

AndCo's Monthly Market Update

July 2021

THE ECONOMY

We believe it is important to take stock of where we have been to better understand where we may be going when weighing long-term investment decisions. Despite being only halfway through the year, 2021 has seen some noteworthy events including the inauguration of a President, the rise (and sometimes fall) of cryptocurrencies, an increase in global geopolitical tensions, new COVID variant challenges, and a growing fear of inflation. The one constant throughout these events is the ongoing upward rise in global equity and risk markets. As the month of June came and went, the S&P 500 made a new record high.¹ Part of the continued rise in equity markets can be attributed to the rebound in global economic growth. US GDP grew by an annualized rate of 6.4% in the first quarter.² By most measures we track, the economy seems to be running close to full capacity. Second quarter GDP looks to be just as strong as the Atlanta Federal Reserve's GDP Now forecast currently stands at 7.9% annualized.³

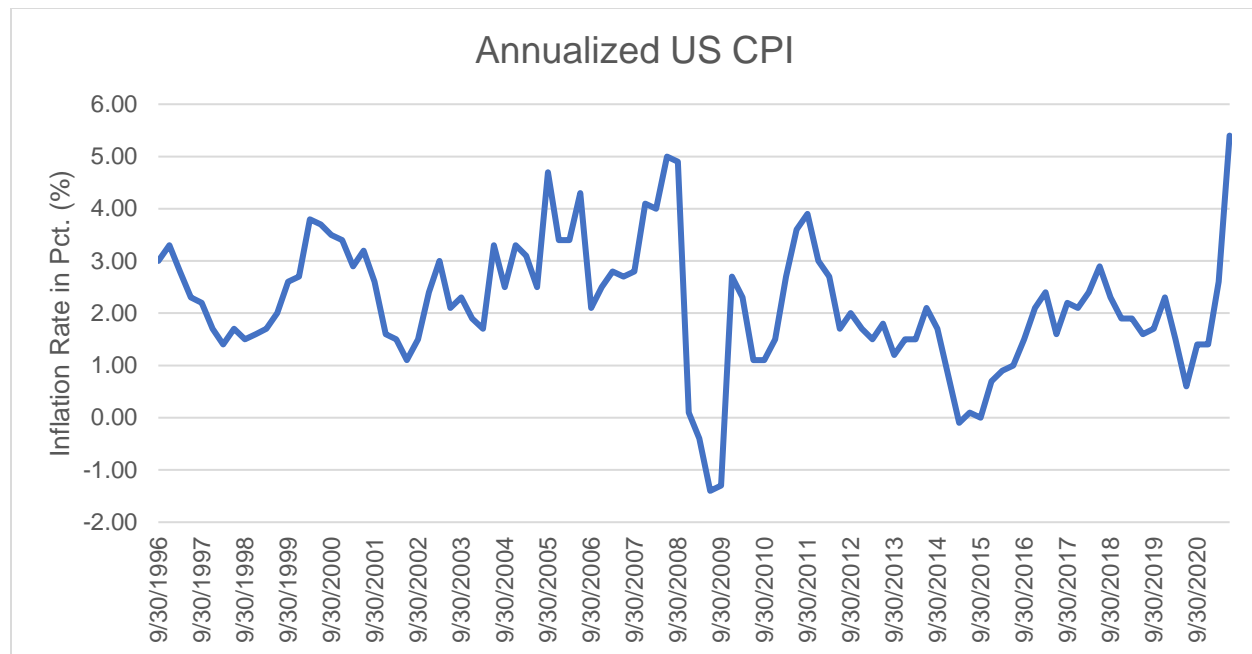
While the economic recovery appears robust, we remained concerned about the potential for continued inflation as local markets reopen. As measured by the year-over-year change in the Consumer Price Index (CPI), prices have risen rapidly this year. For the month of May, CPI rose at an annualized rate of 5.0%.⁴ Much of the rise in inflation concerns remain centered around the continued easy monetary policy of the Federal Reserve Bank (the Fed). The Fed kept interest rates unchanged during its most recent meeting between 0.00% to 0.25%.⁵ Importantly, the Fed stated that it intends to keep purchasing bonds through the end of the year with the goal of supplying the market with liquidity. However, that excess liquidity is now hitting the real economy and we are seeing visible price inflation in a broad range of items from food and gasoline to clothing and used cars.⁶

