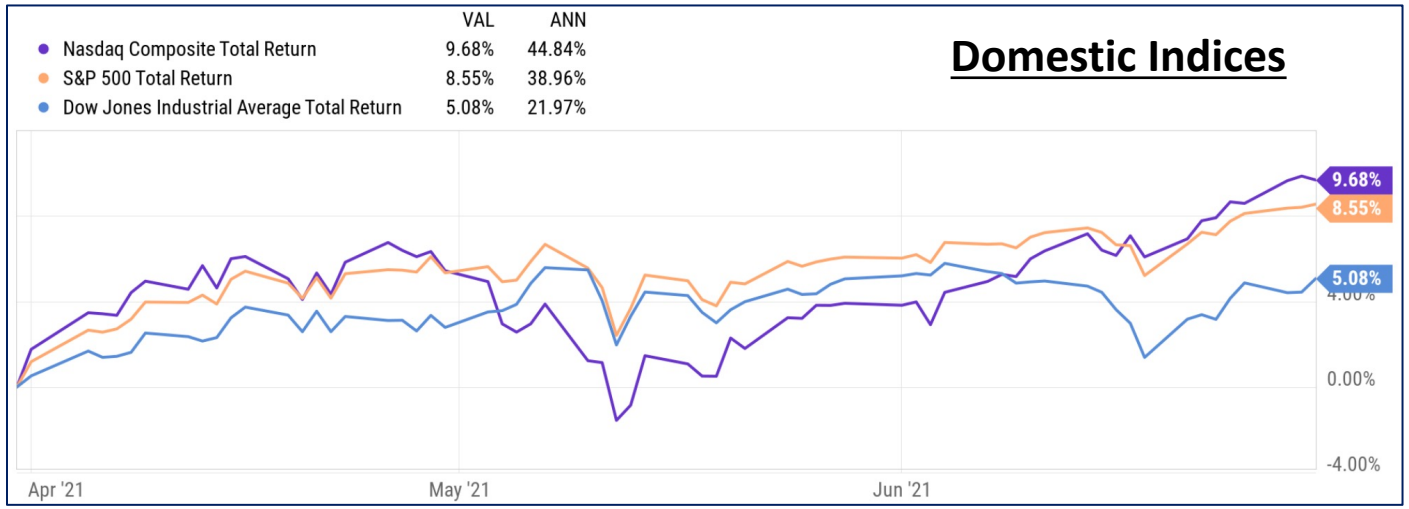
Economic Update

A Closer Look at Q2 2021 Data

Released July 2021

RIVERGLADES
A MULTIFAMILY OFFICE

Stock Markets Performance



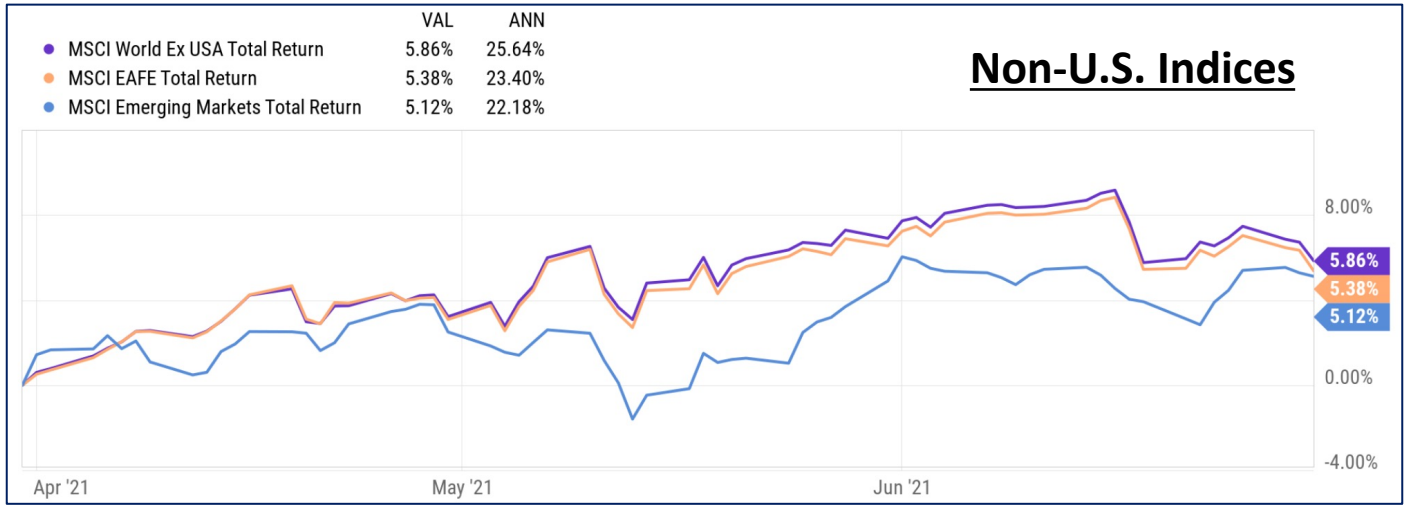
The stock market continued to trend higher in the second quarter of 2021. The Dow, S&P 500, and Nasdaq all closed the quarter at or near all-time highs with the technology driven Nasdaq composite leading the three indices, growing by 9.68%.

The Dow Jones Industrial Average lagged other indexes due in part to the reversal of leadership in the broader market from “value stocks” back to “growth stocks” this quarter.

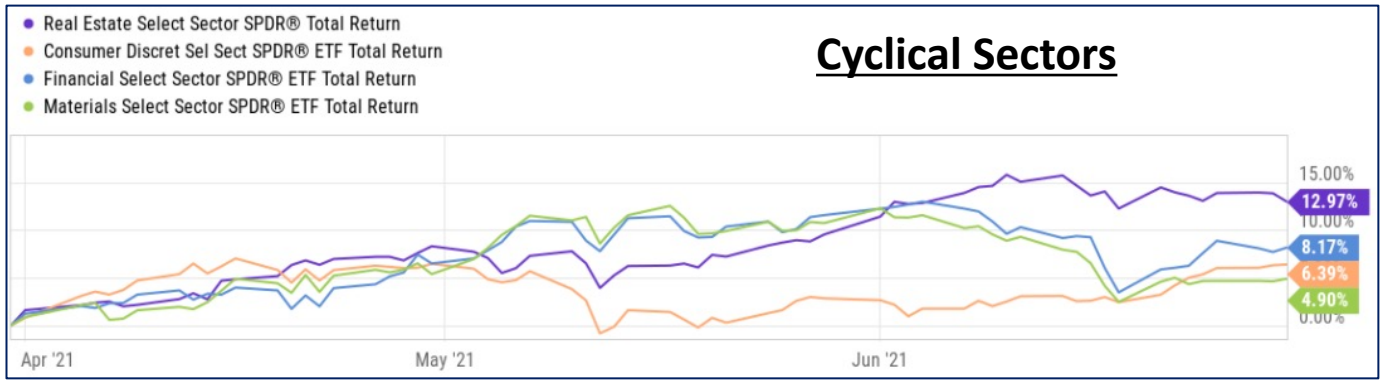
Outside the U.S., stocks also continued higher last quarter. While non-U.S. stocks underperformed the domestic markets, investors have stayed optimistic about the reopening of economies throughout the world in 2021.

