Inflation Inflection?

Markets move higher as investors weigh broad based cross currents

Stocks rose and bond yields declined as investors questioned numerous cross currents, including the transitory nature of inflation, the strength of global growth given supply chain bottlenecks and the danger of the delta variant. The consensus view on rates was tested by the surprise drop in yields. We expect the market to wrestle with these issues in 2H21.

Rockingstone performance

We posted a solid 2Q21 quarter, +6.9%. Although our portfolios were geared more towards value at the start of 2Q21, we added to growth in mid-May and ended the quarter with generally balanced allocations. ETF weightings helped our performance whereas select stocks (BABA, BG, FLT, MKC, MKTX) hindered returns. Our historical annualized returns include: 1-yr +36.4%; 3-yr +15.4%; 5-yr +14.9%; and Inception (June 30, 2008), +11.9%.

2Q21 in review

Early in the 2Q, investor sentiment was wary of yield increases, inflation and weighted towards value/cyclical/recovery investments. Yet coincident with the May 12 CPI release, market sentiment shifted back towards growth equities and bonds. Major indices, such as the S&P 500 and Nasdaq 100, reached all-time highs while small caps moderated, non-US equities under-performed, and crypto currencies declined.

Maintaining "balanced" portfolio positioning given valuations vs. robust recovery outlook

Our return analysis continues to see limited potential for most major indices as extended valuation multiples appear to discount strong economic growth and corporate profitability. Notably, yields continue to be materially below historical levels, and real interest rates are negative, providing some justification for above-average equity valuations.

S&P500 forecast and other key indicators

Our latest forecasts include EPS (2021/2022: $193/$205), S&P500 (2021 year end = 4305), GDP (2021/2022: +6.5/+2.5%), Gold ($2000/oz), Oil ($60/brl), 10-yr US Bond Yield (1.3%), Inflation (3.8%), 5-yr expected CAGR (US Large Cap -1.6%, US Mid Cap +3.4%, US Small Cap +5.3%, Developed +2.0%, Emerging +4.7%).

ABOUT US

Rockingstone Advisors LLC is a boutique asset management and corporate advisory firm co-managed by Brandt Sakakeeny and Eric Katzman, CFA.

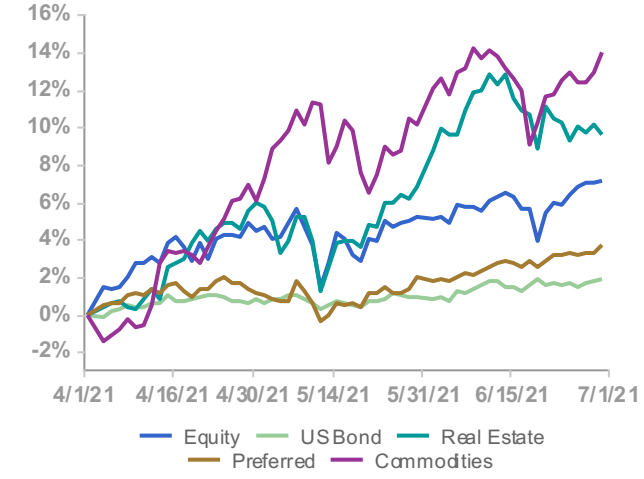
As an SEC-registered investment advisor, we provide multi-asset investment strategies to individuals, families and small institutions through separate accounts.

Our investment strategies attempt to capitalize on pricing inefficiencies across broad asset classes and then across individual securities, with a strong emphasis on fundamental research and analysis.

Thank you for your interest. You can find more information (and some interesting articles) at:

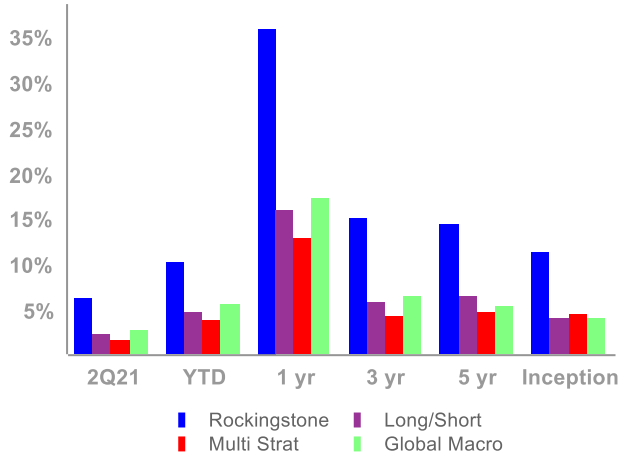
www.rockingstoneadvisors.com

Figure 1: 2Q21 Asset Class Performance[i]



Source: FactSet

Figure 2: Rockingstone: 2Q21 & Historical Annualized Returns[ii]



Source: Rockingstone Advisors, Morningstar, DJ Credit Suisse Indices

Please see our End Notes and Disclosures (pages 29-30 of this Investor Quarterly) for important information regarding performance measures. Form ADV available upon request.

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Emerging Markets

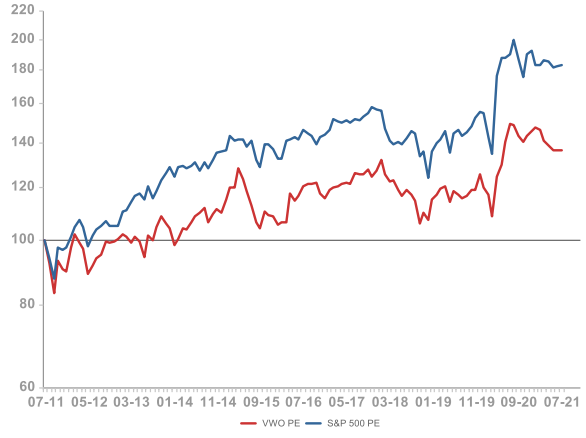
Summary

For the first time in decades, investors need to be wary of the potential for significant inflation. Historically, Emerging Market (EM) equities have been viewed as a good hedge against inflation. Many of Rockingstone's portfolios include EM exposure in order to benefit from (i) the implied inflation hedge, (ii) the fact that growth in EM economies is typically faster than in developed economies, and (iii) the material valuation gap created by the asset class' underperformance in developed markets for at least the past ten years (see Figure 3 and 4 below).

Figure 3: 10-Yr Relative Price Performance, S&P 500 vs. VWO

Source: FactSet

Figure 4: 10-Yr Relative P/E, S&P 500 vs. VWO



Source: FactSet

Yet, as we detail in this section, EM equities (specifically EM ETFs) are now dominated by China, which has several important implications as to whether EM exposure will deliver on its traditional role as part of an inflation-protected, diversified portfolio. In this analysis, we examine EM in totality, as well as China's role.

As this newsletter goes to print, EM equities are witnessing substantial underperformance (and in some cases outright declines in price) fueled significantly by regulatory crackdowns on foreign issuance out of China. From a portfolio standpoint, we reduced exposure to China by selling the China ETF (MCHI) and Lufax (LU) during 2Q21; we recently sold Alibaba (BABA) and are considering how to optimize non-China EM exposure within investor portfolios.

The Case For Investor EM Exposure

EM is the term used by investors to describe securities (debt and equity) issued by companies or governments based in developing nations, such as Russia, Brazil, China and Turkey. These countries tend to have some combination of the following: relatively low GDP per capita; limited democratic institutions; few large, multi-national companies; and limited market accessibility (e.g., currency controls). In contrast, developed economies tend to exhibit high GDP per capita, advanced and stable democratic institutions, many large, multi-national companies and sophisticated capital markets.

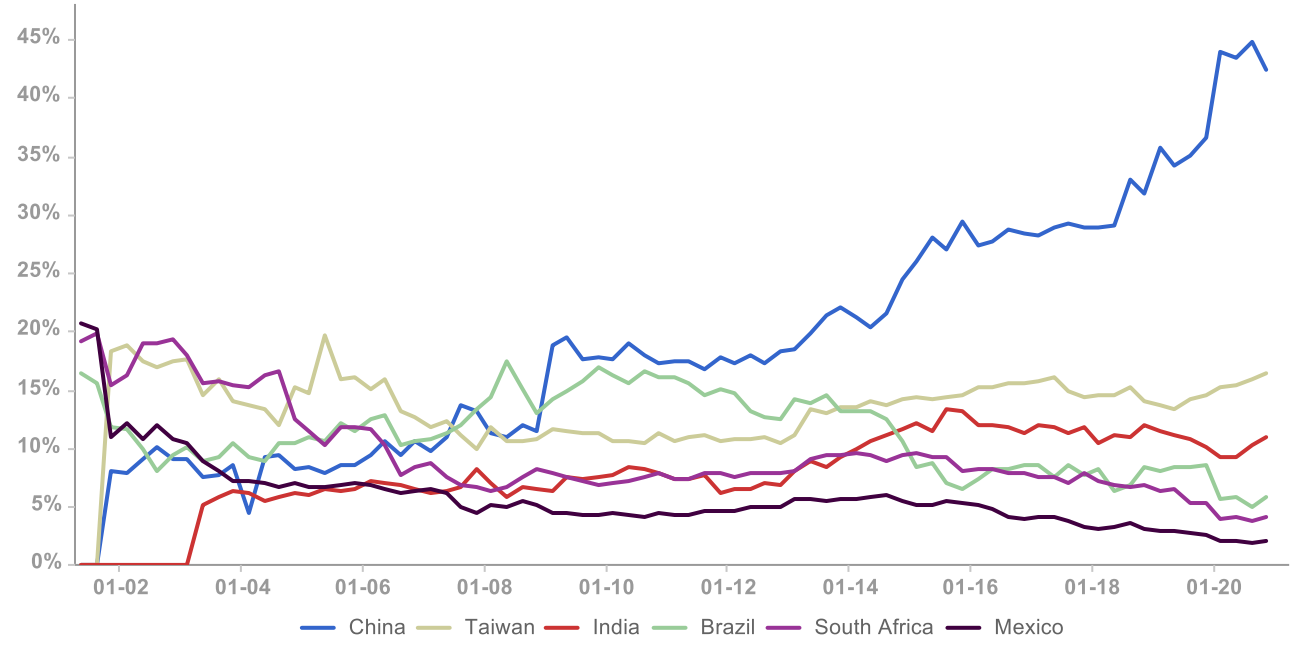
Given the unstable nature of many EM economies, why should investors focus on them? The case for investing in EM securities is generally based on the combined benefits of a rapidly growing economy plus the appreciation of that nation's currency as both the economy and the country's capital markets mature. Moreover, at least historically, lesser-developed countries tend to have a greater proportion of their market capitalization concentrated in resource-based industries, which has the added benefit of providing a hedge against inflationary pressures. From a portfolio standpoint, EM investments tend to be less correlated with developed country investments, therefore providing some degree of diversification.

Attractive EMs must not only offer investors rich resources and growth opportunities, but also a consistent, stable and pro-growth government that is neither rent-seeking nor exploitive, and over time has the potential of maturing into a developed market. Examples of some countries that have made the leap from EM to developed markets include Korea, Singapore, Israel, and Hong Kong.

Investing In Emerging Markets Via ETFs

While there are several EM equity mutual funds in which to invest, EM exchange traded funds (ETFs) are capturing a growing share of investment dollars dedicated to the asset class. On the equity side, Vanguard's low cost VWO is the largest EM ETF, followed closely behind by IEMG and then EEM. Historically, Rockingstone has used VWO as our investment vehicle for EM exposure within client portfolios.

Figure 5: VWO Country Composition (% of ETF), 2001-2020



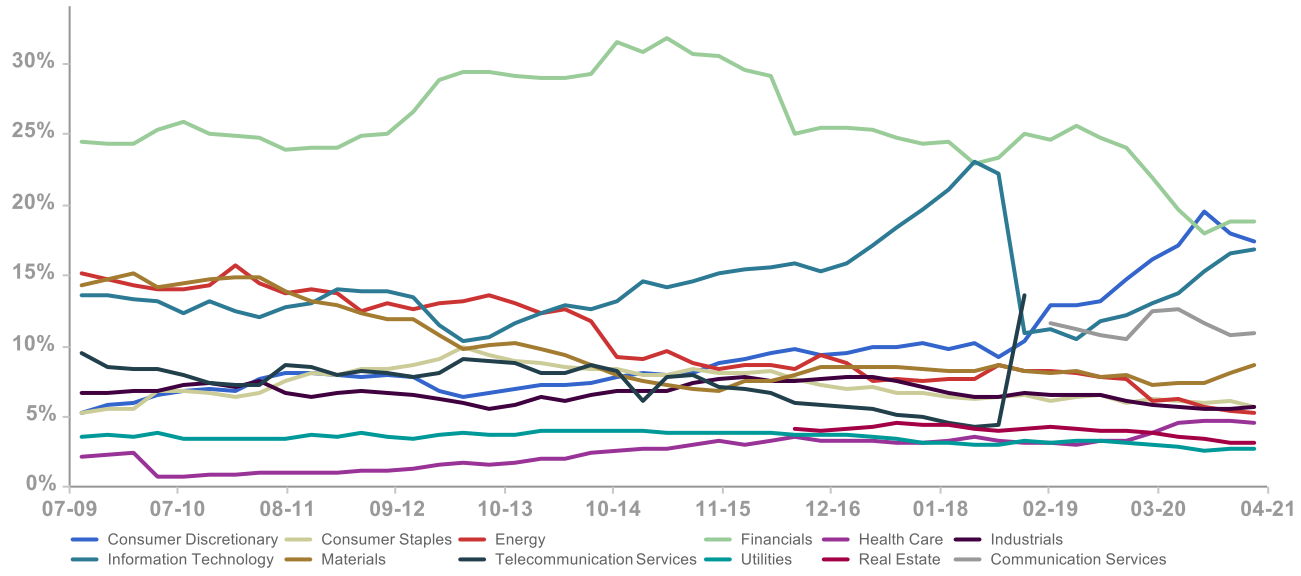
Source: Factset, Vanguard

VWO is a market-cap weighted index. As a result, its country and sector composition has changed materially over the last 20 years (see Figure 5). Most notably, China, which was not a component of the index in 2001, has grown to more than 40% of VWO. Similarly, Taiwan has seen its weight rise from 0% to 16% during the same period, while India grew from 0% to 11% in just 17 years. Together, China and Taiwan account for 56% of VWO; with

India, they combine for 67% of the total index. Giving up ground to China, Taiwan and India are Mexico, Brazil, and South Africa, all of which have become a much smaller percentage of the index.

