Market Update

July 14, 2021

Inflation Measures Hit a Record

- The Producer Price Index for final demand increased 1.0 percent in June, as prices for final demand services rose 0.8 percent, and the index for final demand goods moved up 1.2 percent. The final demand index advanced 7.3 percent for the 12 months ended in June, the largest advance since 12-month data were first calculated in November 2010.
- Nearly 60 percent of the June advance in the final demand index, can be traced to a 0.8-percent increase in prices for final demand services. The index for final demand goods moved up 1.2 percent.
- The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.9 percent in June, on a seasonally adjusted basis after rising 0.6 percent in May, the U.S. Bureau of Labor Statistics reported today. This was the largest 1-month change since June 2008, when the index rose 1.0 percent. Over the last 12 months, the all-items index increased 5.4 percent before seasonal adjustment; this was the largest 12-month increase since a 5.4-percent increase, for the period ending August 2008.

It is our opinion, that these price increases may be here to stay, until the economy slows because of them. Some inflation is healthy, however, the current rates we are seeing at 5%+ year on year are not sustainable, in our opinion, for longer periods of time. Should we be wrong, we hope, that this level of inflation is transitory, that would be a good thing.

The Federal Reserve still maintains their stance that the economy has a long way to go to fully recover and that inflation is a more transitory issue. Our hope is that their opinion is based on data that we are not seeing and not motivated by political pressures or incorrect assessment of data. A concern is that passing large spending packages by Washington require a more dovish stance and more favorable tone on what is record breaking inflationary statistics. Politics, unfortunately, can influence markets and overall decision making and needs to be part of the conversation as CPI and PPI numbers soar.

We still believe a pull back is in the nearer future for the markets. They are healthy and we hope to take advantage of them when they occur, even in the face of high inflation. We discuss our preference of asset classes toward the end, as we have shifted a bit of our thinking due to the inflationary environment we are experiencing.

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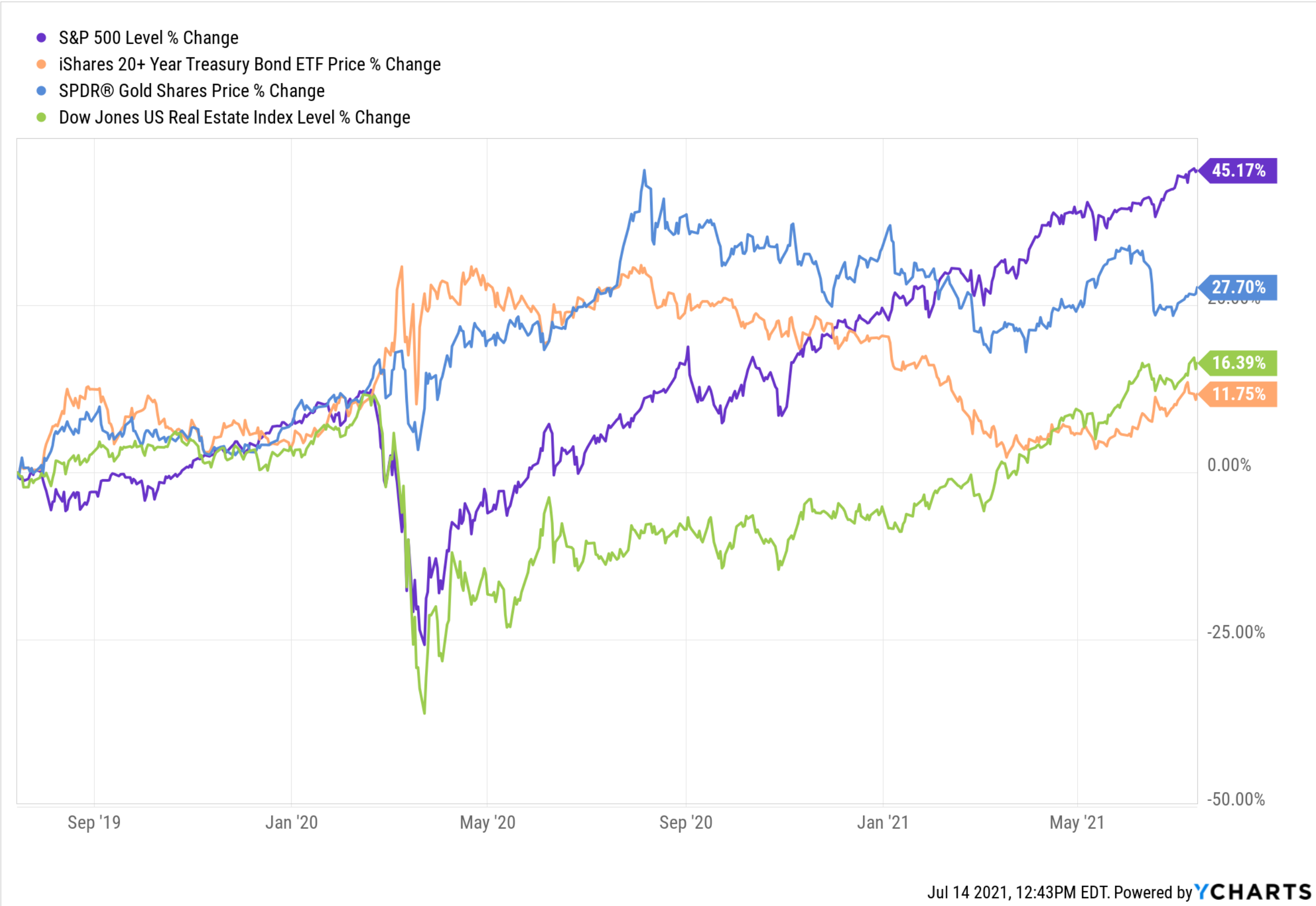

Information in the chart above was taken from sources we believe to be reliable; however, we do not guarantee its accuracy or completeness. Date Range start 07/15/2019.

