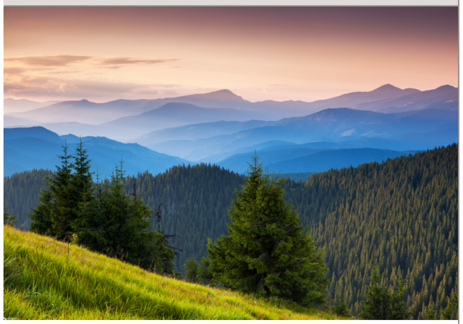
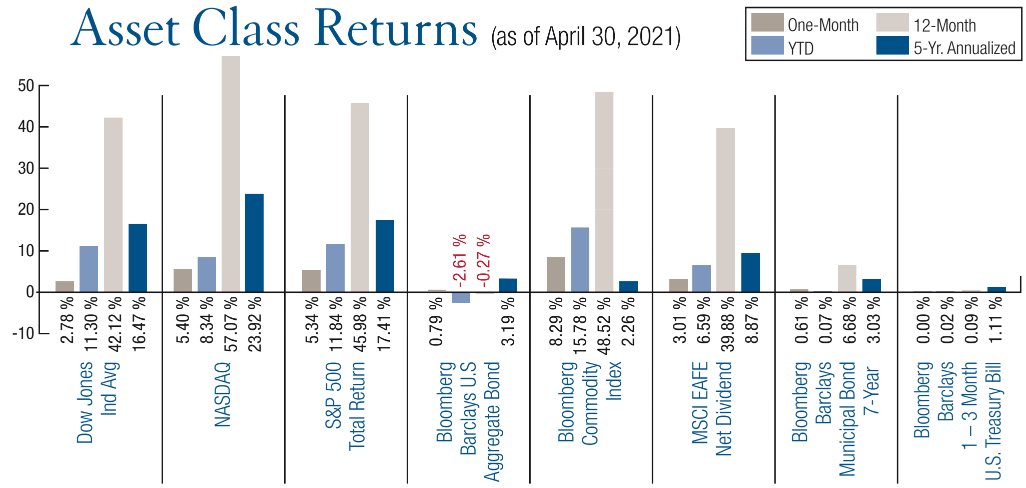
RAYMOND JAMES® market update

From the Office of Jeff Sgroi, CFP®



"Our flag does not fly because the wind moves it. It flies with the last breath of each soldier who died protecting it."

– *Unknown*



Material prepared by Raymond James for use by its Financial Advisors

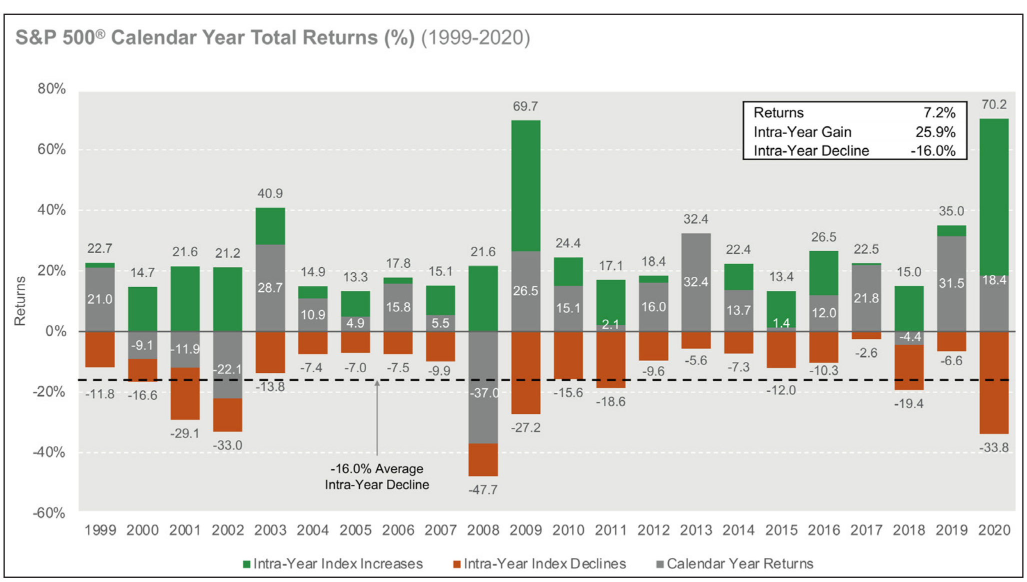
Market & Economic Synopsis

- The wild ride of Cryptocurrencies continues as benchmark Bitcoin slips from the recent high of $64,000 and value is cut in half.
- Gap closes on bipartisan infrastructure bill as Republicans counter Democrat's proposal of $1.7T with $900B offer.
- The rally of U.S. equity markets continues as Dow Jones Industrial Average breaks 35,000 barrier.
- Inflation discussion considers longevity of bloated prices. Meanwhile, higher lumber, grocery and fuel prices pinch consumers' wallets.
- COVID vaccinations widespread throughout the United States, while Australian states initiate lockdowns due to rising cases.
- ESG (environment, social, governance) investing continues to gather momentum as two Exxon Mobil board seats shift to climate activists.
- Jobless claims fall for fourth straight week and to a pandemic-era low as economy continues to reopen.
- Technology- and growth-focused companies take a breather from this year's market rally as value and dividend-paying companies that underperformed in 2020 drive 2021 market performance.

