



## GOLD RUSH?

It has been said that “all that glitters is not gold.” While I would like to credit country western music singer, Dan Seals, with the line it is actually attributed to none other than William Shakespeare. Its meaning is that not all that looks precious or true, turns out to be so. A fitting statement in the age of crypto currency as we have seen wild fluctuations in Bitcoin and the like, and which some have compared to the heavy yellow metal (gold) due to the finite number of coins that can be “mined.” While fears of inflation initially stoked both “metals” higher, it seems that Bitcoin is subject to Elon Musk’s Twitter rants and Chinese authorities, raising the question whether it can be called a true store of value. Time will tell, but it is clear that the technology behind cryptocurrencies is here to stay as block chain, smart contracts, and decentralized finance continue to grow in use and popularity. While these intangible coins may not be worth their weight in gold, they certainly hold significant power.

Meanwhile as the world re-opens, another well-known commodity known as black gold has continued to steadily march higher, spurred by thirsty travelers ready to resume their lives and vacations. As the level of fully vaccinated people grows, OPEC is trying to agree upon how to gradually return the millions of barrels a day that were taken off the market during the pandemic. Restoring the balance of supply and demand is more difficult when it is a moving target. Higher oil prices have helped beleaguered energy stocks that have been on a downward spiral over the last five years, allowing them to drastically outperform the technology and large cap growth stocks that lead the 2020 recovery. “Stay at home” has been replaced with “put the pedal to the metal” and “wheels up”!

Whether metals, oil, or shiny beef cattle, commodities as a whole have been on a bull run. The massive demand for lumber has finally hit a tipping point as builders put the brakes on construction. Between supply constraints and shipping backlogs, most everything is in short supply. This includes vehicles that depend on new glossy microchips, which have pushed the used-car market into overdrive. While June inflation estimates have fallen to 4.1% vs. May’s CPI reading of 5.0%, the question still lies: Is this inflation transitory or something that might linger?

Inflation is also affecting wages, especially at the lower end where many jobs were lost in food service and hospitality. Several major companies have announced boosts in their minimum wage to \$15/hour and are even offering signing bonuses to attract laborers back to work. And while there are 8 million people still unemployed, there are 9 million job postings, giving workers more leverage in negotiations. So will these higher wages result in higher prices and/or lower margins? One factor that may help is technology. COVID caused us to embrace technology and to boost productivity, replacing many manual tasks with computers and machines. There is no putting the genie back in the bottle.

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In addition, technology affords consumers greater price discovery and the ability to substitute one good for another...perhaps even substituting the purchase of a new car with telecommuting. Therefore, while McDonald's may offer a higher wage, they will probably require fewer workers, utilizing technology to combat inflation and ensuring your Big Mac prices will not be Supersized.

Whether transitory or not, the markets were seemingly undisturbed by the debate, delivering positive results across asset classes, and even the bond market performed, with the 10-year yield continuing to retreat, resulting in positive returns. Real GDP growth for Q1 came in at 6.4% and is expected to exceed 9% in Q2. Much of this growth has been driven by the pent-up consumer, but more importantly, by business investment and capital expenditures which grew by 11.7% for the quarter. Manufacturing and services remained strong despite continued supply chain issues and labor shortages, with the July ISM Index posting a whopping 60.6 (above 50 signals expansion).

### Closing Thoughts

Since the beginning of time man has chased shiny objects, whether seeking fame or fortune. Yes, "there's gold in them there hills!" It seems fitting that the opening ceremonies of the long anticipated, pandemic-delayed Olympic games is upon us. Over sixteen days of glory, athletes from around the world will compete for the honor to adorn themselves with bronze, silver, or gold, and make their countries proud. Many of these competitors have been working their whole lives for this moment and their bodies are primed for peak performance. Every athlete has a routine to not only prepare for the physical exertion they must expend, but also for the mental game each one carries in their proverbial helmet. Whether listening to their headphones or following a specific dressing ritual; each has their own idiosyncrasies, superstitions, and step-by-step practices to prepare for battle.

At Ulrich, we see ourselves as your financial athlete where we stand ready to help navigate the complex field of challenges and keep your eye on the goal. Our focus on a consistent process and long-term financial fitness helps provide a method to the madness of global markets and eases the mental pressure of protecting your life's work. That's our Aim, that's our Target!

Regards,



John P. Ulrich, CFP®  
President



Whitney E. Solcher, CFA®  
Chief Investment Officer



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## Equity Markets

The S&P 500 Index closed the quarter at a record high and registered an 8.5% gain in 2Q, bringing its YTD return to 15.3%. The Index is up 40.8% over the past year and the annualized return over the past 10 years is a healthy 14.8%. The S&P 500 Index hit 34 record highs in the first half of the year. First quarter earnings were up over 50%, according to FactSet, and second quarter earnings are projected to grow more than 60% (YOY). Real Estate was the strongest-performing sector in the S&P 500 for the quarter (+13.1%) with Technology close behind (+11.6%). Utilities was the only sector to post a negative result (-0.4%). Growth stocks outperformed value (R1000 Growth: + 11.9%; R1000 Value: + 5.2%) but lagged for the YTD period (+13.0% vs. +17.0%). Small cap lagged large (R2000: +4.3% vs. R1000: +8.5%) and also trails by a modest margin YTD (15.0% vs 17.5%).

Developed ex-U.S. stocks also had a strong quarter with virtually all developed market countries posting positive returns. The MSCI ACWI ex-USA Index rose 5.5% for the quarter and is up 9.2% YTD. As in the U.S., Utilities (-0.4%) was the lone sector to produce a negative return. Health Care (+9.9%) and Energy (+8.2%) were the top-performing sectors. Canada (+10.0%) was a strong performer and Japan (-0.3%) was notable as the lone country to deliver a negative return. The U.S. dollar was mixed against developed market currencies and thus shifts were not a major contributor to relative results. The MSCI EM Index performed in line with developed markets (MSCI EM USD: +5.0% and +7.4% YTD), but country returns were mixed. Brazil (+23%) and Russia (+14%) were top performers while Chile (-14%) was at the bottom of the pack. China was up 2% and China A-shares (+9.2%) did especially well as softer economic data in May appeared to ease investors' concerns over potential policy tightening.

