MONTH IN REVIEW

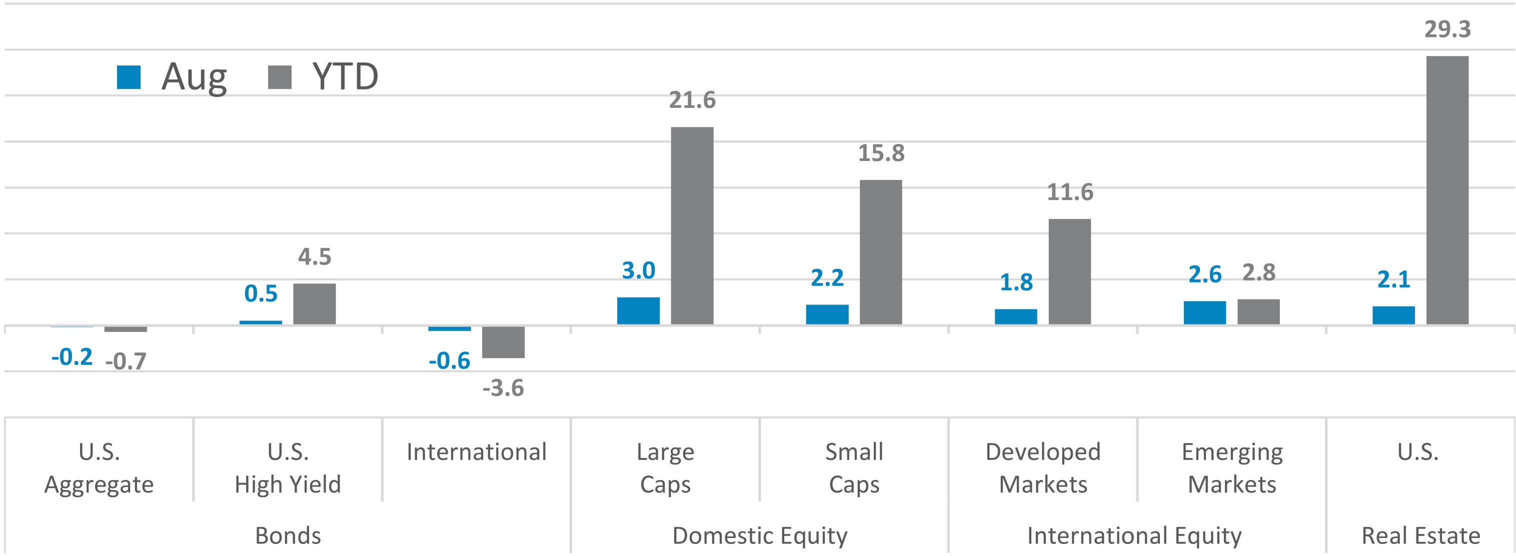
August 2021

Quick Takes

- **Steady ascent.** Despite higher COVID cases, rising geopolitical risks, mounting inflation fears, the looming Fed tapering, and waning economic growth, stocks continued their steady ascent with the S&P 500 closing August just below its all-time high.
- **Delta damage.** With Delta progressively spreading throughout the month there was a pullback in consumer activity, with notable declines in visits to Gyms, Grocery Stores, Restaurants, and Retailers. Air passenger traffic also rolled over in August after nearing pre-pandemic levels in June and July.
- **Earnings exploding.** With less than a handful of companies left to report earnings for the second quarter of 2021, data from FactSet shows the reported year-over-year growth in earnings is 91%--the highest growth since the fourth quarter of 2009.
- **Expectations eroding.** In the first two quarters of the year, economic results were consistently exceeding expectations. Since the beginning of July, and gaining downside momentum in August, a reversal of this dynamic has resulted in the vast majority of economic data now falling short of expectations.

Asset Class Performance

Returns for most major asset classes were relatively muted in August as U.S. and International Equities were up a bit, while U.S. and International Bonds declined slightly. Bonds are the only asset classes still negative for the year.



Source: Bloomberg, as of August 31, 2021. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays Global Aggregate ex USD TR), Large Caps (S&P 500 TR), Small Caps (Russell 2000 TR), Developed Markets (MSCI EAFE NR USD), Emerging Markets (MSCI EM NR USD), Real Estate (FTSE NAREIT All Equity REITS TR).

