

NEWSLETTER – JULY 2021

MARKET TRENDS 6.30.21

Asset Class	QTD	YTD
Global Stocks		
MSCI World	7.81%	13.22%
US Stocks		
S&P 500	8.54%	15.23%
Large Cap Value	5.16%	16.93%
Large Cap Growth	11.88%	12.89%
Mid Cap	3.62%	17.57%
Small Cap	4.26%	17.45%
International Stocks		
Developed Markets		
Markets	5.23%	8.89%
Emerging Markets		
Markets	4.92%	7.11%
Fixed Income		
Taxable Bonds		
Bonds	1.82%	-1.64%
International		
Bonds		
Bonds	0.27%	-2.05%
Municipal Bonds		
Bonds	1.46%	0.87%
Alternatives		
Emerging Markets		
Bonds	4.43%	-1.22%
Floating Rate	0.17%	0.29%
Preferred	3.95%	4.31%
Gold	4.16%	-6.95%
Real Estate	11.55%	20.18%

Source: Factset

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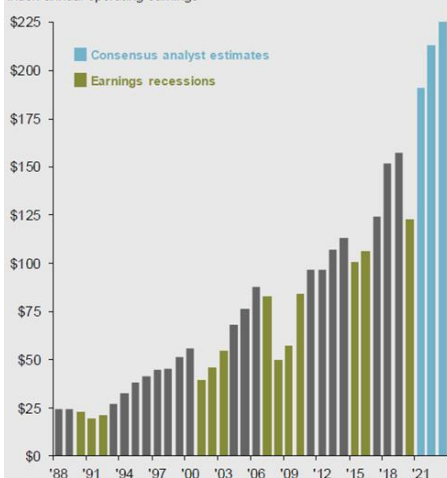
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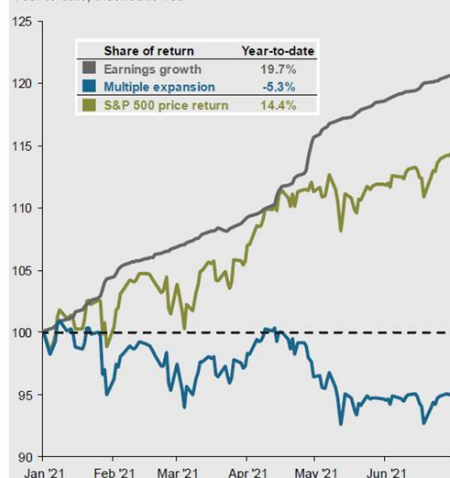
ECONOMIC GROWTH SURGE LEADS STOCKS TO RECORD LEVELS

In the second quarter of 2021, equity markets pushed to record highs, with the S&P 500 Index (“S&P”) being up 8.6% during the second quarter and +15.3% year to date (“YTD”). The S&P continues to experience robust earnings growth, helping to drive it to record levels. Large cap growth stocks doubled the return of value stocks in the quarter, but value has been a significant outperformer for 2021 led by financials and energy stocks. Domestic mid-caps and small caps trailed the S&P, although both have surpassed the S&P on a YTD basis. International equity markets produced positive returns but continued to lag the S&P both in the quarter and YTD. The economic rebound from last year’s pandemic is proceeding with remarkable speed, and financial markets are cheerfully moving to price in a continued recovery.

S&P 500 earnings per share
Index annual operating earnings



Percent change in S&P 500, earnings and valuations
Year-to-date, indexed to 100



Source: FactSet, Compustat, Standard & Poor's, J.P. Morgan Asset Management. Historical EPS levels are based on annual operating earnings per share. Earnings estimates are based on estimates from Standard & Poor's and FactSet Market Aggregates. Past performance is not indicative of future returns. Guide to the Markets – U.S. Data are as of June 30, 2021.

