

Encouraging economic and vaccination data within the U.S. has solidified that the recovery is here. Domestic infection rates continue to fall as more than 40% of the population is fully vaccinated. Most states are in the process or have already lifted numerous pandemic-oriented restrictions leaving room for robust growth over the summer months. Sadly, despite many developed nations reaping the benefits of widely accessible vaccinations, the pandemic is still ravaging across certain areas of the world. It will take a coordinated effort and extensive resources to bring the pandemic more fully under control across the globe.

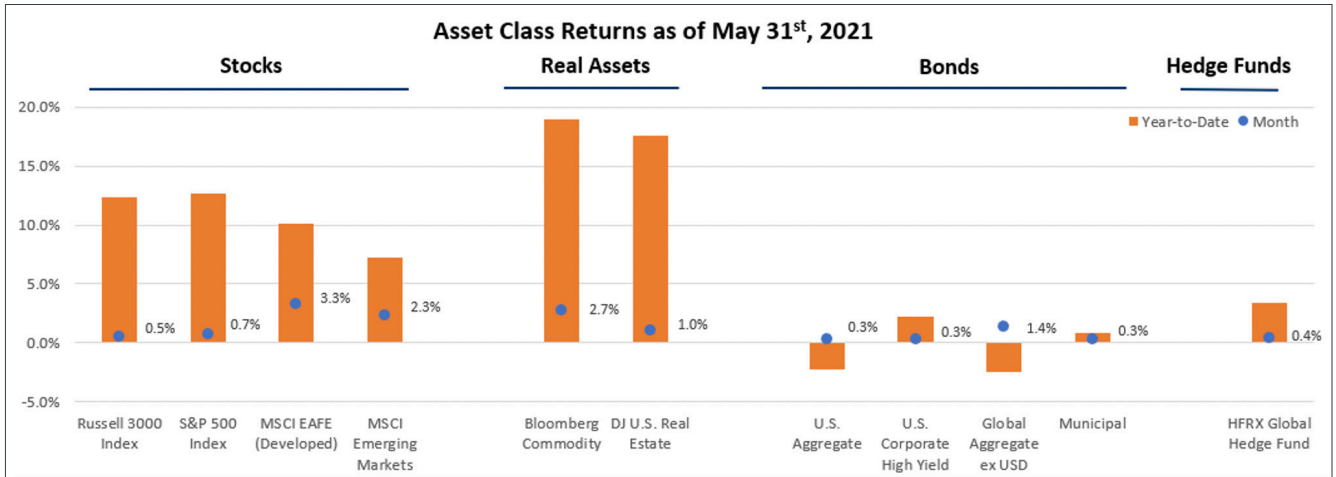
Approaching the back-half of 2021, the narrative has shifted to the economy's ability to walk the tightrope between strong growth/employment and manageable levels of inflation. On the growth side, the data did not disappoint with many economic metrics nearing or surpassing record highs. The labor market is robust and filling jobs is a bigger problem than creating jobs to fill. With inflation, the verdict is still not out. Early indicators show that inflation is already here while Fed statements reiterate that it is likely transitory, leaving the ability for easy money policies to continue. Market participants appear more skeptical as demonstrated by rising inflation expectations and leveling off consumer confidence. Rapidly rising prices for homes and nearly all consumer goods have not helped, influenced by supply shortages that are likely to persist for months. In the end, it will take time and data to fully comprehend which path we are on.

Relative to the strong pace of the recovery, investment asset returns were somewhat muted over May, reflecting that much of the good news is already priced in. Inflation concerns and premature central bank tightening also remained an overhang. This background created an environment that favored value over growth – a trend that has persisted so far in 2021. Large-caps exceeded small-caps for the month, although the opposite is true year-to-date. International equity markets beat domestic counterparts but remain behind so far this year. Sector leadership within the S&P 500 Index represents the inverse of 2020. Top performing sectors included energy and financials while technology and consumer discretionary stocks lagged the overall index's year-to-date return.

