

# QUARTERLY MARKET REVIEW

Q2

SECOND QUARTER 2021

QUARTERLY TOPIC:

# Inflation: An Exchange Between Eugene Fama and David Booth

SECOND QUARTER 2021

**David Booth, Executive Chairman and Founder**  
**Eugene Fama, PhD, Nobel laureate, Director, and Consultant**

With the economy starting to recover from the COVID-19 pandemic and investor concerns turning increasingly toward inflation, Dimensional Founder David Booth talked with Nobel laureate Eugene Fama about inflation and how investors should think about it in their portfolios. Excerpts from their conversation have been edited for clarity.

## ON PREDICTING INFLATION

**David Booth:** Gene, you are a founding Director of Dimensional and have been involved in our research and corporate governance for more than 40 years. People may not know that you've also done a lot of research on inflation and interest rates.

We always tell people, "We don't try to forecast. We try to be prepared for various outcomes." Inflation is one of those things you want to be prepared for. There's a pickup in inflation risk that wasn't there, say, 10 years ago. Does that cause you to worry?

**Eugene Fama:** Historically what's happened is, when there's a spike, the spike persists for a long time. Inflation tends to be highly persistent once you get it. Once it goes down, it tends to be highly persistent on the downside. You've got to be prepared for that. Predicting next month's inflation may not be very hard because this month's inflation can be a pretty good predictor of next month's inflation, or next quarter's inflation, or even the next six months' inflation. Persistence is a characteristic of inflation.

We haven't been in a period of high inflation, or even moderate inflation, for at least 10 years, so I'm not particularly concerned that inflation will be high soon.

## ON HOW INVESTORS SHOULD THINK ABOUT INFLATION AND THEIR FINANCIAL GOALS

**Booth:** Conditions change, so is there anything about the current environment and the risk of inflation heating up that would cause you to change your portfolio?

**Fama:** I don't think anybody predicts the market very well. Market timing is risky in the sense that you've always emphasized: You may be out of the stock market at precisely the time when it generates its biggest returns. The nature of the stock market is you get a lot of the return in very short periods of time. So, you basically don't want to be out for short periods of time, where you may actually be missing a good part of the return.

I think you take a long-term perspective. You decide how much risk you're willing to take, and then you choose a mix of bonds, stocks, Treasury Inflation-Protected Securities, and whatever else satisfies your long-term goals. And you forget about the short term. Maybe you rebalance occasionally because the weights can get out of whack, but you don't try to time the market in any way, shape, or form. It's a losing proposition.

**Booth:** As you get to the point in life where you actually need to use your portfolio, does that change the kinds of allocations you'd want?

**Fama:** The classic answer to that was, yes, you'd shift more toward short-term hedges, short-term bonds. Once you had enough accumulated wealth that you thought you could make it through retirement, you'd want to hedge away any uncertainty that might disturb that. That's a matter of taste and your willingness to take risk and your plans for the people you will leave behind, like your charities or your kids. All of that will influence how you make that decision. But the typical person who thinks they'll spend all their money before they die probably wants to move into less risky stuff as they approach retirement.

QUARTERLY TOPIC:

## Inflation: An Exchange Between Eugene Fama and David Booth

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**Booth:** The notion of risk is pretty fuzzy. For example, if I decide that I want to hold Treasury bills or CDs when I retire, and you did that 40 years ago, when we started the firm, and you've got that 15% coupon, that's pretty exciting. With \$1 million at 15%, you're getting \$150,000 a year. Today you might get less than 1%.

**Fama:** Right, but I remember when inflation was running at about 15%, so not much better off!

**Booth:** Those are different kinds of risks.

**Fama:** When you approach retirement, you're basically concerned about what your real wealth will look like over the period of your retirement, and you have some incentives to hedge against that. You face the possibility, for example, that if you invest in stocks, you have a higher expected return, but you may lose 30% in a year and that might be devastating for your long-term consumption.

**Booth:** I think part of planning is not only your investment portfolio, but what to do if you experience unexpected events of any kind. We're kind of back to where we start our usual conversation: "Control what you can control." You can't control markets. What you can do is prepare yourself for what you'll do in case bad events happen. Inflation is just one of many risk factors long-term investors need to be prepared for.

Eugene Fama is a member of the Board of Directors of the general partner of, and provides consulting services to, Dimensional Fund Advisors LP.

