STRATEGIC CLIENT NEWSLETTER

SECOND QUARTER 2021

MARKET PERFORMANCE
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Dow Jones Industrial Average		S&P 500		Nasdaq Composite	
This Quarter	13.41%	This Quarter	8.56%	This Quarter	11.18%
Year-to-Date	12.73%	Year-to-Date	14.41%	Year-to-Date	12.54%

Increasing Inflation Brings Market Volatility in the Second Quarter

Although both the Dow Jones Industrial Average (DJIA) and the S&P 500 both continue to have positive growth in the second quarter of this year, the inflation surge in the second quarter of 2021 created unexpected volatility in the marketplace. While we remain concerned about the impact of long-term inflation, we believe the recent surge was driven more by specific price increases in the used car and lumber sectors, rather than an overall increase in prices. We do believe that core inflation is an issue going forward.

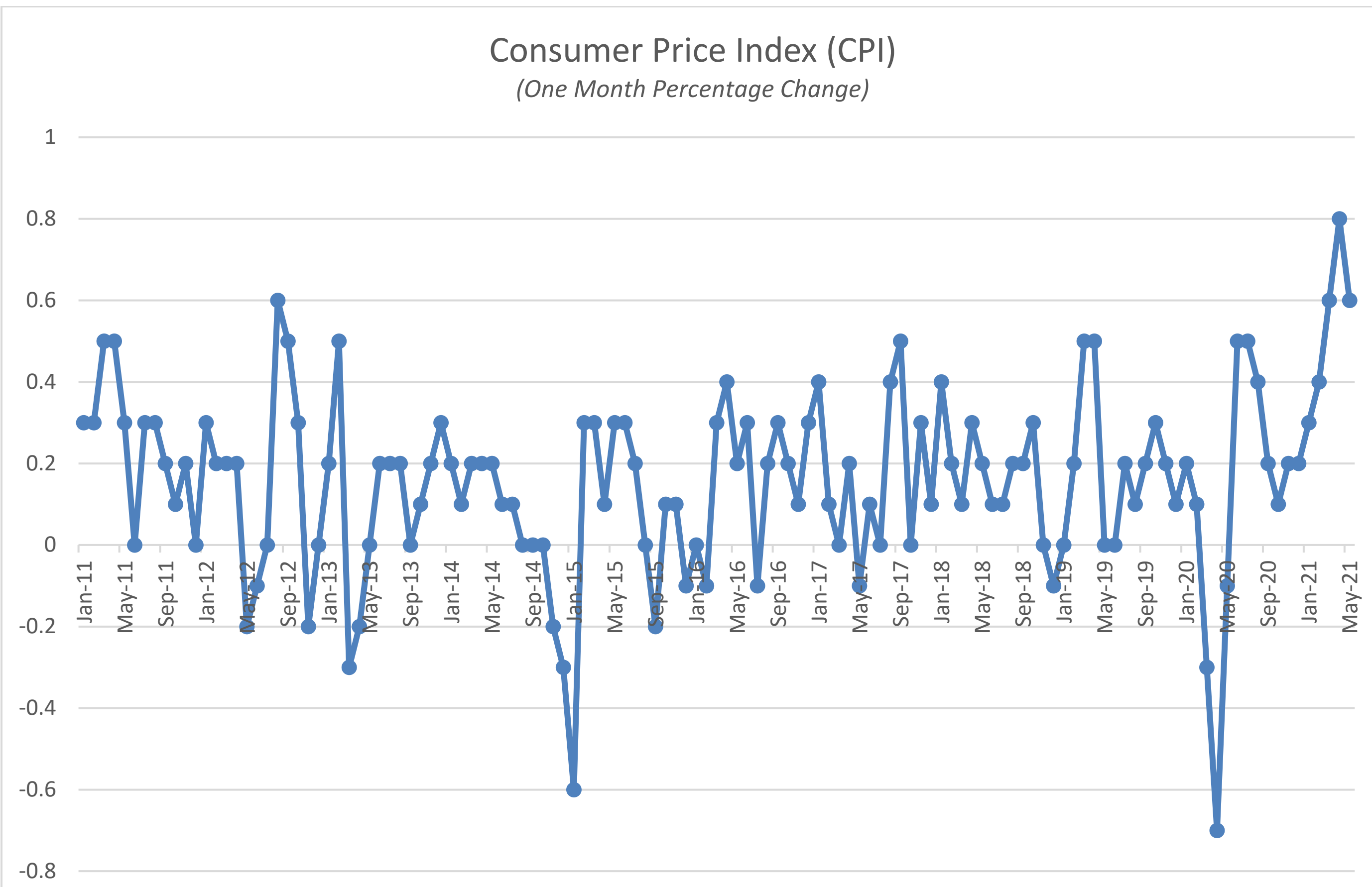
The most recent economic data:

