

MARKET UPDATE

Q2 2021

The second quarter began with stocks making solid gains in April. COVID vaccines became available to more Americans. The federal government and several states pushed forward with reopening after relaxing many of pandemic-related constraints. Economic data was favorable and encouraging. The first-quarter gross domestic product accelerated at an annualized rate of 6.4%, claims for unemployment slowed, 266,000 new jobs were added, and manufacturing expanded. Price inflation expanded, although the Federal Reserve asserted that it would continue stimulus measures, even if inflation reached and exceeded the Fed's 2.0% target. Each of the benchmark indexes listed here posted solid monthly gains, led by the Nasdaq (5.4%), followed by the S&P 500 (5.2%), the Global Dow (2.9%), the Dow (2.7%), and the Russell 2000 (2.1%). Bond prices increased, pulling yields lower. Crude oil prices ended April at \$63.50 per barrel after increasing by more than 7.0% from March. The dollar slipped 2.1%, while gold prices rose 3.5%, closing April at \$1,788.20 per troy ounce.

Stocks ended May with mixed returns, with the Global Dow (3.59%) and the Dow (1.93%) posting solid gains, while the Nasdaq fell 1.53%. Sector returns varied, with financials, energy, and materials gaining more than 3.0%, while consumer discretionary and information technology dipped more than 2.5%. Long-term Treasury yields decreased marginally, the dollar dropped 1.3%, while crude oil prices continued to climb, gaining nearly 5.0%. Overall, economic data was positive and confirmed that economic growth was accelerating, but not at the pace some may have anticipated. Labor added 266,000 new jobs, well below the nearly 1,000,000 figure some economists predicted. The number of job openings reached its highest level since 2000, which appears to point to a shortage of available workers rather than a slowdown in labor demand. Inflation was the buzzword throughout the month as consumer prices continued to climb, stoking fears that the Federal Reserve would cut back on stimulus measures in place. The personal consumption expenditures price index rose 0.6%, the Consumer Price Index climbed 0.8%, and producer prices increased 0.6%. Nevertheless, Fed officials repeated assurances that the price hikes were temporary due to "transitory supply chain bottlenecks."

Economic recovery continued in June. Stocks closed the month generally higher, with only the Dow and the Global Dow lagging. Tech shares rebounded from a moderate dip in May to push the Nasdaq to a series of record highs in June. Bond prices rose, dragging yields lower. Yields on 10-year Treasuries declined nearly 10 basis points last month. Crude oil prices climbed nearly \$7.00 per barrel. Information technology led the sectors, advancing nearly 7.0%, while materials, financials, and consumer staples lost value. The dollar rose, while gold prices dropped. June saw 559,000 new jobs added, with notable job gains in leisure and hospitality, health care and social assistance, and manufacturing. Inflationary pressures may be peaking as supply-chain pressures that had driven commodity prices higher over the past several months may be easing. Lumber prices fell from record highs and retail vehicle prices may have crested as wholesale auto prices slid. Investor confidence may have been boosted in June with the announcement by President Joe Biden of a bipartisan infrastructure spending package.

Overall, the second quarter was a good one for equities. The Nasdaq gained 9.5%, followed closely by the S&P 500 (8.2%), the Global Dow (4.9%), the Dow (4.6%), and the Russell 2000 (4.1%). Real estate, information technology, energy, and communication services all posted quarterly gains of more than 10.0% to lead the market sectors. Year to date, the Russell 2000 is well ahead of its 2020 year-end closing value, followed by the Global Dow, the S&P 500, the Dow, and the Nasdaq. The yield on 10-year Treasuries fell 30 basis points. Crude oil prices increased \$14.17 per barrel, or 24.0%, in the second quarter. The dollar lost nearly 1.0%, while gold prices advanced 3.6%. The national average retail price for regular gasoline was \$3.091 per gallon on June 28, up from the May 31 price of \$3.027 and 8.4% higher than the March 29 selling price of \$2.852.

Market/Index	2020 Close	As of June 30	Monthly Change	Quarterly Change	YTD Change
DJIA	30,606.48	34,502.51	-0.08%	4.61%	12.73%
Nasdaq	12,888.28	14,503.95	3.88%	9.49%	12.54%
S&P 500	3,756.07	4,297.50	2.22%	8.17%	14.41%
Russell 2000	1,974.86	2,310.55	1.82%	4.05%	17.00%
Global Dow	3,487.52	4,001.68	-1.55%	4.93%	14.74%
Fed. Funds	1.00%-0.25%	0.00%-0.25%	0 bps	0 bps	0 bps
10-year Treasury	0.91%	1.44%	-14 bps	-30 bps	53 bps

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Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.



INTERNATIONAL INVESTING: OPPORTUNITY OVERSEAS?

