

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by [Svetlana M. Loshakov, CFA, Head of Investments.](#)



OVERVIEW

It was a guardedly quiet and calm month of June with VIX dropping to 15.66, below the 10-year average of 17.7.¹ The S&P 500 Index has not had a 5% closing price correction since the end of October.¹ However, underneath the placid surface there are unsettling currents that could cause significant market volatility going forward. The COVID-19 pandemic has not been defeated yet. Inflation could turn out to be less transitory and more persistent. When the Fed begins to tighten monetary policy, some investors may abandon stocks that are getting more expensive in favor of bonds. So far, however, markets have digested the news remarkably well.

DOMESTIC EQUITY As of June 30, 2021

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	0.0%	5.1%	13.8%	36.3%
S&P 500	2.3%	8.5%	15.2%	40.8%
Russell 2000	1.9%	4.3%	17.5%	62.0%
Russell 1000 Growth	6.3%	11.9%	13.0%	42.5%
Russell 1000 Value	-1.1%	5.2%	17.0%	43.7%

U.S. equities, apart from large cap value, were mostly positive during the month of June amid continued strong corporate earnings growth and receding fears about runaway inflation. Small caps (Russell 2000) generated positive returns but underperformed large caps (S&P 500) by 0.4% as the investor rotation out of the small cap space continued.¹ Small caps had underperformed large caps in the three months prior to June by a combined 8.0%.¹ In the large cap space, growth stocks (Russell 1000 Growth) significantly outperformed value stocks (Russell 1000 Value) as investors are betting on continuing economic recovery. As the U.S. economy continues to re-open, there are still several key events with potential to drive markets, including corporate earnings growth (very high expectations for Q2 earnings growth), the domestic economic trajectory, inflation, potential stimulus, and new legislation. Each of these events has the potential to spark market volatility.

INTERNATIONAL EQUITY As of June 30, 2021

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-0.6%	5.5%	9.2%	35.7%
MSCI EAFE	-1.1%	5.2%	8.8%	32.4%
MSCI Emerging Markets	0.2%	5.0%	7.4%	40.9%
MSCI EAFE Small Cap	-1.7%	4.3%	9.0%	41.0%

In dollar terms, non-U.S. Equities were mixed in June. Emerging markets (MSCI EM Index +0.17%) were able to grind out some small positive returns, but international developed markets (MSCI EAFE Index -1.13%) traded lower during the month.¹ In large part, non-U.S. equities lagged the returns of U.S. markets due to the strengthening of the U.S. dollar, which was broadly stronger against both international developed market currencies as well EM currencies. Similar to the U.S., non-U.S. market's growth stocks generally outperformed value stocks and large cap stocks outperformed their small-cap peers.

FIXED INCOME As of June 30, 2021

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	0.7%	1.8%	-1.6%	-0.3%
BarCap Global Aggregate	-0.9%	1.3%	-3.2%	2.6%
BarCap US High Yield	1.3%	2.7%	3.6%	15.4%
JPM Emerging Market Bond	0.9%	3.9%	-1.0%	6.8%
BarCap Muni	0.3%	1.4%	1.1%	4.2%

Overall, the yield curve flattened as the shorter end rates (up to 5-yr) moved up, adjusting to the prospects of the Fed tightening, and the longer end of the curve (10-yr and 30-yr) dropped, signaling that we have seen the peak of inflation and growth. Risk assets (Investment Grade Corporates, High Yield and Emerging Market Debt) outperformed US Treasury. Emerging Market Debt (JPMorgan Emerging Market Debt Index +0.89%) and Investment Grade Corporates (BarCap U.S. Corporate +1.63%), although, have not seen much change in spreads, and outperformed due to longer duration. High Yield Corporate (Bloomberg Barclays U.S. High Yield Corporate Bond Index) spreads continue to tighten (from 296 to 268) and reached the lowest spread level in 14 years as investors seek yield.¹

CLOSING

Investors have been feeling cautiously optimistic about the continuous economic recovery. Overall, markets are incorporating generally positive earnings reports across most global firms, seeing strong economic data in the U.S., improving economic data in Europe, and a nearly normalized economic situation in China. Meanwhile COVID-19 cases are generally tracking lower across the globe. As global recovery continues, the demand for oil pushed prices up above \$75 per barrel.¹ Looking forward the second half of the year promises to be quite eventful as market participants expect tax increases from Washington D.C. combined with belief that we have reached the peak growth and that recovery is over.

Sources

1 - Bloomberg LP, Clearstead

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