MONTHLY MARKET UPDATE

July 2021

Stock markets added to already impressive 2021 gains in July despite anxiety surrounding the global growth outlook. The S&P 500 posted a positive return for a sixth straight month—something that has happened 29 times (so not too uncommon). While stock markets posted gains, safe haven interest rates fell (bond prices increased) as buyers lined up to purchase U.S. Treasury bonds despite the ultra-low yields they offer. July was one of those relatively rare 'best of both worlds' scenarios where both stocks and bonds made money. The internal equity market rotation we saw in June after the FOMC meeting moderated in July where the best performing sectors were healthcare and declining rate beneficiaries REITs and utilities. The lagging sectors were energy, financials, and consumer stocks.

Market Anecdotes

- Global government bonds benefitted from their safe-haven status (Delta variant), substantial inflows, and a reversal of extreme bearish positioning, with July adding to the late June rally.
- The US 10-year TIPS yield closed at minus 1.13% in July—its lowest level in the history of the series which dates back to 1997.
- U.S. earnings season is largely wrapped with 89% of S&P 500 companies having reported. Beat rate of 87% and beat margin of 17.1% remained extraordinarily high with earnings and revenue growth of 88.8% and 24.7% respectively.
- July Fed (and ECB) meetings kept rates and policies intact. The Fed acknowledged "progress toward [our] goals ", but that progress was not equivalent to "substantial further" progress needed to trigger a policy announcement (taper)–otherwise stated, nothing likely before November.
- The robust July jobs report turned attention to the Fed's goal of 'substantial further progress' on the labor market's 22.4mm hit from the pandemic. PIMCO defined 'substantial' in terms of a labor gap (-2.0mm to -2.5mm) and Bloomberg in terms of unemployment rate (5.1%).
- As expected, continuing unemployment claims in states that have ended emergency UI additional benefits relative to those states that have continued to pay emergency additional UI benefits have diverged sharply.
- Chinese stock market volatility in July can be attributed to regulatory risks in an emerging nation coping with the rapid evolution of the internet and other structural and economic priorities.
- The $1.2t infrastructure bill ($548b new spending) moved closer to passage as July drew to a close. The Democrats proposed $3.5t budget resolution which will address corporate income taxes, individual income taxes, dividend taxes, and estate taxes is on deck.
- Strategas noted that even if the Democrats get all of the infrastructure and reconciliation spending packages passed, the U.S. will still face a fiscal drag of $1.5t next year.

Economic Release Highlights

- The June Personal Income and Outlays report showed income rising 0.1% versus expectations for a -0.7% decline and consumption expenditures rising 1% versus expectations of only 0.6%.
- June headline and core PCE prices rose 4% and 3.5% YoY, both in line with consensus expectations. CPI of 5.4% and 4.5% both surprised to the upside.
- U.S. GDP for the second quarter grew by 6.5% which was lower than the 8% consensus expectation. Annualized personal consumption in the report was up a healthy 11.8%.
- June Retail Sales registered +0.6% versus expectations for -0.3%. The control group was up 1.1%, also well in excess of the consensus estimate of 0.4%.
- Final U.S. July PMIs (C, M, S) registered 59.9, 63.4, 59.9 with non-U.S. PMIs of JPM Global (56.6,

55.4, 57.5), China (53.1, 50.3, 54.9), Europe (60.2, 62.8, 59.8), and Japan (48.8, 53.0, 47.4).

- July UofM Consumer Sentiment fell from 85.5 to 80.8 versus consensus estimate of 86.5 while the Conference Board Consumer Confidence 129.1 reading easily exceeded consensus of 124.9.

Positioning

Macro dynamics continue to favor risk assets over a cyclical investment horizon while global safe-haven yields are likely biased to the upside (from early August levels). We expect a recovery in U.S. labor markets during the latter half of 2021 and a moderation of booming manufacturing growth toward further recovery in the service sectors. This should pave the road for the gradual removal of accommodation by the Fed beginning in early 2022. Fiscal policy, while poised for dramatic contraction in 2022 remains somewhat unclear in the short run as significant tax and spend proposals are currently being negotiated. Lastly, while inflation is garnering much attention, we believe most pricing pressures and market dislocations rooted in supply chain issues, labor market distortions, school closures, reduced immigration, and Covid shutdowns are fleeting and will not result in sustained inflation pressures.