## Fixed Income Markets

The 10-year U.S. Treasury yield declined steadily throughout the quarter, from 1.74% as of 3/31 to 1.45%. TIPS outperformed nominal Treasuries for the quarter given strong relative performance in April and May. The Bloomberg Barclays US Aggregate Bond Index rose 1.8% but remains down 1.6% YTD. Strong equity performance and robust economic data fueled risk appetites, and lower-quality securities were the best performers again this quarter. Corporates outperformed Treasuries as investors continued to reach for yield in spite of the paltry yield advantage (the average option-adjusted spread on the Corporate Index was 80 bps as of quarter-end, the lowest since 1998). The Bloomberg Barclays High Yield Index was up 2.7%. The absolute yield-to-worst for the Index reached an all-time low of 3.75% and its option-adjusted spread hit 268 bps, the lowest since 2007. Municipals (Bloomberg Barclays Municipal Bond Index: +1.4%) performed in line with Treasuries for the quarter.

The U.S. dollar was mixed versus developed market currencies but shifts were fairly modest. Thus, currency was not a major contributor to relative results for global ex-U.S. indices. The Bloomberg Barclays Global Aggregate ex-US Bond Index rose 0.9% (+0.4% hedged). Emerging market debt performed well; the JPM EMBI Global Diversified Index gained 4.1% and the local currency JPM GBI-EM Global Diversified Index was up 3.5%. Both remain down YTD, however; -0.7% and -3.4%, respectively.



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### **Real Assets**

Real assets did very well as the economy continued to gain traction. The Bloomberg Commodities TR Index rose 13.3%. Oil prices continued to climb, closing at more than \$73 per barrel, the highest in almost three years. The Alerian MLP Index was up 21.2% for the quarter and 47.8% YTD. The S&P GSCI Index climbed 15.7% and is up 31.4% YTD. REITs, as measured by the MSCI U.S. REIT Index, rose 12.0%. The Bloomberg Barclays US TIPS Index gained 3.2% and the Dow Jones Global Infrastructure Index climbed 6.9%. Gold (S&P Gold Spot Price: +3.3%) was an underperformer for the quarter.



### Returns for Various Periods - June 30, 2021

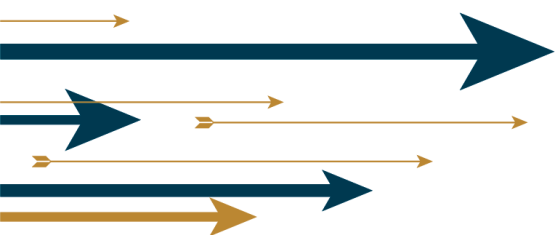
	Last Quarter	Year to Date	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
<b>MSCI:ACWI</b>	7.39	12.30	39.26	<b>14.57</b>	14.61	9.90	<b>7.60</b>
Russell:3000 Index	8.24	15.11	44.16	<b>18.73</b>	17.89	14.70	<b>10.78</b>
Russell:3000 Growth Index	11.38	12.71	42.99	<b>24.47</b>	23.31	17.54	<b>13.33</b>
Russell:3000 Value Index	5.16	17.67	45.40	<b>12.23</b>	11.99	11.54	<b>7.99</b>
<b>MegaCap</b>							
Russell:Top 50	10.07	13.87	40.55	<b>22.11</b>	19.57	15.96	<b>11.17</b>
Russell:Top 200	8.93	14.50	40.81	<b>20.19</b>	18.91	15.56	<b>11.04</b>
Russell:Top 200 Growth	12.14	13.59	42.25	<b>25.84</b>	24.58	18.86	<b>14.06</b>
Russell:Top 200 Value	4.95	15.76	38.99	<b>12.63</b>	11.88	11.54	<b>7.56</b>
<b>Large Cap</b>							
S&P:500	8.55	15.25	40.79	<b>18.67</b>	17.65	14.84	<b>10.73</b>
Russell:1000 Index	8.54	14.95	43.07	<b>19.16</b>	17.99	14.90	<b>10.89</b>
Russell:1000 Growth	11.93	12.99	42.50	<b>25.14</b>	23.66	17.87	<b>13.53</b>
Russell:1000 Value	5.21	17.05	43.68	<b>12.42</b>	11.87	11.61	<b>8.01</b>
<b>MidCap</b>							
S&P:400 Mid Cap	3.64	17.60	53.24	<b>13.17</b>	14.29	12.40	<b>10.43</b>
Russell:Midcap Index	7.50	16.25	49.80	<b>16.45</b>	15.62	13.24	<b>10.53</b>
Russell:Midcap Growth	11.07	10.44	43.77	<b>22.39</b>	20.52	15.13	<b>12.10</b>
Russell:Midcap Value	5.66	19.45	53.06	<b>11.86</b>	11.79	11.75	<b>9.11</b>
<b>Small Cap</b>							
S&P:600 Small Cap	4.51	23.56	67.40	<b>12.20</b>	15.82	13.49	<b>10.45</b>
Russell:2000 Index	4.29	17.54	62.03	<b>13.52</b>	16.47	12.34	<b>9.51</b>
Russell:2000 Growth	3.92	8.98	51.36	<b>15.94</b>	18.76	13.52	<b>10.89</b>
Russell:2000 Value	4.56	26.69	73.28	<b>10.27</b>	13.62	10.85	<b>7.90</b>
Russell:Microcap	4.14	29.02	75.77	<b>14.47</b>	18.13	13.06	<b>8.73</b>
<b>Non-US Equity</b>							
MSCI:ACWI ex US	5.48	9.16	35.72	<b>9.38</b>	11.08	5.45	<b>4.85</b>
MSCI:EAFE	5.17	8.83	32.35	<b>8.27</b>	10.28	5.89	<b>4.40</b>
MSCI:EAFE Growth	7.42	6.81	30.97	<b>12.45</b>	12.47	7.76	<b>5.98</b>
MSCI:EAFE Value	3.01	10.68	33.50	<b>3.78</b>	7.81	3.86	<b>2.68</b>
MSCI:EAFE Small Cap	4.34	9.04	40.98	<b>8.40</b>	12.03	8.38	<b>6.32</b>
MSCI:EM	5.05	7.45	40.90	<b>11.28</b>	13.03	4.29	<b>6.61</b>
<b>Fixed Income</b>							
Blmbg:Aggregate	1.83	(1.60)	(0.33)	<b>5.34</b>	3.03	3.39	<b>4.43</b>
Blmbg:TIPS	3.25	1.73	6.51	<b>6.53</b>	4.17	3.40	<b>4.56</b>
Blmbg:Long Gov/Credit	6.44	(4.64)	(1.86)	<b>9.92</b>	5.45	7.30	<b>7.42</b>
Blmbg:Long Credit A	6.28	(3.69)	1.56	<b>10.21</b>	5.90	7.36	<b>7.14</b>
Blmbg:HY Corp Cash Pay	2.74	3.60	15.37	<b>7.46</b>	7.48	6.67	<b>7.53</b>
Blmbg:Muni 1-10 Yr	0.62	0.36	2.43	<b>3.91</b>	2.48	2.97	<b>3.71</b>
Blmbg:Glb Agg xUSD	0.92	(4.42)	4.60	<b>3.12</b>	1.63	0.99	<b>3.09</b>
Blmbg:Glb Agg xUSD Hdg	0.35	(1.56)	0.05	<b>3.84</b>	2.80	4.12	<b>4.23</b>
JPM:EMBI Plus	4.42	(3.12)	4.13	<b>5.59</b>	3.17	4.79	<b>6.37</b>
<b>Other Assets</b>							
Blmbg:Commodity TR Idx	13.30	21.15	45.61	<b>3.90</b>	2.40	(4.44)	<b>(3.00)</b>
S&P GSCI	15.72	31.40	57.37	<b>(2.72)</b>	1.73	(6.48)	<b>(6.37)</b>
S&P:Gold Spot Price lx	3.26	(6.52)	(1.61)	<b>12.19</b>	6.05	1.66	<b>7.30</b>
FTSE:NAREIT Equity Index	12.02	21.96	38.02	<b>10.10</b>	6.31	9.41	<b>7.07</b>
Alerian:MLP Index	21.23	47.84	63.98	<b>(0.33)</b>	(1.05)	1.07	<b>5.85</b>