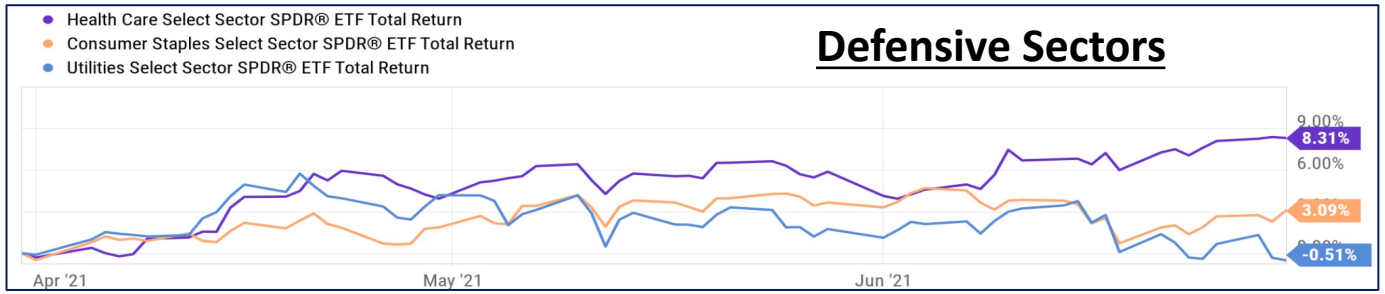
The global markets have noticed that at least so far the U.S. re-opening (and government financial support) has been much stronger than elsewhere in the world. This likely explains the U.S. markets stronger performance.

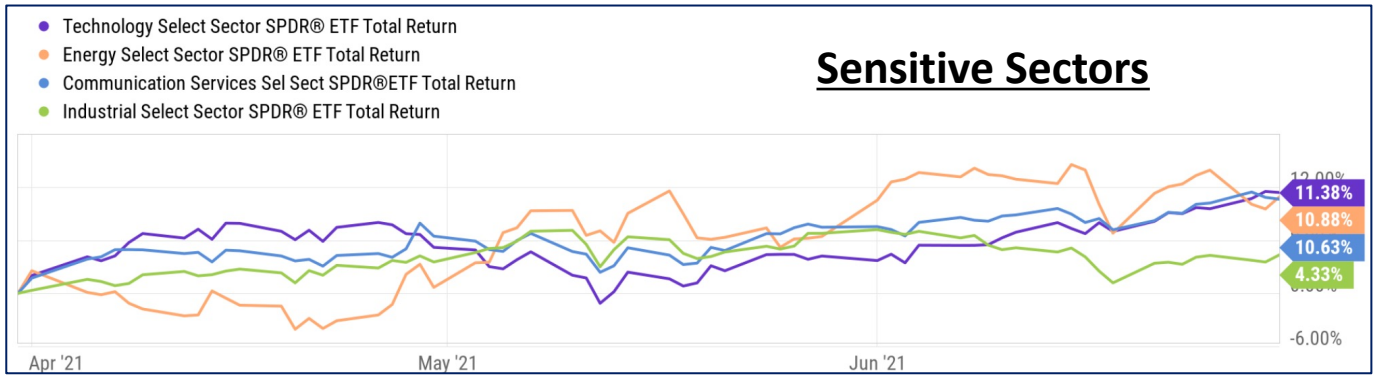
This should be monitored going forward as the U.S. recovery could slip or non-U.S. economies could pick up speed.



US Sector Performance







The second quarter of 2021 presented positive returns in all sectors except for Utilities. Real Estate outpaced the others as it grew by approximately 13%. Due in large part to the ongoing return to work and continued strength in housing. Near record low interest rates remain supportive as well.

After a weak start to the year, the second quarter was a strong one for Technology as the mega-cap tech stocks pushed to all-time highs.

Utilities, one of the defensive sectors, traded lower in Q2 as there was a seemed to be a switch in investor sentiment from “flight-to-safety” stocks into other areas with potentially stronger growth outlooks.

Asset Class Performance – Trailing Periods

YTD Total Return	1 month Total Return	3 month Total Return	6 month Total Return	1 year Total Return	3 year Total Return	5 year Total Return	10 year Total Return
Commodities 31.4%	US Growth 6.3%	Commodities 15.7%	Commodities 31.4%	US Small 62.0%	US Growth 25.1%	US Growth 23.7%	US Growth 17.9%
US Real Estate 20.2%	Commodities 4.3%	US Growth 11.9%	US Real Estate 20.2%	Commodities 57.4%	S&P 500 18.7%	S&P 500 17.6%	S&P 500 14.8%
US Small 17.5%	S&P 500 2.3%	US Real Estate 11.4%	US Small 17.5%	US Value 43.7%	US Small 13.5%	US Small 16.5%	US Small 12.3%
US Value 17.0%	US Real Estate 2.3%	S&P 500 8.5%	US Value 17.0%	US Growth 42.5%	US Value 12.4%	Emerging Markets 13.4%	US Value 11.6%
S&P 500 15.3%	US Small 1.9%	World exUSA 5.9%	S&P 500 15.3%	Emerging Markets 41.4%	Emerging Markets 11.7%	US Value 11.9%	US Real Estate 9.2%
US Growth 13.0%	Aggregate Bonds 0.7%	US Value 5.2%	US Growth 13.0%	S&P 500 40.8%	US Real Estate 11.3%	World exUSA 10.9%	World exUSA 6.2%
World exUSA 10.3%	US Treasuries 0.6%	Emerging Markets 5.1%	World exUSA 10.3%	World exUSA 34.2%	World exUSA 9.1%	US Real Estate 7.8%	Emerging Markets 4.7%
Emerging Markets 7.6%	Muni Bonds 0.3%	US Small 4.3%	Emerging Markets 7.6%	US Real Estate 32.4%	Aggregate Bonds 5.3%	Muni Bonds 3.2%	Muni Bonds 4.3%
Muni Bonds 1.1%	Emerging Markets 0.2%	Aggregate Bonds 1.8%	Muni Bonds 1.1%	Muni Bonds 4.2%	Muni Bonds 5.1%	Aggregate Bonds 3.0%	Aggregate Bonds 3.4%
Aggregate Bonds -1.6%	World exUSA -1.0%	US Treasuries 1.7%	Aggregate Bonds -1.6%	Aggregate Bonds -0.3%	US Treasuries 4.7%	US Treasuries 2.2%	US Treasuries 2.8%
US Treasuries -2.6%	US Value -1.1%	Muni Bonds 1.4%	US Treasuries -2.6%	US Treasuries -3.2%	Commodities -2.7%	Commodities 1.7%	Commodities -6.5%

This table shows the performance of various asset classes in different periodic time frames. (Note: since we are six months into the year, the six month and year-to-date periods are the same.)