Long term treasury yields moved down again since last month. The shape of the yield curve remains positively sloped, which is a good indication that the Federal Reserve's policies are still working and helping financial markets. The trend in rates over the past two months has flattened out the yield curve a bit. This is signaling that there are structural issues in the economy that need to be addressed should a further significant flattening occur. However, Federal Reserve Chair Jerome Powell said that the economy remains "a ways off" the 'substantial further progress' required for the Fed to scale back stimulus measures. Interest rates are still historically low.

PROMINENCE CAPITAL

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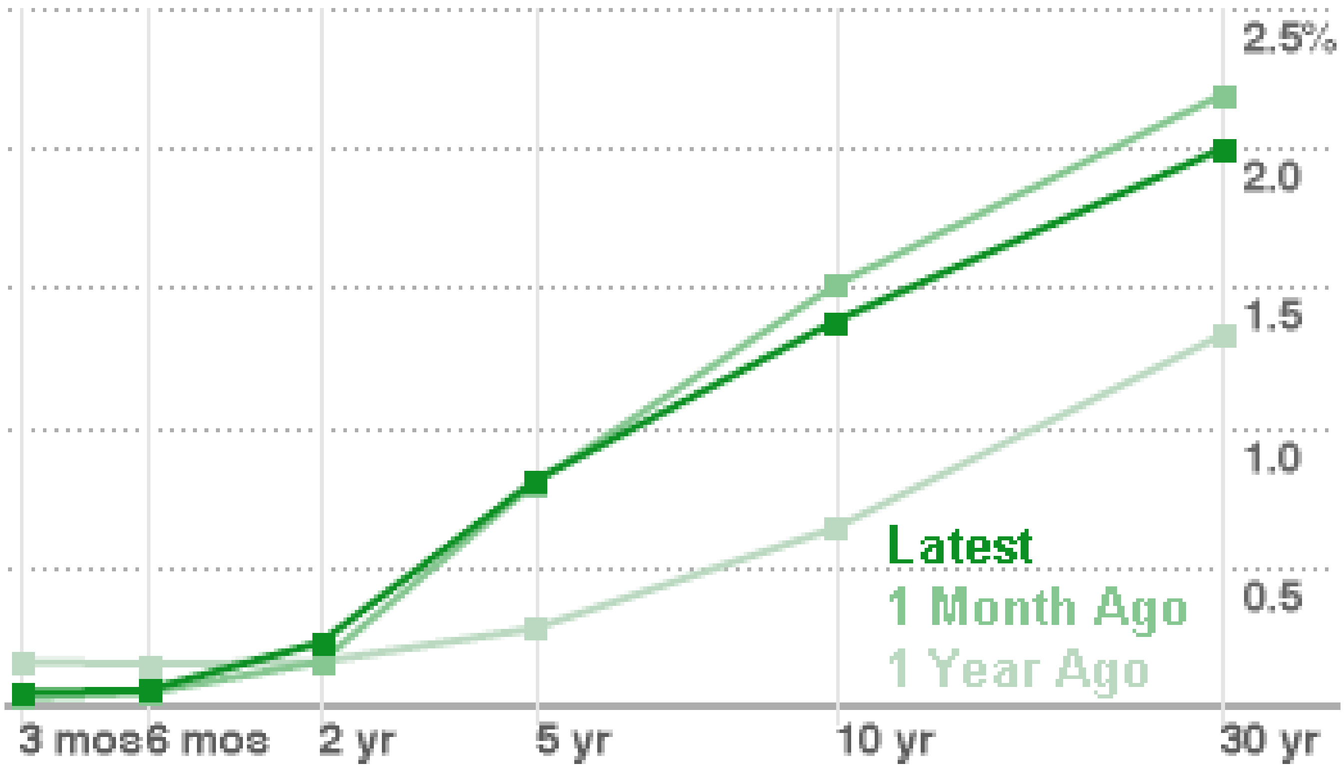

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Our overall strategy is not to raise cash, but rather to wait for more of a pull back in the markets to take large scale actions. Should this occur, we will look at rebalancing portfolios to take advantage of the shifts occurring in the directions of investor capital flows. We do not see this current environment as one where cash raising is needed to protect portfolios from a necessary pullback. Please keep in mind as the data comes in, we may change that opinion. As stated, we do have some concern regarding inflation.

Having a disciplined investment and risk management process, regardless of market action, is the foundational elements to our portfolio designs. It is this portion of the approach of portfolio management, that helps consistently reduce the long run risk taken in a portfolio of investments. Speculating about near-term directions in the markets can be and often is a difficult and risky proposition. We can control the risk and process we take in our portfolio construction, but we cannot control market performance.

Overall, we prefer domestic equities over international equities. We prefer more value-oriented stocks vs. growth stocks for longer term growth, as we still see growth stocks as more fully valued. However, high quality growth stocks are likely to continue to outperform the market. We are more bearish on fixed-income due to inflation concerns. Two other areas we are becoming more bullish on are small cap stocks, especially those that produce income and income producing real estate. The incomes that these investments produce may act as a hedge to a degree, should inflation continue to move at its current pace. It is important to maintain discipline regarding long-term strategic asset allocation. However, as market conditions dictate, we are looking at tactical opportunities to reduce risk in portfolios, if necessary.

If you have questions or would like to discuss this further regarding your personal portfolio, please contact me at 310-433-5378.

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