Quarterly NEWSLETTER

SUMMER 2021

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Fed + Congress + Fundamentals = More 2021 Melt Up

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For the third consecutive quarter, the S&P 500 reached new highs. The index finished the second quarter near an all-time high (4,302) posting a quarterly return of 8.55% (15.25% YTD). In contrast to last year, when market multiples were increasing on falling fundamentals, valuation multiples have remained steady in 2021, while revenues, margins and earnings beat forecasts and have been revised higher for each of the last three quarters. After shedding -3.37% in the first quarter (the worst quarter for bonds since 1980) as the 10-Year Treasury yield jumped from 0.92% to 1.74%, the Barclays Bloomberg (BBG) Aggregate Bond index gained 1.83% in the second quarter as the 10-Year yield fell to 1.44%. With a record $2 trillion in savings created from COVID fiscal stimulus sitting on the sidelines and low bond yields ranging between 1% and 2%, it is logical that these funds are flowing to equity markets as fundamentals improve. Equity markets continue to make new highs in the third quarter while yields are falling as equity and bond investors adopt diverging viewpoints.

For more details on CBandT's investment outlook, please visit our Investment Commentary page at: https://cbandt.com/wealth-trust/resources/.

Q2 2021 S&P 500 Sector Performance

	Q2	1 Year
Healthcare	8.40%	27.92%
Consumer Discretionary	6.95%	37.08%
Consumer Staples	3.83%	23.29%
Financials	8.36%	61.60%
Communication Svc.	10.72%	48.38%
Information Technology	11.56%	42.39%
Materials	4.97%	48.51%
Energy	11.29%	49.34%
Industrials	4.48%	51.43%
Utilities	-0.37%	15.91%
Real Estate	13.09%	31.88%

Proprietary Performance Results

Equities	2nd Qtr	YTD	1 year	3 year	5 year	10 year
Focused Equity Fund[1]	6.48%	22.75%	51.64%	23.40%	19.65%	15.47%
Science/Technology Fund[3]	13.66%	15.30%	44.00%	26.94%	28.10%	19.38%
Aggressive Growth Fund[2]	4.17%	6.17%	26.46%	12.35%	19.18%	15.55%
S&P 500	8.55%	15.25%	40.79%	18.67%	17.63%	14.83%
Balanced	**2nd Qtr**	**YTD**	**1 year**	**3 year**	**5 year**	**10 year**
Strategic Income Builder Fund[4]	4.96%	12.52%	29.18%	12.48%	10.76%	10.14%
60% Russell 3000 Value, 40% Barclays Aggregate Index	3.84%	9.70%	25.48%	10.02%	8.71%	9.39%
Alternatives	**2nd Qtr**	**YTD**	**1 year**	**3 year**	**5 year**	**10 year**
Liquid Alpha Fund	10.04%	9.26%	15.54%	3.72%	3.44%	n/a
Structured Alpha LP	14.76%	15.27%	21.81%	3.91%	n/a	n/a
SG CTA Index	3.88%	6.51%	12.91%	4.86%	0.99%	n/a
Tax-Free	**2nd Qtr**	**YTD**	**1 year**	**3 year**	**5 year**	**10 year**
Muni Funds Blend	1.16%	1.10%	3.24%	5.27%	3.55%	3.66%
Barclays 1-12 yr. Muni Index	0.62%	0.36%	2.43%	3.91%	2.48%	2.97%
Aquila Churchill Tax-Free Fund of KY	0.74%	1.00%	3.69%	3.93%	2.44%	3.30%
Dupree KY Tax-Free Income	1.48%	1.32%	4.62%	4.62%	2.75%	3.73%

There is no assurance that any of these investment strategies will meet its investment objective. Performance results for each strategy are computed on the strategy's overall returns. Each strategy and index includes the reinvestment of dividends. Past performance does not guarantee future results. Current performance may be lower or higher than the performance results quoted. [1] Inception date 3/31/2006. [2]Net of management fees; Inception date 7/1/1989; performance results of SMC Capital and/or its principals as advisor from inception to 2/28/06 and as sub-advisors to CBandT since 3/1/06. [3] Inception date 12/31/2008. [4] Inception date 12/31/2008.

