

QUARTERLY Market REPORT

2ND QUARTER - 2021

As the weather heated up, so did the economy – and the potential for inflation. But without any big news to look forward to, markets could cool down significantly as we head into the second half of 2021.

THE BEAT GOES ON

While the first quarter of 2021 was full of major news – including a new administration and the vaccine rollout – headlines in the second quarter were a bit tamer. Still, even without big headlines to push them upward, markets resolutely continued to heat up.

The economy slowly reopened throughout the spring, due in part to wide distribution of COVID-19 vaccines. As it did, consumers increased their spending, feeling flush with stimulus cash and pent-up demand fueled by a year of shutdowns.

Markets responded to the reopening with enthusiasm, setting multiple records between April 1 and June 30. The Dow ended the first quarter at nearly 33,000 points and added more than 1,000 points in the second quarter,¹ while the S&P 500 added over 250 points or about 7%.² The ride in the NASDAQ was a bit wilder yet just as positive; tech stocks rose and fell in conjunction with interest rate concerns and responded as the markets rotated away from the tech sector.

| Equity Performance as of June 30, 2021 | | | | | |
|--|-------|--------|--------|--------|--------|
| Equity Index | Q2 | YTD | 1YR | 3 YRS | 5 YRS |
| S&P 500: | 8.17% | 14.41% | 38.62% | 16.49% | 15.41% |
| NASDAQ: | 9.49% | 12.54% | 44.19% | 24.53% | 24.53% |
| DJIA: | 4.61% | 12.73% | 33.66% | 12.44% | 13.99% |

Source: Morningstar. Index Performance: Return (%). <http://news.morningstar.com/index/indexReturn.html>. Accessed July 1, 2021.

First quarter GDP, released in April, increased by 6.4%³ – a strong performance, although not as strong as some expected. Some analysts have called for GDP to grow by 10% in the second quarter.⁴ But while the past three months were marked by significant growth, there are signs we could be headed for a major cooldown in the back half of 2021.

A BIT OF A CHILL

While consumer spending has been strong over the past six months, it began to flag a bit in the second quarter. Job growth, too, had a good showing, with the unemployment rate dropping to 5.8% in May.⁵ However, job growth has cooled as well; the most recent reading showed 9.3 million job openings as businesses struggle to find workers.⁶

Inflation is a major concern as we head into summer, fueled by increased consumer demand and a bottlenecked supply chain. Higher wages also factor into potential inflation: As employers pay more to attract (and retain) employees, spending and demand increases and puts additional strain on a supply chain that's already stressed. The Federal Reserve has



QUARTERLY Market REPORT

2ND QUARTER - 2021

remained committed to keeping interest rates low, although they recently indicated a willingness to start thinking about raising rates to offset inflation. Still, the equity market has shrugged off inflation concerns, while the bond market seems to be discounting a rise in rates as the yield on the 10-year Treasury has hovered in the 1.5% range.⁷

With no big news on the immediate horizon, markets may struggle to continue their upward climb over the next few months. In fact, investors may see an increase in turbulence and volatility, especially as the specter of inflation looms and supply disruptions continue.

As always, it's important to remember that volatility is a natural part of the market cycle. The important thing is to make sure your portfolio is positioned properly and that your plan is aligned with your goals. If you're feeling nervous about what the next few months might bring, this is a great time to connect with your advisor and make sure you're in good shape for any surprises the third quarter could bring.

¹ Yahoo! Finance. "Dow Jones Industrial Average." <https://finance.yahoo.com/quote/%5EDJI/>. Accessed June 22, 2021.

² Yahoo! Finance. "S&P 500." <https://finance.yahoo.com/quote/%5EGSPC/>. Accessed June 22, 2021.

³ Jeff Cox. CNBC. April 29, 2021. "Consumer-fueled economy pushes GDP to 6.4% first-quarter gain." <https://www.cnbc.com/2021/04/29/us-gdp-rose-6point4percent-in-the-first-quarter-vs-6point5percent-increase-expected.html>. Accessed June 22, 2021.

⁴ Insider Stocks Report. June 20, 2021. "Q2 GDP Forecasts: Around 10%." <https://insiderstocksreport.com/q2-gdp-forecasts-around-10-2/>. Accessed June 22, 2021.

⁵ Kimberly Amadeo. The Balance. June 4, 2021. "What Is the Current US Unemployment Rate?" <https://www.thebalance.com/current-u-s-unemployment-rate-statistics-and-news-3305733#:~:text=The%20current%20U.S.%20unemployment%20rate%20is%205.8%25%20in,rate%20is%200.3%20percentage%20points%20lower%20than%20April>. Accessed June 22, 2021.

⁶ Jeff Cox. CNBC. June 8, 2021. "Job openings set record of 9.3 million as labor market booms." <https://www.cnbc.com/2021/06/08/job-openings-set-new-record-of-9point3-million-amid-economic-reopening.html>. Accessed June 22, 2021.

⁷ U.S. Department of the Treasury. "Daily Treasury Yield Curve Rates." <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>. Accessed June 22, 2021.

Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. The information and opinions contained herein provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed by AE Wealth Management.

This information is not intended to be used as the sole basis for financial decisions, nor should it be construed as advice designed to meet the particular needs of an individual's situation. None of the information contained herein shall constitute an offer to sell or solicit any offer to buy a security product.

Information regarding the RIA offering the investment advisory services can be found on <https://brokercheck.finra.org/>

Investment advisory services offered through Spectrum Advisors, Inc., a Registered Investment Advisor. The advisory firm providing you this report is an independent financial services firm and is not an affiliate company of AE Wealth Management, LLC. Content provided by AE Wealth Management, LLC.

6/21 - 1695861



spectrum
advisors

