Hamilton-Bates
Market Update

June 18, 2021

June 'Gloom' Should Lead to a Stronger July

P.O. BOX 270 Newtown Square, PA 19073 877.768.4247 www.hbir.com

June Gloom

Florida may be none as the Sunshine State but California isn't far behind when we think of perfect weather-especially southern California. However locals and travelers know that June is a rare exception. June Gloom is a period when normally sunny southern California is much more overcast than usual, but then as quick as it comes it eventually clears.

The same is true for the stock market, which is now in a traditionally weak period of time and like California is suffering from June Gloom. Concerns over inflation, rate hikes, and rotations in and out of commodity sectors and meme stocks are creating a volatile month. However, after a strong May, and looking ahead to a better July, we believe this June Gloom will be temporary.

Earnings, and the Economy

The economy is open or opening up across most parts of the country, and consumer demand for just about everything has been strong. The jobs market is tight with many more openings than unemployed persons, and just about everywhere you go you can find a 'Hiring' sign.

Special unemployment benefits for most states have or will be ending over the next two months, so many of those who are on the sidelines will be forced to get back in the workforce, easing some of that workforce tightness.

The overall economy remains solid, with a strong consumer and favorable labor markets supporting spending and earnings. Unemployment remains low and the employment reports continue to show firms hiring. As long as this remains the case we may see pauses in the uptrend, but they should be temporary. Our concerns will come when the labor market weakens, or interest rates rise enough to threaten the economy. Neither have–or show signs of happening right now.

Market Outlook

April and May were solid, strong months, so some pullback and consolidation in June makes sense. It is also 'healthier' for the market. The intermediate and long-term bullish trend remains intact, and as we mentioned earlier the economy continues to build steam, supporting a rising tide of earnings. These conditions should lift stocks this quarter once we get beyond this month. We remain concerned over elevated bond yields, but yields have stayed out of the 'danger zone' (see chart page 2) and as long as they do -the stock market can adjust to current yield levels and move higher.

Investment Strategy

Over all we remain positive on stocks since the economy remains solid, and yields haven't risen enough to hurt the economy, nor have they fallen significantly to signal an impeding slowdown. Earnings reports are likely to be much better than the already strong levels, and stocks could get a really big fundamental boost from that. Corporate bonds have acted much better, and high-yield bonds continue to fare well. The overall mix seems remains in place for the financial markets to have a strong Summer.

However-we have to get through the aforementioned 'June Gloom' first. We'll look to use current weakness (next week and into early July) to add to holdings– as we believe the bullish trend still has some room to run.

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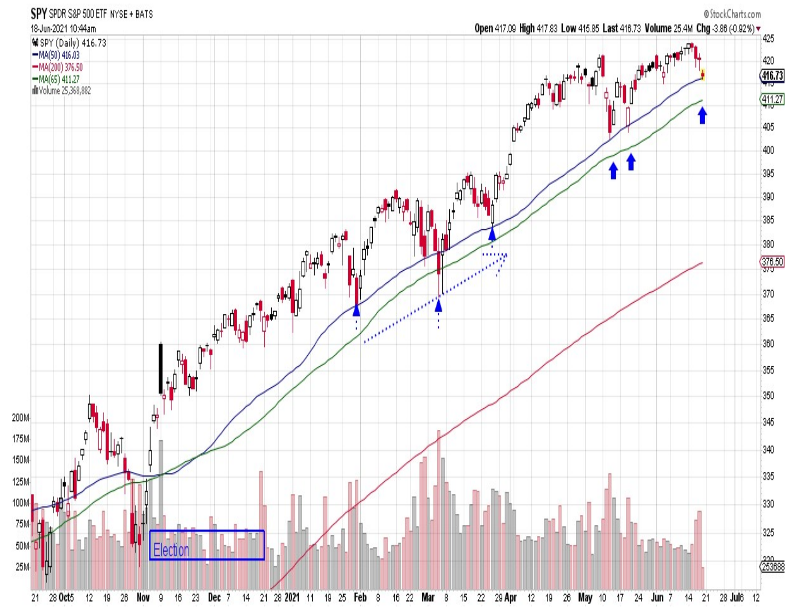
Market Charts

Market Remains Bullish but is now Consolidating

2021 continues to be bullish but Choppy, with alternating periods of strength followed by consolidation. We are not seeing deep pullbacks, but they have been regular in 2020. These mini-corrections are noted by the blue arrows, and we are currently seeing another one unfolding. We could see another few percentage points of decline, coinciding with the 65-day average (green line in chart), but with fundamentals intact we believe the bull still has room and time yet to run.



Bond Yields at Key Levels

Bond yields have now moderated since peaking in February, just right as they reached levels that we'd become concerned about. Some rise in rates is natural and healthy, as it shows the economy getting back to business as usual. However, if rates rise too quickly, it can put a good deal of negative pressure on the financial system, so we don't want to see rates go up into our 'red zone', now about 2%. Current yields on the 10-year bond are in the 1.50% range, well below that and nowhere near levels high enough to crimp the economy.