S&P 500, NASDAQ Set Seven New All-Time Highs in July

As the major domestic equity indices continued to mark new highs through July, they provided an example of how dueling narratives can both be true while the forward-looking market produces a clearly positive result. In this case, optimism bolstered by a broad selection of economic data and sentiment – gross domestic product (GDP) growth, employment, earnings and reduced inflationary fears among them – has managed to, for now, contain COVID-19 delta variant worries.

The S&P 500 and NASDAQ both set seven all-time highs in July, while the Dow Jones Industrial Average recorded five. Under those glossy headline numbers, however, lies a more complex situation with wide disparities in performance between firm sizes, sectors, growth versus value, and commodities. For example:

- The S&P 500, reflecting large-cap firms, went up 2.38% in July. The Russell 2000 with its small-cap firms ended the month down 3.61%.
- The healthcare and real estate sectors were July's best performers, while energy and financials were its worst.
- The S&P Growth Index rose 3.79%. The S&P Value Index rose only 0.79%.
- Gold rallied, gaining 2.6% while oil was up slightly with a 0.7% gain.

"Part of this performance dichotomy may be related to concerns over the spread of the COVID-19 delta variant and its potential for slowing the economy," said Raymond James Chief Investment Officer Larry Adam. "However, our belief is that economic growth will remain strong as widespread lockdowns are unlikely to reoccur."

At the end of the month, the U.S. Department of Commerce reported GDP growth at a 6.5% annual rate in the second quarter, which follows 6.3% growth in the first. However, even this considerable rate understates the strength of the economy in the first half of the year as consumer spending and business investments have surged.

"The pace of growth is expected to slow in the second half of the year but should remain strong," said Chief Economist Scott Brown.

Let's look at the numbers:

	12/31/20 Close	7/30/21 Close	Change Year to Date	% Gain/Loss Year to Date
DJIA	30,606.48	34,935.47	+4,328.99	+14.14
NASDAQ	12,888.28	14,672.68	+1,784.40	+13.85
S&P 500	3,756.07	4,395.26	+639.19	+17.02
MSCI EAFE	2,147.53	2,321.09	+173.56	+8.08

Russell 2000	1,974.86	2,226.25	+251.39	+12.73
Bloomberg Barclays Aggregate Bond	2,392.02	2,379.96	-12.06	-0.50

Performance reflects price returns as of market close on July 30, 2021.

Here are some other notable events and trends through July.

Earnings beat historical average fifth time running

Corporate earnings have continued to beat estimates at rates that have become common over the last 15 months. About 85% of companies had higher quarterly earnings than expected, above the 69% historical average and in line with the 83% average of the prior four quarters. Also, results are beating estimates by a very elevated 19% once again, compared to a 5% historical average.

Value proposition remains with investment-grade corporate debt

The theme of July for fixed-income investments is a lower, flatter yield curve, as the basis point difference between short- and long-term Treasuries contracted. Investment-grade corporate debt, however, saw a marginal widening of the spread (the yield differential between Treasuries and investment-grade corporate bonds). High-yield corporate bonds saw a greater widening.

But yields in general remain tight as demand for fixed-income funds remains strong and uncertainty surrounds the COVID-19 delta variant. Looking long term, concerns about the consumer habits of the aging (and wealth-holding) U.S. population and how that could affect a wide swath of sectors may also play into the trend. Compared to other fixed-income alternatives, investment-grade corporate debt in the three- to seven-year duration range continues to provide a good balance between yield and risk.

The thousand-day infrastructure week

A bipartisan deal on infrastructure reached the Senate with $550 billion in new funds for physical infrastructure, broadband and electric vehicles while avoiding new tax impacts, which could spur a wave of municipal spending and new debt for partial cost matching. Next up, expect to see attention turn to additional social and infrastructure spending and several potential “fiscal cliffs” – namely, the national debt ceiling limit and the expiration of pandemic-related programs.

Europe takes a pause and Asian markets falter

Though second-quarter pan-European corporate data has unsurprisingly shown significant year-on-year progress, stock markets across Europe generated little change during July. The U.K. relaxed its pandemic restrictions mid-month, priming August to beat expectations as spending and holiday travel rushes back.

In contrast, emerging markets struggled, especially in Asia-Pacific. Chinese and Hong Kong markets tallied significant losses throughout the month amid concerns about heightened levels of Chinese government intervention in certain sectors. Comments by many Chinese companies – which are mostly scheduled for August – will help provide further details. Nationwide economic restrictions resulting from the delta variant in Indonesia and Malaysia, and in some Australian cities, also caused headwinds.

The bottom line

How the COVID-19 delta variant may affect the economy has yet to be revealed even as hospitalizations increase to record levels in some places. Meanwhile, we continue to see positive economic data and tallied another high-performance quarter through July. In total, even with contrasting performances beneath the surface, July was another strong month.

If you have any questions about your investments, your financial plan, this letter – or anything else – please reach out at your earliest convenience. We remain grateful for our relationship and your continued trust in us.