This change in country mix has fueled a change in the sector composition of the index as well (see Figure 6). When VWO was dominated by Mexico, South Africa, and Brazil, the fund had a greater emphasis on Energy and Materials. Mexico was a large exporter of oil, South Africa of precious metals and Brazil increasingly dominated global agriculture. Importantly, with the higher weightings for China, Taiwan and India, the ETF has since shifted its industry exposure towards Consumer Discretionary and IT, and away from Energy and Materials.

Figure 6: VWO Sector Composition (as % of ETF)



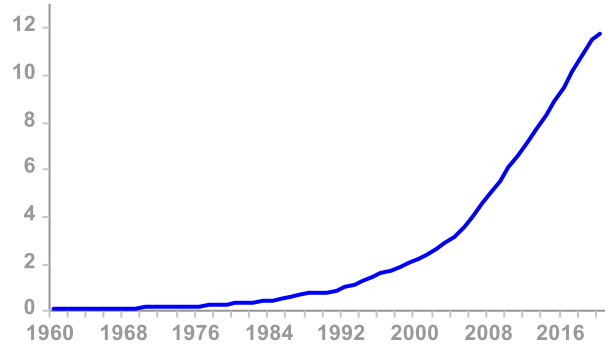
Source: FactSet, Vanguard

Moreover, China, Taiwan and India are net importers of energy and material resources. As a result, their role as investment inflation hedgers seems dubious, leading us to believe the ability of VWO to serve that purpose is in doubt. In the next section we look more closely at China, its outlook and role in investor portfolios.

China's Role within the Emerging Markets Growth Framework

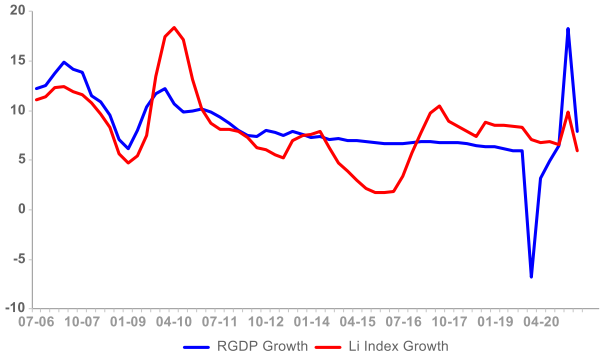
The market reforms spearheaded by Deng Xiaoping, launched in 1978, were instrumental in propelling the Chinese economy to the level it is today. In 1978, China had a GDP of less than $300 billion; while today its economy has grown to almost $12 trillion (measured in 2010 USD prices). As a result of its successes, not only does China have outsized influence within EM, but with a population of more than 1.4 billion people (nearly 20% of the global population), the country is a major contributor to global growth in its role as the largest supplier of manufactured goods to developed nations.

Figure 7: China GDP (US $trillion)



Source: FactSet

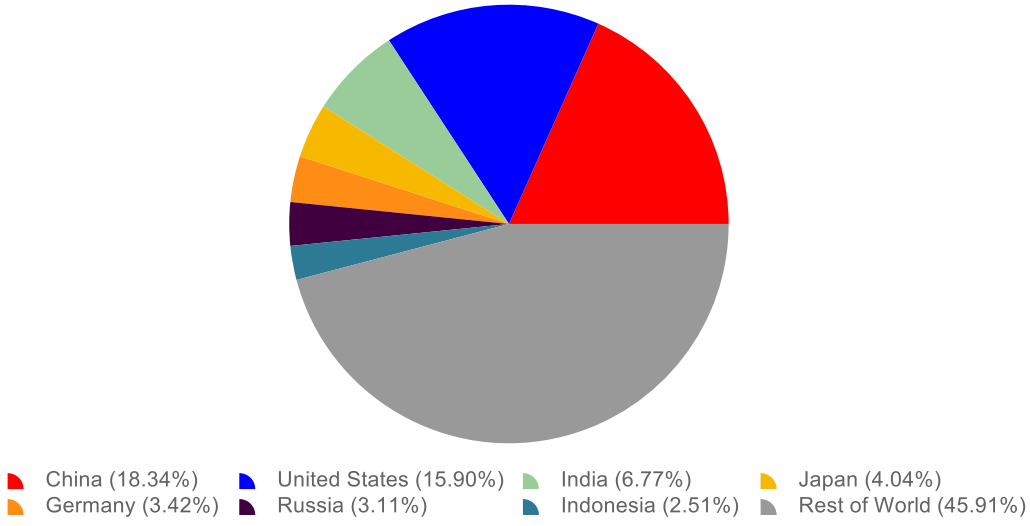
Figure 8: China Real GDP vs. Li Keqiang Index (LHS % Change)



Source: FactSet

However, some observers have been wary of Chinese GDP (as well as other statistics from China), owing to accusations the numbers are smoothed or outright contrived. Yet, alternative data at least directionally supports China's significant growth in the past few decades. Though not entirely outside of the influence of the Chinese Communist Party (CCP), the Li Keqiang Index published by the Economist provides an example of an alternative evaluation of Chinese output. It measures three economic indicators that current Premier Li Keqiang believes to be more representative of Chinese GDP than official numbers (which he suggested privately to US diplomats to use instead): railway cargo, electricity consumption, and loans disbursed by banks. The index shows similar growth when compared to official GDP numbers. Again, although the data itself is not entirely sourced by third parties, its use internally by the CCP indicates that it is at least somewhat more reliable than raw GDP numbers, and thus we prefer it to the latter.

Figure 9: China as a Percentage of Global Growth (PPP)

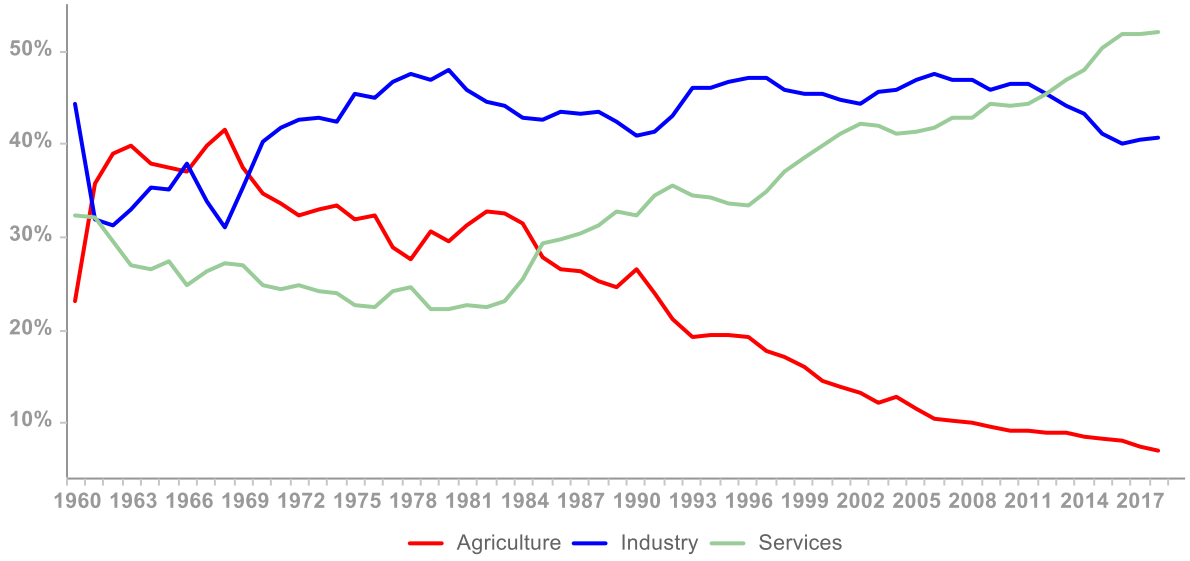


Source: Factset

Adjusted for purchasing power parity (PPP), China now has the largest proportion of 2020 global GDP (18%) growth. This growth has been led by the manufacturing / industrial

sector versus agriculture, with the latter having been generally the largest part of the Chinese economy historically prior to Deng's reforms.

Figure 10: China: Manufacturing vs. Services vs. Agriculture (% of GDP)



Source: FactSet

Looking more closely, China's agriculture has faded as a part of the economy. Over the last decade even greater changes have taken place, with the services sector overtaking manufacturing / industrial as the largest percentage of China's GDP. As noted previously, the changing components of GDP, combined with the country being a net importer of energy, creates a hybrid country that exhibits some characteristics of traditional developed markets, but because of inconsistent government regulations, currency controls and industrial policy, exhibits characteristics of an emerging or even frontier economy.

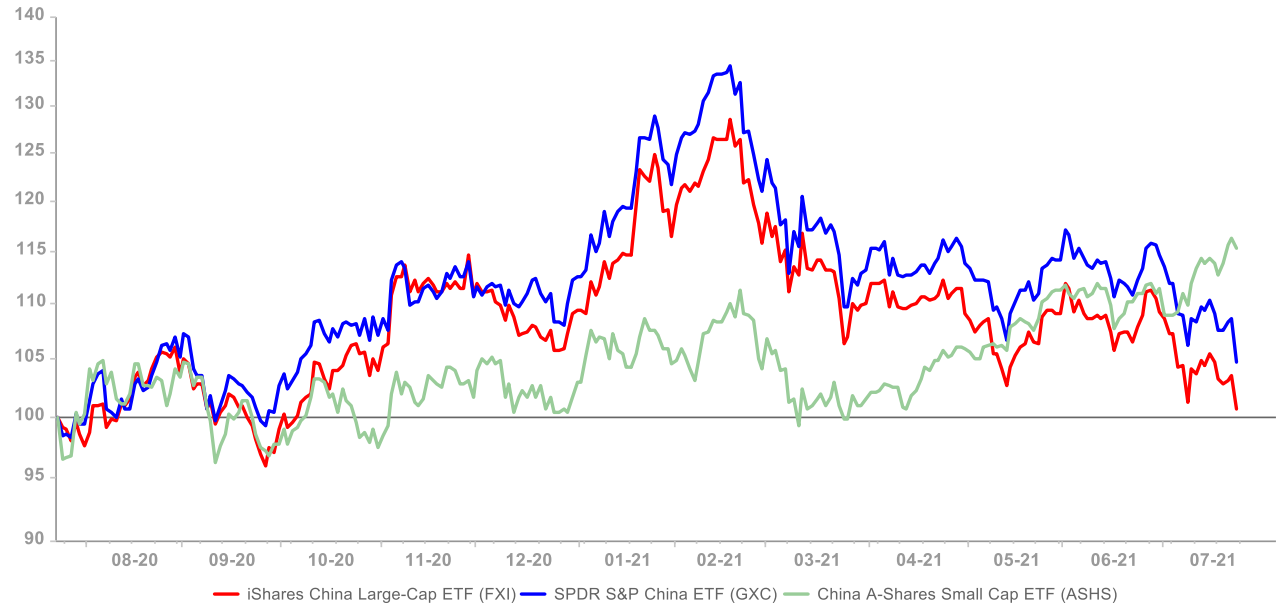
China Outlook

We believe there are two major factors that will influence China's future success and whether or not the country (and EM as a whole) will produce reasonably high risk-adjusted long-term returns. They are: first, the Chinese government's policy towards large corporations, especially those that IPO abroad; and second, a combination of demographic and financial factors – specifically, productivity, population growth, and debt.

China's Tech Crackdown

Recently, investors have been concerned about Beijing's crackdown on some of its major tech corporations and products. For example, Didi, an app similar to Uber with millions of users primarily in China, was removed from app stores by government cybersecurity regulators in July – only days after its IPO in the US. The government also stopped Ant, a major fintech corporation, from going public abroad in November. And perhaps most importantly, it has begun to scrutinize, punish, and direct activities at Alibaba and Tencent, the two largest Chinese companies by market cap.