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# CAPITAL MARKETS REVIEW & OUTLOOK

Second Quarter 2021



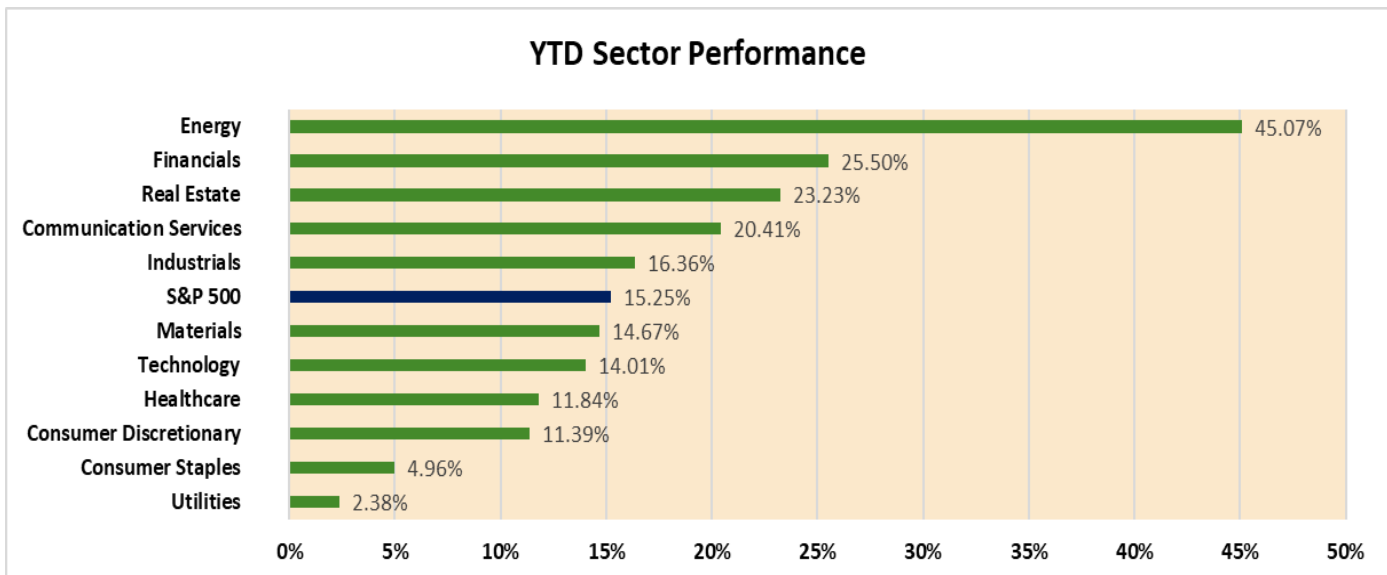
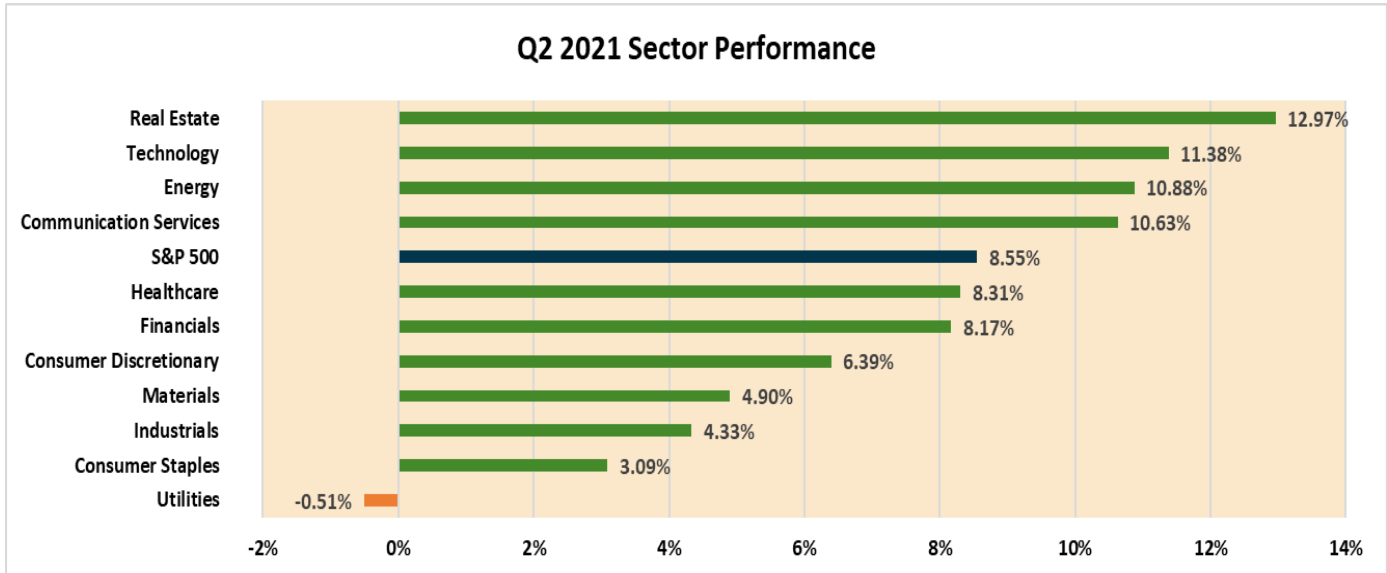
## MAJOR MARKET INDICES (AS OF 6/30/2021)

Domestic Equity	2021		1 Year	Annualized		P/E Ratio TTM
	Q2	YTD		5 Year	10 Year	
S&P 500	8.5%	15.3%	40.8%	17.6%	14.8%	26.5
Russell 3000	8.2%	15.1%	44.2%	17.9%	14.7%	25.5
Russell 1000 Value	5.2%	17.0%	43.7%	11.9%	11.6%	19.6
Russell 1000 Growth	11.9%	13.0%	42.5%	23.7%	17.9%	36.4
Russell 1000	8.5%	15.0%	43.1%	18.0%	14.9%	26.0
Russell 2000	4.3%	17.5%	62.0%	16.5%	12.3%	17.8
Russell 2500	5.4%	17.0%	57.8%	16.3%	12.9%	20.0
International Equity	2021		1 Year	Annualized		P/E Ratio TTM
	Q2	YTD		5 Year	10 Year	
MSCI ACWI Ex US	5.6%	9.4%	36.3%	11.6%	5.9%	18.9
MSCI EAFE	5.4%	9.2%	32.9%	10.8%	6.4%	20.2
Emerging Markets	5.1%	7.6%	41.4%	13.4%	4.7%	17.0
Fixed Income	2021		1 Year	Annualized		Yield
	Q2	YTD		5 Year	10 Year	
Barclays Aggregate	1.8%	-1.6%	-0.3%	3.0%	3.4%	1.5%
Barclays Universal	2.0%	-1.1%	1.1%	3.5%	3.7%	1.8%
Other	2021		1 Year	Annualized		Value
	Q2	YTD		5 Year	10 Year	
US Dollar	-0.9%	2.8%	-5.1%	-0.7%	2.2%	\$92.44
WTI	25.3%	54.3%	80.7%	8.6%	-2.7%	73.5
Gold	2.3%	-8.9%	-0.3%	5.6%	1.7%	\$1,770

- The S&P 500 had a strong quarter and finished at a record high.
- Growth outperformed Value for the quarter, however, Value still leads Growth year-to-date, though correlation between the two is rising.
- Likewise, SMID Cap lagged Large Cap for the quarter, but still leads year to date and over the last 12 months.
- While international markets lagged domestic markets, they still posted attractive single digit returns, aided by a weaker US dollar.
- Emerging markets underperformed developed, but have outperformed over a full year cycle.
- Oil and other commodities dominated as demand continued to surge from the global re-opening.

Source: Koyfin, Morningstar, Callan

## SECTOR PERFORMANCE



- Real estate was the strongest performing sector followed by technology which made a reversal from the first quarter pull back.
- Year-to-date, energy has made a complete reversal and oil prices closed near \$75 a barrel for the quarter as OPEC continues to argue over how much supply to return to the market.

Source: Morningstar and Yahoo! Finance



## THE GREAT INFLATION DEBATE

Jan 2010 – May 2021:

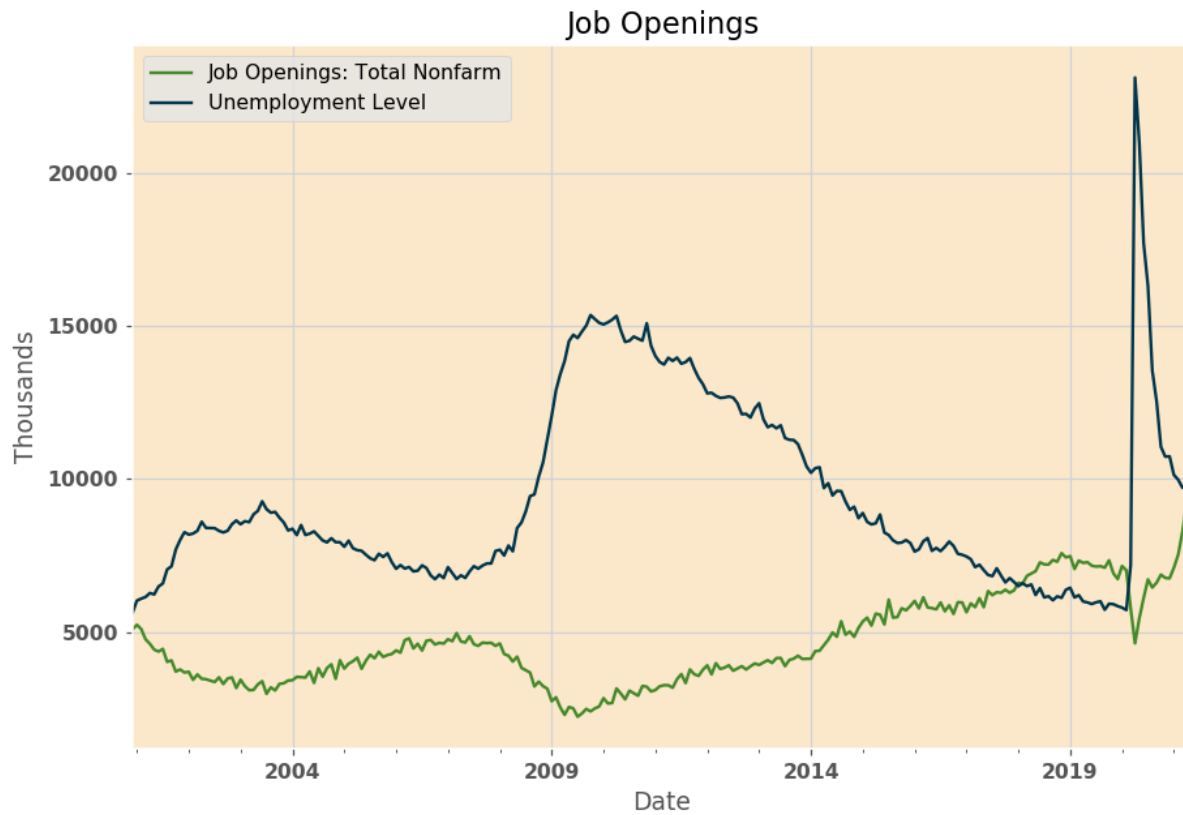
Headline Inflation- Year over Year



- Many fear that the Fed is stoking inflation by continuing to stimulate the bond markets on top of massive amounts of fiscal stimulus.
- Inflation appeared to peak in May with the CPI reading at 5.0%, and early June estimates falling to 4.1%.
- Used cars, appliances and building materials have all been driven up by short supply and an increase in demand.
- The market continues to debate whether this inflation is transitory or will cause long-lasting pressure in wages, which will eventually be pushed down to the consumer.
- Currently, there are more job openings than unemployed, leading many firms to offer signing bonuses to entice employees back to work.
- In addition, labor participation is still quite low, which caused unemployment to tick up as more workers returned to the search.

