

Monthly Market Review

COVID-19 Track Changes The Playing Field For Some Regions

July 2021

Delta Variant Yet To Be A Hurdle For US Economic Growth

Monthly Highlights

- US COVID-19 Cases Rising Amid Delta Variant Spread Despite 346+ Million Vaccinations.
- The Fed Balance Sheet Reaches A New Record Level With The Taper Timeline Still Unknown.
- 2Q21 GDP Brings US Economy Back Above Pre-Pandemic Levels Due To Resilient Consumption.
- ISM Manufacturing Index Remains In Expansion Territory For The Fourteenth Consecutive Month.
- Base Effects & Supply Chain Bottlenecks Push Core Inflation To The Fastest Pace Since 1991.
- National Home Price Index Rises At The Fastest Pace Since The Index Began In 1987.
- Euro Zone Sentiment Rises To A Record Level.
- 10-Year Treasury Yield Falls 22 Basis Points To The Lowest Level Since February.
- International Sovereign Bonds Post Best Month Since December As Yields Fall Across The Globe.
- The S&P 500 Rallied For Its Sixth Straight Month – The Longest Streak Since September 2018.
- 9 of 11 S&P 500 Sectors in Positive Territory With Health Care (+4.9%) The Top Performer.
- Commodities Rally For The Fourth Straight Month Despite Rising COVID-19 Cases In Select Regions.
- WTI Crude Oil Price Falls To The Lowest Level Since May As OPEC+ Phases Out Supply Cuts.

Economy | Fed Passes The Taper Timeline ‘Baton’ To The Jackson Hole Symposium.

- The first reading of **2Q21 GDP** was lower than expected (+6.5% quarter-over-quarter (QoQ)), but marked the second best quarter since 2Q03 and brought the economy back above pre-COVID levels. Personal consumption (+11.8%) was robust, but a reduction in inventories subtracted 1.1% from GDP.
- **Real time activity metrics** (e.g., TSA screenings, hotel bookings) and **high frequency data** (e.g., withholding taxes) reflect economic strength and support above-trend growth into year end.
- The US surpassed 35 million **COVID-19** cases, with the 7-day average for new cases rising to the highest level since April (~77k) due to the Delta variant.
- The US has administered over 346 million **vaccines**, with 49% of the population fully vaccinated.
- The **Fed’s balance sheet** reached a record ~\$8.2 trillion, with Chair Powell reiterating the need for “substantial progress” before bond tapering begins.
- A \$550 billion bipartisan physical **infrastructure** bill should clear the Senate, but budget reconciliation is likely for the remainder of President Biden’s agenda.
- **June ISM Manufacturing** (59.5) remained in expansion territory for the fourteenth straight month even as new orders weakened (54.9 vs. 60.8 in June).
- **850k jobs were added** in June but the unemployment rate (+5.9%) rose for the first time in 14 months.
- **Jobless claims** moved higher (400k) to close the month, but the 4-week rolling average (~395k) still remains below the 400k threshold.
- The pace of **headline inflation** (+5.4% YoY) increased at the fastest pace since July 2008, with used vehicle prices accounting for more than 1/3 of the month-over-month increase. The pace of **Core CPI** (+4.5% YoY) accelerated to the fastest pace since November 1991. The Fed reiterated its view that the surge is transitory, and that supply chain disruptions will be resolved in time.
- **Consumer confidence** (129.1) rose to the highest level since February 2020 as the ‘present situation’ subsector rose to the highest level since March 2020 despite concerns about the Delta variant starting to grow.
- **Core retail sales** (ex. food, autos, and gas, +1.1% month-over-month (MoM)) rose for the first time in three months, and the year-over-year pace (+12.5%) remains nearly 3x above the 10-year average (+4.5%).
- **Housing data** was mixed as housing starts (+6.3%) and existing home sales (+1.4%) were positive but building permits (-5.3%) and new home sales (-6.6%) declined. The pace of home price gains (Case Shiller National Home Price Index +16.6% YoY) rose at the fastest pace since the index began in 1987.
- **China’s Manufacturing PMI** (50.4) fell for the fourth straight month to the lowest level since February 2020.
- **Euro Zone Manufacturing PMI** (62.6) fell slightly from its record peak. Euro zone economic sentiment (119) rose for the sixth month to reach the highest level on record.

