MARKET REVIEW & OUTLOOK

August 2021

BREAKING NEWS

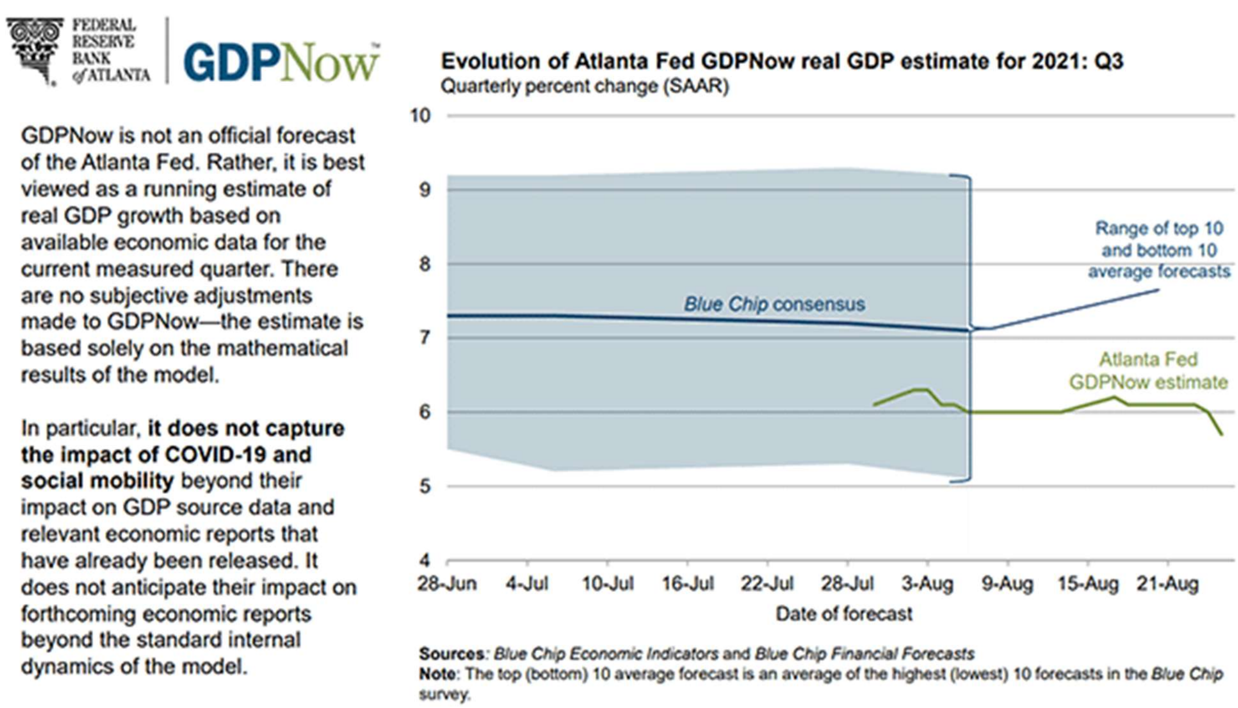
- The much-anticipated August jobs report was released Friday where expectations were for 725,000 new jobs but missed by a mile and came in at only 235,000. The market reaction was essentially neutral by the end of the day though a wide range was traded. The battle between taper is delayed, stock positive, and the economy is not as strong as we thought, stock negative.

KEY TAKEAWAYS

- Global Equities continued the march higher, largely undeterred by the continued "delta" variant headlines.
- Interest rates rose modestly on the back of almost zero taper talk from Jerome Powell, the Fed head, at the Jackson Hole symposium and almost all the talk to convince us rapidly rising inflation is merrily temporary.

The U.S. Economy

The economy continues to be robust, and while the 2nd quarter disappointed by reporting "only" 6.5%, though the first revision did bump the number up a little to 6.6%, moderation continues to be the theme based on incoming data. The chart below shows incoming data is pointing to growth of a still solid 6%, with the delayed consensus still at around 7%.