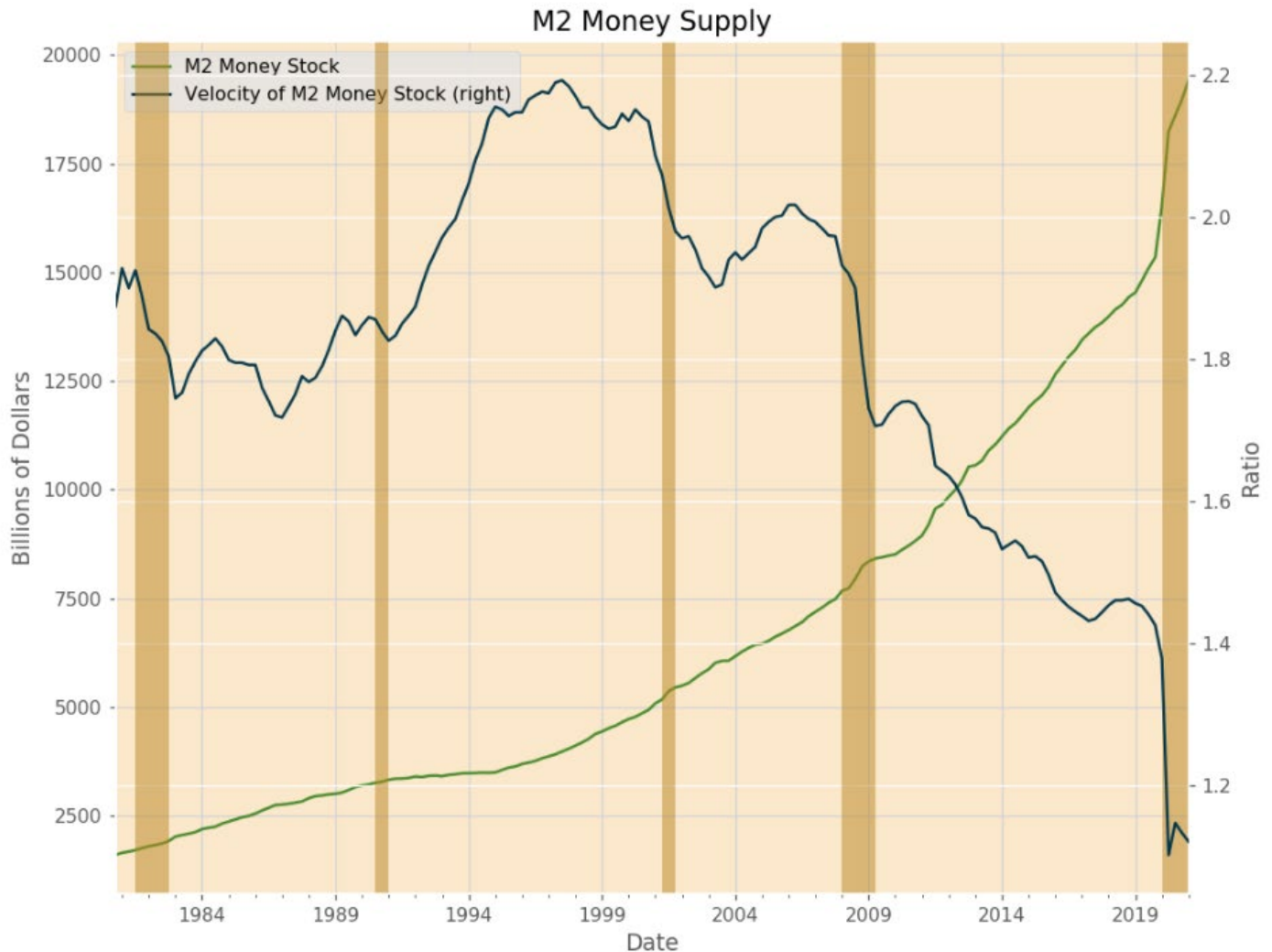
Source: Federal Reserve Economic Database

## WORKERS AND WAGES



Source: Federal Reserve Economic Database

## MONEY SUPPLY & INFLATION

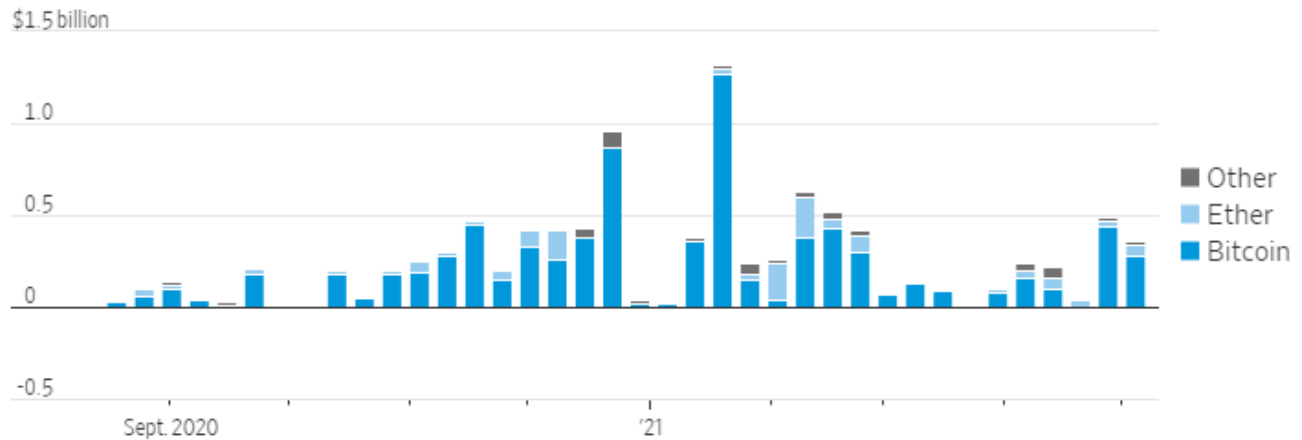


- The U.S. M2 Money Supply rose by \$524 billion in the first 2 months of 2021 reflecting a surge in stimulus checks.
- The year-on-year growth of money, reached an unprecedented 27.1% and has helped fuel asset inflation in equity and real estate markets.
- This has helped inflation expectations accelerate, which can be a self-fulfilling prophecy.
- An alternative argument, however, is that the increase in the money supply does not appear to be increasing the velocity of money.
- A decreasing velocity is actually a disinflationary signal, along with falling bond yields, which project slower future growth.

