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MACRO MUSINGS

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First Half of 2021 Review: Strong Returns Across the Globe

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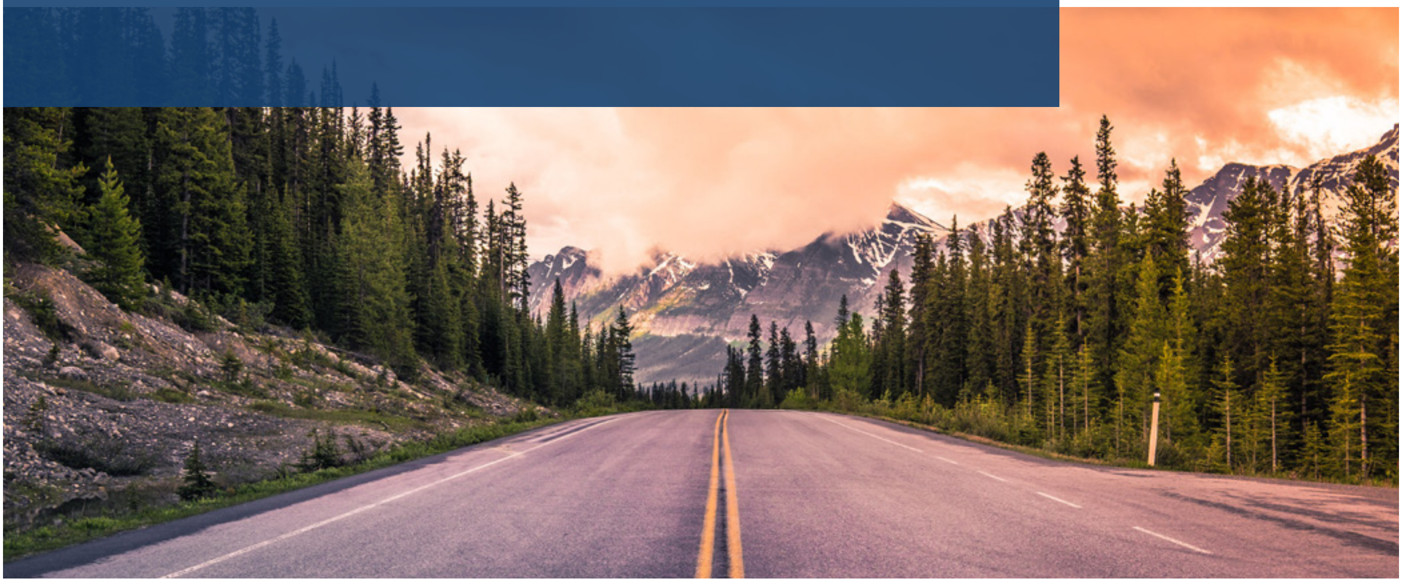

SUMMARY

- Most asset classes continued to perform well in the second quarter. Equity markets around the globe and across market caps again saw positive returns and the majority are up double digits year to date. Bonds also rebounded in Q2.
- S&P 500 performance in the first half of the year was excellent. Historically, when the market was up 10-20% through June, the rest of the year saw further gains in 17 of the 20 prior instances.

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ASSET CLASS REVIEW

The following table highlights major asset class returns for the second quarter of 2021:

Performance (Total return % change)

