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JUNE 14 2021

Quartz Partners Investment Management's weekly update summarizing key data and highlights from the market week.

QUARTZ PARTNERS
INVESTMENT MANAGEMENT

MARKET DATA as of 6/11/2021

Index	Level	4 week %	YTD %
S&P 500	4247	2.5	13.8
Nasdaq Composite	14069	5.2	9.5
Dow Jones Industrials	34480	0.9	13.7
Russell 2000	2335	5.9	18.7
MSCI EAFE	2365	3.6	11.6
MSCI EMERGING	1381	4.2	7.8
BarCap US Agg Bond TR		1.0	-1.7
BarCap US High Yield TR		0.9	3.0

1.46%	10-year Treasury Yield
2.4%	5 Year Inflation Expectations
2.96%	30-year Fixed Mortgage Rate
323	High Yield Spread (bps)
$69	Oil Price
$1,891	Gold Price
$3.13	Gasoline Price (national)
$37,341	Bitcoin Price

QUARTZ PARTNERS P.R.I.C.E. MATRIX: MACRO OUTLOOK

3-6 MONTH OUTLOOK

NEGATIVE | NEUTRAL | POSITIVE

POLICY				+1	
RISK PERCEPTION					
INFLATION & INTEREST RATES					
CREDIT & LIQUIDITY					
EARNINGS & ECONOMY					

P.R.I.C.E. QUICK TAKES

POLICY: market expects zero rates thru 2021, reinforced by communications from Federal Reserve; fiscal policy has turned negative on Biden tax plan, although the outlook has risen due to Biden's backtracking on the scope of tax hikes; in the absence of renewed support from the Fed, overall policy risk is now neutral with a negative tilt….**RISK PERCEPTION**: Exuberance has picked up and we believe it has moved into extreme territory; expect any bad news to have a large effect on asset prices in the short-term….**INFLATION & INTEREST RATES:** the 5-year TIPS breakeven spread has risen steadily since April, coinciding with a steepening of the 2/10 yield curve; I&I has become the key headwind for the market and could require intervention by the Fed in the form of Operation Twist (sell short-end, buy long-end) or similar; the CPI has picked up steam, raising short-term inflation risk…**CREDIT & LIQUIDITY**: Historic liquidity driven by the Fed & US Treasury has driven high yield spreads down to 2019 levels; market expects most companies to be able to access capital markets to rollover debt and/or raise new capital…**EARNINGS & ECONOMY:** the global economy remains in recovery mode and has outperformed expectations; earnings are on the rise as the reopening continues on.

RISK WATCH: 10-year yield on the rise, inflation as the risk de jour, possibility of hawkish tax policy (now in the spotlight), "irrational exuberance" showing up in several market segments.

STYLE RETURNS - 4 WEEK

	Value	Core	Growth
Large	1.3	2.7	4.2
Mid	1.8	3.1	5.8
Small	5.5	5.9	6.4

STYLE RETURNS – YEAR TO DATE

	Value	Core	Growth
Large	18.7	13.5	8.6
Mid	21.7	16.1	6.0
Small	31.1	18.7	7.4

FACTOR RETURNS

	4 week %	YTD %
MOMENTUM	3.2	5.5
SIZE	5.9	18.7
LOW VOL	1.6	8.5
DIVIDEND	0.4	13.0
QUALITY	4.0	11.9

TALKING POINTS

The stock market generally rose last week, with the S&P 500 climbing 0.4% (hitting a new all-time high on Thursday) and the Nasdaq Composite jumped 1.8%. Falling Treasury yields, despite a big jump in inflation data last week, helped drive the market higher, particularly in big cap tech. The Real Estate (+2.0%) and Health Care (+1.9%) sectors saw the biggest gains, while rising yields plays such as Financials (-2.4%) and Materials (-2.0%) fell the most last week. Treasury yields dropped sharply last week, with the 10-year benchmark yield falling to 1.46%, down from 1.56% at the beginning of the week. Demand for high yield bonds was able to keep up with the clamor for risk-free debt, with spreads compressing 5 basis points to 323bps last week.

The May Consumer Price Index report confirmed that inflation is on the rise due to supply constraints and the reopening effect. **The Bureau of Labor Statistics reported last week that year-over-year consumer prices jumped 5.0% in May, the largest 12-month increase since August 2008**. On a monthly basis, headline CPI rose 0.6%, while core CPI, which strips out food and energy prices, rose 0.7%. Perhaps more surprising than the historic rise in consumer prices was the market's reaction to it: the 10-year yield withstood the hawkish news report and fell sharply throughout the week. Two reasons for the divergence stand out: (1) the inflation story is far from new and the 10-year yield has surged over the past year, making the May CPI report a sell-the-news opportunity for traders, and (2) a debate is brewing over whether the unmistakable inflation we are experiencing this year is in fact transitory. Both camps have ample evidence to support their case:

"Inflation is here to stay" camp

1. *Money Supply:* the M1 money supply quadrupled due to the Federal Reserve's pandemic policy response. Those that believe that "inflation is always and everywhere a monetary phenomenon" should have no doubt that inflation will be a firmly entrenched issue going forward.
2. *Rising Wages:* average hourly earnings are on the rise, and anecdotal evidence is showing that businesses that hire low-wage workers are having to pay more to attain new employees.