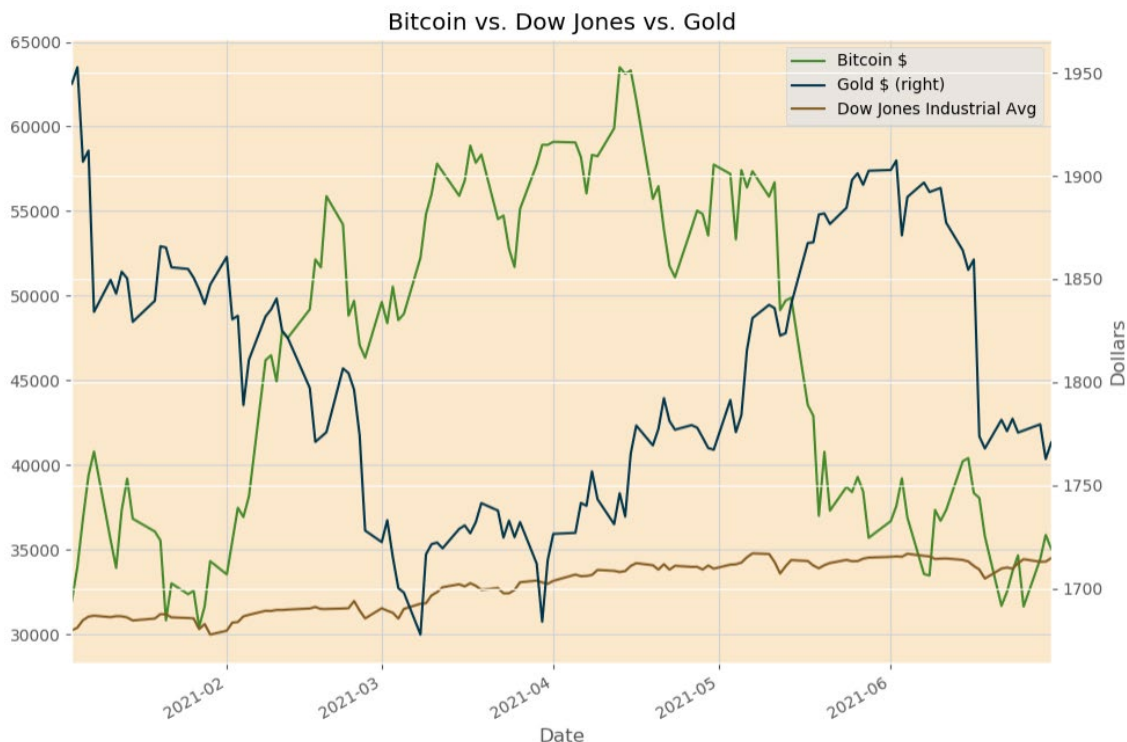
Source: Federal Reserve Economic Database

## THE RISE OF CRYPTO CURRENCY

Net flows into crypto exchange-traded products, weekly



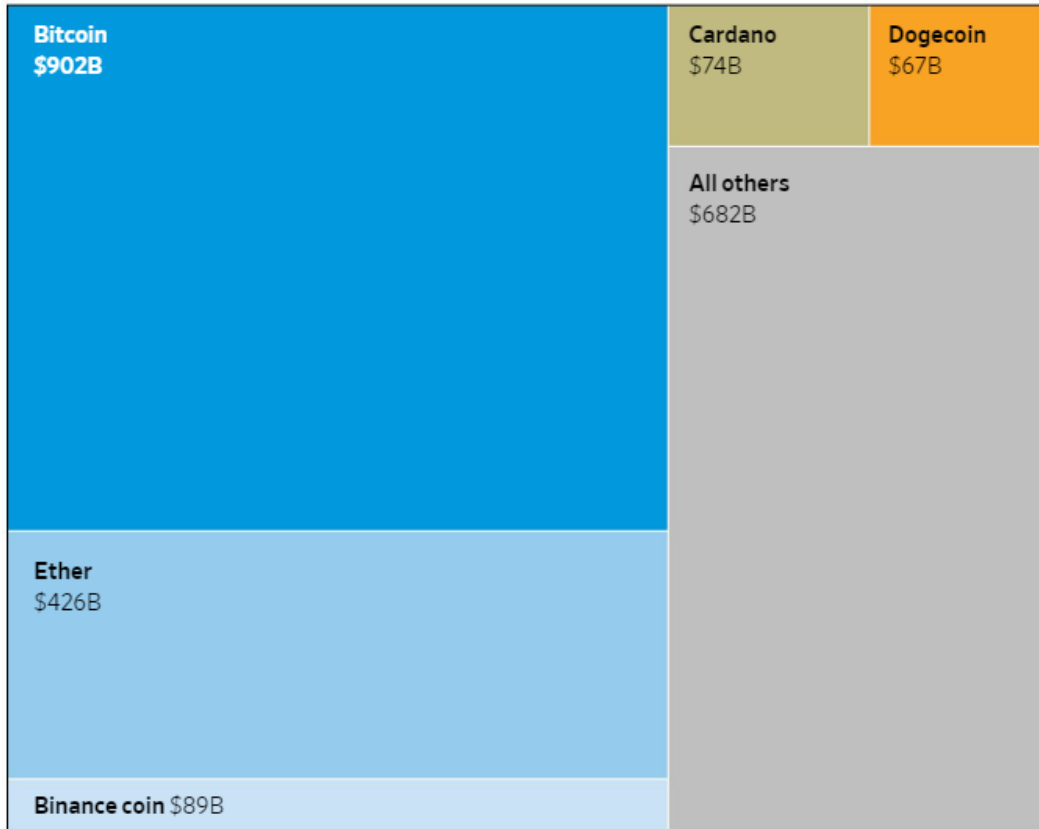
- Demand for crypto is certainly on the rise, as the asset class becomes easier to access via a variety of exchanges and apps.
- Net inflows in Bitcoin (the first and most popular of the cryptos) have been strong, especially in the 4<sup>th</sup> quarter of 2020 and the first quarter of 2021, sending prices to \$64,000+ only to plunge in Q2 by nearly half their peak value.
- Despite being compared to gold, Bitcoin has not proven to be a store of value and is most certainly more volatile.



