CUMBERLAND

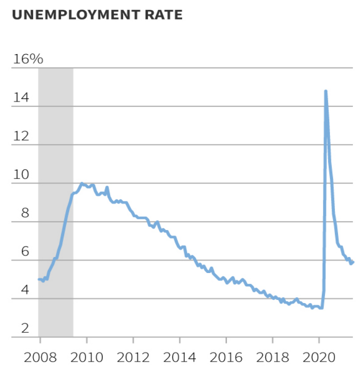
Private Wealth

Second Quarter 2021 Review

GLOBAL EQUITY AND INTERNATIONAL STRATEGIES

Global stock markets continued to rise during the second quarter with the S&P 500 increasing by 8.2% and the MSCI World Index rising by 7.3%. On a year-to-date basis the S&P 500 is up 14.4% and the MSCI World Index is up 12.2%. The year-to-date return for the S&P 500 is the 2nd best first-half performance since 1998. The best first half return since 1998 was generated in 2019 when the S&P 500 increased by 17.4% in the first six months of the year. The robust stock market returns of the last six months have been driven by strong economic data as the global economy continues to reopen helped by COVID-19 vaccinations and trillions of dollars of fiscal stimulus. The handsome year-to-date gains are on top of the attractive gains that have been generated since the market bottomed in March of 2020 with the S&P 500 and the MSCI World Index both up more than 80% over the last 15 months.

The global economic recovery is most obvious in the United States where the vaccine rollout is at an advanced stage. The U.S. economy is red hot, jobs are being added at a strong pace, and U.S. consumer confidence recently hit its highest point since the pandemic. The recent jobs report provides more evidence that the US economy is recovering. For the month of June, nonfarm payrolls in the U.S. increased to 850,000, which was ahead of the consensus estimate of 720,000 jobs. The latest increase in jobs was powered by a big jump in leisure and hospitality positions as the economy continues to reopen following pandemic-related restrictions. As economic data continues to improve, economists have increased their estimates for U.S. GDP growth to approximately 7% for 2021. The strong economic recovery has led to a sharp reduction in the unemployment rate. As seen in the chart, the unemployment rate in the U.S. has fallen to 5.9%, which is down from a peak of 14.8% in April of 2020.



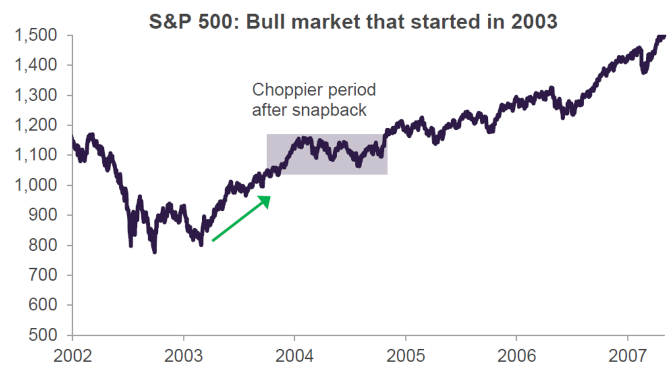
https://www.reuters.com/business/us-job-growth-picks-up-june-unemployment-rate-rises-59-2021-07-02/

In addition to strong economic data, the largest vaccine rollout in history is underway. On a global basis, more than 3.2 billion doses have been administered across 180 countries, according to data collected by Bloomberg. The United States is one of the countries that is furthest along in the vaccination process. More than 330 million doses have been given in the U.S. so far and nearly 1 million doses per day have been administered in recent weeks. Approximately 182 million Americans have received at least one dose of a vaccine, which represents roughly 71% of the adult population. While this is very good news for the U.S., it should also be viewed as good news for the rest of the world because once the U.S. has been fully vaccinated, vaccines will be redirected to other regions around the world.

