



2021 Mid-Year Commentary

The global economic recovery continues, as the vaccine rollout has shown global progress for both public health and the economy; but risks still remain on the road to full recovery.

The more contagious Delta variant of Covid-19 raises concerns that a return to a normal path may have more speedbumps than previously expected; especially when factoring in labor and supply shortages, as well as additional signs that inflationary pressures are broadening across the economy.

Market Overview

Growth vs. Value

Over the past few months the US 10-year Treasury yield continued its recent decline, falling below 1.2% in July. Equity growth stocks have been the beneficiary of declining yields, recently outperforming their value style, economically sensitive, counterparts.

The recent popularity of growth style investments, partially driven by the Federal Reserve's relatively more hawkish tone since June, is a reversal of the rotation into cyclical value style equities seen earlier this year.

We expect this growth vs. value see-saw trend to continue in the short term, as it is typically symptomatic of vacillating expectations regarding inflation.

Domestic vs. International

On a regional basis, the US market remains strong when compared to international peers.

Emerging market equities have lagged, dragged down by slower vaccine rollouts and weak performance from China; where announcements of tighter regulation for several sectors triggered a sharp decline in investment value.

We remain underweight to neutral on emerging market equities and employ a greater degree of caution when considering investments in China. Coupled with renewed government upheaval, leading indicators in China, the world's second largest economy, have fallen for eleven months in a row in the latest sign that the recovery may be losing steam.



Looking Ahead

Our team continues to monitor risks to both economic growth and equity market strength. Including geopolitical tensions, the path for interest rates and quantitative easing, supply chain disruptions, labor shortages, wage inflation, global recovery from Covid-19, and possible changes to tax policy that may become a volatility trigger as lawmakers debate proposals.

While we believe economic and corporate fundamentals will continue to improve in 2021, we are watching closely for signs that any of these inflationary forces prove more permanent and potentially compress corporate profit margins and reduce consumer spending.

Investment Strategy & Portfolio Considerations

During the 1st half of 2021, our Investment Committee made small adjustments, but no significant changes, to the firm's asset allocations.

However, we did prudently rebalance client portfolios in custom, thoughtful, incremental steps in accordance with the style, risk, and financial objectives for each individual strategy.

We continue to favor equities over bonds. Our equity strategy remains focused on quality companies with strong balance sheets, high free cash flow generation, and capital flexibility.

Our fixed income allocation leans towards investment grade credit, municipals, and core intermediate vs. long-term to retain a shorter duration bias; to potentially mitigate future volatility.

The Fed's actions and communications become even more important for the assessment of portfolio allocations, financial conditions and the outlook for inflation, as investors look for any signals that the Fed may be closer to either raising rates or begin pulling back on its large bond purchases.



Navigating Portfolio Opportunities

We are mindful that quality cyclical and well funded momentum type investments have appreciation potential, and we will continue identifying attractive evolving opportunities into investments with longer-term secular growth trends; such as quality investments that may benefit from a potential increase in infrastructure spending and activity in the United States.

However, we are not making wholesale changes to portfolio holdings. We remain committed to identifying viable, quality, long-term investment opportunities; creating a custom portfolio of investments for each client's individual strategy.

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The main risks of international investing are currency fluctuations, differences in accounting methods; foreign taxation; economic, political or financial instability; lack of timely or reliable information; or unfavorable political or legal developments.

Emerging market investments may involve higher risks than investments from developed countries and also involve increased risks due to differences in accounting methods, foreign taxation, political instability, and currency fluctuation.

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