Source: CoinMarketCap, BitinfoCharts, CoinShares

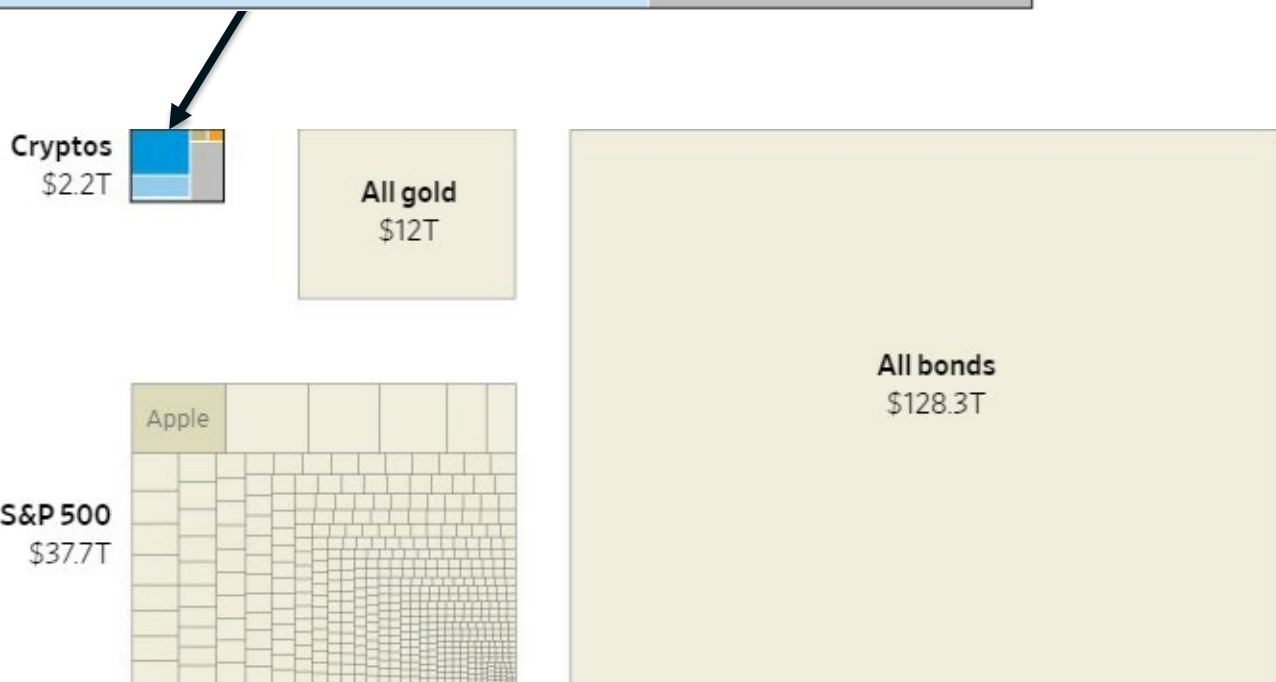
## ► CRYPTO CURRENCY IN PERSPECTIVE

TOTAL: \$2.2 TRILLION



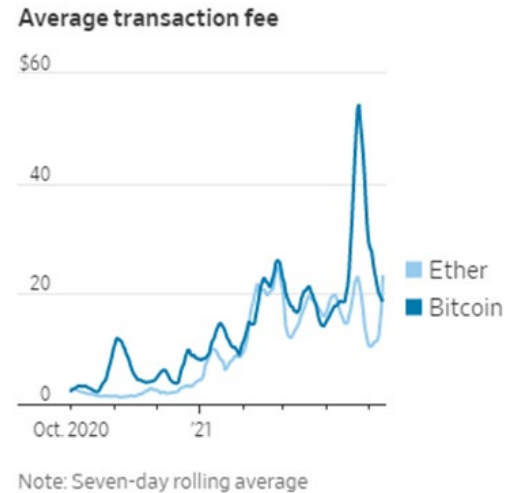
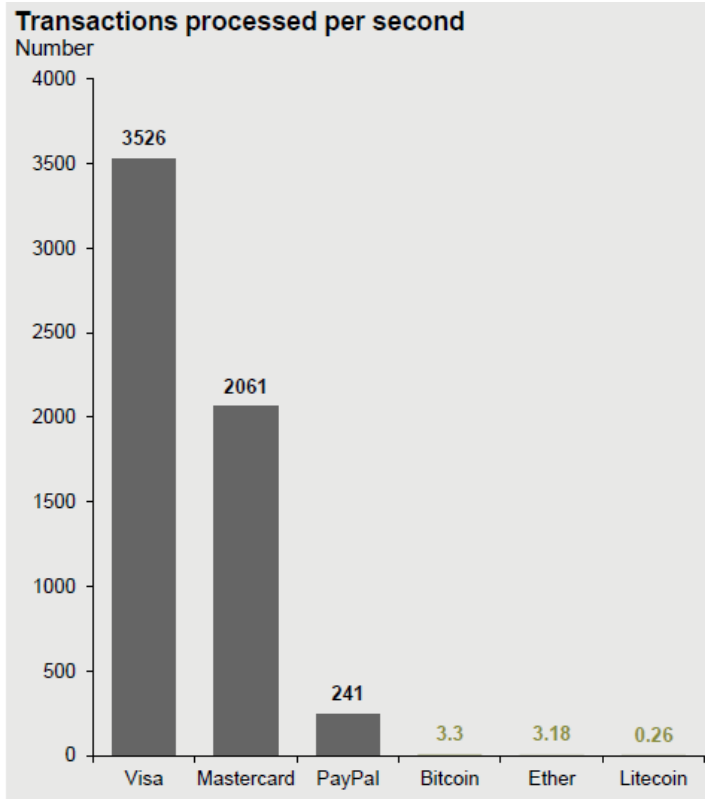
Despite all the publicity, crypto still makes up only \$2.2 trillion of the global marketplace, with Bitcoin making up the largest component.

As of January 2021, there were more than 4000 cryptocurrencies in existence, most of which have little following or trading.