PRIME CAPITAL
WEALTH MANAGEMENT

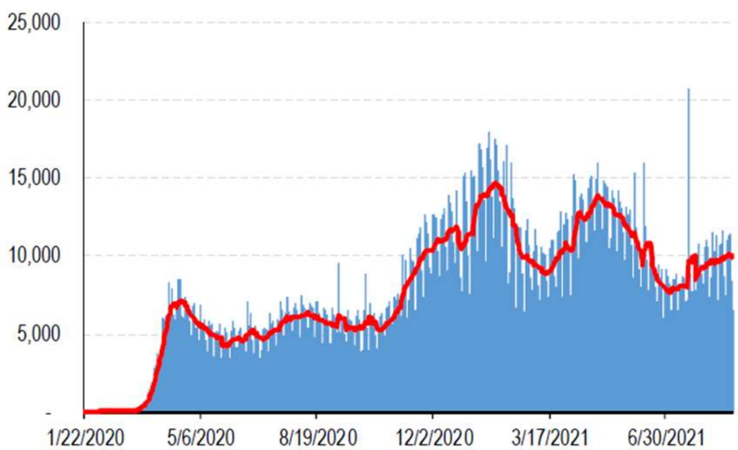
August 2021
Markets & Macroeconomics

MONTH IN REVIEW

Stocks set records despite mixed economics and delta variant

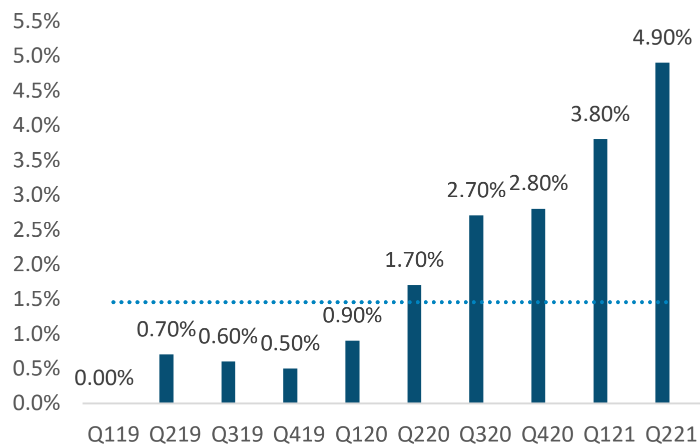
August, traditionally a tepid month for stocks, ended on a high note with the S&P 500 closing at 4,522.68, up from July's close of 4,395.26 and now the seventh consecutive month of gains. The S&P is now up a healthy +20.41% for 2021. Domestic equities weren't the only ones to rise during August, European equities rose +1.98% for the month as did Japanese equities, up +2.95% for August. While markets were optimistic, some of the economic releases for the month painted a more mixed picture. On a positive note, CPI metrics came in largely in-line with expectations, which is more consistent with the Fed's narrative of transitory inflation. Regardless, consumers are beginning to feel the pressures of rising prices and it weighted on Consumer Confidence. The University of Michigan's Sentiment survey reached its lowest level since 2013 at 70.3. Manufacturing data also retracted, with ISM's gauge of factory activity falling for a second month in a row, illustrating that supply chain bottlenecks and difficulty hiring labor, especially skilled labor, is still prevalent. Consumers have been hesitant to return to work as the delta variant spread has increased over the summer months, as illustrated in the chart below. Additionally, the fear of mask mandates and lockdowns returning has curbed consumer spending which fell to +0.3% for the month of July, missing expectations of +0.4%, and well below the prior month's release of +1.1%. The miss on Consumer Spending came from softer than expected retail goods and automobiles, but service spending increased. If consumer spending continues to soften into the second half of the year, it could lead to stagnating the economic recovery. Despite consumers pessimism, Incomes surged +1.1%, crushing expectations of +0.3%. The advance was due to Child Tax Credit payments, which more than offset a decline in unemployment benefits, which have been tapering off in recent months as the economic recovery progresses. Overall, consumers remain in one of the best financial standpoints in history. Consumers aren't alone, corporations are posting some of their strongest earnings in history. As earnings season wound down at the end of August, S&P 500 constituents posted a revenue surprise of 4.9% in aggregate, the largest surprise percentage since FactSet began tracking the metric in 2008 and well above the five-year average of 1.46% (dotted line in the chart above). The unprecedented amount of stimulus distributed by the Fed and Congress has been a significant boon to corporations' top lines. The Q2 sales growth has helped justify stretched valuations, JPMorgan Asset Management reported S&P 500 YTD earnings growth of 19.7% and multiples have compressed down -5.3%. Despite this compression, P/E ratios remain elevated at 21.5x, versus their 5-year average of 16.3x on the S&P 500.

Global Covid Cases & Deaths (Daily & 7-day avg.)
Number of people, as of 08/29/2021



Source: Johns Hopkins, Worldometer, and J.P. Morgan estimates.

