STOKES CAPITAL
ADVISORS, LLC

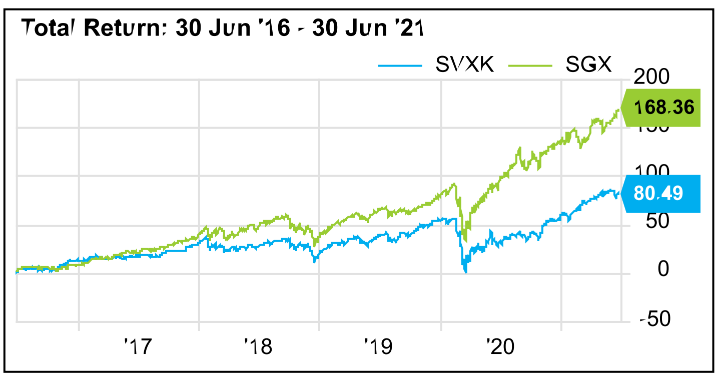
Market Commentary
June 30, 2021

Quarterly Market Review

Risk on! The battle cry for investors since April 2020, has propelled global equity markets to record highs as investors continue to find confidence in the recovery and policy makers provide unprecedented fiscal and monetary support. At quarter end, the S&P 500 closed at a record high of 4,297 for a 15% gain year to date and a 40% 1-year total return. By comparison, the broader bond market as measured by the Barclays Aggregate Bond Index, recorded a -1.6% decline year to date and is essentially flat from levels 1-year ago.

Bifurcating the S&P 500 between growth and value, the popular growth or momentum stocks, which have posted record outperformance relative to the broader market over the last 5 years paused year to date as value sectors like energy and financials outperform. However, on a cumulative total return basis, value trails growth by more than 88% over the last 5 years.

Style	***2021***	***2020***	***2019***	***2018***	***2017***
Growth	14.3%	33.4%	31.1%	-0.1%	27.4%
Value	16.3%	1.4%	31.9%	-8.9%	15.4%



Turning to the bond markets, investors continue to question the outlook for inflation and Federal Reserve policy. During the quarter, the yield on the benchmark 10-year Treasury reversed course and declined from 1.74% to 1.45%. In addition, the 10-year breakeven yield which is the 10-year Treasury less the 10-year Treasury Inflation Protected Security, declined to 2.26%. It appears the bond market, for the moment, is in alignment with the Federal Reserves' outlook that interest rates will remain lower for longer and inflation pressures are likely transitory.

Global Economic Outlook *

United States: We expect the pace of growth to slow in the second half in the U.S. though remain strong as positive health outcomes drive a broader reopening of the economy. Income support from enhanced unemployment insurance and fiscal stimulus is helping to drive spending in a second quarter in which growth could approach double digits. We continue to foresee full-year growth of at least 7%.

Eurozone: Following a pandemic-induced double-dip recession in the euro area, high-frequency indicators point to a substantial bounce-back in the second and third quarters. Euro area growth will be driven by a rebound in consumption as restrictions on activity are gradually lifted. We foresee full-year growth around 5% and GDP reaching its pre-pandemic level in the first half of 2022.

China: Recent data reveal a slower-than-expected economic rebalancing in China, leading us to cut its full-year growth forecast from 9% to just above 8.5%. The pace of growth in both exports and investment moderated, as expected, as the government reined in infrastructure and property investment, and as the reopening of economies around the world cut into COVID-19-related exports. Consumption growth, as measured by retail sales, was weaker than expected at 12.6% in May compared with a year earlier.

Emerging markets: We continue to foresee full-year growth above 6% in emerging markets. We are watching virus developments in emerging Asia, where we expect full-year growth above 8%. Recent elections and polls around forthcoming elections are revealing concerns about slow growth and pandemic management in Latin America.

Three Key Factors for Markets *

Strengthening Demand Boosts Inflation:

Inflation figures have risen sharply recently in the United States, a function of strengthening demand for goods and services as vaccination rates increase and the economy more fully reopens. Supply hiccups in certain industries have contributed as well. We continue to see supply-and-demand elements driving the price rises as transitory and expect headline and core inflation figures above the Fed's

2% target in the medium term, with price rises moderating toward the end of the year, leaving our monetary policy forecast intact. Investors should watch the core Personal Consumption Expenditures Price Index (PCE) most closely, as it is also the Fed's preferred measure for evaluating inflation in its assessment of monetary policy.

