HUGHES | FINANCIAL SERVICES, LLC

Q2'21 Economic *update*

In the first half of 2021, investors welcomed a new administration in the United States, saw the reopening of many countries around the world, experienced volatility in equity markets and ended a second quarter that produced many new highs.

The S&P 500 has now gained ground for five quarters in a row. Notably, it has gained more than 5% for five quarters in a row, only the second time since 1945 that the index has been able to pull off this feat. According to Bespoke Investment Group, the previous occurrence was in 1954 when the Fed was also trying to emerge from a period of ultralow interest rates. Needless to say, and despite a whirlwind of change, investors who stayed the course may have experienced a continued drive toward better economic and financial health.

"Better news on Covid, vaccinations, re-openings, economic growth, and earnings fueled the advance. Nearly equal gains were achieved in both quarters by a rotation in leadership allowing broad participation," said Jim Paulsen, Leuthold Group's Chief Investment Strategist.

On the last day of Quarter 2, the S&P 500 rose 0.1% to end at 4,297. This marked the S&P 500's 24th record close in 2021. The Dow Jones Industrial Average (DJIA) closed 210.22 points higher at 34,502, a gain of 0.6%. This close was just 1% shy of its May 7th record close of 34,777.76.

Historically, positive first halves of the year are usually followed by positive second halves. If there is a double-digit gain in the first half, both the S&P 500 and the DJIA have never ended the year with an annual decline according to Refinitiv data dating back to 1950.

Our virtual educational LUNCH & LEARN sessions ARE BACK!

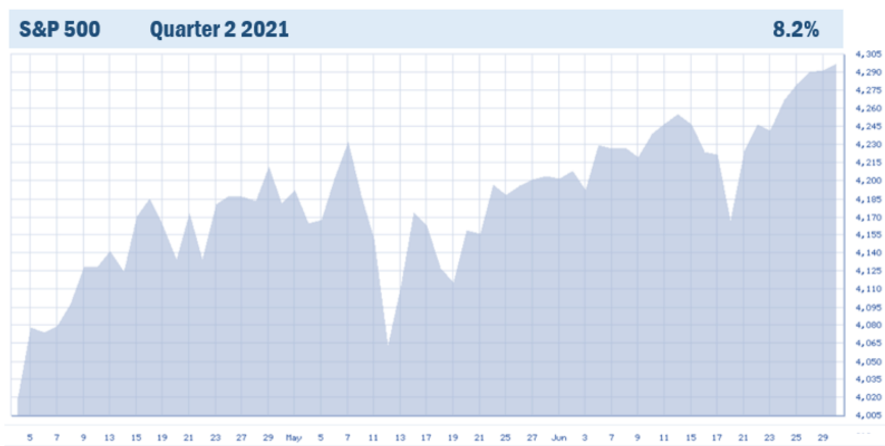
See the back page for session dates and topics

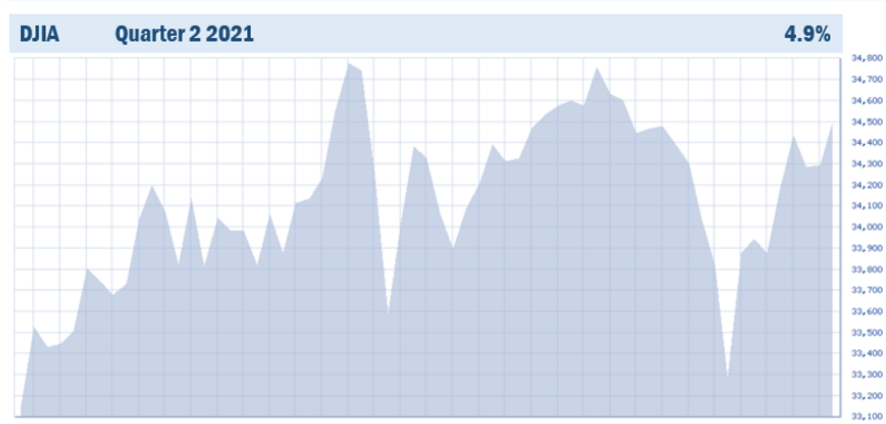
HIGHLIGHTS

- All three indexes finished the quarter in the positive
- Continued vaccine distributions and re-openings are driving the economy forward
- Interest rates remain at near zero but are expected to increase in 2023
- Inflation is moving faster than anticipated
- Avoid media distractions and remain consistent with your time horizons and risk tolerance
- Focus on your personal goals and always call us with any concerns

However, amidst all the positive momentum toward recovery, there is still concern about the condition of the job market, inflation, and uncertainty about the path of the virus and the severity or impact that new strains may have. Theoretically speaking, the stock market tends to be a forward-looking mechanism, so its pricing can reflect an economic recovery well before it actually happens. With COVID variants and many potential challenges still ahead, investors need to continue being watchful.

