Vestor Capital
INVESTMENT & WEALTH MANAGEMENT

Economic and Investment Outlook — July 13, 2021

Equity Market Update

Major world equity indexes have continued to perform well in 2021, particularly U.S. Indexes. This is encouraging considering that 2020 was also a strong year for equity markets, and the consensus opinion coming into 2021 was that gains would be tougher to achieve, which has not been the case. World economies are recovering, and corporate earnings are picking up strongly, giving investors confidence to continue to bid up equities.

International indexes have registered high single-digit returns thus far in 2021, which is quite respectable in absolute terms, but have lagged behind their U.S. counterparts. Economic growth in Europe continues to lag behind that in the U.S., which we believe has caused the lower returns in the developed international indexes. The low return in the emerging markets index is in part due to lower returns in China which comprises a large portion of the index. China's clampdown on technology companies has caused many of these stocks to perform poorly thus far in 2021.

We are not surprised that world equity markets continue to perform well despite what some believe are expensive valuations. We expect corporate earnings growth to continue to surprise as world economies recover from the COVID-19 crisis. This recovery has only begun, which is why investors are more optimistic about equities than strategists, who overly rely on trailing valuation metrics.

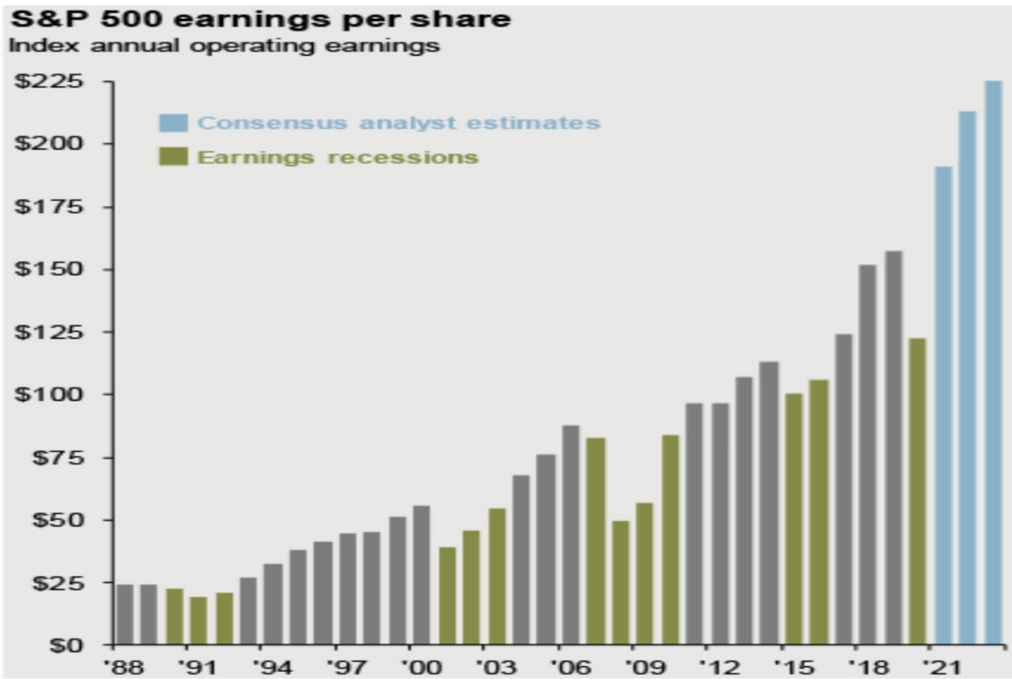
Total Return Performance for the Major U.S. and International Stock Market Indexes

Equity Index	*YTD June 30, 2021*
United States	
Dow Jones Industrial Avg.: 30 Stock Composite	**13.79 %**
S&P 500 Composite: U.S. Large Cap	**15.24 %**
NASDAQ Composite: Technology Heavy	**12.92 %**
S&P 600 Small Cap: U.S. Small Cap	**23.55 %**
International	
MSCI EAFE Large Cap: Europe, Asia & Far East Large Cap	**9.21 %**
MSCI EAFE Small Cap: Europe, Asia & Far East Small Cap	**9.30 %**
MSCI EM Emerging Market: Emerging Market Countries	**7.43 %**

Source: Bloomberg, L.P.

