

Student of the Market

July 2021

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**Stock and
bond returns**

**Stock market
returns**

**Long term
equity cycles**

**Taxable bond
fund flows**

**Inflation
challenge**

**Housing
prices and
inflation**

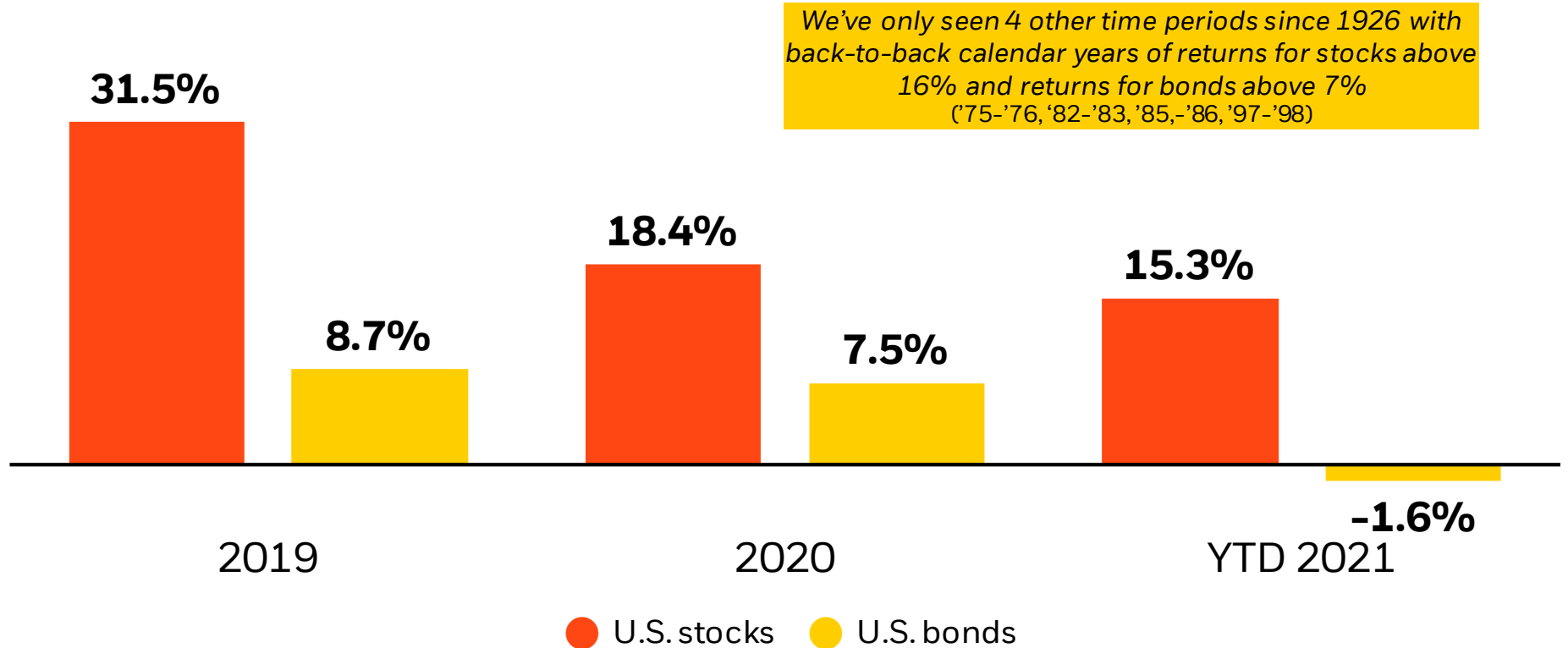
**Why inflation
has been low**

Source: Morningstar as of 6/30/21. **Past performance is no guarantee of future results.** Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

STOCK AND BOND RETURNS

Stock and bond returns no longer in tandem after two historic years

Annual percentage returns



Source: Morningstar as of 6/30/21. Stocks represented by S&P 500 and U.S. Bonds by the BbgBarc US Aggregate Bond Index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index. Average returns following those 4 periods was 4.1% for bonds and 6.4% for stocks.

