MOMMAERTS MAHANEY
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ACHIEVE MORE.

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Second Quarter 2021

Pamplona

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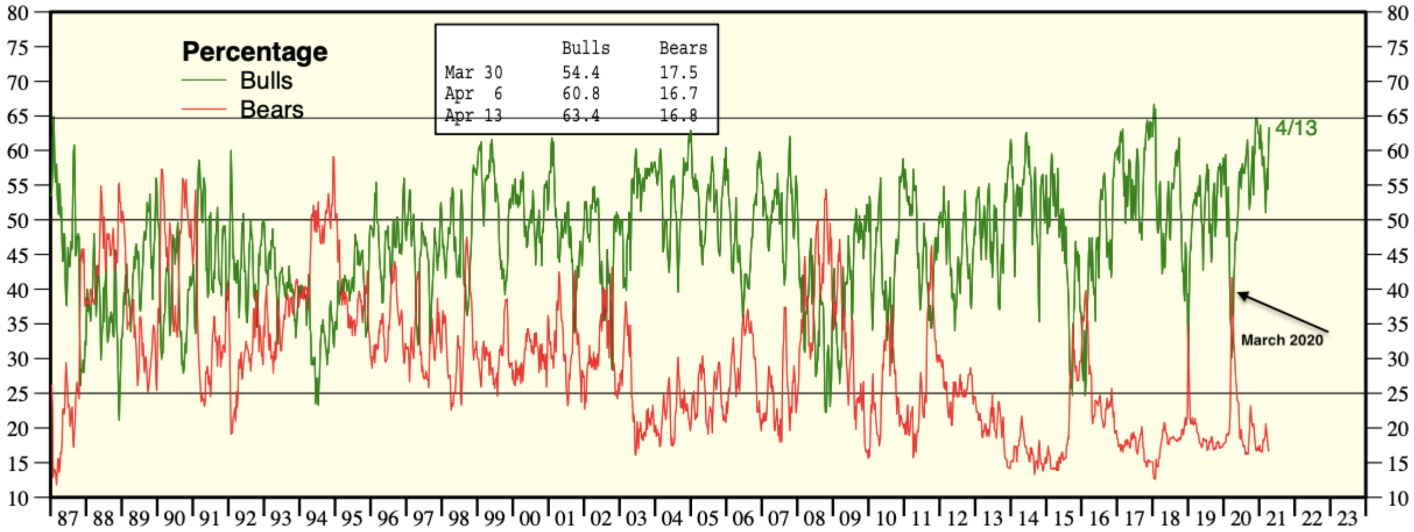
The *Running of the Bulls* occurs each summer in Pamplona, Spain. Each morning during the festival of San Fermin, daredevils gather in front of a stable of gated bulls. A flare is shot into the sky signaling these adventure seekers to start running through the corralled streets of Pamplona and towards the bull ring. Seconds later another flare lets them know the bulls have been released, and the chase is on. This was a small local event until Ernest Hemingway brought fame and many international travelers to Pamplona after highlighting it in his book *The Sun also Rises.*

Ernest describes the exhilaration of cheating death while trying not to be gored or trampled by the charging bulls. Want-to-be matadors make their way through the narrow streets of Pamplona and into the stadium, which will host the bullfights later that night. Once inside the stadium runners can jump over the walls of the bull ring and once again be safe from the bulls. The reward for taking on this risk is bragging rights and an incredible endorphin rush.