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# Quarterly Market Review

SECOND QUARTER 2021

## OVERVIEW

Quarterly Topic: Inflation: An Exchange Between Eugene Fama and David Booth

Quarterly Market Summary

Long-Term Market Summary

Impact of Diversification

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Market Performance

Select Currency Performance vs. US Dollar

Real Estate Investment Trusts (REITs)

Fixed Income

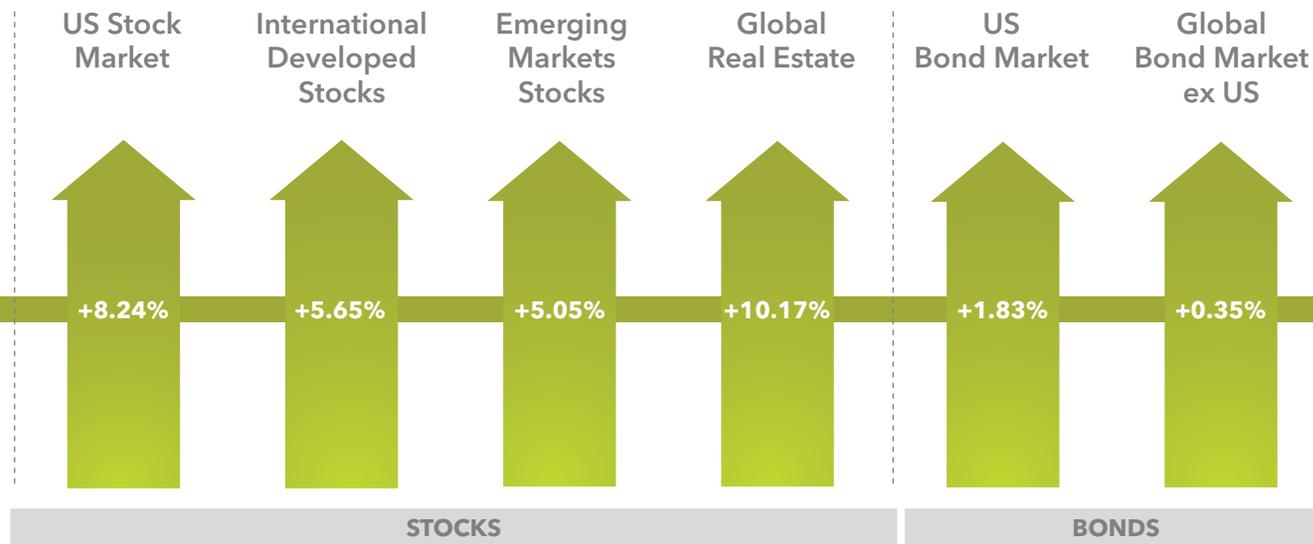
Global Fixed Income

**This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.**

**The report also illustrates the impact of globally diversified portfolios and features a quarterly topic.**

## Quarterly Market Summary: Index Returns

SECOND QUARTER 2021



Since Jan. 2001

<b>Avg. Quarterly Return</b>	2.4%	1.7%	3.1%	2.6%	1.2%	1.1%
<b>Best Quarter</b>	22.0% <b>Q2 2020</b>	25.9% <b>Q2 2009</b>	34.7% <b>Q2 2009</b>	32.3% <b>Q3 2009</b>	4.6% <b>Q3 2001</b>	4.6% <b>Q4 2008</b>
<b>Worst Quarter</b>	-22.8% <b>Q4 2008</b>	-23.3% <b>Q1 2020</b>	-27.6% <b>Q4 2008</b>	-36.1% <b>Q4 2008</b>	-3.4% <b>Q1 2021</b>	-2.7% <b>Q2 2015</b>

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# Long-Term Market Summary: Index Returns

AS OF JUNE 30, 2021



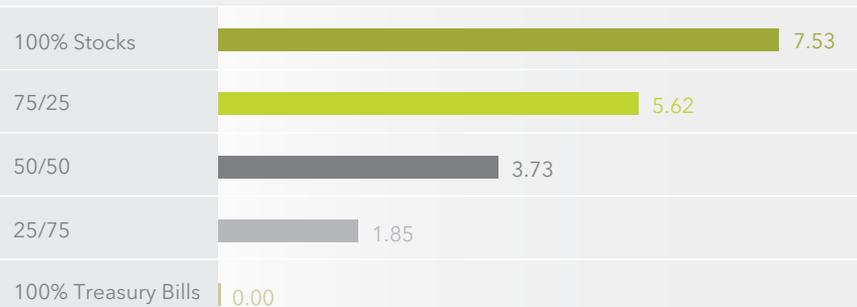
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# Impact of Diversification: Index Returns

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These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

## Ranked Returns for the Quarter (%)



## Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV <sup>1</sup>
100% Stocks	12.56	39.87	15.14	15.20	10.48	14.03
75/25	9.32	28.96	11.84	11.73	8.12	10.52
50/50	6.15	18.71	8.40	8.20	5.67	7.00
25/75	3.05	9.08	4.85	4.64	3.14	3.49
100% Treasury Bills	0.01	0.06	1.21	1.06	0.55	0.23

