Vertex Planning Partners
LLC

Quarterly Market Review

Q2

Second Quarter 2021

Economy

Monetary Policy

What's Happening:

Although not explicitly changing their policy, the Federal Reserve has indicated that the accommodative policies put in place during the pandemic will not last indefinitely, stating that rate hikes could come as soon as 2023 after previous statements that they saw no increases until at least 2024[1].

What does this mean?

The Fed has been adaptive in their view of inflation, and Fed officials have mentioned numerous times that the current inflation rate is transitory. However, the latest statements should provide flexibility for the Fed to change course in case inflation continues to run hot.

Fiscal Policy

What's Happening:

The Biden administration's latest measure, The American Jobs Plan, touts an ambitious infrastructure overhaul in the US by targeting both traditional roads and bridges, as well as transforming the US energy and transportation networks to emit less carbon to combat climate change as well as tackling social imbalances[2].

What does this mean?

A Democratically controlled Washington has passed a number of bills historic in both size and expediency. The current infrastructure bill has run into more resistance, as both the size and scope come into question. What had once been a $1.7 trillion dollar spending package has been reduced by over half in the latest iterations being debated in the House and Senate.

Economy

Geopolitics

What's Happening:

2020 was dominated by the spread of COVID-19, the exponential impact across the globe, and governmental responses to "bend the curve" of infection rates by implementing drastic measures. 2021 is the story vaccinated developed countries compared to emerging markets still struggling with the spread of the disease.

What does this mean?

There has been a dramatic change in the United State as close to 50% of the country is fully vaccinated, with life returning to normal. There has been a tremendous surge of activity as restrictions are lifted. However, the recovery outside the US is uneven, especially in poorer countries hard hit by the pandemic, leading to bottlenecks in trade and surging prices for commodities and products.

GDP

What's Happening:

GDP in Q1 2021 grew at a brisk pace of 6.4%, with estimates for the second Quarter at 7.8%[3].

What does this mean?

As economic activity continues to pick up, year over year comparisons will continue to look good heading into the 3rd and 4th Quarter of 2021. The real story will be heading into 2022, if economic activity will be able to continue without the financial tailwinds from Washington.

Markets

Equity

US Equity markets continued their strong performance into 2021, with the S&P 500 adding 8.95% in the second Quarter and up over 15% for the year. International Developed markets exhibited positive YTD performances, but were dragged down slightly by spikes in COVID rates[4].

Fixed Income

After a sharp selloff in bonds in the first quarter due to inflationary concerns, bonds traded up in the second quarter returning 1.82%. YTD bonds have lost 1.6%, and continue to have a negative real yield (yield minus inflation) given the current Consumer Price Index (CPI) numbers[5].

Current Strategy

Reasons To Be Optimistic

History teaches us that global health emergencies are eventually transitory. Although the impact has been swift and profound on economic activity, the reaction by central banks and the federal government have been equally unprecedented. Although financial markets have recovered, interest rates are at historical lows and a record amount of cash still is parked in low yielding assets and a pickup in inflation may force a rotation into more productive assets.

Reasons To Be Cautious

As is the norm, financial market recoveries proceeded economic expansion. With a limit to how much price multiples can expand with the current interest rate environment, corporate earnings growth might not meet expectations. Paired with an uptick in inflation, few “safe” assets such as government bonds provide real positive yields (yields minus inflation).

Strategy for 2021

During the quarter we added financial and energy sector strategies to our equity holdings, paring back our holdings in technology and healthcare. On the assets class level, we reduced our exposure to fixed rate bonds, adding to inflation hedged securities and adjustable rate fixed income. We continued to add to our commodity exposure, through both futures contracts and energy equity holdings. In preparation for future tax increases on high income households, we favor tax managed equity strategies, tax advantaged real estate holdings, and tax exempt municipal bonds for taxable accounts for current income and offset future capital gains.

Source

(1) https://www.reuters.com/world/us/us-fed-funds-futures-raise-odds-rate-hike-early-2023-after-fed-statement-2021-06-16/#:~:text=United%20States-,U.S.%20fed%20funds%20futures%20raise%20rate%20hike,early%202023%20after%20Fed%20statement&text=The%20fed%20funds%20market%20showed,rate%20increase%20by%20April%202023.&text=But%20rates%20never%20ticked%20higher,at%20the%20end%20of%202019.

(2) https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/

(3) https://www.atlantafed.org/cqer/research/gdpnow

(4) Figure 1

(5) https://www.bls.gov/news.release/pdf/cpi.pdf

(Figure 1)

	YTD	Q1	Q2
S&P 500 Total Return	15.25%	5.78%	8.95%
M SCI ACWI Ex USA Total Return	9.43%	3.85%	5.38%
M SCI Emerging Markets Total Return	7.54%	2.54%	4.88%
Bloomberg Barclays US Aggregate	-1.60%	-3.37%	1.82%