WINFIELD
ASSOCIATES

Winfield Quarterly

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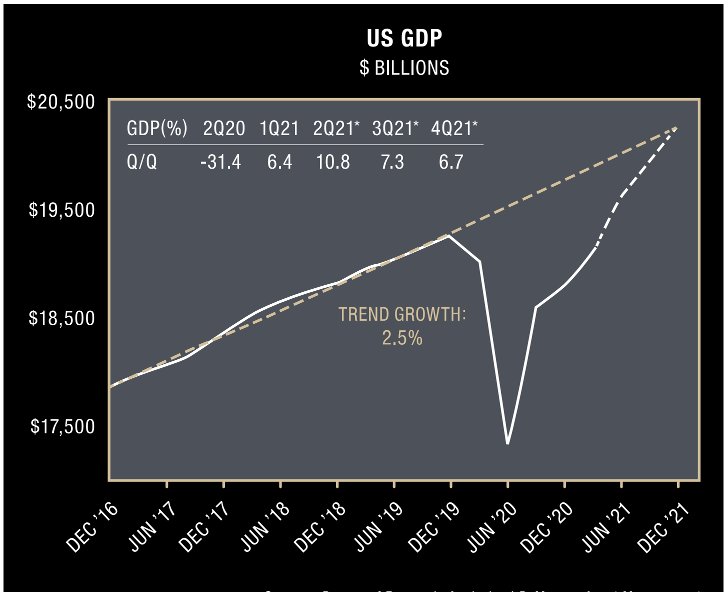
Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

The US economy surged in the first half of 2021 as the post-COVID-19 reopening accelerated. Real GDP numbers for the first quarter showed strong 6.4% annualized growth, and consensus estimates for the second quarter rose to over 10%. According to JP Morgan, even with an expected moderation in the growth rate in the second half of 2021, GDP could rise nearly 7% each quarter, essentially marking a full recovery from the pandemic-induced recession as soon as the end of the year.



Sources: Bureau of Economic Analysis, J.P. Morgan Asset Management

One year ago, we noted in our *Market Commentary* that the unprecedented speed, scope, and scale of the monetary and fiscal responses of the Federal Reserve Bank and federal government would bolster investors' enthusiasm and avert a liquidity crisis. We also believed that many technology companies could thrive in an economy disrupted by the pandemic. Most importantly, we remained confident that innovation in vaccine technologies would "provide the building blocks to exit the pandemic, returning the world to strong economic growth." Remarkably, just twelve months later, 48% of all Americans are fully vaccinated against COVID-19, and the US economy is quickly recovering from the crisis. Commensurate with strong economic growth, equity indexes continued their march into record territory through the first half of the year. As of June 30, all three major US equity indexes traded at or near record levels with year-to-date appreciation of 13.8% for the Dow Jones Industrial Average (DJIA), 15.3% for the S&P 500, and 12.9% for the NASDAQ. In large part, investors are now looking beyond the pandemic and are anticipating new concerns as the world recovers from the steep economic declines of 2020.

During the second quarter, inflation moved to the forefront of investors' concerns for the first time in decades. Supply-chain disruptions affected pricing in materials and goods from lumber to semiconductors to gasoline, raising fears that abundant liquidity and limited supplies would lead to permanent inflation pressures. In May, the Consumer Price Index (CPI) rose 5.0%, the highest recorded rate in over 15 years. While most economists expect inflation to be marginally above the Federal Reserve's 2% target for the next two to three years, the May reading caught many investors by surprise. Prices for food advanced 2.2%, while prices for energy increased a noteworthy 28.5%. The Federal Reserve and most economists agree that some part of inflation is transitory as the global economy shifts back to normalcy. However, the concern is how much inflation is permanent. Importantly, over 55% of the 5.0% increase in the May CPI came from new and used cars, hotels, and transportation even though the cumulative weight of these components is only 3%. By comparison, the increases in housing, education, and medical care, three of the larger components of CPI, were more muted. As businesses scramble to expand supply in these sectors, we expect price equilibrium to return. Nonetheless, in the coming months, wage rates and rent increases will shed greater light on the threat of a secular shift in inflation.

The rapidly evolving labor market also presented unique challenges to the reopening. After more than a year of promoting remote work and social distancing, employers struggled to hire workers to meet booming demand. Many employers reported that prospective employees were afraid to return to work due to COVID, to lack of child care, or that unemployment benefits were too generous. At the end of May, the US unemployment rate dipped to 5.8% (down from 13.3% in May 2020), but more than 7 million Americans remained out of work relative to pre-pandemic levels. While much of the distortion in labor demand can be explained by government policies, the effect on wage inflation may or may not be transitory. Most strategists expect the labor supply to accelerate in September as children return to in-person school and unemployment benefits expire, thereby relieving some of the upward pressure on labor costs. Whether wage increases are temporary or permanent (which should be more apparent in coming quarters), consumers' balance sheets are well-positioned to fuel higher consumption for the rest of the year.

