Fundamentum
2021 Q2 Commentary

The market rally continued, with equities reaching all-time highs at the end of the 2nd Quarter. Numerous factors driving the markets higher were accommodative monetary policy, extensive fiscal stimulus, vaccination progress, economic reopening momentum, growing corporate profits, strong jobs recovery, rising income levels, substantial personal savings, along with robust equity inflows. During the quarter, unexpected falling yields led to performance reversion in various sectors, styles, and asset classes. As noted in the following table, growth outperformed value, large-cap outperformed small-cap, and fixed income delivered positive returns.

Q2 Total Returns by Asset Class[1]

Russell 3000 Growth Index	+11.38%
S&P 500 Index	+8.55%
MSCI EAFE Index	+5.35%
Russell 3000 Value Index	+5.16%
Dow Jones Industrials Index	+5.08%
MSCI EM Index	+5.08%
Russell 2000 Index	+4.29%
Barclay US AGG Bond Index	+1.83%

Within S&P 500 sectors, outperformers for the quarter were Real Estate +12.44%, Technology +11.30%, and Communications Services +10.48% while sector underperformers were Utilities -1.13%, Consumer Staples +3.17%, and Industrials +4.12%[2]. The two best performing S&P500 stocks were NVIDIA Corporation +49.9% and Devon Energy Corporation +33.6% with Discovery, Inc. -29.4%, and Penn National Gaming, Inc. -27.0% being the two worst S&P500 stocks[3].

Within fixed income, despite higher-than-expected inflation readings, the yield of 10-year U.S. Treasury surprisingly fell from 1.74% at the end of March to 1.47% on June 30th. Bloomberg Barclays U.S. Aggregate Index returned 1.83%, while the Bloomberg Barclays U.S. Corporate High Yield Index gained 2.74%[4]. With the Federal Reserve's consistent messaging on inflation and data that the U.S. economy started to moderate from elevated levels, investors developed confidence in the Federal Reserve's transitory inflation view. In addition, investors began to question if earnings growth might have peaked. This move down in rates encouraged investors to reengage with growth stocks restoring them to market leadership as transitory inflation, and peak earnings were dominant themes during the quarter.

A stronger economic environment has led the Federal Reserve to pivot its future policy direction toward a more hawkish stance but still be accommodative on an absolute level. The macro-economic recovery has been robust but will likely see a slowing rate of change in the 2nd half of the year. Concerns for the remaining part of the year are stretched valuations, margin pressures, tax increases, coronavirus variants, inflation surprises, and tapering by the Federal Reserve.

Earnings season brought another round of outsized beats with the only caution being management's commentary about margin pressures and rising input prices. The 2nd Quarter, EPS estimate increased 7.3% during the period. On average, the quarterly estimate usually decreases by an average of -3.4%. This quarterly EPS improvement marked the largest increase since FactSet began tracking the quarterly estimates in 2002[5].

Continued strength and level of the economic rebound will ultimately set expectations on inflation and central bank moves, including when the Federal Reserve will taper asset purchases and eventually raise interest rates. Therefore, a more balanced approach between value & growth and large-cap & small-cap will be necessary.

Reflecting the Fundamentum Investment Committee's outlook during the 2nd Quarter, several individual actions were taken to better align the current stock portfolios with the economic reopening momentum we currently are seeing and expect to continue. The Investment Committee believed these investments had reasonable valuations with greater exposure to economic growth domestically and abroad.

Longer-term, Fundamentum's lower expectations for equity and fixed income returns have not changed. As Fiscal stimulus fades, Monetary policy becomes less accommodative, and we are left with higher valuation levels, rising interest rates, and increasing taxes, future returns should be below historical norms. Therefore, we continue to encourage advisors to build diversified portfolios with lower capital market returns into their client's long-term financial plans.

Fundamentum Investment Committee:

John Nichol, CFA® - Chief Investment Officer
Trevor Forbes - Investment Committee
Robert Armagno - Investment Committee

Sources:

1 Comerica Wealth Management, July 2021
2 FactSet, July 2021
3 Strategas Quarterly Review July 2021
4 Strategas Quarterly Review July 2021
5 Morningstar Q2 Review and Market Update July 2021