

Revisions drove valuations lower as the cyclical rotation resumed course in May. Tax returns line consumer wallets and equity flows show signs of persistence. Investors are sticking with bonds as the Fed readies to divest some 2020 purchases.

	MTD			QTD			YTD		
	Value	Core	Growth	Value	Core	Growth	Value	Core	Growth
Large	2.33	0.47	-1.38	6.43	5.88	5.33	18.41	12.14	6.32
Mid	1.97	0.80	-1.53	6.91	5.94	4.00	20.86	14.56	3.42
Small	3.11	0.21	-2.86	5.20	2.31	-0.74	27.47	15.30	4.10

	MTD	QTD	YTD
Growth	-1.38	5.33	6.32
Momentum	-1.63	5.36	5.19
Quality	0.91	5.61	9.67
Russell 1000	0.47	5.88	12.14
Low Vol	0.83	4.92	7.35
Small	0.21	2.31	15.30
Value	2.33	6.43	18.41

Source: Morningstar as of 5/31/2021. Style box Russell Indices. Low Vol (MSCI USA Min Vol Index), Momentum (MSCI USA Momentum Index, Quality (MSCI USA Quality Index)

May Recap

The US economy accelerated in May alongside market earnings expectations. Following the blowout Q1 earnings season, analyst estimates for Q2 2021 earnings rose 5.8% through the end of May, marking the largest increase in bottom-up earnings estimates for the first two months of a quarter since FactSet began tracking the metric in 2002. The increase in estimates contrasts with the longer-term trend of earnings expectations declining by an average of 3.7% heading into earnings seasons over the previous 15 years. Further upside may be in store with Q2 estimates still anchored 10% below Q1 results and 62% of companies issuing positive guidance for the quarter, well above the 5-year average of 35%.

As earnings revisions outpaced market performance, valuations trended cheaper. From April through May the S&P 500 advanced 5.5% as forward 12-month EPS estimates increased 8.9%. Using a wider lens, the S&P 500's forward 12-month P/E ratio, which began 2021 at a multiple of 22.6, entered June at 21.1. At the sector level, Energy's price multiple contraction from 33.1 to 19.0 leads the pack, but less cyclical sectors are participating as well. Technology trended 10% cheaper, and is now trading at 24.8 times forward earnings, down from 27.5 at the start of the year.

The cyclical rotation resumed course in May following a breather in April. Value led all factors with the lowest quintile of companies by P/E for the Russell 1000, Russell Midcap, and Russell 2000, outperforming the highest quintile by 714 bps, 550 bps, and 749 bps, respectively. Looking at factors, Quality had its 4th consecutive positive monthly return, up 0.91% on the month. Momentum declined 1.63% in May while undergoing a dramatic transformation. Punctuating the broader cyclical rotation, the MSCI Momentum Index saw its weighting to Financials expand to over 32.5% from 1.5%.

Disruption – May's Consumer Price Index reading depicted an economic engine restarting as opposed to overheating. The 5.0% headline and 3.8% core readings marked their highest year over year advances since September 2008 and May 1992, respectively. As inflation figures grew hotter, so too did the debate on the structural versus transitory nature of the phenomenon.

What is known is that the lion's share of the headline CPI lift came from the transportation category, which includes gasoline, used vehicles, and airline fares that printed year over year price increases of 56.2%, 29.7%, and 24.1%, respectively, coming off 2020 lows. Collectively, these components comprise less than 7.5% of the CPI index, bringing into question whether those rates of change can persist with the magnitude required for structurally higher inflation.

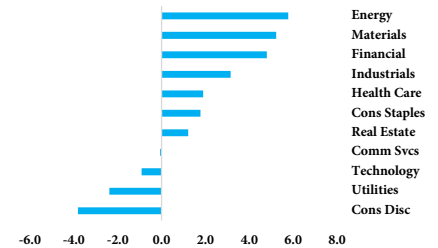
Consensus does appear to exist in bond markets, where participants near and far are not biting on the structural inflation narrative yet. Ten-year sovereign yields from the US, Germany, U.K., and Japan are all at least 10 bps off their 2021 highs, with the 10yr treasury now 30 bps below its 2021 peak yield that it reached at the end of March.

Trends – Tax season got off to a slow start in 2021 but with the May 17th extended filing deadline now behind us, its clear more households are receiving larger checks this year than in 2020.

Through June 4th over 102 million taxpayers have collectively received refunds aggregating to over \$285 billion for an average refund of \$2,857 according to the latest data from the IRS. That is up from \$253 billion across 91.3 million taxpayers for an average refund of \$2,769 in 2020.

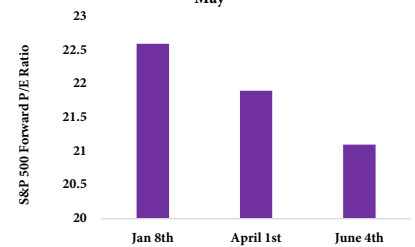
Extra cash in investor wallets could help extend the streak of positive retail net flows into US-focused equity mutual funds and ETFs to a 5th consecutive month following outflows in January. The latest from Morningstar shows US-focused equity funds taking in over \$53 billion through May of 2021, in contrast to the average annual outflows of \$15.2 billion over the past 15 years. A return of the retail investor as a marginal buyer has proved fruitful for markets in the past. The last time net flows surpassed \$50 billion was 2013 when the S&P 500 ended the year up over 32%.