Looking at the second quarter and year-to-date, commodities have led all asset classes, reflecting the inflationary impact on commodities prices. Given investors' recent focus on rising inflation, it makes sense that bonds have posted the weakest performance over those same time periods.

Asset	Index
US Real Estate	Dow Jones US Real Estate Index Total Return
US Growth Stocks	Russell 1000 Growth Total Return
Commodities	S&P GSCI Total Return
US Small Cap	Russell 2000 Total Return
S&P 500	S&P 500 Total Return
US Value Stocks	Russell 1000 Value Total Return
World ex USA	MSCI World Ex USA Total Return
Emerging Markets	MSCI Emerging Markets Total Return
Aggregate Bonds	Barclays US Aggregate Total Return
Muni Bonds	Barclays Municipal Bond Total Return
US Treasuries	Barclays US Treasury Total Return

As mentioned, it is worth noting that "growth" took back the torch from "value" last quarter as there was a reversal in narrative from earlier this year.

Even though U.S. Treasuries and the broader Aggregate Bond index posted positive performance over the past three months, these longer maturity bonds represent the only asset classes that are negative on the year.

Asset Class Performance – Quarter by Quarter

6/30/21 Qtr Return	3/31/21 Qtr Return	12/31/20 Qtr Return	9/30/20 Qtr Return	6/30/20 Qtr Return	3/31/20 Qtr Return	12/31/19 Qtr Return	9/30/19 Qtr Return	6/30/19 Qtr Return	3/31/19 Qtr Return	12/31/18 Qtr Return	9/30/18 Qtr Return	6/30/18 Qtr Return	3/31/18 Qtr Return	12/31/17 Qtr Return
Commodities 15.7%	Commodities 13.6%	US Small 31.4%	US Growth 13.2%	US Growth 27.8%	US Treasuries 8.2%	Emerging Markets 11.9%	US Real Estate 7.9%	US Growth 4.6%	US Real Estate 17.0%	US Treasuries 2.6%	US Growth 9.2%	Commodities 8.0%	Commodities 2.2%	Commodities 9.9%
US Growth 11.9%	US Small 12.7%	Emerging Markets 19.8%	Emerging Markets 9.7%	US Small 25.4%	Aggregate Bonds 3.1%	US Growth 10.6%	US Treasuries 2.4%	S&P 500 4.3%	US Growth 16.1%	Muni Bonds 1.7%	S&P 500 7.7%	US Real Estate 7.8%	Emerging Markets 1.5%	US Growth 7.9%
US Real Estate 11.4%	US Value 11.3%	US Value 16.3%	S&P 500 8.9%	S&P 500 20.5%	Muni Bonds -0.6%	US Small 9.9%	Aggregate Bonds 2.3%	World exUSA 4.1%	Commodities 15.0%	Aggregate Bonds 1.6%	US Value 5.7%	US Small 7.8%	US Growth 1.4%	Emerging Markets 7.5%
S&P 500 8.5%	US Real Estate 7.9%	World exUSA 15.9%	US Value 5.6%	Emerging Markets 18.2%	US Growth -14.1%	S&P 500 9.1%	S&P 500 1.7%	US Value 3.8%	US Small 14.6%	US Real Estate -5.8%	US Small 3.6%	US Growth 5.8%	US Small -0.1%	S&P 500 6.6%
World exUSA 5.9%	S&P 500 6.2%	Commodities 14.5%	World exUSA 5.0%	World exUSA 15.5%	S&P 500 -19.6%	Commodities 8.3%	Muni Bonds 1.6%	Aggregate Bonds 3.1%	S&P 500 13.6%	Emerging Markets -7.4%	World exUSA 1.4%	S&P 500 3.4%	S&P 500 -0.8%	US Value 5.3%
US Value 5.2%	World exUSA 4.2%	S&P 500 12.1%	US Small 4.9%	US Value 14.3%	World exUSA -23.1%	World exUSA 7.9%	US Growth 1.5%	US Treasuries 3.0%	US Value 11.9%	US Value -11.7%	Commodities 1.3%	US Value 1.2%	Muni Bonds -1.1%	World exUSA 4.3%
Emerging Markets 5.1%	Emerging Markets 2.3%	US Growth 11.4%	Commodities 4.6%	US Real Estate 14.0%	Emerging Markets -23.6%	US Value 7.4%	US Value 1.4%	Muni Bonds 2.1%	World exUSA 10.6%	World exUSA -12.7%	US Real Estate 0.3%	Muni Bonds 0.9%	US Treasuries -1.2%	US Small 3.3%
US Small 4.3%	US Growth 0.9%	US Real Estate 8.1%	US Real Estate 1.9%	Commodities 10.5%	US Real Estate -24.6%	Muni Bonds 0.7%	World exUSA -0.8%	US Small 2.1%	Emerging Markets 10.0%	S&P 500 -13.5%	Aggregate Bonds 0.0%	US Treasuries 0.1%	Aggregate Bonds -1.5%	US Real Estate 2.5%
Aggregate Bonds 1.8%	Muni Bonds -0.4%	Muni Bonds 1.8%	Muni Bonds 1.2%	Aggregate Bonds 2.9%	US Value -26.7%	US Real Estate 0.5%	US Small -2.4%	US Real Estate 1.1%	Aggregate Bonds 2.9%	US Growth -15.9%	Muni Bonds -0.2%	Aggregate Bonds -0.2%	World exUSA -1.9%	Muni Bonds 0.7%
US Treasuries 1.7%	Aggregate Bonds -3.4%	Aggregate Bonds 0.7%	Aggregate Bonds 0.6%	Muni Bonds 2.7%	US Small -30.6%	Aggregate Bonds 0.2%	Emerging Markets -4.1%	Emerging Markets 0.7%	Muni Bonds 2.9%	US Small -20.2%	US Treasuries -0.6%	World exUSA -0.5%	US Value -2.8%	Aggregate Bonds 0.4%
Muni Bonds 1.4%	US Treasuries -4.3%	US Treasuries -0.8%	US Treasuries 0.2%	US Treasuries 0.5%	Commodities -42.3%	US Treasuries -0.8%	Commodities -4.2%	Commodities -1.4%	US Treasuries 2.1%	Commodities -22.9%	Emerging Markets -0.9%	Emerging Markets -7.9%	US Real Estate -6.1%	US Treasuries 0.1%

This visual shows historical quarterly asset class performance for the last 15 quarters.

