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 July issue of our Monthly Market Insights accompanies this letter.

In the first half of 2021, the U.S. economy realized its mighty potential and powered forward quicker than most economists had anticipated. As we know, speed can be exhilarating, but it can also be dangerous. Despite the massive growth already produced, the overall economic picture remains strong and remarkably consistent. But the pace of this reopening has also created potential new hazards: supply chains are stressed, selective labor shortages have emerged, and inflation has heated up—at least temporarily. While they are certainly on our radar, none of these potential obstacles appear to pose a current threat to future expansion.

While the growth rate of the U.S. economy may have peaked in the second quarter of 2021, there is still plenty of momentum left to extend above-average growth well into 2022 and beyond. Despite the natural challenges of reopening businesses, the recovery still seems capable of providing upside surprises. 2021 could have the best annualized real GDP growth since the early 1980s.

The equity markets, particularly those in the United States, have performed exceedingly well. Early U.S. acceptance of the COVID-19 vaccine relative to global adoption created positive domestic investor sentiment. That momentum has continued throughout the first half of 2021. The robust economic recovery will continue to drive strong earnings growth as we expect record corporate earnings to be reported for 2021 and even higher earnings in 2022. We should keep in mind that equity prices have soared over the past 5 quarters dating back to March of 2020. Though earnings will be strong going forward, future performance is unlikely to match the unprecedented returns achieved during this remarkable recovery to date.

Although higher taxes and further regulation are likely to be enacted at some point, the extraordinary amount of monetary support from the Federal Reserve and fiscal stimulus already provided by Congress should continue to provide a massive support structure for the financial markets and overall economy for the rest of 2021. Additional infrastructure spending should also prove stimulative and add further evidence that the recovery is not short lived.

The first half of 2021 has been positive and prosperous for investors, most businesses, and many citizens. We expect the road ahead will fortunately bring more of the same. While we remain convinced that the expansion will continue, we are also keenly aware that vigilance and a full understanding of where have been will help us chart where we are headed. As always, we welcome the opportunity to discuss your portfolio and the market at your convenience.

Sincerely,
Your United Wealth Management Team

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July Update

MONTHLY COMMENTARY

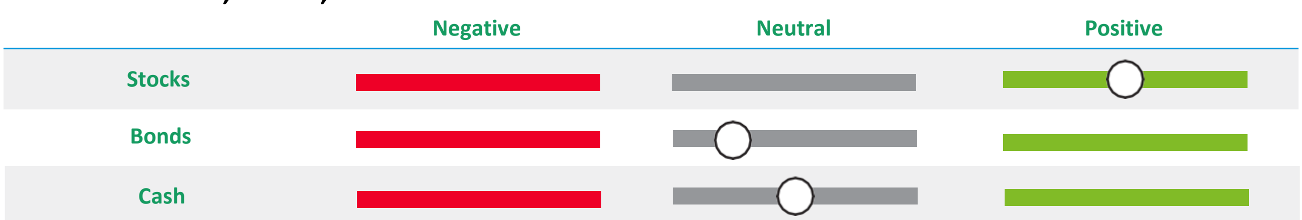
We see the potential for further gains for stocks over the rest of the year, powered by strong economic growth and tremendous earnings momentum as the economy fully reopens. We believe economic conditions remain favorable for cyclical stocks as growth continues, pushing both inflation and interest rates modestly higher. Our S&P 500 earnings per share forecast for 2021 continues to rise. After a more than 90% gain since the March 2020 lows, the equity markets may be due for a pause. Key risks include COVID variant spread both in and outside of the United States which could trigger slower growth should the COVID spread worsen. As always, higher inflation, rising interest rates, and potential tax increases could be the source of additional uncertainty.

