WINTHROP WEALTH

JULY 2021 MARKET RECAP

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July was another strong month in the equity markets as the S&P 500 increased by +2.4%. This was the sixth consecutive monthly increase. The market reached a new closing all-time high of 4,422 on July 26th and has now gained +18.0% for the year. After declining by nearly-34% (2/19/20 to 3/23/20), the S&P 500 is up by over +101% from the low.

- **Market Cap**: Large Caps (+2.4%) outperformed Mid (+0.4%) and Small Caps (-3.6%).
- **Style**: Growth (Russell 1000 Growth: +3.3%) exceeded Value (Russell 1000 Value: +0.8%)
- **Sector**: Nine of eleven were positive for the quarter with Health Care (+4.9%) and Real Estate (+4.6%) as the leaders, and Financials (-0.4%) and Energy (-8.3%) as the laggards.

The 10-Year Treasury yield fell by about 25 basis points and ended the month at 1.22%. After reaching an all-time low of 0.51% in August 2020, the 10-Year yield increased to 1.74% at the end of the first quarter before declining to its present level. The decline in interest rates has been one of the biggest surprises in markets over the past few months. If you ask five different market experts about the factors behind the decline in rates, you will probably receive five different answers. The most commonly cited reasons behind the fall in yields include, concerns that the Delta variant will weigh on economic growth, negative interest rates around the globe causing US bonds to still be attractive for international buyers, the Fed's quantitative easing program distorting where yields should be, decreasing odds that additional major fiscal stimulus bills will be passed, declines in long-term inflation expectations, and/or technical factors (as Fed Chair Powell quipped, "technical factors" are "where you put things that you can't quite explain"). While recent moves in the 10-Year have been puzzling, we still think the most likely scenario is for yields to drift higher over the upcoming months.

As we have done in the past, we will provide an update on the major factors driving the market:

Covid-19

Data on the coronavirus get worse in July as the Delta variant became the dominant strain the United States, accounting for more than 80% of new cases. **Vaccine Distribution**: Over 400 million doses of the vaccine have been delivered with about 346 million administered. About 191 million people have received at least one dose while over 164 million are fully vaccinated (50% the total population). The pace of vaccinations has slowed as the US is now administering about 600,000 doses per day, down from nearly 3 million per day at the end of April. **Daily Cases**: The 7-day average of daily cases increased to about 70,000, up from about 10,000 in June but still below peak levels of around 250,000 in January. **Hospitalizations**: The 7-day average of prevalent hospitalizations of patients with confirmed COVID-19 increased to about 31,000, up from about 12,000 in June but far below peak levels of around 125,000 in January. Dr. Rochelle Walensky, Director of the CDC, recently said that over 97% of hospitalizations are from unvaccinated people. Source: CDC.

Monetary Policy

The July FOMC meeting did not contain any policy changes. However, the Fed did provide updates on two key areas, tapering and inflation. **Tapering**: The Fed is still purchasing at least $80 billion in Treasuries and $40 billion in agency mortgage-backed securities per month. The Fed acknowledged that the economy has made progress toward the goals necessary to begin the tapering process. Although Chair Powell stated he believes the labor market still has "a ways to go." Our sense is still that the Fed will begin to taper toward the end of 2021. We expect to receive more details at the Jackson Hole Economic Symposium next month. **Inflation**: The Fed maintained their view that inflation is transitory, despite several of the latest readings increasing to their highest levels in years. Chair Powell expects that inflation will remain elevated in the coming months before moderating back toward the longer run goal of 2%. The Fed believes the increase in inflation is mostly caused by the base effect of being compared to the early part of the pandemic and temporary supply-chain bottlenecks. We agree that inflation is likely to decelerate toward the end of the year due to the Fed's influence and the deflationary forces of technological innovation, aging demographics, and globalization. Please see our **Client Question on Inflation** that details how the data is calculated, why the Fed cares about and targets inflation, and the impact it has on various asset classes (cash, fixed income, and equities).