Fixed Income | Falling Yields Across The Globe Lead To A 'High Jump' For Most Sectors.

- The **Bloomberg Barclays US Aggregate Index** (+1.1% MoM) rallied for the fourth consecutive month and posted its best month since July 2020. The broader fixed income market benefitted from Treasury yields retreating further from recent peaks and spreads remaining near multi-year lows.
- **TIPS** (+2.3% MoM) rallied for the eighth time over the last nine months, posting their best month since January 2015, and outpaced Treasuries (+1.4%) for the ninth time over the last ten months.
- **International sovereign bonds** (G7 ex. US +1.9%) rallied for the third time in four months and posted their best month since December due to falling yields across the globe and dollar weakness.
- **US investment-grade bonds** (+1.4% MoM) rallied for the fourth consecutive month despite spreads rising 6 basis points off the lowest levels since March 2005. The strength was led by the Utilities (+1.9%) and Industrials (+1.4%) sectors.
- **Treasuries** (+1.4%) rallied for the fourth consecutive month and posted their best month since March 2020. Despite strengthening economic data and rising inflation, the 10-year Treasury yield contracted an additional 22 basis points (to +1.23%)
- **Municipals** (+0.8% MoM) rallied for the eighth time in nine months. All three sectors (General Obligation, Revenue, and High Yield) contributed to the rally.
- **High-yield bonds** (+0.4% MoM) rallied for the tenth consecutive month—the longest streak since June 2014 due to continued economic momentum and falling default rates.
- **Emerging market bonds** (+0.2% USD MoM) rallied for the fourth straight month as the decline in yields offset spreads rising to the highest level year-to-date.

Equities | Recovery 'False Start' In Some Regions Due To Slow Vaccinations & Variants.

- **Global equities** (MSCI All Country World Index +0.7% USD MoM) rallied for the eighth time in nine months but the pace of vaccinations and severity of variants led to dispersion beneath the headline level.
- **US Large-Cap** equities (S&P 500 +2.4% MoM) rallied for the sixth consecutive month—the longest streak since September 2018. US equities reached new record highs amid improving economic activity, further vaccine progress, the best quarterly year-over-year EPS growth on record (~85%), and increased confidence that the inflation surge will be transitory.
- 9 of the 11 **S&P 500 sectors** were positive, with Health Care (+4.9%) the top performer and Energy (-8.3%) the worst performer.
- **European** equities (MSCI Europe ex UK +2.1% USD MoM) rallied for the fifth time over the last sixth months and outperformed global equities for the fourth time over the last five months.
- **Japanese equities** (MSCI Japan -1.3% USD MoM) declined for the third time over the last four months and underperformed global equities for the eighth consecutive month—the longest streak since November 2006—as COVID-19 cases rose drastically.
- **US Small-Cap** equities (Russell 2000 -3.6% MoM) declined for the first time since September, and were outpaced by large-cap equities for the fifth straight month—the longest streak since February 2018.
- **EM equities** (MSCI EM -6.7% USD MoM) declined for the first time in four months and were outpaced by the developed markets (MSCI EAFE USD +0.8% MoM) by the widest margin since September 2015.
- Within EM, **Asia** (MSCI Asia ex JP -7.4% USD MoM) underperformed **LATAM** (MSCI LATAM -4.0% USD MoM) for the fifth consecutive month.

Commodities | Demand For Most Sectors Still At A Steady 'Pace' But Variant Fears Linger.

