JOHNSON
INVESTMENT COUNSEL

Quarterly Insight

MARKET UPDATE

2021
SECOND
QUARTER

ECONOMIC BOUNCE BACK DRIVES STOCKS TO NEW HIGHS

Stocks rose again in the second quarter as the pandemic dissipated and massive government stimulus continued. There were only a couple of small setbacks to the market's rise in the quarter, which was notably quiet in terms of volatility. The major indices set multiple new records, supported by healthy earnings reports and robust economic data. Stocks that had been badly hit during the pandemic continued to make up ground as a result of reopening. In general, cyclical value stocks like energy, real estate, and financials have outperformed growth stocks this year, reflecting the unwind from the damage of the lockdowns. Energy and other commodity-related stocks have rebounded as energy and raw material prices have risen.

Bonds fared better in the second quarter after a rough first quarter. As inflation fears crept in earlier this year, bond yields rose and prices fell. However, yields fell in the second quarter, especially on longer-term corporate bonds. This tightening of the spread between corporate bond yields relative to government bonds reflects investor confidence in the overall state of the economy and corporate profits. It also shows investors have become less anxious about inflation. The Fed has made clear it is watching inflation pressures, and more investors view the issue as temporary.

Economic activity picked up steam as more people were vaccinated and as government restrictions were lifted. It became evident that consumers worldwide were anxious to return to normal. That meant lots of money being spent, enabled by higher levels of cash on hand from government assistance through the lockdowns. Strange market dynamics, including supply chain bottlenecks and shortages, made more headlines as the fallout from the worldwide shutdown last year continued.

LIFE AS ECONOMICS 101

The havoc of last year and the first part of this year has created unique dynamics in many industries across the global economy. It seems every day we are all confronted with some price increase, product shortage, or fierce buying competition resulting from the economic disturbances. The phrase "supply and demand" has become more familiar than ever in our conversation.

Housing is the most significant market in which this is playing out. Cash offers above the list price have become the norm in most markets in the U.S. The housing market was already hot prior to the pandemic, but the construction slowdown and supply shortages exacerbated the trend. The premium for new and used cars, even rental cars, has gone up because of a shortage of semiconductor chips. Lumber became the posterchild of the situation as it went from being virtually ignored by most people to a daily topic of conversation. Prices tripled in a matter of months before falling by half in a matter of weeks.

Despite some of these more egregious examples, the economic backdrop is gener-

FEATURING

TOTAL RETURNS

	2Q 2021	2021
S&P 500	8.6%	15.2%
Dow Jones Industrial Average	5.1%	13.8%
NASDAQ	9.7%	12.9%
Russell 2000	4.3%	17.5%
MSCI EAFE (International)	5.4%	9.2%
Barclays Aggregate Bond Index	1.8%	-1.6%

ally positive, and likely set up for healthy growth in the coming year. Beyond the initial snapback from the depths of the lockdown, economists expect demand to continue to be strong, and companies are projecting continued earnings growth.

INFLATION: SHORT-TERM OR HERE TO STAY?

The recent price increases brought on by the disruptions has led to concerns about inflation. Short-term inflation is all-too real for most of us, but the extent and duration of it for the longer-term is up for debate. There are many myths about what inflation is, what causes it, and its impact. As always, it's important to separate the reality from the noise.

This year has been a perfect storm for inflation. In addition to the supply and demand dynamics described above, policymakers have poured trillions of dollars in stimulus into the economy, with prospects for more. However, over the past couple of decades powerful structural forces have weighed heavily on inflation. Demographic trends have been the most significant headwind. Much of the developed world, including the U.S., has experienced subdued population growth. Further, the population that we do have in the U.S. is beginning to age. In addition, debt levels coming out of the financial crisis were extremely elevated. All of this will continue to weigh on inflation after the initial short-term inflationary data begins to subside. The dire predictions about the negative outcomes of inflation are sure to continue, so it will be helpful to focus on these structural forces that are likely to keep a lid on inflation in the years ahead.

FED BALANCING INFLATION WITH ECONOMIC GROWTH

The Fed has made clear it views the current inflation data as "transitory," and is more concerned with supporting economic activity at this point than it is worried about inflation. To that end, it has implemented various forms of stimulus and allowed its balance sheet to expand significantly. However, instead of being lent out irresponsibly as it was in the Financial Crisis, much of that money has been invested in the financial markets. This is at least part of the explanation for the elevated valuations in everything from investment-grade corporate bonds to large cap stocks. Still, the market will be closely watching for signs of Fed tightening, which has often led to short-term pullbacks in stocks and other asset prices.