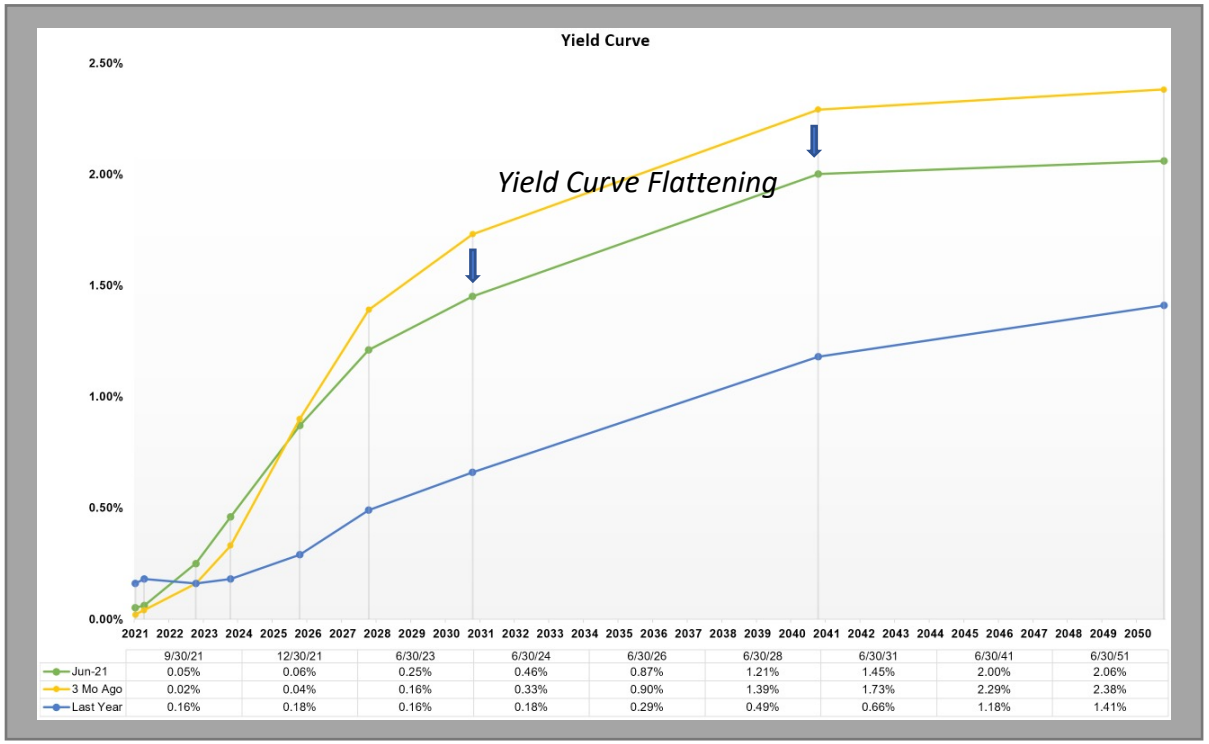
All asset classes were higher in Q2, something that has happened 5 times in the last 15 quarters.

As during 2018, commodities led in both quarters so far this year.

This quilt chart makes a strong case for maintaining portfolio diversification as it remains difficult to time the market and determine with any consistency which asset class will outperform or underperform in any given quarter.

Interest Rates

Name	6/30/21	3/31/21	12/31/20	9/30/21
US High Yield CCC Effective Yield	6.64% ▼	7.41% ▼	8.36% ▼	11.80%
US High Yield B Effective Yield	4.42% ▼	4.70% ▲	4.56% ▼	6.01%
US High Yield BB Effective Yield	3.20% ▼	3.58% ▲	3.32% ▼	4.40%
US Corporate BBB Effective Yield	2.28% ▼	2.55% ▲	2.06% ▼	2.44%
30 Year Treasury Rate	2.06% ▼	2.41% ▲	1.65% ▲	1.46%
US Corporate AAA Effective Yield	1.88% ▼	2.11% ▲	1.55% ▼	1.62%
US Corporate AAA Effective Yield	1.88% ▼	2.11% ▲	1.55% ▼	1.62%
US Corporate A Effective Yield	1.82% ▼	2.04% ▲	1.52% ▼	1.69%
10 Year Treasury Rate	1.45% ▼	1.74% ▲	0.93% ▲	0.69%
5 Year Treasury Rate	0.87% ▼	0.92% ▲	0.36% ▲	0.28%
2 Year Treasury Rate	0.25% ▲	0.16% ▲	0.13% ▬	0.13%
1 Year Treasury Rate	0.07% ▬	0.07% ▼	0.10% ▼	0.12%
6 Month Treasury Rate	0.06% ▲	0.05% ▼	0.09% ▼	0.11%
3 Month Treasury Rate	0.05% ▲	0.03% ▼	0.09% ▼	0.10%
Effective Federal Funds Rate	0.08% ▲	0.06% ▼	0.09% ▬	0.09%

