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MARKET COMMENTARY

Stocks continued their climb higher. Large cap stocks in the S&P 500 are up 8.55% for the quarter and 15.25% year-to-date. Although small cap stocks outperformed in the first quarter, their second quarter gains were much smaller. The Russell 2000 gained 4.29% in the quarter bringing its year-to-date return to 17.54%. International stocks in developed markets were up 5.17% for the quarter and 8.83% year-to-date while emerging market stocks were up 5.05% in the quarter and 7.45% year-to-date. Bond yields have retreated from their highs last quarter. The Barclays U.S. Aggregate Bond Index is up 1.83% for the quarter but is still down –1.60% so far this year.

Technology stocks regained their footing and outperformed this quarter. Only real estate performed better. Although analysts aren't calling for selling technology stocks across the board, they are still favoring the more cyclical sectors like energy, financials, and industrials for the year in anticipation of the global reopening, possible inflation, and potential tax increases.

First quarter GDP growth was revised up to 6.4%. Second quarter GDP growth could be in the double digits. Looking ahead, David Kelly, chief strategist with JPMorgan, expects full year GDP growth to reach 7.5%. That would make it the strongest annual GDP growth since the 7.2% achieved in 1984.

In the US, anyone who wanted a vaccination has now had the opportunity to receive one or both shots and life is starting to get back to normal. Planes and hotels are filling up as people schedule the trips they haven't been able to take the past year. Restaurants and leisure activities are also seeing more traffic. The increase in demand has been such that some of the potential growth has been curtailed because there haven't been enough workers to fully staff operations. As the extra unemployment benefits cease, schools reopen and more people go back to work, full operations can hopefully resume.

Workers will also likely be making better wages as employers try to lure and retain employees. Average hourly earnings are up 6.4% versus before the pandemic in February of 2020. Even the McDonald's in Omaha was advertising up to $17 an hour.

Economists are watching carefully for signs of inflation and whether it will be transitory as the Fed believes or structural and longer lasting. Oil prices are at their highest level since 2018 and still rising. Airline prices have also been rising as demand picks up. Housing prices have appreciated significantly. Used car prices are unbelievable. At the same time, many lower income consumers have as much or more income than they had pre-pandemic due to stimulus payments, added unemployment benefits or higher wages. There are also supply chain bottlenecks creating shortages that are resulting in more money chasing fewer goods which will push prices higher. In May, core inflation was up 3.4% from a year ago. The Fed continues to reiterate that it does not intend to raise short-term rates through 2022 to combat inflation even though it is above their 2% target which means inflation could stay higher for longer.

The government is still working on an additional infrastructure package which could add another $2 trillion in spending to the economy. It may be paired with $1 trillion or more in tax increases. No option has a majority of the votes in the House or Senate as of now. The process is likely to be complicated and generate headlines and media frenzy. Much of the talk surrounding tax increases is directed towards closing the income inequality gap that has continued to widen as well as taxing corporations more. Technology companies and US multinational companies may experience a larger tax burden which may explain why analysts

2021 BENCHMARK RATES of RETURN

INDEX	SECOND QUARTER	YTD
S&P 500	8.55%	15.25%
Russell 2000	4.29%	17.54%
International	5.17%	8.83%
Fixed Income	1.83%	-1.60%
JPMorgan Diversified*	5.11%	8.74%

*25% S&P 500 large cap stocks,10% Russell 2000 small cap stocks, 15% MSCI EAFE international stocks, 5% MSCI EME emerging market stocks, 5% REITs, 25% Barclays US aggregate bonds, and 5% each in short term Treasuries, high yield global bonds, and commodities.

We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account.

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continue to express caution about the technology sector. Although the infrastructure spending can benefit economic growth, tax increases will likely be a counter headwind to growth as profits are reduced and investors and higher income earners pay more in taxes so have less available to spend or invest.

In anticipation of higher capital gains and estate taxes, some investors are contemplating taking action before legislation is passed. It is unclear whether this would be a good strategy as tax reform could be passed with a backdated effective date.

Profits have had a wild ride. Last year, profits for the S&P 500 were down -13%. This year, first quarter profits were up 49%. Second quarter is currently projected to be up 61% on a year-over-year basis. This figure is so high because second quarter last year saw the worst of the economic repercussions from the pandemic. Zacks expects corporate profits will surge 35% for the full year of 2021 versus 2020. The rapid increase in earnings should bring price/earnings valuations down as long as earnings increase more than stock prices.

Analysts point out that there may be opportunities in international markets even if US stock returns are more subdued in the future. The recovery is global; however, the US has been a leader in terms of vaccinations and reopening. Europe and other areas don't have as high of vaccination rates so they still have more travel and social distancing restrictions that when lifted could be a boost to their economic growth. They have also underperformed over the last decade and are trading at more favorable valuations than US stocks as measured by price/earnings ratios. International stock indices have less concentration in technology stocks than the S&P 500 and more exposure to cyclical sectors that should benefit as the world reopens. (In addition, if the dollar weakens as expected, that would benefit international stock returns for US investors as well.) Vanguard is projecting US stocks to earn between 2.6% and 4.6% on average for the next 10 years. However, they project that global equities outside the US will average returns of 5.5% to 7.5% per year.

With a low Fed Funds rate, money market funds will continue to earn near 0%. The yield curve has steepened as long-term yields have risen even though short-term rates did not. The 10-year Treasury bond yield rose from 0.91% at the end of 2020 to a high of 1.76% during the first quarter before falling to 1.44% at the end of June. As inflation pressures mount, longer-term Treasury yields could continue to rise. Low but rising yields would continue to pressure bond returns. Over the next decade, Vanguard expects US aggregate bond returns to average 1.4% to 2.4% per year.

Analysts continue to favor stocks over bonds but mostly because bonds returns are likely to remain muted. Volatility is higher with stocks, though, so more risk averse investors will still want to include bonds in their allocations because they are less correlated to stocks than most alternatives.

We continue to explore opportunities in newer asset classes. "Target outcome" or "buffer" ETFs allow investors to take part in stock market appreciation but also provide some protection if stock prices fall. Digital currency is growing in popularity and becoming more accepted both as a currency and an investment. Structured products may provide opportunities to earn a higher income stream than available in bonds to investors who can withstand some risk.

We continue to encourage investors not to try to time the market or chase returns but to align your investment portfolio with your risk tolerance. We use Riskalyze software to help us measure your risk tolerance so we can help ensure you have the appropriate risk in your investments. We compare your risk score to the risk score of your investment portfolio to see if adjustments might be necessary. If you are unsure about the risk in your portfolio or have any questions, please talk to your advisor.

CAMBRIDGE ADVISORS NEWS

We are excited to announce that Justin Anderson and Karen Benefiel in our office have both completed the Certificate in Blockchain and Digital Assets through the RIA Digital Assets Council and New York Institute of Finance. With Bitcoin and digital currencies becoming more popular and accepted, we felt it was important that we have advisors who are well-versed on the issues surrounding these investments.

Thank you again for the trust you have placed in us and for your referrals of family and friends who need our investment management and financial planning services.

Cambridge Advisors is fully open and meeting with clients in person. We can also participate in video chat meetings with clients who do not feel comfortable coming into our office. We can share our screens and conduct review meetings easily for our clients who wish to meet virtually.

Also, remember that we have a client portal where you can view your accounts on our system as well as past reports. If you need help accessing the client portal or would like to initiate a logon, please let your advisor know.