MONTHLY MARKET UPDATE

August 2021

OPAL WEALTH ADVISORS

August put a bow on a robust second quarter earnings season and overcame the most pressing growth concerns stemming from a surge in Covid cases and more open narratives from the Fed about winding down its quantitative easing (bond buying) program. Risk appetite improved as stock markets posted new record highs throughout the month and interest rates moved marginally higher, posing a slight headwind to bonds. Financials and technology led the way in August while energy stocks lagged thanks to a -5.6% decline in oil. Overall, the S&P's +20.4% performance through August ranks 6th best since 1950 and its best since 1997.

Corporate earnings were very strong, and the economy has begun to slow back toward more sustainable levels of growth. Thankfully, the Fed's signaling of tapering later this year was taken in stride by the market leaving us with a constructive view of the markets as we approach year end.

Key risks we are monitoring as we look forward include the details of the Fed's plan to reduce its bond buying program, China's appetite to stimulate its slowing economy, and continued improvement in the Covid-Delta surge numbers.

Market Anecdotes

- Liz Ann Sonders highlighted the large number of record S&P 500 closes (55), fourth most all time, as well as a reminder of the top-heavy nature of the S&P 500 so far this year.

- The pandemic remains a key risk to monitor. Consumer behavior and supply chains are clearly impacted by pandemic dynamics which we believe will ultimately prove transitory. Fortunately, fatalities remain relatively low as we go back to school and hopefully to work this fall, but case counts and hospitalization data remain mixed regionally and around the world.

- The Jackson Hole symposium and indications from Jerome Powell set the table for tapering to begin later this year but pushed rate hikes onto the horizon.

- It's fairly clear that a tapering before year end was already priced into markets, here in the short term, given the calm reaction in Treasury yields persistent strength in the stock market we've seen since the August Jackson Hole speech.

- 2Q earnings season is in the record books with a record beat rate of 87% and earnings growth coming in at a record 40% higher than forecasted (55% growth increased to 95% growth). Revenue growth finished at a whopping 24.8% and guidance was overwhelmingly positive.

- Beyond strong earnings and revenue results, over 20% of company management teams raised guidance and less than 4% have cut, both positive forward indicators of future earnings.

- Bond markets have been fairly decisive in their view that long-term inflation risks remain modest. As seen in the 5y/5y and 10y/10y forward inflation breakevens, market pricing of inflation beyond four years remains well within the historical average range.

- A highly unusual aspect of this expansion is the extreme low level of real rates as the recovery progresses. The current expansion's first 16 months averaged 10yr real rates of -0.87% versus +1.31% coming out of the last recession and +2.75% from the 2001 recession.

- Early August saw U.S. interest rates (10yr UST) bounce off a fresh multi-month intraday low of 1.12% but ultimately trended higher toward month end, closing at 1.29%, aided by indications of a labor market recovery and economic momentum.

- Asian and emerging markets continued to struggle in August thanks in part to 'China anxiety' surrounding Covid-Delta resurgence, longer term structural and regulatory initiatives, and the general economic slowdown taking place. Policy response thus far has been muted.

- Chinese President Xi Jinping laid out a long-term (2049) "common prosperity" plan in August that will guide national policy over the coming decades.

Economic Release Highlights

- The August jobs report was the third largest downside miss on record (235k vs 740k) following a big increase in July. The unemployment rate remained at 5.2% and average hourly earnings came in higher than expected on both MoM (0.6% v 0.3%) and YoY (4.3% v 3.9%) measures.
- The JOLTS report (June data) showed a record 10.073mm job openings, well more than the consensus expectation of 9.285mm.
- Headline and core PCE of 4.2% and 3.6% remained elevated but generally in line with expectations while headline and core CPI increased 5.4% and 4.3% respectively.
- August's ISM Manufacturing and Services Indices both stayed elevated at 59.9 and 61.7 respectively and near consensus estimates.
- U.S. PMIs (C, M, S) decelerated to 55.4, 61.2, and 55.1, just under expectations across the board but still firmly in a robust (over 50) growth range.
- Global PMIs of 52.6, 54.1, 52.9 (C, M, S) were weighed down in Asia but remained elevated and resilient in Europe (59.0, 61.4, 59.0).
- July MoM Retail Sales came in well short of expectations (-1.1% vs -0.3%).
- The July NFIB Small Business Optimism Index came in below consensus with a 99.7 (v 103.3) after an upside surprise in June.
- The preliminary August UofM Consumer Sentiment Index fell again unexpectedly in July to 70.2, well short of consensus range and estimate of (80.0-85.0) and 81.4.
- The August Consumer Confidence Index softened notably more than expected to a six-month low of 113.8 (123 expected).

Positioning

We see a significant number of U.S. policy considerations as we get deeper into September while simultaneously working our way through the beginning stages of a transition to a more sustainable global growth trend rate and a renewed surge in Delta variant Covid risks. These dynamics are occurring at the intersection of robust fundamental strength in corporate earnings, record high equity markets, TINA treasury bond yields, and persistently tight corporate bond spreads making it increasingly important to monitor risk positioning.