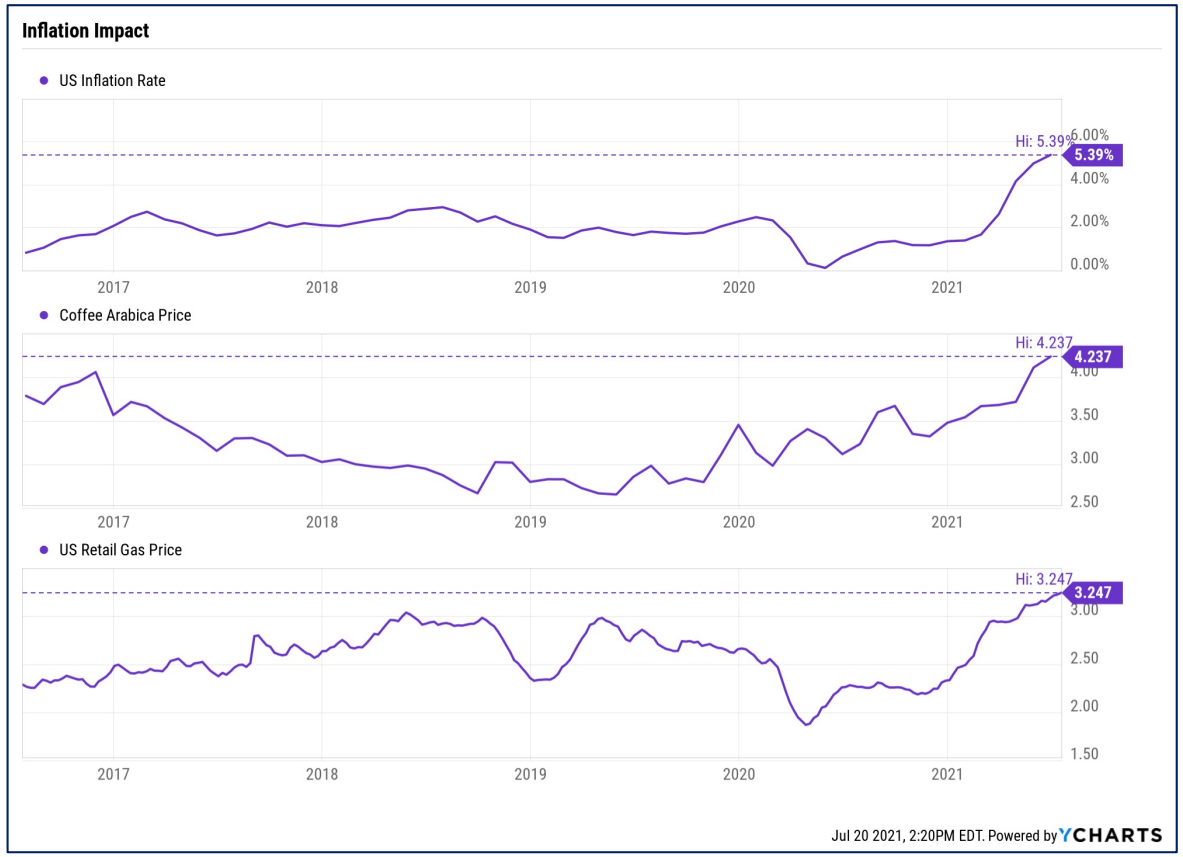


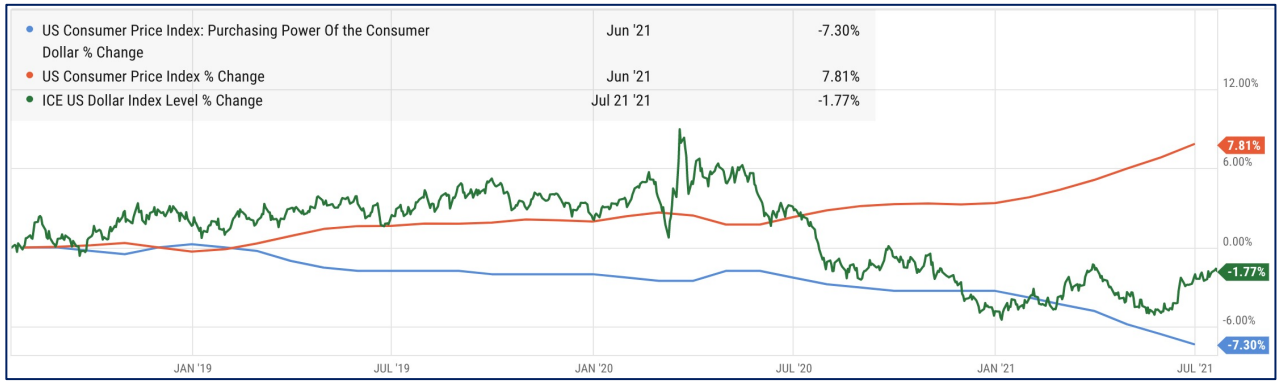
	9/30/21	12/30/21	6/30/23	6/30/24	6/30/26	6/30/28	6/30/31	6/30/41	6/30/51
Jun-21	0.05%	0.06%	0.25%	0.46%	0.87%	1.21%	1.45%	2.00%	2.06%
3 Mo Ago	0.02%	0.04%	0.16%	0.33%	0.90%	1.39%	1.73%	2.29%	2.38%
Last Year	0.16%	0.18%	0.16%	0.18%	0.29%	0.49%	0.66%	1.18%	1.41%

In comparison to last year, 2021 has shown a steepening of the yield curve as longer-term yields have increased, as the Fed has kept the shorter end low.

Over the past few months the Fed indicated that they are in no rush to raise rates and has seemingly delayed any talk of tapering. As a result, investors have seen longer-term yields come down a bit from last quarter, but rates remain above the “panic levels” of one year ago. It will be interesting to see how the Fed’s narrative changes as they juggle employment returning to a healthier level while inflation heads higher.

Inflation





There is currently a debate over whether the recent inflation experience in the U.S. is the start of a concerning trend or a “transitory” result of the post COVID economy starting back up.

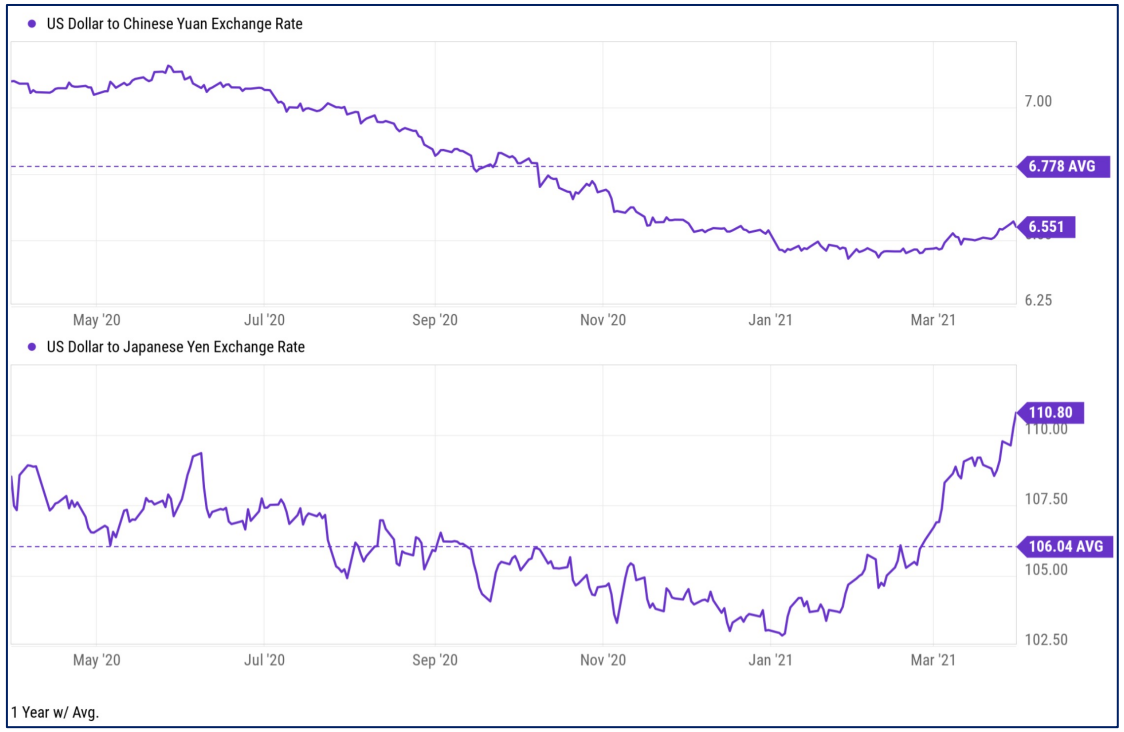
There are valid arguments to be made for both sides of the discussion. However, it might also be that there is a 1-2 year period of elevated to surprising high prices increases in various products or services, before prices begin to level off but remain at this new higher price range.

