PrivateWealth Partners, LLC

SECOND QUARTER 2021 REVIEW

Dear Friend, July 13, 2021

We are currently living in the moment we have been anticipating for over a year—a less restrictive economy where an effective vaccine, pent-up demand, and coordinated monetary and fiscal policy have come together to create a short-term boom in GDP growth. The Federal Reserve Bank of Atlanta estimates GDP growth of 7.8%[I] in the second quarter, and all fundamental signs point to continued expansion in the second half of the year.

The U.S. consumer has been instrumental in the rebound thus far. Earlier in the cycle, consumers were staying home, spending more on big ticket items like furniture and home improvement projects. Recent spending data suggests a shift to services. Spending on leisure and discretionary services (travel, restaurants, etc.) rose 0.7% in May, while spending on furniture and cars fell by -2.8% over the same period. Spending volume on consumer goods is over 10% higher than it was before the recession.

In our view, stocks have already priced-in much of the economic recovery we experienced in Q2. But b*etter-than-expected* earnings and growth outcomes—combined with a still-dovish Fed and a retreat in long duration Treasury bond yields—continue providing upward support for equities. Approximately 80% of stocks in the S&P 500 Index are in an uptrend, underscoring the breadth of the rally. The S&P 500 added another +8.3% for the quarter, bringing year-to-date gains (through June 30) to +15.3%.

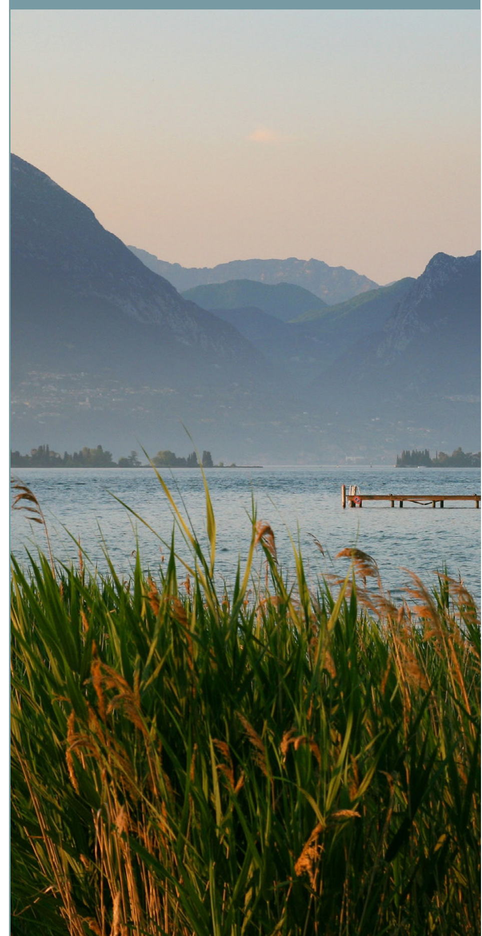
THE S&P 500 HAS POSTED STEADY GAINS OVER THE LAST YEAR

Source: Strategas Research

I - Seasonally adjusted annualized rate

"The relationship between price and value holds the ultimate key to investment success."

