Forward Focus

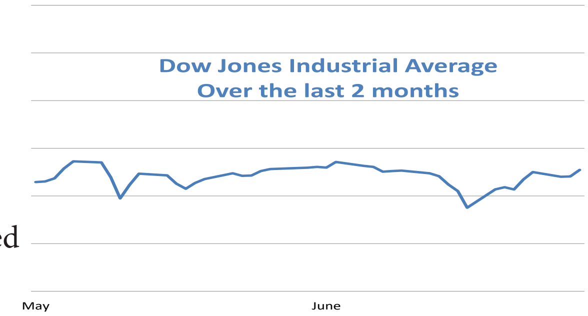
July 2021

Quarterly Market Review

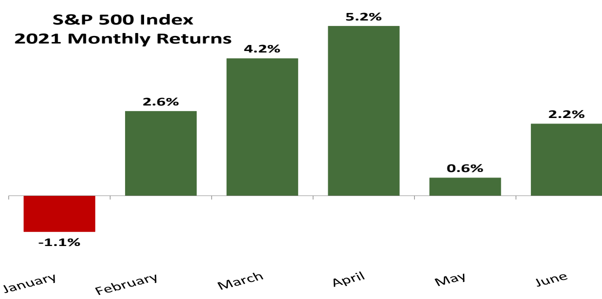
The second quarter saw the economy reopen and travel rebound. More than 157 million Americans have been fully vaccinated and 182.4 million have received at least one dose. Air travel has increased to more than 2 million daily passengers in June for the first time since March of 2020.

Hotel occupancy, mortgage applications, and restaurant dining all have rebounded significantly and are now within 10% of their 2019 levels. Outdoor concerts are also back, as I enjoyed one myself.

The second quarter was positive, however, during the past 8 weeks the Dow Jones Industrial Average simply bounced around. (See chart on the right) All the significant gains occurred in just the first 2 weeks of April.



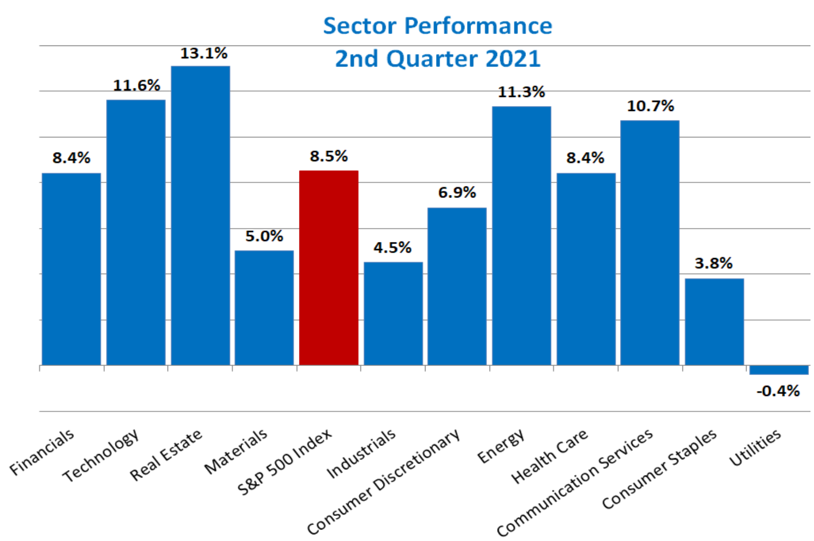
The economy added over 850,000 jobs in June, led by hiring in Leisure and Hospitality. That is the highest level of job creation in 10 months. The unemployment rate now stands at 5.9%.



International markets were up 4%-5% for the quarter and lag the U.S. market at the halfway point of the year.

The chart on the left shows that the S&P 500 has been positive for 5 straight months. It has also been positive for 5 straight quarters! **Forward** anticipates positive, yet more muted returns, and increased choppiness as the year progresses.

For the quarter, the best performing sectors were Real Estate, Technology and Energy while the worst performing sectors were Utilities, Consumer Staples, and Industrials. (See chart on right)



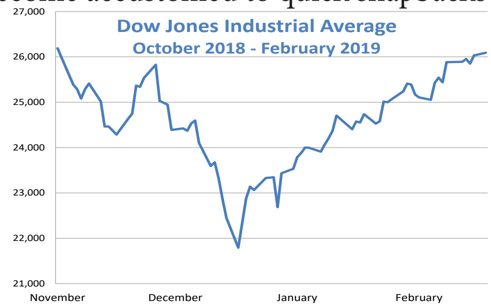
Interesting Factoid: According to SentimenTrader, household ownership of stocks as a percentage of total financial assets is 36.5%. A new record! Even higher than the 32.5% in 2000. Historically it has pointed to weaker growth going forward. The logic: If everyone is already in the wagon, who is left to push it? Right now, the answer to that question is the government.