\* Annualized

## Growth of Wealth: The Relationship Between Risk and Return



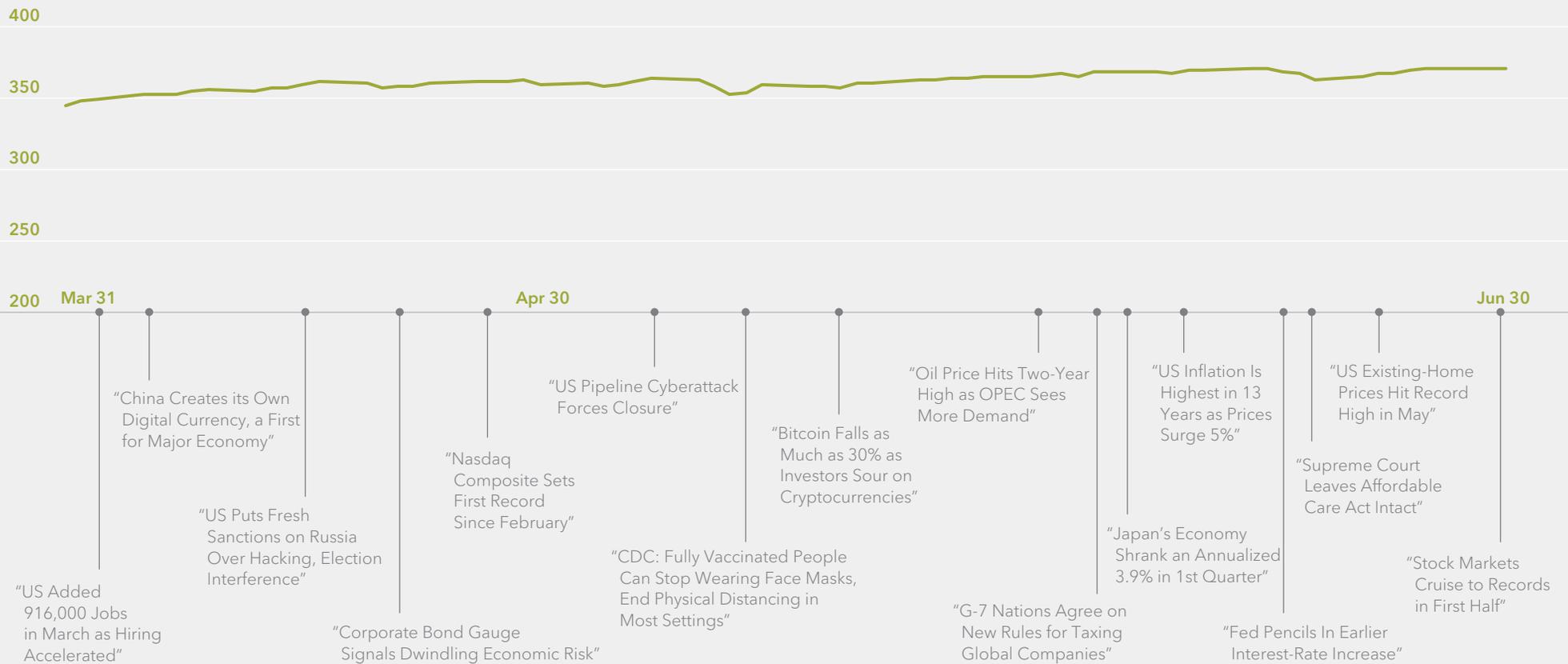
1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

Diversification does not eliminate the risk of market loss. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio. Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2021, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