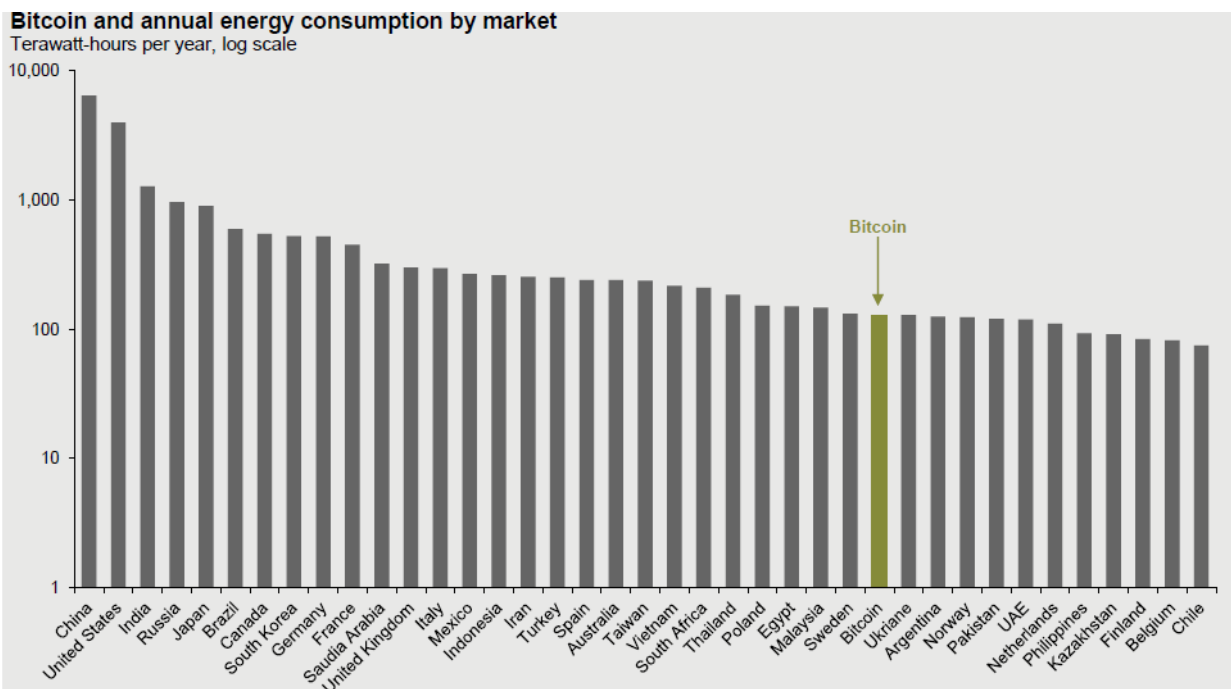


Source: CoinMarketCap; World Gold Council; FactSet; International Capital Markets Association

## UTILITY AND COST OF CRYPTO

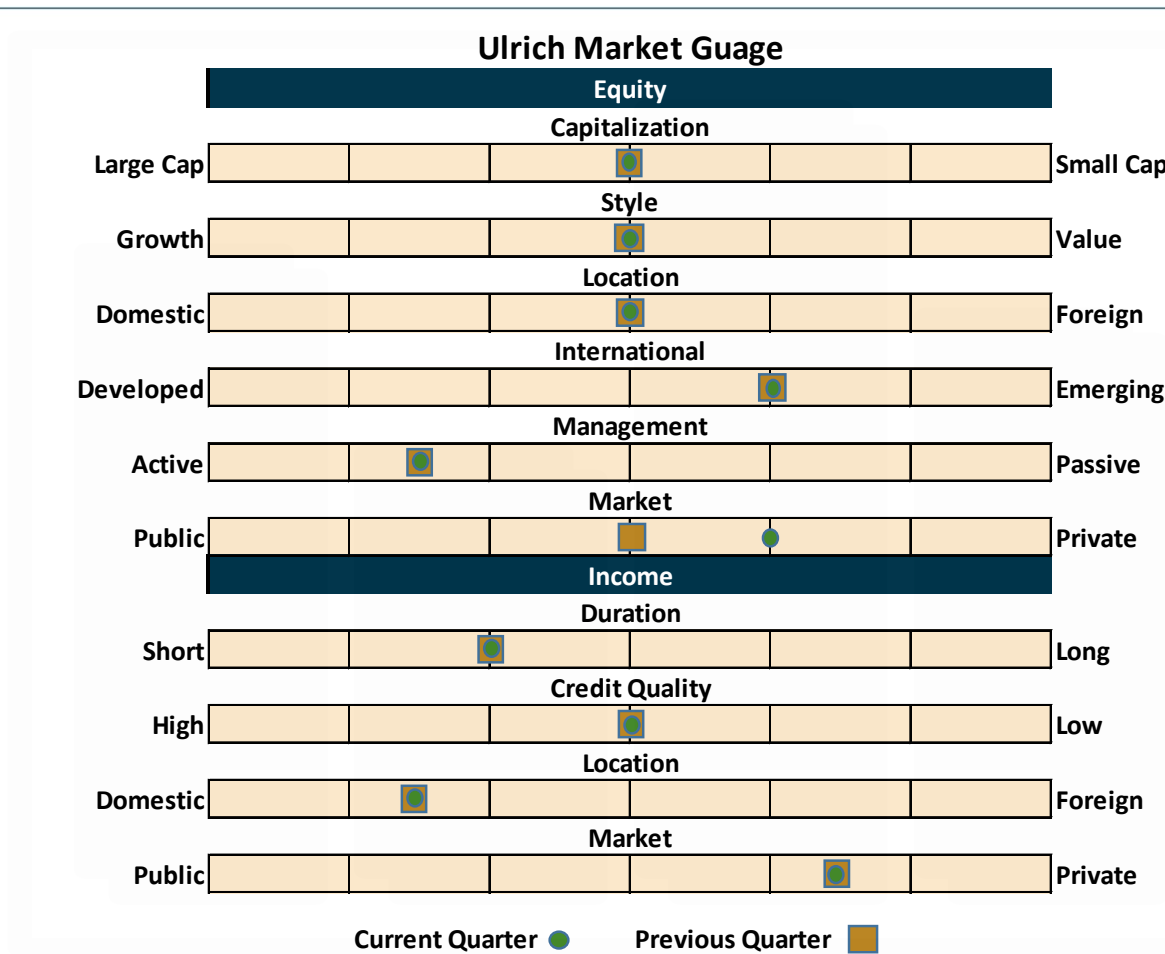


- Each Bitcoin becomes harder to mine, increasing the time and energy it takes to produce it.
- Ether is a much more efficient platform for transactions and therefore, more decentralized finance companies utilize it.



Source: JP Morgan

## SUMMARY AND OUTLOOK



- Despite the run up in markets, we still prefer equities to bonds given ultra-low interest rates, however, at this time, we do feel private equity markets may afford a more attractive risk-adjusted return and are exploring efficient ways for our client to gain access to the asset class.
  - We have reduced our overweight to domestic equities, as we believe a wider global recovery should begin to favor international stocks and the recent run-up in the US dollar could reverse due to our rising debt.
  - Emerging markets look more attractive compared to developed countries based on growth expectations and exposure to rising middle classes.
  - We have tilted market cap downward, which has also benefitted portfolios.
  - We have remained tactically tilted towards biotech, technology and innovation, and have added exposure to infrastructure, which should benefit from increased spending.
- We continue to diversify our income producing assets to provide a more attractive risk/return profile, including real estate, infrastructure, transportation and direct lending.

Source: Ulrich Investment Consultants