

FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW SECOND QUARTER 2021

What Happened:

It is a terrific time to be invested in the stock market. Clearly, investors believe that the worst of the pandemic is behind us. Gains have been impressive over the past 15 months as the economy roared ahead. Businesses have reopened and profits are hitting record levels. People are traveling again. In short, things seem to be returning to normal.

Of course, investing is not always a comfortable endeavor, and the most recent worry is rising inflation. As you know, the government has flooded the economy with money which could be a catalyst for inflation. The concern is that too much inflation would cripple the economic recovery and erode corporate profits. That, in turn, could cause stock prices to tumble, or at least, level off.

There may be no better barometer of inflationary risks than the bond market. If inflation was an imminent threat, interest rates would likely climb. That has not happened. In fact, rates have held steady and remain near record lows. For now, investors seem comfortable with the notion that the recent spike in inflation is transitory. While we are comfortable with that assessment at present, we will continue to monitor the situation closely.

Year-to-date Performance Through June 30, 2021:

S&P 500 Index (large stocks)	15.3%
Russell 2000 Index (small stocks)	17.5%
MSCI EAFE Index (international stocks)	8.8%
Barclays U.S. Aggregate Bond Index (bonds)	-1.6%

Prognosis:

Inflation notwithstanding, the market is poised for future advances. Our friends at CFRA are expecting corporate earnings growth of 32% for U.S. companies in 2021 and over 50% for international companies in developed markets. These figures seem ridiculous except when you consider that 2020 profits were decimated from the pandemic. What's more, on the economic front, GDP growth is expected to top 6% in the U.S. in 2021 and over 5% abroad. These are stellar numbers and they bode well for the market as we move into the second half of 2021.

Wishing you all the best for a happy and prosperous summer season.

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