Condor Capital Reviews 2nd Quarter 2021

Condor Capital
1973 Washington Valley Rd
Martinsville, NJ 08836
(p) 732-356-7323
(f) 732-356-5875
info@condorcapital.com

Domestic equities continued to march higher, ending the quarter at all-time highs thanks to positive developments on the vaccination front.

Both developed and emerging market equities extended their gains during the quarter, as improving vaccine rates and reopening efforts boosted investor sentiment.

In fixed income markets, investor focus turned to inflation expectations and the subsequent response by the Federal Reserve.

July 2021

The second quarter of 2021 continued to produce strong returns for domestic equities, with the S&P 500 Index registering an 8.55% gain to end the quarter at yet another all-time high. The increased vaccination rate, continued federal stimulus programs, easy monetary policy, and robust earnings growth all served as catalysts for domestic equities' positive quarterly performance. The rally in the equity market did hit a speed bump mid-way through the quarter before resuming, as a weaker-than-expected jobs number and a higher-than-expected inflation reading temporarily increased market volatility. In response to this, investors began to rotate back into the less economically sensitive technology sector. At quarter's end, technology and real estate were the best-performing sectors, while laggards included consumer staples and utilities. On a market capitalization basis, large-cap equities outperformed their small-cap counterparts and growth names outperformed value.

Internationally, both developed and emerging market regions finished the second quarter higher, though both underperformed domestic equities, as an acceleration in vaccine rollouts coupled with a decline in COVID-19 cases aided market sentiment and furthered reopening efforts. Developed economies, as defined by the MSCI EAFE Index, rose 5.35% on the quarter, supported by a strong performance from European markets. Europe's vaccination rate, which had lagged over prior quarters, is now roughly in-line with the U.K. and the U.S. Additionally, economic data out of Europe has been relatively strong, with leading economic indicators such as the purchasing managers' index (PMI) reaching multi-year highs during the quarter. Emerging market equities, as defined by the MSCI Emerging Market Index, registered a 5.08% return during the second quarter, slightly underperforming their developed market counterparts. This slight underperformance came as higher-than-expected inflation readings from the U.S. caused China's government to reduce support for its economy. Overall currency strength in Brazil helped it become the best-performing emerging market during the quarter, while Peru and Chile came in among the weakest.

Turning to the fixed income market, inflation and the subsequent response by the Federal Reserve became the main focal points driving fixed income assets. During the quarter, annualized inflation rates rose to multi-decade highs, prompting concern amongst investors that elevated inflation rates may cause the Federal Reserve to reduce accommodative policies earlier than expected. At its meeting in June, the Federal Reserve acknowledged that tapering is now in discussion but reiterated that it believes the rise in inflation is transitory. Additionally, changes to the dot-plot projections now show two rate hikes in 2023, up from no rate hikes from the prior quarter's plot. That said, the U.S. 10-year Treasury Note ended the quarter yielding 1.45%, down from the prior quarter's 1.74% yield, as effective messaging by the Fed led investors to discount less inflation over the long run. Within the corporate market, investment-grade bonds outpaced their lower quality high-yield counterparts. Additionally, corporates outperformed government issues, including municipals, and long-duration bonds outperformed those with shorter duration.

Outlook – As we enter the back half of the year, U.S. economic figures and high-frequency data continue to suggest that the U.S. is in the midst of a strong and durable recovery. Current gross domestic product (GDP) readings show the U.S. economy growing at an annualized rate of 9.1% for the second quarter, followed by third quarter estimates of 8.2% annualized growth. This continual tick up in GDP would put U.S. real GDP above its prior December 2019 peak and set the economy back on track to reach its long-term trend growth rate of 2.5%.

On the high-frequency data front, restaurant dining has now returned to pre-pandemic levels, and hotel occupancy and air travel, while still down 10% and 25%, respectively, have both seen a meaningful move higher. Vaccination rates have contributed to significant improvements in these areas of the economy, with roughly 45% of U.S. adults now fully vaccinated at quarter's end – up from prior quarter's 20% rate. This material progress against the pandemic has helped underwrite improvements in the macroeconomic outlook and spurred equity markets' record rally.

Moving forward, we at Condor see markets less driven by pandemic-related news and, absent an unforeseen change, we do not expect COVID-19 to be the primary concern over the coming quarters. Instead, inflationary pressures and corporate earnings growth will be top of mind. Spikes in inflation readings during the second quarter put some investors on edge, although current inflation pressures look to be a consequence of constrained supply and recovery-influenced consumer demand. We at Condor maintain our belief that current inflation trends are transitory, with inflation remaining elevated through the back half of this year before leveling back down to a range of 2% to 3% over the medium term. We look to the coming quarter for more conclusive evidence supporting this belief, although some metrics in June implied that a reversal in the inflation rate may have started to unfold. Regardless of our own personal beliefs, Jerome Powell and the Federal Reserve have signaled that they also believe that these inflation trends are transitory, meaning they are likely to keep stimulative measures in place at least through the next year.