STOCK MARKET RETURNS

18th best start to a year for stocks

After the 20 best starts in history, the following 6 months saw stock returns in line with the average for all years

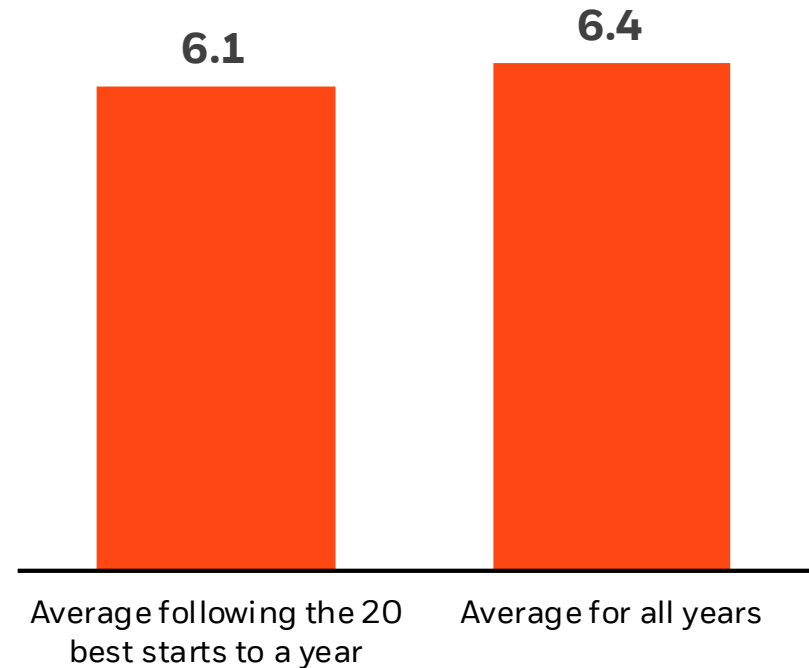
Top 20 best starts to a year for stocks

(Since 1926, total return for first and last six months of calendar year)

	First 6 months	Last 6 months
1933	62.3	-5.1
1975	41.8	-3.3
1943	29.7	-2.9
1987	27.4	-17.4
1983	22.2	0.3
1954	20.9	26.3
1986	20.8	-1.8
1997	20.6	10.6
1995	20.2	14.5
2019	18.5	10.9
1976	17.8	5.2
1998	17.7	9.2
1985	17.2	12.4
1989	16.5	13.0
1955	16.4	13.1
1958	15.4	24.2
1929	15.3	-20.5
2021	15.3	?
1945	15.2	18.4
1967	14.7	8.1

Returns the last half of the year

(Since 1926, total return for July 1- Dec 31)