BULL MARKET ROLLS ON

When inflation is in the headlines, investors frantically search for the portfolio antidote. Usually, it's already too late by the time the headlines are out. Diversified portfolios built for any environment are the best protection against inflation and any number of other threats to investing success. So instead of focusing on just one risk, our discipline guides us as we build portfolios for the multitude of possibilities that confront our clients, both positive and negative.

In the near term, inflation data and Fed policy could be triggers for corrections in the stock market. Whatever the cause, corrections are sure to come. These tend to be short-lived and are impossible to time consistently. We need not think back any further than 2020 to remember that some of the worst markets result from surprises no one was expecting. We also understand there are powerful forces that have driven the market higher, most importantly economic growth and growing corporate profits. Both have allowed this bull market and the many before it to provide the growth our clients need to meet their financial goals over time. Coupled with the appropriate amount of bonds and cash, this is the formula for investing success.

For more of our recent analysis on inflation, click here to listen to our podcast **"A Conversation on Inflation**."

THE CRYPTOCURRENCY CRAZE

WHY MANY ARE ASKING: IS CRYPTOCURRENCY A GOOD INVESTMENT?

If the history of investing could be encapsulated in a textbook, an entire chapter could be dedicated to these last 16 months. Financial markets managed to squeeze decades of bizarre events into one year. These ranged from lockdown-driven stock-market turmoil to negative oil prices, "meme" stocks, NFTs (non-fungible-tokens), and zero-revenue special purpose acquisition companies (SPACs) with multi-million-dollar valuations. The headliner in this roster of head-spinning stories is the cryptocurrency craze.

As the popularity of cryptocurrency has surged, a closer look at the details is warranted. We always try to understand what drives any investment thesis. Along with that, we evaluate investments in the context of risk-management and diversification. The ultimate goal is to filter out the noise and determine if it can improve the overall portfolio.

WHAT IS CRYPTOCURRENCY?

We can start with a very broad definition of cryptocurrency. Given the complexity, capturing the essence in a few sentences will almost certainly fall short. But we point to a definition from one of the most popular cryptocurrencies, Bitcoin, for some insight. According to their website (https://bitcoin.org/en/-faq#what-is-bitcoin):

"Bitcoin is a consensus network that enables a new payment system and a completely digital money. It is the first decentralized peer-to-peer payment network that is powered by its users with no central authority or middlemen."

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THE CRYPTOCURRENCY CRAZE

At its core, cryptocurrency is intended to facilitate rapid and secure financial transactions using blockchain technology across a secured, decentralized network that avoids the use of fiat currencies issued by sovereign countries. The blockchain technology has great potential for various uses apart from cryptocurrency and is already being put to productive use in other ways.

WHY SO MUCH HYPE ?

Any potentially groundbreaking technology has futurists and visionaries espousing the potentially world-changing ramifications, which could shake the foundations of our global financial systems. This certainly sounds enticing, but what's driving much of the recent interest is demonstrated in the chart below. The age-old prospect of another way to "get rich quick" (with minimal effort) has proven yet again to be tempting to many investors. There are certainly some long-term investors buying cryptocurrency, but many are buying with the hope that someday soon they can sell it to someone else at a higher price. This is not investing, but pure speculation.

If Bitcoin experienced the same returns as the S&P 500 over the last 16 months, would there be so many talking about it?

WHY WE ARE CAUTIOUS

A key aspect of the bull case is that cryptocurrency is everything a traditional fiat currency is not. It is designed to have a finite number of coins. This in theory means it is not subject to a government's proclivity to "print" money, which can drive inflation and help with debt but reduces the currency's purchasing power. It is no coincidence that prospects of inflation have driven investor interest in cryptocurrency as a potential hedge. But there are many reasons to remain cautious about cryptocurrency:

- **Unreliable store of value:** The key job of any currency is to be a consistent, reliable store of value. Anyone holding currency should have a general sense of what it will buy, at least for the foreseeable future. Given the volatility of these cryptocurrencies thus far, the store-of-value feature is clearly not yet functional.
- **Extreme volatility:** Cryptocurrency's eye-popping returns have attracted many new investors. But those returns have come amid extreme volatility as shown in the nearby chart. Bitcoin has experienced much sharper drawdowns than the S&P 500 since early 2020. Speculators have added fuel to the fire by using leverage (borrowing to buy). A recent Wall Street Journal article pointed out that margin debt makes up about 2% of the $49 trillion U.S. stock market, but for the $1.6 trillion crypto market it's 6%, three times that amount.