# World Stock Market Performance: Selected Headlines

SECOND QUARTER 2021

MSCI All Country World Index with selected headlines from Q2 2021



**These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.**

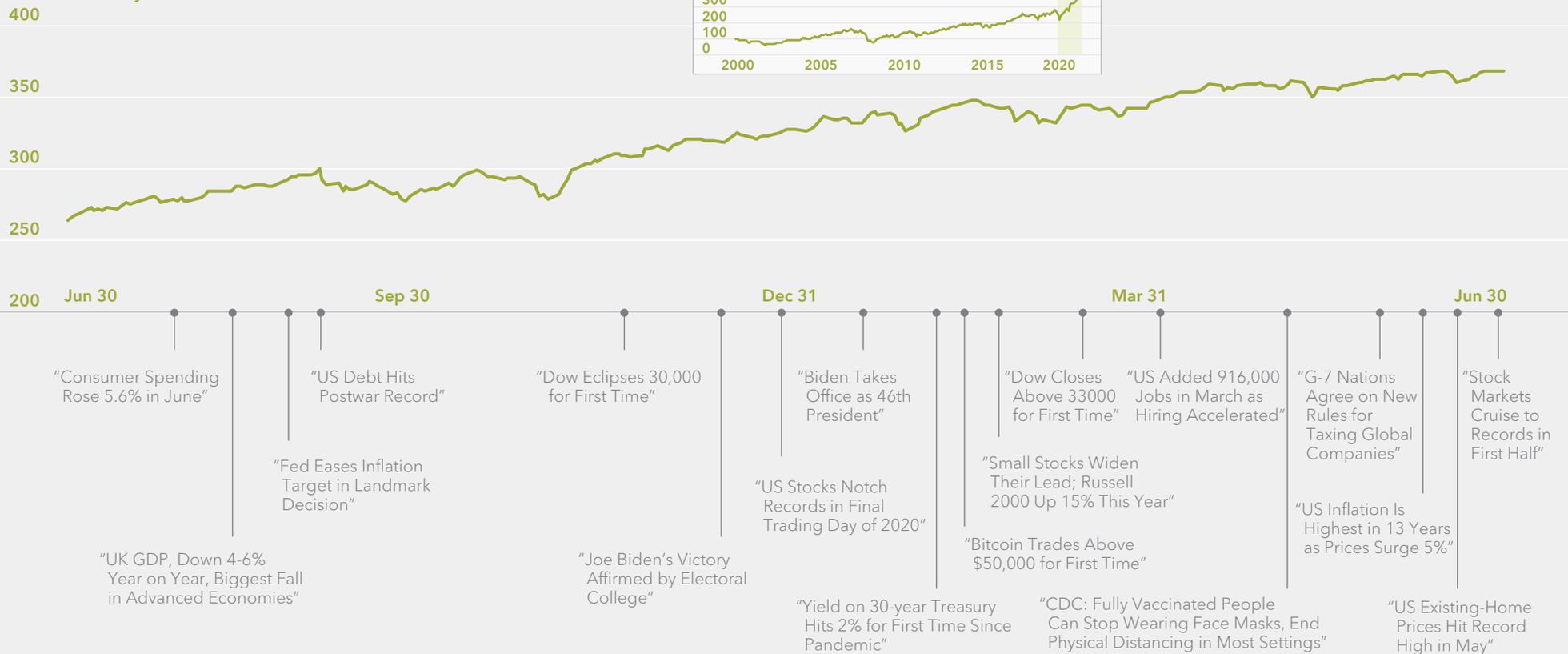
Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved. It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

# World Stock Market Performance: Selected Headlines

SECOND QUARTER 2021

## Short Term (Q2 2020-Q2 2021)

MSCI All Country World Index with Selected Headlines From Past 12 months



**These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.**

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved. It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

## World Asset Classes: Index Returns (%)

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Equity markets around the globe posted positive returns in the second quarter. Looking at broad market indices, US and non-US developed markets outperformed emerging markets for the quarter. Value performance was mixed in the US, with small value outperforming small growth but large value underperforming large growth. Value underperformed growth in non-US developed markets and outperformed in emerging markets. Small caps underperformed large caps in the US and non-US developed markets but outperformed in emerging markets. REIT indices outperformed equity market indices in the US and non-US developed markets.

Dow Jones US Select REIT Index	11.76
MSCI Emerging Markets Small Cap Index (net div.)	11.25
S&P 500 Index	8.55
Russell 1000 Index	8.54
Russell 3000 Index	8.24
S&P Global ex US REIT Index (net div.)	7.29
MSCI Emerging Markets Value Index (net div.)	5.67
MSCI World ex USA Index (net div.)	5.65
MSCI All Country World ex USA Index (net div.)	5.48
Russell 1000 Value Index	5.21
MSCI Emerging Markets Index (net div.)	5.05
MSCI World ex USA Small Cap Index (net div.)	4.81
Russell 2000 Value Index	4.56
Russell 2000 Index	4.29
MSCI World ex USA Value Index (net div.)	3.71
Bloomberg Barclays US Aggregate Bond Index	1.83
One-Month US Treasury Bills	0.00

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## US Stocks: Index Returns

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The US equity market posted positive returns for the quarter and outperformed non-US developed markets and emerging markets.

Value underperformed growth in large cap stocks but outperformed growth in small cap stocks.

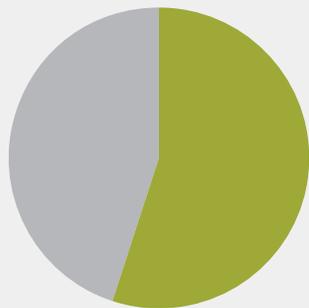
Small caps underperformed large caps.

REIT indices outperformed equity market indices.

