WINTHROP WEALTH

MAY 2021 RECAP

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The stock market continued higher in May as the S&P 500 increased by +0.7% in the month, bringing the year-to-date total to +12.6%. While the market remains near its all-time high, the price level has stayed stagnant over the last 6-weeks. The market is consolidating a bit after the massive runup since the pandemic selloff last year. After declining by nearly-34% (2/19/20 to 3/23/20), the S&P 500 is up by over +91% from the low.

Inflation has become a hot button issue as the country begins to emerge from the pandemic and the economy accelerates (partially due to the unprecedented amounts of fiscal and monetary stimulus). The latest reading of the Fed's preferred measure of inflation, the Core Personal Consumption Expenditure (PCE) Index, increased by +3.1% (April), the highest reading since 1992. Inflation will likely increase materially over the next several months on a year-over-year basis due to the deflationary forces that occurred during the first part of the pandemic last year. For now, the Fed continues to pushback that the recent inflation increases will be transitory. We also expect Core PCE inflation to level out around 2% to 2.5% next year due to the Fed's influence and the deflationary forces of technological innovation, aging demographics, and globalization. Please see our latest ***Client Question on Inflation***.

The volatility in bitcoin and cryptocurrencies this month was elevated more so than usual and spilled over into broader financial markets for a few days. According to Coinbase, the price of Bitcoin nearly reached $60,000 on May 9th before declining to $30,000 on May 19th and ending the month at about $37,000. To put that in context, a near equivalent drawdown of the S&P 500 during the Global Financial Crisis (S&P 500: -55% from 10/9/07 to 3/9/09) occurred in Bitcoin in nine days. Other cryptocurrencies faced similar drawdowns over the same period. According to Goldman Sachs, Bitcoin's daily volatility profile is about 4x greater than the S&P 500. Potential crypto purchasers should be prepared for massive volatility and generally not put in any money they cannot afford to lose. Some cryptocurrencies may rise speculatively over the long term, but they will not all be winners and the volatility is too much for most. We will finish by pointing out that selling crypto for currency, trading crypto for crypto, and using crypto to purchase a good or service are all considered taxable events. Crypto is not considered a security and cannot be bought or sold through Winthrop Wealth. The information contained in this paragraph is being provided for informational and educational purposes only and is not intended to provide advice.

As we have done in the past, we will provide an update on the major factors driving the market:

Covid-19: Data on the coronavirus in terms of daily cases, hospitalizations, and vaccine distribution continues to improve. **Vaccine Distribution**: According to the CDC, over 366 million doses of the vaccine have been delivered with about 295 million administered. About 168 million people have received at least one dose while over 135 million are fully vaccinated (52% of population older than 18). At the end of the month, the US was administering about 1.7 million doses per day. **Daily Cases**: The 7-day average of daily cases decreased to about 20,000 at the end of May, the lowest level since last June.

Monetary Policy: The big news from the Fed in May occurred in the release of the minutes from the April FOMC meeting. The minutes contained a refence that the FOMC is starting to think about tapering their quantitative easing program. Recall that the Fed is purchasing at least $80 billion in Treasuries and $40 billion in agency mortgage-backed securities per month. In the latest meeting, the Fed noted that, "a number of participants suggested that if the economy continued to make rapid progress toward the Committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases." Obviously, the Fed left themselves a lot of flexibility with that statement. Our sense is still that the Fed will begin to taper toward the end of 2021 with a more formal announcement coming within the next several months.

Please see our ***Client Question on The Federal Reserve*****,** which details the importance of the Fed's policies and impact the FOMC has on the economy, interest rates, and stock prices.