-HOWARD MARKS



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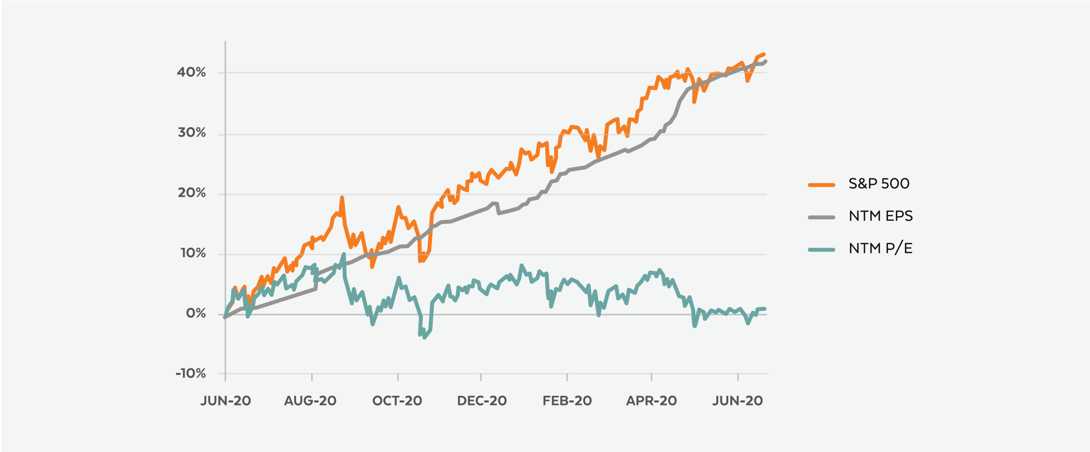
Strength across virtually all economic indicators helped produce a robust corporate earnings season, with over 85% of S&P 500 companies reporting better-than-expected results in Q1 2021. In a sign CEOs are optimistic about the resilience of the recovery, S&P 500 earnings per share (EPS) estimates for 2021 have jumped from $167 at the beginning of the year to $191 six months later. Upward revisions have boosted stocks—as seen below, the S&P 500's performance has been tightly correlated with earnings expectations, as indicated by NTM (next twelve months) EPS:

PERCENT CHANGE IN S&P 500 INDEX, EPS AND P/E



Source: Credit Suisse

Another trend that took shape in the second quarter was the rotation between cyclical (value) stocks and secular growth stocks. From the beginning of the year through the middle of May, value was the play—the Russell 1000 Value index rose +15% compared to just +2% for the Russell 1000 Growth index. Since then, however, U.S. Treasury bonds have rallied alongside growth stocks (+12%), while value stocks have lagged (+2%). In our view, peak economic growth in the coming quarter or two will give way to decelerating GDP growth rates, which we think will benefit growth over value in this cycle. Private Wealth Partners maintains a slight bias to growth, though overall we're striving to stay balanced.

One theme of interest in Private Wealth Partners equity portfolios is digital payments. The economy has been steadily trending toward cashless transactions, but we saw a dramatic acceleration during the pandemic. Companies whose payment networks are used by both ecommerce and physical world point-of-sale terminals could benefit, especially since the latter is back online with the economy re-opening. Bottom line: the shift away from cash has major implications for payments companies and the "fintech" industry, with fast growth and fierce competition for market share. While we do not see an end to traditional banking because of regulatory requirements, we do see opportunities for new payments companies to occupy a space on your mobile device. The door is open for new touchpoints between seller and consumer, meaning new revenue streams in payments that do not necessarily involve traditional banks.

