July 12, 2021

Dear O'Brien Client,

We hope you are all enjoying your summer and have had the opportunity to reconnect with family, friends, and some of your pre-pandemic activities.

Roughly 55% of the U.S. population has now received at least one dose of a COVID vaccine[1]. Excluding the roughly 60 million Americans too young to be eligible, that percentage rises to 67%. Include an additional 33 million Americans that have contracted COVID and now have natural antibodies, and the estimated share of the total population with some form of immunity is likely north of 70%[2].

Meaningful progress has been made in the fight against COVID in the U.S. and brought with it a sharp rebound in the economy and financial markets. We hope this progress continues and allows us to see you in person again soon.

Market and Portfolio Performance

2Q was another solid quarter of performance for markets, with every major asset class posting a gain. Stocks once again outperformed bonds, and within stocks the U.S. again led other regions. For the year, global stocks are now up double-digits, while investment-grade bonds are down slightly.

	2Q 2021	YTD 2021		2Q 2021	YTD 2021
Commodities	13.3%	21.3%	U.S. Small Cap Stocks	4.3%	18.5%
Real Estate Stocks	12.0%	21.8%	Investment Grade Bonds	3.3%	-1.3%
U.S. Large Cap Stocks	8.5%	15.9%	Gold	3.2%	-6.7%
U.S. Mid Cap Stocks	7.5%	16.9%	High Yield Bonds	2.8%	3.8%
Global Stocks	**7.4%**	**12.6%**	**U.S. Aggregate Bond Index**	**1.8%**	**-1.6%**
Non-U.S. Stocks	5.5%	9.1%	Treasuries	1.7%	-2.6%
Non-U.S. Developed Market Stocks	5.2%	9.0%	Municipal Bonds	1.4%	1.1%
Emerging Market Stocks	5.0%	7.0%	Mortgage-Backed Bonds	0.3%	-0.8%

Past performance is no guarantee of future returns. You cannot invest in an index.
YTD: Year-to-Date. Source: Morningstar, O'Brien Wealth Partners, as of 6/30/21.

This positive backdrop translated into positive absolute and relative portfolio performance during 2Q.

The equity sleeve of portfolios was the primary driver of performance, and it outperformed the benchmark for three reasons: 1) owning more U.S. securities than the benchmark, 2) favoring growth stocks over value stocks, and 3) fund manager active security selection in several mutual funds.

Fixed income performance rebounded during the quarter, although on a relative basis it lagged slightly behind the benchmark as your portfolios were less exposed to the rapid decline in interest rates.

Finally, alternative asset performance was also positive, with the hedged equity strategy on track to outperform its

[1] https://ourworldindata.org/covid-vaccinations
[2] Goldman Sachs estimate as of 7/6/21

benchmark. ESG alternative performance was also positive for the quarter, but its fixed income orientation appears to have lagged the benchmark during a strong risk-on market.

Depending on your mix of allocations to these buckets, year-to-date performance is up mid-to-high single digits, and performance relative to benchmarks is generally positive as well.

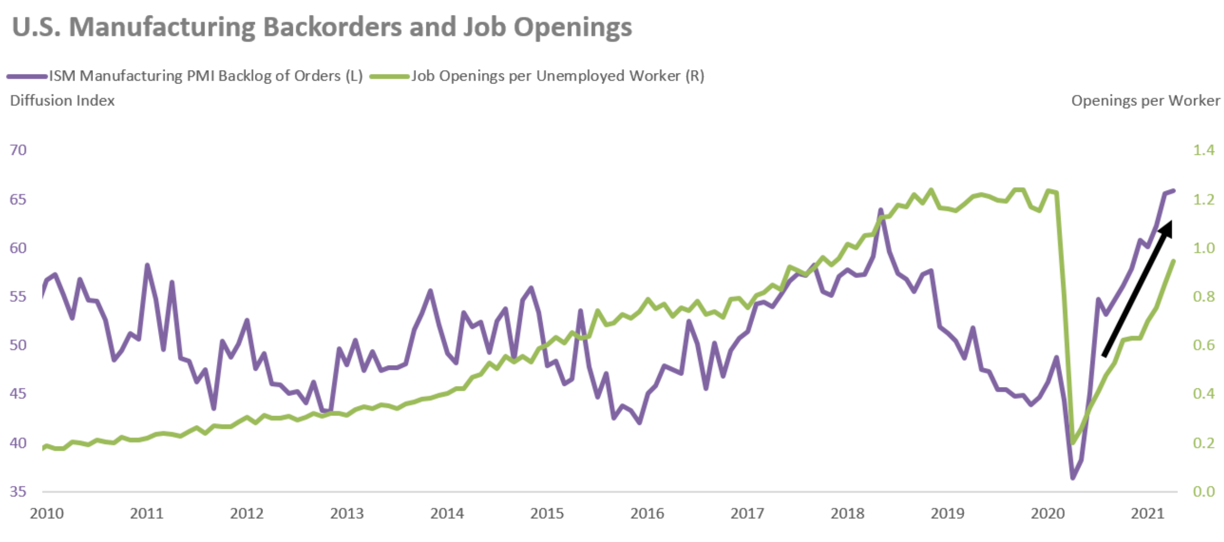
Economic and Market Outlook

As we turn to the economic and market outlook, we begin by considering opportunities and risks over multiple time horizons. More often than not, when there is a difference of opinion about an economy or asset market that difference comes down to the time horizon under consideration.

