

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by [Aneet Deshpande, CFA, Chief Investment Strategist, Senior Managing Director.](#)



OVERVIEW

Global equity markets produced positive returns during August and the S&P 500 experienced its seventh consecutive month of positive gains amidst strength in large cap growth stocks. The S&P 500 has now gone over ten months without experiencing a -5% drawdown¹. International equities were similarly positive during the month as developed international equities and emerging markets performed well, considering recent negative Chinese investor sentiment. Within fixed income, a relatively quiet month was observed with interest rates rising slightly — weighing on most bond market indexes.

DOMESTIC EQUITY As of August 31, 2021

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	1.5%	2.9%	17.0%	26.8%
S&P 500	3.0%	5.5%	21.6%	31.1%
Russell 2000	2.2%	-1.5%	15.8%	47.1%
Russell 1000 Growth	3.7%	7.2%	21.1%	28.5%
Russell 1000 Value	2.0%	2.8%	20.3%	36.4%

U.S. equities were broadly positive during August. Small caps (Russell 2000 Index) generated positive returns of 2.2% but underperformed large caps (S&P 500 Index +3.0%) by 0.8% as the investor rotation out of the small cap space resumed, albeit mildly. Since peaking on March 15 of this year, small caps have declined -3.3%, while over that same stretch large caps have risen +14.7%. In the large cap space, growth stocks (Russell 1000 Growth Index) outperformed value stocks (Russell 1000 Value Index) as investors' fears about runaway inflation dissipated along with a growing expectation of the economy reverting to a lower growth environment, like the period leading into the pandemic. With August's outperformance, growth stocks (Russell 1000 Growth Index +21.1%) now lead value stocks (Russell 1000 Value Index +20.3%) on a year-to-date basis by +0.8%.

INTERNATIONAL EQUITY As of August 31, 2021

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	1.9%	0.2%	9.4%	24.9%
MSCI EAFE	1.8%	2.5%	11.6%	26.1%
MSCI Emerging Markets	2.6%	-4.3%	2.8%	21.1%
MSCI EAFE Small Cap	2.9%	4.6%	14.1%	32.8%

International developed markets were positive during the month, but lagged U.S. markets as the U.S. dollar modestly strengthened and as U.S. markets were further bolstered by domestic technology stocks. Developed international markets (MSCI EAFE Index) ended the month +1.8% while non-US developed market small caps (MSCI EAFE Small Cap Index) gained nearly 2.9%. Emerging markets (MSCI Emerging Markets Index) gained +2.6%, in part aided by a recovery in Chinese shares. Notably, China (MSCI China Index) ended the month +0.1% after being down nearly -7.5% through mid-month while India (MSCI India Index) gained a further 8.9% as its economy rebounds from the early-Summer COVID-19 wave. Global equity markets are increasingly grappling with rising COVID-19 cases in the U.S., Europe, and parts of Asia, and facing generally decelerating growth dynamics within the U.S. and China in particular. However, monetary and fiscal policies remain accommodative across the U.S., Europe, and Japan — helping to support risk assets.

FIXED INCOME *As of August 31, 2021*

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-0.2%	0.9%	-0.7%	-0.1%
BarCap Global Aggregate	-0.4%	0.9%	-2.3%	0.5%
BarCap US High Yield	0.5%	0.9%	4.5%	10.1%
JPM Emerging Market Bond	0.9%	1.5%	0.4%	4.2%
BarCap Muni	-0.4%	0.5%	1.5%	3.4%

Fixed income markets were mixed during the month as interest rates in the U.S. rose in August, though modest increases. The 2-Yr U.S. Treasury yield rose +.02% to .21% and 10-year U.S. Treasury yield rose +.09% to 1.31%, still low levels and in contrast to the rising rate environment witnessed in the earlier part of the year — a period that saw the 10-Yr U.S. Treasury yield peak at 1.74% at the end of March¹. The dynamics in domestic bond markets seem to be suggestive of a “back to pre-COVID-19” mentality of lower inflation and slower growth. Within global fixed income markets, domestic high yield and emerging market debt markets led the way given the higher yield advantage both asset classes have versus U.S. Treasuries. Domestic high yield (Bloomberg High Yield Index) gained +0.5% while emerging market debt (JPM EM Debt Index) gained +0.9%, respectively. The rise in rates weighed on treasuries and aggregate bonds, and the U.S. Treasury index lost -0.2% and the Bloomberg Aggregate Index lost -0.2%. U.S. Investment grade and municipal bonds also suffered small declines in the month as investment grade credit spreads and municipal bonds yields rose. As a result, investment grade bonds (Bloomberg Investment Grade Index) lost -.3%, while municipal bonds (Bloomberg Municipal Index) experienced the first monthly loss since February after declining -0.4% in August.

CLOSING

The remarkable 10-month streak by the S&P 500 not having experienced a -5% decline is likely to get tested as markets enter a period of increased uncertainty. While the catalyst remains unknown, markets will be keenly observant of the path of COVID-19 variants, incoming inflation data, a looming debt ceiling vote, infrastructure spending plans, and social and tax policies currently under debate in D.C. Our expectations remain for bumpiness in markets ahead this Fall. However, a strong fundamental backdrop supported by corporate earnings growth expected to reach over +40% (2021 earnings per share growth for the S&P 500)² on a year over year basis, is likely to provide longer-term support to equities and other risk assets in the months to come.

Sources

- 1 - Morningstar Direct (7/31/2021)
- 2 - Factset Earnings Insight, as of 31-August

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