



Wealth Advisors,
Investment Managers

Weekly Market Recap - 08/20/21

Market Commentary

Weekly Recap:

US equities started strong on Monday and finished strong on Friday, but the 3 days in between were challenging and left all major US indices in the red for the week. Escalating covid-19 case counts in the US and potential trade disruptions from new lockdowns in China caused investors to reign in risk. Among US large caps, the biggest casualty was the energy sector which fell 7%. Traditional defensive sectors rallied, including utilities, healthcare, and real estate. Small and midcap stocks underperformed, as they often do when risk aversion rises.

International markets continue to be dominated by China. Driven by the twin concerns of rising regulation and slowing economic growth, the MSCI China Index finished at YTD lows after falling 7.7% on the week, and is now down nearly 33% from its February highs. See the Chart of the Week for a time series.

Bond markets were mixed last week. Treasuries rallied and credit spreads widened, driving price gains in safer bonds and declines in riskier ones.

Oil prices fell sharply for the second consecutive week, and are now down nearly 17% from the highs of mid-July.

Economic news was mixed last week. On the positive side, jobless claims fell, industrial production and new residential building permits rose, and the Conference Board's Leading Economic Index (LEI) posted a solid gain for the 5th consecutive month. On the other hand, housing starts and retail sales both dropped more than economists expected in July data.

Albion's "Four Pillars":

*Economy & Earnings - US GDP growth was +6.3% annualized in Q1 and +6.5% in Q2, with estimates of +6.9% in Q3, and +5.6% in Q4. Meanwhile, EPS for the S&P 500 is forecast to rise to an all-time annual record in 2021.

*Equity Valuation - The S&P 500's forward P/E of 21.1x 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	4,442	-0.5%	1.2%	19.4%	33.2%	64.2%
Dow Jones Indus. Avg.	35,120	-1.0%	0.7%	16.1%	29.1%	45.8%
NASDAQ	14,715	-0.7%	0.4%	14.7%	31.5%	93.5%
S&P Midcap 400	2,676	-2.0%	-1.0%	16.9%	41.5%	39.0%
Russell 2000 (Small Cap)	2,168	-2.5%	-2.6%	10.4%	40.0%	32.7%
MSCI EAFE (Int'l Dev Mkt Eq)	2,307	-2.9%	-0.4%	9.6%	25.6%	30.2%
MSCI EM (Emerging Mkt Eq)	1,221	-4.6%	-4.3%	-3.9%	15.5%	27.7%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	1.26%	0.4%	0.0%	-2.1%	-4.2%	20.6%
U.S. Bonds (Aggregate)	1.43%	0.2%	-0.2%	-0.7%	-0.3%	17.1%
Global Bonds	1.00%	-0.3%	-0.6%	-2.5%	0.4%	14.4%
U.S. Munis	0.94%	0.0%	-0.3%	1.6%	3.1%	16.1%
U.S. Investment Grade Corp	2.00%	0.2%	-0.3%	-0.2%	2.1%	24.5%
U.S. High Yield Corporates	4.16%	-0.1%	-0.4%	3.6%	10.1%	22.2%

US Interest Rates	Levels (%)					
	8/20/21	8/13/21	7/30/21	12/31/20	8/20/20	8/20/18
2y Treasuries	0.22	0.21	0.18	0.12	0.14	2.59
10y Treasuries	1.26	1.28	1.22	0.91	0.65	2.82
30y Treasuries	1.87	1.93	1.89	1.64	1.38	2.98
3m LIBOR (USD)	0.13	0.12	0.12	0.24	0.26	2.31
30y Fixed Mortgage	2.86	2.87	2.80	2.67	2.99	4.53
Prime Rate	3.25	3.25	3.25	3.25	3.25	5.00

Commodity Prices	Levels					
	8/20/21	8/13/21	7/30/21	12/31/20	8/20/20	8/20/18
Oil (WTI)	62.32	68.44	73.95	48.52	42.58	66.43
Gasoline	3.17	3.19	3.17	2.25	2.19	2.83
Natural Gas	3.85	3.86	3.91	2.54	2.35	2.94
Gold	1,781	1,780	1,814	1,898	1,947	1,190

Currency Crosses	Levels					
	8/20/21	8/13/21	7/30/21	12/31/20	8/20/20	8/20/18
\$ per £	1.36	1.39	1.39	1.37	1.32	1.28
\$ per €	1.17	1.18	1.19	1.22	1.19	1.15
¥ per \$	109.8	109.6	109.7	103.3	105.8	110.1
\$ per Bitcoin	48,668	47,610	40,689	28,996	11,863	6,455

Macroeconomic Data	Value	Date
Fed Funds Target (Floor)	0.0%	08/20/21
Inflation (Core PCE Def)	3.5%	06/30/21
Unemployment (U-3)	5.4%	07/31/21
GDP Growth (Q/Q SAAR)	6.5%	06/30/21
ISM Manufacturing PMI	59.5	07/31/21
Consumer Confidence	129.1	07/31/21

Data Source:
Bloomberg, FactSet

Albion's Dashboard of Key Leading Economic Indicators as of 08/20/21

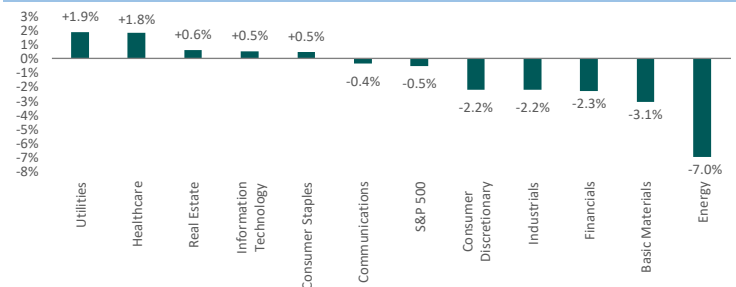
- Initial Jobless Claims 4wma (378k) - Stronger: new claims have fallen for 4 consecutive weeks
- Conference Board LEI (+10.6%) - Stronger: 5 consecutive months of significant improvement
- Building Permits (1,635k) - Steady: slowing but still above pre-pandemic levels
- Corporate Bond Spreads (0.86%) - Steady: IG spreads are still near multi-decade tights
- Treasury Yield Curve (+103bp) - Steady: 2s10s curve stable after flattening in Q2
- Consumer Confidence (129.1) - Mixed: divergence between Conf Board (strong) and UofM (weak)
- Real Final Sales (+11.2%) - Stronger: double-digit growth in Q1 and Q2 of 2021

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

Chart of the Week - MSCI China Index



Sector Total Returns for the Week Ending 08/20/21



YTD Sector Total Returns as of 08/20/21