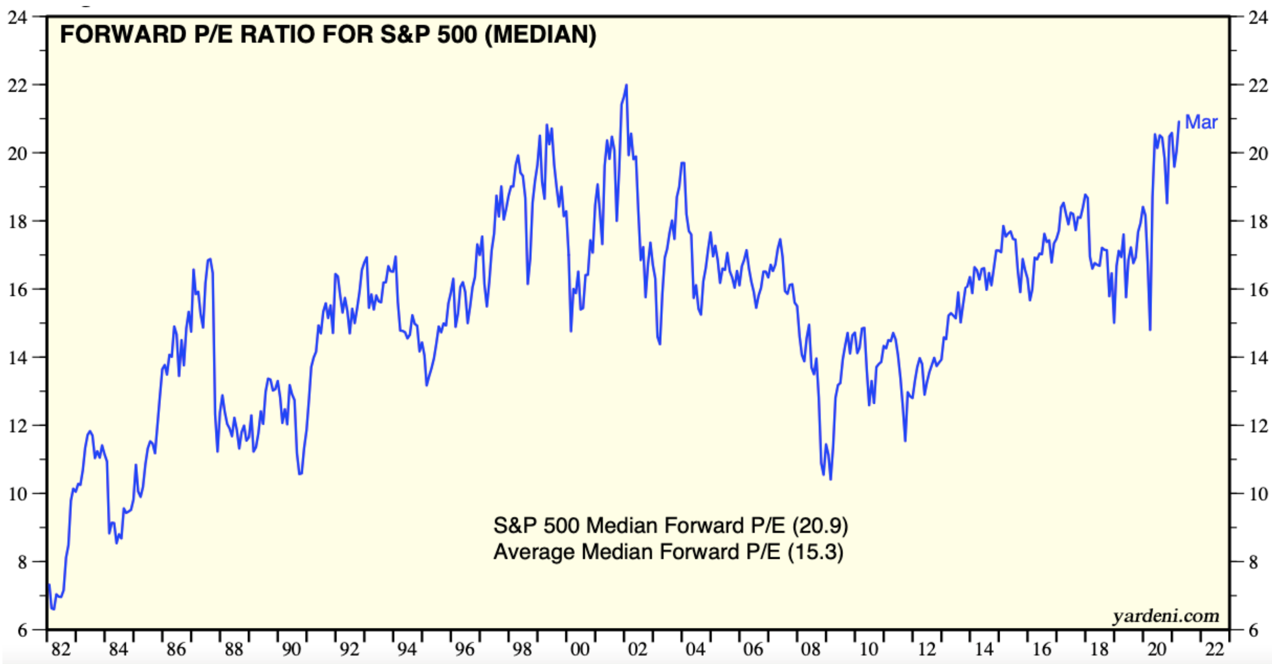
Mommaerts Mahaney Financial has been running with the bulls for quite some time. Our reward has been elevated portfolio values, and occasionally elevated blood pressures. We are becoming increasingly concerned about the safety of the bull run. It's not so much the bulls that concern us, rather it's the runners. When we first started running with the bulls the streets were mostly empty of other runners. Now the streets are packed. Investor sentiment is a contrary indicator, and this concerns us.



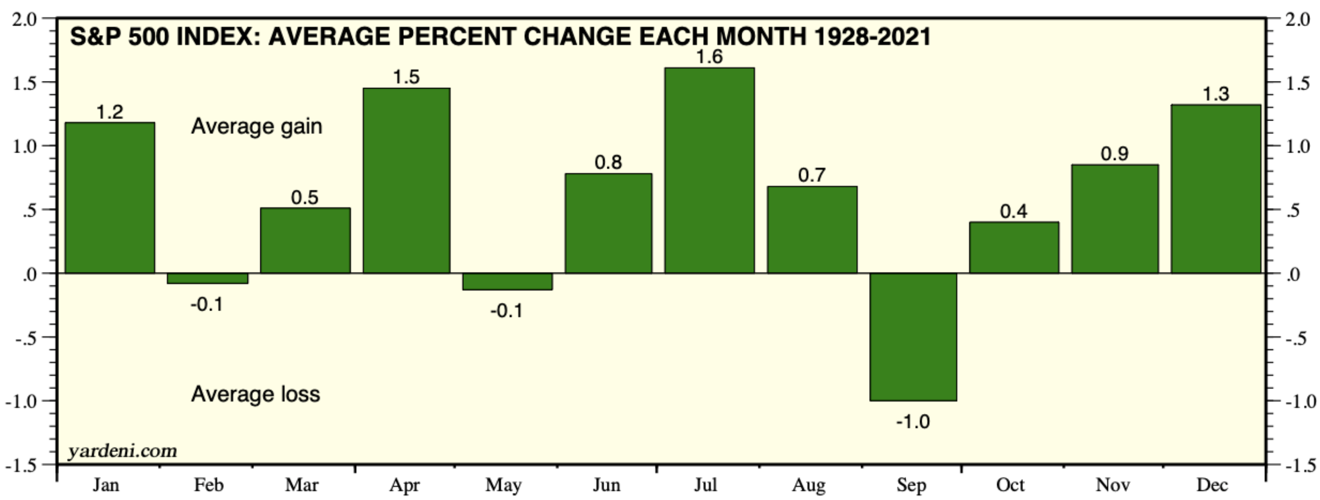
According to the Investors Intelligence Survey, at the depths of the pandemic, only 35% of investors were bullish and 43% were bearish (22% neutral). Currently, 64% of investors are bullish, and only 15% are bearish (21% neutral). Historically, this type of bull/bear divergence has been a warning signal. Not necessarily of an impending bear market, but of an overbought bull market. The outsized gains in stock markets since pandemic lows lend to this thesis.

