SPECTRUM
STRATEGIC CAPITAL MANAGEMENT, LLC

Website

Account Access

Performance Reports

Q2 2021 Newsletter | Jeff Griggs, CFA

Due to the wide range of risk tolerances of our clients, some topics or asset classes may have more, less, or no importance to your portfolio. For a detailed analysis, give us a call, or request a detailed performance review.

Big Picture

With the first quarter of 2021 in the rearview, we are in the midst of a significant transition to a post-covid economy. The vaccine rollout is well underway with close to 200 million doses administered in the US, and most states have opened vaccine eligibility to the general public. Global new cases remain near all-time highs, but we are seeing a light at the end of the tunnel as we move closer to herd immunity as a planet. JP Morgan puts the required percentage of "immune" (either through vaccination or infection) individuals in a population between 60-80% to achieve herd immunity. They estimate we are currently at 55% and will be at 85% by the end of the second quarter. It is hard to understate how the pandemic, that has claimed over 3 million lives (580k in the US alone), has disrupted our lives, our families, and our economies and while many of the effects will be long-lasting or permanent, in terms of capital markets we are well on our way to a post-covid world. The implications of which are hard to measure, and while the economic data often does not jive with what we see in our communities, the data suggests we are poised to come out of this pandemic with a shockingly strong economy.

Looking Ahead

President Biden has proposed a massive $2.3T infrastructure plan, dubbed the American Jobs Plan, that could have major implications for the US Stock market. The negotiations will likely dominate financial headlines for months to come. If a bill passes, it will likely look significantly different than the current proposal, and when it might get passed is anyone's guess. Even less predictable is the future of Biden's second large proposal, the American Families Plan which is expected to include another $1T in new spending and $500B in tax credits. While the American Jobs Plan calls to revamp roads, bridges, airports, etc. The American Families Plan aims to expand childcare, paid leave, pre-K education, and tax credits for families. Both bills are likely to significantly contribute to economic growth.

However, both include significant tax raises for corporations and wealthy individuals. President Biden plans to fund a portion of this spending by raising the corporate tax rate from 21% to 28%, the top marginal tax bracket on individuals from 37% to 39.6%, discouraging overseas tax havens with a form of a 21% global income tax (GILTI), and taxing long-term capital gains at the ordinary income rate (for those earning over $1M). So far, the market has seemed to ignore the threat of tax increases, but the market also failed to react to the tax cuts under Trump until just a month before they were passed. The market is always forward-looking, but investors may be waiting for more clarity before fully pricing in the impact of the massive spending and tax bills proposed. At the end of the first quarter the forward P/E on the S&P 500 was 21.9x, far above the 25yr average of 16.64x. History suggests a negative correlation between the P/E ratio and future returns. At this level the historical 5yr return is about 0%. However, the historical relationships we've seen in the past may not be relevant to the future. With that said, high expectations plant the seed for high error and earnings are expected to end 2021 with a whopping 10% growth rate.

On the Fridge

US Equities

With arms getting jabbed, States reopening, stimulus checks, and an ambitious infrastructure bill, US equities beat all other asset classes growing 5.5% in the first quarter.

Energy Sector

The Energy sector continued its climb, returning 31% in the first quarter, after rising 28% in the fourth quarter of 2020. This impressive performance puts the Energy sector 24.3% higher than the next best sector (Financials) over the last 6 months. However, it remains the only sector with a negative annualized return over the last decade.

In the Dog House

Info Tech

For the first time in my recollection the Tech sector was among the worst performers in the quarter, rising only 2.0% beating only Staples (1.1%) for second to last place. A massive shift from growth to value took place during the quarter, lifting sectors like Financials (16%), and Industrials (11.4%) above the previously high-flying tech sector.

Corporate Bonds

Investment-grade corporate bonds fell –4.6% in the quarter, good for last place among the asset classes we track. Bonds were held back by rising rates as the 10yr rose from 0.92% to 1.74% during the quarter.

Links and Articles

Europe's Struggles With Vaccine Rollout
Britain and the EU point fingers at each other as Europe lags behind in vaccina-

Biden Plans Major Reboot for U.S. Wind
Federal Government to create a New Wind Energy Area offshore on the East Coast.

How mRNA Tech Could Change the World
The Atlantic outlines mRNA technology's potential far beyond COVID-19.

Unlocking the Covid Code
The New York Times outlines how advances in genetic sequencing are helping fight the virus.