Fiscal Stimulus: The Biden administration is working to pass the three-part Build Back Better plan. After Congress passed the American Rescue Plan ($1.9 trillion) in March, the White House unveiled proposals for the American Jobs Plan (~$2 trillion) and the American Family Plan (~$1.8 trillion). Congress is currently negotiating the American Jobs Plan which focuses on infrastructure. Democrats proposed a $1.7 trillion bill while Republicans countered with a $900 billion proposal. Democrats recommend funding the plan mainly by increasing the corporate tax rate while Republicans prefer utilizing unspent funds from previous stimulus packages. The White House currently has set a deadline of early June for bipartisan negotiations before moving onto the reconciliation process if necessary. We expect further negotiations and for the proposals to evolve over the next several weeks

The White House is proposing increases to the corporate, individual, and capital gains rates as well as additional funding to the IRS to curtail tax evasion to fund the latest proposals. Note that these are currently just proposals, the majority in Congress is razor-thin and any bill will need either all Democrats to vote in favor or bipartisan support. We also want to remind everyone that taxes were already scheduled to increase. Most of the individual and estate tax provisions as part of the Tax Cuts and Jobs Act (TJCA) of 2017 are set to expire after 2025. Individual tax rates are set to effectively return to where they were pre-TCJA. Keep in mind that the tax code evolves – there have been plenty of tax changes in the past and there will be more in the future.

As part of our comprehensive financial planning process, we provide tax analysis and minimization strategies as well as cash flow management. We will analyze your past tax returns and help estimate your current year tax situation so that we can proactively introduce and implement strategies that best fit your unique circumstances.

Economic Data: Economic growth (Real GDP) estimates are +6.5% and +4.0% for 2021 and 2022, respectively. If the economy does grow by +6.5% this year, it would be the fastest rate since 1984. **Consumer Spending**: According to high frequency data, consumer spending has now reached about 105% of its pre-virus level, up from an April 2020 bottom of 82% (Goldman Sachs). Consumer spending data is critical as it drives about 70% of GDP. **Labor Market**: The latest jobs report was a disappointment as the US added +266,000 jobs in April, far below the estimate of +1,000,000. The miss was likely due to supply issues as many individuals are hesitant to accept a job due to health concerns, remote schooling, and/or supplemental unemployment benefits. We would expect many of these issues to clear over the next several months as the demand for workers is strong. **Going Forward**: The next several employment reports will be critical as we will learn if the disappointing April report was a speed bump or a sign that the economic recovery is not as strong as people think. We remain in the camp that the labor market will accelerate, and that economic growth will achieve the current estimates.