- **Lack of Security:** Security is a major concern. Cryptocurrency markets are unregulated, digital wallet apps are anonymous, and services are neither regulated nor insured. If there is software failure, theft, or even lost passwords, investors have nowhere to turn for help. According to the Wall Street Journal, hackers stole $120 million of cryptocurrency in 2020 and another $411 million as of early June 2021. This seriously undermines the argument that it is a secure way to transact. Organized criminal groups like drug cartels have been increasingly using Bitcoin as a more efficient means to execute anonymous transactions. This expanding black-market has grown more concerning over time.
- **Sentiment Over Fundamentals:** The most consistent long-term returns come from investments that can be priced based on fundamental value. This reduces the impact of investor sentiment on the price. Cryptocurrencies have traded with extreme volatility driven by rapidly-shifting investor sentiment, most infamously as a result of overnight tweets from Elon Musk. It is a market where emotional reactions to a headline or tweet can lead to violent reversals.
- **Government Regulation Headwinds:** A country's ability to manage its currency is a critical tool in a functional economy, for better or worse. It seems unlikely that the governments in the U.S., China, the European Union, and other large countries will stand by and watch their sovereignty erode with the global adoption of a replacement currency. China has already started to clamp down on cryptocurrency, leading to recent price declines, and other nations have indicated similar intentions.

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THE BARBERSHOP FACTOR

The crypto-craze has several parallels with the dot-com bubble of 1999 – 2000, including several price charts. But even more striking is "The Barbershop Factor," where even the barber (or neighbor, Uber driver, mechanic, college student, etc.) can be heard telling others how they are "killing it in crypto" and reaping life-changing profits. It could be different this time (the most dangerous words in investing). However, when it seems nearly everyone is talking unprompted about how they are doing with their crypto holdings it could be a sign of peaking investor sentiment and potential pain ahead.

Disclaimer: Any expectations presented should not be taken as a guarantee or other assurance as to future results. Our opinions are a reflection of our best judgment at the time this presentation was created, and we disclaim any obligation to update or alter forward-looking statements as a result of new information, future events or otherwise. The material contained herein is based upon proprietary information and is provided purely for reference and as such is confidential and intended solely for those to whom it was provided by Johnson Investment Counsel.

UPCOMING EVENTS

JIC Senior Portfolio Manager and Procter and Gamble (P&G) Retirement Plans Director Mike Stanis, CFA, CFP® will guide current and former P&G employees through their Profit Sharing Trust (PST) distribution options. Mike spent 17+ years with P&G and will share what he learned so that you can make the best decisions regarding your PST.

Two upcoming webinar sessions are available:
Tuesday, August 3 from 11:00 am - 12:00 noon or
Tuesday September 14 from 11:00 am - 12:00 noon.

Hold your camera's smartphone over the QR code to learn more and to register for either session.

AWARD-WINNING RESULTS FOR OUR CLIENTS

REFINITIV LIPPER FUND AWARDS
2021 WINNER
UNITED STATES

Two Johnson Investment Counsel mutual funds have received 2021 Lipper Fund Awards in recognition of consistently strong risk-adjusted performance relative to their peers. The Johnson Equity Income Fund is a winner of the “Best Fund Over 5 Years” for Equity Income Funds. The Johnson Institutional Intermediate Bond Fund is a winner for “Best Fund over 3 Years” and “Best Fund over 5 Years” for Institutional Mutual Funds. Just last year, the Johnson Equity Income Fund won the Lipper Award for the “Best Fund Over 3 Years.”

Interested in learning more about the Johnson Equity Income Fund? Join Charles Rinehart, CFA, CAIA and Jarett Levitsky, CFP®, for a free webinar as they discuss key topics related to the fund including history, strategy, stock selection, and more.

REFINITIV LIPPER FUND AWARDS
2021 WINNER
UNITED STATES

Learn More About the Johnson Equity Income Fund

WEBINAR: July 27th from 4-5pm

Hold your smartphone’s camera over the QR code to access the webinar registration form.