SPECTRUM
STRATEGIC CAPITAL MANAGEMENT, LLC

4949 Meadows Road, Suite 475
Lake Oswego, OR 97035
Phone: (503)746-9666

SPECTRUM
STRATEGIC CAPITAL MANAGEMENT, LLC

Performance

After rising 31.5% in 2019 and 18.4% in 2020, the S&P 500 ended the first quarter up 6.17%. Bonds were clobbered as interest rates rose throughout the quarter. The 10yr treasury rose from 82bps at the start of the quarter to end at 1.74%, the highest level we've seen since the pandemic began. Government bonds fell -4.1%, while corporates fell -4.6%. International bonds fell -5.3%, accentuated by a rebound in dollar strength throughout the quarter. High-yield bonds actually managed to return 0.8% as the economy began to recover and oil prices rose. Meanwhile, equities rose alongside interest rates (which may seem counter-intuitive given recent history, but this does tend to occur until the 10yr reaches about 3.6%). Developed market equities rose 4.2%, while emerging markets returned 2.3%. Stocks rising is nothing new, but the quarter did represent a major shift in which stocks were rising. After being led largely by the tech sector and pandemic related industries, there was a strong shift from growth to value within the first quarter. The Russell 1000 Value index rose 11.25%, while the Russell 1000 Growth grew only 0.94%.

	2021 Q1	YTD	LTM	3yr	5yr	10yr
Cash	0.0%	0.0%	0.1%	0.0%	1.1%	0.6%
Fixed Income	-4.5%	-4.5%	4.7%	2.8%	2.7%	2.2%
Fixed Income Blend	-4.5%	-4.5%	4.7%	2.8%	2.7%	2.2%
Government	-4.1%	-4.1%	-4.3%	4.1%	2.3%	2.8%
Inflation Protected	-1.5%	-1.5%	7.5%	5.7%	3.9%	3.4%
Municipal	-0.4%	-0.4%	5.5%	4.9%	3.5%	4.5%
Floating Rate	0.0%	0.0%	0.3%	1.5%	1.3%	0.0%
Corporate	-4.6%	-4.6%	8.7%	6.2%	4.9%	5.0%
High Yield	0.8%	0.8%	23.7%	6.8%	8.1%	6.5%
International Bond	-5.3%	-5.3%	7.2%	1.1%	2.1%	1.3%
Equity	4.7%	4.7%	55.4%	12.7%	13.8%	9.7%
Equity Blend	4.7%	4.7%	55.4%	12.7%	13.8%	9.7%
US Equity	5.5%	5.5%	59.4%	17.4%	16.8%	14.1%
Developed Markets	4.2%	4.2%	46.5%	6.9%	9.5%	5.7%
Emerging/Frontier	2.3%	2.3%	59.0%	6.9%	12.5%	4.0%
Alternatives	2.2%	2.2%	15.2%	2.8%	3.0%	2.0%
Alternatives Blend	2.2%	2.2%	15.2%	2.8%	3.0%	2.0%

	2021 Q1	6mo	YTD	1yr	3yr	5yr	10yr
Information Technology	2.0%	14.0%	2.0%	66.7%	28.5%	27.6%	20.5%
Financials	16.0%	42.9%	16.0%	67.6%	9.8%	15.7%	12.1%
Health Care	3.2%	11.5%	3.2%	34.1%	15.1%	13.6%	15.6%
Consumer Discretionary	3.1%	11.4%	3.1%	70.4%	19.8%	17.9%	17.5%
Consumer Staples	1.1%	7.6%	1.1%	28.4%	12.1%	8.2%	11.6%
Industrials	11.4%	28.9%	11.4%	69.7%	12.1%	13.7%	12.2%
Energy	30.9%	67.2%	30.9%	75.2%	-5.5%	-0.7%	-1.6%
Utilities	2.8%	9.5%	2.8%	19.4%	12.0%	8.9%	11.3%
Materials	9.1%	24.9%	9.1%	78.4%	14.0%	14.3%	9.5%
Communication Services	8.1%	23.0%	8.1%	60.9%	18.8%	10.2%	10.4%
Real Estate	9.0%	14.4%	9.0%	32.1%	12.3%	8.1%	10.0%

Source: Morningstar; The 1,3,5, and 10 year performance is annualized.