Starting with the secular (think next decade), we expect economic growth – on average – will likely be slower because population growth is slowing. When combined with today's high valuations, market returns may be more challenged than in previous decades. Our biggest concern is higher inflation, as the diversification benefits from owning stocks and bonds together tend to diminish when inflation is rising sustainably. Finally, we note that policy and political risks – be they anti-globalization pressures, rising populism, larger deficits, and/or greater regulatory intervention are probably here to stay.

Cyclically, the key driver of economic and market activity so far in 2021 has been the rollout of vaccinations and the reopening of economies. The U.S. was among the earliest countries to begin widespread vaccinations, which translated into an economic surge as the economy reopened. That economic tailwind is now shifting abroad, as the rest of the world is now ramping up their pace of vaccinations while the pace of U.S. vaccinations slows.

That dynamic does not mean that the outlook for the U.S. economy is poor, just that it will be more dependent on traditional economic drivers – such as business demand. To that extent, large backlogs of orders in manufacturing as well as a surge in job openings – as shown in the chart below – bode well for continued economic expansion, albeit at a more moderate pace than experienced over the past several quarters.



ISM: Institute for Supply Management. Source: ISM, Bureau of Labor Statistics, IHS Markit, O'Brien Wealth Partners, as of 4/30/21.

The reopening has brought with it supply shortages and a surge in prices for a wide variety of goods and services. This surge in inflation is likely transitory, however. Once supply shortages are alleviated, still-significant unemployment and underemployment compared to pre-COVID levels likely limits the potential for more rapid wage growth – which is a key component of sustainably rising prices.

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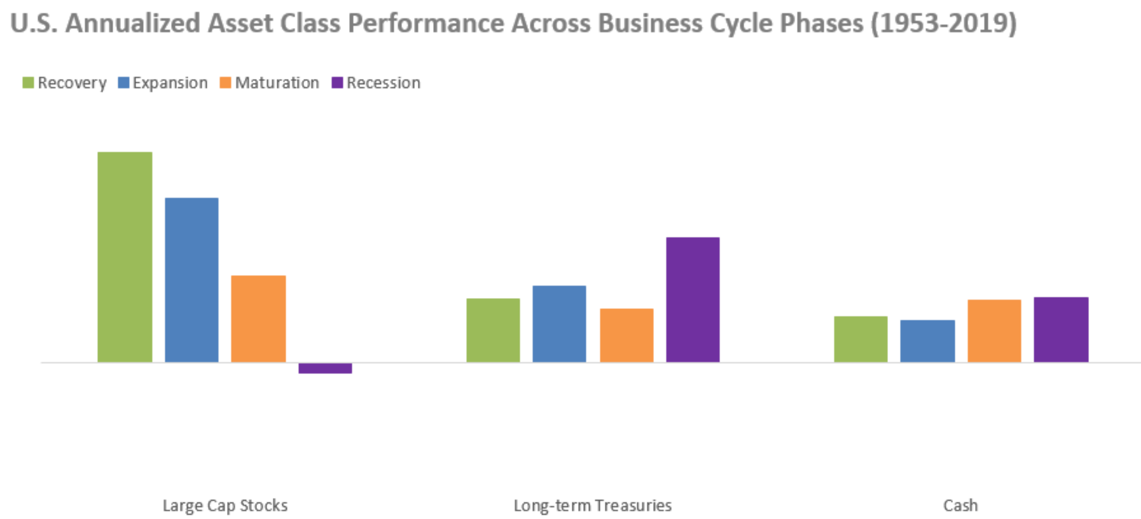
Public policy, which has been a major support for the economy and markets since COVID, is becoming more mixed. The Federal Reserve is poised to announce the beginning of reigning in monetary stimulus if job growth and inflation continue. And on the fiscal side, infrastructure stimulus is likely coming, but the timing and amount remain uncertain.

These macro views, in turn, lead us to the following investment outlook. Secularly, slower economic growth, high valuations, and policy/political risks are likely to persist and challenge average returns. Cyclically, the reopening surge shifting abroad may lead toward better relative returns abroad than domestically. That said, the U.S. remains in a solid expansion. Historically, as shown in the blue bars below, that economic backdrop has tended to coincide with risk assets continuing to outperform, albeit with less of a magnitude than experienced over the past year (the green bars).



Past performance is no guarantee of future results. You cannot invest in an index. Business Cycle phases as identified by O'Brien Wealth Partners. Source: Morningstar Direct, Ibbotson, CFA Institute, O'Brien Wealth Partners, as of 12/31/19.

There are risks to this outlook. Secularly, the biggest remains persistently higher inflation. Cyclically, public policy actions – from infrastructure stimulus uncertainty, to potential tax law changes, to new anti-trust legislation for large technology companies – all represent potential downsides of varying magnitudes to our base case.

Portfolio Activity

Finally, for those of you that were busy taking advantage of the reopening and have not looked at your portfolios for the past few months, we wanted to share that we began a revamping of the fixed income sleeve of portfolios during the quarter.

Fixed income plays three primary roles in portfolios. It provides diversification from equity market risk, downside protection to help limit losses during market pullbacks, and it generates income for investors.

The trades executed were designed to give us better flexibility to lean toward/away from these roles in a way that is similar to how we manage stocks. That is, dedicated allocations to markets that constitute our benchmark, the U.S. Aggregate Bond Index (AGG), along with smaller investments in out-of-benchmark assets (non-investment grade) where we see attractive opportunities.

We hope you are all taking care and staying healthy. If you have questions, or would like to talk, please reach out to your Advisor or any member of our investment team.

Your O'Brien Team

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