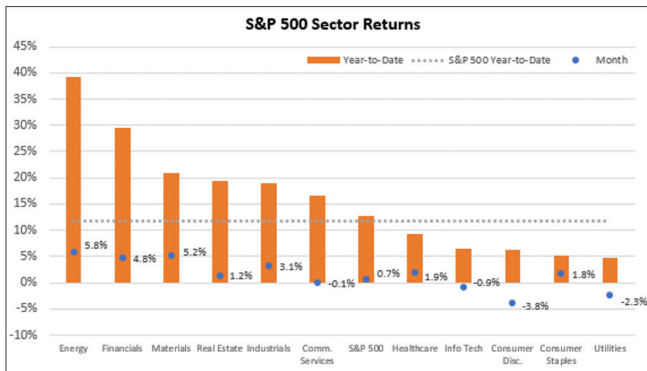
Bond markets eked out small gains from interest payments over May, as yields were relatively flat. Notably, more prominent benchmarks such as the Bloomberg Barclays U.S. Aggregate Bond Index maintain a negative return year-to-date. The front end of the yield curve is held near zero based on further central bank intervention, while the longer end has moved up modestly incorporating higher expectations for growth and inflation. Corporate spreads are historically tight and, in some cases, reaching all-time lows. Municipal market valuations (spreads) also reflect large inflows as investors are starved for tax-efficient income. According to AllianceBernstein, year-to-date municipal fund inflows reached \$48.1 billion at the end of May. This would be the fourth highest full-year rate since record keeping began in 1992 and we are only in May!

Looking forward to the summer months, the U.S. economy should continue to recover as most states fully reopen and consumer pent-up demand is released. The caveat being that the public health crisis remains in check. While the Fed has so far remained committed to dovish policies, it is possible that higher than expected growth and inflation numbers could cause them to taper sooner than anticipated. The processing of these decisions by markets could contribute to volatility later in the year. While the outlook is positive going forward, elevated valuations across public and private investable assets suggest that allocations should stay close to target levels and that ample lifestyle liquidity is maintained.

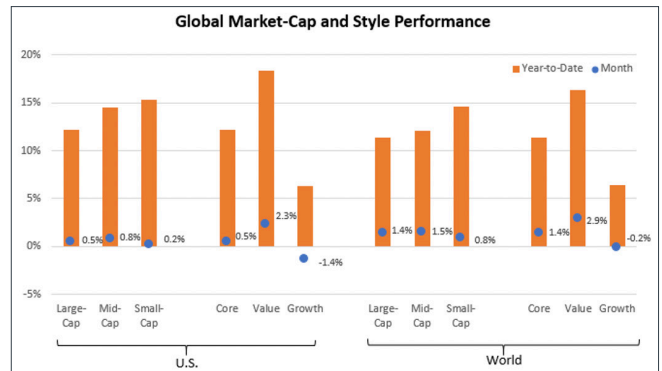
Market Data



Morningstar & Hedge Fund Research, Inc.; Bond indices from Bloomberg Barclays

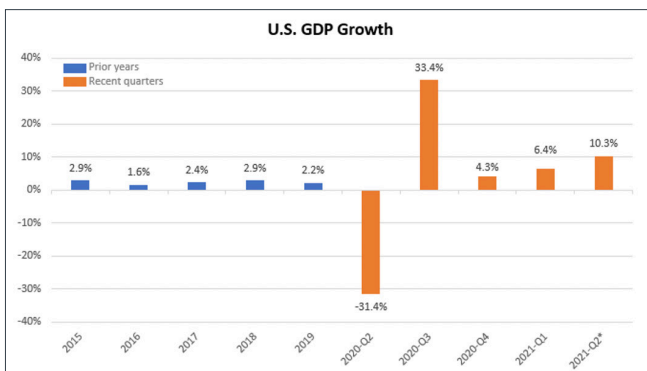


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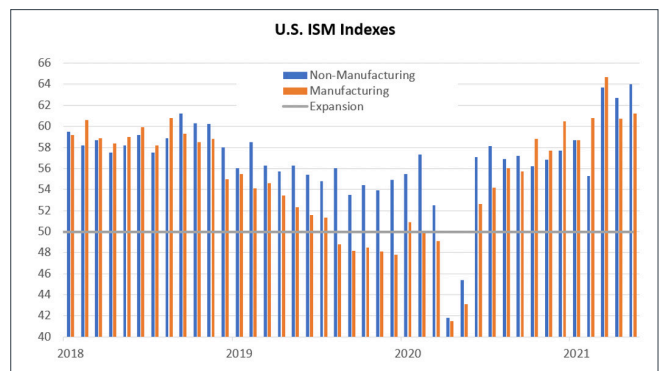