Fixed Income

The Federal Reserve kept the Fed Funds rate unchanged at 0-0.25% during the quarter. In June, the Fed became a bit more "hawkish" given "hot" inflationary readings and renewed payrolls gains in recent months. Their interest-rate projections for the Fed Funds rate reflect this with now seven FOMC members expecting at least one hike next year, up from four. The median estimate for 2023 is now for two hikes, with a solid 13 of 18 members expecting at least one. GDP growth was revised up again to 7.0% from 6.5%, while 2022 was unchanged at 3.3%, and 2023 was revised up to 2.4% from 2.2%. Their unemployment rate expectations were as follows: the same 4.5% by the end of this year, down 0.1% to 3.8% for 2022 and 3.5% by the end of 2023. That puts the economy at the Fed's estimate of full employment late next year and below the threshold thereafter.

FOMC minutes released in July confirm that the Fed is discussing tapering its asset purchases in Treasuries and Mortgage-backed securities (MBS). The conversation about when to start, and how to do it will be discussed at future meetings. For instance, some participants saw benefits in reducing the pace of MBS purchases more quickly or earlier than Treasuries, in light of valuation pressures in housing markets. Tapering of asset purchases will likely start several quarters before Fed Funds are hiked.

On inflation, the Fed expects core PCE to reach 3.0% this year up from 2.2%, and 2.1% in each of the next two years. The increase in the inflation expectation this year is an acknowledgment that inflation should peak very soon, echoing their "transitory" inflation messaging. For example, consumer price inflation or CPI has grown 2.7% in just the last five months and is expected to pass 3% in June. Given its "average inflation" policy target of 2%, it will be interesting to see how the Fed reacts if inflation runs significantly above these projections over the next few years.

Fixed income markets have embraced the "transitory" inflation argument, after heightened concerns led to higher volatility in the first quarter. The 10-year Treasury's closing high for yield was actually on March 31, when it hit 1.74% vs. 0.91% to start the year. The 10-year Treasury yield ended the quarter at 1.47% and traded as low as 1.25% on July 8. The yield curve, or the difference in long vs. short-term rates, has flattened dramatically. The flattening was somewhat of a surprise although the yield curve had gotten relatively steep by historical standards.

Treasuries returned +1.75% in the second quarter after losing -4.25% in the first quarter, or -2.58% in the first half. Spreads continue to tighten and investment-grade corporate bonds returned +3.55% and non-investment grade or "high-yield" corporates returned +2.74%. Spreads tightened modestly for investment-grade to around 0.8%, but fell nearly a full 1.0% for high-yield to 2.7%. Both of these spread levels are near record lows.

Tax-free municipal bonds returned +1.42% during the quarter and significantly outperformed Treasuries this year (+1.06%). We believe this is due to a combination of the improved fundamentals, higher income tax proposals, and the overall supply/demand. Although the possibly of higher tax rates on corporations and higher-incomes have diminished of late. Municipalities continue to benefit from the reopening, as well as direct aid in the most recent stimulus plan, including $350 billion in payments to state, local and territorial governments. An additional $170 billion was earmarked for education, with about $130 billion to support K-12 and $40 billion for colleges/universities.

From a broad-based perspective, the Bloomberg Barclays Aggregate index returned +1.83% during the quarter, and -1.60% for the first half of the year. The good news is that the overall yield on the index increased to 1.50%, up from 1.12% to start the year. Historically, the "starting-point" yield has been a strong predictor of future/multi-year annual returns. Although the trend became disjointed in recent years, after the continued decline and record low interest-rates during the height of the pandemic.

Entering the year, we stated that "We know that the returns of the last few years are "not repeatable", unless a significant amount of U.S. debt begins to trade at "negative yields", a concept we first discussed in 2016. Not totally out of the question, but a low probability indeed. We still believe that investment-grade fixed income will generate annualized returns of 1%-3% over the next 3-5 years, with a bias towards lower returns if rates approach more historical levels.

Focused Equity

For the second quarter and the twelve months ending June 30, the strategy returned 6.48% and 51.64%, respectively, versus an 8.55% and 40.79% gain for the S&P 500 Equity Index. Since inception, the strategy has outperformed the S&P 500's annual return of 15.64% by 0.71% with an annualized gain of 16.35%. The fund has achieved these results taking on meaningfully less risk than the S&P 500 with a beta of 0.85, thus producing annualized alpha (the amount of risk-adjusted performance greater than the benchmark) of 2.80 since inception (12/31/2008).