### Ranked Returns for the Quarter (%)

Large Growth	11.93
Large Cap	8.54
Marketwide	8.24
Large Value	5.21
Small Value	4.56
Small Cap	4.29
Small Growth	3.92

### World Market Capitalization—US



**58%**  
 US Market  
 \$44.2 trillion

### Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	12.99	42.50	25.14	23.66	17.87
Large Cap	14.95	43.07	19.16	17.99	14.90
Marketwide	15.11	44.16	18.73	17.89	14.70
Large Value	17.05	43.68	12.42	11.87	11.61
Small Value	26.69	73.28	10.27	13.62	10.85
Small Cap	17.54	62.03	13.52	16.47	12.34
Small Growth	8.98	51.36	15.94	18.76	13.52

\* Annualized

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# International Developed Stocks: Index Returns

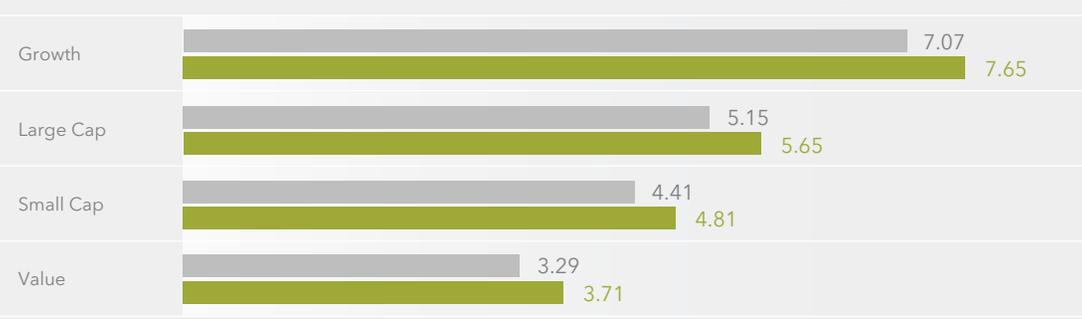
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Developed markets outside the US posted positive returns for the quarter, underperforming US equities but outperforming emerging markets.

Value underperformed growth.

Small caps underperformed large caps.

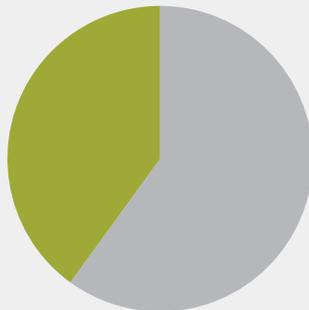
## Ranked Returns for the Quarter (%)



## World Market Capitalization—International Developed

29%

International  
Developed  
Market  
\$22.3 trillion



## Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Value	12.35	35.85	4.22	8.07	3.87
Large Cap	9.92	33.60	8.57	10.36	5.70
Small Cap	9.92	42.28	8.92	11.88	7.66
Growth	7.26	31.08	12.56	12.35	7.35

\* Annualized

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# Emerging Markets Stocks: Index Returns

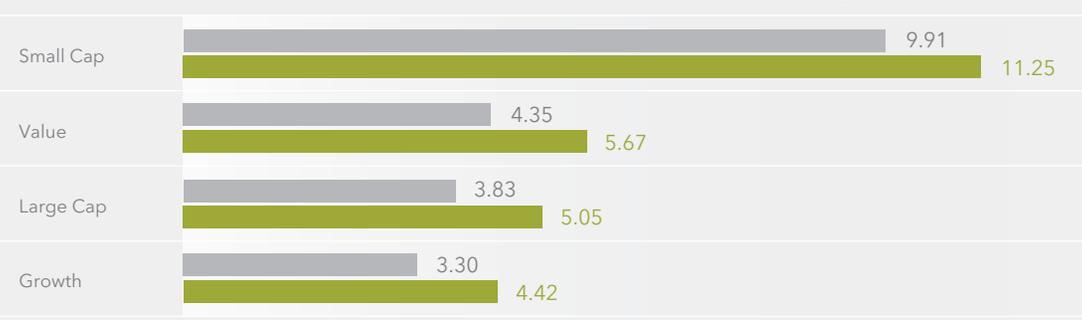
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Emerging markets posted positive returns for the quarter, underperforming the US and non-US developed equity markets.

Value outperformed growth.

Small caps outperformed large caps.

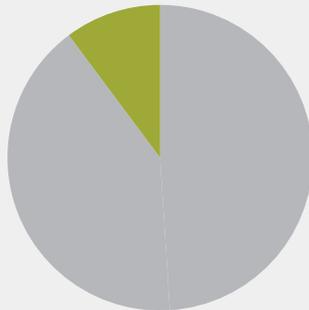
## Ranked Returns for the Quarter (%)



## World Market Capitalization—Emerging Markets

13%

Emerging Markets  
\$9.8 trillion



## Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Small Cap	19.78	63.75	12.31	11.86	4.55
Value	10.01	41.59	7.81	9.70	1.80
Large Cap	7.45	40.90	11.27	13.03	4.28
Growth	5.04	40.08	14.44	16.14	6.63