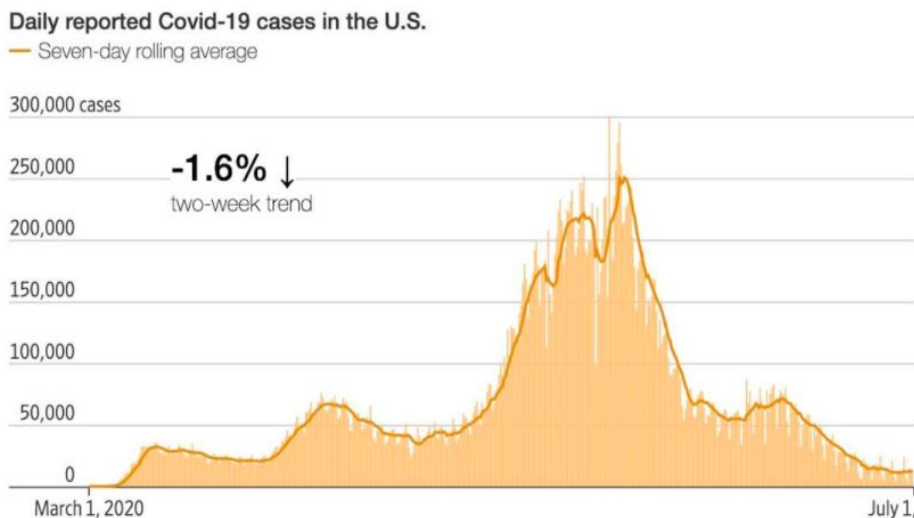
Bonds rebounded in the quarter to finish in positive territory, +1.96% for the Barclay’s Aggregate, although negative for 2021, -1.67%. Yields on 10-year U.S. Treasuries fell to levels not seen in over a year, leading to questions about what the bond market is telling us:

- Does slower economic growth await us?
- Is the high inflation just a transitory supply/demand imbalance?
- Or is this simply the impact of the Federal Reserve bond purchases?

The uncertainty around these questions is likely exacerbating the volatility in treasury yields. Our allocation away from U.S. Treasuries has proven to be beneficial both from a return and yield standpoint.

COVID-19

There is great news on the vaccination front. As of July 1st, 55% of the U.S. population have had at least one vaccination dose and 47% of the population in the US are fully vaccinated, though we fell short of President Biden's goal for 70% of the adult population to receive at least one coronavirus vaccine dose by July 4.



Public-health officials have raised concerns that the highly contagious Delta variant is now the dominant coronavirus strain in the U.S. Government and private health officials are warning that the Delta variant is more infectious, and case counts are increasing rapidly in the unvaccinated population throughout the country primarily in states with low vaccination levels. More encouraging is the data for fully vaccinated people, who are believed to have significant protection against hospitalization and severe illness.

MARKET POSITIVES AND CONCERNS

As always, there are reasons for optimism and some pessimism when it comes to the markets.

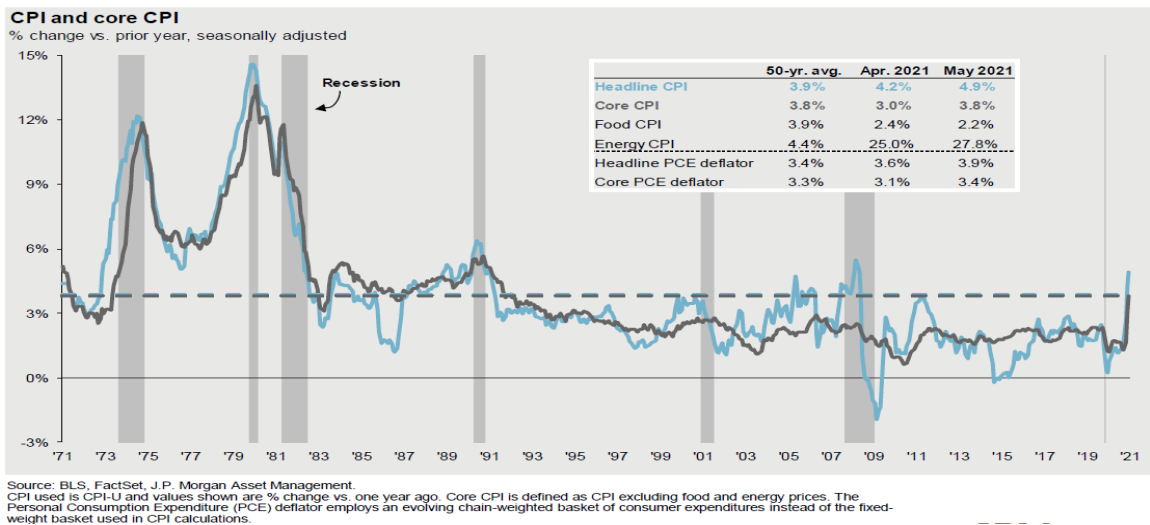
Positives:

