasuries has come off recent highs in response to concerns regarding the Delta variant and the relatively smaller figures referenced in infrastructure discussions. We believe the pace of implementing an Infrastructure Package is more important than the size of the package when trying to gauge the impact on inflation. While seeking clarification on inflation’s transitory or sustainable status, we await additional details on both factors moving forward.

Please reach out to your adviser should you have any questions regarding this commentary or your portfolio. Also note, it is highly recommended that you review your financial plan at least annually. We hope you have a relaxing and fun-filled summer!

This report was written by David Y. Sun, CFA. It is a recap of the market conditions from the previous quarter and is for information purposes only.