Leigh Baldwin & Co.

Investment Brokerage

The second quarter has ended, which means it is halftime for the global markets. The first half could not have gone better for investors in riskier assets like equities as the S&P 500 is up 14.4% YTD (year-to-date) posting the second best first half since 1998 according to Barron's. As investors, we hope that whatever Herb Brooks type speech that was delivered before the first half, will be delivered again for the third quarter. The Dow Jones Industrial Average is up 12.7% YTD, and the NASDAQ is up 12.5% YTD closing the gap in the second quarter as growth stocks rallied on a move lower in interest rates. The fixed income market provided positive results for investors in the quarter, but Investment Grade Bonds (represented by the Bloomberg Barclays Aggregate) are still negative 1.7% for the year.

As you may recall, the first quarter of 2021 was dominated by Energy and Financial companies as the rotation continued away from the Technology COVID-19 winners. However, investors experienced a reversal in the second quarter. Energy and Financial sectors had strong quarters up 9% and 7% respectively, but the Technology and Communication Services sectors outperformed up 12% and 11%. The combination of strong cash flow, quality earnings, and lower interest rates as the 10yr US Treasury yield decreased to 1.47% provided tailwinds for growth companies to outperform.

What about inflation… a major concern for the market and investors as the most recent headline inflation reading was 5.0% for the 12-month period ending in May. We believe some inflation data is transitory as our economy continues to recover from the COVID-19 recession. Inflation numbers will normalize but will remain higher than inflation data prior to the pandemic, in our view. One of the key data points in the recent inflation reading was used car prices, which increased because of the imbalance in the supply of new cars. As the supply of new cars increases during the recovery, we should see supply and demand find a healthier equilibrium. With that said, higher inflation moving forward, albeit lower than current readings, suggests that companies with the ability to pass along price increases to consumers have a competitive advantage. Furthermore, higher inflation and low interest rates support our belief that portfolios should be overweight equities and underweight bonds and cash alternatives as inflation erodes the dividend purchasing power.

As we look to the quarters ahead, we believe our economy will continue to recover and grow from catalysts such as vacation and business travel and what we believe will be a record breaking back to school shopping season. In our view, international equities may provide strong relative returns in the second half of the year, but we are cautiously watching the impact of the COVID-19 Delta variant. We favor US and international equities moving forward, but utilize fixed income, commodities, and cash alternatives to provide ballast and diversification in our portfolios.

We thank you for your continued support in our company and look forward to our next connection. As always, "you do the dreaming, we'll do the math."

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