

FLIPPIN, BRUCE & PORTER

A BUSINESS OF CANTOR FITZGERALD INVESTMENT ADVISORS

July 2021

The equity markets continued their positive trend during the second quarter, with large-cap indexes such as the S&P 500 and the Nasdaq finishing the period at record-high levels. This is remarkable given that just one year ago, virtually the entire global community was in economic recession. Furthermore, there were significant uncertainties last year about when conditions might improve as the pandemic spread unchecked. While concerns remain about COVID-19 variants, the economic backdrop is much improved following the removal of most government restrictions as vaccination rates increase.

One could argue that the biggest economic risk going forward is an overheated economy rather than a stagnant one. First quarter GDP growth of 6.4% was indicative of the powerful economic recovery underway in the U.S. The growth rate was the second highest since 2003, exceeded only by the third quarter of 2020 when the reopening process gained momentum. Consumer spending accelerated by 10.7%, spurred by additional government assistance payments such as direct stimulus checks and enhanced unemployment benefits. As the economy heated up, there were notable pockets of inflation, particularly in commodities such as lumber and crude oil. Additionally, supply chain bottlenecks appeared as the transportation system strained to handle increasing economic activity. Semiconductor chip shortages due to factory outages are yet another example of supply chain bottlenecks that will have widespread impacts across several industries. In a statement issued by the Federal Reserve's Open Market Committee (FOMC) following its June meeting, the committee indicated that it believes inflation is "transitory" and that it plans to maintain an accommodative monetary policy stance. It did, however, signal that during 2023 it may begin to tighten by raising the fed funds rate, a change from prior guidance that implied rate increases would be delayed beyond that year. So far, equity market investors appear comfortable with Fed policy.

Positive stock market returns for the quarter, coming on top of terrific results in Q1, provided investors one of the strongest starts to a calendar year in decades. Our portfolio's performance against the benchmarks reflects the strong rotation into value stocks that began in the fall of 2020. While that rotation stalled somewhat near the end of the quarter, one-year returns are quite high, and benchmark comparisons are particularly favorable for that time period. Cash levels are modestly elevated, not unexpected given that markets are near record levels. We continue to look for attractive stocks to add to the portfolio, but valuations appear a bit stretched in the current environment, making that task more challenging. Portfolio valuations continue to reflect a significant discount to both the S&P 500 and the Russell 1000 Value index. Looking forward, we would expect market returns to moderate in the second half of 2021 given that the pace of economic growth is likely to cool and markets may have already priced in expected higher earnings. Nevertheless, we anticipate continued solid economic growth, an accommodative Federal Reserve, and strong corporate earnings growth, all of which should pave the way for a favorable equity market environment over the longer-term.

In addition to our normal quarterly reports, we also want to update you on the transaction we communicated to you last quarter. We are pleased to report that the acquisition of Flippin, Bruce & Porter by Cantor Fitzgerald Investment Advisors was closed in early June, and the integration of our firms is proceeding well. We expect the change will be seamless for you as there will be no change to the management of our accounts or our relationship with you.

As a registered investment adviser, we are required to amend our Form ADV Part 2 and inform you of any changes when information in our disclosure brochure becomes materially inaccurate. Since our last annual updating amendment, we have revised our Form ADV Part 2A due to the following material changes:

Cantor Fitzgerald Investment Advisors, LP purchased the assets of Flippin, Bruce & Porter, Inc. on June 8, 2021. As of that date, our firm will operate as Flippin, Bruce & Porter, a business of Cantor Fitzgerald Investment Advisors, LP. This amended brochure also includes a variety of wording changes and clarifications from the last update completed on March 19, 2021.

If you have questions or would like to receive a copy of our most recent Form ADV Part 2A, you can request one free of charge by contacting us at (800) 851-3804. The updated brochure is publicly available on our website at www.fbpinc.com as well as on the Investment Adviser Public Disclosure website at www.adviserinfo.sec.gov.

We encourage you to contact us with any questions you may have. For additional firm wide information please visit our website at www.fbpinc.com or call us at 1-800-851-3804. As always, we appreciate your continued interest in our firm.

The information provided herein should not be construed as a recommendation to purchase or sell any particular security or an assurance that any particular security held in a portfolio will remain in the portfolio or that a previously held security will not be repurchased. Securities discussed herein do not represent a portfolio's entire holdings. It should not be assumed that any of the security transactions or holdings discussed herein have been or will prove to be profitable or that future investment decisions will be profitable or will equal or exceed the investment performance of the securities discussed. Past performance is no guarantee of future results. All recommendations/holdings within the preceding 12 months or applicable period are available upon request. S&P 500 is a market capitalization-weighted, total return index of widely held common stocks. Russell 1000 Value is a market capitalization-weighted, total return index of larger capitalization companies which exhibit traditional value characteristics. Indices are unmanaged and cannot accommodate direct investments. This information is intended solely to report on investment strategies as reported by FBP, the Investment Manager. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions.