MARKET
INSIGHT
MONTHLY

OUR THOUGHTS

UNITED BANK
Wealth Management

Each month, United Wealth Management provides our valued clients a current review and analysis of important factors contributing to financial market behavior. The June issue of our Monthly Market Insights accompanies this letter.

As we move into Summer, the path to normalcy is apparent. Restaurants are filling up, airports are brimming with activity, vacations are in full swing and most sports stadiums are allowing full capacity. The U.S. economy continues its remarkable recovery, and the stock market continues to set all-time highs. While there are many current economic positives, and potentially more positives ahead, much of the good news could very well be priced into stocks as last year's historic correction has been followed by a 15-month historic rise.

The U.S. economy continues to reopen and expand faster than even the most optimistic economists expected at the start of the year. This is almost exclusively due to rapid, country-wide COVID-19 vaccinations, COVID-19 cases hitting new lows and restrictions being lifted. The U.S. economy has likely recovered all of its lost output from 2020, with U.S. gross domestic product (GDP) expected to grow close to 10% in the second quarter of 2021 (source: Bloomberg). Bolstered by fiscal and monetary stimulus, 2021 is on pace to be the best year for GDP growth since the early 1980s.

First-quarter earnings season is over, and it was, in one word, amazing. The percentage of S&P 500 companies beating their earnings targets (87%) was the highest that data aggregator FactSet has ever recorded. Operating earnings were approximately 2.5x those of the depressed Q1 2020 earnings. When Q2 2021 earnings are fully reported, the S&P 500 will likely report the highest sequential four quarter earnings in its history. Full year earnings estimates for 2021 have already increased 12% just from the beginning of the year. Lastly, 2022 earnings estimates continue to suggest double digit growth.

This strong growth has increased the potential that our expanding economy may overheat. The Consumer Price Index (CPI) for March, April and May sparked much of the recent concern, with the core (excluding food and energy prices) reading in April rising 0.8% month over month, the largest increase since the early 1980s (source: U.S. Bureau of Labor Statistics). We are seeing higher prices when shopping at the grocery store, filling up our cars and dining out. In some industries, employers are having a difficult time filling jobs and obtaining materials. In turn, this effects supply chains and adds to inflationary pressures on top of the pent-up consumer demand as the economy fully reopens.

However, the Fed continues to feel this inflationary issue is transitory, not permanent. Longer-term, inflation should return to trend. Technology, globalization, the Amazon effect, increased productivity, and automation are among the major structural forces that have stifled inflation over the past decade plus—and will likely continue to do so.

As mentioned last month, the next several months are historically the most volatile of the year for equities. But nothing happens in a vacuum. The market neither goes up nor down simply due to the month or season. Making sure that each of our client's portfolios have the appropriate level of risk for one's objectives provides the most comfort and safety under any market conditions. As always, we welcome the opportunity to discuss your portfolio and the market at your convenience. Our Team is ever vigilant and dedicated to evaluating both risks and opportunities on your behalf. Enjoy your summer!

Sincerely,
Your United Wealth Management Team

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June Update

MONTHLY COMMENTARY

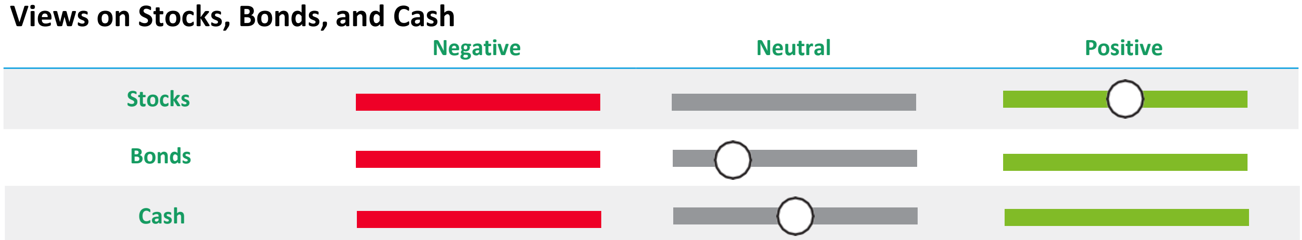
We expect stocks to continue to grow into their valuations on the back of tremendous earnings momentum as the economy fully reopens, vaccine distribution continues, COVID-19 cases plummet in the United States, and stimulus spending continues to work its way through the economy. As economic growth accelerates, we believe conditions will remain favorable for cyclical stocks to continue their recent run of outperformance. After a nearly 90% gain since the March 2020 lows, the S&P 500 may be due for a well deserved pause. Though robust Q2 earnings will start to be reported next month, the steep angle of ascent in equity prices that we have seen over the past 15 months, is unlikely to be sustainable in the future.