Asset Class	3/23/20	YTD	1 Year
Small Cap Value	114.41%	25.01%	102.15%
Small Cap Growth	104.61%	13.81%	84.33%
Mid Cap Growth	93.18%	6.18%	60.67%
Mid Cap Value	88.49%	17.42%	64.92%
Large Cap Growth	82.15%	9.32%	55.37%
European Equity	73.20%	10.37%	52.68%
Large Cap Value	66.52%	14.22%	45.26%
Asian Equity	56.77%	4.44%	43.56%
High Yield	32.66%	1.34%	19.17%
Investment Grade	18.29%	-1.69%	5.49%
Cash	0.42%	-0.03%	0.21%
Gov't Bond	-0.05%	-1.65%	-1.21%

Valuation is somewhat stretched but still reasonable given the continued low inflation environment and the rapid growth in corporate earnings.

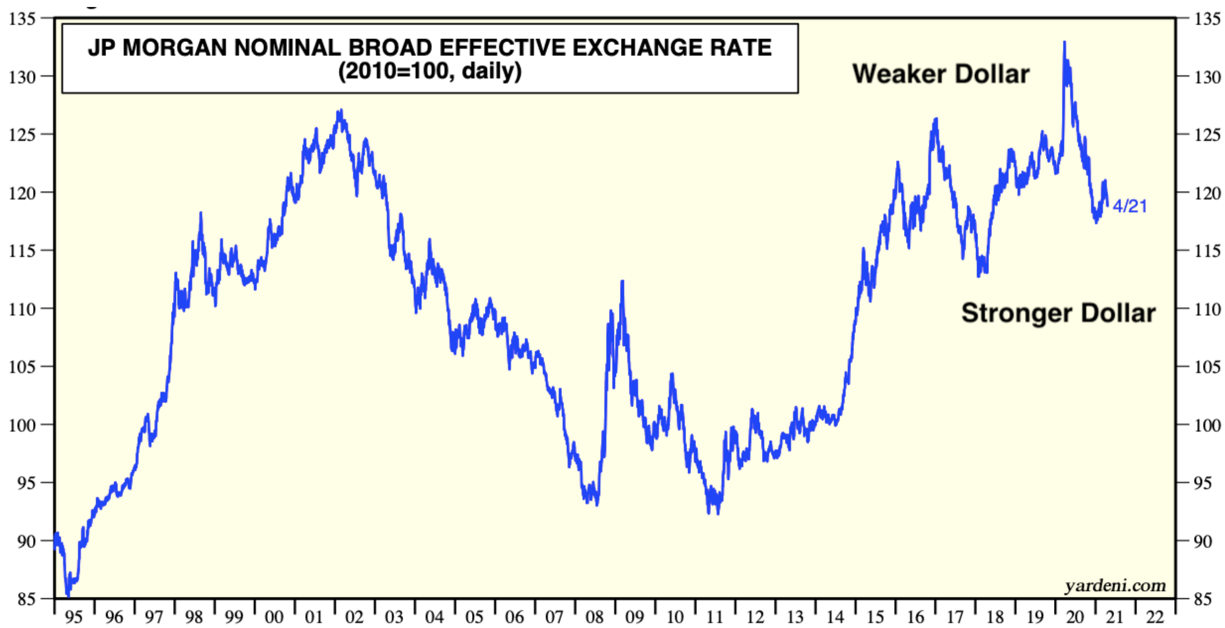


Although Seasonality is only a secondary variable within our frameworks, it also is providing a modest headwind for stocks. The May-June time period has historically provided below-average returns for stocks.