- In the first quarter of 2021, the nation's Gross Domestic Product (GDP) increased 6.4 percent. This followed an increase of 4.3% for the fourth quarter of 2020 *(Source: www.bea.gov)*. Changes in GDP reflect increases in personal consumption expenditures (PCEs), nonresidential fixed investment, federal government spending and state/local government spending.
- The National unemployment rate in the beginning of the year (February 2021: 6.2%; March 2021: 6.1%; April 2021: 6.1%) before settling to 5.8% in May 2021. As jobs are added, with businesses opening up more post-pandemic, we expect the decrease in the unemployment rate to continue. *(Source: www.bls.gov)*
- Nonfarm productivity increased in the first quarter of 2021 by 5.4%, with an annual increase of 4.1% from first quarter 2020 to the first quarter of 2021. *(Source:www.bls.gov)*
- The Consumer Price Index (CPI), which measures changes in the price level (inflation) of consumer goods and services, increased .6% in March 2021, .8% in April 2021 and .6% in May of 2020. *(Source: www.bls.gov)*
- Personal Income percent changes from previous months for 2021 were -6.9% (February 2021), 20.9% (March 2021), -13.1% (April 2021), -2.0% (May 2021). *(Source: www.bea.gov)*
- Corporate profits increased in the first quarter of 2021 by 2.4%, following a decrease in the fourth quarter of 2020 of 1.4%. *(Source: www.bea.gov)*

On the Horizon: Inflation

Generally speaking, inflation is defined as a decline in purchasing power over time, typically illustrated by an increase in the average price level of goods and services. Although the Federal Reserve announced no rate changes – a signal that they don't view inflation as an immediate concern – we are concerned about the rising prices we've seen in the last quarter, and the impact we could see in the last half of 2021 if that trend continues.

Because inflation erodes purchasing power, it will also hinder economic growth as the general cost of living increases. If left unchecked, inflation could also lead to negative GDP and recessions. It's important that inflation is managed properly through the Federal Reserve's monetary policies, but can also be managed through client investments: inflation protected fixed income instruments, equities and mutual funds can help limit the impact of eroding purchasing power.



Source: U.S. Bureau of Labor Statistics

Our biggest worry with inflation would be when the Federal Reserve raises interest rates because that would lead to much higher interest payments the government would need to pay on the astounding amount of national debt. The government would need to raise taxes, cut spending or borrow even more to cover those interest expenses, and either one of these options could cause the Federal Reserve to raise rates to counter inflationary pressures.

Mid-Year Outlook

We are monitoring the following, which could cause some market volatility in the second half of this year:

1. Market P/E: The S&P 500 P/E ratio (Price to Earnings) of 45.44 confirms that the stock market is overvalued. An average P/E ratio of 18-22 has historically shown a fully valued market. We believe there should be either a boost in economic output to justify the higher stock market prices, or a pullback in the stock market to keep the P/E ratio more in line with current economic activity.
2. Inflation: We will watch for either a continuation of the recent jump in prices, or a cooling off of that trend. Either way, we believe inflation will be inevitable and our main concern is it's impact on Federal debt.
3. Federal Debt: The U.S. government has borrowed trillions in the past year and a half, with additional spending packages being considered. Our concern is rising interest rates will create higher debt payments that will need to be covered through higher taxes, reduced government spending or both.