Figure 11: iShares China Large Cap ETF



Source: FactSet

To examine the impact of these crackdowns on the Chinese economy, we must understand why they are occurring. Though speculative, a pattern has emerged in these policy actions, noting they are directed against: (i) tech companies; (ii) large-cap companies; and (iii) companies listed/intending to IPO internationally, particularly in the US. Clearly, the CCP is seeking greater control over the companies, the data they collect, their leadership, and the access to financial markets and international pools of capital.

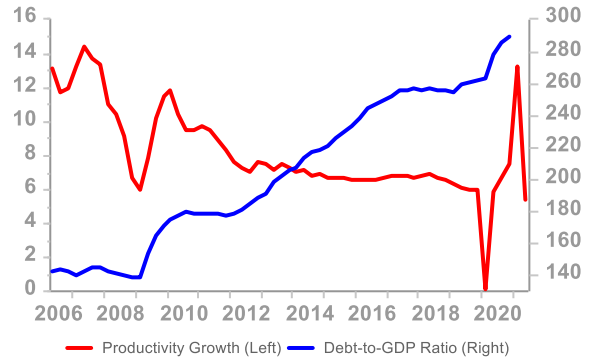
We believe this does not bode well for investment prospects in China, especially as its economy continues to evolve into a more service-centered economy (see Figure 10). Presumably, the tech sector will play an outsized role in services, and if major Chinese tech stocks are being heavily regulated, we can expect this action to impair valuations in the short run, and ultimately damage investment and innovation in the long term. At some point, however, the CCP may realize the self-defeating nature of their policy choices and ultimately look to find some type of accommodation.

Productivity, Debt, and Population Growth in China

Beyond the CCP's immediate regulatory response, China is facing several serious challenges ahead if it wants to come close to achieving its stated goal of doubling real GDP in the next 15 years. These center around three factors: productivity, population growth, and debt. To build on its stellar growth over the past three decades, it is going to have to reverse the negative trends of these indicators.

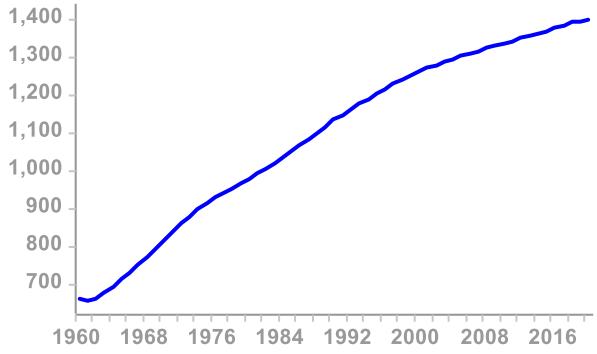
First is productivity. As can be seen in Figure 12, productivity growth in China has been consistently declining since at least 2006, and experts expect this trend to continue into the future. One worry surrounds state-run and regulated businesses, specifically that state encroachment and/or bloated bureaucracies have and will continue to hinder Chinese economic growth. While the CCP has made bolstering productivity and promoting the "quality" rather than "quantity" of economic growth a key goal of its most recent Five-Year Plan, it remains to be seen whether that can be achieved. For now, the trend is worrying.

Figure 12: China: Productivity Growth vs. Debt/GDP



Source: FactSet

Figure 13: China: Population (in millions)



Source: FactSet

Second is population growth. China's one-child policy, implemented in 1979 to ensure that population growth did not exceed economic growth, was successful in slowing the birthrate of 6.4 in 1965 to 1.7 in 2018, according to the World Bank. But this came at the cost of a "bulging" age pyramid with a skewed gender imbalance that may hinder future growth, or at least provide a challenging environment for funding pensions and retirement plans as China's population ages. While China abandoned its one child policy in the fall of 2015, and in May 2021 announced it would even allow three children per family, the high cost of living in China, particularly for families, makes it unlikely that China's birth rate will materially accelerate.

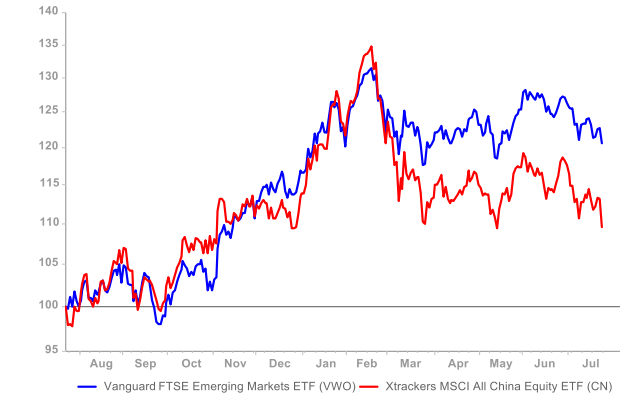
Third is debt levels within China, as the debt-to-GDP ratio has more than doubled over the last 15 years. The combination of moderating productivity, rising debt and minimal population growth is worrisome. Experts believe the debt-based growth model is fundamentally unsustainable with projections of over 400% debt-to-GDP if nothing changes. As with productivity, the CCP has promised reforms (e.g., expanding into new sectors and less state-oriented growth) to deal with the debt problem. Thus, China sits at a position of significant uncertainty.

VWO, China and Rockingstone

As noted, despite China's tremendous economic progress over the past three to four decades, the country is still considered an emerging market due to its low GDP per capita, high percentage of GDP in manufacturing, and government control over business (witnessed recently). But being the largest economy in the world (PPP-adjusted) also makes China easily the largest emerging market in the world, and this is reflected in its disproportionate influence on VWO.

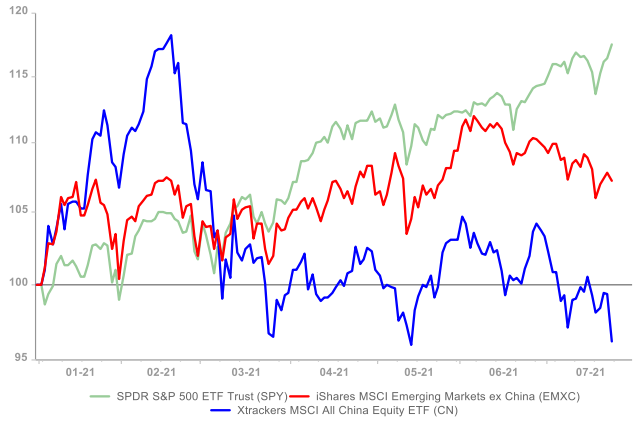
China's outsized role within VWO is clear when comparing the index vs. a broad-based Chinese index, such as Xtrackers MSCI All China Equity ETF (ticker CN). CN and VWO moved almost in lockstep with each other until February 2021, though an interesting separation occurred (see Figure 14) possibly due to investor concerns over CCP policy toward large cap equities. Using the iShares MSCI EM ex China ETF (EMXC), investors can see the stark difference in performance of Chinese equities vs. non-China EM and vs. the S&P (see Figure 15). Clearly since February 2021, investors have been net sellers of China exposure.

Figure 14: VWO vs. MSCI China



Source: FactSet

Figure 15: S&P 500 vs. CN vs. EMXC



Source: FactSet

As noted earlier, we have been scaling back exposure to China in investor portfolios, although admit to being a bit late in doing so. We exited our position in MCHI earlier in the 2Q21, along with Lufax (LU). More recently we sold our position in Alibaba (BABA) and have culled VWO from investor retirement accounts.

Conclusions: Assessing Alternatives to VWO

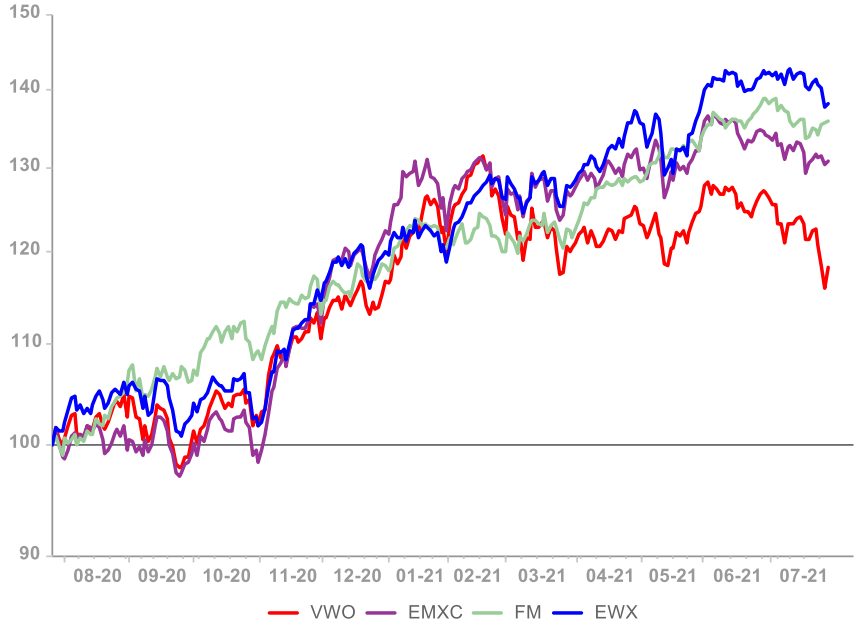
Considering the fundamental challenges in China, and given its weighting in EM benchmarks such as VWO, should investors contemplate swapping VWO for either iShares Emerging Markets ex-China (EMXC), iShares Frontier Markets (FM) or the S&P Small Cap EM Index (EWX)? All of these alternative EM ETFs have materially outperformed VWO over the last 12 months and may in fact have offer the attractive attributes that investors seek when contemplating an allocation to EM.

EM ex-China includes Korea (which VWO does not), so together Taiwan and Korea account for more than 40% of the index. India is roughly 16%, so together the top three countries represent around 60% of the benchmark. Including Korea solves some of the China-specific issues around declining productivity, poor demographics, and uncertain regulatory dynamics, but by many measures— and in fact by many index providers— Korea is classified as a developed market, not an emerging one. This has two implications. First, from a sector standpoint, IT is the single largest sector in the fund, accounting for 29%, followed by Financials at 21% and then Materials at 12%. Second, given the relatively advanced nature of Korea's markets and its institutions, EMXC does not really provide investors with the benefit of owning the assets of an immature country evolving into a developed country.

Frontier Markets is the term used for markets too immature to even be considered emerging markets, and we use as a proxy the iShares Frontier Market ETF (FM). Vietnam represents about 20% of the benchmark, followed by Kuwait at 13% and Morocco at 9%. Kenya, Nigeria, Romania, Bahrain and Bangladesh round out the top eight country holdings. Thus, unlike VWO, FM contains resource-rich countries that are at the early stages of their development. That said, it is one thing for the country to have the resources, it is an entirely different thing for those resources to be based in corporate entities that are publicly traded. Because many of the energy resources in Kuwait, for instance, are owned by the royal family, it is actually Financials that represents the single largest sector in the fund at more than 40%, followed by Communication and then Real Estate.

The third option is the S&P EM small cap ETF (EWX). As demonstrated in Figure 16, EWX has outperformed all four indices in the last 12 months. But EWX's geographic composition is still heavily weighted to Asia, with Taiwan representing 31%, India second at 15% and China third at 14%. Similar to VWO, roughly 60% of the index is made up Taiwan, India and China, yet the composition of smaller companies has led the ETF to outperform the other benchmarks. From a sector standpoint, about 21% of EWX is IT, followed by 14% Industrials and 13% Materials.

Figure 16: EM ETF Alternatives



Source: Factset

In conclusion, each of the major non-developed, foreign market ETFs offer investors some of the attributes they seek in targeting emerging regions, but each has its own specific challenges either relating to China exposure, technology and financial exposure or quasi-developed market exposure.

Rockingstone Advisors would like to thank our two summer interns, Tom Conley and Charlie Randall, for their work on this section of the Quarterly Newsletter, as well as their research contributions.

ROCKINGSTONE ADVISORS LLC

Forecast: 2021 & 2022 Outlook

Rockingstone Advisors: Our latest forecasts

We have updated forecasts to reflect our outlook for 2021 and 2022. As noted earlier in this and past newsletters, volatility in politics, trade relations, pandemic trends and many other issues make forecasting 2021 and 2022 difficult.

Figure 17: Key Metric Forecast

	Year End December		
Metric	Band	Point	Prior
US Real GDP (2021)	+5.5% to +7.5%	6.5%	7.1%
US Real GDP (2022)	+1.5% to +3.5%	2.5%	0.8%
S&P 500 2021 EPS (RSA/Street)	NA	$193 / $189	$180 / $176
S&P 500 2022 EPS (RSA/Street)	NA	$205 / $211	$192 / $202
S&P 500 2021 Index	4150-4450	4305	4200
10-Yr US Treasury Yield	1.25% - 1.55%	1.3%	1.5%
Oil (WTI-2021 End)	$50 - $70	$60	$60
Gold (2021 End)	$1,650 - $2,050	$2,000	$2,100
Inflation (NTM)	+3.0% to +4.0%	3.8%	2.6%

Source: Rockingstone Advisors, The Economist, Standard and Poor's, NYSE Arca, St. Louis Federal Reserve

A few observations and comments:

1. Gross Domestic Product (GDP). We lower our 2021 GDP growth expectation from 7.1% to 6.5%. This is due to rising variant infections (mainly outside of the developed world) that make us more cautious on this year given potential supply chain disruptions from overseas factories, and an ongoing tight labor market skewed by very generous unemployment benefits. We believe these issues may prove to be transitory, and with low interest rates, higher vaccination rates and government stimulus, 2022 GDP growth rates should be decent and ahead of our prior forecast.

