

Claro Market Highlights – August 2021

The summer of 2021, sadly, is drawing to a close. Hopefully for most it has been fun filled and enjoyable, as people were finally able to congregate outdoors, travel a bit, and get to see family and friends. And after what seems like an eternity of in-home learning, parents are happily and willingly sending kids back to school (yet not without some more “mask vs no mask” debate of course). Despite the progress we have made with vaccinations and trying to achieve “herd immunity”, Covid and the rise of the [Delta variant](#) are still lingering issues. The recent uptick in cases provides further worry that we, nor the economy, are quite out of the woods.

Still, the financial markets have marched on despite the risk of a Covid slowdown as [corporate earnings](#) have continued to beat expectations by a wide margin. For the month of August, the **S&P 500** rose a healthy +2.9% and now sits +20% higher than it did at the beginning of 2021. Small company stocks, as measured by the **Russell 2000 Index**, recovered +2.2% after giving up some of its gains mid-summer. **International and Emerging Markets** also reversed their summer lull, rising +1.5% and +2.4% respectively. The bond markets saw more activity than usual as inflationary pressures and Federal Reserve policy dominated headlines. The prospect of the Fed tapering their bond purchasing and increasing rates sooner than expected caused rates to rise initially with the 10-year Treasury reaching 1.75% back in March. But the threat of the Delta variant and a more dovish Fed has prompted rates to retreat again and the 10-year Treasury has fallen back to 1.3% currently.

Gold continued to *not* be a favorite for those seeking an alternative asset and [inflation hedge](#). Bitcoin, meanwhile, has drawn even more interest from those individuals, companies and governments considering a different means of transacting (or perhaps the next [bubble?](#)). Among energy-based commodities, as the summer travel season winds down, [oil prices](#) have finally leveled off after rising 50% during the first half of the year.

The Economy

Looking at some other indicators, the economic rebound has strengthened with Real [GDP](#) expected to rise 6% in 2021 and move steadily ahead of the pre-Covid high. [Unemployment](#) has improved, although it still has a way to go before the jobs recovery can be considered healthy. Still this has helped maintain [consumer spending](#) as wages and [personal incomes](#) have increased. [Inflation](#), however, has been and remains elevated with robust demand, yet the economy is struggling with [supply chain](#) issues.

The Bottom Line

As we move into the Fall, investors will be wary of potential disruptions to the economic advance. Will the Covid Delta spread be bad enough to warrant a slowdown in economic activity and unwind much of the progress that we've made? There will be eyes and ears on the legislative debates surrounding tax reform and the ramifications it could have on personal and corporate taxes. Will supply chain disruptions worsen and continue to apply inflationary pressures? What is the true direction of monetary policy? And more recently, the troop withdrawal from Afghanistan has left many questioning the process and U.S. involvement in global affairs. We will get answers to these short-term issues over time and adapt portfolios accordingly. In the meantime, as activity picks up, as jobs and wages improve, and as spending on goods and services continues, investors can remain upbeat on the long-term growth potential for the economy and for investment portfolios.

Here are how some selected indices have performed year-to-date (YTD) and over the past 12 months:

<u>Financial Market Data</u>	August	August	Q3	2021	1 Year
	Price	Monthly	Quarter	YTD	Return
<u>U.S. Stock Markets</u>					
S&P 500 Index Price	\$ 4,522.68	2.9%	5.2%	20.4%	29.2%
Dow Jones Industrials	\$ 35,360.73	1.2%	2.5%	15.5%	24.4%
NASDAQ Composite	\$ 15,259.24	4.0%	5.2%	18.4%	29.6%
Russell 2000 Index	\$ 2,265.99	2.2%	-1.5%	15.8%	45.1%
	<u>Closing</u>				
<u>International Stock Markets</u>	Price				
MSCI EAFE Index	\$ 2,358.28	1.5%	2.2%	9.7%	23.5%
MSCI Emerging Markets Index	\$ 1,285.39	2.4%	-4.8%	1.4%	16.7%
	<u>Closing</u>				
<u>U.S. Fixed Income</u>	Price				
90 Day T-Bill	\$ 203.37	0.0%	0.0%	0.0%	0.1%
Bloomberg Barclays U.S. Aggregate	\$ 2,378.43	-0.2%	0.9%	-0.7%	0.0%
Bloomberg Barclays Municipal	\$ 1,358.22	-0.4%	0.5%	1.6%	3.4%
	<u>Closing</u>				
	Price				
Gold	\$ 1,813.93	-0.7%	2.9%	-3.9%	-7.3%
Oil (WTI Spot)	\$ 68.74	-7.0%	0.6%	52.9%	61.3%
Bitcoin	\$ 47,124.25	12.4%	11.1%	36.0%	295.1%

Top three sectors (S&P 500)*	2021 YTD
Financials	30.4%
Real Estate	29.7%
Energy	28.6%

Bottom three sectors (S&P 500)*	YTD
Consumer Staples	6.9%
Utilities	9.4%
Consumer Discretionary	14.0%

Market Indicators	Current**	Dec-20	Aug-20
GDP (1-year %)**	12.2%	-2.3%	-9.1%
Unemployment Rate	5.2%	6.7%	8.4%
Inflation (Core CPI)	5.4%	1.4%	1.3%
Fed Funds Target	0.0%	0.0%	0.0%
10-year Treasury Yield	1.3%	0.9%	0.7%
10-2 Year Treasury Yield Spread	1.1%	0.8%	0.6%
30-year Mortgage Rate	2.9%	2.7%	2.9%

*<https://www.sectorspdr.com/sectorspdr/>

**most recent reported or current estimate

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