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Fiscal Stimulus

Congress is currently working on two major fiscal stimulus deals, a $550 billion bipartisan infrastructure package and a $3.5 trillion budget resolution bill. The bipartisan infrastructure bill will begin formal debate in the Senate and includes funding for roads, major repairs, public transit, broadband, airports, power, and water. Senate Budget Chairman Bernie Sanders is working to gather the votes necessary to pass the $3.5 trillion budget resolution bill through the reconciliation process, meaning that it can pass with 51 votes. The proposal will likely not receive any Republican votes and will therefore need all Democrats to vote in favor (this would create a 50-50 deadlock with Vice President Kamala Harris acting as the tiebreaker to reach 51 votes). Several moderate Democrats have already expressed reservations over the price tag. As of this writing, Congress may pass both bills together or nothing at all, as some prominent Democrats have stated that they will not vote in favor for the infrastructure package without the budget reconciliation bill. House Speaker Nancy Pelosi said she would not put the infrastructure bill on the floor of the House until the reconciliation bill passes in the Senate. Senate Majority Leader Chuck Schumer said he plans to pass both before the August recess. As always, we expect further negotiations and for the proposals to evolve over the next several weeks.

The budget resolution proposal may include increases to the corporate, individual, and capital gains rates as well as additional funding to the IRS to curtail tax evasion to fund the latest proposals. Note that these are currently just proposals. We also want to remind everyone that taxes were already scheduled to increase. Most of the individual and estate tax provisions as part of the Tax Cuts and Jobs Act (TJCA) of 2017 are set to expire after 2025. Individual tax rates are set to effectively return to where they were pre-TCJA. Keep in mind that the tax code evolves – there have been plenty of tax changes in the past and there will be more in the future.

As part of our comprehensive financial planning process, we provide tax analysis, cash flow management, and will consider strategies that may reduce taxes. We are able to analyze your past tax returns and help estimate your current tax situation, so that we can proactively introduce and implement strategies that can better fit your unique circumstances.

Economic Data

The US economy grew at a +6.5% seasonally adjusted annual rate in the second quarter. While the reading missed the consensus estimate of +8.4%, the underlying details of the report were strong. Personal consumption was the standout with an increase +11.8%, while other areas also saw gains, including, nonresidential fixed investment, exports, and state and local government spending. Real GDP is estimated to increase by +6.5% in 2021, which would be the highest level since 1984. **Labor Market**: The latest employment report showed improvement as the US added +850,000 jobs in June. Prior to the June report, the labor market had slowed mainly due to supply issues as many individuals are hesitant to accept a job due to health concerns, remote schooling, and/or supplemental unemployment benefits. We would expect these issues to clear over the next several months as the demand for workers is strong. The July employment report, which will be released on August 6th, is forecasted to add +900,000 jobs with the unemployment rate falling to 5.7%. **Going Forward**: While the Delta variant remains a wildcard, we still expect the economy to perform well and for the labor market to continue to recover.