INVESTMENT TAKEAWAYS

- We remain overweight in equities relative to bonds, based on our expectation for continued strong economic and earnings recovery in 2021 supported by the full reopening of the U.S. economy and previous fiscal and monetary stimulus.
- As the economic recovery progresses in 2021, we would expect cyclical value stocks to lead, but select growth sectors should continue their stellar performance as well.
- Our positive view of small caps is supported by the early-stage bull market and economic expansion and strong earnings. Valuations are reasonable and 2020 weakness has created an attractive entry point.
- U.S. stocks enjoy a better economic growth outlook than developed international, but better global performance will be associated with fewer COVID-19 cases and more vaccinations.
- We continue to recommend a slightly underweight allocation to fixed income. While interest rates moved higher in the year, Fed policy and manageable inflation expectations may limit the risk of further large moves in the near term. Higher rates may still put some pressure on bond returns while economic improvement may help support equities into 2022.
- We favor a blend of high-quality bonds with an emphasis on short-to-intermediate maturities.

BROAD ASSET CLASS VIEWS

Views on Stocks, Bonds, and Cash



EQUITY ASSET CLASSES

We favor stocks over bonds in 2021 based on our expectation for a very strong economic and earnings recovery this year, supported by vaccine distribution, an anticipated full reopening of the U.S. economy, and massive fiscal and monetary stimulus. We expect the economic recovery will continue to strengthen as the economy more fully reopens, which may help boost performance for cyclical stocks. U.S. stocks enjoy a better economic growth outlook than developed international, but select international regions may match U.S. returns with COVID-19 vaccinations more readily available.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			The relatively greater financial strength enjoyed by most large cap companies helped during the pandemic. Smaller market cap companies tend to perform better during the early stages of economic expansions and continue to provide a solid foundation for equity performance.
	Mid Caps			Mid caps enjoy many of the early cycle characteristics of small caps, and therefore, should and are performing well as a more durable recovery develops. We believe mid cap stock valuations remain attractive.
	Small Caps			Our small cap view remains positive, supported by the early-stage bull market and economic expansion and a strong earnings rebound. Valuations are reasonable and we believe recent underperformance in 2020 created an attractive entry point.
Style	Growth			We believe growth stocks will continue to garner support from strong earnings trends as the pandemic winds down. We expect growth stocks to continue to expand while the rest of the economy reopens.
	Value			A durable economic recovery is emerging, which we expect to support cyclical value stocks that tend to perform well as economic growth accelerates. Value stocks remain attractively valued relative to their growth counterparts.
Region	United States			We see solid gains for U.S. stocks in 2021, but the gap between U.S. and developed international stocks has somewhat narrowed. As the end of the pandemic approaches, global economic growth accelerates, and the environment for value stocks potentially improves, developed international stocks may finally emerge from relative underperformance.
	Developed International			Our outlook for developed international equities remains neutral, but we could potentially warm up to European equities once the pandemic is brought under control in the Eurozone. Among non-U.S. developed markets, we currently maintain a slight preference for Asia over Europe.
	Emerging Markets			We continue to favor emerging markets (EM) stocks on a relative basis over their developed international counterparts on a superior economic growth outlook over the next several years and attractive current valuations, though geopolitical and regulatory threats may lead to bouts of volatility and tariffs may remain in place.

FIXED INCOME

Limit Rate Sensitivity With Intermediate Focus

We suggest a blend of high-quality short-to-intermediate bonds in all portfolios with fixed income exposure. We maintained our forecast for the 10-year Treasury yield to a range of between 1.75%—2.00% over the next 6 to 12 months. As the economy continues to improve and as economic activity continues to impress to the upside, the cost of money will undoubtedly rise. In our view, compensation for longer-maturity and rate-sensitive bonds remains unattractive.

The continued economic expansion allows for high yield bonds issued by growing companies to be a productive use of fixed income capital. We remain committed to a modest high yield position in both corporate and municipal bonds. Further, the expanding economy has and will likely continue to produce modest inflationary pressures. Therefore, reasoned inflation protection in fixed income portfolios is warranted.

We favor municipal bonds for tax-sensitive accounts. The latest stimulus package is expected to provide additional muni-related support.

		Low / Medium / High	Rationale
Positioning	Credit Quality		Credit spreads remain elevated, but the economic outlook may be supportive.
		Short / Int. / Long	
	Duration		Concerns over rising interest rates with the prospects of economic acceleration increase interest-rate risk.

COMMODITIES

Our precious metals view is neutral. The attractiveness of precious metals is further reduced by the improving economic outlook, rising interest rates, and recent firmness in the U.S. dollar.

Our crude oil outlook is neutral to positive. At the same time, the global demand outlook has improved recently as the end of the pandemic comes into view, and higher oil prices have increased the amount of profitable available production. Our concerns remain that the U.S. supply overhang may limit further upside potential for prices and the potential for more production internationally as prices rise.

CONCLUSION

As referenced in last month's insight, our confidence in a full economic recovery continues to grow. A fully reopened economy is closer to becoming a reality. With more than three million shots going in people's arms each day, the resilience of the U.S. consumer and U.S. businesses have contributed to this massive economic rebound. The funds received from the passing of the fiscal stimulus bill combined with a fully supportive Federal Reserve solidifies the bull market case.

The battle against COVID-19 isn't over. The vaccine rollout, as we now know, will take more time. As we examine market risks, we continue to believe these risks are manageable at this point and believe the market will continue to look forward to post-pandemic life.

Disclosures

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

All performance referenced is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

Economic forecasts set forth may not develop as predicted.

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. Research material was sourced through LPL Financial, LLC.