

Market Commentary

Q2 2021 in Perspective

Buckingham's evidence-based investing portfolios are strategically invested with a focus on long-term performance objectives. Portfolio allocations and investments are not adjusted in response to market news or economic events; however, we evaluate and report on market and economic conditions to provide our investors with perspective and to put portfolio performance in proper context.

During the second quarter, global stock markets continued to post positive performance and build on the previous quarter. Major global market indices ended the period modestly higher with several indices continuing to reach new record highs. During the quarter, all eyes were on the Federal Reserve as investors hung on each of Chairman Jerome Powell's carefully chosen words looking for insight into future interest rate movements and how that might affect near- and long-term inflation expectations. The uncertainty surrounding this was not enough to keep most markets from progressing upward.

For the quarter, U.S. stocks (as measured by the Russell 3000 Index) gained 8.2%, and non-U.S. developed market stocks (as measured by the MSCI World Ex U.S.) gained 5.6%. Emerging market stocks (as measured by the MSCI Emerging Markets Index) gained 5.0%.

The U.S. Dollar Index, a measure of the value of the U.S. dollar relative to a basket of foreign currencies, increased during the quarter. Specifically, the U.S. dollar increased by 2.8% compared to foreign currencies. Over the past 12 months, the U.S. dollar depreciated by 5.1%. The decrease in the dollar is a tailwind to non-U.S. investments held by U.S. investors for the last 12 months.

U.S. interest rates remained unchanged during the quarter as the Fed continues to maintain a target range of 0.0% to 0.25% for the Fed Funds rate.

U.S. Economic Review

Continuing the trend of economic expansion from the previous quarter, the final reading for first quarter 2021 GDP showed an annualized increase in economic growth of 6.4%. The unemployment rate finished the quarter at 5.9%, which shows marginal improvement from the previous quarter's 6.0%. Domestic inflation has begun to pick up with a reading of 3.4% in May 2021 as the Fed's preferred gauge of overall inflation, the core Personal Consumption Expenditures (PCE) index, crossed above the Fed's long-term target average of 2.0%.

Financial Markets Review

Both domestic and international stocks across all size and style categories, as well as U.S. real estate investment trust (REIT) securities, had positive performance during the quarter. International stock returns were also impacted during the quarter by the strengthening U.S. dollar. During the quarter, U.S. REITs were the best performing and international value stocks were the worst performing. U.S. and global bonds were each up slightly during the quarter.

U.S. Large-Cap Stocks	U.S. Value Stocks	U.S. Small-Cap Stocks	U.S. REIT Stocks	Int'l Value Stocks	Int'l Small-Cap Stocks	EM Value Stocks	U.S. Short-Term Bonds	Global Bonds
+8.5%	+5.2%	4.3%	+11.8%	+3.7%	+4.8%	+5.7%	+0.1%	+0.1%
								
U.S. STOCKS				INTERNATIONAL STOCKS			BONDS	

Source: Morningstar Direct July 2021. Market segment (index representation) as follows: U.S. Large-Cap Stocks (Russell 1000 Index), U.S. Value Stocks (Russell 1000 Value Index), U.S. Small-Cap Stocks (Russell 2000 Index), U.S. REIT Stocks (Dow Jones U.S. Select REIT Index), International Value Stocks (MSCI World Ex USA Value Index (net div.)), International Small-Cap Stocks (MSCI World Ex USA Small Index (net div.)), Emerging Markets Value Stocks (MSCI Emerging Markets Value Index (net div.)), U.S. Short-Term Bonds (ICE BofA 1-3Y US Corp&Govt TR), Global Bonds (FTSE WGBI 1-5 Yr Hdq USD).

In the U.S., large-cap stocks outperformed small-cap stocks in all style categories. Growth stocks outperformed value stocks in all size categories except small-cap stocks. Among the nine style boxes, large-cap growth stocks performed the best and small-cap growth stocks experienced the least positive performance during the quarter.

Source: Morningstar Direct July 2021. U.S. markets represented by respective Russell indexes for each category (Large: Russell 1000, Value, and Growth, Mid: Russell Mid Cap, Value, and Growth, Small: Russell 2000, Value, and Growth).

U.S. Stocks Q2 2021

	Value	Core	Growth
Large	5.2%	8.5%	11.9%
Mid	5.7%	7.5%	11.1%
Small	4.6%	4.3%	3.9%

In developed international markets, all style boxes were positive for the quarter. Growth stocks outperformed value stocks in all size categories. Among the nine style boxes, international large-cap growth stocks performed the best and international mid-cap value stocks experienced the least positive performance during the quarter.

Source: Morningstar Direct July 2021. International markets represented by respective MSCI World EX USA index series (Large: MSCI World EX USA Large, Value, and Growth, Mid: MSCI World EX USA Mid, Value, and Growth, Small: MSCI World EX USA Small, Value, and Growth).

International Stocks Q2 2021

	Value	Core	Growth
Large	4.3%	5.9%	7.7%
Mid	1.5%	4.7%	7.6%
Small	4.3%	4.8%	5.2%

A diversified index mix of 65% stocks and 35% bonds would have gained 4.0% during the second quarter.

65/35 Index Mix: 0.5% Cash (ICE BofA 3M US Trsy Note TR), 13.5% ST U.S. Fixed Income (ICE BofA 1-3Y US Corp&Govt TR), 21% Global Intermediate Bonds (FTSE WGBI Hdg USD), 10% U.S. Total Stock Market (Russell 3000 Index), 14% U.S. Large Value (Russell 1000 Value Index), 10% U.S. Small (Russell 2000 Index), 5% U.S. REITs (Dow Jones U.S. Select REIT Index), 13% Intl Large Value (MSCI World Ex USA Value Index (net div.)), 7% Intl Small (MSCI World Ex USA Small Index (net div.)), 6% Emerging Markets Value (MSCI Emerging Markets Value Index (net div.)).

Indexes are unmanaged baskets of securities that are not available for direct investment by investors. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Foreign securities involve additional risks, including foreign currency changes, political risks, foreign taxes, and different methods of accounting and financial reporting. Emerging markets involve additional risks, including, but not limited to, currency fluctuation, political instability, foreign taxes, and different methods of accounting and financial reporting. All investments involve risk, including the loss of principal, and cannot be guaranteed against loss by a bank, custodian, or any other financial institution.