U.S. Economy

U.S. Gross Domestic Product (GDP) grew 6.4% sequentially in the first quarter of 2021, which is an acceleration from 4.3% the previous quarter. Economists expect strong mid-single digit growth in 2021, which is expected to lead to very strong corporate earnings growth as highlighted in the graph below.



Source: JPMorgan Guide to the Markets 6/30/2021

The economy is rebounding sharply. U.S. ISM Manufacturing and Non-manufacturing Purchasing Managers Index (PMI) readings above 50 represent growth, with June readings of 60.6 and 60.1 respectively showing strong expansion. While these reports are below recent multi-year highs, they do represent very strong growth which is expected to continue. This sustained growth is causing inflation readings to jump to levels we have not seen in recent memory. Inflation in June rose 5.4% vs. last year, continuing the recent trend. Reopening sensitive categories such as used cars, rental cars, airfares, vehicle insurance and restaurants have accounted for over half of the recent inflation increase. Fed policy makers believe that these increases are transitory, and do not expect inflation to remain at elevated levels.

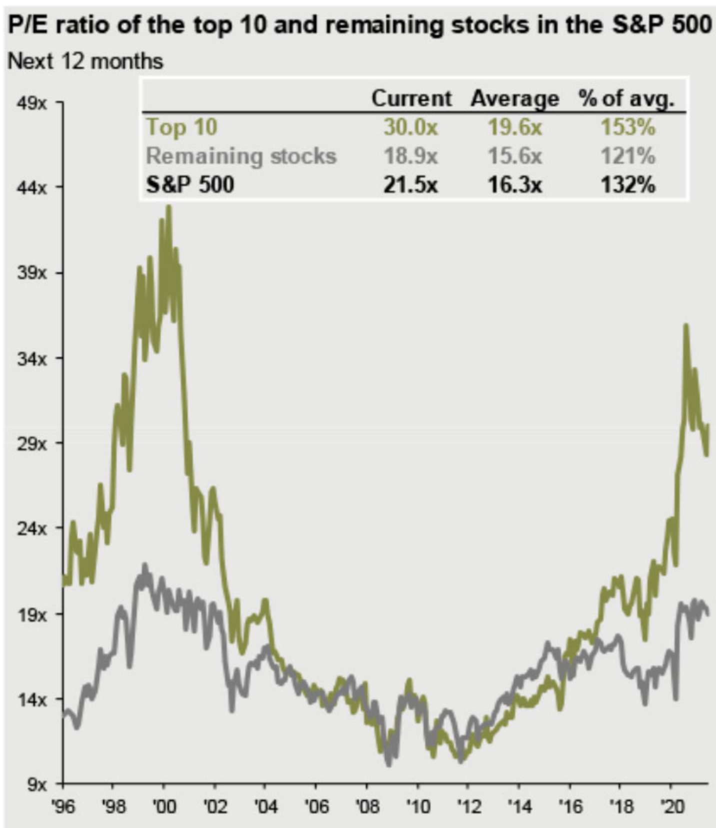
Each month in the second quarter of 2021 has shown an acceleration in job growth, with the June report recording an increase of 850,000 jobs. The unemployment rate has fallen to 5.9% in June from 6.7% at the end of 2020. As more people reenter the work force, we expect this figure to only gradually decline despite an expected continued strong increase in new job growth.

International Economy

The Eurozone ISM Manufacturing PMI report in June was at a multi-year high of 63.4, while emerging markets reported modest expansion at 51.3. Asian economies rebounded earlier than developed market economies causing recent readings to lag their European counterparts. We expect European economic growth to accelerate as 2021 unfolds due to the expected lapsing of COVID-19 restrictions. Emerging markets will benefit from stronger growth in Europe as they depend heavily on Europe for exports.

U.S. Equity Market Outlook

Recent comments from many market strategists have focused on the current market valuation being historically high. The graph below illustrates that if you exclude the 10 largest stocks in the S&P 500 Index, the remaining stocks are trading only modestly above the long-term average. The 10 largest stocks include Apple, Microsoft, Amazon, Alphabet, Facebook, in addition to others that are generating very strong growth rates, justifying their higher valuations. Corporate earnings growth in the first quarter of 2021 was very strong and well above expectations. We expect this trend to continue this year and into 2022 as we recover from the economic impact of COVID-19. Interest rates have recently fallen, justifying higher equity valuations as the dividend yields on many equities are higher than U.S. Treasury yields. If we remain in a low interest environment and corporate earnings growth remains strong, we see no reason why equities can't continue to perform well.



