Quarterly Market Summary – Q2 2021

Market Results as of the Second Quarter of 2021

Selected Index Results for Q2 – 2021

Index(1)	%Growth For FY 2020	%Growth For YTD 2021	%Growth For Q2 2021
DJIA	7.25%	12.73%	4.61%
Core U.S. Aggregate Bond Index (U.S. multi-sector bond)	5.18%	-2.42%	1.32%
S&P 500 (large cap)	16.26%	14.41%	8.17%
S&P 400 (mid cap)	11.81%	16.89%	3.33%
Russell 2000 (small cap)	18.36%	17.00%	4.05%
MSCI EAFE Index (developed international)	5.07%	8.11%	3.97%
iShares MSCI Emerging Market Index	15.15%	6.74%	3.39%
iShares Dow Jones US Home Construction	25.62%	24.05%	1.99%
MSCI US REIT Index	-11.11%	19.93%	11.16%
Amex Oil Index	-37.63%	43.68%	13.02%
Barclays Global Agg ex-US Corp Bond Index	10.95%	-4.22%	1.31%

(1) These results do not include reinvestment of dividends.

Q2 Quick Summary

- At the time of this writing, we are seeing significant increases in Covid-19 infection rates and hospitalizations in developed economies, including the U.S. Fortunately, this has not translated into increasing deaths. Unfortunately, it is starting to impact economic growth. As a result, the threat of rising Covid-19 infection rates among the unvaccinated, and the impact on the economy, remains a risk that is very difficult to quantify and could have a significant negative impact, at least for the remainder of 2021, on the generally positive trends that we otherwise observe.
- The U.S. stock market continued to post positive returns in Q2, with particular strength in large cap stocks (up 8.2%) and continued recovery in the real estate and energy sectors.
- Bonds staged a modest recovery in Q2 (up about 1.3% in the U.S. and globally) despite ongoing concerns about inflation and the potential for increasing interest rates.
- Until recently, the COVID-19 pandemic had eased significantly in most major developed economies, resulting in continued economic expansion. Vaccination rates have been uneven though, leading to surges in new variants of the virus in some regions, including the US.
- The U.S. Federal Reserve continued to signal a patient approach to monetary policy while acknowledging inflationary pressures in the short term.

From Recovery to Expansion

The US and most major economies are progressing from pandemic recovery toward economic expansion, with varied levels of activity based on vaccine rollouts and reopening progress. While China's expansion

is maturing in its post-pandemic period, US activity is poised to accelerate amid economic reopening and fiscal stimulus. Many other large economies, particularly developing countries, have experienced slower vaccination and recovery trends.

Quarter-over-quarter GDP growth has been robust in 2021, with growth in Q2 expected to register at 9.4%, followed by steadily descending but still positive growth rates in the remaining two quarters of the year. Excluding any impact from the recent increase COVID infections in developed economies, most economists estimated full-year real GDP growth in the U.S. will be just under 7% this year. However, as mentioned above, the impact of the pandemic continues to evolve. The outlook for the Euro zone is equally positive, with European countries just recently starting to ease their restrictions, paired with the bloc's largest-ever economic stimulus program on the horizon.

Meanwhile, vaccination rates in emerging markets are well behind those in most developed economies, leading to sharp increases in COVID metrics for regional economic powerhouses like Brazil and India. Offsetting these challenges are continued robust GDP growth in China and other Asian economies, including Taiwan, Singapore, and Hong Kong. Real GDP growth is now expected to top 6% globally in 2021.

Ongoing restrictions, new virus variants, vaccine hesitancy and supply chain disruptions remain key downside growth risks in the near term. But vaccine production and distribution are making strong headway. This, alongside additional policy support in some major economies and continued excess savings, provide momentum on the upside.

Inflation Is Here, For Now

Signs of inflation are becoming more prevalent, with surveys of manufacturing purchasing managers and small businesses revealing the highest price increases and inflationary pressures in more than a decade. High shipping costs and disruptions to global supply chains are causing production delays for American manufacturers, weighing on output, and putting upward pressure on consumer prices just as demand for these goods has surged. Due to the global nature of supply chains, until the pandemic has subsided across the world, these kinds of shortages and disruptions are likely to continue.

