



## Second Quarter 2021 Investor Update

The overriding factor leading to continued strength in the US stock market was the acceleration of our domestic economy, fueled by the gradual elimination of Covid-19 related restrictions. Economic growth (GDP) is forecast to be in the mid-single digits (5-7%) which is unsustainable longer-term, but has led to fantastic growth in corporate earnings for the short term. We expect the accelerated growth rate to continue over the next few quarters as travel, hospitality, large gatherings (sports, concerts, conventions) return to full capacity.

The CWC portfolios had another excellent quarter in Q2. The Small cap portfolio returned 5.05% outpacing the Russell 2000 by .76%. The CWC Large cap portfolio had a healthy 4.55% return for the quarter but did not keep up with a scorching return of 8.55% for the S&P 500. The swing back into large Cap growth stocks happened in June and corresponded with a drop in the 10-year bond yield. Last quarter we discussed the correlation between long term interest rates (the 10-year treasury bond) and the valuation of growth stocks whose earnings are expected long into the future. As interest rates moved up last quarter due to inflationary fears, large cap growth stocks underperformed. As inflationary fears waned late in Q2, the 10- year treasury bond yield declined, and those large cap growth stocks saw a surge in performance.



The red comments in the previous graph are exaggerations but do reflect the general nature of the markets at those moments. What has changed? One major contributor to the change in sentiment is the price of lumber. Lumber exploded in price during the pandemic and the effects rippled through the housing industry and spilled over into the general economy. Since the middle of May lumber prices have collapsed. They are not back to pre-pandemic levels, but the decline has been the fastest in history. This lends credibility to the argument that the rise in prices we have seen over the past several months is a transitory phenomenon caused by manufacturing and shipping disruptions, due primarily to the need for social distancing in the workplace. The below chart tells a thousand words.

## Lumber suffers worst month on record back to 1978

Futures price per 1,000 board feet



Source: FactSet



We feel the 10-year treasury yield will calm down and find a home between 1.25-1.50%. Under that scenario, value stocks will be set up to resume their relative outperformance vs. growth stocks.

Politically, moderate voices are beginning to flex their muscles as neither party has firm control over either chamber of Congress. Moderate democrats and republicans have begun to drive bipartisan legislation that could provide a legitimate compromise to both parties who are entrenched in their respective positions. Time will tell but thoughtful, bipartisan legislation has not been a part of our country's narrative for many years.

We are excited about our portfolios and look forward to the third quarter. The federal reserve remains accommodative and as such, we expect the stock market to continue to perform well. At their last meeting, the federal reserve hinted for the first time that their accommodation could potentially slow down some day well into the future. It was vague, but important that the idea of slowing down the creation of money is back on their radar. This is very healthy and is one reason the 10-year treasury bond's yield declined in June. There is no plan to slow the stimulus in the near term and that is a positive for the markets now, but the assurance that the fed is still concerned about deficits and the size of their balance sheet *long-term* gave the bond markets some comfort.

As always, we appreciate your business and the trust you put in us to manage your assets. We will continue to implement the value-based strategy we believe is the most prudent way to invest for the long term.