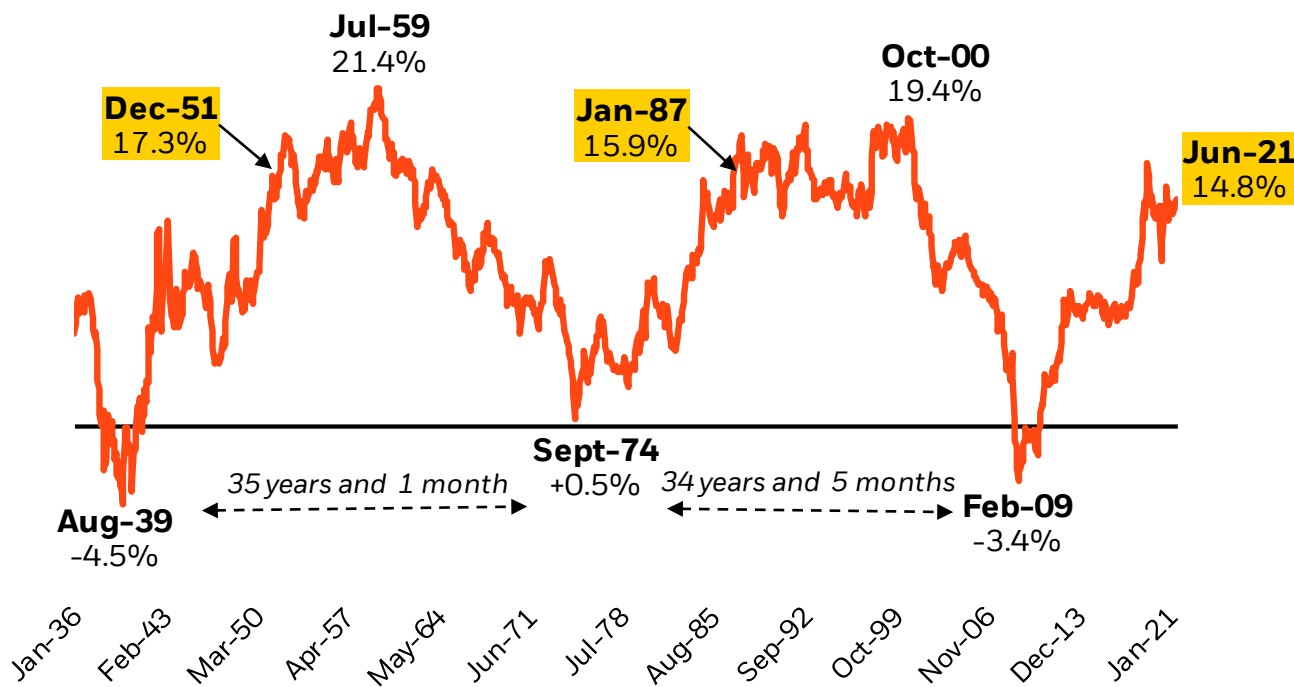


Source: Morningstar as of 6/30/21. U.S. stocks are represented by the S&P 500 PR Index from 3/4/57 to 6/30/21 and the IA SBBI U.S. Lrg Stock PR USD Index from 1/1/50 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

Long term equity returns on pace with previous cycles

U.S. stocks, 10-year rolling return

Average annual returns (1/1/26 - 6/30/21)



Cyclical low in 10-year return	Next 12 years and 4 months after cyclical low
Feb-09 -3.4%	Jun-21 +14.8%
Sept-74 +0.5%	Jan-87 +15.9%
Aug-39 -4.5%	Dec-51 +17.3%

Source: Morningstar as of 6/30/21. U.S. stocks are represented by the S&P 500 PR Index from 3/4/57 to 6/30/21 and the IA SBBI U.S. Lrg Stock PR USD Index from 1/1/50 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

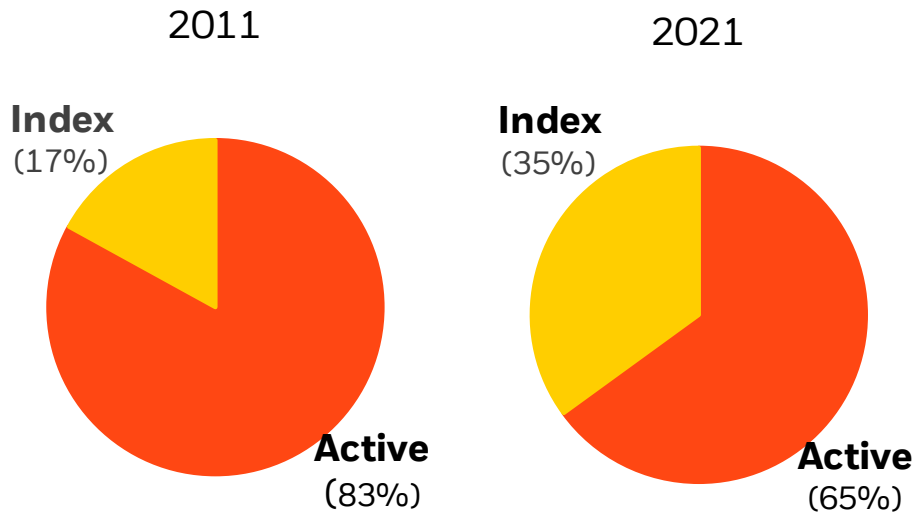
TAXABLE BOND FUND FLOWS

Active and index taxable bond funds thriving

Index funds have gained in recent years, but both active and index are on pace for historic inflows in 2021

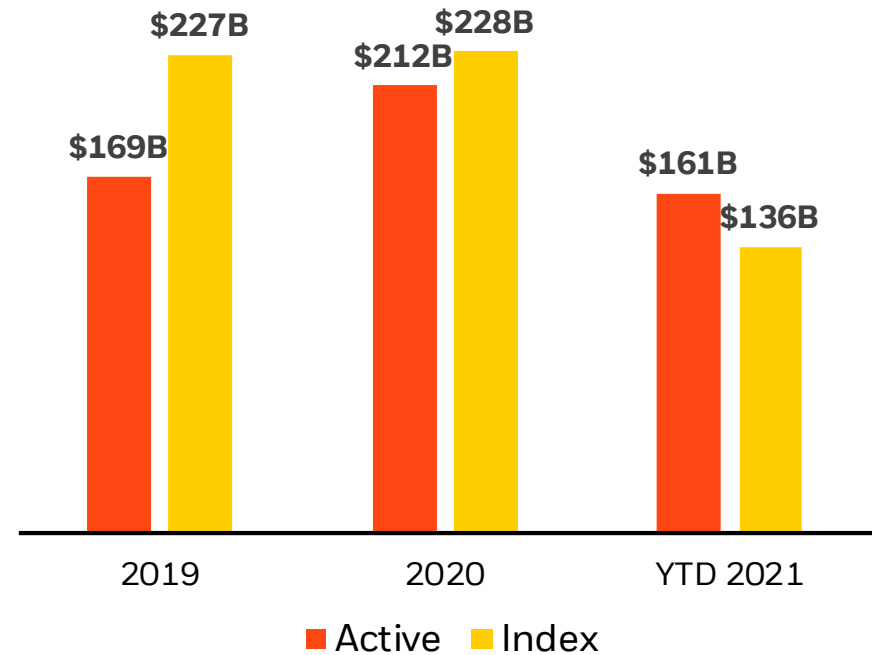
Taxable bond fund assets: Active versus Index