Inflationary pressures can also be seen in the housing market. With interest rates remaining low, housing prices have continued to surge higher. According to the Case Shiller Home Price Index,



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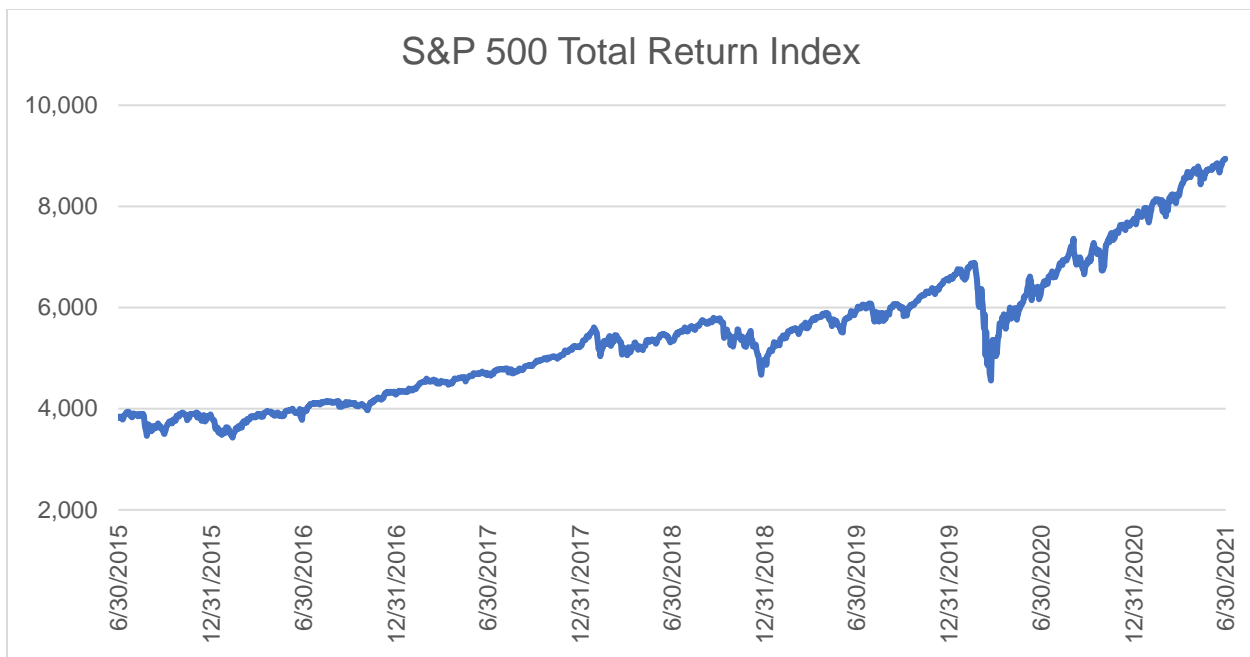
US home prices are up an average 14.6% in the past twelve months ending in April.⁷ While the housing market remains robust, the labor market continues to show signs of weakness. Despite the US unemployment rate falling to 5.8% in May, the pace of job growth remains slower than expected.⁸ Importantly, wage growth remains stubbornly low which is only exacerbating the inflationary effects felt in the economy as low wage earners fall further behind.



Source: Bloomberg as of Bloomberg June 30, 2021

EQUITIES

Equity markets continued on their torrid pace in the 2nd quarter, finishing the period at near all-time highs.⁹ As concerns over the pandemic began to fade, investors turned their focus towards the rebound in the economy and the potential for earnings growth and multiple expansion. Digging deeper into the returns, all but one of the S&P 500's sectors provided positive absolute returns during the period. Not surprisingly, sectors that have traditionally exhibited positive correlation to rising inflation did well including real estate and energy.¹⁰ Historically, these sectors are able to pass along rising input costs to consumers more quickly than other sectors. Technology also performed well as US interest rates fell during the quarter. Earnings for technology companies are generally longer dated in nature and falling interest rates reduce the discount rate applied earnings valuation.