Source: https://www.frbatlanta.org/cqer/research/gdpnow

Stocks and Bonds

The fixed income markets saw a reversal higher in yields for the month on the 10-year Treasury, but not before another drop on “delta” concerns to 1.15% at the beginning of the month. Then yields had two sharp rallies, both stymied at 1.38%, and eased off those levels to end the month. The rise in the base Treasury rates, weighed on results throughout the fixed income complex, including high quality fixed income. High-quality fixed income, as measured by the iShares US Aggregate Bond ETF, saw soft returns, finishing the month with a modest loss of -0.20%. The U.S. 10-year Treasury bond yield ended the month in the middle of the range at 1.30%, up from July’s close of 1.24%.

The Dow Jones Industrial Average gained +1.08%, the S&P 500 rallied +2.93%, and the small cap Russell 2000 rose +2.13%. The international markets traded in a very similar manner as the U.S. The MSCI EAFE iShares Core International Developed Markets ETF Index increased +1.72%, and the MSCI Emerging Markets iShares Core ETF Index climbed +2.03%.

In August, we again saw predominately green performance with the one outlier again being Energy.

The best performers were…

- Financials: +5.15%
- Communication Services: +3.91%
- Utilities: +3.90%

The worst performers were…

- Energy: -2.00%

Source: https://www.sectorspdr.com/sectorspdr/tools/sector-tracker

Oil Report

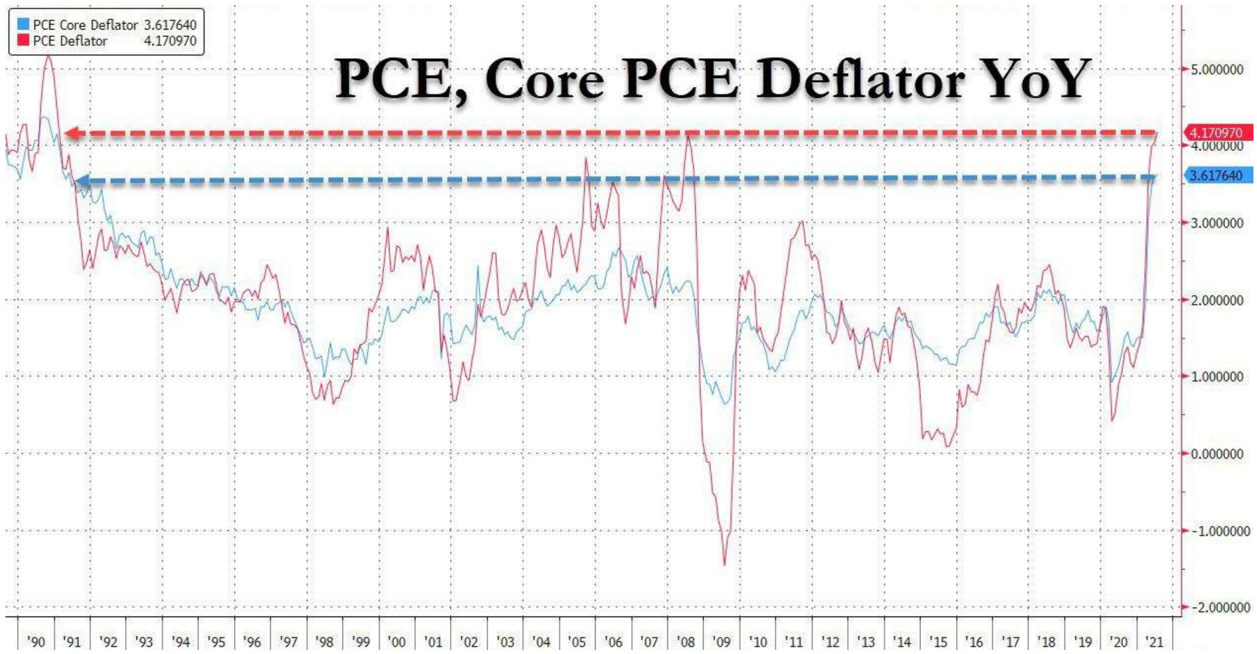
In August, the weight of the “delta” variant finally forced crude to look into the valley and they didn’t like what they saw. Inventory builds because of reduced demand weighed on prices. The oil markets looked at the glass half-full for a long time, but reality threw the water in their face. The current NYMEX WTI Crude Oil futures settled at $68.50 and posted a loss of over 7% from the prior month close of $73.95 a barrel. The price for RBOB gasoline also had a sharp decline for the month on inventory builds with weakened demand from the continued headlines of the “delta” variant. Even the eerie repeat of Hurricane Ida, which hit New Orleans exactly 16 years later and shut-in most of the Gulf of Mexico oil and gas production didn’t help prices. RBOB finished lower by over 8% for the month of August. The wave of the “delta” variant is starting to show signs of peaking and there continue to be many disturbances with potential to become hurricanes in the offing, so prices may once again stabilize.

