Monthly Commentary Report

July 1, 2021

ASTORIA PortfolioAdvisors

Index/ETF	1-Mo	YTD	1-Y
Equities			
US Growth (QQQ)	6.26%	13.24%	43.96%
US Large-Caps (SPY)	2.25%	15.25%	40.90%
China (MCHI)	0.95%	2.04%	27.20%
Broad-based Emerging Markets (EEM)	0.95%	7.20%	39.95%
US Small-Caps (SPSM)	0.21%	23.39%	67.35%
US Mid-Caps (SPMD)	-1.04%	17.58%	53.08%
US Value (IVE)	-1.13%	16.30%	39.47%
International Developed Equities (IEFA)	-1.14%	9.89%	34.03%
US Bonds			
Investment Grade Corporate Bonds (LQD)	2.21%	-1.96%	2.20%
High Yield Credit (HYG)	1.32%	2.60%	12.95%
US Treasury 7-10 Year (IEF)	1.02%	-3.47%	-4.52%
US Aggregate Bond Index (AGG)	0.83%	-1.66%	-0.55%
Treasury Inflation Protected Notes (TIP)	0.72%	1.47%	6.05%
Municipal Bonds (MUB)	0.35%	0.79%	3.58%
Commodities			
Crude Oil (USO)	9.82%	51.11%	77.76%
Broad-based Commodities (BCI)	2.05%	20.41%	45.34%
Silver (SLV)	-6.49%	-1.42%	42.39%
Gold (GLD)	-7.15%	-7.14%	-1.04%

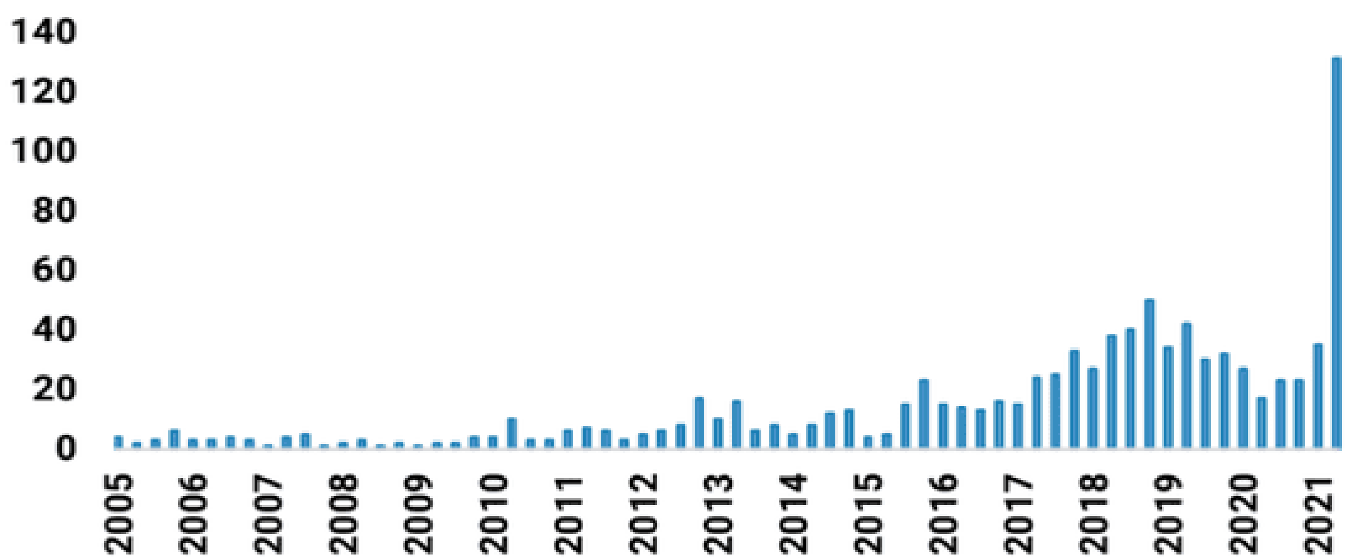
Fed Turns Hawkish: Despite its pledge to avoid tightening financial conditions until the economy reaches maximum employment, the Federal Reserve signaled rate hikes may come sooner than previously expected in the June FOMC meeting. Fed Chair Powell acknowledged that inflation may come faster and last longer than anticipated. According to the updated dot plot projections, 7 of 18 committee members predict a possible rate increase in 2022. More notably, the forecast also indicated all but 5 committee members suggest the Fed will hike rates twice in 2023.

Bipartisan Infrastructure Deal: On Thursday, June 24th, Republican and Democratic senators came to an agreement on an infrastructure plan totaling to about $1.2 trillion over 8 years. This includes new spending of $579 bln over 5 years in which about $312 bln will be used for roads, bridges, freight & rail, public transit, and more. The remaining $266 bln will be put towards other infrastructure investments including power grid, broadband, water, and environmental infrastructure. Unlike the previous proposals of hiking corporate taxes or raising the gas tax, the funding for the bill will come from a variety of sources such as unspent emergency relief funds and reducing the IRS tax gap.