INVESTMENT TAKEAWAYS

- Our total equity allocation remains overweight. We continue to favor stocks over bonds based on our expectation for the strong economic and earnings recovery this year in to next.
- As the economic recovery progresses, we expect cyclical stocks to lead. We also favor the growth sector with strong earnings delivery.
- Our positive view of small caps is supported by the early and mid-stage bull market, and the economic expansion with strong earnings. Valuations appear very reasonable.
- Our international views are aligned with our domestic assessment. Cyclical stocks have established market leadership in Europe and Japan. Western Europe may emerge from the pandemic more quickly. International developed equities may outperform emerging markets (EM) in the near term.
- We continue to underweight our allocation to fixed income. Although we've seen higher rates this year, Fed policy is very accommodative which may limit the risk of further large moves in the future. Higher rates will put some pressure on total bond returns while future economic improvement will help support equities moving into 2022.
- We favor a blend of short to intermediate bonds with an emphasis on high credit quality.

BROAD ASSET CLASS VIEWS

Views on Stocks, Bonds, and Cash



EQUITY ASSET CLASSES

We continue to favor stocks relative to bonds based on our expectation for a strong economic and earnings recovery in 2021. As the economic recovery progresses and interest rate increases are sustainable, we would expect cyclical stocks to outperform. Our international views are aligned with our domestic positioning. We expect companies based in Europe and Asia to continue their transition into a post-COVID environment. International developed equities may outperform emerging markets in the near term due to higher vaccination rates.

	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 very well during the early stages of economic expansions and bull markets.
	Mid Caps			Mid caps enjoy many of the early cycle characteristics of small caps, and therefore, 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 economic expansion and a strong earnings rebound. Valuations are attractive based on strong earnings growth prospects through 2022.
Style	**Growth**			We believe growth stocks will continue to garner support from strong earnings trends. Continued industrial innovation will motivate investors for years to come.
	Value			We expect cyclical value stocks to outperform defensive value stocks as economic growth accelerates. Value stocks have lagged their growth counterparts for over a decade. We expect that over time, a reversion to the mean will be positive for value stocks.
Region	**United States**			We see the potential for more gains in the U.S. stock market during the second half of 2021. The significant stimulative and supportive resources deployed within the U.S. in both 2020 and 2021 have paid economic dividends, so to speak. Though the U.S. vaccination rate has slowed, the percentage of people fully vaccinated which stands at 48.5% is 11% higher than the G7 and 12% higher than the European Union and more than double that of Japan. We continue to favor the U.S. for these reasons.
	Developed International			The developed international equity markets have been held at bay due to uneven vaccine availability and distribution. Investors have favored countries with stronger health protocols, such as the U.S., the U.K. and Canada. As the vaccine becomes more universally accepted, developed countries are likely to demonstrate more reliable forward economic momentum.
	Emerging Markets			Emerging market performance has lagged other global regions so far in the first half of 2021. As China contributes nearly 40% to the EM weight, any change in China's and Asia's performance will impact the entire EM segment. The somewhat uncertain COVID protocols in China have made investors a bit wary of their continued allegiance to their business model for the near term. With vaccination rates even less than those in Japan, the Asian EM segment has lagged modestly behind their developed counterpart. We expect vaccinations to rise worldwide over the next year, and we believe it will eventually favor EM.

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 maintain 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 stable but 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. Federal stimulus and prospects of higher personal tax rates provide support to muni markets.

		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, if not strength, in the U.S. dollar.

The global demand outlook has improved recently as a post-pandemic environment comes into view. Higher oil prices have increased the amount of profitable available production in the near term. Our concerns remain on the supply side, as higher prices could lead to increased U.S. shale production, while more OPEC+ (including Russia) production is likely on the way.

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 despite the recent increase in COVID cases. The U.S. consumer and small business owners have contributed to this massive economic rebound. The previous funds received from the passing of the fiscal stimulus bill combined with a fully supportive Federal Reserve solidifies the economic picture and bull market case.

As we examine market risks, we continue to believe these risks are known, manageable and will not likely impact the continued expansion. The market will continue to look forward to a prosperous, post-pandemic environment.

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.

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Economic forecasts set forth may not develop as predicted.

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