

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by [Joe Nitting, CFA, CAIA, Analyst, Research](#).


OVERVIEW

The start of the second half of 2021 proved to be an eventful one for global markets. Domestic equities continued to grind higher, led by large cap growth stocks, amid exceptionally strong Q2 earnings releases during the month. However, international equities generated more mixed results as concerns about China's newly proposed regulations against education and technology companies weighed on investor sentiment. Within fixed income, further declines in interest rates led to broadly positive returns during the month.

DOMESTIC EQUITY *As of July 31, 2021*

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	1.3%	1.3%	15.3%	34.8%
S&P 500	2.4%	2.4%	18.0%	36.4%
Russell 2000	-3.6%	-3.6%	13.3%	51.9%
Russell 1000 Growth	3.3%	3.3%	16.7%	36.7%
Russell 1000 Value	0.8%	0.8%	18.0%	39.3%

While U.S. equities continued to move higher during July, the key drivers of return differed from those in the first half of the year. Small caps (Russell 2000) underperformed large caps (S&P 500) by 6.0%¹ and have fallen behind large caps on a year-to-date basis despite outpacing large caps during the first half of the year. In the large cap space, growth stocks (Russell 1000 Growth) outperformed value stocks (Russell 1000 Value) by 2.5%¹. We are still monitoring political developments domestically, the evolution of COVID-19's Delta variant, and the US economic growth trajectory in 2021. Despite the strong rebound in the US equity market from its lows last March, the markets remain jittery as evidenced by July's volatility.

INTERNATIONAL EQUITY *As of July 31, 2021*

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-1.6%	-1.6%	7.4%	27.8%
MSCI EAFE	0.8%	0.8%	9.6%	30.3%
MSCI Emerging Markets	-6.7%	-6.7%	0.2%	20.6%
MSCI EAFE Small Cap	1.7%	1.7%	10.9%	38.7%

Overseas markets ended July with mixed results after volatility picked up and markets sold off in the final week of the month. Market gains were led by developed markets (MSCI EAFE, +0.8%)¹, while small cap stocks outperformed their large cap peers and growth stocks outpaced their value counterparts. The US dollar weakened against several developed market currencies in July, buoying returns.

Emerging markets sold off late in July amid uncertainty related to regulatory changes targeting China's largest internet platform companies, as well as its private tutoring industry. China (MSCI China) was among the worst performers in emerging markets, declining over 13% as investor sentiment soured over the nation's proposed regulations. The US dollar strengthened against most emerging market currencies in July, further weighing on returns.

FIXED INCOME *As of July 31, 2021*

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	1.1%	1.1%	-0.5%	-0.7%
BarCap Global Aggregate	1.3%	1.3%	-1.9%	0.8%
BarCap US High Yield	0.4%	0.4%	4.0%	10.6%
JPM Emerging Market Bond	0.5%	0.5%	-0.5%	3.6%
BarCap Muni	0.8%	0.8%	1.9%	3.3%

Fixed income markets generated positive results during July with investment grade sectors generally outpacing areas like high yield corporate debt and emerging market debt. Within the investment grade landscape, U.S. Treasuries returned +1.4% as the yield curve continued to flatten². The 30-year U.S. Treasury yield fell 0.19%² while the 2-year treasury yield declined by 0.06%² during the month amid concerns about peak inflation and economic growth.

High yield and emerging market debt also generated positive returns during July, but lagged investment grade debt given their shorter durations in a falling rate environment. However, their higher yields were able to outweigh falling rates and spread widening during the month.

CLOSING

Following a strong first half of 2021, the second half of the year is presenting several interesting storylines of its own, with more of them likely to come. Will higher inflation expectations take root in the US economy? Will the COVID-19 "Delta" variant derail global growth in the back half of the year? Is the US-China relationship slipping into a new cold war? While we cannot reasonably predict how these storylines will conclude, we will continue to closely monitor them and keep our clients informed on their potential economic and market impact. Amid expectations for uncertainty to carry through the remainder of 2021, we advise our clients to stay invested and focus on long-term portfolio goals, rather than chasing short-term price moves in either direction.

Sources

- 1 - Morningstar Direct (7/31/2021)
- 2 - Bloomberg (7/31/2021)

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