Turning to corporate earnings, the current rally in markets is underpinned by very strong corporate earnings growth, which has continued to beat expectations over the prior quarters. For 2021, S&P 500 earnings are now expected to jump around 18% from pre-pandemic levels. This 18% rise compares to earlier estimates at the onset of the year where earnings were supposed to grow roughly 12% from pre-pandemic levels. The combination of rising earnings, strong corporate operating leverage, and record levels of cash could be supportive of a move higher in markets.

As we move into this next stage of the recovery, our hope is that some of the pandemic-related overhangs surrounding the market, and life itself, begin to dissipate. Good long-term investing is a marathon rather than a sprint, and as such we will continue to monitor developments with both COVID and broader economic and market trends and update our outlook accordingly. As always, we thank you for your trust and look forward to continuing to work together to meet your financial goals and objectives.

A change in marital status can also alter the benefits you receive from your employer.

Integrating Employee and Retirement Benefits When You Marry

Marriage is a major life event that can change more than your last name or living situation. Your change in marital status can also alter the benefits you receive from your employer. When you marry, you and your spouse should determine how both of you can obtain maximum employee and retirement benefits at the lowest possible cost.

Tip: Many employers have fixed periods (the length of which varies, depending on the employer) for new spouses to sign up for various types of benefits. For example, you may only have 30-60 days after the wedding to add your spouse to your health insurance at work. Otherwise, you may need to wait until the next open enrollment period.

Employee benefits

Health insurance

Generally, health insurance costs less for a married couple than for two individuals. However, some insurance companies may offer only single or full family rates. If both you and your spouse work and have health insurance, you may want to consider integrating your health benefits. You should start by determining which of you has the better of the two plans. Once you determine which of the two plans is more attractive, either you or your spouse should obtain coverage under that plan and drop the less attractive plan. Factors to consider include variety of benefits and costs charged to the employee under each plan.

Example(s): Fred and Susan, a married couple, both work and have employer-sponsored health insurance. Fred's plan provides dental coverage, while Susan's plan does not. Since coverage for a married couple is cheaper than separate coverage for two individuals and Fred's plan provides more attractive benefits, Fred and Susan decide that Susan will obtain coverage under Fred's health plan and drop her existing coverage with her employer's health plan.

Tip: Job security is another factor that you and your spouse will want to consider when deciding whether or not to integrate employee benefits.

Other types of employee benefits

As a married employee, there are certain benefits you may want to consider that weren't necessary when you were single (e.g., life insurance). When you get married, you should contact your employer's human resources department in order to re-evaluate the benefits that are available to you. Adoption assistance and dependent care assistance can be valuable benefits for a couple wishing to start a family.

Employer-sponsored retirement plans

If both you and your spouse participate in an employer-sponsored retirement plan, you should be aware of each plan's characteristics. Plans may differ as to matching of contributions, investment options, and loan provisions. Together, you should review each plan carefully, determine which plan provides better benefits, and then make that plan the focus of your investment strategy.

Tip: In addition to determining which employer-sponsored retirement plan provides better benefits, you should review and update beneficiary designations accordingly.

Matching of contributions

Some employer-sponsored retirement plans will match your contributions to the plan. If either you or your spouse's plan matches contributions, you should determine which plan offers the better match and take advantage of it.

Example(s): Richard and Mary, a married couple, both participate in employer-sponsored retirement plans. Both plans match employee contributions. Richard's plan matches contributions on a dollar-for-dollar basis up to 3 percent of compensation. Mary's plan matches $0.80 on the dollar up to 7 percent of compensation. Richard and Mary decide that they will fund Richard's plan until they exhaust his employer's match and then fund Mary's plan thereafter.

Investment options

In addition to matching contributions, your plan and your spouse's employer-sponsored retirement plan may differ in the kind of investment options they offer. Some plans can offer a wide variety of investments, which may include company stock, while others provide you with the opportunity to choose from just a few mutual fund investments.

Loans

You may find that some employer-sponsored retirement plans provide loans, while others do not. If you are considering using any contributions that you make to a plan for pre-retirement costs (e.g., a child's college education) or short-term goals (e.g., buying a home), you may want to favor a plan that has a loan provision.