- The **Bloomberg Barclays Commodity Index** (+1.8% MoM) rallied for the ninth time in ten months. Further vaccination progress, improving economic activity in most countries, a weaker USD and supply chain constraints all boosted the asset class.
- The **US Dollar Index** (-0.3% MoM) declined for the third time in four months due to easing Treasury yields (relative to yields across the globe).
- The **Bloomberg Softs Index** (+6.2% MoM) rose for the ninth time in the last ten months due to strength in coffee (+12.4%) prices.
- The **Bloomberg Industrial Metals Index** (+4.0% USD MoM) posted its third month of gains over the last four months as copper prices (+4.5%) rebounded from their worst month since March 2020 in June. Strength in nickel (+7.8%), aluminum (+4.0%), and zinc (+3.2%) prices also contributed to the rally.
- The **Bloomberg Energy Index** (+3.8% MoM) rallied for the sixth time in seven months. Improving global economic activity pushed crude oil prices slightly higher for the month (+0.7%), but the spread of COVID-19 variants in select regions and the decision by OPEC and Russia to bring oil production cuts to an end by September 2022 sparked volatility. Strength in natural gas prices (+7.2%) also contributed to the index moving higher.
- The **Bloomberg Precious Metals Index** (+1.2% MoM) rallied for third time in four months as gold prices (+2.6% MoM) rebounded from their worst month since 2016 in June. Weakness in silver prices (-2.5% MoM) limited the magnitude of the rally.
- The **Bloomberg Grains Index** (-3.7% MoM) declined for the fourth time in five months due to weakness in corn (-3.4%) and soybean (-3.6%) prices.

Figure 1: Second Best Quarter of Economic Growth Since 2003

Real GDP rose at a 6.5% annual rate in the advanced estimate for 2Q21, confirming that the US economy has returned to pre-COVID economic activity levels.

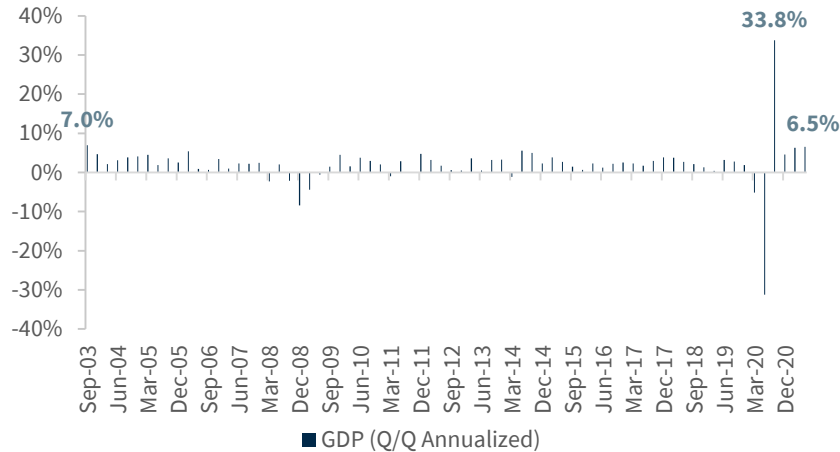


Figure 2: Strong 2Q21 Earnings Season Leads To Broad-Based Rally

9 of the 11 S&P 500 sectors were positive, with Health Care the top performer (+4.9%). The Energy sector was the worst performer (-8.3%) but it continues to lead on a year-to-date basis.

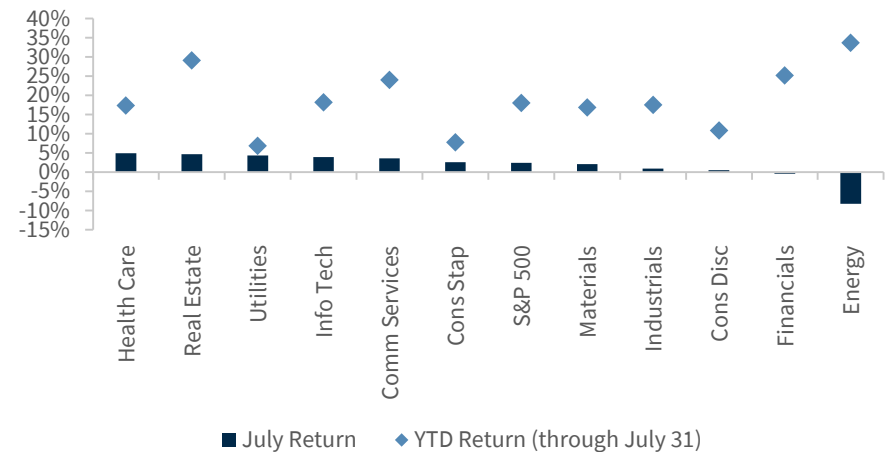


Figure 3: Treasuries Post Best Month Since March 2020

US Treasuries posted their best month since March 2020 as the 10-year Treasury yield declined an additional 22 basis points. The yield is now down 51 basis points from its recent peak.