Strategy Update: For over a decade, the Focused Equity fund has delivered strong investment results and delivered alpha vs. the S&P 500 by investing in quality companies. The portfolio is concentrated (~40 holdings) and focused on large and mid-cap companies that have sustainable advantages over their competitors, allowing them to consistently grow cash flows, and compound above market returns for shareholders. In early 2020 after a year of diligence, we strategically allocated almost half of the fund to Emergent Capital Advisors (ECA) a fund of external managers that follow a similar investment process, but focus on specific industries. Combining the two strategies increased long-term returns and reduced risk. The ECA managers complement and enhance returns by including a broader universe of strategies and stock selection candidates. The firms can include smaller capitalization companies, as well as special situations and event-driven opportunities. Some of the managers run long/short portfolios, reducing overall risk for Focused Equity and enhancing risk-adjusted returns.

Leaders: Ongoing fiscal stimulus, accommodative monetary policy and strong earnings growth propelled the S&P 500 to reach new highs for the third consecutive quarter, and coupled with fears of peaking global economic growth triggering a sustained decline in rates throughout the period, growth stocks regained leadership, outpacing their value counterparts by 6.94% in Q2 (S&P 500 Growth, +11.93%; S&P 500 Value, +4.99%). Thus Communication Services (+15.45%), Real Estate (+14.09%) and Information Technology (+13.41%) were the top performing sectors within Focused Equity over the last three months, with Microsoft (MSFT, +15.15%), Alphabet Inc. (GOOGL, +18.39%), PayPal (PYPL, +20.03%) and Apple (AAPL, +12.32%) providing the largest contribution to the strategy's total return in the second quarter. After falling to an all-time low of 0.51% in August 2020, the 10-Year Treasury yield reached 1.74% by the end of the first quarter due to optimism for a sustained economic recovery, allowing the Financials (+76.45%) sector to lead the strategy over the last twelve months with large contributions from Discover Financial Services (DFS, +131.87%), JPMorgan Chase (JPM, +70.56%) and Berkshire Hathaway (BRK.B, +55.69%). However, the subsequent decline in the 10-Year yield from 1.74% to 1.47% over the course of Q2 allowed high-growth stocks including Micron Technology (MU, +88.93%), Alphabet Inc. (GOOGL, +72.23%) and PayPal Holdings (PYPL, +67.37%) to remain among the top-performing holdings in the strategy over the last twelve months. Within the ECA portion of the portfolio, the primary driver of return was idiosyncratic risk: a few companies had strong quarters due to company-specific drivers. These include Biogen (BIIB, +23.78%) which received approval for their controversial Alzheimer's therapeutic, The Joint (JYNT +73.50%) which continues to expand its national chiropractic clinic franchise as the US economy reopens post-COVID, and Whitecap Resources (WCP-T, +11.60%) which benefited from rising oil prices.

PayPal Holdings, Inc. (PYPL)
4/1/2021 – 6/30/2021

Laggards: With the market reaching new highs for the third consecutive quarter, defensive sectors continued to lag, with Utilities (-0.39%), Healthcare (+5.52%) and Consumer Staples (8.13%) among the worst performing sectors for Focused Equity in the second quarter, as well as the last twelve months, with defensive companies Lockheed Martin (LMT, +6.49%), American Tower (AMT, +6.53%) and PepsiCo (PEP, +15.32%) delivering the largest detraction to the strategy's relative performance over the last twelve months. The recent surge of the COVID Delta Variant has re-introduced concerns of supply chain disruptions, regional shutdowns and additional travel restrictions, causing reopening plays Marriott International (MAR, -7.83%) and Booking Holdings (BKNG, -6.08%) to decline in Q2. Within our ECA managers, various bank stocks held by a financials sector specialist were the biggest drag on returns, as the SPDR S&P Bank ETF (KBE, -1.08%) fell in value as the yield curve flattened.

Strategic Income Builder

For the quarter, the strategy (SIB) returned +5.0% vs. +3.8% for its benchmark (60% Russell 3000 Value & 40% Barclay's US Aggregate). Twelve month results show sustained outperformance over the market recovery since the pandemic's onset, at +29.2% for SIB versus +25.5% for its benchmark.