As financial advisors, it is our goal to stay apprised of the issues we feel may directly impact you and your financial goals. We will be keeping a watchful eye on the progress of the economic recovery.





MONEY RATES (as posted in Barron's 7/6/2021)		
	LATEST WEEK	**YR AGO**
Fed Funds Rate (Avg. weekly auction)[c]	**0.10%**	**0.09%**
Bank Money Market[z]	**0.07%**	**0.12%**
12-month CD[z]	**0.17%**	**0.38%**
c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com)		

TREASURY YIELDS

Treasury yields experienced some volatility at the end of this quarter. Immediately after the Fed's meeting, Treasury yields experienced fluctuations, even hitting a low that day of 1.354% on a 10-year Treasury, the lowest since February 24th.

During the quarter, longer-term Treasury yields moved sharply higher, with the yield on the benchmark 10-year U.S. Treasury note jumping from 0.93% to 1.74%, its highest level since early 2020. At quarter's closing, the 10-year treasury yield was 1.456% and the 30-year treasury yield was 2.08%.

Interest rates are still at or near all-time lows but rates of 0 to 2% will not help some investors reach their financial goals. Also, when interest rates rise, bond prices fall. Interest rates are critical when creating a diversified and balanced portfolio. Therefore, investors need to pay attention to interest rate movements.

HUGHES FINANCIAL SERVICES, LLC

Hughes Financial Services, LLC, is an independent Registered Investment Advisor (RIA) working closely with individuals and families to provide direction and strategies on how to financially achieve their personal goals and dreams.

We adhere to the highest fiduciary standards when providing advice that is truly unbiased and has only our clients' best interests in mind.

We offer our clients a wealth of comprehensive financial planning expertise in the following areas:

- retirement planning
- investment management
- estate planning
- risk/protection management
- education planning

The financial advisors at Hughes Financial Services hold a variety of professional designations and certifications and are well-versed in several financial disciplines. We specialize in helping employees and retirees of local government, school systems and U.S. military with their retirement options.

Our combined education and experience allow us to offer you independent financial advice and solutions we are proud to provide.

Located in Herndon, Virginia (Fairfax County), Hughes Financial Services works with clients across the country.

2201 Cooperative Way, Suite 150
Herndon, VA 20171
P (703) 669-3660 | F (703) 880-4905
www.h4fs.com

& INFLATION INTEREST RATES

Two of the most talked about issues at the end of the second quarter were inflation and interest rates.

In June, the Federal Reserve held their two-day meeting and concluded that due to more aggressive inflation than expected, they anticipate raising interest rates sooner than previously thought. Back in March 2021, the Fed did not expect to raise rates until 2024 at the earliest. At the meeting, the Fed's latest dot-plot projections moved the timeline to potentially 2023, when there could possibly be two interest rate hikes.

"As the reopening continues, shifts in demand can be large and rapid and bottlenecks, hiring difficulties and other constraints could continue the possibility that inflation could turn out to be higher and more persistent than we expect," Fed Chair Jerome Powell said during the press conference.

He also stated, "The dots are not a great forecaster of future rate moves … it's because it's so highly uncertain. There is no great forecaster -- dots to be taken with a big grain of salt."

US inflation sees highest levels since 2008

Consumer Price Index for all urban consumers, % change from a year ago

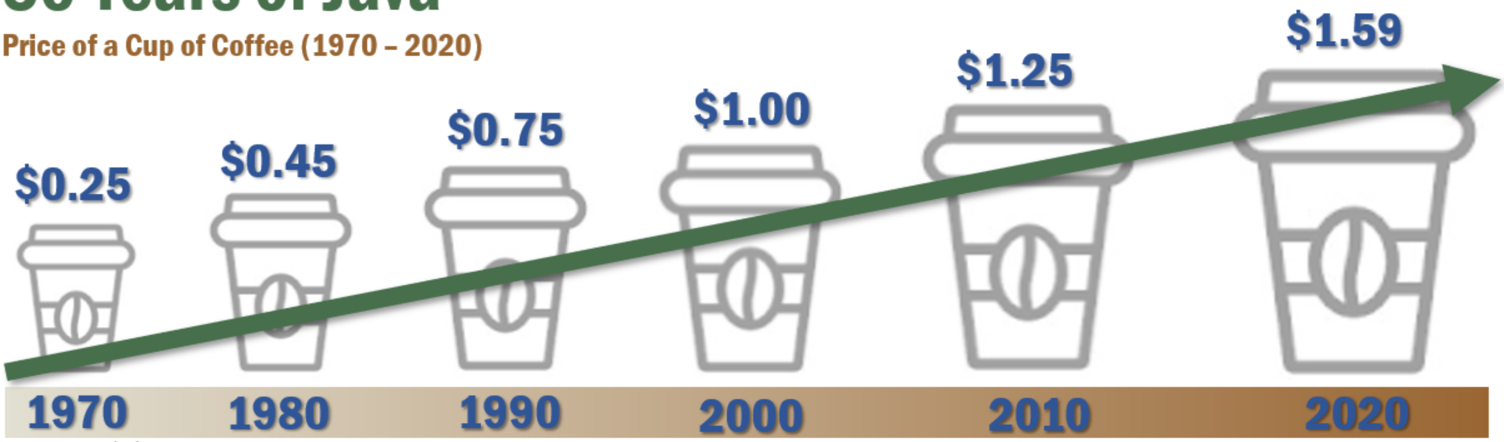
Source: US Bureau of Labor Statistics

The inflation expectation for 2021 was raised to 3.4% despite expectations of a 2.4% inflation rate back in March. Powell noted, "You can think of this meeting that we had as the 'talking about talking about' meeting, if you'd like." The sentiment of the Fed is that inflation pressures are "transitory."

The Federal Open Market Committee (FOMC) kept its benchmark short-term rate near zero at 0 – 0.25%. Even though the dot-plot projected rates may rise in 2023, Fed Chair Powell stated, "The economy has clearly made progress. I expect that we'll be able to say more about timing as we start to see more data."

50 Years of Java

Price of a Cup of Coffee (1970 – 2020)



Source: analyticssteps.com

Inflation is a decrease in the purchasing power of money, reflected in a general increase in the price of goods and services in an economy. For example, the prices for many consumer goods are significantly higher than they were 50 years ago. When you hear someone's grandparent say, "When I was your age a cup of coffee cost 25 cents," they are making a statement about inflation. Simply put, it is the rising cost of goods and services over time and the decrease in the purchasing power of the dollar.

After the Fed's June announcement, the stock market experienced a temporary drop but quickly regained its losses.

Bond yield percentages also pulled back from their high with 10-year treasury yields last trading at 1.56% on June 16th after Powell's remarks.

Inflation is a real concern for savers because it eats into their purchasing power and lifestyle. While we are nowhere near the last 90 years of highest or lowest periods of inflation, investors should still try to keep pace with or exceed inflation rates.

Top 3 Highest and Lowest Inflation Rates

(1930-2020)

Year	Inflation Rate YOY	Business Cycle (GDP Growth)	Events Affecting Inflation
1930	-6.4%	Contraction (-8.5%)	Smoot-Hawley
1931	-9.3%	Contraction (-6.4%)	Dust Bowl
1932	-10.3%	Contraction (-12.9%)	Hoover tax hikes
1946	18.1%	Expansion (-11.6%)	Budget cuts
1979	13.3%	Expansion (3.2%)	n/a
1980	12.5%	Jan. peak (-0.3%)	Recession

Sources: bigcharts.com; cnbc.com (6/16/2021, 6/21/2021, 6/29/2021, 6/30/2021); marketwatch.com (7/1/2021); bankrate.com (6/21/2021); cnbc.com (6/30/2021); Barron's (6/30/2021); blackrock.com (7/1/2021); russellinvestments.com (7/1/2021); seekingalpha.com (6/25/2021); Contents provided by the Academy of Preferred Financial Advisors, 2021©

INVESTOR OUTLOOK

With the swift distribution of vaccines and the subsequent lifting of restrictions, the economy is seeing a dramatic uptick and is positioned to recover even more in the coming months. While equity markets are still looking favorable, all eyes are on inflation. This may cause some volatility in stocks.

Although history is just data and cannot be predictive of future events, a positive first half of the year has traditionally and historically brought a positive second half.

In their mid-year report, Blackrock, one of the world's largest asset managers, noted that, "We remain constructive on U.S. stocks as the economic restart gains pace. Yet as the cycle evolves, investors will increasingly divert their attention toward the potential party spoilers. A chief concern is inflation, and whether the rising prices seen in some pockets of the economy are transitory or the first signs of an enduring new regime. We expect fears of inflation will be enough to stoke volatility in stocks, even amid Fed assurances of continued accommodation. Similarly, tax policy may become a volatility trigger as lawmakers debate the proposal."

Russell Investments' mid-year outlook stated, "We still like the pandemic-recovery trade that favors equities over bonds.'' They did caution that, "We're watching indicators for whether the inflation spike becomes an issue for the Fed." They concluded, "We expect strong economic growth in the United States through the second half of this year."

