SUMMER 2021

As the nation celebrated the 245th anniversary of our independence the feeling of relief and joy over the return to the long-awaited goal of "normalcy" was evident everywhere. From crowded planes and highways to jammed ballparks, concerts and family reunions, the relief and happiness of being together was overwhelming. Despite the cool, damp weather in Maine, the party was going full bore with crowded restaurants and exuberant parades and fireworks displays. To top it all off, the surprising Red Sox now have the best record in the American League.

The enthusiasm of Fourth of July revelers has been matched by investors as the S&P 500, Dow Jones Industrial Average and Nasdaq Index all hit new highs in late June. Earlier concerns by investors about higher interest rates and excessive stock valuations were overcome by renewed enthusiasm about the economic recovery and the end of the pandemic. Year to date as of June 30th, the S&P 500 has a total return of 15.3%, the Dow Jones Industrial Average 13.8%, and the Nasdaq Composite Index 13.3%.[1]

Amidst all the revelry, cooler heads may caution that despite the enthusiasm we may not be fully past the pandemic. President Biden's goal of having 70% of Americans with at least one shot of the vaccine by July 4th fell just short but the progress has been encouraging. Individual states with lower vaccination numbers have been racing to increase immunizations as the new Delta variant threatens. As children return to school and workers return to offices this fall, we may be faced with another surge in the virus, but it should be manageable.

There is justifiable skepticism regarding the stock market as well. There appear to be areas of excessive valuation and the rampant speculation in the so called "meme" stocks like GameStop (mall video game stores) and AMC Holdings (movie theaters) by day traders is unnerving to many veteran observers. The "meme" stocks are the favorites of many day traders who collectively bid up certain stocks despite the questionable fundamentals of the underlying company. This has led to a running battle between professional investors who might have a

[1] NASDAQ

short position (due to a negative opinion on the prospects of a company) in a particular stock like GameStop and the efforts of thousands of small traders intent on proving the experts wrong. This activity has led to tremendous volatility and enormous price swings on these stocks. For example, AMC Holdings has a 52-week range of a low of $1.91, a high of $72.62 and a current price of $52. GameStop has been more extreme with a 52-week low of $3.77, a high of $483 and a current price of $202. While these battles have been interesting to watch and tend to dominate the financial news at times, this activity is a minor component of the overall market activity and has little to do with long term investing.

For all the hype about stock trading investors continued to add more money to bond funds (including Exchange Traded Funds) than stock funds in June.[2] This may be due both to long standing asset allocation targets and concerns about an overheated stock market. Investors have accumulated a lot of cash during the pandemic and higher returns are possible in bond funds versus bank offerings such as CD's and savings accounts. These higher returns are not without some risk, however. According to Credit Suisse, the yield on the 10 -year Treasury Note declined during the 2nd quarter from 1.74% to 1.45%. Bond investors have been reassured by the Federal Reserve Bank's commitment to maintain lower interest rates, but bond funds are vulnerable if interest rates do eventually rise. It was the rise in the 10 -year note from under 1.0% at the beginning of the year to 1.74% during the 2nd quarter that originally unsettled both the stock and bond markets.

The strength of the economic recovery and the resultant inflationary pressures are a legitimate concern for the markets. The bond market could be more vulnerable to higher rates as the growth of earnings in a strong recovery could continue to boost stocks. While the Federal Reserve believes that the inflationary pressures are transitory it is hard to ignore the dramatic price increases in housing, food, and energy this year. If inflation is worse than expected by the Federal Reserve Bank, they might be forced to become more restrictive which would unsettle both the stock and bond markets.

While we remain cautious about bonds and are mindful of the possibility of a correction in the stock market, we remain committed to a solid long-term approach

[2] Investment Company Institute June 30, 2021

for clients. We wish you all the best and hope you can enjoy a safe, healthy, and "normal" summer.

John C. Knox, CFA

John C. Downing, CFA

The views expressed herein are those of Knox & Downing Advisors and not necessarily those of the Advisory Services Network, LLC. This material is for informational purposes only. This is neither a solicitation nor a recommendation to purchase or sell an investment and should not be relied upon as such. All information contained herein is derived from sources deemed to be reliable but cannot be guaranteed. All the economic and performance data is historical and not indicative of future results. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average (DJIA) is a price-weighted index of 30 actively traded blue chip stocks. The term, "Nasdaq" is also used to refer to the Nasdaq Composite, an index of more than 3,000 stocks listed on the Nasdaq exchange that includes the world's foremost technology and biotech giants such as Apple, Google, Microsoft, Oracle, Amazon, and Intel. Indexes are unmanaged and do not incur management fees, costs, or expenses. It is not possible to invest directly in an index. Returns are shown without deductions of advisory fees, trading fees or internal management expenses. The deduction of such fees and expenses, and the compounding effect of such fees over time, will reduce returns over time.