Since inception (1/1/09), the SIB strategy has returned an annualized +10.2%, outpacing its benchmark return of +9.4% by about 0.8% annually. On a risk-adjusted basis, the strategy has generated a positive annualized alpha of +0.6% relative to the benchmark. The yield generated from the strategy has consistently exceeded that of its benchmark.

After trailing value stocks throughout this period of economic recovery following the initial months of the COVID pandemic, growth stocks bounced back in the second quarter of 2021. During the quarter, the Russell 3000 Growth returned 11.4% vs. 5.2% for its value counterpart. Growth stocks have narrowed the performance gap and have now generated more comparable returns over the last twelve months, with value outperforming growth by just 2.4%, or 45.4% vs. 43.0%. Given the strong price performance over the last twelve months, the dividend yield for the Russell 3000 Value has fallen to about 1.9%, from 3.5% last March, and around 2.5% at the end of 2019.

While interest rates rose significantly in the first quarter on optimism surrounding a sustained recovery coupled with investor concerns of excessive inflation, we witnessed rates decline in the June quarter. The 10-year Treasury yield decreased to 1.4% from 1.7%, positively impacting fixed income returns. Notably, risk assets including US high yield and emerging market debt performed well during the quarter, both returning roughly +3.0%.

For the quarter, our equities returned +6.4% compared to the Russell 3000 Value return of +5.2%. Our tactical preference for large-cap stocks aided returns this quarter. Year to date, SIB's equity sleeve has outperformed at +18.3% vs. +17.7% for the Value index. Though we trimmed equity exposure into strength during the second quarter, an overweight position in stocks contributed to overall outperformance; SIB finished the quarter at ~67% in equities. Dividend yield for the portfolio ended the quarter at 2.7%, or roughly 0.9% higher than the Russell 3000 Value and 1.3% more than the S&P 500. Moreover, these yields carry a growth advantage vs. investment-grade bond yields.

Discover Financial Services (DFS)
4/1/2021 – 6/30/2021

Real Estate (+12.4%) was our best performing sector during the quarter while Energy (+10.1% portfolio returns) continued its strong performance on the year. Financials (+7.2%) and Technology (+7.5%), our two largest sector exposures, generated the majority of overall investment gains for the strategy in the June quarter. Top individual contributors in the quarter were Discover Financial Services (DFS +25.0%), Apple Inc (AAPL +12.3%), and Microsoft Corp (MSFT +15.2%).

Quarterly fixed income returns were +2.0% vs. +1.8% for the Bloomberg Barclays Aggregate Bond Index. Our tactical allocation to high yield municipal bonds and emerging market debt performed well during the quarter. Despite a less attractive environment for fixed income over the last twelve months, our fixed income has outperformed over that time frame, returning +3.9% vs. -0.3% for the Aggregate index. Fixed income allocation ended the quarter at 27% of the balanced portfolio.

Our risk-reducing alternatives also performed well, returning +1.7% and +16.4% for the quarter and last twelve months. Alternative investments were 5.4% of the combined portfolio as of June 30.

Science & Technology Strategy

The Science & Technology growth fund (SciTech) returned +13.7% in the second quarter, while SciTech's benchmark S&P 500 Growth index rallied 11.9%. Outperformance in the quarter more than offset a slight lag in 1Q, with the strategy now leading its benchmark on a YTD basis (+15.3% vs +14.3%). Higher quality growth-oriented companies rallied as interest rates peaked on the final day of Q1 and fell during 2Q. This style rotation factored into SciTech's outperformance of the S&P 500, which rallied only 8.6% in the second quarter, while strong stock picking was responsible for SciTech's outperformance of its growth benchmark. Over the last year, SciTech returned +44.0%, outpacing the S&P 500 (+40.8%) and the S&P 500 Growth Index (41.4%). Over the last ten years the fund has gained an annualized 19.4% versus 17.3% for the S&P Growth and just 14.8% for the broader S&P 500. SciTech has exhibited better risk adjusted returns than its S&P 500 Growth benchmark over the last six years, with a Sharpe Ratio (measure of return versus risk) of 1.24 versus 1.17, and annualized alpha of 1.25%.

