TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

July 2021

Quarterly Insights

EXECUTIVE SUMMARY

US Stocks Lead All Major Regions In Q2

In the Second Quarter, the domestic S&P 500 Index was up 8.54% to lead all major regions in the recovery from the pandemic. Year to date, the S&P 500 is up 15.25%. Large cap stocks led small cap stocks in Q2, the reverse of what happened in Q1. Despite the Fed further increasing their 2021 projections for inflation and GDP growth in June, interest rates fell. This surprised us. We still expect interest rates to rise in the future. The 10-Year Treasury fell 29 basis points and the Bloomberg Barclay's US Aggregate Bond Index rose 1.83% in Q2 (when rates fall, bond prices rise).

The S&P 500 Has Become A Top-Heavy Index

The S&P 500 uses a float adjusted market capitalization weighting. This means that the index weighting is cumulatively adjusted based on each individual company's market capitalization. Put simply, the largest companies as measured by market capitalization have the most influence on the index. The 2019 and 2020 Tech rally has caused the S&P 500 to become more heavily weighted towards the Tech sector and its largest companies. Relatively fewer companies have become more dominant forces on the index.

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Second Quarter 2021

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The S&P 500 Index Is The Most Appropriate Equity Benchmark

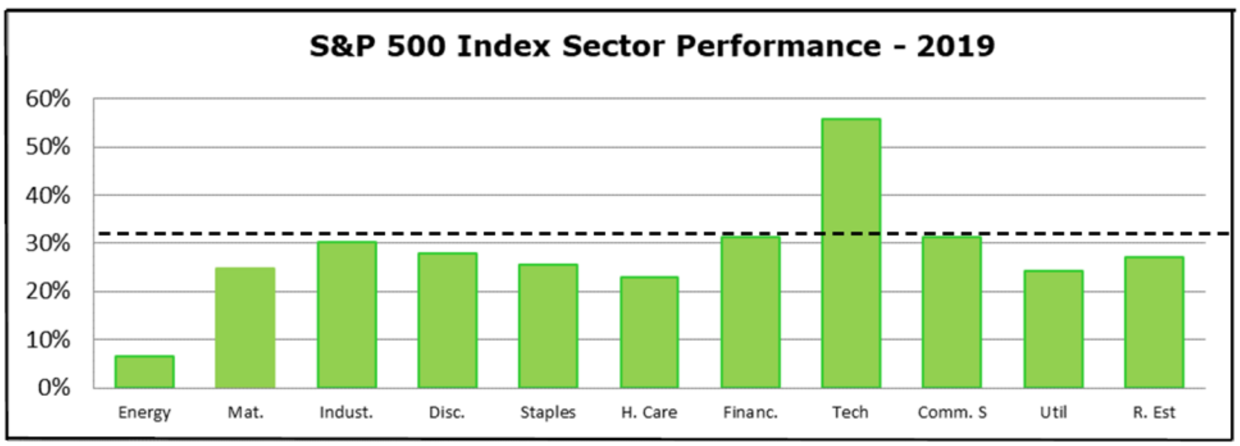
Every quarter we send you portfolio performance data that references the S&P 500 Index as our equity benchmark. This is not a random decision on our part. The S&P 500 Index is the most commonly used benchmark for the overall performance of the US stock market. It was initially established in 1957 as an index comprised of 500 of the leading and largest companies in the US. Prior to that, S&P (Standard & Poor's) had established a 90 stock composite in 1926.