While the Fed does appear overly concerned, above average sustained inflation is something investors should be keeping an eye on.

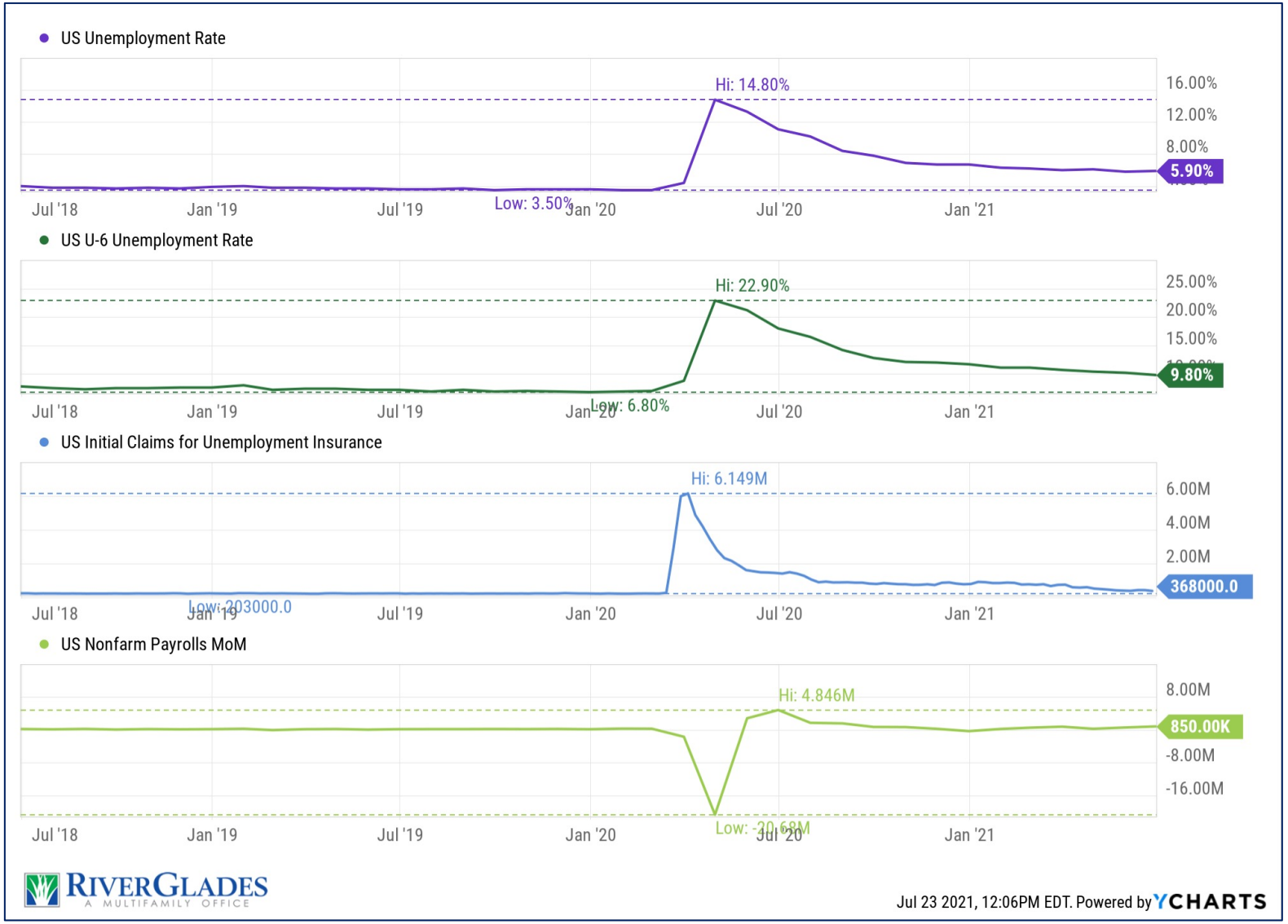
The U.S. Dollar

As CPI has increased quite a bit in Q2, the purchasing power of the dollar has gone in the opposite direction. This has also led to the US Dollar strengthen overall in comparison to other currencies around the world.

During high inflationary periods, investors tend to flock into gold and other hard assets as an escape from devaluing fiat currencies. However, as US inflation rose since May 2020 — and ramped up throughout 2021 — it was actually other fiats that lured investors, rather than gold. The Euro is up 11% against the US Dollar from its low point in March 2020, just prior to US Inflation being near zero, while the Loonie is up 17% on the greenback since its March low.



Employment Situation



Given the ongoing impact of the COVID-19 virus, it warrants taking a closer look at the employment data.

