



Wealth Advisors,
Investment Managers

Weekly Market Recap - 07/23/21

Market Commentary

Weekly Recap:

Equities bounced back last week despite surging covid-19 cases in many parts of the world. Large cap technology stocks led the way, allowing the Nasdaq to post a 2.8% total return on the week. Most cyclical and defensive sectors were also higher, although energy and utilities both finished slightly in the red during a week of significant oil price volatility. As has been the case for much of 2021, emerging market equities struggled, reflecting the increased health risk of the delta variant in many developing countries with low vaccination rates.

Bond prices also moved higher last week despite the strong gains in equities. Treasuries managed to eke out a small rally with 10y yields falling 1 basis point, while credit spreads remained stable.

Energy prices endured a week of high volatility. Oil fell by more than \$5/barrel on Monday after OPEC+ reached an agreement to increase production in August. However, prices rose during each of the ensuing four trading sessions to finish the week largely unchanged.

Economic news was mixed last week. Housing starts rose in fresh June data, but new residential building permits fell. New jobless claims unexpectedly ticked higher, while continuing claims were steady. Markit's US Manufacturing PMI improved sequentially and exceeded expectations in the preliminary July reading, but the Services and Composite PMIs unexpected fell. Finally, the Conference Board's Leading Economic Index increased 0.7% sequentially in June, the 4th consecutive month of very strong improvement.

Albion's "Four Pillars":

***Economy & Earnings** - US GDP growth was +6.4% annualized in Q1 2021, with consensus estimates of +9.0% in Q2, +7.1% in Q3, and +5.1% in Q4. Meanwhile, EPS for the S&P 500 is forecast to rise to a new all-time record high for a full calendar year in 2021.

***Equity Valuation** - The S&P 500's forward P/E of 21.3x is above the historical average, and long-term valuation metrics like CAPE (cyclically adjusted P/E ratio) suggest that compound annual returns over the coming decade are likely to be in the single digits. That said, lower-than-historical equity returns may be justified in the context of ultra-low yields on alternatives like bonds and cash.

***Interest Rates** - Rates remain very low by historical standards, supporting equity valuations and lowering borrowing costs.

***Inflation** - Inflation is currently high on a y/y basis as the economy laps the early months of the pandemic, but most of the drivers appear transitory. The Fed has communicated greater tolerance for short periods of above-target inflation, but longer-term inflation expectations remain well anchored.

Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,412	2.0%	2.7%	18.4%	38.5%	66.1%
Dow Jones Indus. Avg.	35,062	1.1%	1.7%	15.7%	34.2%	49.8%
NASDAQ	14,837	2.8%	2.3%	15.5%	42.9%	94.7%
S&P Midcap 400	2,673	2.1%	-0.8%	16.6%	45.3%	40.3%
Russell 2000 (Small Cap)	2,210	2.2%	-4.3%	12.4%	49.9%	35.3%
MSCI EAFE (Int'l Dev Mkt Eq)	2,307	0.2%	0.1%	9.3%	26.2%	27.4%
MSCI EM (Emerging Mkt Eq)	1,311	-2.1%	-4.3%	3.0%	24.3%	32.6%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	1.28%	0.2%	1.6%	-2.6%	-5.1%	21.5%
U.S. Bonds (Aggregate)	1.39%	0.2%	0.9%	-0.7%	-0.7%	18.2%
Global Bonds	1.01%	0.1%	0.7%	-2.5%	1.2%	14.3%
U.S. Munis	0.88%	0.1%	0.8%	1.9%	3.6%	16.6%
U.S. Investment Grade Corp	1.97%	0.2%	1.0%	-0.3%	1.2%	26.3%
U.S. High Yield Corporates	3.84%	0.1%	0.3%	3.9%	11.6%	23.6%

US Interest Rates	Levels (%)					
	7/23/21	7/16/21	6/30/21	12/31/20	7/23/20	7/23/18
2y Treasuries	0.20	0.22	0.25	0.12	0.15	2.63
10y Treasuries	1.28	1.29	1.47	0.91	0.58	2.95
30y Treasuries	1.92	1.92	2.09	1.64	1.23	3.09
3m LIBOR (USD)	0.13	0.13	0.15	0.24	0.24	2.34
30y Fixed Mortgage	2.78	2.88	3.02	2.67	3.01	4.52
Prime Rate	3.25	3.25	3.25	3.25	3.25	5.00

Commodity Prices	Levels					
	7/23/21	7/16/21	6/30/21	12/31/20	7/23/20	7/23/18
Oil (WTI)	72.07	71.81	73.47	48.52	41.07	67.89
Gasoline	3.16	3.17	3.12	2.25	2.19	2.84
Natural Gas	4.06	3.67	3.65	2.54	1.79	2.72
Gold	1,802	1,812	1,770	1,898	1,887	1,225

Currency Crosses	Levels					
	7/23/21	7/16/21	6/30/21	12/31/20	7/23/20	7/23/18
\$ per £	1.37	1.38	1.38	1.37	1.27	1.31
\$ per €	1.18	1.18	1.19	1.22	1.16	1.17
¥ per \$	110.6	110.1	111.1	103.3	106.9	111.4
¥ per Bitcoin	32,501	31,843	34,585	28,996	9,594	7,703

Macroeconomic Data	Value	Date
Fed Funds Target (Floor)	0.0%	07/23/21
Inflation (Core PCE Def)	3.4%	05/31/21
Unemployment (U-3)	5.9%	06/30/21
GDP Growth (Q/Q SAAR)	6.4%	03/31/21
ISM Manufacturing PMI	60.6	06/30/21
Consumer Confidence	127.3	06/30/21

Data Source:
Bloomberg, FactSet

Albion's Dashboard of Key Leading Economic Indicators as of 07/23/21

- Initial Jobless Claims 4wma (385k) - Stronger: claims are slowly trending lower
- Conference Board LEI (+12.0%) - Stronger: 3 consecutive months of >1% improvement
- Building Permits (1,594k) - Weaker: slowing but still above pre-pandemic levels
- Corporate Bond Spreads (0.81%) - Steady: spreads are near multi-decade tight
- Treasury Yield Curve (+108bp) - Weaker: 2s10s curve has flattened significantly
- Consumer Confidence (127.3) - Stronger: dramatic improvement during the first half of 2021
- Real Final Sales (+0.4%) - Stronger: 3 consecutive quarters of growth, positive y/y

Legend: ● = All Clear; ● = Minor Concern; ● = Strong Warning

Chart of the Week - Conference Board Leading Economic Index (y/y change)



Sector Total Returns for the Week Ending 07/23/21



YTD Sector Total Returns as of 07/23/21