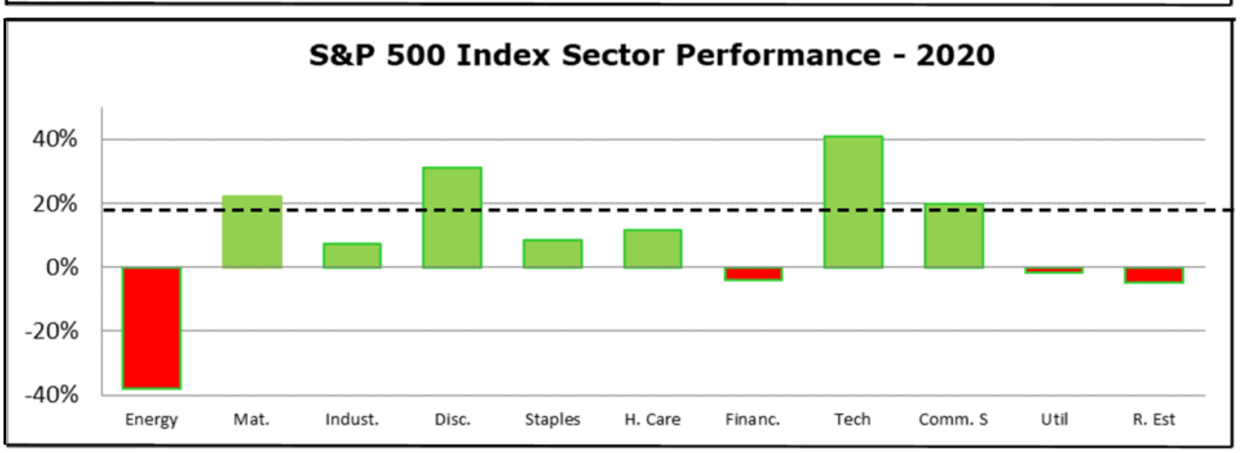
The S&P 500 is considered a bell-weather of the US economy. It is comprised of the leading companies in 11 sectors and represents a fully diversified view of the stock market. The index has only "large cap companies" with a minimum market capitalization of $11.8 billion (market capitalization = number of company shares outstanding * market price per share). To be included in the index, a company must be headquartered in the US, be highly liquid, and have at least 10% of its shares outstanding and available for public trading.

The S&P 500 uses a float adjusted market capitalization weighting. This means that the index weighting is cumulatively adjusted based on each individual company's publicly available market capitalization. Put simply, the largest companies as measured by market capitalization have the most influence on the index.

The Tech Rally Over The Last Few Years Has Made The S&P 500 A Top-Heavy Index

The Tech sector has led the parade the last few years. In 2019, the Tech sector was up a staggering 55.84%. As an encore, the Tech sector was up 40.88% in 2020. The significant sector out-performance has caused the S&P 500 to become more heavily weighted towards the Tech sector and its largest companies. Relatively fewer companies have become more dominant forces on the index. The top 3 companies account for 17% of the index. The top 5 account for 24%. The top 10 is nearly 30% and the top 20 is nearly 40%.





You've Got To Know When To Hold 'Em, Know When To Fold 'Em

In 2020, the four largest-cap stocks in the S&P 500 Index comprised roughly 19% of the index and contributed a staggering 78% of the index returns. Without holding Apple, Amazon, Microsoft and Facebook at the index weight or higher, it would have been very tough to exceed the S&P 500 Index performance. Fortunately, we held all four and out-performed. So far in 2021, these same four stocks have comprised roughly 20% of the index and contributed 20% of the index returns. This represents a "normalization" of return attribution. We view this as a cue to look at outside opportunities for stock selection. No individual company dominates performance forever.

Symbol	Name	Sector	Market Cap ($ billions)	Total Return (%)	Index Weight (%)	2020 Performance Impact (%) (see Note 1)	
AAPL	Apple	Technology	$2,256	82.31%	6.74%	6.57%	
AMZN	Amazon	Discretionary	$1,634	76.26%	4.88%	4.41%	
MSFT	Microsoft	Technology	$1,682	42.53%	5.03%	2.53%	
FB	Facebook	Comm Services	$778	33.09%	2.33%	0.91%	
					18.98%	14.42%	
		S&P 500 Index:	$33,472		S&P 500 Index:	18.40%	
				Attribution:	4 Stocks	14.42%	0.78
					496 Stocks	3.98%	0.22
						18.40%	1.00

Note 1: Performance Impact Of An Individual Stock = (Total Return) * (Index Weight) * (1 + S&P Perf. 2020)

Symbol	Name	Sector	Market Cap ($ billions)	Total Return (%)	Index Weight (%)	2021 Q2 YTD Performance Impact (%) (see Note 1)	
AAPL	Apple	Technology	$2,401	3.22%	6.56%	0.24%	
AMZN	Amazon	Discretionary	$1,845	5.63%	5.05%	0.33%	
MSFT	Microsoft	Technology	$2,080	21.80%	5.68%	1.42%	
FB	Facebook	Comm Services	$998	27.29%	2.73%	0.85%	
					20.02%	2.84%	
		S&P 500 Index:	$36,608		S&P 500 Index:	14.41%	
				Attribution:	4 Stocks	2.84%	0.20
					496 Stocks	11.57%	0.80
						14.41%	1.00

The Canadian Hall Of Shame: Nortel Networks

No story best illustrates the potential perils of float adjusted market capitalization weighting than that of Nortel Networks. Back in 2000, Canada-based Nortel was a global success story in the telecommunications industry. Its equipment carried 75% of the Internet traffic in North America. On August 1, 2000, Nortel reached a market capitalization of $320 billion, which represented almost 35% of the TSE 300 (Toronto Stock Exchange). Less than a year later, Nortel had lost 88% of its market capitalization and represented 7% of the index. The company ultimately went bankrupt. Imagine the pressure on the Canadian money managers, whose equity benchmark was the TSE 300, to breach fiduciary duty and hold massive weightings of Nortel for their clients at its 2000 peak. Imagine the damage to many Canadians regarding their retirement assets.

US Stocks Lead All Major Regions In Q2

In the Second Quarter, the domestic S&P 500 Index was up 8.54% to lead all major regions in the recovery from the pandemic. Chinese government interference with its local companies and strained US/China relations hurt Chinese stocks. China was up 1.52% in Q2 and is up only 1.08% year-to-date.

Equity Index Performance

Index	Q2 2021	2021
S&P 500 (Domestic)	**8.54%**	**15.25%**
MSCI EAFE (Foreign) *	**4.37%**	**7.33%**
MSCI Emerging Markets	**4.42%**	**6.46%**
MSCI EMU (European Monetary Union)	**5.55%**	**10.24%**
MSCI Japan	**(0.45%)**	**0.35%**

* Europe, Australia and the Far East

Large Cap Led Small Cap In Q2

Large cap stocks led small cap stocks in Q2, the reverse of what happened in Q1. Year-to-date, US large cap (S&P 500 Index) and US small cap (Russell 2000 Index) have performed very close to each other. There was little performance difference between small cap value and growth stocks in Q2. This was not the case in Q1.

2021 US Equity Index Performance

Index	Q2	Q1	Year-To-Date
S&P 500 Index (Large Cap)	8.54%	6.17%	15.25%
Russell 2000 Index (Small Cap)	4.05%	12.44%	16.92%
Russell 2000 Growth	3.87%	4.74%	8.80%
Russell 2000 Value	4.16%	20.74%	25.76%

Source: Telemet

Q2 relative sector performance was tight as compared to Q1. Tech (+11.30%) was the second-leading Q2 sector as it recovered from a mediocre Q1.

2021 Time Frame	S&P 500 Performance	Relative Sector Performance
Q2	8.54%	**Tight**
Year-To-Date	15.25%	**Out-Performance:** Energy, Financials, Telecommunication Services, Real Estate **Under-Performance:** Staples, Utilities

Bonds Rise In Q2

The Barclay's Capital US Aggregate Bond Index, a broad-based representation of bond performance, rose 1.83% in the Second Quarter, following a 3.37% fall in Q1. Year-to-date, the bond index is down 1.60%. We realize that the bond return so far in 2021 is nothing to get excited about. Remember that bonds are an important defensive component of your portfolio.