Index	6/30/21	1 mo.	3 mos.	YTD	1 yr.	2 yrs.
Dow (DJIA)	34,502.51	0.02	5.08	13.79	36.34	35.61
S&P 500	4,297.50	2.33	8.55	15.24	40.77	51.32
Nasdaq	14,503.95	5.55	9.68	12.92	45.29	84.59
Russell 2000	2,310.55	1.94	4.29	17.53	62.00	51.22
Russell 3000	2,570.66	2.47	8.24	15.10	44.15	53.54
S&P 500 Equal Wgt.	6,124.90	0.14	6.90	19.16	50.68	45.76
MSCI AC World	719.97	1.35	7.51	12.55	39.89	43.63
MSCI Europe	150.07	-1.41	7.64	12.26	35.56	27.51
MSCI EAFE	2,304.92	-1.09	5.35	9.21	33.04	26.88
MSCI Asia-Pacific	207.97	-0.29	2.63	5.10	34.83	36.81
MSCI Emerg. Mkts.	1,374.64	0.17	5.08	7.43	41.29	36.93
60/40 Allocation[1]	N/A	1.68	5.86	8.5	24.33	34.14
S&P 500 Sector	**6/30/21**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
Consumer Disc.	1,431.82	3.81	6.95	10.27	37.08	54.35
Consumer Staples	721.62	-0.18	3.83	5.02	23.29	27.75
Energy	407.37	4.60	11.29	45.61	49.34	-4.55
Financials	610.60	-2.96	8.36	25.60	61.60	39.01
Health Care	1,468.94	2.34	8.40	11.85	27.92	41.87
Industrials	866.24	-2.21	4.48	16.40	51.43	37.72
Information Tech.	2,594.48	6.95	11.56	13.76	42.39	93.50
Materials	517.02	-5.30	4.97	14.50	48.51	46.87
Real Estate	277.41	3.19	13.09	23.30	31.88	29.22
Comm. Services	264.35	2.72	10.72	19.67	48.38	64.82
Utilities	321.58	-2.17	-0.37	2.47	15.91	13.46
FI, FX, & Commod.	**6/30/21**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
U.S. Treasuries[2]	1.47%	0.64	1.75	-2.58	-3.22	6.89
Invest-Grade Credit[3]	2.04%	1.63	3.55	-1.27	3.30	13.12
High-Yield Credit[3]	3.75%	1.34	2.74	3.62	15.37	15.41
WTI Crude Oil[4]	$73.47	10.78	24.19	51.42	87.09	25.65
Dollar Index[4]	$92.44	2.90	-0.85	2.78	-5.09	-3.84
Gold[4]	$1,770.11	-7.17	3.65	-6.76	-0.61	25.58

[1] 60% S&P 500 and 40% Bloomberg Barclays U.S. Aggregate. [2] Yield reflects 10-year U.S. Treasury, total returns reflect Bloomberg Barclays U.S. Treasury Index. [3] Yield and total returns reflect that of the respective Bloomberg Barclays Index. [4] Spot prices and price returns.

Source - Bloomberg, RBC Wealth Management

A few notable insights:

1. Stock markets around the globe continued higher. All major equity markets posted positive Q2 returns. Year to date, the majority are up double digits.

2. Bonds rebounded. After the worst quarter in 40 years, bond prices rebounded in the second quarter as interest rates moved lower. Bonds are still down year to date, except for those in the High Yield category, which tend to behave more like stocks.

3. Small- and Mid-Caps lagged Large-Caps. After leading the way in Q1, both small-cap and mid-cap stocks lagged their larger counterpart over the past three months.

4. US outperformed International (again). In the second quarter, returns from both developed countries and emerging markets were positive but lagged the S&P 500. Year to date, both Europe and emerging markets trail the US benchmarks.

5. Tech stocks made a comeback. Tech stocks were the second-best performing sector in Q2 behind Real Estate. The two worst performing sectors in Q2, as well as year to date, were Utilities and Consumer Staples, which are traditionally more "defensive" in nature.

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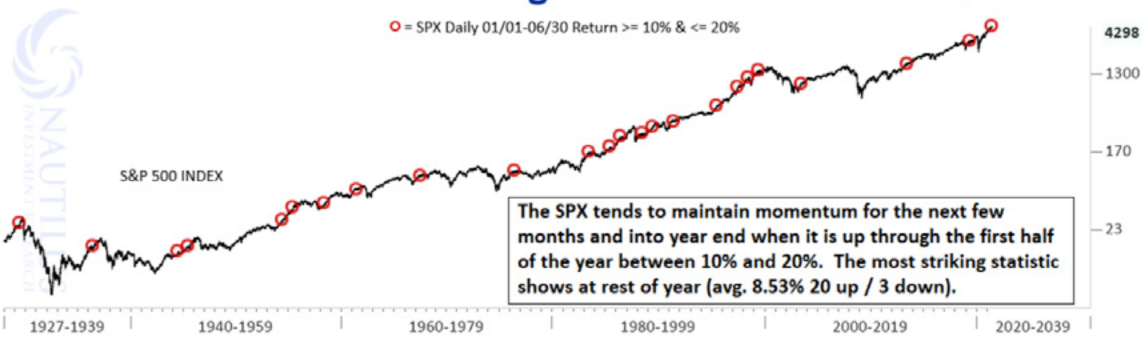
A STRONG FIRST HALF HISTORICALY LED TO **GOOD RESULTS THE REST OF THE YEAR**