One high-profile example of such disruption is the global semiconductor shortage, which has held back production of motor vehicles in the U.S. since the start of the year. At the same time, consumer demand for vehicles has rebounded sharply, and this has led the retail inventories-to-sales ratio to fall precipitously. While new vehicle prices accelerated earlier in the pandemic and then moderated, used vehicle prices have shot up over 20%, likely influenced by the reduced availability of new dealer supply.

Several American companies have outlined price hikes in response to rising material costs. For example, appliance maker Whirlpool is phasing in price increases between 5%-12% at least until the end of June. Meanwhile, American conglomerate, Proctor & Gamble has said that price increases will range from mid-to-high single digit percentages and will go into effect in mid-September. So, the impact of these developments on CPI inflation is not a matter of 'if' but 'when'.

Meanwhile, businesses are already reducing their dependence on global supply chains. While this would indeed make them less vulnerable, it could also push up prices in the medium to long-term for themselves and consumers. Manufacturers are drawing down existing inventories to deal with these input shortages. Inventories for the transportation manufacturing industry is at its lowest level since mid-2019, due to a drawdown in the remaining stock of raw material and other supplies. Solving these supply constraints is

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likely to take several more months. In the meantime, further reopening of the economy is likely to continue to stoke price pressures in these areas.

Government Support Continues

Near-term market inflation expectations are significantly higher than pre-pandemic levels but also indicate a belief that inflation pressures will be transitory and diminish in the years to come. With core inflation still muted, the Fed expressed a tolerance for sustained, above-target inflation to make up for past misses, in accordance with its average inflation targeting (AIT) framework. Labor markets have recovered substantially from their early pandemic lows, but unemployment remains well above pre-pandemic levels. The Fed is likely to remain accommodative as it seeks broader and more inclusive employment gains.

At the same time, President Biden has outlined his policy agenda to "Build Back Better" by spending roughly four trillion dollars over ten years on a host of infrastructure, research and development, education, and childcare measures. The administration estimates that this ambitious spending agenda will be paid for over 15 years through increases in corporate taxes and on high-income taxpayers (see table below). The plans are unlikely to pass "as is", even under the reconciliation process, but we suspect a large element will be incorporated in the months ahead.

Table 1: Tax Increases in Biden's Build Back Better Plans ($ billions, 2022-2031)

American Families Plan		Made in America Tax Plan	
Improve tax compliance & administration	718	Raise corporate income tax rate from 21% to 28%	858
Tax capital gains & dividends as income for >$1m, close carried interest loophole & various other measures	580	Revise the Global Minimum Tax regime	534
		Prevent corporate inversions	390
Raise top personal tax rate from 37% to 39.6%	132	15% minimum tax on book earnings of large corps.	148
Make permanent excess business loss limitation of noncorporate taxpayers	43	Eliminate tax preferences for fossil fuels	86
Total ($ trillions)	**1.5**	**Total ($ trillions)**	**2.0**

Source: The President's Budget (May 2021), TD Economics

Unlike the recently-enacted American Rescue Plan, which was intended to stimulate the economy in the short-term to counteract the damage from the pandemic, the policies in Biden's latest plan are an attempt to increase the productive capacity of the U.S. economy over the longer-term through investments in human and physical capital. Infrastructure spending typically has some of the highest multipliers of all types of government spending, however, these sorts of projects take time to plan and execute. Such projects boost the economy both in the construction phase, but also by hopefully increasing productivity in the economy over the medium term. As outlined, and depending on timing, these plans could modestly boost GDP growth starting in 2022, however, without much detail and with changes likely, any point estimates at this stage are highly uncertain.

Housing Market Is Still Hot, But Cooling Trends Emerge

U.S. home sales surged to a 14-year high toward the end of last year but have since eased considerably. The overriding theme is one of a shortage of inventory. Housing resale inventories currently sit at a little over one million in the U.S., near record lows and down 20% from last year. Tight supply has resulted in sharp home price appreciation, with all key year-over-year metrics sitting in double-digit territory.