(Mutual funds and ETFs as of 5/31/21)



Flows into taxable bond funds

(Mutual funds and ETFs as of 5/31/21)



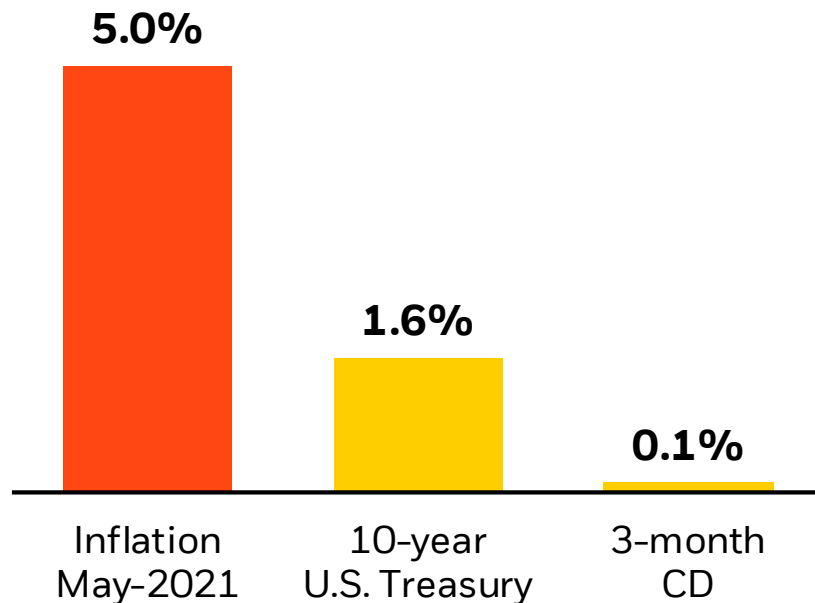
Source: Morningstar as of 6/30/21. Taxable bonds are represented by the Taxable bond fund category as defined by Morningstar. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Today's inflation challenge

Unlike previous inflationary periods, interest and savings rates are not keeping up

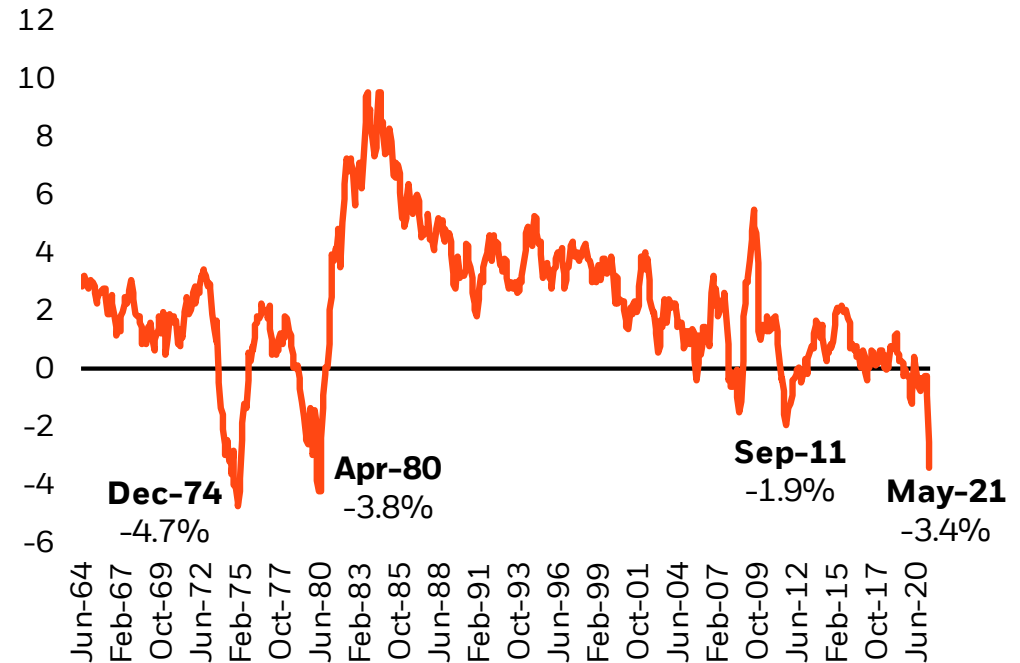
Inflation versus interest and savings rates today

