Summer

July 2021

PWM

Piedmont Wealth Management

Client Newsletter

To Our Clients

We hope you and your family are well and enjoying the summer. We continue to face the ongoing challenge of the COVID-19 virus as new strains are being discovered. Please continue to be cautious and take care to protect yourselves.

Our transition to the new portfolio reporting system, Advyzon, is well underway. For those of you using the Morningstar client portal, we anticipate activating our new client portal sometime over the next few weeks.

The client portal is an excellent tool for viewing your profile information, account transactions and holdings detail. It gives you access to account statements, performance reports, tax documents and fee billing, and it also provides a secure vault for you to upload personal documents for financial planning purposes.

As a reminder, every client with an email address on file with our firm will receive an invitation to the new client portal. The email will have instructions with a link and temporary password, and you must first login from your computer—not a mobile device.

If you do not wish to participate, simply reply to the email and let us know. If you do not receive an email invitation and would like access to the new client portal, please contact our office and provide a current email address to enroll.

Second Quarter Market Review

The S&P 500 had a strong start to the second quarter thanks to numerous positive developments. First, the pace of vaccinations in the U.S. accelerated meaningfully in April, with daily vaccinations hitting a peak of more than three million per day by the middle of the month. At the same time, the number of new COVID-19 infections fell from approximately 77,000 daily new cases at the beginning of April to less than 60,000 daily new cases during the last week of the month. The increased pace of vaccinations combined with a decline in COVID-19 cases helped numerous states more fully reopen their economies or prompted the announcement of plans to do so in the near future. That served as a positive signal to investors that a return to pre-pandemic normal was now likely just a matter of time.

Meanwhile, the Federal Reserve reiterated its support for the economy and promised not to remove any accommodation in the near term. That continued “safety net” gave investors confidence in the future economic outlook and the sustainability of the economic recovery. Finally, first-quarter corporate earnings were very strong, as the vast majority of U.S. companies beat earnings estimates. These positive factors helped stocks rally throughout the month, as the S&P 500 hit a new record above 4,200 during the final days of April.

The rally paused in May, however, thanks to uncertainty regarding inflation, the labor market and when the Federal Reserve would begin to reduce, or taper, its quantitative easing (QE) program. A disappointing jobs number in early May implied the labor market might not be recovering as quickly as expected. That, combined with inflation metrics hitting multi-decade highs, elicited some concern the economic recovery might not be as strong as forecasted, and that a return of inflation might make the Federal Reserve begin to reduce accommodation earlier than previously expected. But after some volatility early in the month, it became apparent that the lackluster job growth was more a function of a labor supply issue rather than there not being enough jobs available, and investors came to believe that issue will resolve itself as the economy and society continues to return to pre-pandemic “normal.” Meanwhile, Federal Reserve officials reiterated their long-held

Second Quarter Market Review *(continued)*

position that any increase in inflation would be temporary and due to pandemic-related supply chain disruptions and not the return of 1970's style inflation problems. Investors were comforted enough for stocks to rebound in mid-May and close the month with a small gain.

Stocks resumed the rally in early June, as more state economies returned to pre-pandemic normal (most notably California), measures of economic activity remained strong, and certain inflation statistics implied that inflation pressures were starting to ease, possibly validating the Fed's belief that surging inflation is just temporary. The June Fed meeting provided a small surprise to markets, as it revealed that Federal Reserve officials began discussions about when to reduce the current quantitative easing program, while Federal Reserve forecasts showed interest rates could start to rise late in 2022, sooner than previously expected. Those two surprises caused some mild market volatility late in June, although ultimately investors remained confident that the Federal Reserve will not remove economic support too quickly and the S&P 500 hit another record high during the last few days of the quarter.

In sum, the strong gains of the second quarter and the first half of 2021 reflected continued government support for the economy combined with a material improvement in the pandemic in the U.S., and as we start the second half of 2021, we are happy to say the world looks a lot more like it did pre-pandemic than it did for most of 2020, and that sentiment is supportive of risk assets going forward.

Second Quarter Performance Review

In a reversal from the first quarter, the Nasdaq outperformed both the S&P 500 and Dow Jones Industrial Average thanks to a June rally in technology shares, as investors began to consider that the intensity of the economic recovery had possibly peaked now that virtually all state economies had fully reopened. Additionally, the Federal Reserve signaling that it has begun discussions to reduce its QE program made some investors nervous that economic growth could slow in the future, contributing to that rotation back towards technology stocks, which tend to be less sensitive to changes in economic growth compared to other market sectors.

US Equity Indexes	Q2 Return	YTD
S&P 500	8.95%	15.25%
DJ Industrial Average	4.81%	13.79%
NASDAQ 100	13.07%	13.34%
S&P MidCap 400	3.57%	17.38%
Russell 2000	5.47%	17.54%

Source: YCharts

International Equity Indexes	Q2 Return	YTD
MSCI EAFE TR USD (Foreign Developed)	5.03%	9.17%
MSCI EM TR USD (Emerging Markets)	4.88%	7.58%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	5.38%	9.45%

Source: YCharts

Internationally, foreign markets saw positive returns in the second quarter thanks to further declines in COVID-19 cases, rising vaccination rates, and more widespread economic reopenings across the EU and UK. Emerging markets also rallied in the second quarter on hopes of a global economic recovery, although they slightly underperformed foreign developed markets as the Chinese government reduced support for its economy following a large increase in inflation indicators. Foreign developed markets again lagged the S&P 500.