S&P 500 Sector Returns: May 2021



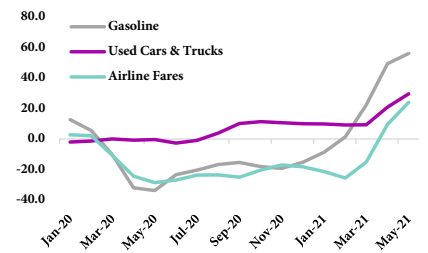
Source: Morningstar Direct as of 5/31/2021

Earnings Revisions Outpaced Markets Through May



Source: FactSet as of 6/4/21

Transportation Costs Rebound from 2020 Lows



Source: Federal Reserve Bank of St. Louis as of 5/31/21

10 Year Sovereign Yield	2021 Peak Yield Date	2021 Peak Yield	Current Yield	Difference
US 10 yr Treasury	3/31/2021	1.75%	1.45%	-0.30%
German 10 yr Bund	5/18/2021	-0.10%	-0.27%	-0.17%
UK 10 yr Gilt	5/13/2021	0.90%	0.71%	-0.19%
Japan	2/26/2021	0.16%	0.03%	-0.13%

Source: Congress Asset Management, The Wall Street Journal as of 6/11/21

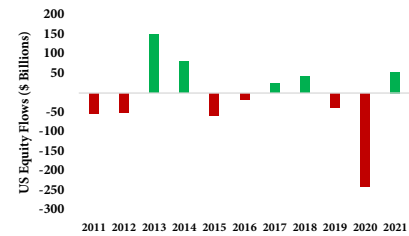
Large Cap – Index concentration continued to wane in May and diversified portfolios were rewarded. The Russell 1000's top 5 holdings began 2021 representing 19.3% of the index but closed out May with a 18.6% weighting. In the large cap growth category, the number of funds filing with non-diversified status has increased 20% this year, from 94 to 113 strategies which collectively oversee \$497B in assets. However, the average fund filing with diversified status under the 1940 Act is outperforming its non-diversified peers by over 100 bps in 2021.

Mid Cap – The boom in e-commerce continues in private and public markets alike with modern day retail at an inflection point following a 2020 that saw over 40 traditional brick and mortar retailers such as JCPenney and Neiman Marcus declare bankruptcy. In private markets, funding for retail tech is off to its fastest run rate in 5 years with Q1 funding tripling year over year to \$28.9 billion. In public markets, firms are capitalizing on strong growth for future investment. After more than doubling revenue in 2020, Etsy entered June by announcing its primarily cash-based acquisition of privately held London-based Depop for \$1.625 billion.

Small Cap – Small caps treaded water in May with the Russell 2000 up just 0.21%, but the action was below the surface where profitability and the bottom line mattered more than top line growth. The highest quintile of companies by ROE outperformed the lowest quintile by 430 bps in May, while the top quintile of companies by sales growth underperformed the bottom quintile by 710 bps. As performance leadership shifts in small caps, volatility remains elevated. The Russell 2000 VIX average reading was north of 27 in May, above its long-term average of 24. Meanwhile, in large caps the VIX closed out its second consecutive month below its long-term average of 20.

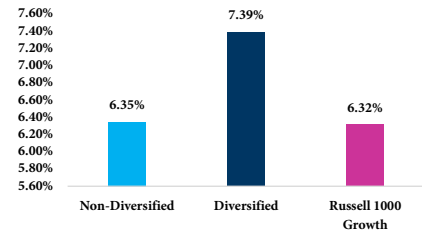
Fixed Income – Treasury buyers are not the only fixed income investors undeterred by inflation fears, narrow spreads, and low effective yields. Taxable bond funds, tracked by Morningstar, collectively took in over \$37 billion in May bringing year to date net inflows to over \$296 billion despite high yield averaging a similar 4% yield as investment grade paper produced as recently as 2019. The Federal Reserve, however, is ready to divest some of its 2020 purchases as it announced the unwinding of its Corporate Credit Facilities that were established to support credit markets at the height of the pandemic. In total \$8.56 billion of fixed income ETFs and \$5.21 billion in individual issues are due to be sold, the majority of which are investment grade.

Retail Flows into US Equity Funds on Pace for Best Year Since 2013



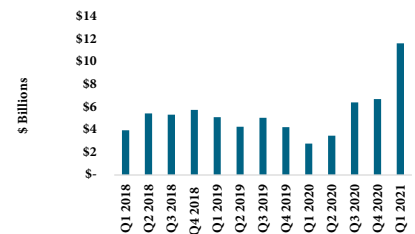
Source: Morningstar Direct as of 5/31/21

Diversified Large Cap Growth Strategies Outperforming Peers & Index in 2021



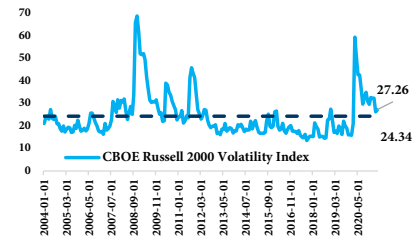
Source: Morningstar Direct as of 5/31/21

Global e-commerce funding climbs higher in 2021



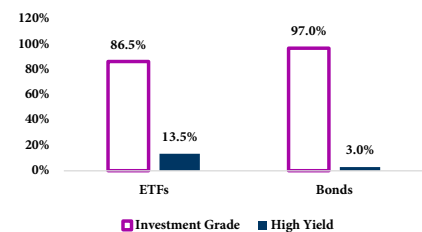
Source: CBInsights State of Retail Tech Q1 2021 Report

Russell 2000 VIX still Elevated but Trending Lower



Source: Federal Reserve Bank of St. Louis as of 5/31/21

Fed Ready to Unload \$13.8 Billion from Corporate Credit Facility



Source: Federal Reserve Bank of St. Louis as of 5/31/21

¹Internal Revenue Service 2021 Filing Season Statistics

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