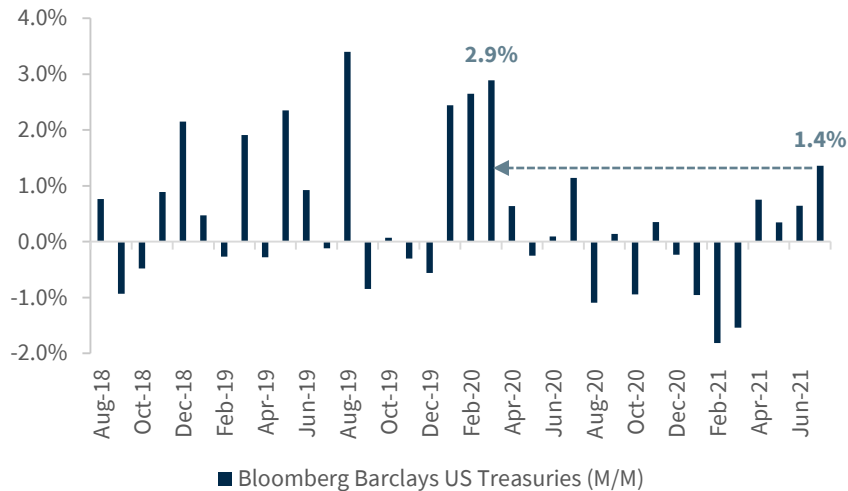
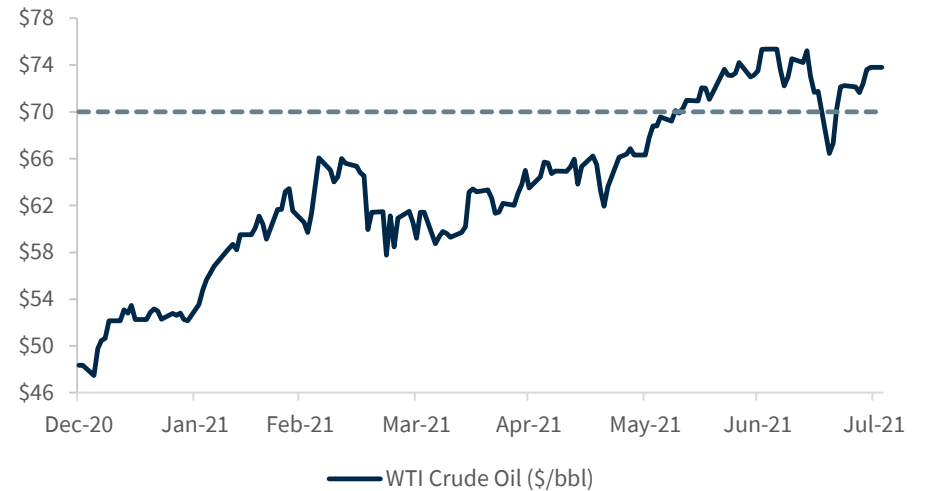


Figure 4: COVID Variants & Production Levels Cause Volatility for Oil Prices

The phasing out of production cuts and fears that COVID-variants in select regions would impact demand led crude oil prices to break below \$70/bbl for the first time since early June.



Fixed Income | Credit Spreads Narrow to Multi-Year Lows

	July	YTD	1 Year	3 Year	5 Year	10 Year
TIPS	2.3%	4.7%	7.5%	6.6%	4.0%	2.6%
International Bonds	1.9%	-4.3%	-1.1%	3.1%	0.6%	0.2%
US Investment Grade	1.4%	0.1%	1.4%	8.0%	4.9%	5.0%
Treasuries	1.4%	-1.3%	-3.0%	5.3%	2.3%	2.8%
US Aggregate	1.1%	-0.5%	-0.7%	5.7%	3.1%	3.3%
Municipals	0.8%	1.9%	3.3%	5.3%	3.4%	4.3%
High Yield	0.4%	4.0%	10.6%	7.2%	7.0%	6.6%
EM Bonds	0.2%	-0.4%	3.3%	6.2%	4.6%	5.2%

