Prairie Wealth Advisors Insights – Winter 2021

By Craig Hundt Sr.

Dear Friends,

We hope that this letter finds you safe and healthy during these unprecedented times.

Markets staged a historic rebound in the second quarter driven by an initial peak in the growth of coronavirus infections in April; economic reopening's across the United States and the rest of the world, hopes for a COVID-19 vaccine, and continued stimulus from global central banks, including the Federal Reserve.

The end of the first quarter marked the lows for markets so far in 2020 as new coronavirus cases in the U.S. began to peak in mid-April thanks to the historic economic shutdown. That peak and initial decline in new COVID-19 cases throughout April gave investors and markets hope that the economic shutdown would not last into the summer and the S&P 500 rallied materially as a result, gaining over 12% in April.

The rebound continued in May, as the spread of the coronavirus continued to slow, paving the way for economic reopening's in the U.S and abroad. By the end of May, all 50 states had at least partially reopened their economies which led to a stronger-than-expected economic recovery. Meanwhile, markets were supported by continued economic stimulus from both the Federal government, via unemployment checks and "PPP loans" to businesses, and the Federal Reserve, via bond purchases. The S&P 500 rallied more than 4% in May, while the Nasdaq Composite turned positive for 2020—a development that seemed almost impossible during the depths of the March declines.

The major U.S. stock indices all enjoyed a strong rebound and substantial gains in the second quarter, as well as the start of the third quarter, and just like in the first quarter, the tech-heavy Nasdaq notably outperformed the other three major indices. In the most recent quarter, that outperformance was due to large-cap tech companies being viewed as the longer-term beneficiaries from changing work and shopping trends in response to the pandemic, specifically "work from home," cloud computing and online shopping.

By market capitalization, small caps outperformed large caps in the second quarter, and that is what we'd expect given that the market rally of the past three months was partially driven by a sooner-than-expected economic rebound, as small caps are historically more sensitive to changes in economic growth compared to large caps. From an investment style standpoint, growth substantially outperformed value, yet again, because of strength in large-cap tech.

On a sector level, performance was the opposite of the first quarter, as all 11 S&P 500 sectors finished the second quarter with positive returns. Traditionally defensive sectors, those that are less sensitive to changes in economic activity such as utilities, consumer staples, and healthcare, relatively underperformed after outperforming in the first quarter, and again that's historically typical when stock market gains are driven by expectations for improving economic growth.

Cyclical sectors, those that are more sensitive to changes in economic activity such as energy, consumer discretionary, and materials, outperformed in the second quarter along with the technology sector. Energy, the worst performing sector in the first quarter, was the best performing sector in the second quarter, thanks to a significant rebound in oil prices and growing expectations for a global economic recovery.

US Equity Indexes	**Q2 Return**	**YTD**
S&P 500	18.63%	-3.08%
DJ Industrial Average	16.33%	-8.43%
NASDAQ 100	29.07%	16.89%
S&P MidCap 400	22.59%	-13.01%
Russell 2000	24.87%	-12.98%

Source: YCharts

International markets also rallied in the second quarter as European and Asian economies re-opened, and those regions saw a consistent decline in new COVID 19 cases throughout the quarter. Emerging markets, whose economies are typically more sensitive to changes in expected global growth, modestly outperformed foreign developed markets and the S&P 500 thanks to a declining U.S. dollar paired with rising hope for a global economic rebound, following successful reopening's in Asia and parts of Europe.

International Equity Indexes	**Q2 Return**	**YTD**
MSCI EAFE TR USD (Foreign Developed)	15.16%	-11.07%
MSCI EM TR USD (Emerging Markets)	20.54%	-9.67%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	17.15%	-10.76%

Source: YCharts

Commodities also staged a large rebound in the second quarter as prices were driven higher by firming global growth expectations. Oil was historically volatile in the second quarter, with prices briefly turning negative in late April due to a short-term supply glut. But an extension to the unparalleled OPEC+ agreement to slash oil production, paired with evidence of returning consumer demand for refined products, sent oil sharply higher into the end of the second quarter. Gold, meanwhile, added to the gains of the first quarter thanks to a declining U.S. dollar, recovering inflation expectations and steady bond yields amid the historic global central bank stimulus.

Commodity Indexes	Q2 Return	YTD
S&P GSCI (Broad-Based Commodities)	10.86%	-36.31%
S&P GSCI Crude Oil	85.82%	-34.73%
GLD Gold Price	9.45%	17.12%

Source: YCharts/Koyfin.com

Looking Forward

What a difference a quarter can make. The past winter and spring made many feel as if the country was at the beginning of a long recession. With the dramatic rally of the stock markets many people feel a sense of relief.

But while we all welcome this progress, it would be a mistake to think uncertainty and market volatility are behind us.

The outlook for the spread of the coronavirus is still very unclear, as new cases hit record highs in late June, providing a somber signal that the virus will be with us, in one form or another, for some time to come.

Additionally, the fate of the historic stimulus enacted back in March remains uncertain as of this writing. Paycheck Protection Program loans, which provided critical assistance to small businesses over the past four months, may be no longer available while it remains unclear what will become of the federal unemployment benefits included in the CARES Act, as they were set to expire at the end of July. That federal stimulus played a critical role in the bigger-than-expected economic rebound witnessed in the second quarter, and without it, the economic outlook will become increasingly uncertain.

Regarding the economy, while progress has been better-than-expected, it is important to remember that the current level of economic activity remains far below the levels of a year ago. Despite the gains seen in the second quarter, there remains a long road ahead for the U.S. economy to return to pre-pandemic levels.

Politically, markets have largely ignored the looming presidential election so far this year, but that's likely to change in the coming months, and it's reasonable to assume the outlook for the election will begin to influence not just specific sectors, but also the broad markets during the third quarter.

Finally, while essential to the economic recovery so far in 2020, the historic government stimulus unleashed on the U.S. economy has also resulted in an explosion of debt and surging deficits, and we all know over the longer term, this trajectory is not sustainable and that is something we are mindful of as we craft long-term investment plans.

So, as we head out of summer and into fall, there has been a lot of progress on the economic and biological fronts, but a lot of uncertainty remains. At Prairie Wealth Advisors, we understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment.

Therefore, keeping us aware of any changes to your financial planning is important, so please let us know in advance if you anticipate needing to make any adjustments to your current situation.

Finally, we thank you for your ongoing confidence and trust and please rest assured that our entire team will remain dedicated to helping you in any way we can.

Best Regards,

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