For the past decade, U.S. stocks have outperformed foreign stocks by a wide margin, due in large part to the stronger U.S. recovery after the Great Recession. In general, U.S. companies have been more nimble and innovative in response to changing business dynamics, while aging populations in Japan and many European countries have slowed economic growth.¹

Despite these challenges, some analysts believe that foreign stocks may be poised for a comeback as other countries recover more quickly from the effects of COVID-19 than the United States. On a more fundamental level, the lower valuations of foreign stocks could make them a potential bargain compared with the extremely high valuations of U.S. stocks.²⁻³

GLOBAL GROWTH AND DIVERSIFICATION

Investing globally provides access to growth opportunities outside the United States, while also helping to diversify your portfolio. Domestic stocks and foreign stocks tend to perform differently from year to year as well as over longer periods of time (see chart).

Although some active investors may shift assets between domestic and foreign stocks based on near or mid-term strategies, the wisest approach for most investors is to determine an appropriate international stock allocation for a long-term strategy.

A WORLD OF CHOICES

The most convenient way to participate in global markets is by investing in mutual funds or exchange-traded funds (ETFs) — and there are plenty of choices available. In Q1 2021, there were more than 1,400 mutual funds and 600 ETFs focused on global equities.⁴

International funds range from broad, global funds that attempt to capture worldwide economic activity to regional funds and those that focus on a single country. Some funds are limited to developed nations, whereas others may focus on nations with emerging economies.

The term "ex U.S." or "ex US" typically means that the fund does not include domestic stocks. On the other hand, "global" or "world" funds may include a mix of U.S. and international stocks, with some offering a

fairly equal balance between the two. These funds offer built-in diversification and may be appropriate for investors who want some exposure to foreign markets balanced by U.S. stocks. For any international stock fund, it's important to understand the mix of countries represented by the securities in the fund.

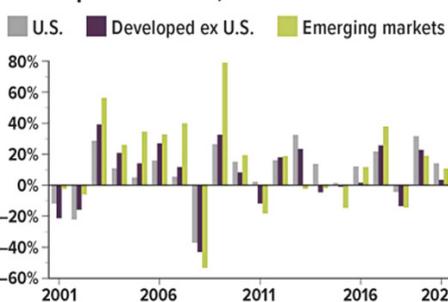
ADDITIONAL RISKS AND VOLATILITY

All investments are subject to market volatility, risk, and loss of principal. However, investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, and economic and political risk unique to a specific country. Emerging economies might offer greater growth potential than advanced economies, but the stocks of companies located in emerging markets could be substantially more volatile, risky, and less liquid than the stocks of companies located in more developed foreign markets.

Domestic vs. Foreign

Over the past 20 years, stocks in emerging markets have

Stock performance, annual total returns



outperformed U.S. stocks but have been much more volatile. Stocks of developed economies outside the United States have yielded less than domestic stocks over the 20-year period, but have outperformed in nine of those 20 years.

Source: Bloomberg L.P. U.S. stocks are represented by the S&P 500 Composite Total Return Index, developed ex U.S. stocks are represented by the MSCI EAFE GTR Index, and emerging market stocks are represented by the MSCI EM GTR Index; all are considered representative of their asset classes. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Rates of return will vary over time, especially for long-term investments. Past performance is not a guarantee of future results. Actual results will vary.

Diversification is a method to help manage risk; it does not guarantee a profit or protect against loss. The return and principal value of all stocks, mutual funds, and ETFs fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Supply and demand for ETF shares may cause them to trade at a premium or a discount relative to the value of the underlying shares.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest. 1, 2) U.S. News & World Report, October 1, 2020 3) CNBC, January 23, 2021 4) Investment Company Institute, 2021

DECISIONS, DECISIONS: WEIGHING THE PROS AND CONS OF AN IRA ROLLOVER

If you lose a job, switch employers, or step into retirement, you might consider rolling your retirement plan savings into an IRA. But this isn't your only option; it could make more sense to keep the money in your previous employer's plan or move it to your new employer's plan (if allowed by the plan).

You could also cash out, but that's rarely a good idea. Withdrawals from tax-deferred retirement accounts are taxed as ordinary income, and you could be hit with a 10% tax penalty if you are younger than 59½, unless an exception applies.

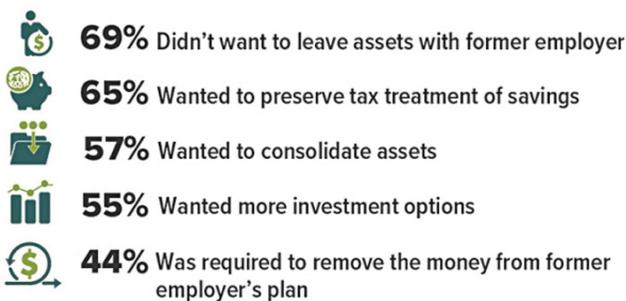
Some employer plans permit in-service distributions, which allow employees to take a partial distribution from the plan and roll the money into an IRA. When deciding what to do with your retirement assets, be aware that IRAs are subject to different rules and restrictions than employer plans such as 401(k)s.