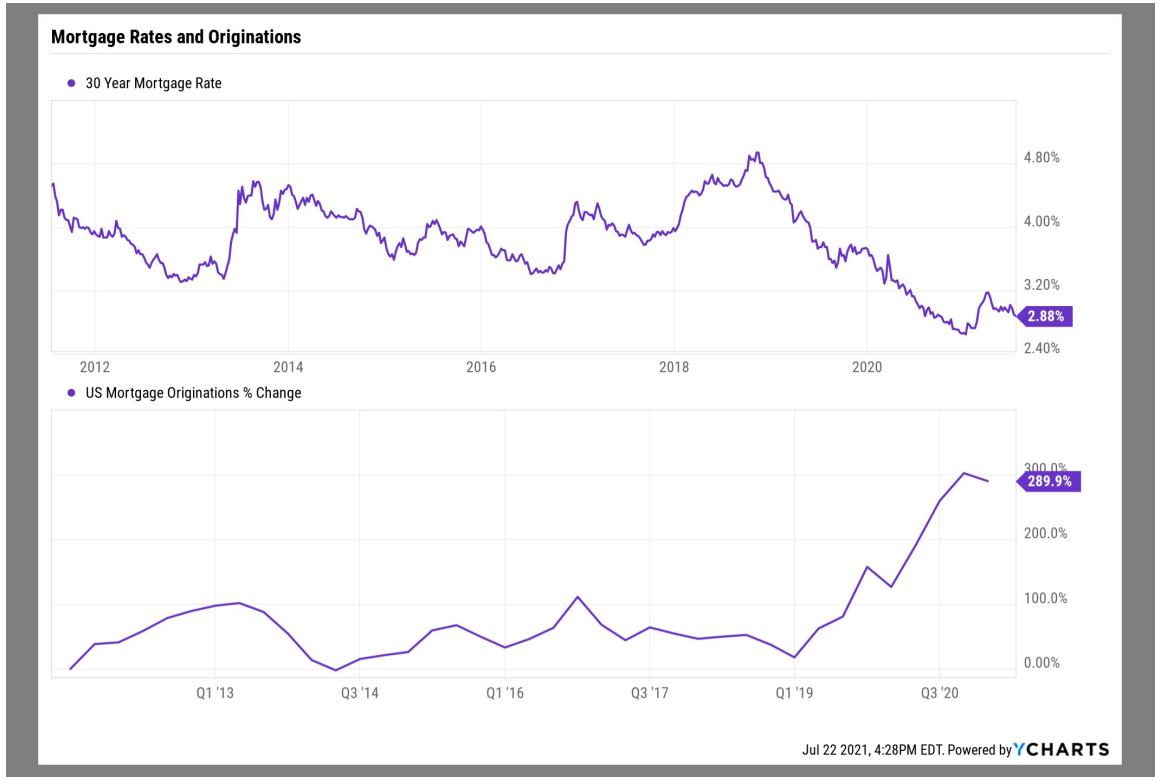
The Unemployment rate (top) has recovered significantly but appears to be leveling out near current levels.

The U-6 indicator (second from top) includes those that are “under-employed” or working less than full-time despite looking for full-time work. This number has also improved but remains above pre-COVID levels.

The new claims for unemployment (third from top) are nowhere near the highs from early last year and appear to be trending lower.

With the rollout of the COVID-19 vaccines falling below the administrations targets and some areas experiencing outbreaks and mask mandates this could hamper the return to the workforce. This remains an area to monitor.

Housing Indicators



The housing market has seen a few of the recent trends potentially begin to shift or at least moderate from the recently strong momentum. There was a peak in mortgage originations towards the end of 2020 as mortgage rates bottomed out, which has since reversed.

In addition, housing sentiment isn't as strong as it was at the beginning of the year, with prospective buyers' sentiment coming 15% off highs.

It will be interesting to see where housing prices go should the economy continue to re-open and people increasingly are called back into the office to work.

One question for the "hot" real estate markets that often attract retirees, is whether or not large numbers of those approaching retirement went ahead and bought their retirement home a few years early? Thereby pulling forward demand that would have occurred over the next 3-5 years.

Housing Indicator Review

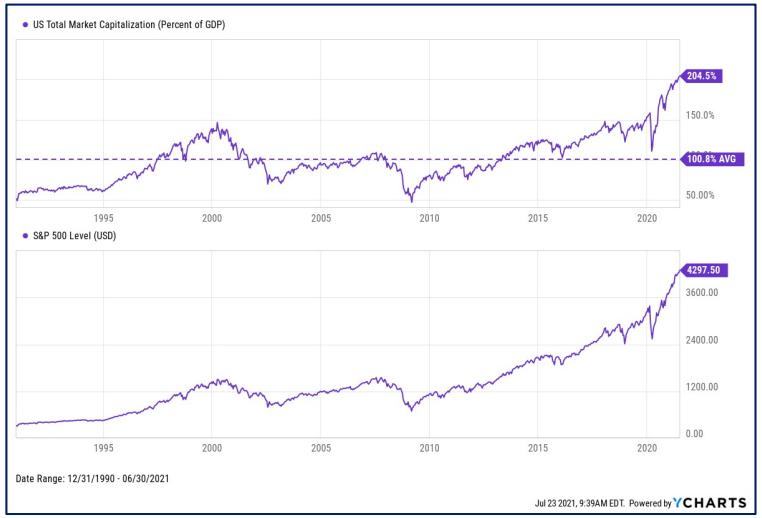
Overall	Indicator Name	Last Release Date	Frequency	Value	1 Mo. Ago			3 Mo. Ago			1 Yr. Ago		
					1 Mo. Ago		% Change	3 Mo. Ago		% Change	1 Yr. Ago		% Change
▲	Case-Shiller Home Price Index: National	6/29/21	monthly	249.2	245	▲	1.58%	239	▲	4.45%	217	▲	14.58%
▲	US Housing Starts	7/22/21	monthly	1,643	1,546	▲	6.27%	1,725	▼	-4.75%	1,273	▲	29.07%
▼	US Building Permits	7/22/21	monthly	1,598	1,683	▼	-5.05%	1,755	▼	-8.95%	1,296	▲	23.30%
▼	US New Single Family Houses Sold	6/23/21	monthly	769	817	▼	-5.88%	823	▼	-6.56%	704	▲	9.23%
▲	US Pending Home Sales Index	6/30/21	monthly	115	106	▲	8.00%	109	▲	5.04%	101	▲	13.12%
▲	30 Year Mortgage Rate	7/22/21	weekly	3.02%	2.95%	▲	2.37%	3.17%	▼	-4.73%	3.13%	▼	-3.51%
▲	US Households	4/27/21	monthly	125,993	125,855	▲	0.11%	125,913	▲	0.06%	124,960	▲	0.83%