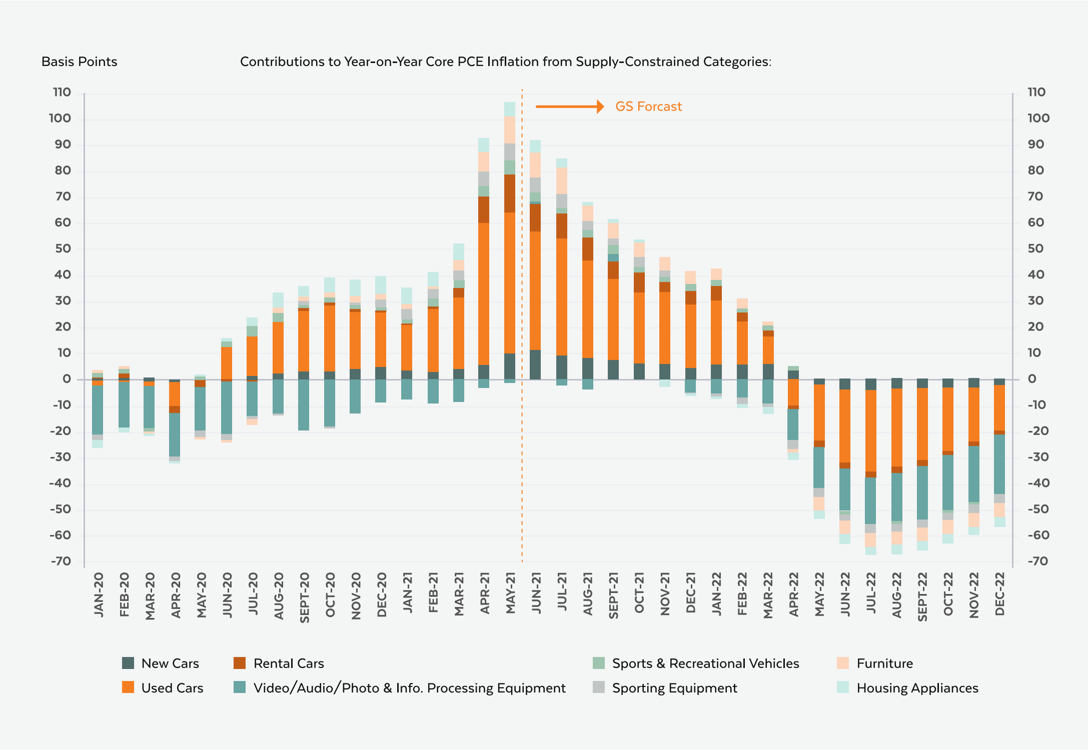
INFLATION, EMPLOYMENT, AND THE FEDERAL RESERVE

The financial news has been abuzz recently with inflation concerns. According to Credit Suisse, the consumer price index (CPI) is up 5% year-over-year, but is trending closer to 8% (three months annualized) more recently. There is little doubt that price pressures are being felt throughout the economy, from the price of lumber to gas prices to wages.

Looking ahead, however, we tend to share the Fed's view that rising consumer prices are being pushed higher by temporary factors, like bottlenecks in production and low inventories as the economy reopens. The pandemic appears to be more comparable to a natural disaster than a traditional recession, in that it created disruptions and dislocations to supply chains that may need months—versus years—to be reconciled. Supply should ultimately catch up to demand this year.

The chart below helps put the inflation setup in perspective. According to Goldman Sachs, 'supply-constrained categories' have been disproportionately pushing year-on-year inflation higher, but this effect has likely already peaked and could even turn disinflationary by mid-2022.

WE ESTIMATE THAT THE CONTRIBUTION TO YEAR-ON-YEAR INFLATION FROM SUPPLY-CONSTRAINED CATEGORIES WILL SWING FROM +105BP NOW TO +35BP AT AND-2021 AND -55 AT END-2022



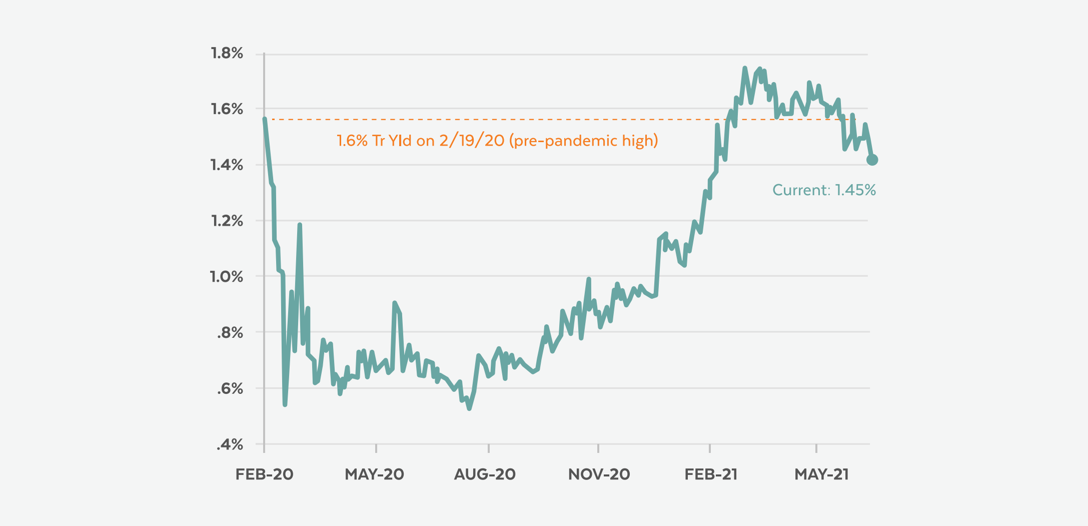
Source: Department of Commerce, Goldman Sachs Global Investment Research

The Fed has signaled they are much more focused on employment, which is trending in the right direction but not as quickly as many hoped. In the first six months of the year, the U.S. economy added 3.3 million jobs, but it is still 7.6 million jobs shy of pre-pandemic levels. Perhaps unsurprisingly, new jobs at restaurants, hotels, stores, salons, and other in-person service industry roles accounted for nearly 50% of all payroll gains since the start of the year.