Roblox Corporation (RBLX)
4/1/2021 – 6/30/2021

Leaders: For a second consecutive quarter, the fund's biggest gainer in 2Q21 in gross dollar terms was Alphabet (Google, GOOG/GOOGL); the position gained about 18.9%. A standout sector allocation last quarter was Real Estate, where SciTech's holdings gained 15.2%. In March, we added to cell tower and data center stocks. These positons rallied from +14.1% (Crown Castle, CCI) to +18.5% (Equinix, EQIX). Global demand for cloud infrastructure remains strong as we pull out of the pandemic, and we continue to believe the buildout of 5G infrastructure remains a secular investment theme. Bubble-like valuations in recent tech IPO stocks broke in 1H, and SciTech utilized the weakness to take toehold positons in several names, including: Snowflake (SNOW), Roblox (RBLX), and Palantir (PLTR). Evidencing the value of being patient and tactical, SciTech's positons in these stocks gained 10.6%, 31.8% and 23.1%, respectively, in 2Q.

Laggards: The largest loss within the fund in Q2 was attributable to Booking Holdings (BKNG), owner of popular travel/leisure properties such as Kayak, Priceline and Open Table. The BKNG positon slid 6.1% during the second quarter as concerns over the Delta variant pressured it and other "re-opening winners." The position, however, has been profitable for the fund, gaining 37.4% since June 30 of last year.

Small Cap Composite

The Small Cap Value Composite returned 3.01% for Q2 versus 4.56% for the Russell 2000 Value index. For the last 12 months, the composite return is 49.03% vs benchmark return of 73.28%.

A top contributing holding in the Portfolio during Q2 was ORBCOMM Inc. (ORBC: +47%, +69 bps), a global provider of hardware and solutions that help customers track, monitor, control, and enhance security for their assets. In April, ORBC signed a deal to be acquired by investment firm GI Partners for $11.50/share, a +52% premium to the prior day's close and a +28% premium to RRAM's $9 assessed value. This private market transaction is the first relevant deal in this space in more than five years. We have trimmed more than half of the position. Another top contributor during the quarter was NCR Corp. (NCR: +20%, +59 bps), a provider of transaction software, services, and hardware largely to banks, retailers, restaurants, and the hospitality industry. The company posted very strong quarterly results as recurring revenue grew +9% year over year and EBITDA increased +37% year over year driven by operating leverage, mix shift toward software and services, and aggressive cost cutting. We maintained the position. Another positive contributor was DXC Technology Co. (DXC: +25%, +45 bps), a global IT consultant that helps companies modernize, optimize, and improve the security of their IT systems in public, hybrid, and private cloud environments. DXC's Q4 2021 results exceeded expectations as revenues were better than expected with slight margin expansion. CEO Mike Salvino's turnaround plan demonstrated continued progress as DXC delivered its fourth consecutive quarter of a book-to-bill ratio greater than 1.0x. We maintained the position.

ORBCCOMM Inc. (ORBC)
4/1/2021 – 6/30/2021

A large negative contributing holding during Q2 was Air Transport Services Group Inc. (ATSG: -21%, -85 bps), the premier lessor of Boeing 767 freighter aircraft essential to support e-commerce. ATSG has been a successful long-term investment for the Portfolio, but in the past two quarters the stock has underperformed. Although ATSG reported in-line Q1 2021 results and maintained its 2021 adjusted EBITDA guidance (+6% over 2020), temporary elements are causing investor confusion or frustration. Our assessed value remained unchanged, and we added to the position in the quarter. Another poor performer was Cannae Holdings Inc. (CNNE: -14%, -55 bps), an investment vehicle of Bill Foley which owns an 18% stake in commercial data and analytics provider Dun & Bradstreet (DNB), an 8% stake in publicly traded HR software and services company Ceridian (CDAY), a 7.5% stake in online payments company Paysafe (PSFE), as well as investments in insurance, healthcare, and four special purpose acquisition companies (SPACs). Two of the SPACs announced their intended acquisition targets as Austerlitz I SPAC (AUS) plans to merge with Wynn Interactive, the online gaming business of Wynn Resorts, and Trebia SPAC (TREB) plans to merge with System1 Group, a differentiated customer acquisition platform in the digital marketing sector. CNNE also sold another two million shares of its CDAY equity stake for $175 MM of gross proceeds. However, CNNE's largest investment DNB dropped -10% during the quarter as investors await evidence of sustained organic revenue growth. We took no action on the position during the quarter. Another bottom contributor during the quarter was ePlus Inc. (PLUS: -13%, -29 bps), a value-added reseller and service provider of IT solutions to commercial and government clients. The company reported mixed Q4 2021 results as revenues fell -4% year over year against a difficult +12.6% comp. The -6% revenue decline for the Technology segment might have spooked some investors. However, it was driven by a decline in lower-margin equipment sales as last year's COVID19 lockdowns drove high demand for laptops from increased work-from-home. The revenue decline was partially offset by growth in service revenues and improvements in software-as-a-service subscription sales, which provide higher margins and more sustainable and predictable financial results. This improved mix led to a record high gross margin in the quarter and EBITDA increased +26% year over year. Furthermore, we like PLUS's positioning in cloud and security, two verticals that remain in high demand. We maintained the position during the quarter.

