

Capital Market Review / *Second Quarter 2021*

The Big Picture

That is a full two-point deduction, which is a little more than simply not sticking the landing. This is a huge disappointment.

The first reading of second quarter GDP came in at 6.5 percent. That would be fantastic under normal circumstances, but there is nothing normal going on right now. Expectations were for 8.5 percent and that had already been lowered from 9 percent.



@Panuwat Dangsunnoen

I have said it a thousand times if I have said it once, but the real indicator of how the market feels is not the headline index return, but what is happening under the surface. While the broad indices have held up, underneath the surface we have had a rotation. Smaller company stocks, as measured by the Russell 2000, have underperformed, as have value stocks. Large-growth stocks have come back.

Investors now go towards these large technology firms when they believe there is no growth to be had anywhere else. These high-fliers have somewhat ironically become today's defensive stocks. The market has gone from telling us that we are going to grow exponentially to saying we are headed for a recession. The market exaggerates.

What was overly optimistic just a few months ago, has become overly pessimistic.

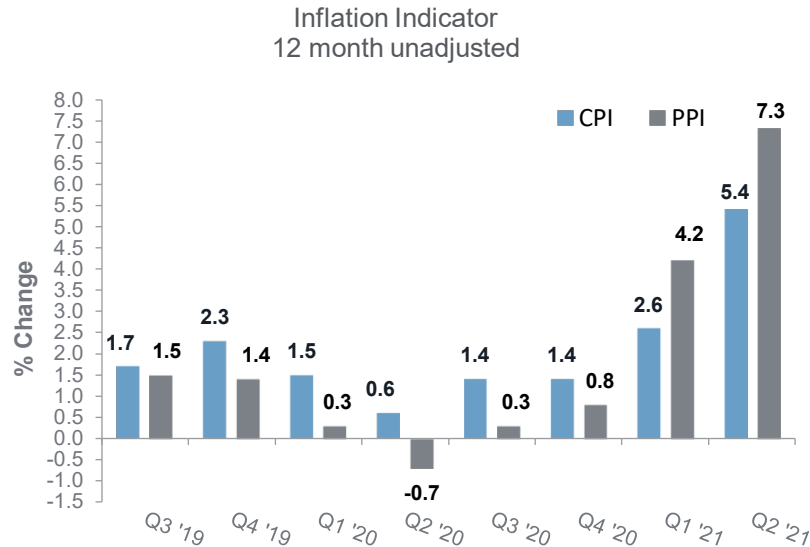
The market exaggerates.

The Economy

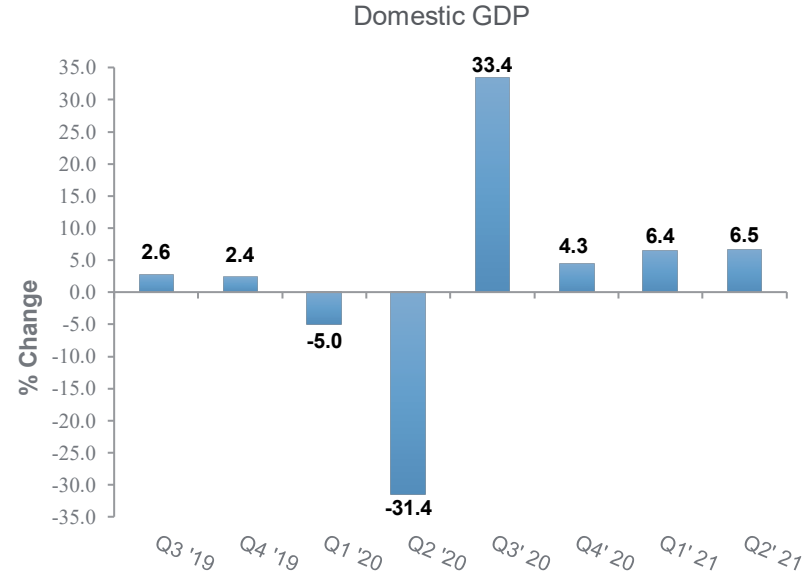
The first quarter 2021 GDP growth came in up 6.4 percent and second quarter at 6.5 percent as the economic recovery continues. As good as that is, it is far short of the 8.5 percent expectation.

The official unemployment rate is 5.9 percent in June. Jobs have come back at a rapid pace, but workers have come back much more slowly than expected. Higher-than-usual unemployment benefits is certainly a factor, and there may be some hesitancy due to the virus.

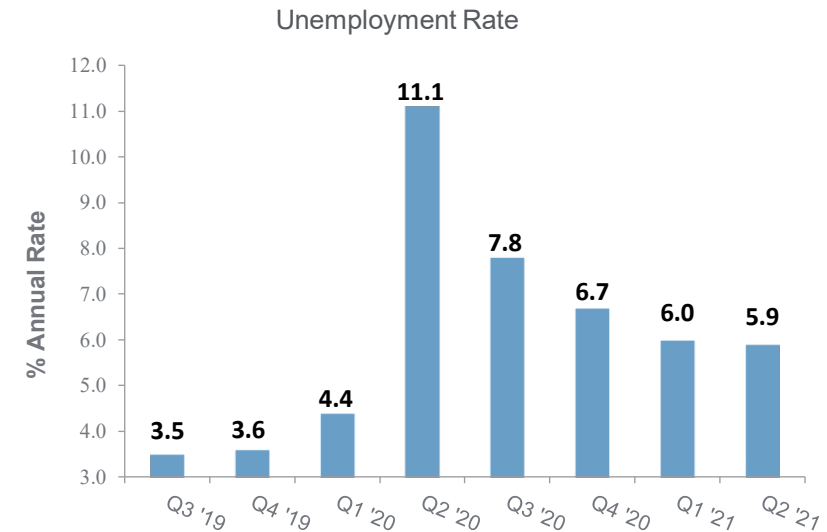
Inflation is 5.4 percent based on the latest consumer price index report. It has moved upward rapidly. The producer price index, which tracks wholesale prices, is up 7.3 percent over the last 12 months. Inflation is worrying everyone and even the Fed is beginning to notice. Don't expect any action soon, however.



Source: Factset



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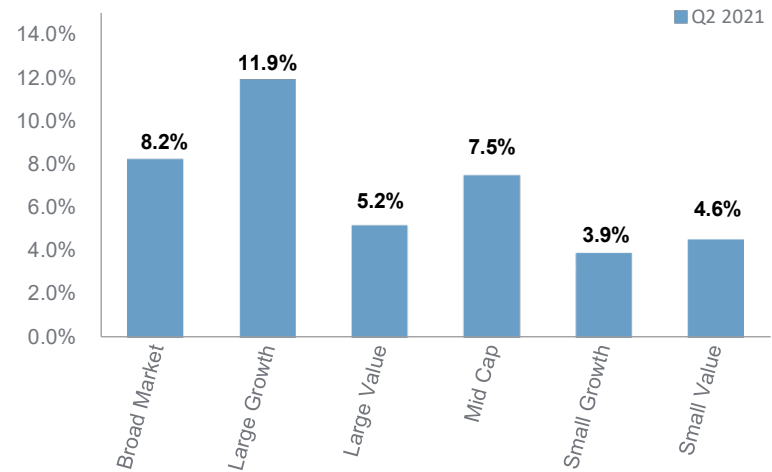
Source: Factset