An improving jobs picture will eventually spur the Federal Reserve into 'tapering' the $120 billion/month bond purchases, but early indicators suggest the effect on the markets may not be as significant as many fear. Initial mentions of tapering in June did not lead to a correction, but rather a rotation toward secular growth stocks and away from cyclical/value stocks.

The inflation question remains open. As we write, the bond market appears to be far less worried about inflation than many pundits and experts, and there is even a sense that 10-year Treasury bond yields are telling us growth expectations are moderating. We have little doubt the economy will continue to grow throughout 2021, but it may also be true that the pace and strength of growth may be peaking now.

10-YEAR TREASURY YIELD

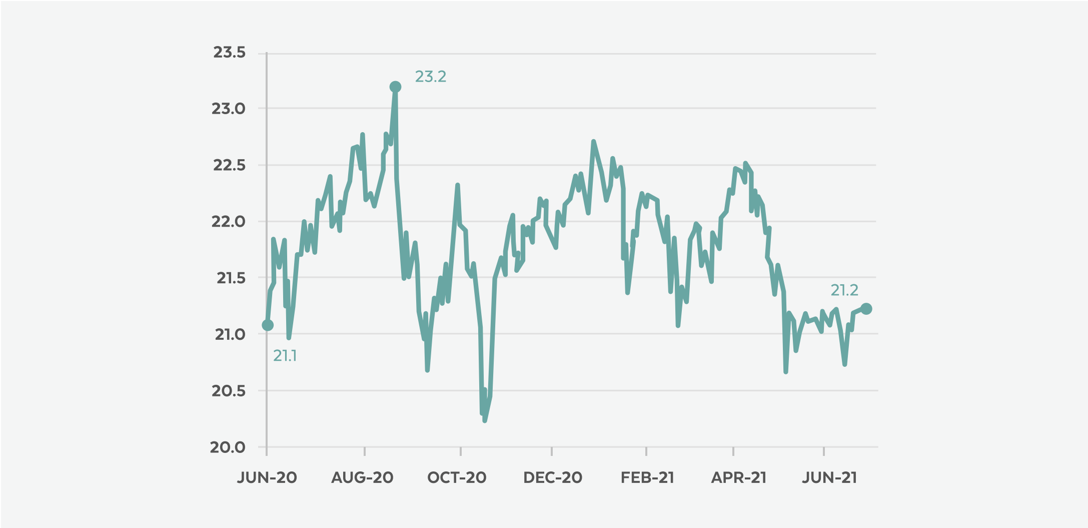


Source: Credit Suisse

CONCLUSION

Corporate earnings and GDP growth are tracking in-line—and often outpacing—even the strongest forecasts. Consensus earnings-per-share expectations are for 61% year-over-year growth, or more fairly, 10% growth compared to Q2 2019 (since Q2 2020 featured a shutdown economy). Accelerating earnings growth has led to a forward multiple on the S&P 500 index of 21.2x, which is historically high but may be acceptable given long duration Treasury bond yields remain low.

S&P 500 NTM P/E



Source: Credit Suisse

The current U.S. economy is booming. The paradox of a humming economy, however, is that too much good news can give way to other types of headwinds: rising inflation, tight labor markets, supply chain bottlenecks, and ultimately, monetary policy tightening. If the economy is currently experiencing peak growth and peak liquidity, one might reasonably expect some deceleration in the future—which could also result in moderation of risk appetite. For now, we're confident in our current asset allocation, and stocks remain attractive relative to bonds. Corporate earnings should continue posting good results.

If you have any questions about this review or your portfolio, please do not hesitate to reach out to us. We hope you have an enjoyable summer, with some vacation time along the way.

Sincerely,

Kenneth F. Siebel	Peter K. Maier	William F. Dagley
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Jason M. Saxon	Chris Greene	Katrina Sutherland
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