WINTHROP WEALTH

AUGUST 2021 MARKET RECAP

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The stock market continued to celebrate in August as the S&P 500 increased by +3.0%. This was the seventh consecutive monthly increase. The market reached a new closing all-time high of 4,529 on August 30th and has now gained +21.6% for the year. After declining by nearly-34% during the pandemic selloff last year (2/19/20 to 3/23/20), the S&P 500 is up by over +107% from the low.

- **Market Cap**: Large Caps (+3.0%) outperformed Mid (+2.0%) and Small Caps (+2.2%).
- **Style**: Growth (Russell 1000 Growth: +3.7%) exceeded Value (Russell 1000 Value: +2.0%).
- **Sector**: Ten of eleven were positive for the quarter with Financials (+5.1%) and Communication Services (+5.0%) as the leaders, and Industrials (+1.2%) and Energy (-2.0%) as the laggards.
- **Yields**: The 10-Year Treasury increased by 9bps to 1.31%.
- **Fixed Income**: The Bloomberg Barclays US Aggregate Bond index (Agg) decreased by-0.2%.

Will stocks now face a hangover after their summer party? The S&P has now gone over two hundred trading days without experiencing a-5% decline, which is one of the ten longest stretches on record. Since 1929, the S&P 500 has historically experienced a-5% drop every 94 trading days on average. While we are pleasantly surprised at the year-to-date performance and lack of recently volatility, we know that the party will end eventually. We prepared for upcoming volatility by continuing to take profits as the market moves higher and shifting portfolios more defensively. As we have written many times, we do not believe in making major changes to portfolios (i.e. market timing) in anticipation of potential upcoming volatility as that is a futile effort (please see our **Client Question on Why Market Timing Does Not Work**). Rather than make wholesale changes, our investment process favors trimming on strength, buying on weakness, and tilting toward the asset classes we think will provide the best risk/reward going forward.

The markets have a full calendar of critical events over the next several weeks, including, the August Employment Report (9/3), the September FOMC meeting (9/22 – tapering details will likely be announced), the vote on the bipartisan infrastructure bill (9/27, although this date is not binding), and the deadline to pass a spending bill to fund the government (9/30). We will continue to apply our time-tested investment process based on risk management, asset allocation, and security selection to utilize any volatility as an opportunity to reposition portfolios.

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

Covid-19

The delta variant continued to spread throughout the month, pushing cases and hospitalizations to their highest levels since January. **Vaccine Distribution**: Over 440 million doses of the vaccine have been delivered with about 370 million administered. About 205 million people have received at least one dose while over 174 million are fully vaccinated (52% the total population). The pace of vaccinations has slowed as the US is now administering about 900,000 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 149,000, up from about 10,000 in June and 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 90,000, up from about 12,000 in June and below peak levels of around 125,000 in January. A late August report from the CDC found that unvaccinated people are almost five times more likely be infected and over 29 times more likely to be hospitalized with covid.

Monetary Policy

At the Fed's Jackson Hole Economic Policy Symposium on August 27th, Chair Jerome Powell delivered a speech that provided key updates to the committee's thinking on tapering, future interest rate increases, and inflation. **Tapering**: The Fed is still purchasing at least $80 billion in Treasuries and $40 billion in agency mortgage-backed securities per month. Powell reiterated a point from the July FOMC meeting that stated, "if the economy evolved broadly as anticipated, it could be appropriate to start reducing the pace of asset purchases this year." Our sense is that a formal announcement on tapering will occur at the September 22nd FOMC meeting the process starting in November or December. **Future Interest Rate Increases**: Chair Powell reiterated that "we have much ground to cover to reach maximum employment" before the first interest rate hike will occur. Powell also wanted to make it clear that tapering does not signal that rate hikes are imminent. Our view is that the Fed will not raise interest rates until late 2022.

Inflation: The Fed maintained their view that inflation is transitory, despite several of the latest readings increasing to their highest levels in years. Powell stated that, "the spike in inflation is so far largely the product of a relatively narrow group of goods and services that have been directly affected by the pandemic and the reopening of the economy. We are also directly monitoring the prices of particular goods and services most affected by the pandemic and the reopening, and are beginning to see a moderation in some cases as shortages ease." 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).

Fiscal Stimulus

Congress is currently working on two major fiscal stimulus deals, a $550 billion infrastructure package and a $3.5 trillion budget bill. The $550 billion infrastructure package has bipartisan support and includes funding for roads, major repairs, public transit, broadband, airports, power, and water. The $3.5 trillion budget still needs to be written and includes funding for childcare, education, healthcare, and climate change. The budget bill will likely need to be passed through the reconciliation process, meaning with only Democratic support. If Republicans unanimously oppose the bill, Democrats can afford to lose no more than three votes in the House and zero in the Senate. In the House, Speaker Pelosi has committed to voting on the infrastructure legislation by September 27th. House Democrats remain divided over the two bills with moderates warning that they will vote against the budget bill unless the infrastructure legislation is passed first, and progressives taking the opposite stance. In the Senate, several moderate Democrats have publicly stated they will not vote in favor for a $3.5 trillion budget bill. As always, we expect further negotiations and for the proposals to evolve over the next several weeks. Our current sense is that the infrastructure bill is likely to pass, while the budget will need a haircut, if it is passed at all.

The budget 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 and minimization strategies as well as cash flow management. We will analyze your past tax returns and help estimate your current year tax situation so that we can proactively introduce and implement strategies that better fit your unique circumstances.