Oil prices rose 22.6% in the quarter rocketing the energy sector to the top of the heap as it returned 31% . This is coming off of a 28% gain in the fourth quarter to put the energy sector firmly in the lead over the last six months. In fact, it has outperformed the next best sector (financials +42.9%) by over 24% in the last six months. Meanwhile, the shift from growth to value buoyed financials, industrials, and materials which rose 16%, 11.4%, and 9.1%, respectively. The red hot tech sector rose just 2%, while the consumer discretionary, staples, and healthcare sectors returned only 3.1%, 1.1%, and 3.2%, respectively.

SPECTRUM
STRATEGIC CAPITAL MANAGEMENT, LLC

April 2021 Q2 Newsletter

Disclosures: We cannot offer guarantees or promises that your financial goals and objectives will be met. Past performance is no guarantee of future results. This newsletter is being provided for informational purposes only and should not be considered investment advice, a solicitation of advisory services, or a recommendation to buy or sell any types of securities. No investment decisions should be made solely based on the information in this newsletter. There is a risk of loss when investing in securities, including the risk of loss of principal. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable or suitable for a particular investor's financial situation or risk tolerance. Asset allocation and portfolio diversification cannot assure or guarantee better performance and cannot eliminate the risk of investment losses. The opinions contained herein reflect Spectrum Strategic Capital's views as of the date of this newsletter and are subject to change without notice. Spectrum Strategic Capital obtained most of the information from third party sources, which are believed to be reliable but are not guaranteed. The links and articles provided in this newsletter are for convenience only and does not imply that Spectrum Strategic endorses, sponsors, or approves the content of the links and articles.

Asset Class	Benchmark	Description
Cash	**BBgBarc US Treasury Bill 1-3 Mon TR USD**	Measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.
Fixed Income	**BBgBarc Global Aggregate TR Hdg USD**	The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging market issuers.
Government Bonds	**BBgBarc US Government TR USD**	The Bloomberg Barclays US Government Bond Index comprises the US Treasury and US Agency indices. The index includes US Dollar-denominated, fixed-rate, nominal US Treasuries and US agency debentures (securities issued by US government owned or government sponsored entities, and debt explicitly guaranteed by the US government).
Inflation Protected	**BBgBarc US Treasury US TIPS TR USD**	The Bloomberg Barclays US Treasury Inflation-Linked Bond Index (Series-L) measures the performance of the US Treasury Inflation Protected Securities (TIPS) market.
Municipal	**BBgBarc Municipal TR USD**	The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.
Floating Rate	**BBgBarc US Trsy Floating Rate TR USD**	The Bloomberg Barclays US Treasury Floating Rate Index measures the performance of floating rate bonds issued by the US Treasury.
Corporate Bonds	**BBgBarc US Corp IG TR USD**	The Bloomberg Barclays US Corporate Bond index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
High Yield Bonds	**BBgBarc US Corporate High Yield TR USD**	The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.
International Bonds	**BBgBarc Gbl Agg Ex USD TR Hdg USD**	The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging market issuers. This version excludes USD-denominated debt.
Equity	**MSCI ACWI GR USD**	The MSCI ACWI captures large and mid cap representation across 23 Developed Markets and 23 Emerging Markets countries. With 2,477 constituents, the index covers approximately 85% of the global investable equity opportunity set.
US Equity	**MSCI USA GR USD**	Captures broad US equity coverage. The index includes 3,108 constituents across large, mid, small, and micro capitalizations, representing about 99% of the US equity universe.
Developed Market Equity	**MSCI World ex USA GR USD**	Captures large and mid cap representation across 22 of 23 Developed Market countries, excluding the United States. With 1,023 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.
Emerging Market Equity	**MSCI EM GR USD**	The MSCI Emerging Markets Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 829 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.
Alternatives	**Wilshire Liquid Alternatives TR USD**	Measures the collective performance of the five Wilshire Liquid Alternative strategies that make up the Wilshire Liquid Alternative Universe, including the Wilshire Liquid Alternative Equity Hedge, Global Macro, Relative Value, Multi-Strategy, and Event Driven indices. This index is meant to provide a representative baseline for how the liquid alternative investment category performed as a whole. Constituents comprised of '40 Act mutual funds.
US Large Cap Equity	**S&P 500**	Widely regarded as the best gauge of large-cap US Equities. The S&P 500 is a market-weighted index that includes 500 leading companies and captures approximately 80% coverage of available market capitalization.