Bloomberg; U.S. indices from Russell and World indices from MSCI

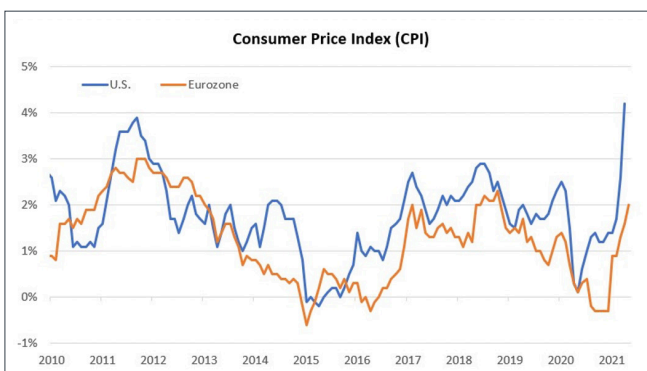
Economic Data



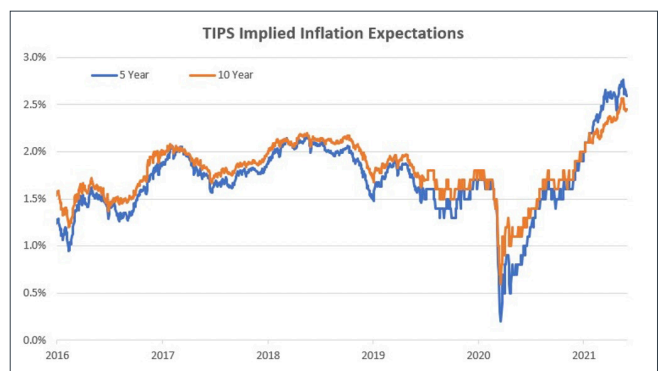
U.S. Bureau of Labor Statistics



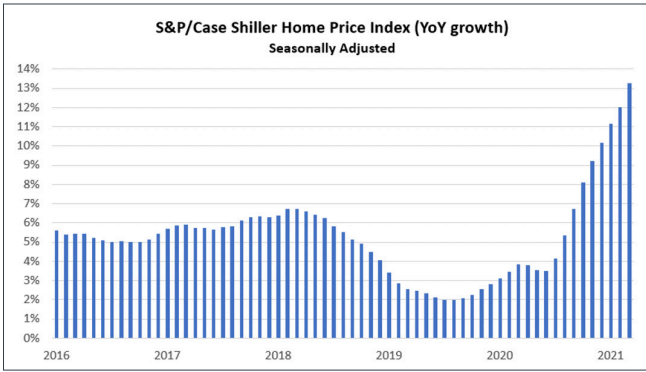
Institute for Supply Management



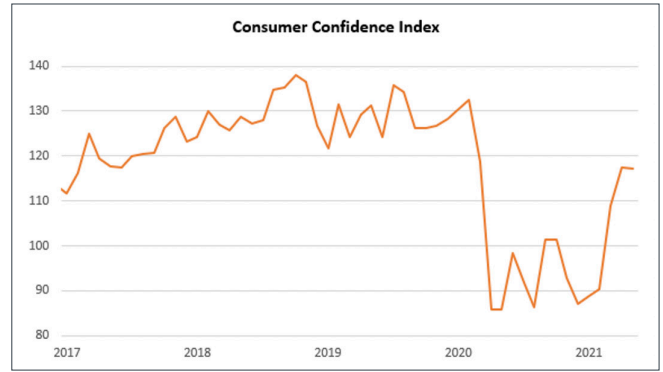
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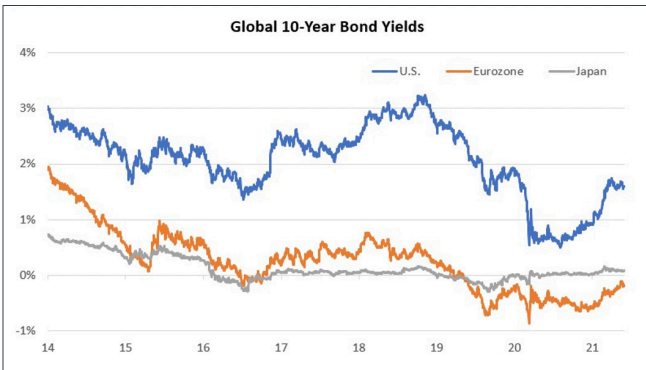
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