The pace of U.S. home price growth continued to accelerate nationally according to the CoreLogic price index, but this has been driven by a handful of states. In most states, home price gains have slowed from the red-hot pace at the end of last year. Builders have ramped up the construction of new homes, an element that should offer further price respite down the road; however, rising input costs pose an added challenge. Examples include the soaring costs of copper and lumber – particularly the latter, which is adding roughly $36,000 to the price of an average new single-family home.

Tight market conditions increase the odds that costs are passed down to the consumer. Coupled with an upward trend in mortgage rates, affordability challenges are likely to become more binding in the quarters ahead. This could tilt some demand back toward the rental market, particularly for lower-income households and those whose jobs require a physical presence in dense urban areas. Leasing and online apartment search data already point to more typical rental demand patterns emerging in urban cores.

Conclusions

While the COVID threat to the economy had diminished in recent months, the recent rising rate of infection, the moderating rate of vaccination and the possibility of additional variants is worrying – and it makes projection of future economic and stock market performance very difficult. Projecting stock market direction is always rife with problems, doing so in such an environment can quickly make even the most thoughtful projections irrelevant. In a rapidly growing economy with rising inflation, assets with exposure to high nominal growth rates, including value stocks and commodities, may hold up well, whereas bonds could struggle. As economic reopening progresses, relative performance patterns may be influenced by the trajectories of policy, inflation, and real interest rates. More accommodative monetary and fiscal policies could generate inflationary pressure, whereas a move toward policy normalization could negatively impact financial conditions.

Fundamentally, stock valuations are based on long-term expectations for dividend payments and price appreciation. Assuming continued success in combatting the virus and returning the economy to more “normal” levels of activity, the long-term impact on economic growth and equity values should not be significant. However, as we have stated previously, the ongoing and unprecedented level of government stimulus, both fiscal and monetary, continues to raise concerns about deficit spending and the corresponding growth in national debt. While such stimulus may be critical in times of stress, the long-term implications for economic growth are likely to be negative. In the near term, uncertainties around these policies (among other developments) will likely result in continued high levels of market volatility.

In periods of higher market volatility, maintaining investment discipline will be more difficult emotionally. However, we need to remember that market timing as an investment strategy has never worked consistently (and results in lower longer-term yields). Trying to time markets has a high probability of creating permanent losses.

As always – stay with a consistent and disciplined investment strategy – it is the only course of action with any track record of success (in any investment environment). There is no reason to believe, even with the changing economic dynamics, that the disciplined approach to investments will be less effective than in the past at delivering the best possible relative returns.

At the most fundamental level, match your investment time horizon to your spending timeline – if you have short term cash needs then those funds should be in short term investments. These are simple asset/liability matching principles practiced by the most sophisticated investment managers every day (but far too complex to explain in sound bites and not conducive to selling products). Additionally, don’t try to

solve short-term financial problems with long-term equity exposure. If you try to chase returns, you may get lucky sometimes but, if pursued long enough, it always ends in extreme frustration and often with serious financial losses. The reality is that no one has ever consistently predicted investment markets and they never will - and there is always a consequence to continued unsound financial behavior.

As always, if your personal or family situation has changed (or is likely to), a discussion with us as to how this may impact your financial plan and your overall asset allocation is warranted. Or, if you simply feel a need to discuss any aspect of your portfolio and/or financial plan, or you haven't had a planning update within the last 12 months, please contact us to review your financial plan and investments.

Risks

Investors should be aware of the risks associated with all portfolio strategies and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, vaccine missteps, other geopolitical events can have a substantial effect on portfolio performance and the effectiveness of strategic and tactical portfolio approaches.

Your financial plan is the most important financial document that you possess! Keep it updated and use it.

Please note that you are entitled to receive Fullen Financials' Form ADV whenever you would like to. This document outlines many details of who Fullen Financial is, their investment methodologies and their advisor's education and experience. You may do so by contacting Paula Miller (paula@fullenfinancial.com) and requesting such. Alternatively, you can go to the Fullen Financial website at www.fullenfinancial.com and click on "Resources" in the top menu bar, and then on "Client Forms."