Source: JPMorgan Guide to the Markets 6/30/2021

International Equity Market Outlook

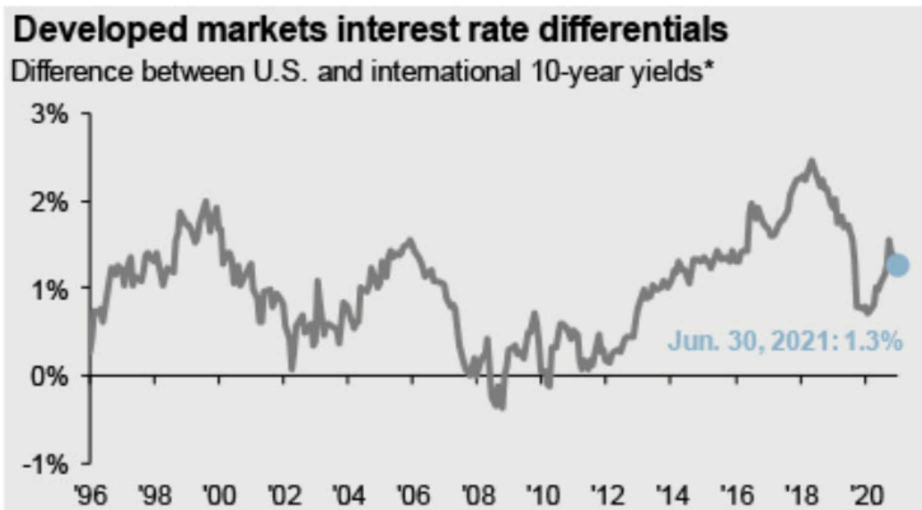
Emerging market (EM) equities have underperformed in 2021 vs. their developed market counterparts. China's crackdown on technology companies has been a headwind, causing these equities to perform poorly, and China represents over a third of the emerging markets index. Many of these Chinese technology stocks are attractively valued and could recover once investors feel comfortable that the crackdown is ending.

European equities lagged U.S. equities in the second quarter of 2021 as investors shifted from cyclical rebound stocks to more secular growth stocks. European indexes are more heavily tilted to financial, industrial, and energy stocks and do not have the dynamic technology stocks that populate U.S. indexes. We believe investors have not given up on economic recovery stocks, but the shift to these stocks in the first quarter of 2021 had gotten a little over-heated, and this was simply a pause. We expect economic recovery stocks to continue to perform well.

Fixed Income

While there been some chatter that the U.S. Federal Open Market Committee (FOMC) may begin to raise rates in late 2022, recent interest rate activity suggests otherwise. We continue to expect that the Fed Funds rate will remain in the 0% to 0.25% range for the foreseeable future, despite recent higher inflation readings. One must not view the U.S. in a vacuum with regards to interest rates. The graph below shows that U.S. rates are much higher than other developed countries despite better economic growth in the U.S. and a better balance sheet than many of the other countries comprising the index.

The world is awash in savings and is buying safe government debt despite the paltry yields. This is a key reason why interest rates remain at historically low levels, and we expect this trend to continue, despite the fact that government debt is rising.



Source: JPMorgan Guide to the Markets 6/30/2021

Summary

The 10-Year U.S. Treasury has fallen from 1.74% to a low of 1.29% on July 8th before rebounding recently. We believe bond yields have likely bottomed, but do not expect rates to rise much over the coming year. We expect the 10-Year U.S. Treasury rate to be range bound in the mid 1% range for the foreseeable future.

Equity markets continue to perform well, and the recent decline in interest rates has boosted fixed-income returns. We continue to believe that equities will perform well due to government stimulus, low interest rates, and pent-up demand. We have only had a modest stock market pullback of 4% in 2021, and we would not be surprised if the market paused to digest recent gains or pulled back slightly. However, we remain optimistic about long-term market fundamentals.