Commodities posted strong gains for the third quarter in a row and once again outperformed the S&P 500 over the past three months. Major commodity indices were led higher by another large rally in crude oil futures as demand rose for both oil and refined products following reopening of U.S. and European economies. Additionally, despite the resumption of nuclear negotiations between the U.S. and Iran, sanctions remained in place preventing Iran from selling oil on the global market while compliance to self-imposed production targets by members of "OPEC+" remained historically high, keeping global oil supplies subdued. Gold, meanwhile, posted a small gain as investors rotated back to gold following a spike in inflation metrics, combined with an increase in volatility in Bitcoin, which sent money back into more traditional non-correlated, safe-haven assets.

Commodity Indexes	Q2 Return	YTD
S&P GSCI (Broad-Based Commodities)	15.34%	31.40%
S&P GSCI Crude Oil	27.29%	51.53%
GLD Gold Price	3.41%	-6.74%

Source: YCharts

Second Quarter Performance Review *(continued)*

Switching to fixed income markets, second quarter total returns for most bond classes were positive, a reversal from the first quarter. Despite inflation indicators surging to multi-year highs in recent months, investors viewed those increases as temporary phenomena related to the global economic reopening and short-term supply chain issues. As such, investors took advantage of relatively higher bond yields in the second quarter.

US Bond Indexes	Q2 Return	YTD
BBgBarc US Agg Bond	1.82%	-1.60%
BBgBarc US T-Bill 1-3 Mon	0.00%	0.02%
ICE US T-Bond 7-10 Year	2.50%	-3.30%
BBgBarc US MBS (Mortgage-backed)	0.36%	-0.77%
BBgBarc Municipal	1.40%	1.06%
BBgBarc US Corporate Invest Grade	3.70%	-1.27%
BBgBarc US Corporate High Yield	2.96%	3.62%

Source: YCharts

Third Quarter Market Outlook

Markets reflected a legitimate improvement in the macroeconomic outlook during the second quarter as substantial progress against the pandemic helped underwrite the gains in stocks over the past three months. But that strong performance should not be taken as a signal that risks no longer remain, and in fact the next three months will bring important clarity on several unknowns including inflation, future Federal Reserve policy, and the pandemic.

Regarding inflation, some metrics in June implied that the spike in inflation during the second quarter is starting to reverse, but that debate is far from settled. To that point, no one knows what the trillions in pandemic stimulus combined with 0% interest rates and the Fed's ongoing QE program will do to inflation over the longer term. If this sudden surge in inflation is indeed just temporary, we should see more conclusive evidence of that during the third quarter.

The Federal Reserve, meanwhile, has started the process of communicating how it will begin to reduce support for the economy via "tapering" or reducing, its quantitative easing program. The last time the Fed had to deliver that message, they triggered the "Taper Tantrum" of 2013, which saw stock and bond market volatility rise significantly; and it remains to be seen how expected removal of accommodation and an eventual increase in interest rates will impact markets.

Finally, despite significant progress against COVID-19 here in the U.S., the pandemic is not over. Vaccination rates for most countries are well behind that of the United States, and the second quarter saw an explosion of COVID-19 cases in India, and an outbreak in China. Meanwhile, England delayed its planned economic reopening over concerns about the spread of the "Delta" COVID-19 variant that was behind the surge in cases in India. Then, late in the month, both Australia and South Africa reimplemented local lockdowns due to rising cases of the Delta variant. Point being, there remains a possibility that a new COVID-19 variant appears and renders the vaccines less effective. If that happens, markets will become concerned that progress towards a return to economic "normal" will be reversed, and that will cause volatility.

As a nation we have material progress against the pandemic, and life as we know it has thankfully returned mostly to normal, however, now is not a time to become complacent as numerous economic and pandemic-related risks remain. As such, while the macroeconomic outlook is still decidedly positive, we should all remain prepared for bouts of market volatility.

Yet while risks remain to the markets and the economy, as they always do, it is important to remember that a well-executed and diversified, long-term-focused financial plan can overcome bouts of even intense volatility, like we have seen over the last 18 months.

We understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this still-challenging investment environment. Successful investing is a marathon, not a sprint, and even temporary bouts of volatility like we experienced during the height of the pandemic are unlikely to alter a diversified approach set up to meet your long-term investment goals.

The economic and medical progress achieved so far in 2021 notwithstanding, we remain vigilant towards risks to portfolios and the economy, and we thank you for your ongoing confidence and trust.

Please do not hesitate to contact us with any questions, comments or to schedule a review meeting. We thank you for using our services.

Happy Summer!

Quintin & Ella

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2021 Holidays and Office Closures

Closed for Break
Monday-Friday, August 9-13

Labor Day
Monday, September 6

Thanksgiving
Thursday, November 25
and
Friday, November 26

Christmas Day
(observed)
Friday, December 24

New Year's Day
(observed)
Friday, December 31

Our Office Hours
Monday—Friday, 9:00am—5:00pm

Contact Us
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