Key US Interest Rates	March 31, 2021	June 30, 2021	Change
Federal Reserve Board Funds Target Rate	0 - 0.25%	0 - 0.25%%	0 basis points
2-Year Treasury (Constant Maturity)	0.16%	0.25%	+ 9 basis points
5-Year Treasury (Constant Maturity)	0.92%	0.87%	- 5 basis points
10-Year Treasury (Constant Maturity)	1.74%	1.45%	- 29 basis points

We Were Surprised The 10-Year Treasury Rate Fell In Q2 - We Still Expect It To Rise

In its March meeting, the Fed raised its 2021 GDP growth projection from 4.2% to 6.5% and raised its 2021 inflation projection from 1.8% to 2.4%. In its June meeting, the Fed further raised its 2021 GDP growth projection to 7.0% and its 2021 inflation projection to 3.4%. The Fed expects these hikes to be transitory.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, June 2021

Percent

Variable	Median [1]			
	2021	2022	2023	Longer run
Change in real GDP	7.0	3.3	2.4	1.8
March projection	6.5	3.3	2.2	1.8
Unemployment rate	4.5	3.8	3.5	4.0
March projection	4.5	3.9	3.5	4.0
PCE inflation	3.4	2.1	2.2	2.0
March projection	2.4	2.0	2.1	2.0
Core PCE inflation [4]	3.0	2.1	2.1	
March projection	2.2	2.0	2.1	
Memo: Projected appropriate policy path				
Federal funds rate	0.1	0.1	0.6	2.5
March projection	0.1	0.1	0.1	2.5

Based on these Fed estimates, we expected interest rates to rise. So would John Taylor. The Taylor Rule, invented and published from 1992 to 1993 by Stanford economist John Taylor, is a formula that can be used to predict or guide how the Fed should alter interest rates due to changes in the economy. In its simplicity, the Taylor Rule predicts the Fed will raise its target funds rate when inflation rises above 2% or real GDP growth rises above 2.2%, and lower the target rate when either of these falls below their respective targets. Projected economic conditions dictate a rise in the zero Fed funds rate before 2023.

Extending Taylor's doctrine, we would expect that as long as the Fed does not act and raise its target rate, inflation will build until the Fed is forced to act. Therefore we still expect interest rates to rise in the future, even though this did not play out in Q2.

How To Take Advantage Of A Low-Income Year

Low income years (LIY) can offer opportunities for tax efficiency, cost savings and optimal long term financial planning. The pandemic was not kind to many people and businesses. Others may experience intended or unintended career breaks. Some people save enough to retire in their 60s, which can allow 5 to 10 years of LIY before social security payments and required minimum IRA distributions. Whatever the cause of the LIY, there are some smart tactics to consider in building long-term wealth.

1. Do A Roth Conversion

You want to pay as little income tax as possible. A Roth Conversion (convert funds from a Regular IRA to a Roth IRA) may allow you to make smart tax moves that will save money in the long term. If you anticipate significantly-lower income in a certain year (and increasing in subsequent years), you could plan a conversion for the low-income year. You may be in a lower tax bracket the year you convert. If the IRS announces a tax rate increase(s) to go into effect for the following year(s), a conversion in the current year would save income tax. For further details regarding Roth Conversions, please see Financial Planning Spotlight, Quarterly Insights April 2021.

2. Take A Regular IRA Distribution

A low-income year may allow you to take a Regular IRA distribution with low (or no) tax consequences. Perhaps the proceeds can be put in a Roth IRA (a Roth Conversion). Let us illustrate. For 2021, a single taxpayer has a basic federal tax exemption of $12,550 and has a 12% federal tax rate for income in the range of $9,951 to $40,525 (before being elevated to a 22% marginal tax bracket). If you have a LIY and your income falls below $50,000, there is tremendous potential to take a sizeable Regular IRA distribution without incurring a large tax bill.