2. S&P 500 EPS. Admittedly against easy compares, 1Q21 corporate earnings were robust and although it is early, it appears 2Q21 profits will also be strong. As a result, our above consensus forecast already appears to be too low. We raise our 2021 outlook to $193 from $180 (consensus jumped from $176 to $189) and thus remain above street expectations. However, in 2022 we believe corporate profits will increase just 6% to $205 (previous forecast was $192) vs. consensus expectations for $211 a share.

3. S&P500 2021 Index. Based on our updated $205 EPS forecast for 2021 and assuming interest rates remain low, we believe using a 21x forward P/E multiple is reasonable at this time. As a result, we forecast the S&P500 to end 2021 at about 4305. This is just modestly above the S&P500's current level and thus consistent with our view the limited upside for the tech-heavy index.

ROCKINGSTONE ADVISORS LLC

Five Year Asset Value Forecast[iii]

Large cap returns look challenging

Our analysis suggests that US large cap stocks offer little to no long-term return from current levels over the next half decade. Valuation for the S&P500 is above its historical mean, arguing for muted returns. As noted last quarter, our analysis suggests US small caps (using the S&P 600) offer significantly more compelling returns given more modest valuation headwinds and historically robust sales growth.

Looking beyond the US, it is a more reasonable return outlook. For example, Emerging Markets appear to offer respectable returns with balanced benefits from sales and yield offset in part by valuation. Developed Markets still offer a positive return outlook reflecting contributions from sales growth, margin recovery, and dividend yield vs. valuation challenge.

Figure 18: Five-Year Total Equity Return Calculations (Incremental Contribution)

Asset	Index	LT Exp. Return		Sales		Profit Margin		Div.Yield		Valuation
US Large Cap Stock	S&P500	-1.6%	=	4.4%	-	1.2%	+	1.4%	-	6.3%
US Mid Cap Stock	S&P400	3.4%	=	3.7%	-	0.6%	+	1.4%	-	1.1%
US Small Cap Stock	S&P600	5.3%	=	5.0%	+	0.0%	+	1.9%	-	1.6%
Foreign DM Stock	MSCI-EAFE	2.0%	=	2.4%	+	0.3%	+	2.8%	-	3.4%
Foreign EM Stock	MSCI-EM	4.7%	=	4.6%	+	0.0%	+	2.9%	-	2.8%

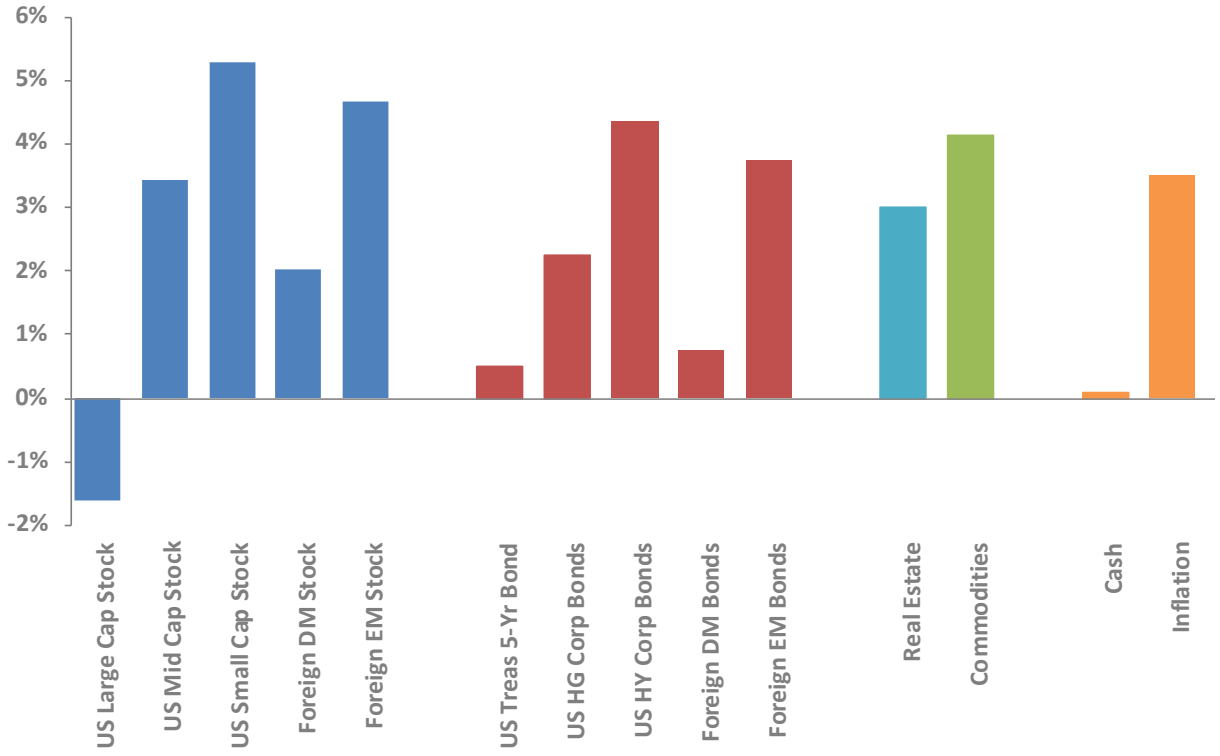
Source: Rockingstone Advisors

We analyze equities using four variables such as (i) historical sales growth, (ii) corporate profit margins, (iii) dividend yields, and (iv) valuation, to determine potential long-term returns. Using valuation as an example, P/Es should theoretically decline (if currently above the historical mean) or expand (if currently below the historical mean) over the long term.

Based on our outlook for total returns, we expect the "give" of sales growth, valuation and dividends to be partly offset by the "take" of mean-reverting margins. We expect sales growth to be relatively close to long term average performance, although presently the economy suggests lowered expectations are likely prudent. Profit margins are now below their recent history, so they are now additive to valuation.

In fixed income (see the next page for various assumptions), we expect the "give" of coupons will be exceeded by the "take" of mean-reverting inflation and real rates, both of which are below their historical mean.

Figure 19: Five-Year Asset Class Total Return Forecast



Source: Rockingstone Advisors

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Equity Performance Review

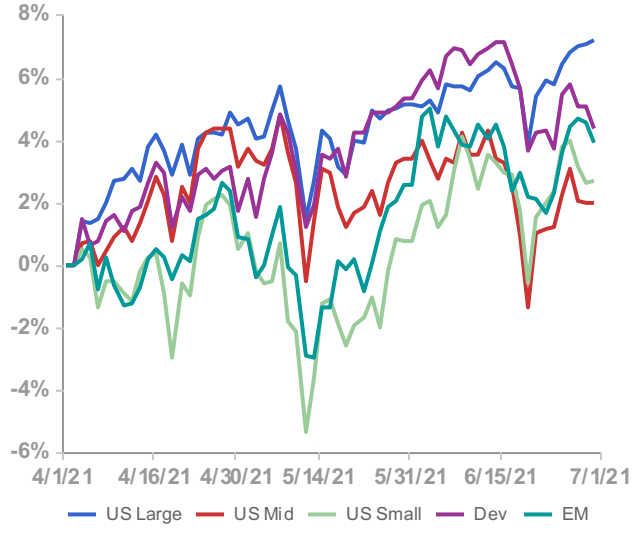
Once again US large cap stocks lead quarterly performance

Entering the second quarter, global investor sentiment had coalesced around the easing of the pandemic, recovery in most major economies, concerns over inflation and portfolio weightings emphasizing value, cyclical and more non-US assets. But as evidenced in Figure 1 and as we noted on the cover page, a lot changed with the US CPI report (released on May 12, 2021). Despite inflation that was running at just over a 5% annualized rate, markets suddenly were convinced the pressure was likely to be transitory (echoing the Fed's narrative at the time).

With investors suddenly seeing peak inflation, yields dropped significantly and asset allocation changed meaningfully. By the end of the quarter, US large caps and developed market stocks led performance over US small cap, US mid cap and Emerging Markets. Although most companies were reporting better than expected 1Q21 earnings into May, we see the drop in yields as the major driver of performance.

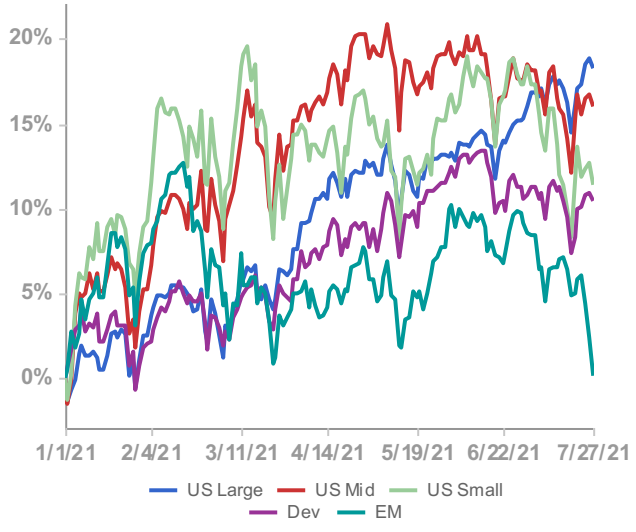
Stepping back, it was overall a good quarter (and first half) to own global equities. We highlight the following performance metrics regarding 2Q21 and 1H21, respectively, results: US large-cap (+7.2% and +18.3%), US mid-cap (+2.0% and +16.0%), US small-cap (+2.7% and +11.4%), Developed (+5.1% and +10.5%), Emerging (+3.9% and +0.2%).

Figure 20: 2Q21 Equity Performance[iv]



Source: FactSet

Figure 21: YTD Equity Performance



Source: FactSet

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Fixed Income Performance Review

Yields drop across the globe, lifting prices for fixed income

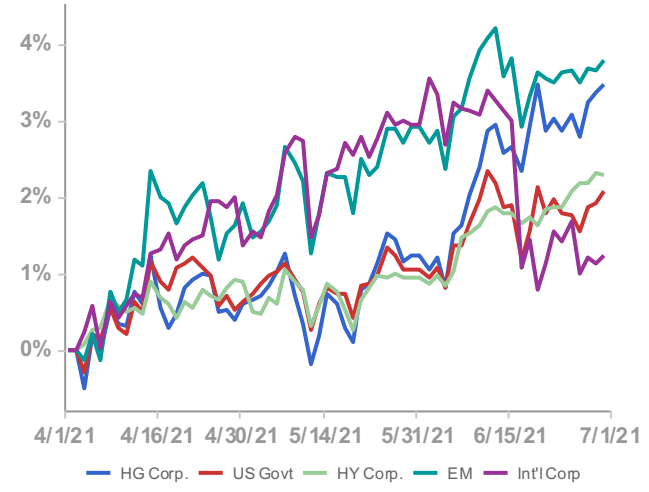
Going into 2021, most investors expected yields to move upward due to a combination of a global GDP recovery, significant fiscal stimulus from most governments and central banks' dovish positioning. While yields did in fact rise into early March, since that time global interest rates have moved steadily downward.

Unlike the 1Q21, most fixed income assets had a strong 2Q21 (fixed income prices rise as yields decline). Indeed, every major segment of the bond market rallied. Given the early 2021 positioning of balanced funds (i.e., those funds that typically have a 60-70% allocation to equities and 30-40% allocation to bonds) with likely under-weights in fixed income, perhaps it isn't too surprising to see money flows move rapidly back into the asset class.

Nevertheless, we note that YTD most fixed income investments have lost money. The only sub-segment in fixed income that has a positive return is high yield. We note this is likely due to the heavy energy exposure in high-yield bonds and the fact that oil and gas prices have rallied dramatically so far this year.

From a longer-term perspective, we still are wary of owning too much fixed income. While productivity, consumers ability to arbitrage pricing via IT and other forces could keep a damper on inflation, we nevertheless fear that so much global debt issued during the pandemic will ultimately push interest rates higher.

Figure 22: 2Q21 Fixed Income Performance[v]



Source: FactSet

Figure 23: YTD Fixed Income Performance

Source: FactSet

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Commodity Performance Review

Oil and Everything Else

Both in 2Q21 and YTD, the commodity complex has seen very differentiated price movement. With the exception of oil, most commodities such as precious metals, agriculture and base metals have reflected fears over inflation along with the sustainability of a global GDP recovery. Indeed, non-energy commodities largely rolled over in early May at the same time as the US CPI report was released.