WHAT IRAS HAVE TO OFFER

There are many reasons to consider an IRA rollover. Investment choice. The universe of investment options in an IRA is typically much larger than the selection offered by most employer plans. An IRA can include individual securities and alternative investments as well.

Retirement income. Some employer plans may require you to take a lump-sum distribution when you reach the plan's retirement age, and your distribution options could be limited if you can leave your assets in the plan. With an IRA, it's likely that there will be more possibilities for generating income, and the timing and amount of distributions are generally your decision [until you must start taking required minimum distributions (RMDs) at age 72].

TOP REASONS FOR MOST RECENT IRA ROLLOVER



Source: Investment Company Institute, 2021 (more than one reason allowed per respondent)

Account consolidation. Consolidating your investments into a single IRA may provide a clearer

picture of your portfolio's asset allocation. This could make it easier to adjust your holdings as needed and calculate RMDs.

Different exceptions. There are circumstances when IRA owners may be able to withdraw money penalty-free prior to age 59½, options that are not available to employer plan participants. First-time homebuyers (including those who haven't owned a home in the previous two years) may be able to withdraw up to \$10,000 (lifetime limit) toward the purchase of a home. IRA funds can also be withdrawn to pay qualified higher-education expenses for yourself, a spouse, children, or grandchildren. IRA funds can even be used to pay for health insurance premiums if you are unemployed.

WHEN TO THINK TWICE

For some people, there may be advantages to leaving the money in an employer plan.

Specific investment options. Your employer's plan may offer investments that are not available in an IRA, and/or the costs for the investments offered in the plan may be lower than those offered in an IRA.

Stronger creditor protection. Most qualified employer plans receive virtually unlimited protection from creditors under federal law. Your creditors cannot attach your plan funds to satisfy any of your debts and obligations, regardless of whether you've declared bankruptcy. On the other hand, IRAs are generally protected under federal law (up to \$1,362,800) only if you declare bankruptcy. Any additional protection will depend on your state's laws.

The opportunity to borrow from yourself. Many employer plans offer loan provisions, but you cannot borrow money from an IRA. The maximum amount that employer plan participants may borrow is 50% of their vested account balance or \$50,000, whichever is less.

Penalty exception for separation from service. Distributions from your employer plan won't be subject to the 10% tax penalty if you retire during the year you reach age 55 or later (age 50 for qualified public safety employees). There is no such exception for IRAs.

Postponement of RMDs. If you work past age 72, are still participating in your employer plan, and are not a 5% owner, you can delay your first RMD from that plan until April 1 following the year in which you retire.

A STEADY STRATEGY

One of the most fundamental truths of investing is that you can't time the market. As legendary investor and economist Bernard Baruch put it, "Don't try to buy at the bottom and sell at the top. It can't be done except by liars."¹

Even so, it's natural to wince a little when you buy an investment only to see the price drop, or sell only to see the price rise. And no matter how much you try to make objective decisions, you may be tempted to guess at market movements. One approach that might help alleviate some of your concerns is dollar-cost averaging.

REGULAR INVESTMENTS

Dollar-cost averaging involves investing a fixed amount on a regular basis, regardless of share prices and market conditions. Theoretically, when the share price falls, you would purchase more shares for the same fixed investment. This may provide a greater opportunity to benefit when share prices rise and could result in a lower average cost per share over time.

If you are investing in a workplace retirement plan through regular payroll deductions, you are already practicing dollar-cost averaging. If you want to follow this strategy outside of the workplace, you may be able to set up automatic contributions to an IRA or another investment account. Or you could make manual investments on a regular basis, perhaps choosing a specific day of the month.

You might also use a similar approach when shifting funds between investments. For example, let's say you want to shift a certain percentage of your stock investments to more conservative fixed-income investments as you approach retirement. You could execute this in a series of regular transactions over a period of months or years, regardless of market movements.

Dollar-cost averaging does not ensure a profit or prevent a loss, and it involves continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases during periods of low and high price levels. However, this can be an effective way to accumulate shares to help meet long-term goals.

Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. All investments are subject to market fluctuation, risk, and loss of principal. When sold, they may be worth more or less than their original cost.

1) BrainyQuote, 2021



HELP US GROW

Do you know someone who could benefit from our services?

Our goal is to offer service to several other clients just like you! We would be honored if you would:

- Bring a guest to an event we are hosting
- Refer a friend to come to our office for a complimentary financial check up
- Provide us with 3 names of prospects to add to our mailing list

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