

## OBSERVATIONS

- After peaking on 11-May, copper has declined nearly -13.4% through last Friday as slowdown concerns loom for China, though the industrial metal remains +17.6% YTD.<sup>1</sup>
- Retail sales fell -1.1% on a MoM basis in July, more than the forecasted decline of -0.3%. Declines in consumption were broad based, however, driven primarily by declines in spending in the auto sector which accounted for over 70% of the MoM decline.<sup>1</sup>
- National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index — a measure of home builder sentiment — drops to a 13-month low as prospective buyer interest fades.<sup>2</sup>
- According to RealPage, apartment rents on newly signed leases jumped 17% in July to an all-time high.<sup>1</sup>
- Surprise inventory builds in gasoline weigh on crude oil last week. West Texas Intermediate oil has declined -17.2% through last Friday to 3-month lows after reaching 3-yr highs in July.<sup>1</sup>
- The Chicago Mercantile Exchange (world's largest financial derivatives exchange) is reported to have offered to buy the Chicago Board Options Exchange (world's largest options exchange) for \$16bn.<sup>1</sup>
- Industrial production increased +0.9% in July up from +0.2% in June, primarily due to a rebound in vehicle/auto component production. Industrial capacity utilization rose to 76.1%—only 0.2% below the pre-pandemic February-2020 figure.<sup>1</sup>

## EXPECTATIONS

- Bank of America fund manager survey highlights: 84% of managers expect the Fed to taper its bond buying program this year. 65% think inflation is transitory (like us), only 4% expect higher inflation rates in 2022. Most crowded positions based on survey results: technology, ESG, short China, Bitcoin, commodities.<sup>3</sup>
- Securities and Exchange Commission (SEC) Chair Gary Gensler reinforced the regulator's warnings on investing in U.S. listed Chinese stocks, noting that China-based companies establish shell companies in other countries to avoid the Chinese government's directive on foreign ownership. The SEC ceased Chinese company IPOs at the end of July until, and if, new disclosure requirements are met.<sup>4</sup>
- The Fed minutes from the July 27-28 meetings were released last week and they indicate that "most participants" judged that "it could be appropriate to start reducing the pace of asset purchases this year" predicated on the notion that economy continued to improve as anticipated. This sets the stage for more formal guidance regarding the tapering of the current Fed asset purchases in the coming weeks, and perhaps as early as the upcoming Jackson Hole Economic Policy Symposium (Aug 26-28).<sup>5</sup>

## ONE MORE THOUGHT: <sup>6</sup> *The market's next doubling will likely take longer than usual*

The S&P 500 reached a new record high of 4,479 last Monday's, officially doubling in price and total return terms from the March 2020 pandemic lows of 2,237 (328 trading days – see **Chart of the Week**). Contributing to this runup from a sector perspective were the technology, healthcare, and financials sectors, which accounted for more than half of the S&P's gains over that period. Tech giants Facebook, Apple, Microsoft, Amazon, and Google ('FAMAG')

<sup>1</sup> Bloomberg LP

<sup>2</sup> <https://www.nahb.org/news-and-economics/housing-economics/indices/housing-market-index>

<sup>3</sup> Bloomberg LP, Bank of America Merrill Lynch Global Fund Manager Survey

<sup>4</sup> <https://markets.businessinsider.com/news/stocks/china-stocks-warning-gary-gensler-investing-risks-chinese-regulation-2021-8>,