- Continued strong economic growth driven by consumer mobility (resuming travel and spending) as more of the global population is vaccinated. Current estimates are for 2021 U.S. real GDP growth to increase 7%, the fastest growth in 30 years.
- Consumer spending increases driven by excess savings during the pandemic, continued federal stimulus such as the rollout of the child tax credit payments, and gains in net worth due to higher home and stock prices.
- Low interest rates fueling another refinancing boom as the Federal Reserve maintains its low-rate policy and continues to make monthly bond purchases which tends to force rates down.
- More fiscal stimulus in the form of a trillion-dollar government infrastructure bill that is in the final negotiation stages between the White House, Republicans and Democrats.
- Continued strength in corporate earnings growth as supply chain bottlenecks ease. Many companies have integrated technology during the pandemic that will reduce the costs of office space, travel, and even labor due to increased productivity. These are all potential offsets to higher costs and are good for profit margins.

IDENTIFYING OPPORTUNITY. NAVIGATING RISK.

Concerns/Risks:

- Inflation. Is it transitory or is it systemic? Wages are rising and raw material costs are up, which may be negative for profit margins if companies cannot offset the costs or increase prices to consumers. We have already seen higher consumer prices in grocery stores, restaurants, and at the gasoline pump. While higher wages are positive for consumer spending, we don't want the benefit to be negated by higher inflation on goods and services for all of us, such as we've seen with lumber (which is starting to abate), used car prices due to a chip shortage, and housing due to lack of supply. We know that part of this inflation spike is a result of the reopening of the economy, but how much of it will be transitory and for how long, only time will tell. A sustained sharp rise in inflation will likely lead to a severe rise in interest rates which is negative for stock valuations.



- Delta variant spread in much of the world thwarts plans in many countries to lift lockdowns and reopen their economies. Over 55% of all Covid-19 cases are related to the Delta variant. In the UK, it accounts for over 90%. This is a concern as the Delta variant seems to be the most dangerous of the variants and is easily transmitted, resulting in higher cases of hospitalizations for unvaccinated people.
- Federal Reserve begins to “talk about talking about tapering”. Will the market react when the Fed finally acts?
- The Biden administration takes action to reduce the trends of corporate consolidation and promote more competition, especially with large technology companies.
- The magnitude of fiscal spending plus the proposed spending in the trillions will have possible long-term impact to interest rates and inflation and could lead to higher corporate and personal taxes to keep debt from spiraling out of control.

Some of these may be priced into the market, some may not. We will continue to focus on balancing risk/reward and maintain a diversified portfolio across economic sectors and asset classes. We will also rebalance portfolios to stay in line with your objectives.

EXCESSES IN THE EQUITY MARKET ARE SELECTIVE!

As the equity market reaches record levels, clients are concerned about the equity market being “overvalued”. While there are areas of concern and speculation, the majority of the market is not. We point to areas of the market that are experiencing high levels of volatility and at times speculation such as

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SPACs (blank check companies), meme stocks, ARK stocks, a flood of IPOs, crypto currency everything, EV (electric vehicle) stocks, and new era stocks. There will be winners from each of these categories but there will likely be losers as we have seen this play before!

In addition, the following chart shows that the top 10 S&P stocks trade at a significant premium to the other 490. These stocks trade at a more sedate valuation, especially for these low interest rates. Equities also remain very attractive relative to bonds.



CONCLUSION

Shorepoint's process is thoughtful, disciplined, and flexible. Please know that our team is working diligently to manage risk and returns as well as position your portfolio for the long term. While we see areas of overvaluation in both equities and bonds, the worries you read about in the press are mostly priced into the market. There are always reasons not to invest, but staying the course usually wins out. We believe that appropriate portfolio diversification amongst asset classes can help buffer your portfolio from the ups and downs of market volatility.

We prefer dividend-paying stocks and equities in general to bonds but continue to have an appropriate allocation to bonds for diversification and to reduce overall volatility. We would look to add to equities on any sizeable pull back, anywhere from 5-10%, using our current cash allocation in your accounts. We are due for a correction (identified as a market loss of 10% or higher) in the equity market as one generally occurs every 12-18 months and is a healthy process to eliminate excesses. Although we have had three 5% equity market corrections in the last year, more often, equity pullbacks have been more focused, e.g., high growth stocks, financials, energy, cyclicals, etc. We think economic and profit growth could continue to come in considerably above expectations, leading equity sectors that have lagged the market for years to continue to outperform. The uneven recovery to date across economic sectors is actually good news for the 2021 growth outlook as it increases the scope for outsized gains in underperforming sectors.