Oil, however, has uncoupled itself from the rest, by steadily moving higher. Whether it is greater discipline among OPEC+ members or the rebound in global GDP, the energy complex is signaling higher demand with some supply limits.

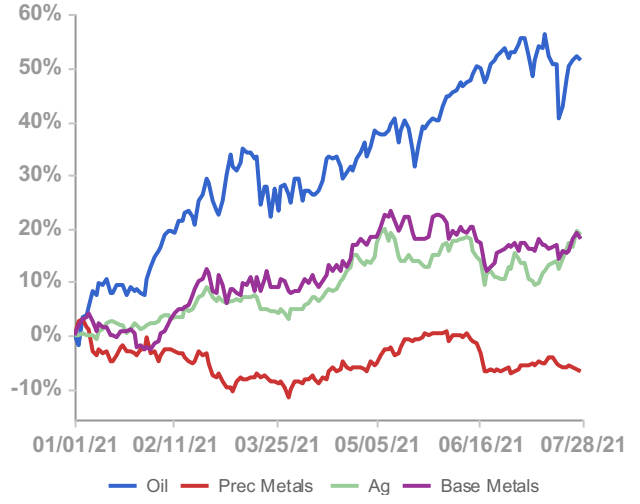
As a reminder, investors should normally expect greater volatility in commodity prices relative to equities or bonds. This is because, unlike stocks and bonds, commodities do not generate a stream of free cash flows that can be discounted back to present value. Commodities are also frequently susceptible to sudden supply and demand shocks impacting their price. But because commodities are priced in $US and traded globally, they are considered a store of value, especially if the dollar declines.

Rockingstone will typically invest in commodities via ETFs, and the below graphs display what we view as representative performance for the underlying commodities. We point to the following returns during the 2Q21 and 1H21, respectively: Oil (+18.2% and +51.6%), Precious Metals (+2.3% and -6.6%), Agriculture (+10.2% and +18.7%), Base Metals (+8.3% and +18.0%).

Figure 24: 2Q21 Commodity Performance[vi]

Source: FactSet

Figure 25: YTD Commodity Performance



Source: FactSet

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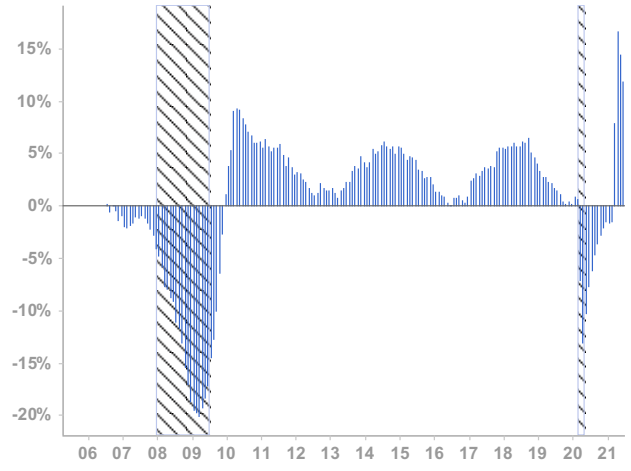
Chart Book

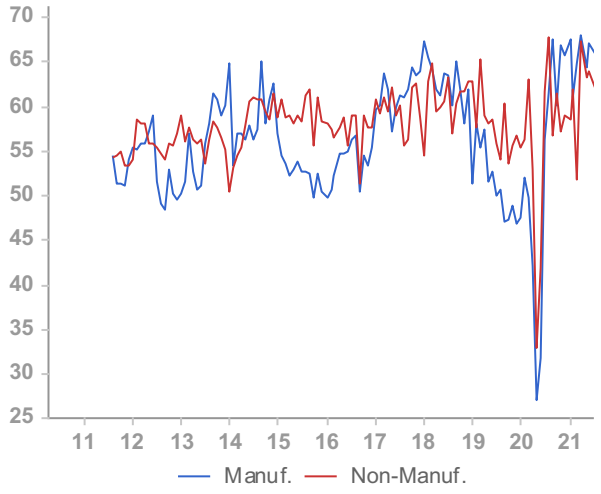
Leading Indicators

Figure 26: Index of Leading Economic Indicators



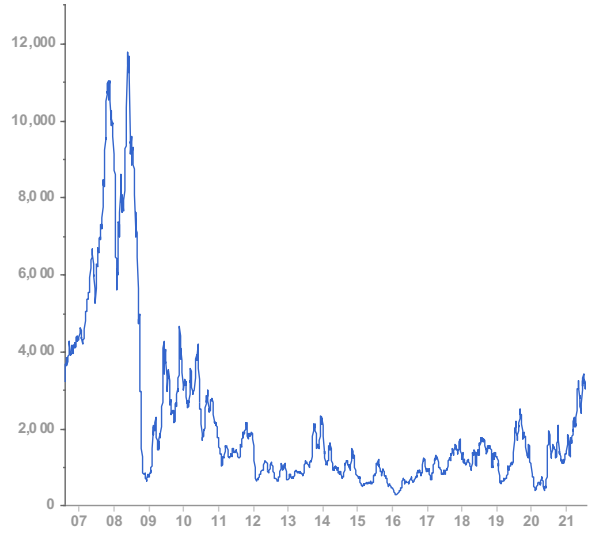
Source: FactSet

Figure 27: ISM New Orders



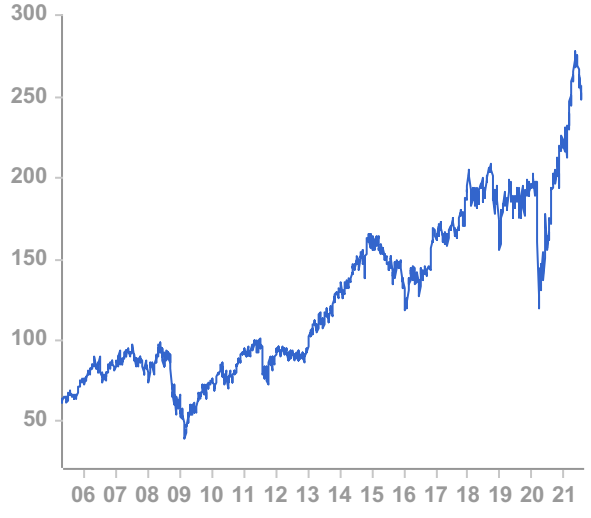
Source: St. Louis Federal Reserve, FRED Database

Figure 28: Baltic Freight Index



Source: FactSet

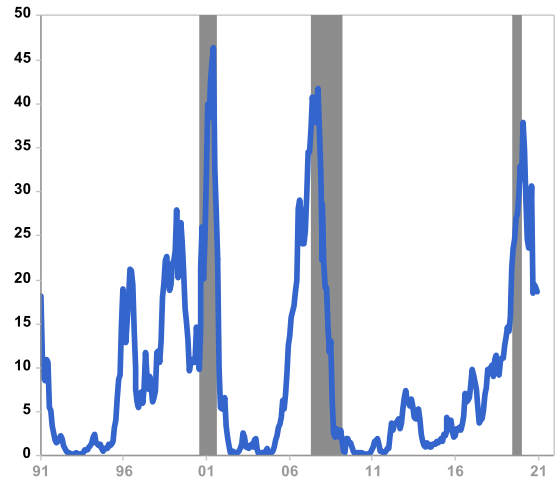
Figure 29: DJ Transports



Source: FactSet

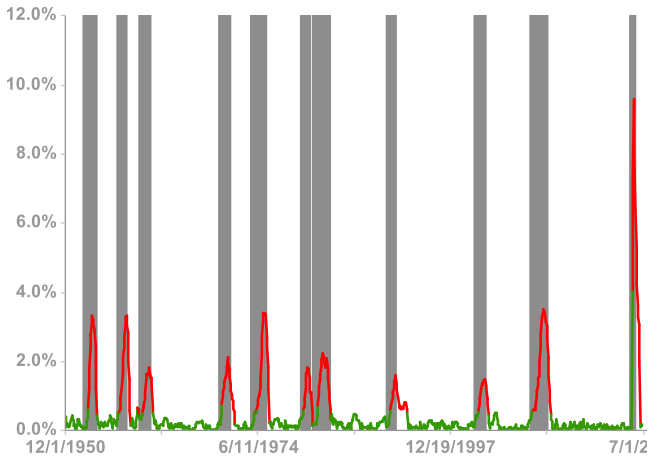
Real-time Recession Risk Indicators

Figure 30: Treasury Spread Recession Predictor



Source: FactSet, FRED Database

Figure 31: Sahm Real-time Recession Predictor

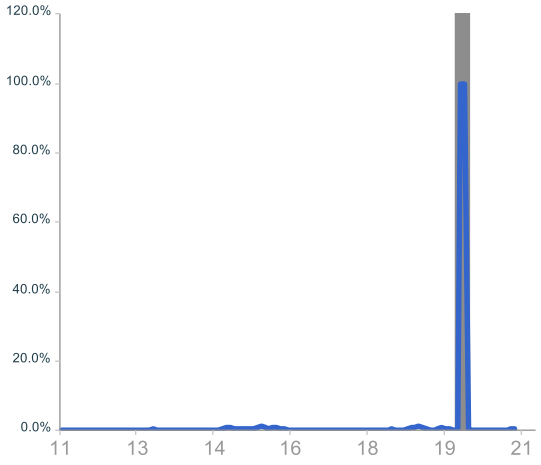


Source: St. Louis Federal Reserve, FRED Database

Figure 32: GDP Now (Atlanta Fed)

Source: FactSet; FRED Database

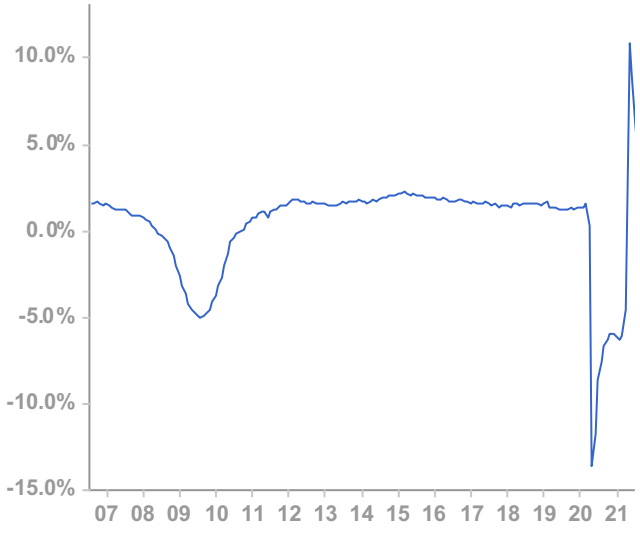
Figure 33: Smoothed US Recession Probabilities



Source: FactSet; FRED Database

Labor Market Indicators

Figure 34: Payroll Growth (Establishment Survey, % Chg. YoY)

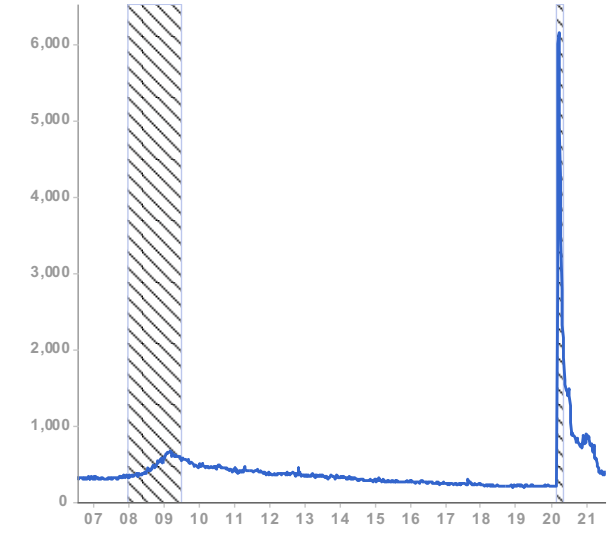


Source: FactSet

Figure 35: Labor Participation Rate (% of Workforce)