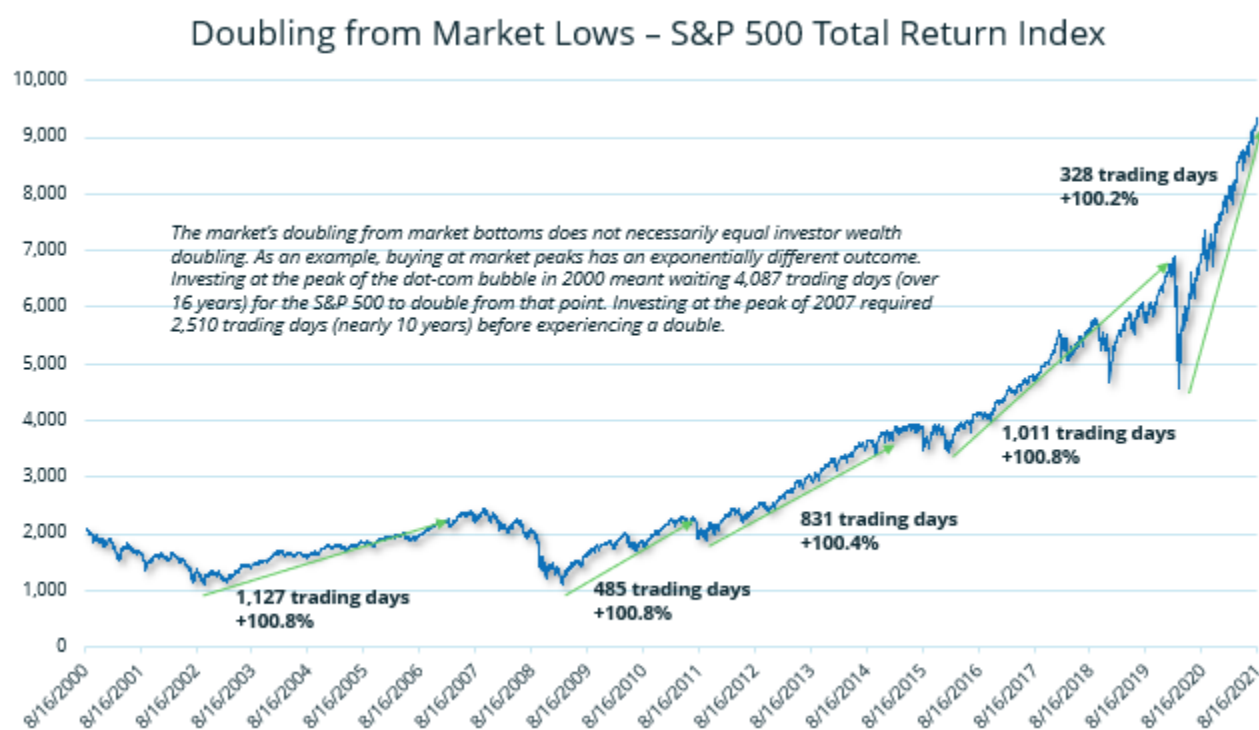
[https://markets.businessinsider.com/news/stocks/sec-china-ipo-freeze-didi-vie-regulatory-crackdown-2021-07?utm\\_source=markets&utm\\_medium=ingest](https://markets.businessinsider.com/news/stocks/sec-china-ipo-freeze-didi-vie-regulatory-crackdown-2021-07?utm_source=markets&utm_medium=ingest)

<sup>5</sup> <https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20210728.pdf>

<sup>6</sup> Bloomberg LP, Clearstead, returns data for the period 23-Mar-20 thru 16-Aug-21, 10-Yr expected return for Bonds are nominal and based on Clearstead's Capital Market Assumptions (CMA)

collectively accounted for nearly 25% of the market’s doubling over this period. Remarkably, while the S&P 500 doubled, only 56% of the companies within the S&P 500 doubled which includes all of the ‘FAMAG’ stocks with the exception of Amazon. The top performing company during this stretch was Bath and Body Works which gained +738%. Amazing run all together. To put this all into perspective, if you were to earn 1.50% per year, which happens to be the approximate 10-Yr expected return for bonds (Bloomberg Aggregate Bond Index), it would take nearly 50 years to experience a doubling. An unfortunate byproduct of the recent market experience is that equity markets have, by our estimation, effectively pulled forward future potential returns. The net result of which is a lower expected return expectation for equities for the coming 7-10 years, and a related likelihood that the S&P 500’s next doubling will likely take longer than most expect.

**CHART OF THE WEEK**



Source: Clearstead, Bloomberg LP, S&P 500 total return prices as of 16-Aug, all returns referenced are in total return terms (dividends reinvested)

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