The S&P 500 finished the second quarter up 8.55%, and year-to-date returns stood at 15.24% at the end of June. Historically, when the market rose between 10% and 20%, returns for the rest of the year were robust (data from Nautilus Research):



SPX Daily 01/01-06/30 Return >= 10% & <= 20%

SPX forward returns after 24 events 12/30/1927 - 6/30/2021

Event Dates	Return	1Wk	1Mo	2Mo	3Mo	Rest Of Year
Avg after Signals		1.43%	2.17%	2.04%	3.27%	8.53%
Average All Periods		0.15%	0.64%	1.30%	1.95%	3.88%
T-Statistic		3.33	1.90	0.71	1.01	2.37
# Events Up/Down		18 / 5	15 / 8	15 / 8	16 / 7	20 / 3
Significance		100%	97%	76%	84%	99%

NAUTILUS INVESTMENT RESEARCH Daily 12/30/1927 - 6/30/2021 Data Source: FactSet 7/1/2021 6:17

In 17 of the 20 previous instances, the rest of the year saw further gains, with an average positive return of over 8%.

Although we are encouraged by the positive market study, it is a good time to remind our clients that corrections happen every year. In the second year of a bull market, there has always been a decline of at least 5%. So far, the largest decline year to date is 4% (chart from Axios):

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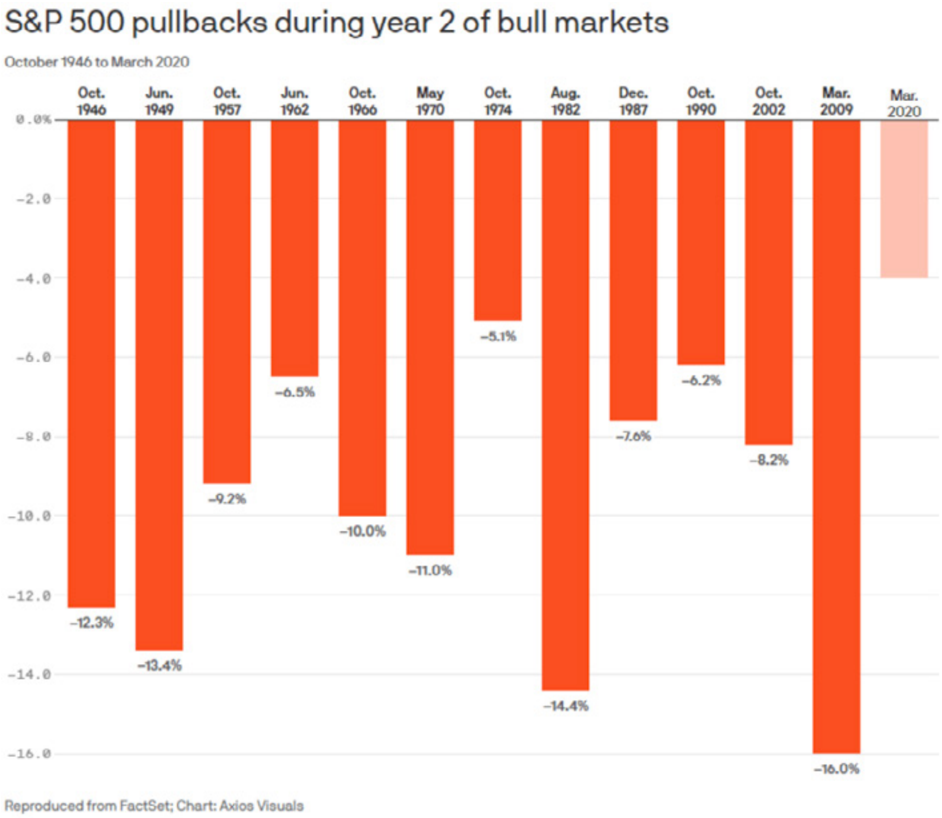

In summary, **macro**cast™ remains firmly positive, which suggests minimal risk for a recessionary bear market. The economy is strong, sentiment data suggest investors are far from euphoric, and the Fed remains confident inflation will slow its pace. The first half saw positive returns for risk assets across the globe, and in the US, strong returns typically precede further gains for the S&P 500. In the near-term, volatility may reassert itself as we have not seen a pullback exceeding 5% since October, but the long-term, fundamental backdrop remains constructive.

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THANK YOU

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