Fed Foresees an Earlier Rate Increase:

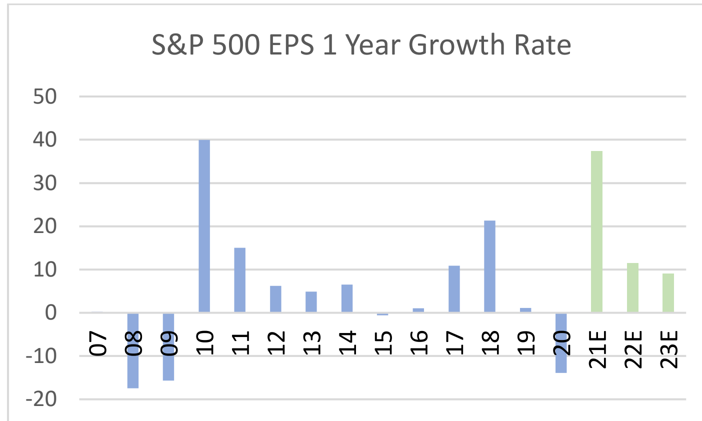
The U.S. Federal Open Market Committee (FOMC) voted on June 16 to leave the target range for its federal funds rate unchanged at 0%–0.25% and its bond-buying program unchanged. A survey of FOMC members, however, suggested the Fed now foresees the timing of its first post-pandemic rate hikes in 2023, rather than in 2024 as per the previous survey, in March. Fed Chair Jerome Powell said in a news conference after the announcement that it was time to retire the oft-used phrase that it was "too early to talk about talking about" slowing the pace of the Fed's asset-purchase program. The Fed's current plan calls for the purchase of at least $80 billion of Treasury securities and at least $40 billion of agency mortgage-backed securities per month. We expect central banks, in our base-case "reflation" scenario, to slow and eventually stop their purchases of government bonds, allowing the size of their balance sheets as a percentage of GDP to fall back toward pre-pandemic levels. We do not expect shrinking central bank balance sheets to place meaningful upward pressure on yields. We expect higher policy rates and smaller central bank balance sheets to cause only a modest lift in yields.

A Gradual U.S. Jobs Recovery Continues:

Employment gains in May fell short of estimates for a second straight month as momentum slowed in the leisure and hospitality sector, suggesting labor supply constraints, cautious employers, or both. The Bureau of Labor Statistics' JOLTS report (Job Openings and Labor Turnover Summary) on June 8 revealed there were a record 9.3 million job openings in the United States in April and 6.1 million new hires, for a gap of a record 3.2 million. We expect the most robust job growth numbers of the economic recovery to emerge in the third quarter, as virus fears abate, child-care difficulties ease, and supplemental unemployment insurance expires in several states. We foresee the U.S. unemployment rate falling back toward 4% by year's end.

Investment Strategy & Outlook

With the recovery underway and no likely change on the fiscal or monetary policy front, the next hurdle for investors may be earnings. The S&P 500, according to analyst consensus, is estimated to grow Q2 earnings by more than 50% from levels recorded 1-year ago. Keep in mind, this is coming off an already impressive Q1 result of 52%. For 2021, analysts estimate the S&P 500 will generate $189/share which would be a 37% increase from the COIVD ravaged 2020 earnings of $138/share. By comparison, S&P 500 earnings grew 40% coming out of the 2008-2009 Financial Crisis and moderated in the years after. Analysts are predicted a similar path going forward.



In terms of valuation, the S&P 500 is trading at 23 times 2021 earnings and 20 times 2022 earnings. By comparison, the average PE multiple for the last 15 years was 15 times. For equities to remain at such elevated valuations, earnings growth will need to remain above trend, inflation must moderate, and interest rates remain artificially low.

Performance Scorecard

Benchmark Description	Q2	YTD	1 Year
U.S. Treasury 3 Month T-Bill	0.00%	0.03%	0.09%
Barclays Aggregate Bond Index	1.83%	-1.60%	-0.33%
Barclays US High Yield Corp Bond	2.74%	3.62%	15.67%
S&P 500 Index Total Return	8.55%	15.25%	40.79%
NASDAQ Composite TR	9.68%	12.92%	45.23%
NASDAQ Dividend Achievers TR	5.71%	10.53%	34.37%
Russell 2000 Index TR	4.29%	17.54%	62.03%
Alerian MLP Index TR	21.23%	47.84%	63.98%
U.K. FTSE 100 Index LC	5.66%	10.91%	21.45%
German DAX Index LC	3.48%	13.21%	26.16%
China SCI 300 Index LC	4.27%	1.01%	27.72%
Japan Nikkei 225 Index LC	-0.33%	5.77%	31.26%
MSCI Emerging Markets USD	3.90%	8.08%	36.50%