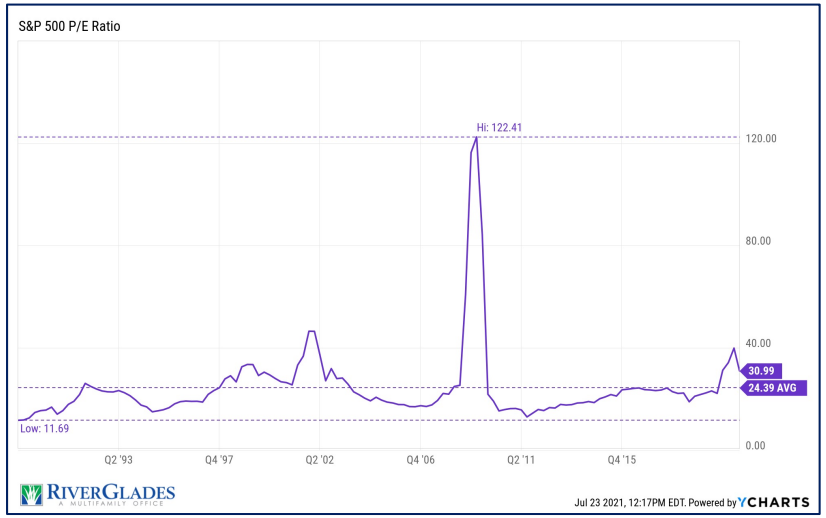
Leading Indicator Summary & Trends

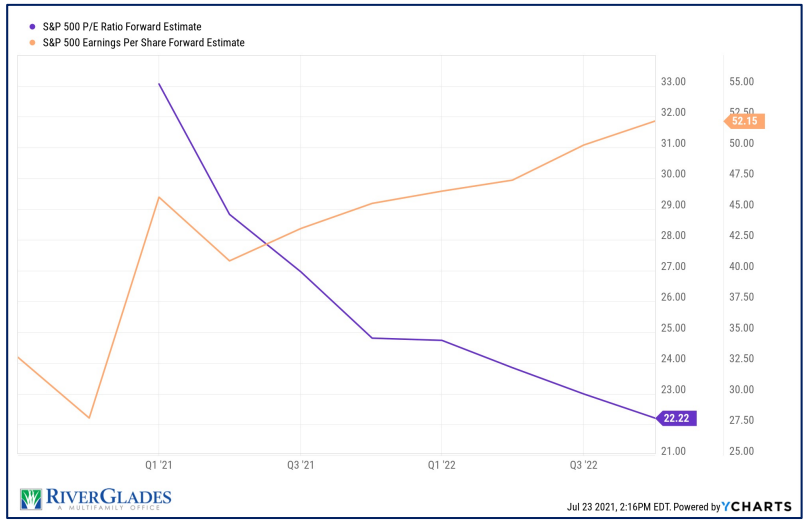
Indicator	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
10-2 Year Treasury Yield Spread	1.20%	1.58%	0.80%	0.56%	0.50%	0.47%	0.34%	0.21%	0.51%	1.25%	1.21%	1.50%	2.66%	1.53%	1.64%	2.69%	2.71%	1.49%	0.99%
NY Fed Business Leaders Survey Current Business Activity	43.2	-4.8	-26.9	-5.4	-40	-13.1	3	5.6	16.7	-0.6	2	7.8	7.89	-6.41	-2.5	12.24	11.9	-44	-11.9
Philly Fed Manufacturing Activity Index	30.7	44.5	11.1	15	27.5	-12.7	0.9	9.8	29.3	21.6	-9.5	20.5	6.2	4	3.3	15.6	16.4	-37.7	-5.5
S&P 500 Return	8.55%	6.18%	12.15%	8.93%	20.54%	-19.60%	31.49%	-4.38%	21.8%	12.0%	1.38%	13.7%	32.4%	16.0%	2.11%	15.1%	26.5%	-37.0%	5.49%
US Index of Consumer Sentiment	85.5	84.9	80.7	80.4	78.1	89.1	99.3	98.3	95.9	98.2	92.6	93.6	82.5	72.9	69.9	74.5	72.5	60.1	75.5
US Change in Business Inventories (YoY)	4.53%	0.06%	-2.55%	-4.65%	-5.66%	-0.15%	1.87%	4.70%	3.31%	2.00%	1.42%	3.68%	3.93%	5.67%	7.84%	8.90%	-9.21%	-1.46%	5.58%
US Housing Starts (Latest TTM)	18,547	17,101	16,759	16,248	15,807	16,372	15,529	15,004	14,506	14,128	13,281	11,992	11,138	9,405	7,343	7,026	6,648	10,800	16,102
US Building Permits (Latest TTM)	20,080	18,702	17,748	17,170	16,804	17,118	16,656	15,962	15,442	14,495	14,140	12,639	11,847	9,945	7,488	7,244	6,984	10,750	16,698
US Change in Retail Sales (YoY)	15.63%	28.92%	5.83%	8.94%	5.64%	-2.88%	5.69%	0.52%	4.93%	3.65%	2.82%	2.92%	3.30%	4.31%	6.07%	6.87%	4.94%	-12.75%	2.98%

This table shows recent and historic data on many economic indicators that are considered by many to be “leading” or forecasting the direction that the economy is headed. Overall, positive trends have continued in major indicators like consumer sentiment, business inventors, and housing starts. Investors will look to retail sales performance in the second half of the year after showing two positive year-over-year values from the economy reopening.

Where Do Things Go From Here?







Recently there has been a lot of discussion regarding the market being “too expensive.” Looking at the sharp move higher in the charts (left) it is easy to understand why investors may be questioning the markets upward trajectory. However, price should not be evaluated in a vacuum. The focus should be on the underlying valuation. At the end of the second quarter the P/E multiple, a simple valuation metric, was around 31 (middle). This is well above the average of the past 30 years of approximately 24x. However, it is still below the 40x+ that valuations got to in 1999-2000 period. (The spike during the 2008-2009 period was due to the sharp decline in earnings, not a significant rise in price.)

Those charts look at historical levels but the one to the right takes into account future estimates. The blue downward sloping line represents the P/E of the market if consensus estimates for future earnings growth is taken into account. The estimated earnings growth is represented by the upward sloping orange line. What this shows is that **if** corporate earnings continue to rise and the market stays at the same level through the end of next year, the P/E multiple would have declined to a much more comfortable 22x. Further, these future earnings are discounted at current interest rates. With rates so low and likely to remain at depressed levels for the next couple years, it can be argued that stocks while not cheap are certainly not as expensive as they look at first glance.

- All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals may materially alter the performance and results of your portfolio.
- Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client's investment portfolio.
- Economic factors, market conditions, & investment strategies will affect the performance of any portfolio there are no assurances that it will match or outperform any particular benchmark.
- The information contained herein has been obtained from sources believed to be reliable but the accuracy of the information cannot be guaranteed.
- This is not to be considered a solicitation for the purchase or sale of any individual security or investment strategy.

RIVERGLADES
A MULTIFAMILY OFFICE

For more information please visit https://rivergladesfo.com/

Q2 2021

Released July 2021