3. Sell Appreciated Stock And Avoid Paying Capital Gains

If you have a LIY, you can take advantage by selling appreciated stock and capturing gains. In a LIY, you may not pay any capital gains tax if your income is below $40,000 (single) or $80,000 (married). You can make the most of the LIY by selling appreciated stock and harvesting tax-free gains.

4. Take Advantage Of Health Care Subsidies

If you are under 65 years old, there are subsidies based on low income levels in the Affordable Care Act. If you are 65 and older, there are subsidies based on low income levels regarding Medicare premiums.

Please contact us for further discussion if you have or anticipate having a LIY.

I Had A Close Call On June 1 - But Everything Is OK

For several weeks prior to Memorial Day Weekend, I was not feeling well. The initial medical diagnosis was that I had some form of food poisoning and resulting severe dehydration. Despite rest and drinking crazy amounts of Gatorade Zero to rehydrate myself, not much changed. I woke up on Tuesday, June 1, took a shower and expected to walk to work - but something did not feel right. A friend called 911 for me just in time and I was rushed to the hospital. I suffered a cardiac arrest.

The next several hours in the hospital are still hazy to me. Ultimately I was stabilized and told by my surgeon that I had significant artery blockage - in fact, one artery was 100% blocked. Five days later, I under-went a quadruple bypass surgery. I am thrilled to report that the surgery was successful, there was no permanent damage to my heart or kidneys, and my recovery has gone better and faster than expected.

How did this problem go undetected for so long? I have been Type 1 diabetic for most of my life. There is a high incidence of heart issues with long-term diabetics. This was a decades-long slow erosion. Also, the normal warning signs of heart problems are often hidden with Type 1s - for instance, I never felt chest pains and had a normal cholesterol level despite ultimately crashing at only a 30% heart efficiency.

Thanks to a superb medical team at Scripps Mercy Hillcrest Hospital, I feel better than I have in years. As a bonus, I also lost some weight in the ordeal (don't try this at home). I cannot thank everyone enough for your kind words of support and encouragement. It is great to be back!   Sincerely, Dan

GO PADRES!

We made several portfolio adjustments in Q2. The rationale for these moves included a style rotation towards the reflation trade and paring back some highly appreciated positions to take profits. These adjustments lowered the average market cap of the portfolio.

We bought Schneider Electric (symbol: SBGSY; $91 billion market cap), a France-based leading global supplier to industrial, utility, data center and energy customers. Its products span from ground equipment to sophisticated analytics and execution software. In the shift toward electricity and away from fossil fuels, we believe SBGSY is perfectly positioned with regards to electrical infrastructure and sustainability. We also doubled our exposure to Amazon (symbol: AMZN; $1.7 trillion market cap), a dominant player in online retail and web services (the Cloud). Its competitors have huge barriers to entry and the company has little regulatory risk. Quite simply, we believe AMZN is one of the best companies in the world and should continue to thrive going forward.

We sold Facebook Inc A (symbol: FB; $859 billion market cap), the world's largest online social network. While FB performed very well, we felt it was time to take profits and reallocate the proceeds. We believe FB faces high competitive and regulatory risk. We pared back Costco Wholesale Corp (symbol: COST; $163 billion market cap), the leading global warehouse club. Over the long-term, the company has performed exceptionally well. At this time, COST is an expensive stock (price/earnings ratio = 35). Its projected three-year annual growth is steady (roughly 9%) but not spectacular. We felt it was time to take some profits.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

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Disclaimer

The information presented herein is intended for informational purposes only. All views are subject to change based on updated indicators. The recommendations made in this publication are made without regard to individual suitability. Investors should consider their own needs and objectives before making any investment decision.

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented.

Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.