Despite ongoing concerns surrounding inflation and tightening labor demand, the bond market rebounded late in the second quarter after a difficult start to the new year. In the first quarter, the 10-year US Treasury yield increased 82 basis points to 1.74%, its largest quarterly increase since the fourth quarter of 2016. The rapid rise in the 10-year yield reflected investors' inflation fears, leading to a -3.37% drop in the Barclays US Aggregate Bond Index, the worst quarter for the index since the third quarter of 1981.

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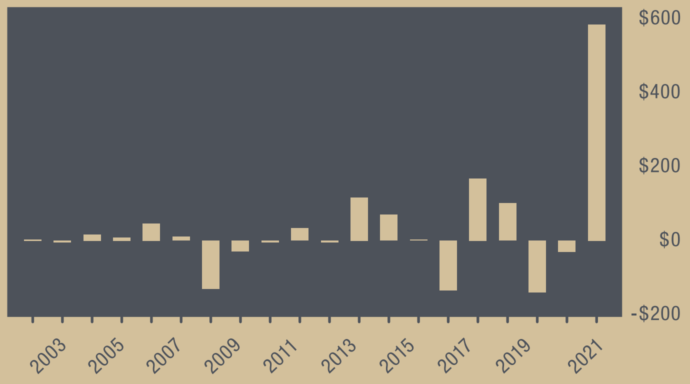
Yet, as of July 8, the yield of the 10-Year Treasury bond had once again fallen below 1.30%, indicating relatively muted inflation concerns. We remain vigilant on the effect of interest rate increases on long duration bonds but believe the current 10-Year Treasury yield is more an indicator of investors' desire for a safe haven than a concern about the country's economic health.

At the same time, global equity fund flows demonstrated that investors' appetite for risk remains elevated. Equity fund flows have long been viewed as a meaningful investment signal. Strong flows into equity funds drive up stock prices, attracting more return-chasing investors and bidding up prices further. With fixed income rates near record lows and global economies staging rapid recoveries, investors poured into global equity funds at unprecedented levels. Through June 30, investors added nearly $580 billion into global equity funds.

FIRST-HALF 2021 GLOBAL EQUITY FUND INFLOWS

$ BILLIONS



Sources: Financial Times, BofA Global Investment Strategy

According to Bank of America, if inflows continue at the same pace for the remainder of the year, equity funds will take in more money in 2021 than in the previous 20 years combined. While valuations continue to climb and cause reason for concern, we expect corporate profits to largely match and potentially outpace expectations through the remainder of 2021. Given the backdrop of low interest rates, a dovish Federal Reserve Bank, an improving profit outlook, and most importantly, a diminishing threat of COVID-19, we maintain our emphasis on investing in high quality companies and offsetting the risk with fixed income and cash.

QUALIFIED CHARITABLE DISTRIBUTIONS (QCDs) UPDATE

Qualified Charitable Distributions (QCDs) allow taxpayers to make charitable contributions from an IRA directly to a charity and to exclude that amount from income. Not everyone qualifies – the rule only applies to IRAs, not plans, and only for those IRA owners or beneficiaries who are 70 ½ years old or older. The QCD is excluded from income and can satisfy the annual Required Minimum Distribution (RMD), up to the $100,000 QCD limit. No charitable deduction is permitted for this amount, but excluding RMD income lowers the tax bill. RMDs resume in 2021 after being waived for 2020. Even though the age at which the RMD requirement was raised to 72 by the SECURE Act, the QCD age remains at 70½. This gap can allow IRA owners who are not yet subject to RMDs to use QCDs, if they are at least 70½. If you are required to take an annual distribution and are interested in charity, consider speaking with your accountant about a QCD.

MARKET PERFORMANCE

	2Q 2021	2021 YTD
Dow Jones	5.1%	13.8%
S&P 500	8.5%	15.3%
Nasdaq	9.7%	12.9%
Russell 2000	4.3%	17.5%
MSCI EAFE	5.2%	8.8%
Barclays Agg	1.8%	-1.6%

WHEN TO WORK WITH WINFIELD

PRIVATE INDIVIDUAL INVESTORS

- Manage accumulated wealth, inheritances and settlements

ENDOWMENTS AND FOUNDATIONS

- Manage assets with a long-term growth strategy while meeting investment policy requirements

BUSINESS OWNERS

- Customize investment portfolios to lessen risk of concentrated assets
- Defer taxable earnings in profit sharing plans
- Manage and advise 401(k) plans

BUSINESS PROFESSIONALS

- Customize investment portfolios, manage stock options and consolidate 401(k)/IRA plans to lessen risk of concentrated assets

RETIREES

- Customize investment portfolios with the option of drawing income
- Management of IRAs, trusts and taxable accounts

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