Labor Shortage: As the US continues to recover from the pandemic, the economy is experiencing a labor shortage. The chart below indicates that concerns of a labor shortage in corporate earnings call transcripts are at an extreme high since 2005. Some economists argue that continued unemployment benefits make it challenging for employers to find workers, while others believe the shortage can be solved by raising wages.

Exhibit 1

Transcript Mentions of "Labor Shortage"



Source: Alphasense, Morgan Stanley Research, The Daily Shot.

A Thumbs-Up for Banks

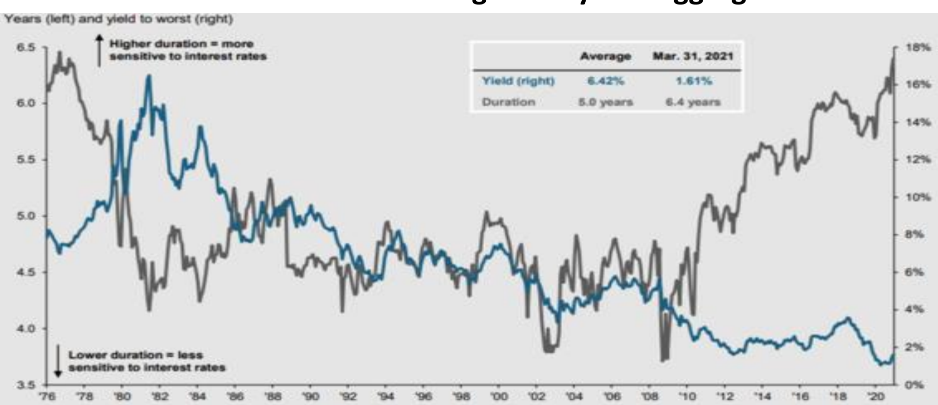
All 23 US banks subject to stress tests have recently passed their annual assessment for 2021, one of three tests over the past year. Although widely expected, this outcome is meaningful given that the Fed has lifted pandemic restrictions on returning capital to shareholders. Specifically, banks will be able to resume share buybacks and dividend increases after June 30th. According to Barclays analysts, payouts to investors over the next year could amount to $200 bln. This will likely provide additional tailwinds to the financial sector, which is already up 29% YTD compared to the S&P 500 Index which is only up 15% YTD.

Bonds – More Risk for Less Yield?

As shown in the chart below, J.P. Morgan highlights that the duration of the Bloomberg Barclays US Aggregate Bond Index has nearly doubled since 2008 while yields have declined 50% over that time period. Are bond investors aware they are taking more risk while receiving less compensation for it? If you are taking the risk, you should be paid for it. Unfortunately, that is not the case with bonds anymore.

Exhibit 2

Duration and Yield of the Bloomberg Barclays US Aggregate Bond Index



Source: Barclays, Bloomberg, FactSet, J.P. Morgan Asset Management. Duration measures the sensitivity of the price of a bond to a change in interest rates. The higher the duration the greater the sensitivity of the bond is to movements in the interest rate. Yield is yield to worst. Average yield and duration are from index inception beginning January 1976. *Guide to the Markets – US.* Data are as of March 31, 2021.

Crypto Crackdown

Though almost reaching $65,000 in April, Bitcoin's price fell below $30,000 on Tuesday, June 22, marking its first time below this level since January. A key driver behind Bitcoin's decline is China's recent regulatory clampdown on cryptocurrencies. Last month, China barred its financial institutions from conducting business with cryptocurrencies given the digital assets are volatile and pose financial risks. Moreover, this month, Chinese authorities have established bans on Bitcoin mining due to concerns over its environmental impact. This likely contributed to the crypto market's move in value as 65-75% of the world's mining occurs in China and an estimated 90% of all mining in the country has been prohibited. Such regulatory scrutiny is escalating around other parts of the globe. On Friday, June 25th, Japan's Financial Services Agency (FSA) warned Binance, the largest crypto exchange in the world, that it is operating in the country without authorization. Earlier this week, the UK's Financial Conduct Authority (FCA) also stated Binance "is not permitted to undertake any regulated activity" in the country. Despite the headwinds to cryptocurrencies, some view the increasing scrutiny as growing pains to the widespread use of crypto assets.

Plays for the Second Half of 2021

The first half of the year was characterized by higher inflation, higher rates, longer duration assets underperforming, and cyclical asset classes performing well on a relative basis. There is scope for continued outperformance in strategies levered to inflation in the second half of the year. Namely, these would be plays on financials, energy, materials, industrials, and commodities. Bonds don't have a great risk/reward except for floating rate instruments and strategies which protect against higher inflation. Likewise, keeping duration low makes intuitive sense. As the economy transitions to the next phase of the cycle, dividend paying stocks and companies with strong free cash flow look attractive, as well as those with high return on equity and return on assets.