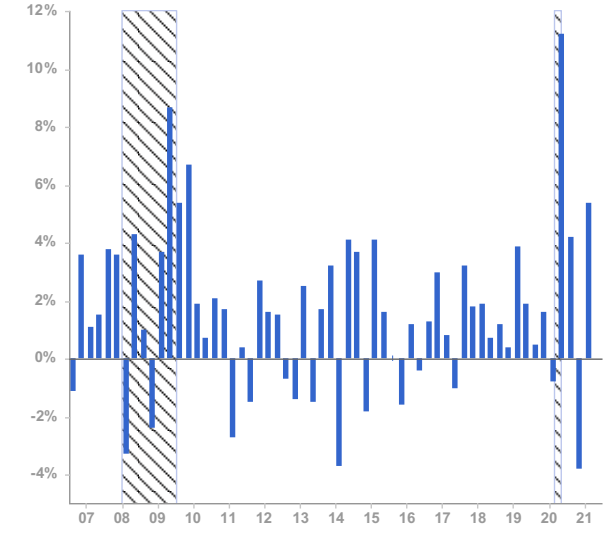
Source: FactSet

Figure 36: Initial Unemployment Claims



Source: FactSet

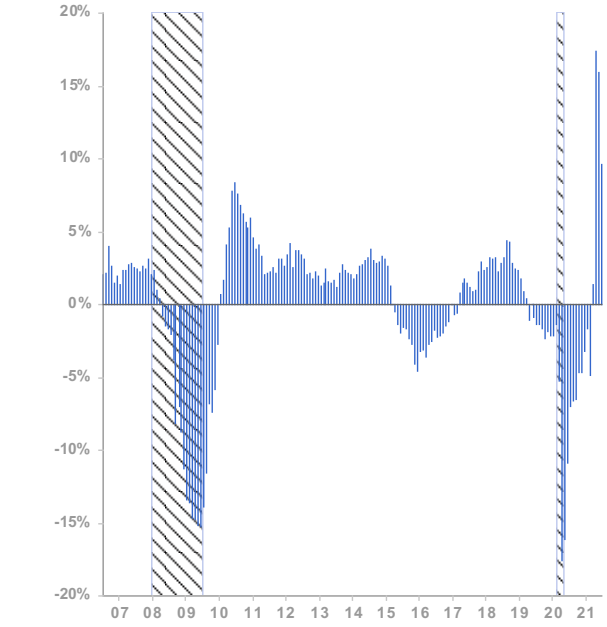
Figure 37: Non-Farm Productivity (% Chg. YoY)



Source: FactSet

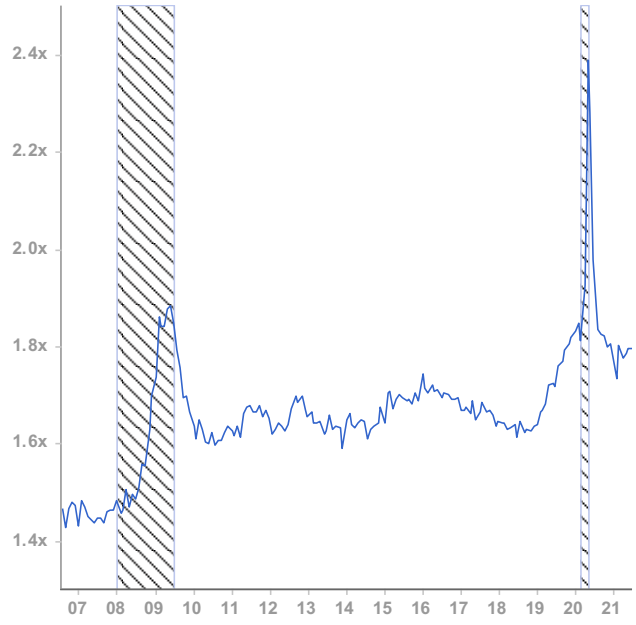
Production and Business Activity Indicators

Figure 38: Industrial Production (% Chg. YoY)



Source: FactSet

Figure 39: US Inventory to Shipment Ratio

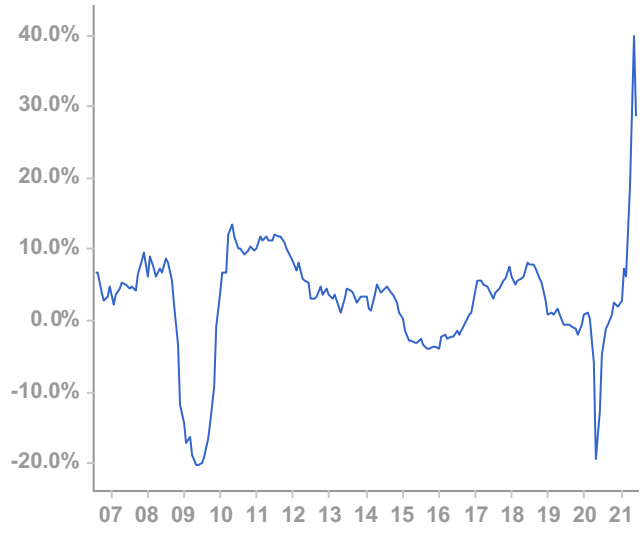


Source: FactSet

Figure 40: Unfilled Orders (% Chg. YoY)

Source: FactSet

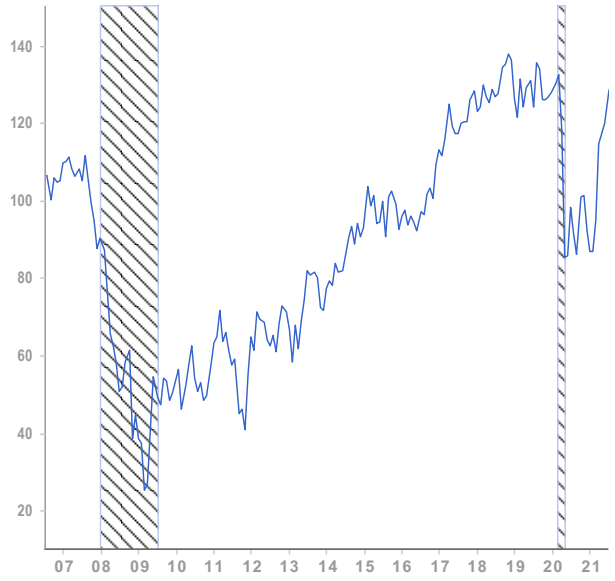
Figure 41: Business Sales (% Chg. YoY)



Source: FactSet

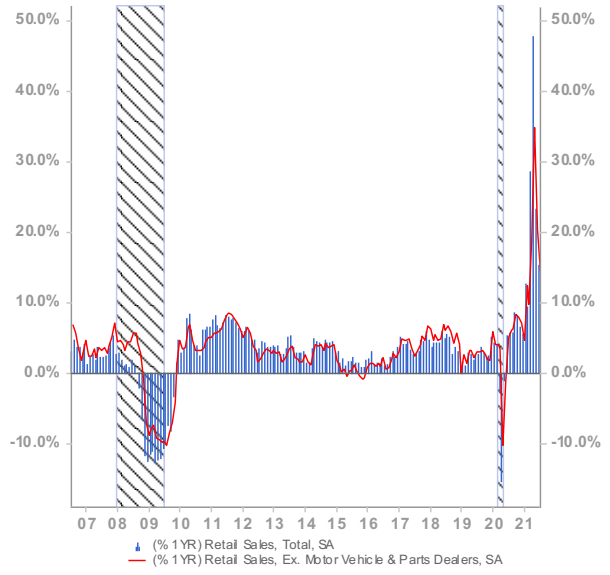
Consumer and Household Activity Indicators

Figure 42: University of Michigan Consumer Sentiment



Source: FactSet

Figure 43: Retail Sales

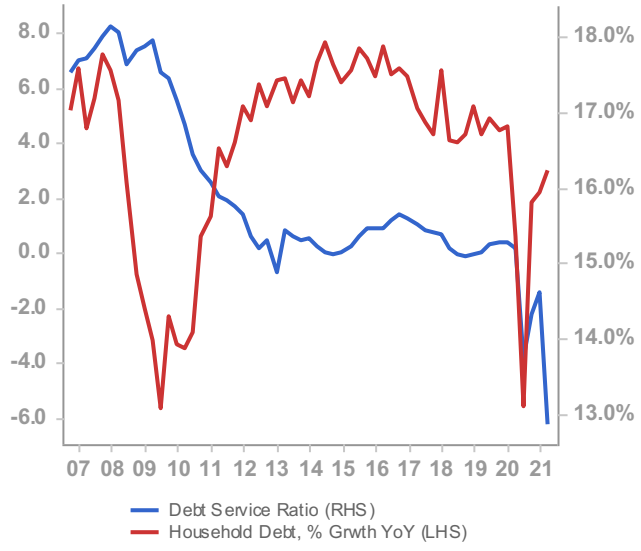


Source: FactSet

Figure 44: Personal Income and Savings Rate

Source: FactSet

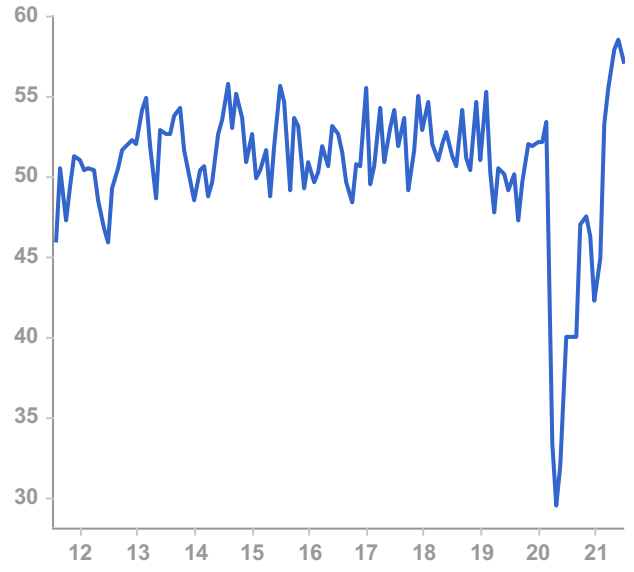
Figure 45: Household Debt



Source: FactSet

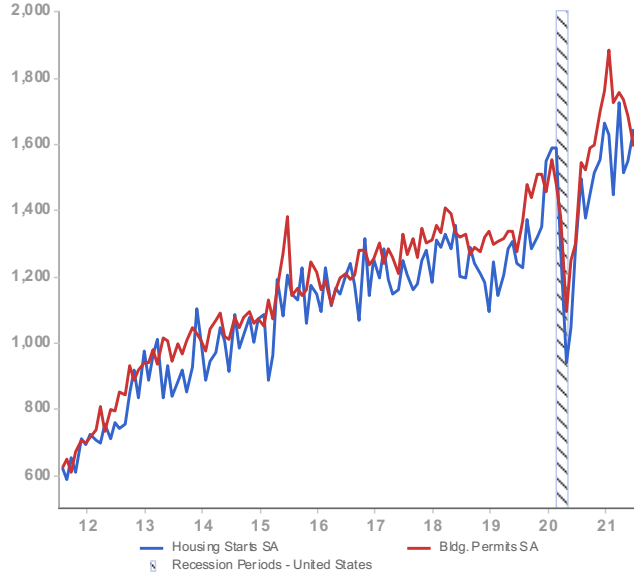
Housing and Construction Indicators

Figure 46: Architecture Billings Index



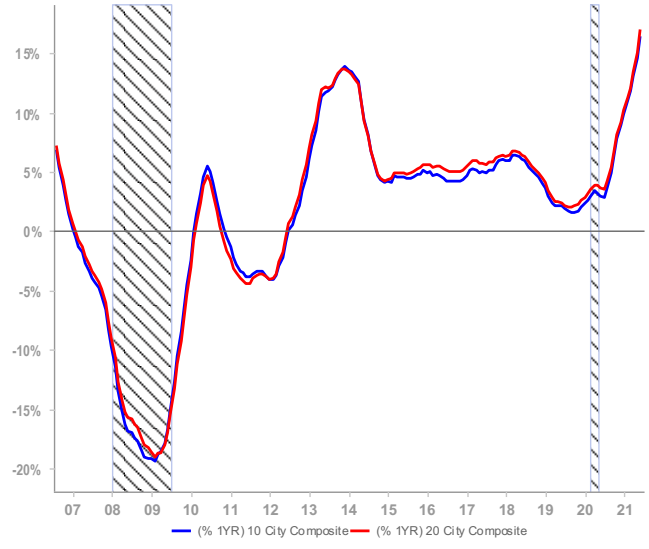
Source: FactSet

Figure 47: Housing Starts and Building Permits



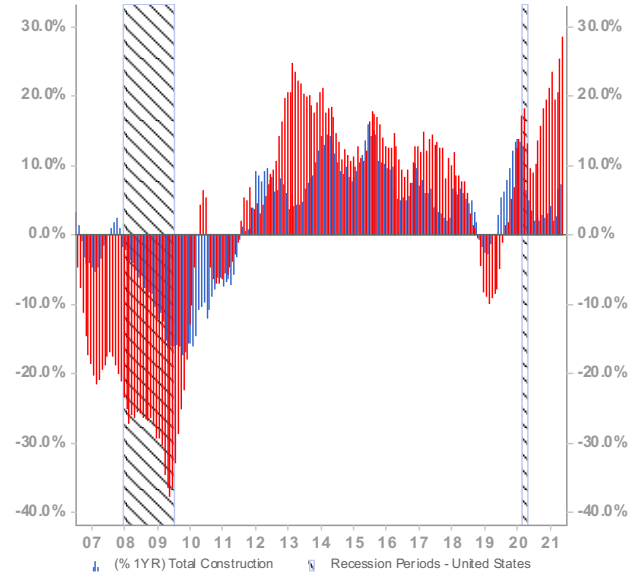
Source: FactSet

Figure 48: Case-Shiller 20-City & 10-City Index, % Chg. YoY



Source: FactSet

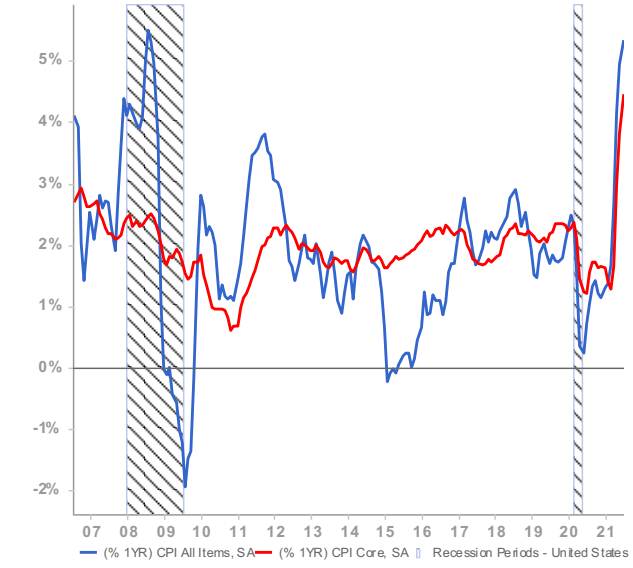
Figure 49: Private and Total Construction (% Chg. YoY)