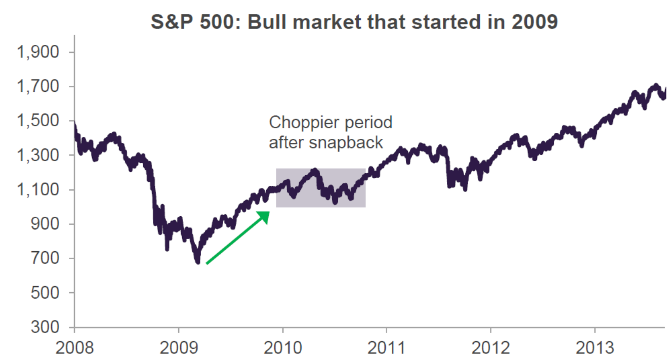
Outlook for Second Half of 2021:

The last 15 months have been very generous to global equity markets but what should investors expect going forward? While we anticipate on an ongoing recovery for the global economy and believe that we remain in a secular bull market, we are mindful of the risks. A period of market consolidation, inflationary pressures, and new COVID variants represent the key risks.

In terms of stock market consolidation, this is very typical at this stage of an economic recovery. As we look forward, we believe that rising inflation will cause bond yields to move higher. This will eventually be followed by interest rate hikes from central banks around the world. Given this backdrop we could experience increased volatility in the stock market. Looking back at previous market cycles can provide some context. In both 2003 and 2009, the S&P 500 generated substantial gains as the economy exited the recession. After the large snapback rallies, the S&P 500 moved to a choppier phase in 2004 and 2010 as seen in the charts below.



Data Source: Truist IAG, FactSet. Past performance does not guarantee future results



Data Source: Truist IAG, FactSet. Past performance does not guarantee future results

2004 and 2010 marked the second years of those respective bull markets. Despite the choppiness that ensued in 2004 and 2010, the bull market in both time periods still had several years remaining.

In terms of inflation, the key question is whether it will be persistent or whether it will be more transitory in nature. While inflation is likely to remain elevated in the near term, we believe that inflationary pressures will eventually subside. From our perspective, the recent uptick in inflation is largely driven by transitory disruptions that have occurred across various supply chains. These supply chain shocks are an outcome of several factors that can be tied to the COVID-19 pandemic. In the early stages of the pandemic, there was a series of shutdowns that affected businesses across a wide range of industries. These shutdowns were made due to concerns about falling demand and the implementation of public safety measures to contain the spread of the COVID virus. In hindsight, the magnitude of the shutdowns proved to be far too pessimistic. The shutdowns significantly underestimated the speed at which vaccines would get approved and the resulting rebound in demand. As a result of this, the demand side of the economy has rebounded faster than expected and the supply side of the economy has not been able to ramp up production fast enough to satisfy this demand. This helps to explain why we are now experiencing a spike in inflation. In the short-term, inflation could remain elevated as these supply chain issues are resolved. Taking a longer-term view, we believe there are several secular trends that exist in the world today that will keep inflation under control. Technology is at the forefront of these trends and it acts as a counter-inflationary force for the global economy in several ways. Automation and robotics on the factory floor have improved productivity and lowered the cost of manufacturing. The rise of Ecommerce and the Internet has led to greater price transparency. This has resulted in greater price competition and has squeezed out high-cost producers across several global industries.

The other key risk is the potential for new COVID variants such as the delta variant which is now spreading across different parts of the world. The main risk with variants is whether the currently approved vaccines will be effective against new variants that emerge over time. Thus far, we have not seen anything to suggest that the vaccines are not effective against the new variants. Based on what we have heard so far, it appears that the delta variant is spreading much more quickly in parts of the world that have low vaccination rates. While we continue to monitor the potential for new variants, we believe this risk is manageable.

So how should investors position their portfolios given the current backdrop? We believe that investing in high quality companies is the best way to protect our portfolios given the potential for higher inflation and increased volatility. High quality companies are characterized by strong pricing power and very stable cash flow generation. These types of companies will be well positioned as they can pass along rising input costs and will also be insulated from the impact of higher interest payments associated with rising interest rates. While we expect stock market gains to moderate from the robust pace of the last 15 months, we do believe that we remain in a secular bull market and that are our portfolios are well positioned for the current environment.

Phil D'Iorio
Lead Manager,
Cumberland* Global and International Equities
July 6, 2021

*Cumberland refers to Cumberland Private Wealth Management Inc. (CPWM) and Cumberland Investment Counsel Inc. (CIC). CIC acts as sub-advisor to certain CPWM investment mandates including the CPWM Global and International mandates with Phil D'Iorio as its lead Portfolio Manager. Phil D'Iorio is a Portfolio Manager at CIC.