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MARKET RETURNS

US Equity										
Index	**July**	**YTD 2021**	**2020**	**2019**	**2018**	**2017**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
S&P 500	2.38%	17.98%	18.39%	31.48%	-4.39%	21.82%	18.19%	17.32%	15.37%	8.78%
Russell 3000	1.69%	17.05%	20.88%	31.01%	-5.25%	21.12%	18.13%	17.34%	15.19%	9.09%
Dow Jones Industrial Average	1.34%	15.31%	9.72%	25.34%	-3.48%	28.11%	13.84%	16.28%	13.88%	8.79%
Nasdaq	1.19%	14.26%	45.05%	36.74%	-2.81%	29.73%	25.18%	24.54%	19.67%	11.55%
S&P 400	0.35%	18.00%	13.65%	26.17%	-11.10%	16.23%	12.74%	13.39%	12.90%	10.23%
Russell 2000	-3.61%	13.29%	19.93%	25.49%	-11.03%	14.63%	11.50%	14.25%	12.38%	9.34%
Russell 1000 Growth	3.30%	16.71%	38.49%	36.39%	-1.51%	30.21%	25.14%	23.30%	18.41%	10.08%
Russell 1000 Value	0.80%	17.97%	2.78%	26.52%	-8.28%	13.64%	11.45%	11.39%	12.11%	7.76%
International Equity										
MSCI Index	**July**	**YTD 2021**	**2020**	**2019**	**2018**	**2017**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
EAFE	0.75%	9.65%	7.82%	22.01%	-13.79%	25.03%	7.77%	9.35%	6.24%	5.91%
Europe	1.31%	13.19%	7.89%	23.20%	-16.90%	28.07%	7.82%	10.58%	6.40%	5.35%
Japan	-1.27%	-0.00%	14.48%	19.61%	-12.88%	23.99%	6.29%	8.53%	6.44%	4.57%
China	-13.84%	-12.26%	29.49%	23.46%	-18.88%	54.07%	6.21%	12.38%	6.08%	10.81%
Emerging Markets	-6.73%	0.22%	18.31%	18.42%	-14.57%	37.28%	7.95%	10.37%	3.51%	10.05%
ACWI ex US	-1.65%	7.36%	10.65%	21.51%	-14.20%	27.19%	8.01%	9.64%	5.47%	6.49%
US Fixed Income										
Bloomberg Barclays Index	**July**	**YTD 2021**	**2020**	**2019**	**2018**	**2017**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Aggregate	1.12%	-0.50%	7.51%	8.72%	0.01%	3.54%	5.80%	3.12%	3.32%	4.50%
Treasury Bills	0.00%	0.02%	0.54%	2.21%	1.83%	0.81%	1.21%	1.10%	0.58%	1.28%
Corporates	1.37%	0.08%	9.89%	14.54%	-2.51%	6.42%	8.07%	4.88%	5.00%	5.68%
Securitized MBS/ABS/CMBS	0.64%	-0.10%	4.18%	6.44%	0.99%	2.51%	4.23%	2.43%	2.67%	
High Yield	0.38%	4.01%	7.11%	14.32%	-2.08%	7.50%	7.18%	6.99%	6.57%	7.76%
Munis	0.83%	1.90%	5.21%	7.54%	1.28%	5.45%	5.34%	3.41%	4.24%	4.60%
US Equity Sectors										
Index	**July**	**YTD 2021**	**2020**	**2019**	**2018**	**2017**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Technology	3.86%	18.15%	43.88%	50.29%	-0.29%	38.83%	30.63%	30.20%	22.26%	11.56%
Real Estate	4.64%	29.01%	-2.17%	29.00%	-2.23%	10.85%	15.77%	9.80%	9.90%	
Industrials	0.89%	17.44%	11.05%	29.32%	-13.32%	21.01%	13.13%	13.81%	13.74%	8.24%
Energy	-8.27%	33.57%	-33.68%	11.81%	-18.10%	-1.01%	-8.78%	-2.12%	-0.95%	5.23%
Consumer Discretionary	0.50%	10.82%	33.30%	27.94%	0.82%	22.98%	19.01%	18.73%	18.17%	10.38%
Communication Services	3.57%	23.95%	23.61%	32.69%	-12.53%	-1.25%	23.80%	11.44%	12.24%	5.75%
Consumer Staples	2.55%	7.70%	10.75%	27.61%	-8.39%	13.49%	13.91%	8.74%	11.97%	9.34%
Utilities	4.33%	6.82%	0.52%	26.35%	4.11%	12.10%	11.70%	8.48%	11.10%	7.20%
Materials	2.04%	16.83%	20.73%	24.58%	-14.70%	23.84%	14.90%	13.90%	10.71%	9.38%
Financials	-0.44%	25.04%	-1.76%	32.09%	-13.04%	22.14%	11.81%	16.07%	14.06%	4.64%
Health Care	4.90%	17.33%	13.45%	20.82%	6.47%	22.08%	16.38%	14.05%	16.87%	9.00%
	Calendar Year Returns						**Annualized Returns**			

SOURCE: Bloomberg

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Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.

Rebalancing a portfolio may cause you to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.

Likewise, it is important to remember that no investment strategy assures success or protects against loss. Past performance is no guarantee of future results. Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.

This information is not intended to be a substitute for individualized tax advice. We suggest that you discuss your specific tax situation with a qualified tax advisor.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Russell 3000 Index is a market-capitalization-weighted equity index maintained by FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S incorporated equity securities.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe. With 445 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 709 constituents, the index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free float adjusted market capitalization.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries. With 2,354 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Bloomberg Barclays Capital U.S. Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.

The Bloomberg Bloomberg Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt.

The Bloomberg Barclays Insured Municipal Bond Index is a total return performance benchmark for municipal bonds that are backed by insurers with Aaa/AAA ratings and have maturities of at least one year.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

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