Domestic Equity Markets

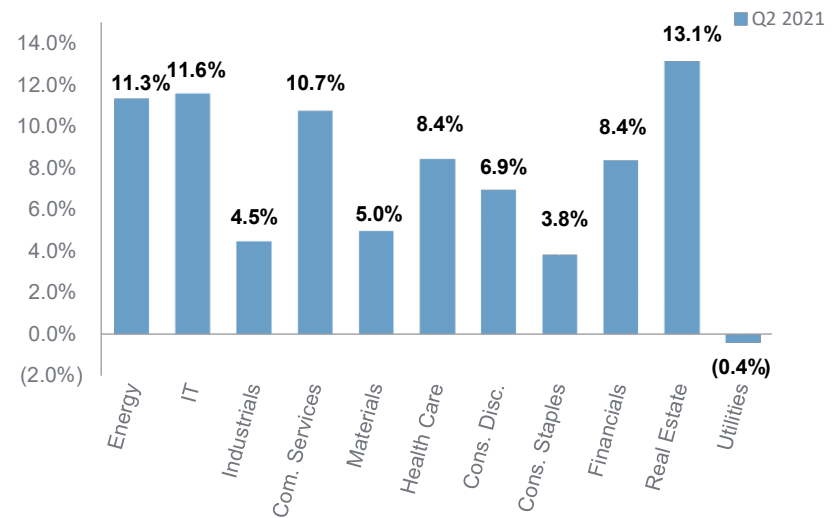
The market continued to climb. For the quarter, the S&P 500 finished up 8.55 percent and smaller company stocks represented by the Russell 2000 index were up 4.29 percent. Growth came back into favor as concerns about the strength of the recovery surfaced.

Real Estate was the best place to be as investors seek hedges against inflation. Technology and energy followed. The market sees a slow growing economy with high inflation.

Domestic Equity Market Returns



S&P GICS Sector Returns



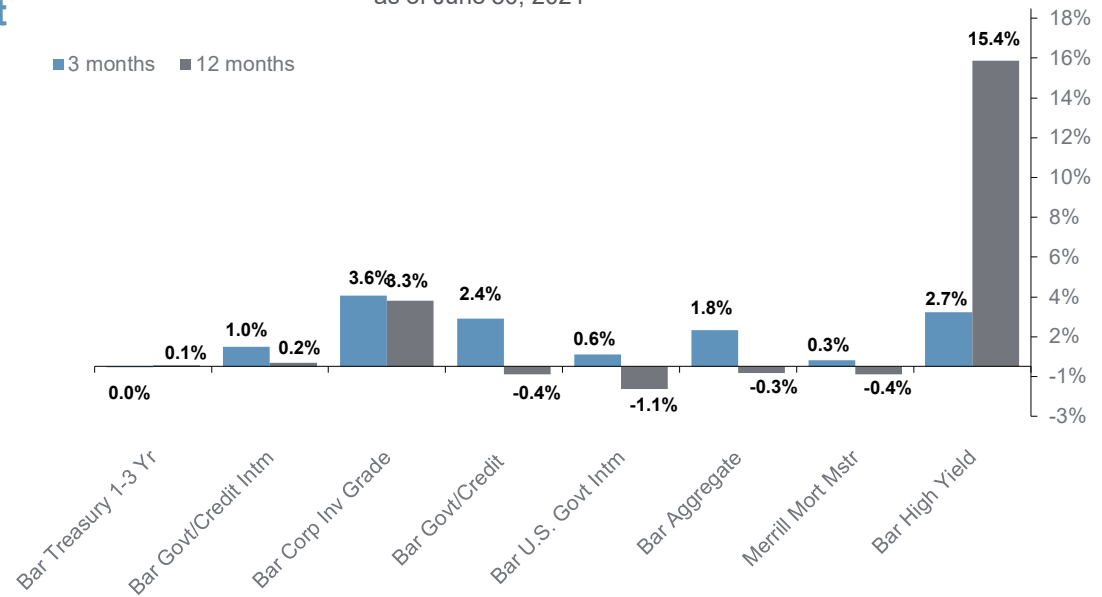
Domestic Fixed Income Market

Bonds rose during the quarter.

The Barclays US Aggregate Bond index ended up 1.83 percent. High yield bonds rose 2.74 percent.