Source: FactSet

Price Indicators

Figure 50: Consumer Price Index

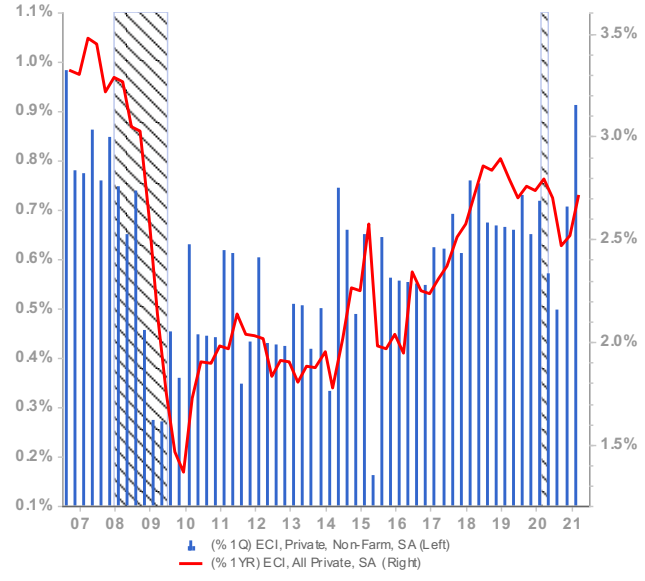


Source: FactSet

Figure 51: Producer Price Index

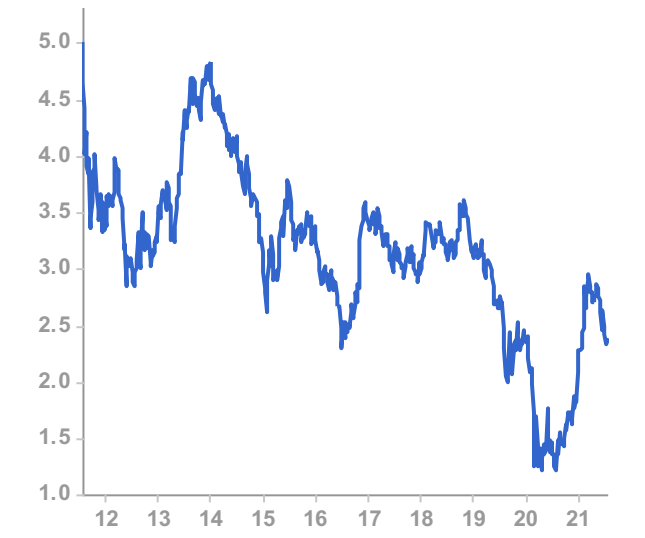
Source: FactSet

Figure 52: Employment Cost Index



Source: FactSet

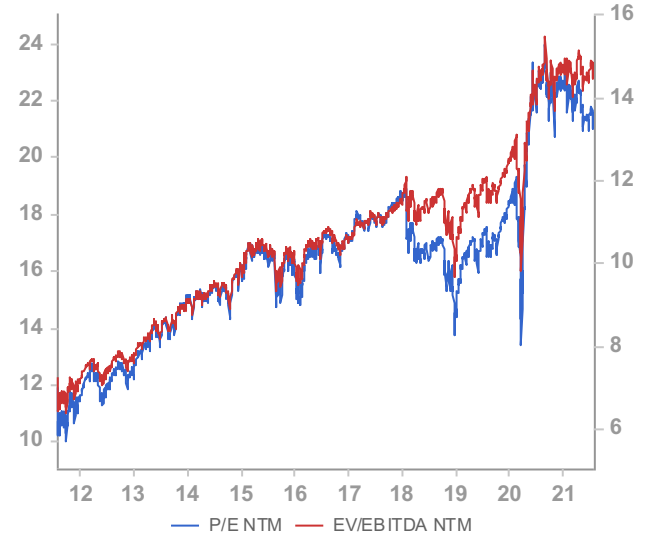
Figure 53: 10-Year, 5-Year Forward Inflation Expectations



Source: FactSet

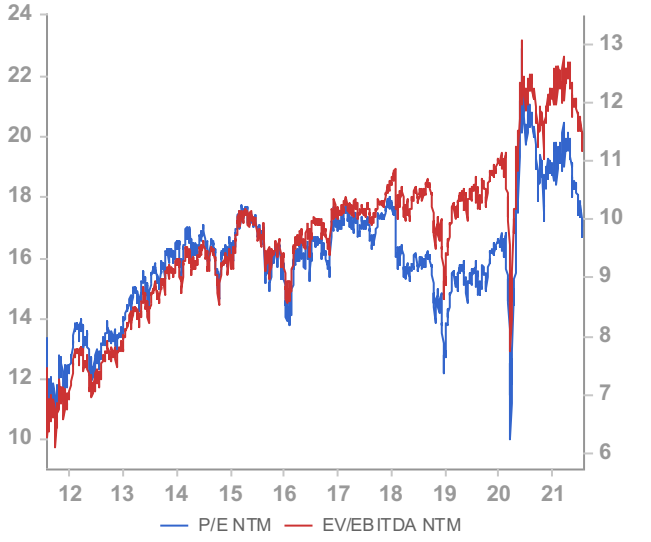
Valuation Indicators

Figure 54: S&P 500 P/E (LHS) & EV/EBITDA (RHS)



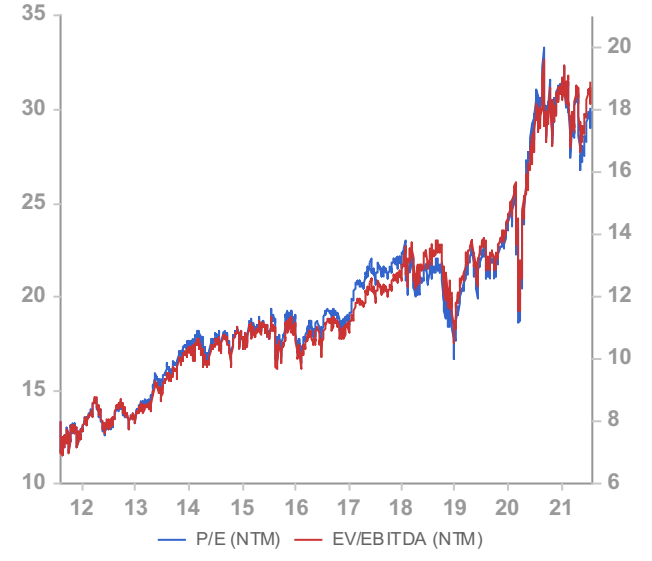
Source: FactSet

Figure 55: S&P Midcap 400 P/E (LHS) & EV/EBITDA (RHS)



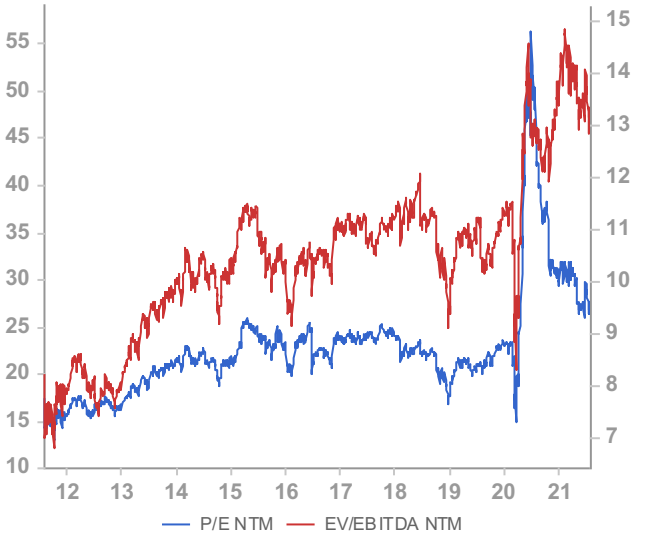
Source: FactSet

Figure 56: Nasdaq 100 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

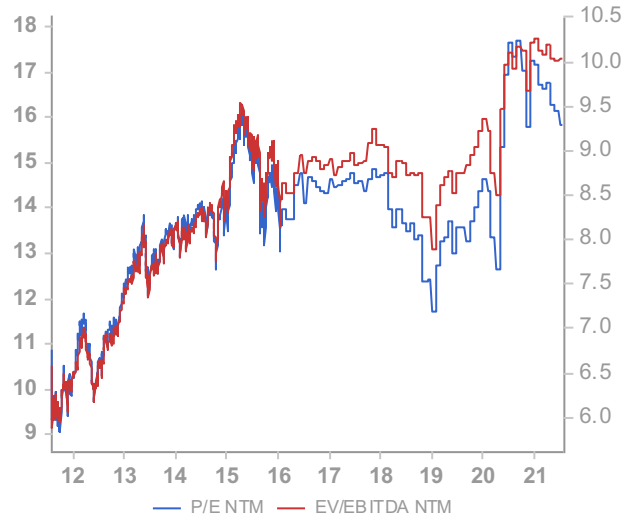
Figure 57: Russell 2000 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

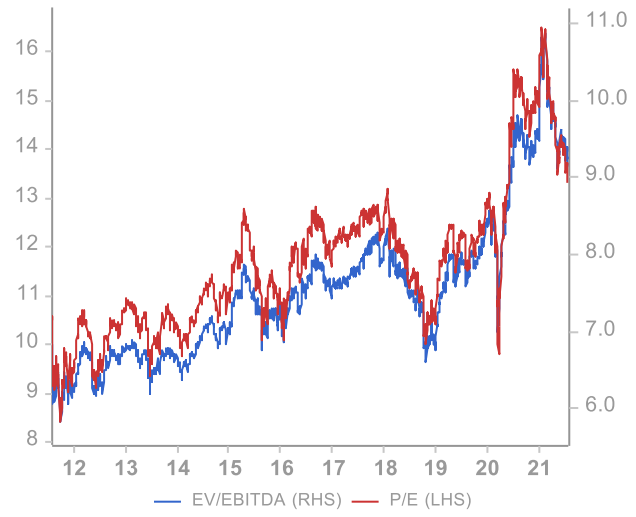
Valuation and Volatility Indicators

Figure 58: Intl Developed P/E (LHS) & EV/EBITDA (RHS)



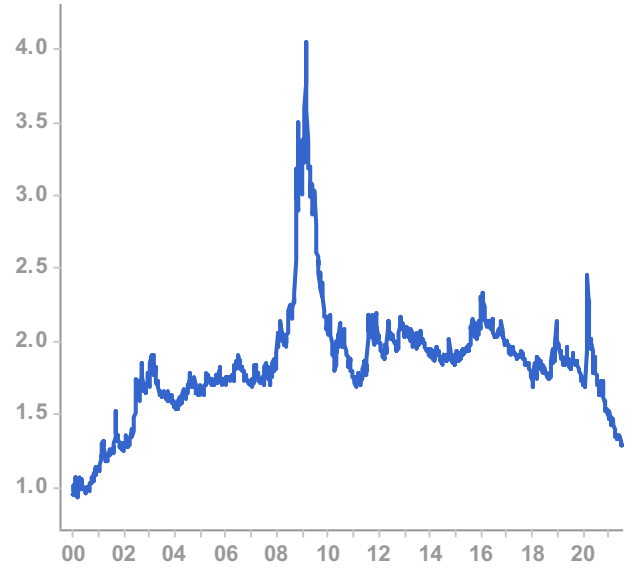
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 59: Emerging Markets P/E (LHS) & EV/EBITDA (RHS)