We remain cautious as we move through the remainder of this year and into 2022. We are concerned about interest rates and inflation, which may impact earnings and stock market growth.

Custodian Transition

As of June 1, 2021, we are no longer using Wells Fargo Clearing Services as the custodian of our clients' assets. We have partnered with Charles Schwab Institutional to custody client assets, and have successfully transitioned all client accounts as part of this move.

Clients should be receiving their first monthly statements post-transition with their June 2021 monthly statements. Additionally, clients can sign up for online account access through www.schwaballiance.com, which our office is more than happy to assist in setting up.

We appreciate all the assistance, patience and especially the return of paperwork back to us so quickly. We would not have been able to have such a successful transition without it! Thank you!

Our office address and phone numbers all remain unchanged. Our updated e-mail addresses and website can be located in the blue column to the right.

We understand that these changes can present some new challenges, and we are ready to assist, so please call our office with any questions or concerns.

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CHB Investment Group Observations

- We believe stocks have a moderate potential for additional growth throughout the rest of the year, and have a bias in value stocks, in addition to suggesting a slight overweight in mid-large cap stocks.
- We believe the Federal Reserve will keep interest rates at or near zero this year, and we remain underweight on U.S. Treasuries, due to their sensitivity to interest rates.
- We have a **neutral bias** in residential and a **neutral bias** in corporate real estate, and we expect housing markets to be negatively impacted if inflation and market interest rates increase.
- We have a **neutral** bias towards corporate debt, as we continue to see interest rates rise, with the softness in the short-term.

This is provided for informational purposes only. We need to review your investment objectives, risk tolerance and liquidity needs before we introduce suitable managers/investment programs to you. All investing involves risk, including the possible loss of principal. Mid-cap stocks are generally more volatile, subject to greater risks and are less liquid than large company stocks. There are special risks associated with an investment in real estate, including the possible illiquidity of the underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

CHB Investment Group News

For clients still needing to sign up for online access to your Schwab accounts, please visit www.schwaballiance.com and give our office a call so we can help facilitate the process.

- The Trenton Thunder is under way, and we have tickets available to clients for the 2021 season! The tickets are available on a first come, first serve basis, so please call our office if you're looking to enjoy a game with friends and family.
- We continue to see more and more scam and phishing attempts, with clients receiving more sophisticated e-mails, phone calls and text messages. **If you suspect a scam or unauthorized attempt to access any of your account/personal information, please call our office immediately; do not click on any links, respond to any e-mails or call any provided phone number that you may be suspicious of.** We will continue to be diligent in the monitoring of client account activity and will always get either verbal or written authorization for any account activity.
- For clients who are age 72 and over, the suspension of required minimum distributions from deferred retirement accounts has ended. Required minimum distributions have resumed in 2021. In the third quarter, we will reach out to clients who are still in need of fulfilling the requirement for 2021. Please call our office if you have any questions.

For clients who would like to receive non-confidential information regarding general market conditions and CHB Investment Group updates, please send your preferred e-mail address to chris.lindenthal@chbinvestmentgroup.com

Past performance is no guarantee of future results.
Indices are unmanaged and you cannot invest directly in an index.
The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value.
The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks.
The NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.
Generally, CDs may not be withdrawn prior to maturity. CDs are FDIC insured up to $250,000 per depositor per insured depository institution for each account ownership category. CDs may be issued by out of state institutions.
Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations. The prices of small company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product clarification and competitive strengths to endure adverse economic conditions. There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions.
Investing in fixed income securities involves certain risks such as market risk if sold prior to maturity and credit risk especially if investing in high yield bonds, which have lower ratings and are subject to greater volatility. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment. All fixed income investments may be worth less than original cost upon redemption or maturity.
Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. Diversification does not guarantee profit or protect against loss in declining markets.
This newsletter is designed to provide accurate, authoritative information. CHB Investment Group, LLC is not engaged in rendering legal, accounting or tax advice. If legal, accounting, or tax assistance is required, the services of a competent professional should be sought. The hiring of a professional is an important decision and should not be based on advertising. Ask for written information stating qualifications, experience and Firm association before making a decision.