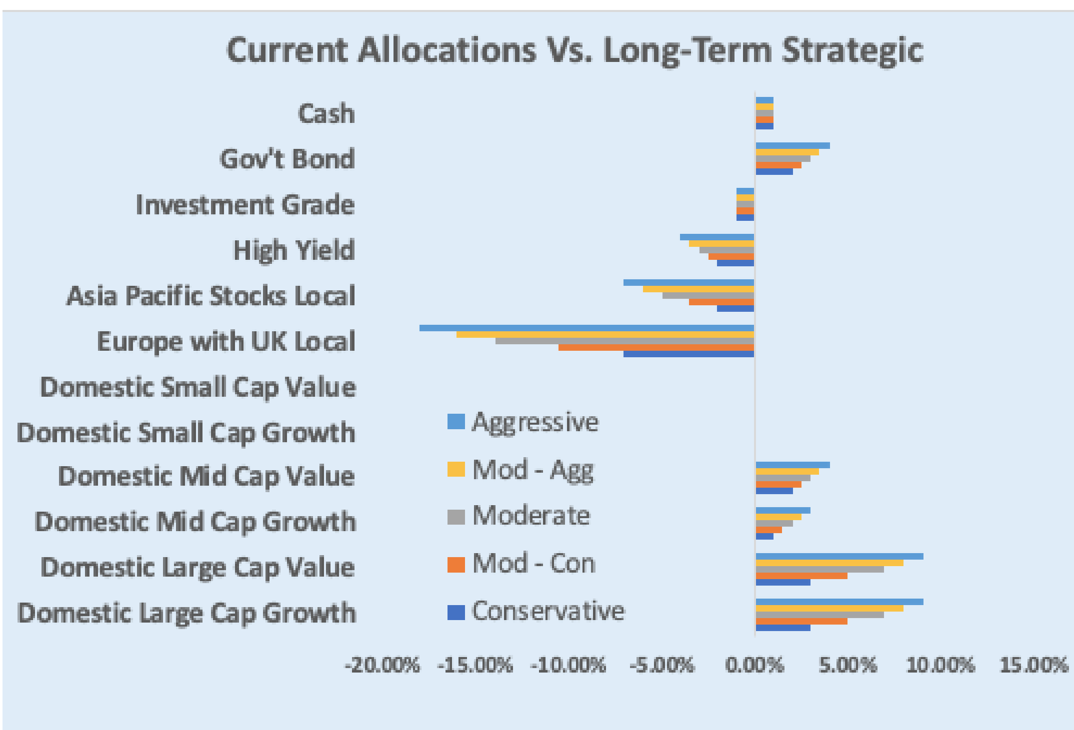
We believe it is prudent to pull back on our aggressive positioning. More specifically, we have eliminated our equity overweight and shifted the Core Portfolios back to a neutral equity weight. We have also decreased our overweight of Small-Cap and Mid-Cap Stocks vs. Large-Cap Stocks. We originally overweighted these sectors in the aftermath of the pandemic sell-off. Small and Mid-cap stocks were severely punished and this created very appealing valuations in these sectors. Their strong outperformance vs. Large-Cap Stocks has eliminated this advantage.

We continue to keep all assets invested domestically. Our concerns over the continued strengthening of the US Dollar vs. the Euro, Pound, and Yen, along with relatively weaker economies vs. the U.S. remain. International Stock returns have been harmed by both and we expect this to continue.



Lastly, we are lowering our credit exposure and increasing duration (interest-rate risk). Credit spreads have tightened considerably and now offer far less value than a year ago. At the pandemic "wides", High Yield Bonds offered yields that were 10% (1000 basis points) more than Treasury Bonds. This was due to fear of corporate defaults. Currently, High Yield Bonds are only offering 2.5% (250 basis points) more than Treasury Bonds, this warrants less exposure to credit risk. Additionally, by reallocating these assets into higher-duration government bonds the Core Portfolios are better positioned against a short-term pullback in stocks, which we believe is becoming increasingly likely.

Although these portfolio adjustments decrease the risk profile of Mommaerts Mahaney Financial's Core Portfolios, the Core Portfolios still have considerable exposure to domestic stock markets. Our expectations are that domestic stock markets will be higher at year-end. However, our forecast of the S&P 500 year-end level is only 2.5% above its current level. We believe much of the upside for 2021 has already been captured. This more defensive posturing is a recognition that the reward to risk ratio of stocks is becoming less attractive.



Our investment frameworks remain constructive but individual variables within our frameworks are no longer universally bullish on stocks. We will continue adjusting the Core Portfolios if warranted by a change in our frameworks. Please contact us if you would like to discuss your current portfolio positioning in greater detail.

April Showers bring May Flowers,

The Mommaerts Mahaney Financial Team

Jon C Mommaerts, CFP®: Jon is a Principal of Mommaerts Mahaney Financial Services, Inc. He has over 30 years of experience working with professionals and those about to retire. He is a member of the Financial Planning Association, as well as a member of the Preferred Financial Advisors.

J. Matthew Tuccini, CFP®: Matt has over 17 years of experience working in the financial services industry with vast experience in retirement planning, tax strategies, and financial planning.

Robert Kea, CFA: Bob has over 30 years of experience in portfolio management. He was a founding member and Co-Head on Putnam's Asset Allocation Group, which managed $12Bn in both retail and institutional assets.

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Mommaerts Mahaney Financial Services, Inc. provides advisory services through ERTS Wealth Advisors, LLC, a registered investment advisor.
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