MARKET RETURNS

US Equity										
Index	**May**	**YTD 2021**	**2020**	**2019**	**2018**	**2017**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
S&P 500	0.70%	12.61%	18.39%	31.48%	-4.39%	21.82%	17.56%	17.14%	14.63%	8.34%
Russell 3000	0.46%	12.33%	20.88%	31.01%	-5.25%	21.12%	17.61%	17.34%	14.47%	8.68%
Dow Jones Industrial Average	2.21%	13.76%	9.72%	25.34%	-3.48%	28.11%	14.47%	16.86%	13.61%	8.53%
Nasdaq	-1.44%	6.98%	45.05%	36.74%	-2.81%	29.73%	23.32%	23.99%	18.79%	10.97%
S&P 400	0.20%	18.81%	13.65%	26.17%	-11.10%	16.23%	13.46%	14.60%	12.54%	10.16%
Russell 2000	0.21%	15.30%	19.93%	25.49%	-11.03%	14.63%	12.70%	15.97%	12.20%	9.32%
Russell 1000 Growth	-1.38%	6.31%	38.49%	36.39%	-1.51%	30.21%	22.51%	22.05%	17.23%	9.30%
Russell 1000 Value	2.33%	18.39%	2.78%	26.52%	-8.28%	13.64%	12.61%	12.30%	11.76%	7.65%
International Equity										
MSCI Index	**May**	**YTD 2021**	**2020**	**2019**	**2018**	**2017**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
EAFE	3.26%	10.07%	7.82%	22.01%	-13.79%	25.03%	8.12%	9.77%	5.90%	5.61%
Europe	4.09%	13.99%	7.89%	23.20%	-16.90%	28.07%	8.48%	10.57%	5.43%	5.20%
Japan	1.56%	1.58%	14.48%	19.61%	-12.88%	23.99%	6.71%	9.70%	7.29%	3.93%
China	0.77%	1.73%	29.49%	23.46%	-18.88%	54.07%	8.06%	16.80%	7.29%	11.00%
Emerging Markets	2.32%	7.26%	18.31%	18.42%	-14.57%	37.28%	9.33%	13.87%	4.11%	9.95%
ACWI ex US	3.13%	9.87%	10.65%	21.51%	-14.20%	27.19%	8.77%	10.87%	5.40%	6.28%
US Fixed Income										
Bloomberg Barclays Index	**May**	**YTD 2021**	**2020**	**2019**	**2018**	**2017**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Aggregate	0.33%	-2.29%	7.51%	8.72%	0.01%	3.54%	5.18%	3.25%	3.25%	4.54%
Treasury Bills	0.00%	0.02%	0.54%	2.21%	1.83%	0.81%	1.32%	1.11%	0.58%	1.31%
Corporates	0.77%	-2.85%	9.89%	14.54%	-2.51%	6.42%	7.15%	5.03%	4.86%	5.69%
Securitized MBS/ABS/CMBS	-0.10%	-0.72%	4.18%	6.44%	0.99%	2.51%	4.05%	2.53%	2.69%	
High Yield	0.30%	2.25%	7.11%	14.32%	-2.08%	7.50%	7.08%	7.39%	6.40%	7.59%
Munis	0.30%	0.78%	5.21%	7.54%	1.28%	5.45%	5.06%	3.52%	4.27%	4.65%
US Equity Sectors										
Index	**May**	**YTD 2021**	**2020**	**2019**	**2018**	**2017**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Technology	-0.91%	6.36%	43.88%	50.29%	-0.29%	38.83%	26.44%	28.72%	21.11%	10.70%
Real Estate	1.21%	19.48%	-2.17%	29.00%	-2.23%	10.85%	15.01%	9.99%	8.92%	
Industrials	3.14%	19.03%	11.05%	29.32%	-13.32%	21.01%	14.12%	15.11%	13.31%	7.92%
Energy	5.77%	39.20%	-33.68%	11.81%	-18.10%	-1.01%	-7.44%	-1.06%	-0.43%	4.99%
Consumer Discretionary	-3.81%	6.22%	33.30%	27.94%	0.82%	22.98%	18.99%	18.50%	17.69%	10.08%
Communication Services	-0.06%	16.50%	23.61%	32.69%	-12.53%	-1.25%	22.98%	12.28%	11.01%	5.43%
Consumer Staples	1.77%	5.21%	10.75%	27.61%	-8.39%	13.49%	15.90%	9.17%	11.34%	9.09%
Utilities	-2.34%	4.73%	0.52%	26.35%	4.11%	12.10%	12.95%	9.53%	10.92%	6.39%
Materials	5.22%	20.91%	20.73%	24.58%	-14.70%	23.84%	16.51%	15.62%	11.00%	9.34%
Financials	4.79%	29.43%	-1.76%	32.09%	-13.04%	22.14%	13.89%	16.92%	14.07%	4.73%
Health Care	1.89%	9.29%	13.45%	20.82%	6.47%	22.08%	16.30%	13.76%	15.42%	8.64%
	Calendar Year Returns						**Annualized Returns**			

DISCLOSURES:

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.

Rebalancing a portfolio may cause you to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.

Likewise, it is important to remember that no investment strategy assures success or protects against loss. Past performance is no guarantee of future results. Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.

This information is not intended to be a substitute for individualized tax advice. We suggest that you discuss your specific tax situation with a qualified tax advisor.

All indexes mentioned are unmanaged indexes which 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. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Russell 3000 Index is a market-capitalization-weighted equity index maintained by FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S incorporated equity securities.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe. With 445 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.
The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 709 constituents, the index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free float adjusted market capitalization.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries. With 2,354 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.
The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Bloomberg Barclays Capital U.S. Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.
The Bloomberg Bloomberg Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt.

The Bloomberg Barclays Insured Municipal Bond Index is a total return performance benchmark for municipal bonds that are backed by insurers with Aaa/AAA ratings and have maturities of at least one year.
Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.