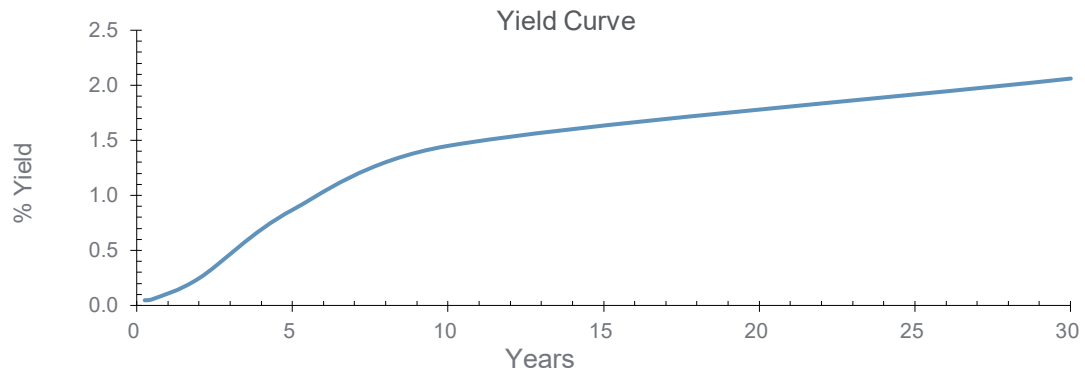
The 10-year Treasury ended the quarter with a 1.45 percent yield. That is significantly off the 1.74 percent from the quarter before.

U.S. Fixed Income Market Performance
as of June 30, 2021



Yield Curve as of June 30, 2021

Time to Maturity	Interest Rate
3 Month	0.05
6 Month	0.06
2 Year	0.25
5 Year	0.87
10 Year	1.45
30 Year	2.06

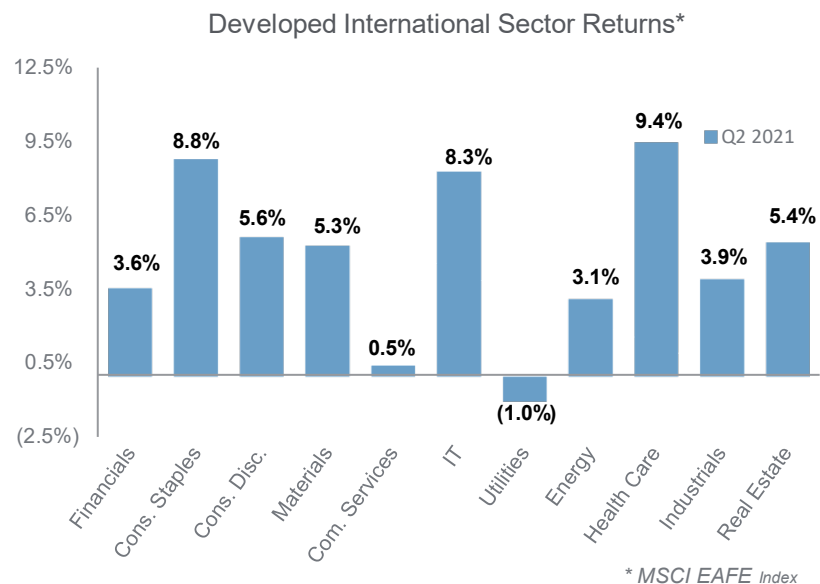


International Markets

International stocks underperformed but were still up. The EAFE index finished up 5.38 percent while the MSCI Emerging Markets index ended the quarter up 5.12 percent.

Diversification has returned. For the first time in several quarters international markets diverged from the United States. Healthcare led the way in the EAFE followed by consumer staples and technology.

Japan took center stage as they prepared to host the Olympics while dealing with a Covid outbreak. Renewed restrictions hurt the Pacific EAFE countries.