Financial market impact of the plethora of fiscal policy initiatives including a $1t infrastructure bill, a fiscal cliff, a $3.5t spending package, and several tax considerations therein could send a long overdue charge of volatility into markets but will not take meaningful shape for a few more weeks. We are less concerned with potential Fed policy mistakes due to the muted market reaction of the tapering initiative and continued reassurances that rate hikes remain on the distant horizon. Lastly, while Covid dynamics are very concerning, it seems the Fed and financial markets are looking at this recent surge as more transitory in nature, which we certainly hope proves the case. Ultimately, monetary policy, economic growth, and corporate earnings remain squarely in the supportive camp for risk assets, leading us to a stay the course message while maintaining close watch on fiscal negotiations and monetary policy indications as we enter the fall. We recommend a modest overweight to global equities with an underweight to fixed income and commodities. Within equity markets, we recommend an overweight to international equity markets, particularly Europe, relative to the U.S., over a 12-18 month horizon. We feel fixed income investors should maintain a modestly short duration and remain neutral on credit sectors.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	35361	1.50	2.88	17.04	26.77	13.33
NASDAQ	15259	4.08	11.16	18.92	30.49	24.61
S&P 500	4523	3.04	7.95	21.58	31.17	18.07
Russell 1000 Growth		3.74	13.88	21.08	28.53	24.60
Russell 1000 Value		1.98	1.62	20.32	36.44	11.45
Russell 2000		2.24	0.45	15.83	47.08	10.75
Russell 3000		2.85	7.17	20.39	33.04	17.85
MSCI EAFE		1.77	1.42	11.96	26.65	9.50
MSCI Emg Mkts		2.65	(4.00)	3.07	21.49	10.25
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	1.84	(0.03)	(0.16)	(0.30)	(0.54)	(0.64)
High Yield	4.47	(0.10)	(0.32)	(0.65)	(1.02)	(0.95)
Municipal	1.81	(0.01)	(0.06)	(0.11)	(0.21)	(0.40)

Commodities	8/31/21	6/30/21	3/31/21	12/31/20
Oil (WTI)	69.28	73.52	59.19	48.35
Gold	1814.90	1763.20	1691.10	1887.60

Currencies	8/31/21	6/30/21	3/31/21	12/31/20
USD/Euro ($/€)	1.18	1.19	1.17	1.23
USD/GBP ($/£)	1.37	1.38	1.38	1.37
Yen/USD (¥/$)	110.05	111.05	110.61	103.19

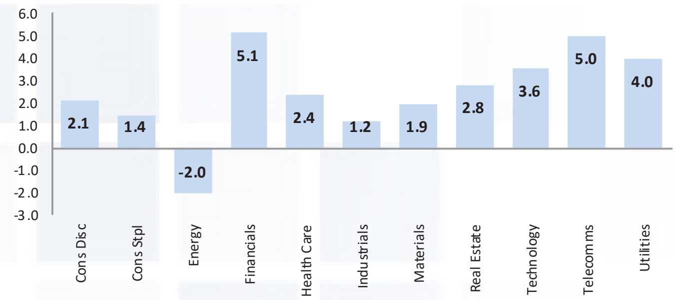
Treasury Rates	8/31/21	6/30/21	3/31/21	12/31/20
3 Month	0.04	0.05	0.03	0.09
2 Year	0.20	0.25	0.16	0.13
5 Year	0.77	0.87	0.92	0.36
10 Year	1.30	1.45	1.74	0.93
30 Year	1.92	2.06	2.41	1.65

Style Returns

	V	B	G
L	1.98	2.89	3.74
M	2.14	2.54	3.23
S	2.68	2.24	1.82

MTD

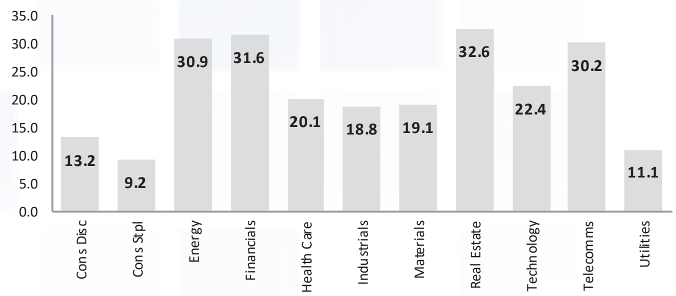
S&P 500 Sector Returns



MTD

	V	B	G
L	20.32	20.74	21.08
M	22.77	20.12	15.18
S	25.43	15.83	6.92

YTD



YTD

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Opal Wealth Advisors / 2 Jericho Plaza / Suite 208 / Jericho, NY 11753 / t. 516.388.7980 / f. 516.388.7968 / **opalwealthadvisors.com**