The primary risks to our outlook include central bank policy mistake(s) and the potential of worsening pandemic conditions here or abroad. We expect U.S. growth will decelerate (moderate) into the latter half of 2021 with global (non-U.S.) growth recovery taking the baton. Accordingly, 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. We have become more bearish on the broad commodity market maintaining the opinion that the majority of the gains in commodities are behind us.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	34935	1.34	3.60	15.31	35.38	13.88
NASDAQ	14673	1.19	5.26	14.26	39.58	25.54
S&P 500	4395	2.38	5.50	17.99	37.51	18.35
Russell 1000 Growth		3.30	8.26	16.71	38.85	25.58
Russell 1000 Value		0.80	1.97	17.98	38.90	11.40
Russell 2000		(3.61)	(1.54)	13.29	50.48	11.89
Russell 3000		1.69	4.67	17.06	39.52	18.33
MSCI EAFE		0.76	3.00	10.01	29.04	8.06
MSCI Emg Mkts		(6.67)	(4.29)	0.41	20.66	8.22
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	1.87	(0.08)	(0.19)	(0.27)	(0.53)	(0.60)
High Yield	4.56	(0.09)	(0.33)	(0.55)	(0.93)	(0.87)
Municipal	1.82	(0.03)	(0.07)	(0.09)	(0.19)	(0.39)

Commodities	7/31/21	5/31/21	2/28/21	11/30/20
Oil (WTI)	71.31	66.31	61.55	45.20
Gold	1825.80	1900.00	1742.90	1762.60

Currencies	7/31/21	5/31/21	2/28/21	11/30/20
USD/Euro ($/€)	1.19	1.22	1.21	1.20
USD/GBP ($/£)	1.39	1.42	1.39	1.33
Yen/USD (¥/$)	109.70	109.83	106.64	104.38

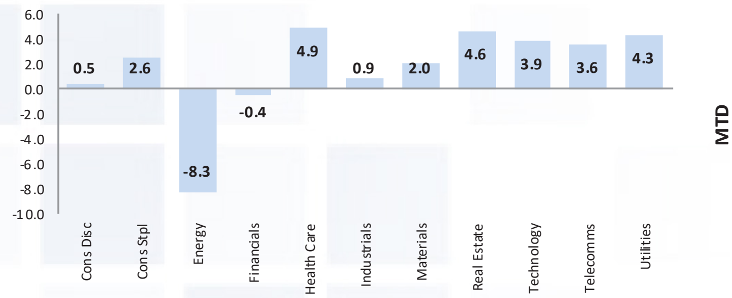
Treasury Rates	7/31/21	5/31/21	2/28/21	11/30/20
3 Month	0.06	0.01	0.04	0.08
2 Year	0.19	0.14	0.14	0.16
5 Year	0.69	0.79	0.75	0.36
10 Year	1.24	1.58	1.44	0.84
30 Year	1.89	2.26	2.17	1.58

Style Returns

MTD

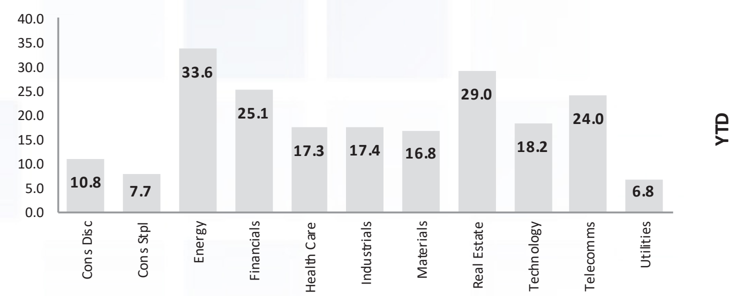
	V	B	G
L	0.80	2.08	3.30
M	0.62	0.77	1.03
S	-3.58	-3.61	-3.64

S&P 500 Sector Returns



YTD

	V	B	G
L	17.98	17.34	16.71
M	20.19	17.14	11.58
S	22.16	13.29	5.01



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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**