"Inflation is transitory, a short-term headache" camp

1. *Supply chain bottlenecks:* COVID-related shortages in everything from used cars to semiconductors to lumber will be resolved as the global reopening matures.
2. *Historical perspective:* ever since the last true inflation regime in the 1970s, the market has periodically, and wrongly, predicted the next inflation wave.

THE WEEK AHEAD

US Retail Sales (Tue) • US Producer Price Index (Tue) • Federal Reserve Policy Statement (Wed) • BoJ Policy Statement (Thu)

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Stock and bond values fluctuate in price so that the value of an investment can go down depending on market conditions. The two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. There may be less information available on the financial condition of issuers of municipal securities than for public corporations.

Data Source: Morningstar, Federal Reserve, coindesk, US Energy Information Administration, Yardeni Research (sector performance).

5-year inflation expectations are calculated as the yield difference between US Treasury Securities and Treasury Inflation-Protected Securities (TIPS) of the same maturity. High Yield Spreads are based on the ICE BofaML US High Yield Bond Index.

BENCHMARK INFORMATION

Large Value: Russell 1000 Value TR USD
Large Blend: Russell 1000 TR USD
Large Growth: Russell 1000 Growth TR USD
Mid Value: Russell Mid Cap Value TR USD
Mid Blend: Russell Mid Cap TR USD
Mid Growth: Russell Mid Cap Growth TR USD
Small Value: Russell 2000 Value TR USD
Small Blend / Size: Russell 2000 TR USD
Small Growth: Russell 2000 Growth TR USD
Momentum: MSCI USA Momentum NR USD
Quality: MSCI USA Quality NR USD
Dividend: MSCI USA High Dividend Yield NR USD
Low Volatility: MSCI USA Minimum Volatility (USD) NR USD

BENCHMARK DEFINITIONS

BBgBarc US Agg Bond TR USD: This index is comprised of approximately 6,000 publicly traded bonds including U.S Government, mortgage-backed, corporate, and Yankee bonds with an approximate average maturity of 10 years.
BBgBarc US Corporate High Yield TR USD: Includes all fixed income securities having a maximum quality rating from Moody's Investor Service of Ba1, a minimum amount outstanding of $100 million, and at least one year to maturity.
DJ Industrial Average TR USD: Computed by summing the prices of the stocks of 30 companies and then dividing that total by a split-adjusted value.
MSCI EAFE NR USD: This Europe, Australasia, and Far East index is a market-capitalization-weighted index of 21 non-U.S., industrialized country indexes.
MSCI EM NR USD: captures large and mid cap representation across 27 Emerging Markets (EM) countries*. With 1,397 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.
MSCI USA High Dividend Yield NR USD: The index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent.
MSCI USA Minimum Volatility (USD) NR USD: composed of U.S. equities that, in the aggregate, have lower volatility characteristics relative to the broader U.S. equity market.
MSCI USA Momentum NR USD: measures the performance of U.S. large- and mid-capitalization stocks exhibiting relatively higher momentum characteristics.
MSCI USA Quality NR USD: The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage.
NASDAQ Composite TR USD: The Nasdaq Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange.
Russell 1000 Growth TR USD: Tracks the companies within the Russell 1000 with higher price-to-book ratios and higher forecasted growth values.
Russell 1000 TR USD: Consists of the 1000 largest companies within the Russell 3000 index, which represents approximately 98% of the investable US equity market. Also known as the Market-Oriented Index, because it represents the group of stocks from which most active money managers choose.
Russell 1000 Value TR USD: Tracks the companies within the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.
Russell 2000 Growth TR USD: Tracks the companies within the Russell 2000 Index that have higher price-to-book ratios and higher forecasted growth values.
Russell 2000 TR USD: Consists of the 2000 smallest companies in the Russell 3000 Index.
Russell 2000 Value TR USD: Tracks the companies within the Russell 2000 Index that have lower price-to-book ratios and lower forecasted growth values.
Russell Mid Cap Growth TR USD: Tracks the companies within the Russell Midcap Index with higher price-to-book ratios and higher forecasted growth values.
Russell Mid Cap TR USD: Measures the performance of the 800 smallest companies in the Russell 1000
Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.
Russell Mid Cap Value TR USD: Tracks the companies within the Russell Midcap Index having lower price-tobook ratios and lower forecasted growth values.
S&P 500 TR USD: A market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenues are based in the US; it's often used as a proxy for the U.S. stock market. TR (Total Return) indexes include daily reinvestment of dividends.

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