Commodities & FX | Copper Rebound Boosts Industrial Metals Index

	July	YTD	1 Year	3 Year	5 Year	10 Year
Copper	4.5%	27.4%	56.3%	16.5%	15.1%	0.0%
BBG Industrial Metals	4.0%	22.2%	45.1%	9.4%	9.9%	-2.3%
BBG Energy Index	3.8%	50.1%	56.8%	-9.1%	-2.0%	-12.3%
Gold	2.6%	-4.1%	-8.5%	13.8%	6.0%	1.1%
BBG Commodity Index	1.8%	23.3%	40.2%	4.1%	2.7%	-5.1%
BBG Precious Metals	1.2%	-4.6%	-6.6%	11.8%	3.0%	-1.9%
Crude Oil (WTI)	0.7%	52.4%	83.6%	2.5%	12.2%	-2.5%
US Dollar Index	-0.3%	2.5%	-1.3%	-0.8%	-0.7%	2.2%

S&P 500 Sectors | Earnings Growth Supports Broad Based Rally

	July	YTD	1 Year	3 Year	5 Year	10 Year
Health Care	4.9%	17.3%	27.3%	16.4%	14.1%	16.7%
Real Estate	4.6%	29.0%	32.7%	16.0%	9.9%	11.5%
Utilities	4.3%	6.8%	12.0%	11.4%	8.5%	11.1%
Information Technology	3.9%	18.2%	40.0%	31.1%	30.2%	22.3%
Communication Services	3.6%	23.9%	43.9%	23.8%	11.5%	12.4%
Consumer Staples	2.6%	7.7%	18.2%	13.6%	8.7%	11.9%
Materials	2.0%	16.8%	41.5%	14.5%	13.9%	10.7%
Industrials	0.9%	17.4%	46.4%	12.7%	13.8%	13.7%
Consumer Discretionary	0.5%	10.8%	26.4%	18.8%	18.7%	18.1%
Financials	-0.4%	25.1%	55.2%	11.9%	16.1%	14.1%
Energy	-8.3%	33.6%	44.4%	-9.2%	-2.1%	-0.9%

Equities | Large Cap Outperforms Small Cap

	July	YTD	1 Year	3 Year	5 Year	10 Year
Russell 1000 Growth	3.3%	16.7%	36.7%	25.3%	23.3%	18.4%
S&P 500	2.4%	18.0%	36.4%	18.2%	17.3%	15.3%
Russell 1000	2.1%	17.3%	38.0%	18.6%	17.6%	15.4%
DJ Industrial Average	1.3%	14.1%	32.2%	11.2%	13.6%	11.1%
Russell 1000 Value	0.8%	18.0%	39.3%	11.3%	11.4%	12.1%
Russell 2000 Value	-3.6%	22.2%	63.7%	8.3%	11.6%	10.8%
Russell 2000	-3.6%	13.3%	52.0%	11.5%	14.3%	12.3%
Russell 2000 Growth	-3.6%	5.0%	41.0%	13.9%	16.4%	13.6%

International Equities (in USD) | Developed Markets Outperform EM

	July	YTD	1 Year	3 Year	5 Year	10 Year
MSCI Europe ex UK	2.1%	14.6%	33.9%	11.0%	12.2%	7.8%
MSCI UK	0.9%	13.6%	30.7%	2.0%	5.4%	3.8%
MSCI EAFE	0.8%	10.0%	30.9%	8.2%	9.9%	6.6%
MSCI AC World	0.7%	13.4%	33.7%	14.3%	14.4%	10.7%
MSCI Japan	-1.3%	0.2%	25.7%	7.0%	8.9%	7.0%
MSCI LATAM	-4.0%	4.6%	25.6%	0.9%	4.2%	-2.2%
MSCI EM	-6.7%	0.4%	21.0%	8.3%	10.8%	4.0%
MSCI Asia ex JP	-7.4%	-1.4%	19.4%	9.3%	12.0%	6.4%