\* Annualized

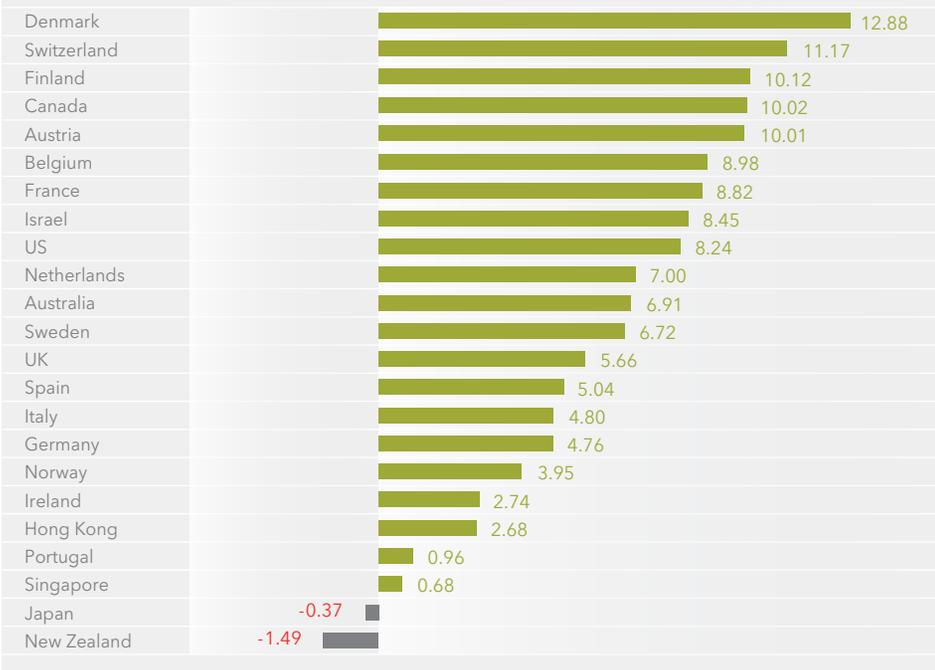
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## Select Market Performance: Index Returns

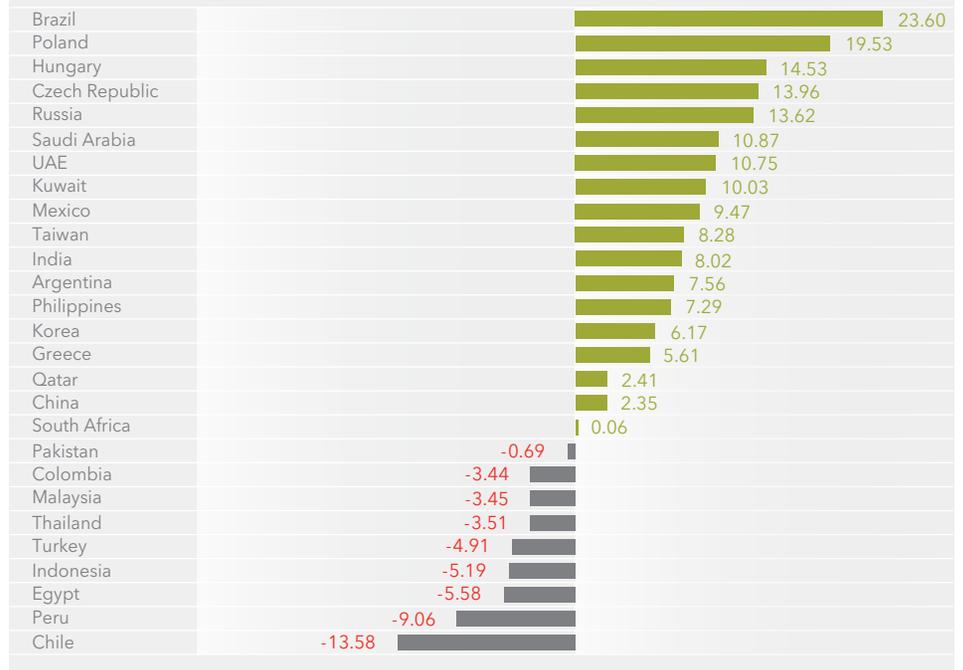
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In US dollar terms, Denmark and Switzerland recorded the highest country performance in developed markets, while New Zealand and Japan posted the lowest returns for the quarter. In emerging markets, Brazil and Poland recorded the highest country performance, while Chile and Peru posted the lowest performance.

### Ranked Developed Markets Returns (%)



### Ranked Emerging Markets Returns (%)



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## Select Currency Performance vs. US Dollar

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In developed markets, several currencies appreciated vs. the US dollar, but some, notably the Australian dollar, depreciated. In emerging markets, most currencies appreciated vs. the US dollar, but some, notably the Turkish lira, depreciated.