The Refinitiv Lipper Fund Awards, granted annually, highlight funds and fund companies that have excelled in delivering consistently strong risk-adjusted performance relative to their peers. The Refinitiv Lipper Fund Awards are based on the Refinitiv Lipper Fund Awards Methodology. Classification averages are calculated with all eligible share classes for each eligible classification. The calculation periods extend over 36, 60 and 120 months. The highest Lipper Leader® for Consistent Return (Effective Return) value within each eligible classification determines the fund classification winner over three, five or 10 years. The Lipper leader for Consistent Return rating is a risk-adjusted performance measure based on the Effective Return computation. Lipper Ratings for Consistent Return are computed for all Lipper classifications with five or more distinct portfolios and span both equity and fixed-income funds (e.g., large cap core, General U.S. Treasury, etc.). The ratings are subject to change every month and are calculated for the following periods: three-year, five-year, 10-year, and overall. The overall calculation is based on an equal-weighted average of percentile rankings of the Consistent Return metrics over three-, five- and 10-year periods (if applicable). The highest 20% of funds in each classification are named Lipper Leaders for Consistent Return, the next 20% receive a rating of 4, the middle 20% are rated 3, the next 20% are rated 2 and the lowest 20% are rated 1. For more information, see lipperfundawards.com. Although Refinitiv Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Refinitiv Lipper. The award may not be representative of every client’s experience. Johnson Investment Counsel has confirmed that the Johnson Equity Income Fund is a 2021 winner of the Refinitiv Lipper Award for “Best Fund over 5 Years “and a 2020 winner for “Best Fund over 3 years” for Equity Income Funds. Johnson Investment Counsel has also confirmed that the Johnson Institutional Intermediate Bond Fund is a 2021 winner of the Refinitiv Lipper Award for “Best Fund over 3 Years” and “Best Fund over 5 Years” for Institutional Mutual Funds. However, Johnson Investment Counsel does not review or confirm the information provided to Refinitiv Lipper Awards, nor does Johnson confirm or review the accuracy of the Refinitiv Lipper Fund Awards’ rankings of the Johnson Equity Index Fund and the Johnson Institutional Intermediate Bond Fund, respectively. These awards are not indicative of future performance and there is no guarantee of future investment success. Before you invest, you may want to review the Fund's Prospectus and Statement of Additional information, which contains more information about the Fund and its risks. You can find the Fund's Prospectus and other information about the fund online at www.johnsonmutualfunds.com. You can also get this information at no additional cost by calling (800) 541-0170 or by sending an email request to prospectus@johnsonmutualfunds.com.

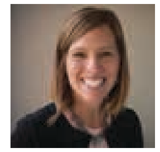
PROMOTIONS

We are pleased to announce the following promotions:

- **Mary P. Burns, Esq.**
  Vice President of Estate Planning, Senior Trust Counsel
- **J. Christine Warren, Esq.**
  Vice President of Estate Planning, Senior Trust Counsel
- **Tamara L. Truman**
  Marketing Assistant

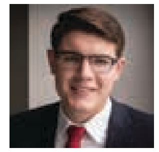

Burns

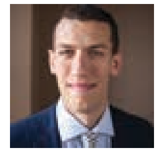

Warren


Truman

NEW DESIGNATIONS

Johnson Investment Counsel is committed to continuing education to provide personal development for our employees and better service to our clients. Congratulations to Portfolio Manager Assistant Brandon Plumb, CFP®, Portfolio Manager Michael Timm, CFA, CFP®, and Portfolio Manager James Wineland, CFP®, CIMA®, AIF® on earning Certified Financial Planner designations.


Plumb, CFP®


Timm, CFP®


Wineland, CFP®

NEW ADDITIONS TO THE TEAM

Due to COVID, we were unable to get photographs of some employees who started at the end of 2020 so we are sharing them now.

- **Kimberly Coleman**
  Trust Counsel Assistant
- **Charley Doherty, CFP®**
  Portfolio Manger Assistant
  (started 11/23/2020)
- **Justin Goldstein, CAIA**
  Director, Intermediaries & Client Service
- **Jack K. Martinsen**
  Portfolio Manager Assistant
- **Benjamin J. Schwartz**
  Associate Systems Administrator
  (started 12/7/2020)
- **Alex Snyder**
  Portfolio Manger Assistant

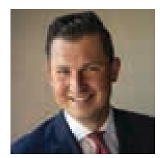

Coleman


Doherty


Goldstein


Martinsen


Schwartz


Snyder

2021 TOP WORKPLACE

TOP WORK PLACES 2021
Cincinnati.com
The Enquirer

Johnson Investment Counsel has been selected as a Top Workplace by the Cincinnati Enquirer for the eighth year in a row. The award is based solely upon employee feedback and evaluates criteria such as opportunities for career development, workplace culture, compensation, and overall job satisfaction.

We are honored to receive this award and proud of our employees and their commitment to provide exemplary service to our clients.

JOHNSON
INVESTMENT COUNSEL

ABOUT US

Johnson Investment Counsel is one of the nation’s largest independent wealth management firms, managing more than $16 billion in assets for clients in 49 states. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-based, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs, and more. Johnson Investment Counsel has built strong, long-term relationships with individuals, families, charitable organizations, foundations, and corporations through four integrated divisions.

- WEALTH MANAGEMENT
- FAMILY OFFICE SERVICES
- TRUST COMPANY
- ASSET MANAGEMENT

LOCATIONS

CINCINNATI
CINCINNATI-KENWOOD
CLEVELAND-AKRON
COLUMBUS
DAYTON
METRO DETROIT

If you are a client of Johnson Investment Counsel, you should receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains your assets. You are urged to carefully review all custodial statements for accuracy. If you are not receiving custodial statements, please contact our Chief Compliance Officer, Scott Bischoff at (513) 661-3100.

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