Second Quarter 2021

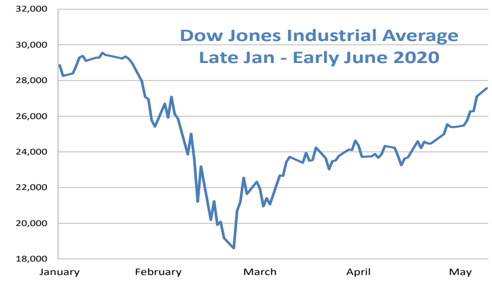
Dow Jones Industrial Average 4.6% ● S&P 500 8.5% ● MSCI EAFE (International) 5.4%
Russell 2000 (Small Cap) 4.1% ● MSCI EMI (Emerging) 3.9% ● Barclays Capital Aggregate Bond 1.8%

Risk is Real. A Reminder for the Next Leg of the Journey

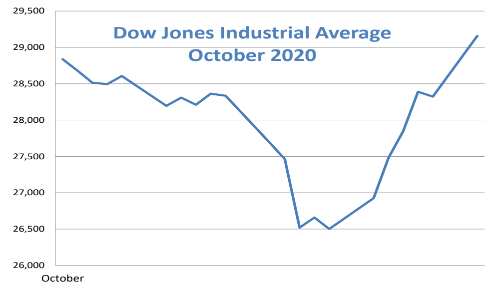
Market declines have always been followed by market gains. That is why patience and time are two crucial ingredients to investing. The 'problem' is that over the past few years, declines are mere blips. Buying the dips has always been the instant remedy. This is a problem because investors have become accustomed to quick snapbacks and instant gratification. No pain, just gain.



As you can see from the charts that follow, stock market declines (even significant ones) are erased almost instantaneously. This creates a false sense of safety. The **October 2018 - February 2019 chart** shows a ~18% drop in 15 trading days, followed by a 19% rebound in 36 trading days.



The **Late Jan - Early June 2020 chart** shows a monstrous 36.7% drop in 24 trading days, followed by a 32.5% rebound in 26 trading days. From the bottom on March 23, the market rose 21% by March 26 (just 3 days) and rose by 28% in 13 days! It is easy to hang on when the snapbacks are so quick. You barely have time to think about it.



The **October 2020 chart** shows an 8% drop in 15 days, followed by a 10% rebound in 6 days.

The point is that market risk is real, but not being felt. A brief tinge of pain followed by no lasting effects lulls us into a false sense that all is fine and always will be.

The final chart (directly below) is a 90-year historical chart of the S&P 500 Index, often referred to as the U.S. stock market. It shows that the days and weeks rebounds we have been experiencing are NOT the norm.

It took **27 years** (1929 - 1956) for the market to return to the 1929 peak. After the 1972 peak, the market did not hit new highs for **15 years** (1972 - 1987). After the 2000 peak, the market did not fully recover for **15 years** (2000 - 2015).

While this article seems like it needs an antidepressant, I bring up these stark truths to provide the reality that the quick recoveries we have seen are <u>not</u> the norm and periods of longer malaise between peaks are coming.

The U.S. government spent well over $4 Trillion in response to Covid-19, more than FOUR TIMES the size of the government response to the 2008 Financial Crisis. Congress is also working on another $1 Trillion in Infrastructure spending. The effects of these stimulative measures will be felt for quite a while, so our concern stated above is not an immediate one. Currently the stimulus is a tailwind and an opening and improving economy should keep the economy humming.

Our concern is when the stimulus eventually runs its course. The stock market is forward-looking. That is why the stock market roared back 22% in March 2020 at the start of lockdowns, at the same time GDP plunged 34% and unemployment hit 14.7%. Since the market is forward-looking, we believe the vast majority of the giant gains are likely behind us. **Forward** is looking forward too. We seek to protect some of the recent gains. Throughout this quarter, you will see adjustments in your portfolio to accomplish this goal. Although a review of your risk with you is more impactful for even greater change. Please reach out for a risk review.

https://www.macrotrends.net/2324/sp-500-historical-chart-data