### Ranked Developed Markets (%)

Israeli New shekel (ILS)	2.34
Swedish krona (SEK)	1.92
Swiss franc (CHF)	1.82
Canadian dollar (CAD)	1.50
Danish krone (DKK)	0.92
Euro (EUR)	0.90
British pound (GBP)	0.13
Hong Kong dollar (HKD)	0.11
Singapore dollar (SGD)	-0.04
New Zealand dollar (NZD)	-0.23
Japanese yen (JPY)	-0.44
Norwegian krone (NOK)	-0.80
Australian dollar (AUD)	-1.43

### Ranked Emerging Markets (%)

Brazilian real (BRL)	12.46
Hungarian forint (HUF)	4.13
Polish zloty (PLN)	3.65
South African rand (ZAR)	3.41
Russian ruble (RUB)	3.37
Czech koruna (CZK)	3.33
Mexican peso (MXN)	2.76
New Taiwan dollar (TWD)	2.41
Chinese renminbi (CNY)	1.45
Korean won (KRW)	0.50
Kuwaiti dinar (KWD)	0.32
Indonesian rupiah (IDR)	0.17
Egyptian pound (EGP)	0.14
Saudi Arabian riyal (SAR)	0.00
Malaysian ringgit (MYR)	-0.12
Philippine peso (PHP)	-0.57
Chilean peso (CLP)	-1.33
Colombian peso (COP)	-1.58
Indian rupee (INR)	-1.64
Peruvian sol (PEN)	-1.84
Thai baht (THB)	-2.50
Pakistani rupee (PKR)	-3.11
Argentinian peso (ARS)	-3.91
Turkish lira (TRY)	-4.73

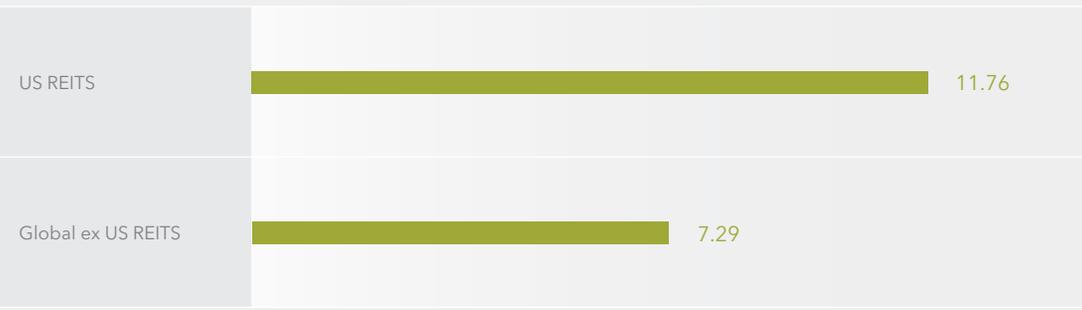
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## Real Estate Investment Trusts (REITs): Index Returns

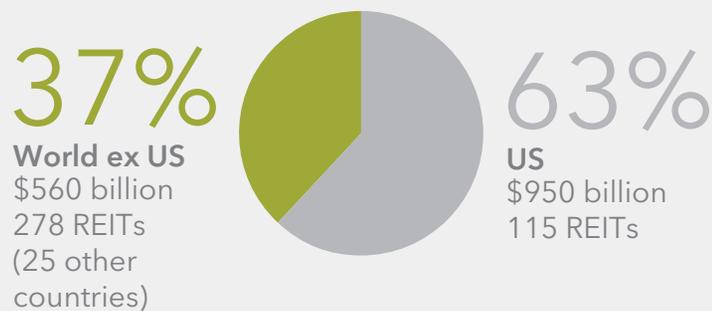
SECOND QUARTER 2021

US real estate investment trusts outperformed non-US REITs during the quarter.

### Ranked Returns for the Quarter (%)



### Total Value of REIT Stocks



### Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITS	22.94	39.98	8.13	5.16	8.67
Global ex US REITS	9.68	31.93	4.63	4.11	5.00

\* Annualized

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

# Fixed Income: Index Returns

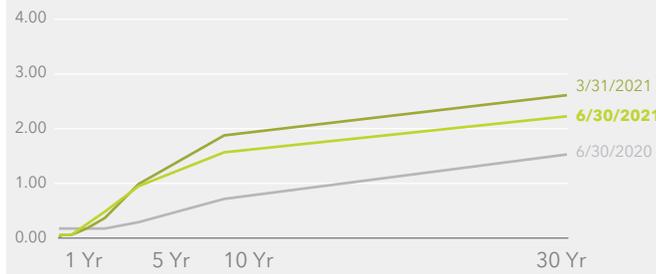
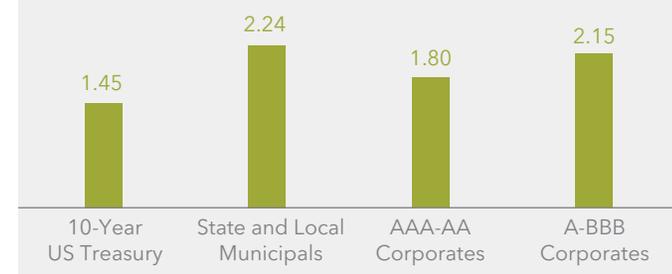
SECOND QUARTER 2021

