Weekly Market Commentary
August 30th, 2021

Is It Time To Play Hide and Seek?

Headlines swung squarely to Fed policy and geopolitical uncertainties last week, while swings in the stock market remained narrow, continuing August's tranquil trend in which the S&P 500 has had just one daily move of 1% or more – something that hasn't occurred since December 2019[1]. Moreover, the market's move in August is close to half of the average monthly swing during the past 10 years.

Does this suggest the market is failing to see the risks? Not necessarily. The difficult geopolitical situation, including the tragic loss of life, unfolding overseas raises political uncertainties. Commentary from various Fed officials last week opened the door to an upcoming wind-down in monetary policy stimulus. And the spreading delta variant has disrupted the economic reopening process domestically and around the world. At the same time, markets continue to be driven – appropriately so – by the broader outlook for the progressing economic and earnings expansions, which remain intact. However, these expansions won't be immune to shifts in sentiment driven by the factors mentioned above. While the market remains calm on the surface, monitoring conditions below the surface that could shape the path ahead will be important.

Equity-Market Performance

On the surface: U.S. stocks hit new all-time highs again last week, bringing the tally to more than 50 record closes so far this year. The S&P 500 has risen nearly 20% year-to-date, which ranks fifth in annual price gains over the last 20 years.

Under the surface: While the S&P 500 Index has delivered a steady rally with only two 4% pullbacks this year, the underlying composition has rotated between optimism and caution. Enthusiasm over the reopening saw market gains driven by cyclical areas, including value investments and small-cap equities. That has shifted more recently, with defensive and growth investments leading, reflecting a more "risk-off" tone that has underpinned the more moderate gains of late.

Sidebar: The stock market has maintained its ascent as the risk-on/risk-off rotation has occurred within equities. You shouldn't shift to a more defensive posture even though it feels exhausted bull market, but there will be increased market volatility ahead, particularly if concerns of the Fed taper or economic momentum spur a further defensive shift from equities into the safety of bonds. Any pullbacks would be temporary because the broader economic and corporate earnings expansions have, in our view, plenty of potential growth ahead.

Interest Rates

On the surface: Interest rates remain historically low, ticking only slightly higher last week despite growing expectations for the Fed to begin winding down its bond purchases. Yields have largely treaded water this summer, even as unemployment has fallen, GDP has risen above pre-pandemic levels, and inflation has surged amid rising wages and ongoing supply shortages.

Under the surface: Looking beyond nominal Treasury yields, high-yield bond spreads remain notably narrow, reflecting ongoing confidence in the fixed-income markets around the outlook for the credit cycle. High-yield spreads are not signaling rising concerns over the economic cycle or impending credit stress among corporations.

Sidebar: A wider aperture shows that despite 10-year interest rates have doubled from this time last year, they are still half of where they were in early-2019, meaning higher borrowing costs are not risking choking off growth. It should be noted that real 10-year yields (adjusted for inflation) remain firmly in negative territory, consistent with the view that the financial markets may be under appreciating the potential for inflation to settle back at a higher level than experienced throughout the last cycle. Expect the combination of ongoing growth, the commencement of the Fed taper, and stickier inflation to lead longer-term rates gradually higher. With the Fed not likely to hike rates for some time, think the yield curve can steepen from here, which is aligned with the view of renewed momentum in the economic recovery and our recommended overweight allocations to value and global cyclical asset classes (international small-/mid-cap equities and emerging-market equities).

Consumers and the Economy

On the surface: Consumer spending has softened under the weight of the delta variant and renewed restrictions. A swath of economic readings last week revealed some emerging spending fatigue. The July personal spending report showed a modest 0.3% increase in spending versus the prior month, notably weaker than June's pace and a deceleration from the average of 1.6% over the last six months. This aligns with last month's weaker retail sales report, raising worries over the health and durability of the economic recovery. The reduced Fed stimulus is playing a key role in the rotation toward a more defensive posture in equity performance as well as the subdued interest-rate environment chronicled above.

Under the surface: The recent decline in the consumer confidence index captures the shift in conditions being driven by the delta variant and rising inflation. Prior experiences show that this is likely to be accompanied by a deceleration in personal consumption, which comprises the lion's share of the U.S. economy. This may drive a slightly lower-than-anticipated GDP reading in the third quarter, but it should not be lost that the economy is running at a well-above-trend pace and is likely to remain there through next year.

Our take: The death of the consumer is greatly exaggerated. Personal consumption has surged this year, helped by a healing labor market and government stimulus checks. A return from stratospheric levels should be expected, but household spending is poised to grow at a healthy clip ahead. The unemployment rate will continue to fall thanks to solid job growth. Wages are rising at the strongest pace in 2 decades, and the personal savings rate was reported at 9.6% in July, adding to the $2 trillion in estimated accumulated household savings. All told, this provides a significant amount of dry powder for consumers to increase consumption, which constitutes 70% of GDP.

(source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	35,456	.96%
S&P 500 Index	4,509	1.53%
NASDAQ	15,130	2.83%
MSCI EAFE	2,339	1.30%
10-yr Treasury Yield	1.31%	4.80%
Gold	$1,818	1.96%
Bonds	$116.07	-.08%

Source: Reuters/Wall Street Journal

7 Wines Under $15 That Sommeliers Say Taste Way More Expensive

August 28th was national red wine day, and in honor of that here are some red wines that are inexpensive, but don't taste like it. Sommelier David Harlow, who is a regional manager at NZ Wine Navigator, says for wine to taste more expensive, you should look for a bottle with many different flavors or notes. "A wine that has multiple balanced flavors or notes like fruit, floral, vegetal, earthy, mineral and acidity will always taste better, more expensive and special than a simple, one-note wine," says Harlow. You can also find delicious wines that are also inexpensive if you seek out up-and-coming wine regions like some areas of Chile, Portugal, and Sicily for deals, says Nia Gordon Ruth, a sommelier and wine blogger at @TheMoreYourBordeaux. "The most important factors to the quality of wine are the way grapes are grown and the quality of the winemaking process." Here are some to consider.

A delicious organic red: **Villarini Nero d'Avola 2019,** $12.99

"Cabernet lovers will enjoy Nero D'Avola from Sicily," says Ruth, which is made with organic grapes and aromas like cherry, blackberry, and plum with notes of herb and sage.

Learn more: **Villarini Nero d'Avola 2019,** $12.99
Great with pizza: **Tinedo Tempranillo Ja! 2019,** $9.99

"Sometimes reds at a lower price point will be tragically over-oaked to mask the lack of complexity. This Tempranillo from Castilla-La Mancha is not. It's medium-bodied, fruit-forward and for the price, it's ridiculously quaffable. It makes an excellent pizza wine and it's certified organic," says Emily Rutan, sommelier at Terroni in Los Angeles.

Learn more: **Tinedo Tempranillo Ja! 2019,** $9.99
Great for when you're grilling: **Finca Torremilanos Montecastrillo Tinto 2019,** $13.99

NYC-based sommelier Remington Giannico says, "From Spain's arid vineyards that run along the Duero River, north of Madrid, the Penalba Lopez family crafts one of the best wines from organically farmed vineyards. Their cuvee Montecastrillo Tinto is 100% Tempranillo concentrated yet focused and elegant. There really couldn't be a better wine for the grill."

Learn more: **Finca Torremilanos Montecastrillo Tinto 2019,** $13.99
For a rich and complex flavor profile: **Armas de Guerra Mencia 2018,** $15

Founded in 1879, this is one of the most historic wineries in the Bierzo region of Spain. Los Angeles-based sommelier Taylor Grant says, "This wine is made from 50-year-old Mencia vines which assist in the expressive aromatics and complexity of flavor — tart red fruits, violets, and fresh herbs."

Learn more: **Armas de Guerra Mencia 2018,** $15
If you like Spanish wine: **CVNE Crianza 2017,** $13.99

This historic producer can maintain quality at scale. "Rioja's often have a Bordeaux-like quality to them and that certainly helps them appear to punch about their weight price-wise since Bordeaux is the all-father of luxury wines," says master sommelier Peter Yeung.

Learn more: **CVNE Crianza 2017,** $13.99

If you like dark fruits, berries, and pepper: **Paul Mas Claude Val Rouge 2018,** $9.99

"Another southern France location completely unsung and not well known yet is Pays d'Oc. Keep your eye out for wines by Paul Mas, a dashing winemaker, and maverick that risks convention and wins in winemaking," says Hunt.

Learn more: **Paul Mas Claude Val Rouge 2018,** $9.99
To pair with lamb, pork and bolognese: **Poggio Al Casone Casone Rosso 2013,** $10.99

Amanda Greenbaum, certified sommelier, mixologist, and author of Rad Cocktails says, "This is a killer super-Tuscan without the hefty price tag. It already has some age on it which makes it a little more mature. It's great for a consumer who wants the bang without the extra bucks."

Learn more: **Paul Mas Claude Val Rouge 2018,** $9.99
(source: marketwatch)

Market News, Corporate Earnings, and News & Notes

(source: CNBC)

Unemployment Insurance Filings Hit A Pandemic-Era Low (source: CNBC)

First-time filings for unemployment insurance hit a pandemic-era low last week, a sign that the jobs market is improving heading into the fall despite worries over the delta Covid variant.

Jobless claims for the week ended Aug. 14 totaled 348,000, the Labor Department reported Thursday. That was below the Dow Jones estimate for 365,000 and a decline of 29,000 from the previous week.

The last time claims were this low was March 14, 2020, just as the Covid-19 pandemic declaration hit and sent the U.S. economy spiraling into its deepest but briefest recession on record.

In the weeks that followed, more than 22 million Americans would be sent to the unemployment line, sending the jobless rate skyrocketing to 14.8%. The jobs market has been on a steady recovery trajectory since then but remains well off its pre-pandemic health.

Stocks were volatile following the news, with the Dow Jones Industrial Average well off its lows for the morning and down just slightly in early trading.

Continuing claims also fell, dropping to 2.82 million on a 79,000 decline from the week before. That data runs a week behind the headline claims number and represented a new low since the pandemic struck.

The total of those collecting benefits under all programs fell to 11.74 million, a decline of 311,787 for the week ended July 31 and owing mostly to a big drop in those receiving enhanced benefits, which will come to a complete close in September. A year ago, the total under all programs stood at 28.7 million.

A sizable chunk of the decline in claims came from Texas, which fell by 8,311, according to unadjusted data. Illinois also declined 3,577 and Michigan was lower by 2,188.

Overall, the drop could be good news for a jobs market that has seen nonfarm payrolls increase by 2.5 million over the past three months and the unemployment rate fall to 5.4% from 6.3% at the beginning of the year. Thursday’s data reflects the period the Labor Department uses as its survey week for the monthly nonfarm payrolls count.

There remains, however, a large jobs gap, with some 6 million fewer Americans considered employed now than before the pandemic. There also were 8.7 million workers looking for jobs in July, though that was well below the 10 million or so job openings in the U.S.

Economists see a multitude of reasons for the inability to get back to full employment. Among them are ongoing fears about the pandemic, workers pressing for higher wages, and the enhanced government benefits that have lowered the incentives for taking jobs.
Wages have been increasing in response to the current conditions, with average hourly earnings up 4% year over year in July. Before the pandemic, that would have been a record in data going back to March 2007.

A separate report Thursday showed the pace of manufacturing growth in the Philadelphia region slowed in August. The Philadelphia Fed’s manufacturing index declined to 19.4 from 21.9 the month before. The reading represents the percent difference between firms seeing expansion vs. those seeing contraction. The level was below the Dow Jones estimate of 22.

Earnings Highlights This Week

(source: CNBC)

Peloton- Peloton reported Thursday that revenue growth in its fiscal fourth-quarter tapered off dramatically. The company posted a wider-than-expected loss as costs from its treadmill recall mounted. Peloton also offered up a disappointing revenue outlook for its first quarter.

Salesforce- Salesforce shares rose 3% in extended trading Wednesday after it reported fiscal second-quarter earnings. The enterprise software maker lifted its full-year earnings projection after it closed its acquisition of Slack during the quarter. The company showed 23% revenue growth.

Dick’s Sporting Goods- Dick's Sporting Goods' sales rose 21% versus a year ago and 45% versus two years ago in the fiscal second quarter. The big-box retailer's sales have soared during the Covid pandemic, as customers have bought workout clothes, sneakers, golf clubs, and other outdoor equipment. It raised its forecast for the rest of the year.

Warby Parker- The eyeglass retailer revealed in an IPO filing that it has seen rising sales, but also widening losses over the past three years. Its net revenue rose to $393.7 million in the most-recent fiscal year, but its net loss during that time was $55.9 million.

Best Buy- Best Buy said its sales grew by 20% in the fiscal second quarter, as people permanently embrace habits like working from home and streaming TV. The retailer raised its forecast for the second half of the year, too. “There has been a dramatic and structural increase in the need for technology,” CEO Corie Barry said in a press release.

News and Notes:

Santa In September? .... Why You May Want To Shop Right Now!

One of the main issues may be a shortage of workers?

- There are 70% more job vacancies than pre-pandemic and 10% fewer people looking for work.

- "Main Street" retail stores will suffer competing against "Big Brand" retail stores with rising wages.
- Factories around the world may not have enough workers to make products let alone sell them. Delta Variant is a question mark.

Will there be enough time to get the gifts here in the U.S.?

- A surging demand to restock inventories and a series of shipping disruptions like the Suez Canal has caused major disruption.
- It takes 70 days vs. 30 days for a container to get from Beijing to Chicago - more congestion and delays for shipping goods.
- Container space is now up almost 4x in price to ship and it costs double in price now to make a new container.

Will prices go up for the holiday shopping season?

- Waiting until Black Friday may be the worst mistake you make—and your gift may not get her on time.
- Consumer electronics, furniture, apparel, and appliances will all be up 10% to 20% in price.
- From October 3 to December 26, USPS is raising prices to cover "extra costs" over the holidays Why? (More e-commerce/pandemic driven delays).

From the team at J M Brown Financial Partners
www.perfectcalendar.com

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to our distribution list, please reply to this email with their email address and we will ask for their permission to be added.