Seeking Alpha's mid-year outlook shares, "The breakneck pace of the COVID-driven decline and restart has made for one unprecedented economic and market cycle. We begin the second half positioned for recovery, while also safeguarding against potential bouts of market angst." They concluded that they, "remain constructive on U.S. stocks as the economic restart gains pace. A chief concern is inflation, and whether the rising prices seen in some pockets of the economy are transitory or the first signs of an enduring new regime." Their outlook noted that equity markets are forward looking and that inflation and taxes could bring market volatility in this year's second half.

Investors understand that it is not what you make that is important, but what you keep, so another area we will be paying careful attention to is proposed new tax policy.

President Biden's campaign focused on pushing for several tax law changes including: increasing corporate tax rates; increasing the marginal tax rate for top earners; eliminating the stepped-up basis upon death; and lifting the capital gains and dividends tax rates on high-income filers. Changes in tax policy can bring different results for those affected as well as volatility to equity markets. At Hughes Financial Services, tax law changes are one of our primary focuses. We are keeping an eye on tax law changes and how they may affect you.

With interest rates still near ultra-low levels, investors need to examine the use of equities in their portfolios. With equities at or near all-time highs, investors need to fully understand their personal timelines and risk appetites. Our role as financial advisors is to help find the right balance for our clients so they can pursue their goals.

REMEMBER THE 3C's

Make sure you are CONFIDENT in your plan
Peaks and valleys have always been a part of the financial markets and it's likely this pattern will continue. Being confident in the decisions you've made after careful planning can help prevent you from making any emotionally charged decisions when the markets fluctuate.

Make sure you are COMFORTABLE with your plan
It's a fact that equity markets will continue to move up and down. Even if your time horizons are long, you could see short-term downward movements in your portfolios. Each type of investment poses a certain level of risk and offers a level of potential reward. A wise move is to regularly evaluate your portfolio and what level of risk exposure you're comfortable with.

Make sure you are CONSISTENT with your plan
You've carefully created a realistic plan designed to meet your financial goals. Don't let media magnification, cousin Joe's latest market speculation, or emotional decisions cause you to sway from it.

Remember the words of The Vanguard Group's Jack Bogle: "Stay the course, no matter what happens, stick to your program. I've said 'stay the course' a thousand times and I meant it every time. It is the most important single piece of investment wisdom I can give to you."

A financial plan is only as good as your ability to consistently follow it. Stay the course.

As financial advisors, our purpose is to focus on your goals and objectives, timeframes, and risk tolerances and using this information, provide you with strategies and suggestions to help achieve your financial dreams. Our advice is not one-size-fits-all because people are not one-size-fits-all. Our recommendations are customized to your specific goals and preferences. We will always consider your feelings about risk and the markets and review the entirety of your financial situation when making recommendations to you. We take strategic precautions to minimize volatility and more importantly, keep you on track toward your financial goals.

We pride ourselves in offering you:

- Over 80 years of combined financial planning advice with 30 years of expertise in pensions, DROP and TSPs
- A regular schedule of client meetings, communications (mailed and available at www.h4fs.com), and educational sessions to keep you informed and updated
- Continuing education for every member of our team on the issues that may impact our clients so we can provide you with the most up-to-date expertise

A skilled financial advisor can help make your investment journey easier. We are here for you and your family and are humbled and honored by your support.

We hope you found this review to be helpful and educational. We have addressed various issues with you, but if you have questions or concerns, let's have a conversation. We are here for you. Be safe, be well.

HELP US HELP OTHERS

A theme you will hear from us this year is our **"HFS Growth Initiative"** in which we look to you to help us grow.

When we look back at the growth of HFS, we find that many of our new client relationships often started with introductions from our best clients and we are so honored by your trust in us.

In 2021, we're asking for your continued support by:

ADDING family/friends' names to our mailing list to receive our timely reports and updates

INVITING a guest (or two or three!) to any of our educational webinars that feature timely financial planning topics

REFERRING someone to us for a complimentary, no obligation consultation

WEDNESDAY LUNCH & LEARN

Hughes Financial Services' 20-minute virtual educational Lunch & Learn webinar sessions **ARE BACK!**

Grab your device and lunch and join us **each Wednesday at Noon** to juice up your financial planning knowledge on a variety of topics!

REGISTER ONLINE @ www.h4fs.com

WEDNESDAY, AUGUST 4

Halftime Report: An Economic & Market Update

WEDNESDAY, AUGUST 11

Taxes 2021 and Beyond: What do recent tax proposals mean for you?

WEDNESDAY, AUGUST 18

Cybersecurity in 2021: The latest scams and protection strategies

WEDNESDAY, AUGUST 25

Estate Planning: Why the CARES Act care about you