Source: T. Rowe Price

MSCI Country Returns Three Months Ending June 30, 2021

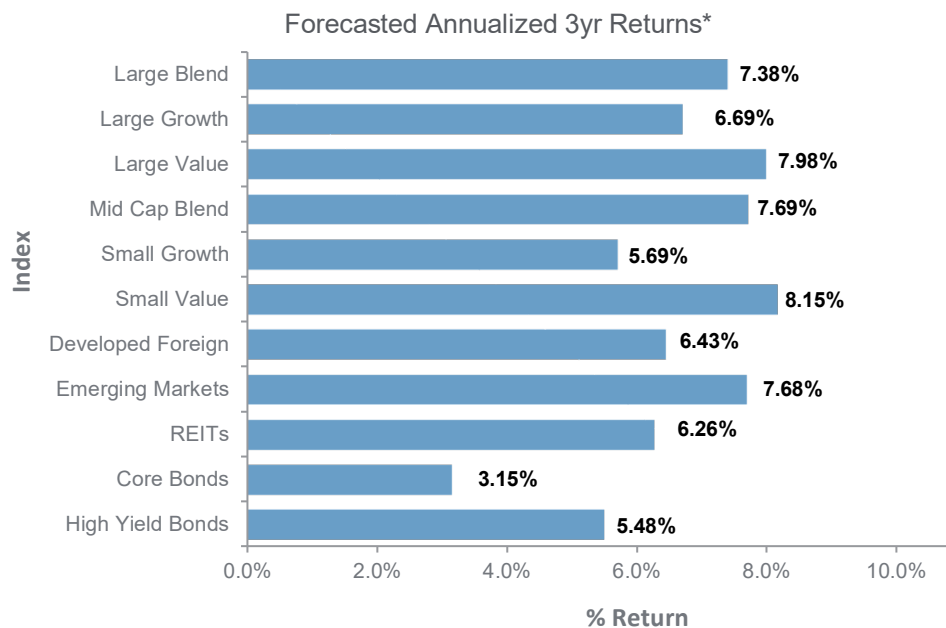
	Return US\$ (%)	Return Local Currency (%)	Currency Effect (%)
Austria	11.931%	10.931%	1.00%
Belgium	9.684%	8.704%	0.98%
Denmark	13.113%	12.087%	1.03%
Finland	11.279%	10.284%	1.00%
France	9.548%	8.569%	0.98%
Germany	5.157%	4.217%	0.94%
Ireland	2.494%	1.577%	0.92%
Italy	3.957%	3.027%	0.93%
Netherlands	7.394%	6.446%	0.95%
Norway	5.230%	6.078%	-0.85%
Portugal	-0.010%	-0.904%	0.89%
Spain	5.412%	4.470%	0.94%
Sweden	6.245%	4.244%	2.00%
Switzerland	12.022%	10.022%	2.00%
UK	5.974%	5.839%	0.14%
Europe Total	7.739%	6.780%	0.96%
Australia	6.909%	8.461%	-1.55%
Hong Kong	2.532%	2.422%	0.11%
Japan	-0.248%	0.194%	-0.44%
New Zealand	-5.066%	-4.849%	-0.22%
Singapore	0.486%	0.499%	-0.01%
Pacific Total	1.357%	1.951%	-0.59%
Brazil	22.933%	9.314%	13.62%
Canada	10.230%	8.603%	1.63%
China	2.321%	2.078%	0.24%
Greece	8.262%	7.294%	0.97%
Hungary	14.809%	10.260%	4.55%
India	7.008%	8.788%	-1.78%
Indonesia	-4.823%	-4.987%	0.16%
Korea	4.875%	4.356%	0.52%
Mexico	9.237%	6.301%	2.94%
Poland	18.722%	14.540%	4.18%
Russia	14.372%	11.060%	3.31%
Thailand	-4.795%	-2.358%	-2.44%
Emerging Markets	5.120%	3.904%	1.22%

Market Forecast

The market is in need of a correction. It is always hard to know when it may occur, but we have gone up too far too fast. Markets do not go up in straight lines.

Value stocks and small-company stocks still have more room to run in the long term, but growth concerns have boosted growth stocks. International stocks should continue to do well.

Bonds are back to crazy low yields. They are still a shelter in a storm but are not going to fund any retirements.



Changes in Return Expectations
as of June 30, 2021

Asset Class	Change Over Quarter	Change Over Year
Large Blend	0.09%	0.07%
Large Growth	0.05%	0.14%
Large Value	0.15%	0.09%
Mid Cap Blend	0.06%	0.16%
Small Growth	0.26%	1.00%
Small Value	-0.02%	0.61%
Developed Foreign	0.18%	0.18%
Emerging Markets	0.08%	-0.01%
REITs	-0.33%	-0.44%
Core Bonds	-0.05%	-0.05%
High Yield Bonds	-0.18%	-1.00%

*Forecasted 3-year annualized returns represent Iron Capital's investment return expectations for various asset classes over the next 3 years. They are calculated using a weighted average of historic returns and forward return assumptions. They are meant to be a tool to judge relative attractiveness of asset classes and not a guarantee of future investment returns.