Economic Data

The economy continues to perform well, although the pace of the recovery has slowed due to the delta variant. Real GDP is estimated to increase by +6.2% in 2021, which would be the highest level since 1984. **Labor Market**: While the United States has lost about 6 million jobs since the start of the pandemic, the latest employment report showed improvement as the US added +943,000 jobs in July. The demand for worker remains strong as the latest Job Openings and Labor Turnover Survey (JOLTS) reported over 10 million job openings. The August employment report, which will be released on September 3rd, is forecasted to add +750,000 jobs with the unemployment rate falling to 5.4%. **Going Forward**: While the Delta variant remains a wildcard, we still expect the economy and the labor market to perform well for the rest of the year. Individuals and companies have learned to manage within the pandemic, making additional lockdowns or shutdowns seem unlikely.

MARKET RETURNS

US Equity										
Index	**August**	**YTD 2021**	**2020**	**2019**	**2018**	**2017**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
S&P 500	3.04%	21.57%	18.39%	31.48%	-4.39%	21.82%	18.06%	18.00%	16.46%	9.30%
Russell 3000	2.85%	20.38%	20.88%	31.01%	-5.25%	21.12%	17.84%	17.94%	16.34%	9.58%
Dow Jones Industrial Average	1.50%	17.04%	9.72%	25.34%	-3.48%	28.11%	13.33%	16.57%	14.62%	9.17%
Nasdaq	4.09%	18.94%	45.05%	36.74%	-2.81%	29.73%	24.67%	25.25%	21.04%	12.43%
S&P 400	1.95%	20.30%	13.65%	26.17%	-11.10%	16.23%	12.16%	13.72%	14.06%	10.52%
Russell 2000	2.23%	15.82%	19.93%	25.49%	-11.03%	14.63%	10.72%	14.35%	13.88%	9.64%
Russell 1000 Growth	3.74%	21.07%	38.49%	36.39%	-1.51%	30.21%	24.60%	24.34%	19.57%	10.76%
Russell 1000 Value	1.98%	20.31%	2.78%	26.52%	-8.28%	13.64%	11.43%	11.65%	13.16%	8.09%
International Equity										
MSCI Index	**August**	**YTD 2021**	**2020**	**2019**	**2018**	**2017**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
EAFE	1.76%	11.58%	7.82%	22.01%	-13.79%	25.03%	9.00%	9.72%	7.34%	6.14%
Europe	1.99%	15.44%	7.89%	23.20%	-16.90%	28.07%	9.48%	10.81%	7.78%	5.65%
Japan	3.07%	3.07%	14.48%	19.61%	-12.88%	23.99%	7.64%	9.10%	7.83%	4.86%
China	0.00%	-12.26%	29.49%	23.46%	-18.88%	54.07%	7.28%	10.80%	7.18%	12.17%
Emerging Markets	2.62%	2.84%	18.31%	18.42%	-14.57%	37.28%	9.87%	10.40%	4.80%	10.25%
ACWI ex US	1.90%	9.40%	10.65%	21.51%	-14.20%	27.19%	9.37%	9.92%	6.56%	6.72%
US Fixed Income										
Bloomberg Barclays Index	**August**	**YTD 2021**	**2020**	**2019**	**2018**	**2017**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Aggregate	-0.19%	-0.69%	7.51%	8.72%	0.01%	3.54%	5.43%	3.11%	3.14%	4.43%
Treasury Bills	0.00%	0.03%	0.54%	2.21%	1.83%	0.81%	1.16%	1.10%	0.58%	1.26%
Corporates	-0.30%	-0.22%	9.89%	14.54%	-2.51%	6.42%	7.70%	4.78%	4.95%	5.59%
Securitized MBS/ABS/CMBS	-0.16%	-0.27%	4.18%	6.44%	0.99%	2.51%	3.91%	2.38%	2.54%	
High Yield	0.51%	4.55%	7.11%	14.32%	-2.08%	7.50%	7.11%	6.66%	7.03%	7.72%
Munis	-0.37%	1.53%	5.21%	7.54%	1.28%	5.45%	5.09%	3.30%	4.04%	4.49%
US Equity Sectors										
Index	**August**	**YTD 2021**	**2020**	**2019**	**2018**	**2017**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Technology	3.56%	22.36%	43.88%	50.29%	-0.29%	38.83%	29.66%	30.56%	23.57%	12.51%
Real Estate	2.81%	32.64%	-2.17%	29.00%	-2.23%	10.85%	16.15%	11.27%	10.79%	
Industrials	1.15%	18.78%	11.05%	29.32%	-13.32%	21.01%	12.96%	13.88%	14.76%	8.54%
Energy	-2.04%	30.84%	-33.68%	11.81%	-18.10%	-1.01%	-8.80%	-2.75%	-0.06%	5.30%
Consumer Discretionary	2.12%	13.17%	33.30%	27.94%	0.82%	22.98%	17.69%	19.52%	19.15%	11.11%
Communication Services	5.01%	30.15%	23.61%	32.69%	-12.53%	-1.25%	24.55%	13.86%	13.15%	6.53%
Consumer Staples	1.40%	9.21%	10.75%	27.61%	-8.39%	13.49%	13.91%	9.15%	12.06%	9.20%
Utilities	3.98%	11.07%	0.52%	26.35%	4.11%	12.10%	12.43%	10.60%	11.38%	7.55%
Materials	1.92%	19.07%	20.73%	24.58%	-14.70%	23.84%	15.42%	14.35%	11.80%	9.53%
Financials	5.14%	31.47%	-1.76%	32.09%	-13.04%	22.14%	13.17%	16.36%	16.03%	5.23%
Health Care	2.38%	20.12%	13.45%	20.82%	6.47%	22.08%	15.65%	15.36%	17.28%	9.32%
	Calendar Year Returns						**Annualized Returns**			

SOURCE: Bloomberg

DISCLOSURES:

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

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.