Changes in interest rates in the US Treasury fixed income market were generally mixed during the second quarter of 2021. The yield on the 5-Year Treasury note decreased 7 basis points (bps) to 0.88%. The yield on the 10-Year T-note decreased 28 bps to 1.46%. The 30-Year Treasury bond yield declined 35 bps to 2.04%.

On the short end of the yield curve, the 1-Month US Treasury bill yield remained unchanged at 0.05%, and the 1-Year T-bill yield increased 2 basis point to 0.10%. The 2-Year Treasury note increased 10 bps to 0.25%.

In terms of total returns, short-term corporate bonds gained 0.70%. Intermediate-term corporate bonds returned 1.70%.

The total return for short-term municipal bonds was 0.30%, while intermediate-term munis returned 0.80%. Revenue bonds outperformed general obligation bonds.

**US Treasury Yield Curve (%)**

**Bond Yields Across Different Issuers (%)**

**Period Returns (%)**

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US Government Bond Index Long	6.43	-7.82	-10.42	7.97	3.18	6.62
Bloomberg Barclays US TIPS Index	3.25	1.73	6.51	6.53	4.17	3.40
Bloomberg Barclays US High Yield Corporate Bond Index	2.74	3.62	15.37	7.45	7.48	6.66
Bloomberg Barclays US Aggregate Bond Index	1.83	-1.60	-0.33	5.34	3.03	3.39
Bloomberg Barclays Municipal Bond Index	1.42	1.06	4.17	5.10	3.25	4.28
FTSE World Government Bond Index 1-5 Years	0.31	-2.08	2.08	2.31	1.27	-0.13
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.07	-0.30	0.11	2.82	1.92	1.88
ICE BofA 1-Year US Treasury Note Index	0.02	0.09	0.22	2.01	1.47	0.90
ICE BofA US 3-Month Treasury Bill Index	0.00	0.02	0.09	1.34	1.17	0.63

\* Annualized

One basis point (bps) equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2021 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2021 ICE Data Indices, LLC. S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

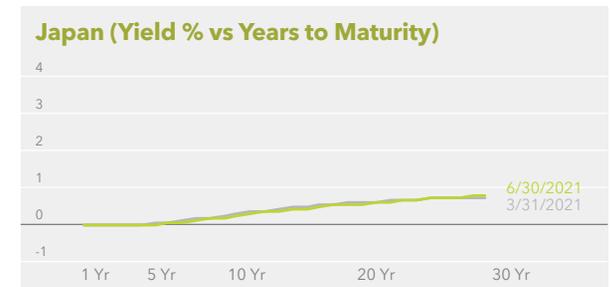
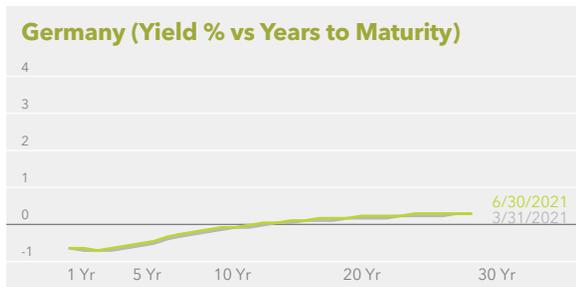
# Global Fixed Income Yield Curves

SECOND QUARTER 2021

Changes in government bond yields in the global developed markets were mixed for the quarter.

Term premiums were mixed in developed markets.

Short- and intermediate-term nominal interest rates were negative in Japan and Germany.



## Changes in Yields (bps) since 9/30/2020

	1Y	5Y	10Y	20Y	30Y
US	1.8	-6.5	-31.9	-31.8	-35.0
UK	0.8	-3.1	-9.9	-13.8	-13.8
Germany	-2.2	5.4	5.1	4.4	1.5
Japan	1.9	-1.5	-4.4	-3.7	2.2
Canada	11.1	1.8	-16.0	-16.1	-12.8
Australia	-11.0	-3.2	-24.7	-37.3	-40.5



One basis point (bps) equals 0.01%. Source: ICE BofA government yield. ICE BofA index data © 2021 ICE Data Indices, LLC.

## About Hemington Wealth Management

Hemington Wealth Management provides high net worth individuals and families with a broad range of wealth management services including portfolio management. We are collaborative, accessible and responsive, making it easy for clients to work with our team.

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