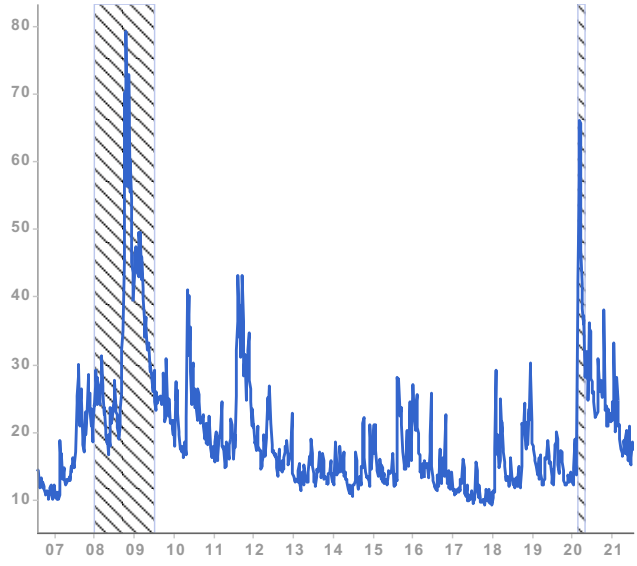
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 60: S&P 500 Dividend Yield



Source: FactSet

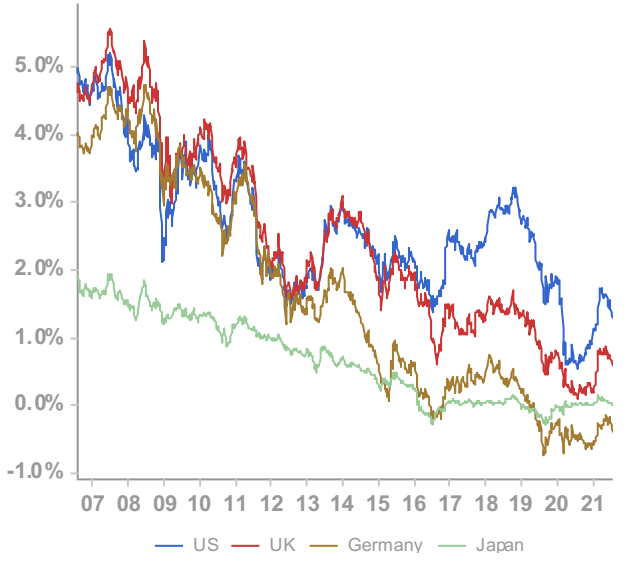
Figure 61: CBOE Volatility Index



Source: FactSet

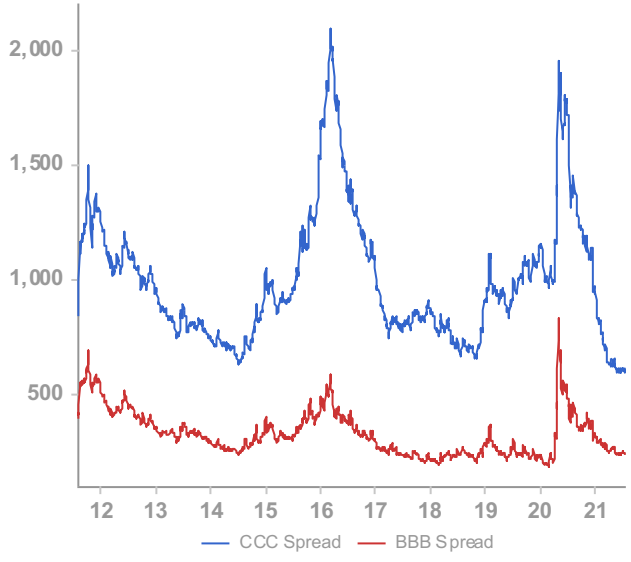
Bond Market Indicators

Figure 62: 10-Year Global Bond Yields



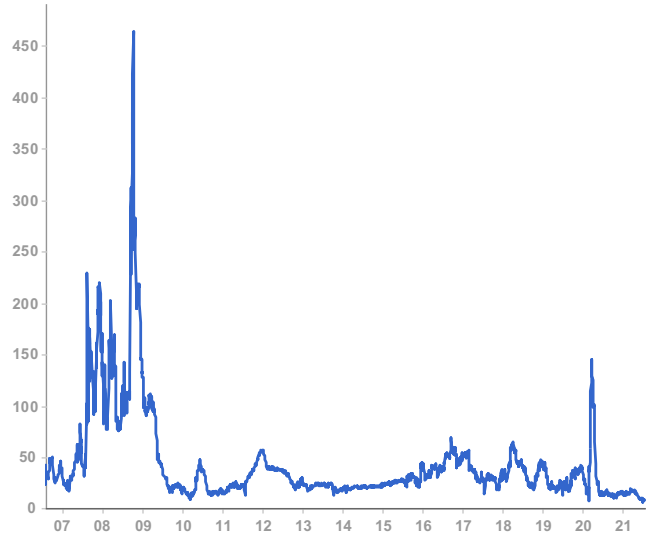
Source: FactSet

Figure 63: CCC and BBB Spreads (Option Adjusted)



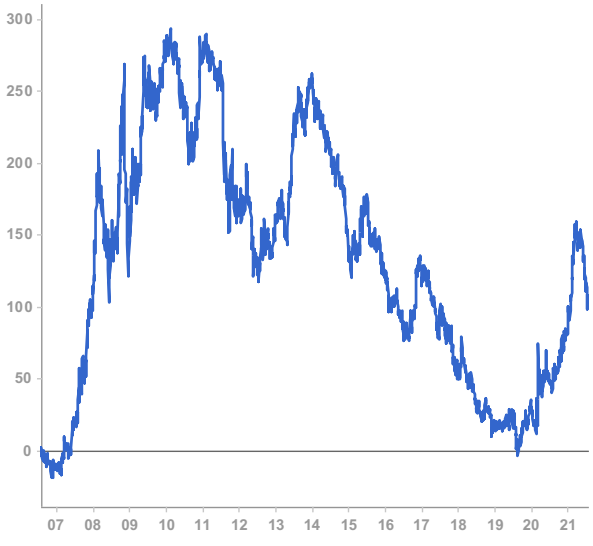
Source: FactSet

Figure 64: TED Spread (bps)



Source: FactSet

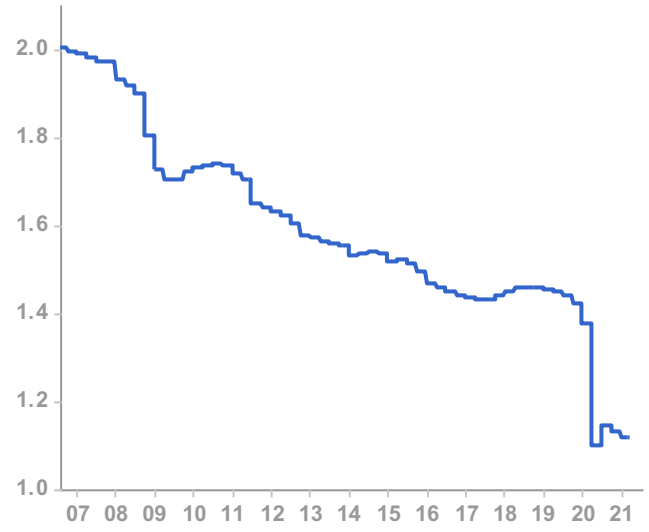
Figure 65: 10-Year Minus 2-Year Treasury



Source: FactSet

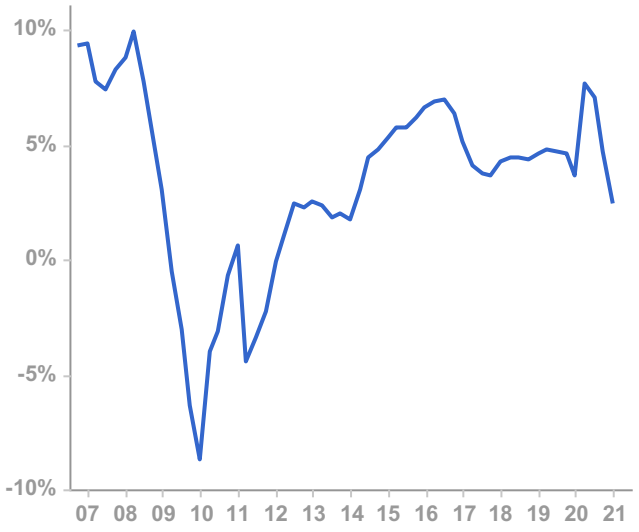
Liquidity and Other Indicators

Figure 66: Velocity of M2 Money Stock



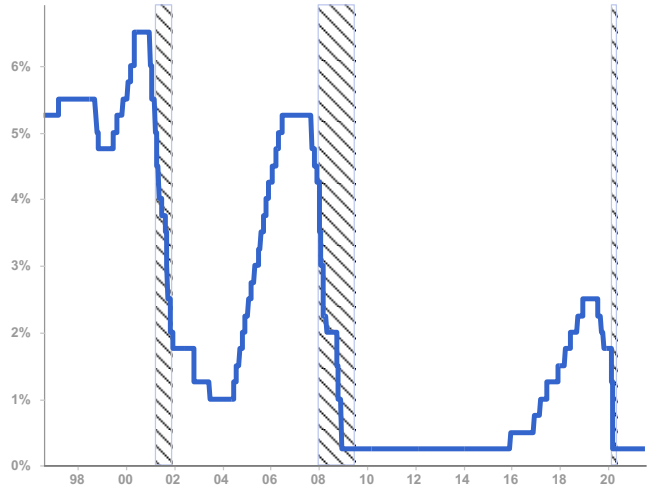
Source: FactSet

Figure 67: Loan Growth (Non-Financial, Private Sector)



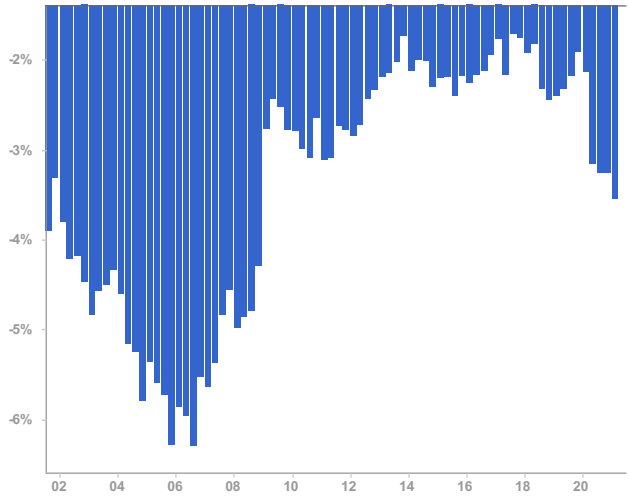
Source: FactSet

Figure 68: Fed Funds Target Rate



Source: St. Louis Federal Reserve, FRED Database

Figure 69: Current Account Deficit (as % of GDP)



Source: St. Louis Federal Reserve, FRED Database

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Appendix

Important Regulatory Disclosures and End Notes

Form ADV available upon request. This quarterly is only for informational purposes and not a solicitation to buy or sell securities or as a source of specific investment, legal or tax recommendations.

Rockingstone Advisors is solely responsible for the content of this Quarterly. The information and statistical data contained herein have been obtained from sources we believe are reliable but cannot guarantee.

Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix (composition) of portfolios in any given year and the number of portfolios within the sample set. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors or at cost. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis (except for PiK securities). Annualized return is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time and the mix changes every year. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet "accredited investor" standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is neither indicative of-- nor a predictor of-- future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone's performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

Quarterly Data prices are as of June 30, 2021; most other prices and yields are as of July 28, 2021.

We are happy to provide the raw data and source links for any of the charts or tables in this Quarterly. We are also happy to provide individual account performance data by annual cohort or by IRR (instead of TWM) so you can better understand the range of portfolio returns. We thank you for your interest and always appreciate any feedback.

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[i] Asset class performance charts depict Equity (SPY ETF), Bonds (BND ETF), Commodities (DBC ETF), Preferred (PFF ETF) and Real Estate (VNQ ETF) price change plus dividends and interest during the selected period.

[ii] Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix of portfolios in any given year. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis. Annualized return since inception is based on portfolios invested as of June 30, 2008. The sample set of portfolios within each annual cohort has increased over time. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet "accredited investor" standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is not indicative or a predictor of future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone's performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

[iii] Our Five-Year Forecast is updated quarterly and reflects our best judgment on future performance based on current valuations relative to historical valuations, as well as our outlook for earnings and macroeconomic conditions. We caution that predicting outcomes is inherently risky and subject to change.

[iv] Equity performance charts depict U.S. large-cap (SPY ETF), U.S. mid-cap (VO ETF), U.S. small-cap (IWM ETF), International Developed (VEA ETF), and Emerging Markets (VWO ETF) price change plus dividends and interest during the selected period. We note that Vanguard highlighted a trading glitch in the shares of VO during March 31, 2015 that led to prices materially higher than underlying NAV. Hence you should assume VO's valuation and total return was inflated as of the end of the first quarter.

[v] Fixed income performance charts depict Intermediate Government (IEF ETF), High Yield Corporates (JNK ETF), High Grade Corporates (LQD ETF), International Corporates (PICB), and Emerging Markets bonds (EMB ETF) price change plus interest income earned over the selected period.

[vi] Commodity performance charts depict Precious Metals (DBP ETF), Base Metals (DBB ETF), Oil (DBO ETF), and Agriculture (DBA ETF) price change.