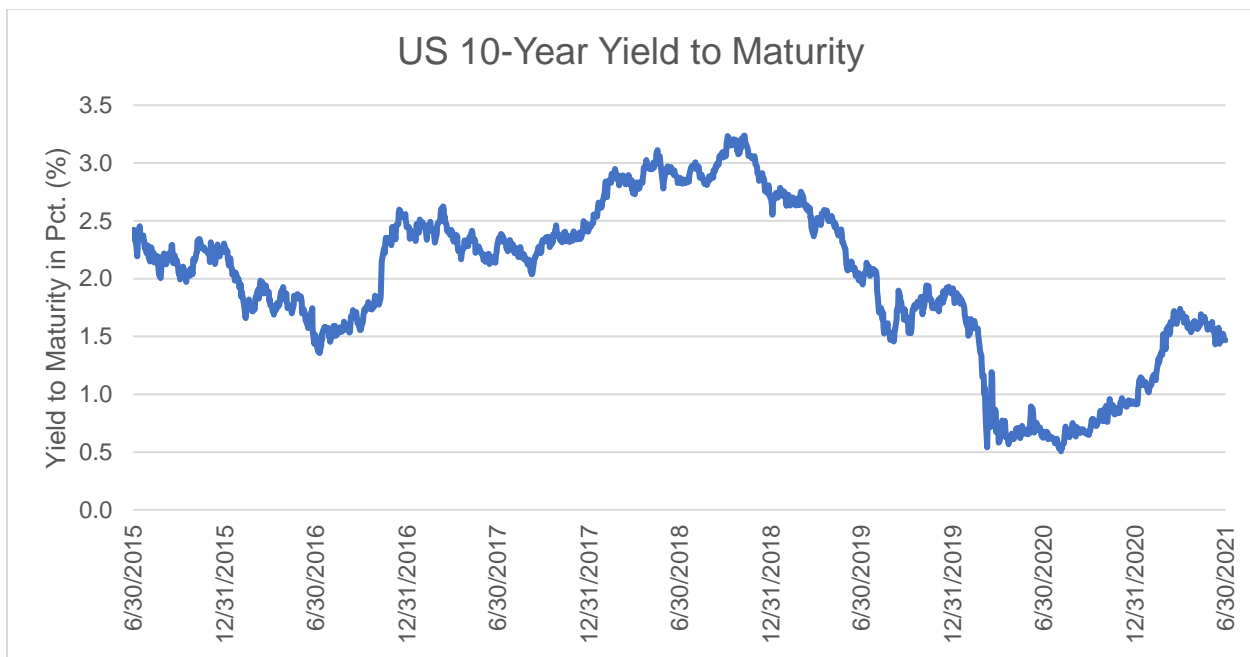


Source: Bloomberg as of June 30, 2021

Foreign stocks also enjoyed a strong quarter, with developed markets slightly outpacing emerging markets during the period.¹¹ Economic growth accelerated, especially in Europe and the UK, as local economies reopened. The European Central Bank remains committed to providing the market with liquidity, and as such, conditions should remain accommodative for the near-term. Despite the solid returns, both developed and emerging markets faced a stiffening headwind during the quarter with the appreciation of the US dollar relative to most currencies.

FIXED INCOME

Fixed income returns were solid for the 2nd quarter with the Bloomberg Barclays US Aggregate Bond Index rising 1.8% for the period.¹² The primary performance catalyst for the period was the decline in US interest rates.¹³ Despite continued concerns related to rising US inflation, long-term rates declined as investors digested the potential for rising US interest rates and the negative impacts on future growth. Generally, credit markets performed well during the quarter led by lower investment grade corporate bonds. That segment of the market has a longer duration which acted as a tailwind as interest rates declined. Finally, US TIPS performed well during the quarter as investors looked to mitigate inflation risk. While inflation breakeven rates fell during the periods, TIPS also benefited from their longer duration profile.



Source: Bloomberg June 30, 2021

APPENDIX

1. Bloomberg, June 2021
2. Bloomberg, June 2021
3. <https://www.atlantafed.org/cqer/research/gdpnow.aspx#:~:text=Latest%20estimate%3A%207.9%20percent%20%E2%80%94%20July,7.8%20percent%20on%20July%202.>
4. Bloomberg, June 2021
5. Bloomberg, June 2021
6. <https://www.wsj.com/articles/us-inflation-consumer-price-index-june-2021-11626125947>
7. <https://www.cnbc.com/2021/06/29/home-price-gains-in-april-truly-extraordinary-sp-case-shiller-says.html>
8. Bloomberg, June 2021
9. Bloomberg, June 2021
10. Morningstar, June 2021
11. Morningstar, June 2021
12. Morningstar, June 2021
13. Bloomberg, June 2021



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