Kentucky Municipals

Quarterly bond issuance by Kentucky municipalities rose slightly to $941 million from $926 million in the previous quarter. Competitively awarded deals were $286 million with negotiated deals of $654 million. Deal size was reasonably strong, averaging $20 million with 47 new issues in total. Non-BQ issuance was the majority coming in at $550 million or 58% with bank-qualified (BQ) issuance of only $50 million or 5%. The remaining $341 million (36%) were "federally" taxable municipal issues. Nationally, taxable muni issuance remains a significant portion of supply as borrowers "advance" refund existing debt at a lower cost. Visible KY supply is reasonable with $273 million on the calendar in coming months and issuers should continue to benefit from extremely low interest rates.

Issuers of note included Northern Kentucky University that issued $205 million in taxable general receipts bonds. Moody's A1 underlying rating and A1 enhanced rating (Kentucky Public University Intercept Program) and stable outlook for both remain unchanged. The bonds were also insured by Build America Mutual (BAM), which is rated AA (Stable) by S&P Global Ratings.

Moody's noted that "The par amount has been reduced (from $278 million) after the adoption of the Commonwealth of Kentucky's House Bill 8, which reduced the university's cost for ceasing participation in the Kentucky Employee's Retirement System (KERS) pension system. The legislation utilizes a higher discount rate to calculate the university's cessation costs, which is favorable for NKU as it ultimately lowers NKU's initial lump sum payment to KERS by approximately $73 million."

The S&P Municipal Bond Kentucky Total Return Index returned +1.38% or basically in line with the national market (+1.42%). For 2021 through June, the S&P KY bond index returned +1.46 vs. +1.06% for the Bloomberg Barclays Municipal Index. According to S&P, its yield-to-worst (YTW) fell to 1.0%, vs. 1.2% to start the year, and its yield hit a record low of 0.91% on July 8. Now KY's yield level is right on top of the Bloomberg Barclays Municipal Index, so the state's historical yield advantage is gone. This suggests the market is comfortable with KY's credit fundamentals in general.

Like the national market, the S&P KY Municipal Index declined over 10% at its trough last March during the pandemic induced selloff. A peak yield of 3.87% demonstrates the buying opportunity last year during the height of the stress, and we actively took advantage of those dislocations. This included tactical purchases within accounts that do not normally purchase tax-exempts.

FRANKFORT, KY (May 10- Leanne Fuller)— Kentucky is getting $2.183 billion from the American Rescue Plan Act of 2021.

The U.S. Treasury Department announced the allotment Monday. The Treasury Department is distributing $350 billion to state and local governments across the country as part of President Joe Biden's $1.9 trillion COVID-19 relief package that became law in March.

Gov. Andy Beshear says Kentucky's allotment is smaller than a previous estimate of $2.441 billion, but he says that's because the state performed better than expected in the fourth quarter of 2020. "Our economy is surging and strong," Beshear said in a statement. "We are in a strong position to sprint out of this pandemic with continued positive economic indicators and with this funding that will create jobs, momentum and a better quality of life in every corner of the commonwealth."

In a statement included in a news release announcing the funding, Kentucky Budget Director John Hicks said "The preliminary estimated amounts available during the budget process did not yet recognize the level of reduction in the number of unemployed Kentuckians. Kentucky's downward revision was the seventh largest among the states with better unemployment figures."

The governor's office says the change in the final allocation amount will not affect the agreement lawmakers reached during the 2021 regular session to use nearly $1.3 billion to expand broadband internet, deliver clean drinking water and build new schools. The plan is expected to create more than 14,500 new jobs, state officials say.