SELECTED INDEX RETURNS - PERIODS ENDING June 30, 2021

	Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
US EQUITIES						
Broad Stock Market - Russell 3000	8.24%	15.11%	44.16%	18.73%	17.89%	14.70%
Large Stocks - S&P 500	8.55%	15.25%	40.79%	18.67%	17.65%	14.84%
Dow Jones Industrial Average	5.08%	13.78%	36.34%	15.02%	16.66%	13.50%
Medium-Size Stocks - Russell Mid-Cap	7.50%	16.25%	49.80%	16.45%	15.62%	13.24%
Small Stocks - Russell 2000	4.29%	17.54%	62.03%	13.52%	16.47%	12.34%
Small Value Stocks- Russell 2000 Value	4.56%	26.69%	73.28%	10.27%	13.62%	10.85%
Small Growth Stocks- Russell 2000 Growth	3.92%	8.98%	51.36%	15.94%	18.76%	13.52%
Large Value Stocks - Russell 1000 Value	5.21%	17.05%	43.68%	12.42%	11.87%	11.61%
Large Growth Stocks - Russell 1000 Growth	11.93%	12.99%	42.50%	25.14%	23.66%	17.87%
US FIXED INCOME						
1-3 Yr Treasury (Govt) Bonds - Barclays Capital	-0.04%	-0.09%	0.05%	2.72%	1.60%	1.21%
US Government Bonds Int - Barclays Capital	0.62%	-1.12%	-1.14%	3.94%	1.94%	2.13%
US Corporate Inv Grade Bonds - Barclays Capital	3.55%	-1.27%	3.30%	7.79%	4.90%	5.17%
Government/Credit (Corp) Bonds - Barclays Capital	2.42%	-1.96%	-0.39%	5.95%	3.31%	3.71%
Int Govt/Credit (Corp) Bond - Barclays Capital	0.98%	-0.90%	0.19%	4.70%	2.63%	2.76%
US Aggregate Bond Market - Barclays Capital	1.83%	-1.60%	-0.33%	5.34%	3.03%	3.39%
Mortgage Master - Merrill Lynch	0.32%	-0.83%	-0.39%	3.87%	2.33%	2.65%
US Corp High Yield Bonds - Barclays Capital	2.74%	3.62%	15.37%	7.45%	7.48%	6.66%
INTERNATIONAL (Measured in US Dollars)						
Non-US Stocks - MSCI EAFE	5.38%	9.17%	32.92%	8.77%	10.79%	6.38%
World Stocks (includes US) - MSCI World	7.89%	13.33%	39.67%	15.59%	15.44%	11.26%
European Stocks - MSCI Europe	7.74%	12.28%	35.81%	9.27%	10.98%	6.20%
Japanese Stocks - MSCI Japan	-0.25%	1.45%	25.25%	7.63%	10.58%	7.47%
Asian Stocks (Ex-Japan) - MSCI Pacific ex-Japan	4.79%	9.65%	34.32%	8.28%	10.56%	5.67%
Chinese Stocks - MSCI China	2.32%	1.88%	27.54%	10.52%	16.75%	7.93%
Indian Stocks - MSCI India	7.01%	12.55%	56.98%	12.04%	11.96%	5.58%
Emerging Markets - MSCI EM	5.12%	7.58%	41.36%	11.67%	13.43%	4.65%
Int'l Gov't Bonds -Citi World Gov't Bond (Non USD)	0.45%	-6.00%	3.06%	2.81%	1.28%	0.79%
REAL ESTATE						
FTSE NAREIT Equity-Reits Index	12.02%	21.96%	38.02%	9.94%	6.22%	9.36%
SHORT TERM INTEREST RATES						
T-Bills	0.01%	0.03%	0.08%	1.31%	1.14%	0.60%

Note: Returns for periods longer than 12 months are annualized.