On the heels of a robust first quarter, global stock markets signaled investor optimism and exuberance with an even more profitable Q2, posting impressive gains across sectors, regions and factors; the rising tide truly lifting all boats. Enthusiasm surrounding the effectiveness of COVID vaccines and therefore a return to normalcy, continued monetary and fiscal stimulus and robust corporate earnings all contributed to the S&P 500 returning 8.55% for the quarter and 15.25% year-to-date. The bull market marches on and those on the sidelines are anxious of missing out.

A number of factors support the continued strength in the equity markets. A swift reopening of the US economy (and global economies, albeit more slowly), made possible by one of the fastest ever vaccine development and distribution programs, has turbocharged economic growth in the near-term and provided support for a labor market that, a little over a year ago, looked on the precipice of disaster. Similarly, consumer liquidity is abundant, with governmental pandemic relief programs propping up spending; consumer expenditures on housing, autos, discretionary items and now, even travel and dining, is flourishing. These trends have been reflected in corporate earnings for the first half of the year, with analysts predicting double digit earnings growth for Q2 and in to the second half of 2021. Equities have also been aided by messaging from the Federal Reserve maintaining its view of recent inflationary readings as transitory and indicating a firm commitment to its mandate of full employment.

Nonetheless, challenges remain. The emergence of the Delta variant of the coronavirus has many countries re-evaluating plans for the lifting of restrictions and it remains to be seen if the link between this more transmissible form of the virus and deaths/hospitalizations will be weakened by vaccination programs. It is possible that we will see a distinct bi-furcation of economic conditions going forward, split between those countries with successful vaccine rollouts and those, mostly emerging economies, with much lower vaccination rates. In addition, despite the Fed's commitment to the transitory narrative surrounding inflation, recent readings have shown a distinct uptick in inflationary pressure; companies are beginning to pass on some price increases to consumers and supply chains remain disrupted. It is more than likely that we may land in a middle ground of sorts, where inflation runs higher in the near-to-medium-term and the monetary policy response is more muted than in the past, but runaway inflation of the type seen in the 1970's is avoided. Nevertheless, central banks worldwide will have to carefully weight how accommodative they want to be in the face of sustained inflationary pressure and the removal of any support, especially unexpectedly, would have a pessimistic effect on equity markets.

Given the incredible performance of equity markets over the past year (and really five years, for that matter), it is reasonable to question the sustainability of valuations at current levels and to expect a drawdown in stocks, at some point. However, the unprecedented liquidity and monetary support presently provide a strong underpinning for valuations. We do not expect returns to continue at such a rapid pace, going forward, but we are optimistic that a disciplined, diversified and long-term approach will be rewarded.

As always, if you have any questions, please do not hesitate to contact us. We look forward to hearing from you and hope that you are enjoying your summer!

Prepared by Flagship Capital Management, Inc.
Flagship Corporate Center | 2. W. Baltimore Ave. | Suite 200 | Media, PA 19063
T 610.565.9580 | flagshipcap.com