The Rest of the Data

The July ISM Manufacturing Index decreased 1.1 points to 59.5 from June’s reading of 60.6. However, the ISM Services Index jumped to 64.1 from 60.1 in July, reversing all of June’s slump and regaining an all-time high. The prices paid component remains very elevated in both surveys and continues to signal firm inflation pressures. Any reading above 50 generally indicates improving conditions. Consumer confidence slumped to 113.8 in August, which compares to a downwardly revised figure of 125.1 in July. The unemployment rate dropped, coming in at 5.4%, as the economy added a robust 943,000 jobs in July. The Consumer Price Index for All Urban Consumers (CPI-U) was up +0.5% in July, easing the pace of increase seen last month, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index remained +5.4% on a non-seasonally adjusted basis, which continues to be the highest reading since 2008. The CPI ex Food and Energy was 4.3% down modestly from last month’s 12-month increase. Overall, these numbers show that the economy is still experiencing robust growth that may be long in the tooth. Persistent growth tends to drive inflationary forces which we have seen and that is starting to dampen consumer confidence. This likely suggests that we will continue to see moderation in growth, if inflation pressures also ease, then we could well see the “soft” landing the Fed always hopes will happen

Summary

The sleight of economic hand continues. Is inflation transitory and a real issue for concern or will the weight of global debt loads finally exert their deflationary forces? Is the corona virus pandemic ever going to end or will the global scientist finally come up with lasting solutions? Is the underlying economic strength strong enough to weather the oncoming “fiscal” cliff? The bifurcated questions and more have us collectively scratching our heads. The markets are focused on the Fed who seems to have no interest in ever raising rates or ending Quantitative Easing, so it generally remains all systems go. We continue to monitor all these cross currents and more. However, we are not greatly concerned with all the noise, because we continue to focus on what we can control, which is the appropriate amount of risk exposure for each individual client. So, while the charts below show that inflation continues to be strong and the breadth of the market continues to narrow, generally viewed as market weakness we stick to our knitting.



Source: https://www.zerohedge.com/markets/feds-favorite-inflation-measure-surges-fastest-pace-30-years-spending-incomes-rise

Source: https://www.zerohedge.com/markets/op-ex-panic-bid-rescues-global-stocks-worst-week-6-months-fed-taper-looms

Again, we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is sustained vs. transitory inflation, tomorrow it will be something else.

We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities. If the markets continue to march higher, we will capture some of those gains and reallocate to less volatile high-quality bonds. If the equity markets enter a period of negative performance, we have dynamic investment vehicles that utilize rules-based defense mechanisms to reduce the risk of the portfolio.   Further, if the market gets too extended on the upside, some of the vehicles will capture partial gains and wait for the extension to correct.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.

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