As of 5/31/21



Largest gap between interest rates and inflation since 1980

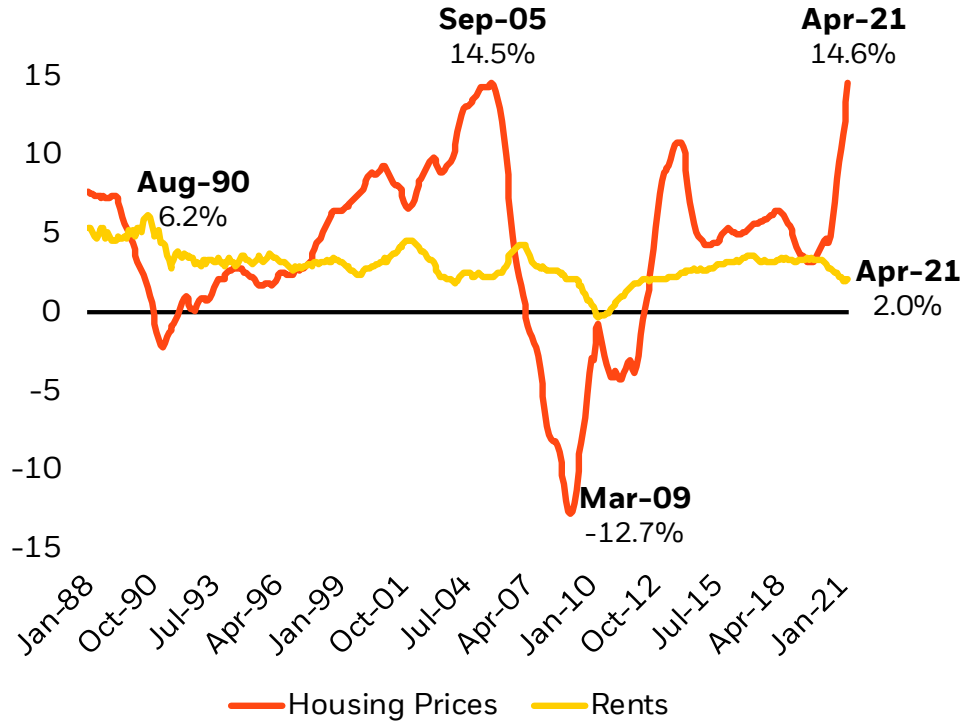
10-year U.S. Treasury yield minus inflation (CPI), as of 5/31/21



Source: St. Louis Federal Reserve as of 6/30/21. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Disconnect between housing prices and rents

Housing prices and owners equivalent rent
(12-month rolling, 1/1/88 – 4/30/21)



The largest historical differences in housing prices and owners equivalent rent
(1/1/88 – 4/30/21)



Year	Home Prices	CPI Owners' Equivalent Rent	Difference
Apr-21	14.6%	2.0%	12.6%
Sep-05	14.5%	2.3%	12.2%
Mar-09	-12.7%	2.1%	14.8%

Not seeing recent housing inflation in the CPI
Housing prices have burst higher, but rents are trailing pretty dramatically

Source: Bureau of Labor Statistics and Standard and Poors, as of 5/31/21.

“Quality enhancements” can create a disconnect between expenses and inflation

Quality enhancements: More tv channels, but a higher cable bill

	Cable Plan A	Cable Plan B	
Cost	\$40	\$47	 +18% price increase
Channels	71	80	
Cost per channel	\$0.56	\$0.59	 +4% reported inflation in the CPI

Source: Bureau of Labor Statistics, as of 5/31/21. Actual example from the U.S. Bureau of Labor Statistics website.

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Returns as of 6/30/21	Total Ret 1 Year	Total Ret 5 Years	Total Ret 10 Years
BBqBarc US Agg Bond TR USD	-0.33	3.03	3.39
IA SBBI US IT Govt TR USD	-1.73	2.34	2.68
IA SBBI US Large Stock TR USD Ext	40.79	17.65	14.84
S&P 500 TR USD	40.79	17.65	14.84
US BLS CPI All Urban NSA 1982-1984	4.99	2.30	1.77

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