Key Asset Class Levels

	July	Start of Year	1 Year	3 Year	5 Year	10 Year
S&P 500	4,395	3,756	3,246	2,803	2,174	1,292
DJIA	34,935	30,606	26,314	25,307	18,432	12,143
MSCI AC World	724	646	552	519	416	336
S&P 500 Dividend Yield	1.41	1.55	1.79	2.01	2.21	2.20
1-3M T-Bills (Cash, in %)	0.04	0.06	0.09	1.94	0.24	0.09
2YR Treasury Yield (in %)	0.19	0.12	0.12	2.66	0.67	0.36
10YR Treasury Yield (in %)	1.23	0.91	0.54	2.97	1.46	2.80
30Yr Treasury Yield (in %)	1.89	1.64	1.20	3.10	2.18	4.13
EURUSD	1.19	1.22	1.18	1.17	1.12	1.44
Crude Oil - WTI (\$/bbl)	73	49	40	70	42	96
Gold (\$/oz)	1810	1895	1942	1221	1358	1631

DISCLOSURES

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

US TREASURIES | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

HIGH YIELD SECURITIES | High yield securities involve additional risks and are not appropriate for all investors.

SMALL-CAP STOCKS | Small-cap stocks involve greater risks and are not suitable for all investors.

DOMESTIC EQUITY DEFINITION

LARGE GROWTH | Russell 1000 Growth Total Return Index: This index represents a segment of the Russell 1000 Index with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. This index includes the effects of reinvested dividends.

SMALL GROWTH | Russell 2000 Growth Total Return Index: This index represents a segment of the Russell 2000 Index with a greater-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000.

LARGE BLEND | Russell 1000 Total Return Index: This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends.

SMALL BLEND | Russell 2000 Total Return Index: This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest US companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

LARGE VALUE | Russell 1000 Value Total Return Index: This index represents a segment of the Russell 1000 Index with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values. This index includes the effects of reinvested dividends.

SMALL VALUE | Russell 2000 Value Total Return Index: This index represents a segment of the Russell 2000 Index with a less-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

FIXED INCOME DEFINITION

AGGREGATE BOND | Bloomberg Barclays US Agg Bond Total Return Index: The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

MUNICIPAL | Bloomberg Barclays Municipal Total Return Index: The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

US INDEXES AND EQUITY SECTORS DEFINITION

DOW JONES INDUSTRIAL AVERAGE (DJIA) | The **Dow Jones Industrial Average (DJIA)** is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

S&P 500 | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

INTERNATIONAL EQUITY DEFINITION

EMERGING MARKETS EASTERN EUROPE | MSCI EM Eastern Europe Net Return Index: The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS ASIA | MSCI EM Asia Net Return Index: The index captures large- and mid-cap representation across eight Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS LATIN AMERICA | MSCI EM Latin America Net Return Index: The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | MSCI Emerging Markets Net Return Index: This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

PACIFIC EX-JAPAN | MSCI Pacific Ex Japan Net Return Index: The index captures large- and mid-cap representation across four of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

JAPAN | MSCI Japan Net Return Index: The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

FOREIGN DEVELOPED MARKETS | MSCI EAFE Net Return Index: This index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

EUROPE EX UK | MSCI Europe Ex UK Net Return Index: The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

COMMODITY DEFINITIONS

US DOLLAR INDEX | The US dollar index (USDX) is a measure of the value of the US dollar relative to the value of a basket of currencies of the majority of the US's most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

BLOOMBERG BARCLAYS COMMODITY INDEX | Bloomberg Barclays Commodity Index is a commodity group sub index of the Bloomberg CTR. The index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return on fully collateralized futures positions and is quoted in USD.

BLOOMBERG INDUSTRIAL METALS INDEX | Bloomberg Industrial Metals Index is composed of futures contracts on aluminum, copper, nickel and zinc. It reflects the return of underlying commodity futures price movements only. It is quoted in USD.

BLOOMBERG SOFTS INDEX | Bloomberg Softs Index is a commodity group sub index of the Bloomberg CI. It is composed of futures contracts on coffee, cotton and sugar. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

BLOOMBERG PRECIOUS METALS INDEX | Bloomberg Precious Metals index is a commodity group sub index of the Bloomberg CI. It is composed of futures contracts on gold and silver. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

BLOOMBERG GRAINS INDEX | Bloomberg Grains Index is a commodity group subindex of the Bloomberg CI. It is composed of futures contracts on corn, soybeans and wheat. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

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DATA SOURCES:

FactSet, as of 7/31/2021

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