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Appendix: Economic Indicators and Outlook

Economic Indicators: G7 & Europe		Forecast		
	2018	2020	2021	2022
Real GDP (annual per cent change)				
G7 (30.1%)*	1.6	-5.1	5.8	4.2
U.S.	2.2	-3.5	6.9	4.3
Japan	0.0	-4.7	2.8	1.9
Euro Area	1.3	-6.7	4.6	4.2
Germany	0.6	-5.1	4.0	3.9
France	1.8	-8.0	5.7	3.6
Italy	0.3	-8.9	5.0	4.0
United Kingdom	1.4	-9.8	6.2	6.1
Canada	1.9	-5.3	6.1	4.4
Consumer Price Index (annual per cent change)				
G7	1.5	0.6	2.4	1.7
U.S.	1.8	1.2	3.7	2.6
Japan	0.5	0.0	0.1	0.4
Euro Area	1.2	0.3	1.6	1.3
Germany	1.3	0.4	2.4	1.4
France	1.3	0.5	1.4	1.2
Italy	0.6	-0.1	1.3	0.9
United Kingdom	1.8	0.9	1.6	2.0
Canada	2.0	0.7	2.9	2.5
Unemployment Rate (per cent annual averages)				
U.S.	3.7	8.1	5.6	3.9
Japan	2.4	2.8	3.0	3.0
Euro Area	7.6	7.9	8.3	8.2
Germany	5.0	5.9	5.9	5.5
France	8.5	8.0	8.4	8.6
Italy	10.0	9.2	10.1	9.7
United Kingdom	3.7	4.4	5.4	5.2
Canada	5.7	9.6	7.3	5.9

*Share of 2018 world gross domestic product (GDP) at PPP.
Forecast as at June 2021.
Source: National statistics agencies, TD Economics.

Global Economic Outlook				
Annual Per Cent Change Unless Otherwise Indicated				
	2018 Share*	Forecast		
Real GDP	(%)	2020	2021	2022
World	100.0	-3.1	6.2	4.7
North America	18.5	-4.1	6.7	4.2
United States	15.2	-3.5	6.9	4.3
Canada	1.4	-5.3	6.1	4.4
Mexico	1.9	-8.5	5.3	2.9
European Union (EU-28)	16.3	-6.3	4.8	4.5
Euro Area (EU-19)	11.4	-6.7	4.6	4.2
Germany	3.2	-5.1	4.0	3.9
France	2.2	-8.0	5.7	3.6
Italy	1.8	-8.9	5.0	4.0
United Kingdom	2.2	-9.8	6.2	6.1
EU accession members	2.6	-2.8	4.2	4.3
Asia	45.0	-1.5	7.2	4.9
Japan	4.1	-4.7	2.8	1.9
Asian NIC's	3.4	-0.9	5.3	3.2
Hong Kong	0.4	-6.1	8.1	4.6
Korea	1.7	-0.9	3.8	2.9
Singapore	0.4	-5.4	7.2	4.1
Taiwan	0.9	3.1	6.3	3.1
Russia	3.1	-2.6	2.5	3.1
Australia & New Zealand	1.1	-2.2	4.5	3.1
Emerging Asia	33.2	-1.1	8.4	5.7
ASEAN-5	5.5	-3.7	5.2	5.5
China	18.7	2.0	8.7	5.3
India**	7.7	-7.4	10.2	7.0
Central/South America	5.6	-7.0	5.9	2.9
Brazil	2.5	-4.4	4.7	2.6
Other Emerging Markets	13.6	-1.8	4.7	5.7
Other Advanced	1.1	-2.2	3.7	4.0

*Share of world GDP on a purchasing-power-parity (PPP) basis.
Forecast as at June 2021. **Forecast for India refers to fiscal year.
Source: IMF, TD Economics.

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Judgement or recommendations found in this report may differ materially from what may be presented in a long-term investment plan and are subject to change at any time. This report's authors will not advise you as to any changes in figures or views found in this report.

Investors should consult with their investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.