Market Perspective

As a data and numbers junkie, it is genuinely enjoyable to collect and review all of the information I receive on an ongoing basis. Some of the charts we study include the same metrics year after year, but with updated data points. Two of my favorite charts to review annually are below and on the next page.

This chart shows over 20 years of the S&P 500, and its intra-year moves. There are a few key takeaways from this chart; however, please be mindful that the chart is demonstrating a 100% equities-based allocation.



Source: FactSet, S&P Dow Jones Indices.

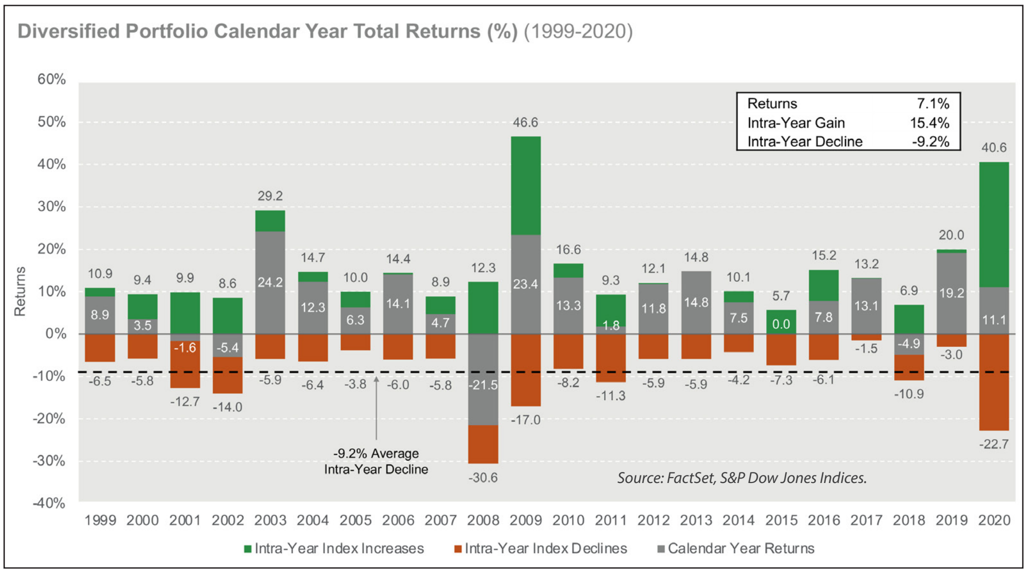
At first look, the wide swings within most calendar years are very apparent, if not alarming. Outliers include 2009 and 2020, where the delta between intra-year increases and decreases was approximately 100%. Years with less intra-year movement include 2004, 2005, and 2017. Still, those three years had an intra-year increase-to-decrease gap in excess of 30%.

Secondly, most all of the calendar-year returns finished somewhere between intra-year highs and lows. The conclusion to draw is to maintain some level of composure when markets are at either end of extreme levels within any year. In most cases, there will be a reversion to the mean.

Additionally, the intra-year decline averages –16.0%. If nothing else, this is a reminder that investing is not for the faint-of-heart. We need to expect down periods (and occasionally significant ones, at that) to occur every year. It is the norm.

But finally, on a positive note, there has typically been a positive result by year end. In 17 of the past 22 years, the S&P 500 turned out a positive calendar-year return.

The next chart shows the same metrics as those of the first chart (market returns over a 22-year time period), though the index is a diversified portfolio, comparable to a 60/40 equity/fixed-income allocation that most experts consider a balanced strategy. There are also a few talking points to glean from this data.



Source: FactSet, S&P Dow Jones Indices.

The intra-year gain and loss gap is significantly less with a diversified portfolio. Specifically, 2009 had the largest gap at 63.6% — still a significant move within the year, but much less so than a 100% equity-based allocation.

Average intra-year declines drop to 9.2% with a diversified portfolio. Again, a much lower number than the S&P 500 averages, though still enough to cause discomfort during those down stretches.

The deepest intra-year drop with a balanced strategy was back in 2008, at –30.6%. It was short lived, of course, as we saw the highest intra-year increase just one year later at 46.6%.

One of the most interesting pieces of information on this chart is the returns. The S&P 500 average from 1999–2020 is 7.2%. The balanced-portfolio average, over the same time period, is 7.1%.

On the surface, the takeaway may be that a diversified portfolio is a smoother ride than the S&P 500 in achieving comparable results, all else being equal. I believe if we look further into other market factors, including the interest-rate environment, equity valuations, political implications and more, it is reasonable to conclude the next 20 years will share some of what we have seen in the past, but not without some differences. For example, given that we are starting from a basis of historically low-interest rates, how much should we expect fixed income to participate in the next 20 years of investment returns? How will the ballooning federal deficit bite into the future economic growth of our nation? Should a 60/40 equity allocation be adjusted to a 70/30 allocation?

We look forward to addressing these and other questions with you.

From the Homefront

May is a heavy birthday month in our family, including Stella and the twins. Stella turned 11, and the twins turned eight. As Hannah often reminds Lily, Hannah is actually the older of the twins, albeit by two minutes!

We also celebrate and give thanks over Memorial Day. Much gratitude is due to those who gave the ultimate sacrifice so that we can enjoy the freedoms we do every day.

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