Some of the aid will also allow the state to repay a federal loan that helped bolster its unemployment insurance fund. The money is for the Coronavirus State Fiscal Recovery Fund. Half of the funding will be available later this month. The governor's office says Kentucky will soon submit a request for the funds to the Treasury Department.

In a separate report on June 8, WDRB reported that JCPS was finalizing plans for their expected $578 million in federal stimulus money.

ASSET ALLOCATION OUTLOOK

LAST QUARTER			THIS QUARTER	
WE BELIEVED →	**ACTIONS TAKEN →**	**RESULTS**	**WE BELIEVE →**	**ACTIONS WE ARE TAKING**
DOMESTIC EQUITIES			DOMESTIC EQUITIES	
We thought small and mid-cap stocks would continue to outperform large cap stocks in the next 6 - 12 months as earnings recover, but the gap in performance will be less pronounced.	We maintained weights set in 4Q20 and 1Q21.	**Large Cap (+8.6%) outperformed small (+4.3%) and mid-cap (+3.6%). Small and mid-cap indices outperformed the S&P 500 for the last 12 months 62.0% and 53.2% vs. 40.8%, respectively.**	We think small and mid-cap stocks will outperform large cap stocks in the next 6 - 12 months as rates start to rise and earnings recover.	We are maintaining model weights in 3Q21.
INTERNATIONAL EQUITIES			INTERNATIONAL EQUITIES	
As the dollar declines, we believed that EM should continue to outperform. We believed developed international will have a period of catch up to U.S. indices, but it may not start until 2H21 due to vaccine / re-open delays.	We maintained weights set in 4Q20 and 1Q21.	**International equities (+5.2%) and EM (+5.1%) underperformed U.S. large cap (+8.6%) as the dollar rallied in June and vaccination progress grew stronger in the U.S. versus other countries. Our developed international and EM selections outperformed their benchmarks during the quarter and for the last 12 months.**	In the short run, we believe that EM may underperform due to China market regulatory issues and the Delta Variant surge. Developed international will have a period of catch up, but it may not start until later in 2H21 due to re-open delays. We expect active managers with skillful security selection will outperform indices.	We are maintaining our international and EM allocation weights, even though there may be short run issues with specific EM markets.
FIXED INCOME			FIXED INCOME	
The Fed will keep rates low until 2023. We thought the 10-year treasury would remain between 1.5% and 2.0%. Returns likely between 1% and 2% for core investment grade bonds for 2021.	We maintained lower duration for our fixed income portfolios.	**The BBG Aggregate gained +1.83%. Local currency international and emerging market bonds also gained +1.31% and +3.40%, respectively. Our fixed income selections outperformed the benchmark in aggregate in 2Q21 and for the last 12 months.**	The Fed will keep rates low until 2023. We think the 10-year treasury will eventually rise to a level between 1.5% and 2.0%, but it may take several months as Bond Bulls pressure yields. Returns likely between 1% and 2% for core investment grade bonds in 2021.	We are making incremental reductions in duration within fixed income portfolios after the 10-Yr. Treasury rate fell below 1.25% in July.
We think munis are about equally attractive as investment grade bonds, considering the risks.	We have been exiting the overweight position in munis established in 2Q20 as gains become long term.	**Munis underperformed core bonds in the quarter (+1.42% vs. 1.83%) on an absolute basis, but outperformed on a tax-effective basis.**	We think munis are about equally attractive as investment grade bonds, considering the risks.	We are exiting or reducing the overweight position started in 2Q20, now that the investment qualifies for long-term capital gains.
ALTERNATIVE ASSETS			ALTERNATIVE ASSETS	
We believed volatility would remain elevated as new COVID cases remain elevated, the vaccine is rolled out, and new stimulus is introduced.	We maintained a 10% allocation to alternative strategies.	**Our alternatives funds, which are designed to mitigate risk and have zero structural stock market exposure generated returns of 9% to 15% during 2Q21, beating benchmarks.**	We believe volatility will remain elevated as investor concern about the Delta surge, inflation, Fed Policy and Fiscal policy results in a push and pull between equity market factors.	We are maintaining a 10% allocation to alternative strategies.

For more details on CBandT's investment outlook, please visit our Investment Commentary page at: https://cbandt.com/wealth-trust/resources/.

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