The material for this article has been prepared by Broadridge Advisor Solutions.

To ensure that your legacy reaches your heirs as you intend, you must make the proper arrangements now.

The material for this article has been prepared by Broadridge Advisor Solutions.

Leaving a Legacy

You've worked hard over the years to accumulate wealth, and you probably find it comforting to know that the assets you leave behind after your death will continue to be a source of support for your family, friends, and the causes that are important to you. But to ensure that your legacy reaches your heirs as you intend, you must make the proper arrangements now. There are four basic ways to leave a legacy: (1) by will, (2) by trust, (3) by beneficiary designation, and (4) by joint ownership arrangements.

Wills

A will is the cornerstone of any estate plan. You should have a will no matter how much your estate is worth, and even if you've implemented other estate planning strategies.

You can leave property by will in two ways: (1) making specific bequests and (2) making general bequests. A specific bequest directs a particular piece of property to a particular person ("I leave Aunt Martha's diamond broach to my niece, Jen"). A general bequest is typically a percentage of property or property that is left over after all specific bequests have been made. Typically, principal heirs receive general bequests ("I leave all the rest of my property to my wife, Jane").

With a will, you can generally leave any type of property to whomever you wish, with some exceptions, including the following:

- Property will pass according to a beneficiary designation even if you name a different beneficiary for the same property in your will
- Property owned jointly with rights of survivorship passes directly to the joint owner
- Property in a trust passes according to the terms of the trust
- Your surviving spouse has a right to a statutory share (e.g., 50%) of your property, regardless of what you leave him or her in your will
- Children may have inheritance rights in certain states

Leaving property outright to minor children is problematic. You should name a custodian or property guardian, or use a trust.

Trusts

You can also leave property to your heirs using a trust. Trust property passes directly to the trust beneficiaries according to the trust terms. There are two basic types of trusts: (1) living or revocable, and (2) irrevocable.

Living trusts are very flexible because you can change the terms of the trust (e.g., rename beneficiaries) and the property in the trust at any time. You can even change your mind by taking your property back and ending the trust.

An irrevocable trust, on the other hand, can't be changed or ended except by its terms, but can be useful if you want to help reduce estate taxes or protect your property from potential creditors.

You create a trust by executing a document called a trust agreement. You should have an attorney draft any type of trust to be sure it accomplishes what you want.

A trust can't distribute property it does not own, so you must also transfer ownership of your property to the name of the trust. Property without ownership documentation (e.g., jewelry, tools, furniture) is transferred to a trust by listing the items on a trust schedule. Property with ownership documents must be re-titled or re-registered.

You must also name a trustee to administer the trust and manage the trust property. With a living trust, you can name yourself trustee, but you'll need to name a successor trustee who'll transfer the property to your heirs after your death.

A living trust is also a good way to protect your property in case you become incapacitated.

The use of trusts involves a complex web of tax rules and regulations and usually involves upfront costs and ongoing administrative fees. You should consider the counsel of an experienced estate conservation professional before implementing a trust strategy.

Beneficiary designations

Property that is contractual in nature, such as life insurance, annuities, and retirement accounts, passes to heirs by beneficiary designation. Typically, all you have to do is fill out a form and sign it. Beneficiaries can be persons or entities, such as a charity or a trust, and you can name multiple beneficiaries to share the proceeds. You should name primary and contingent beneficiaries.

You shouldn't name minor children as beneficiaries. You can, however, name a guardian to receive the proceeds for the benefit of the minor child.

You should consider the income and estate tax ramifications for your heirs and your estate when naming a beneficiary. For example, proceeds your beneficiaries receive from life insurance are generally not subject to income tax, while your beneficiaries will have to pay income tax on proceeds received from tax-deferred retirement plans (e.g., traditional IRAs). Check with your financial planning professional to determine whether your beneficiary designations will have the desired results.

Be sure to re-evaluate your beneficiary designations when your circumstances change (e.g., marriage, divorce, death of beneficiary). You can't change the beneficiary with your will or a trust. You must fill out and sign a new beneficiary designation form.

Some beneficiaries can't be changed. For example, a divorce decree may stipulate that an ex-spouse will receive the proceeds.

Certain bank accounts and investments also allow you to name someone to receive the asset at your death.

Joint ownership arrangements

Two (or more) persons can own property equally, and at the death of one, the other becomes the sole owner. This type of ownership is called joint tenancy with rights of survivorship (JTWRS). A JTWRS arrangement between spouses is known as tenancy by the entirety in certain states, and a handful of states have a form of joint ownership known as community property.

Condor Capital
1973 Washington Valley Rd
Martinsville, NJ 08836
(p) 732-356-7323
(f) 732-356-5875
info@condorcapital.com

There is another type of joint ownership called tenancy in common where there is no right of survivorship. Property held as tenancy in common will not pass to a joint owner automatically, although you can leave your interest in the property to your heirs in your will.

Joint ownership arrangements may be useful and convenient with some types of property, but may not be desirable with all of your property. For example, having a joint checking account ensures that, upon your death, an heir will have immediate access to needed cash. And owning an out-of-state residence jointly (e.g., a vacation home) can avoid an ancillary probate process in that state. But it may not be practical to own property jointly when frequent transactions are involved (e.g., your investment portfolio or business assets) because you may need the joint owner's approval and signature for each transaction.

There are some other disadvantages to joint ownership arrangements, including: (1) your co-owner has immediate access to your property, (2) naming someone who is not your spouse as co-owner may trigger gift tax consequences, and (3) if the co-owner has debt problems, creditors may go after the co-owner's share.

Unlike with most other types of property, a co-owner of your checking or savings account can withdraw the entire balance without your knowledge or consent.

Buying a Home Both You and Your Insurer Will Love

You're house hunting, and you've brought along a wish list of features that you consider important, such as a certain number of bedrooms, adequate storage, and an up-to-date kitchen. But does your list include features that will affect your homeowners insurance premium? Buying a well constructed home equipped with certain safety devices may allow you to qualify for a lower insurance premium and help you avoid future insurance claims.

Home traits that affect premium rates

Because a home's location, construction, and safety features can affect the premium you'll pay for homeowners insurance, you'll usually be asked to provide specific details about the home you're purchasing when you request an insurance quote. This information will be used, along with other factors, to generate an accurate quote and to determine the actual premium rate that will apply once you're issued a policy.

Keep in mind that premium rates may vary, because each insurance company sets its own underwriting guidelines in accordance with state regulations. But all insurers within a state may be required to offer certain premium discounts for homes with features that help reduce insurance claims. Other discounts are optional and will vary from one insurer to the next.

- Age. Newer homes often cost less to insure than older homes because they are built according to strict building codes, and the electrical, heating, and plumbing systems are likely to be in good shape, reducing the risk of fire and water damage.
- Construction. The construction materials used to build the home may affect your insurance premium. For instance, brick homes are more fire-resistant than wood frame homes so in some areas of the country they cost less to insure. Discounts may also be available if weather-resistant features such as hurricane shutters or impact-resistant roofs have been installed.
- Location. Insurance premiums are likely to be higher for homes located near the coast or in areas at high risk for a natural or weather-related disaster.
- Security devices and fire protection systems. Many insurers offer discounts for monitored alarm systems, deadbolt locks, smoke detectors, fire alarms, or sprinklers. More sophisticated devices usually qualify for higher discounts.
- Proximity to fire department. When setting premium rates, insurers generally consider the home's distance from the local fire department and whether a fire hydrant is nearby. Homes located in rural areas far from fire equipment may cost more to insure.

When it's time to buy homeowners insurance, ask about available discounts. And remember that flood and earthquake damage isn't covered by a standard homeowners insurance policy. You'll need to purchase separate insurance to cover these risks.

Spotting potential problems

As you walk through a home, keep your eye out for evidence of damage or defects. Although serious problems can be a lot harder to spot than a lack of cabinet space, spending time identifying potential defects up front may help you avoid future insurance claims.

- Look for signs of water-related damage or excessive moisture, especially in basements and attics, and on roofs and ceilings. Signs that drainage problems may exist include mud or sunken spots in the yard, or areas that slope towards the foundation.
- Visit the home more than once. Walk or drive through the neighborhood, too, preferably at different times of the day and in different weather conditions. And talk to the neighbors--they can be a good source of information about the neighborhood and the home you're considering.
- Ask the seller about past insurance claims. If your state requires sellers to provide written disclosure notices detailing known issues with the home, carefully review these before purchasing the property. But remember, sellers won't necessarily disclose every problem that exists.
- Ask questions. For instance, find out why many homes in the area are getting new siding or roofs. Or if the home is priced much less than similar homes in the area, are you getting a good deal--or inheriting someone else's problems?

Once you've decided on a home, make your offer or purchase agreement contingent upon a satisfactory professional home inspection. That way, you can try negotiating a price adjustment or even walk away from the sale if you find out that the home has significant defects.

And to avoid surprises, shop for homeowners insurance as early as possible in the home buying process. You don't want to find out too late that the home you've chosen will be expensive or difficult to insure.