FOURTH STREET
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Independent Investment Consultants

July 2021: Market Review

Global equities posted mixed results this month as larger cap stocks fared well while small-cap and emerging market stocks suffered losses. Emerging markets underperformed considerably in July as many developing countries continue to struggle containing the spread of the coronavirus delta variant and China cracked down on domestic technology companies to fix certain anticompetitive practices and data security threats. In the United States, large-cap stocks hit new all-time highs as 88% of S&P 500 companies have beaten second quarter earnings estimates. The S&P 500 Index rose +2.4% this month while the Dow Jones Industrial Average was up +1.3%. The NASDAQ Composite (+1.2%) posted the weakest relative results.

The first reading of second quarter GDP showed the U.S. economy grew at a real 6.5% annualized rate year-over-year, driven by strong consumer spending. The unemployment rate modestly rose to 5.9% in June despite the U.S. economy adding 850,000 new jobs due to people rejoining the workforce as unemployment benefits expired in many states. However, job openings rose to another record high in May of 9.2 million openings. The Consumer Price Index showed a year-over-year annualized increase of 5.4% in June, the highest annualized increase since 2008, with used car sales accounting for over a third of the increase. The housing market continues to experience high demand in May as the S&P Case-Shiller National Home Price Index climbed to another record, increasing 16.6% over the past twelve months.

Within domestic equities, growth stocks outpaced value stocks in large-capitalization, with growth and value stocks trading roughly in-line with each other in mid- and small-cap issues. The Russell 1000 Growth Index added +3.3% while the Russell 1000 Value Index gained +0.8%. The Russell Midcap Growth Index was up +1.0% versus a gain of +0.6% from the Russell Midcap Value Index. Both the Russell 2000 Growth and the Russell 2000 Value indices fell approximately -3.6%. Among commodities, WTI crude oil ended July at $74, a modest increase from last month's close of $73. Gold closed the month at $1,813, up from $1,771 at the end of June.

Major international equity indices were mixed this month as developed markets, which have high vaccination rates, fared well while emerging markets continued to suffer from the spread of the delta variant and limited vaccine availability. The MSCI ACWI ex U.S. Index fell -1.7% in July while the MSCI EAFE Index gained +0.8%. The MSCI Emerging Markets Index plunged -6.7% this month as China's enactment of new regulatory restrictions on domestic technology companies caused a sell off in China (-14.1%). Other detractors included Brazil (-6.3%) and South Korea (-5.7%).

U.S. fixed income markets posted the fourth consecutive month of gains as the market continues to view the rise in inflation as temporary despite a more hawkish tone from the Fed as the central bank began discussing tapering bond purchases. The yield on the 10-year Treasury ended the month at 1.24%, below its June close of 1.45%. The Bloomberg U.S. Aggregate Bond Index increased +1.1% over the month while the Bloomberg Treasury 20+ Year Index gained +3.8%. The Bloomberg Corporate High Yield Bond Index ended the month with a gain of +0.4%.

U.S. equities continue to rise amid higher-than-expected second quarter earnings and strong economic growth. Overseas, investors favored developed economies with higher vaccination rates as the delta variant has spread rapidly in developing countries and poses a risk to the economic recovery. Investors in the U.S. are starting to show concern that economic growth numbers may have reached their peak domestically and a more hawkish tone from the Fed could cause volatility in the second half of the year.