Revenues Surprise
S&P 500: Revenue Surprise %



Source: FactSet

<u>Bottom Line</u>: Equities continue to grind higher despite lofty valuations, temporary setbacks in the economic recovery due to supply chain constraints and labor shortages, the spread of the delta variant, and hesitant consumers. If trends begin to develop in any of these risks, it may stagnant the economic recovery.

Inflation, variants, and labor markets headwinds for path ahead

Markets were given a second wind at the end of August with Fed President Powell soothing traders with his remarks after the Jackson Hole Symposium. He calmed fears of a repeat of 2013's Taper Tantrum when the Fed surprised markets by raising interest rates. Powell reiterated the Fed's commitment to gently winding down asset purchases at the end of the year, but not to raise interest rates anytime soon. Risk assets were able to breathe a sigh of relief and continue their grind higher after Powell's comments, but traders will now shift their focus to inflation and labor markets. If inflation continues to rise and show signs of being sticky rather than transitory, this could cause traders to pursue a risk-off mode and seek haven assets. Similarly, if labor markets are unable to show, what Powell has termed "substantial recovery" the Fed may be forced to continue its easy policy flooding markets with excess liquidity, and further increase upward inflationary pressures. The Fed is in a precarious position, shutting off the stimulus taps too soon could be detrimental to not only the United State's economic recovery, but also to the global recovery, but juicing the markets with excess stimulus for too long may also overheat the economy to a dangerous level. CPI metrics in August gave the Fed's narrative some wind as the month-over-month percentage change fell from the pervious month's +0.9% to +0.5%. As illustrated by the chart in the bottom left corner, YoY inflation levels remain near record highs. Market participants will continue to keep a close eye on inflation metrics and continue to dig into the index to see where increases are coming from. If inflation begins to show signs of being more permanent, it could negatively impact consumers at the lower income levels, still reeling from the impacts of the economic shutdowns, and possibly derail the economic recovery, and take with it the equity bull market. The Fed has been insistent that elevated inflation is a transitory event and will abate once supply chain bottlenecks sort themselves out and workers return to labor markets. JOLTS reported an all time high for available jobs in the US market, rising to 10.1 million. The swift return of demand for travel and entertainment industries has left employers scrambling to hire workers. Competition amongst hiring firms for workers returning to the labor markets remains fierce, but also for those workers already working. The JOLTS report also highlighted that the quits rate rose to 2.7%. This scurry for labor is adding upward pressure to wages, which may have a lasting effect on inflation. Despite the increase in wages, workers are still hesitant to return to work, siting ongoing child-care obligations, health concerns over the spread of the delta variant, and enhanced unemployment benefits.

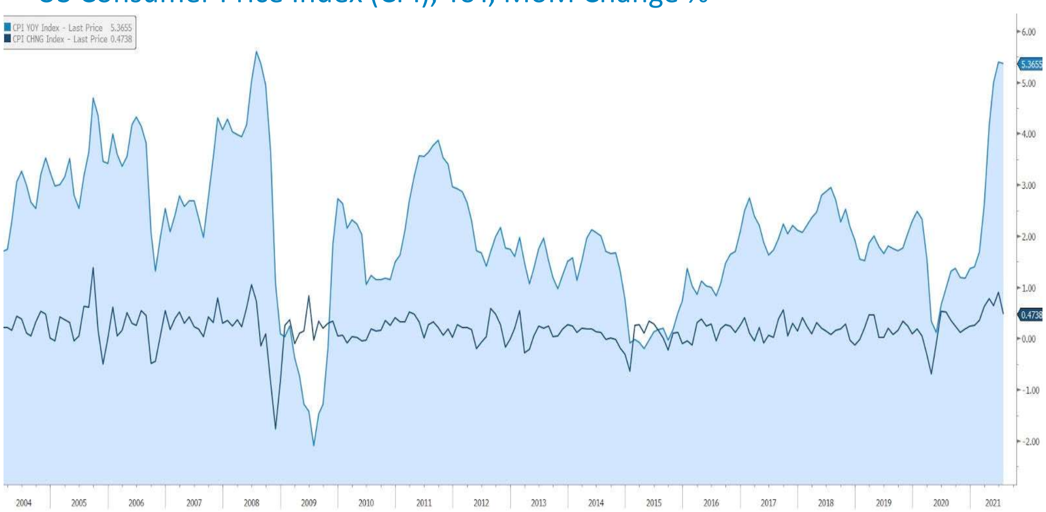
Job Openings Hit Record High

U.S. Job Openings Total (In 1,000's)

Source: Bureau of Labor Statistics, Bloomberg.

Elevated Inflation Turns Over. Is it a fluke or the start of a trend?

US Consumer Price Index (CPI), YoY, MoM Change %



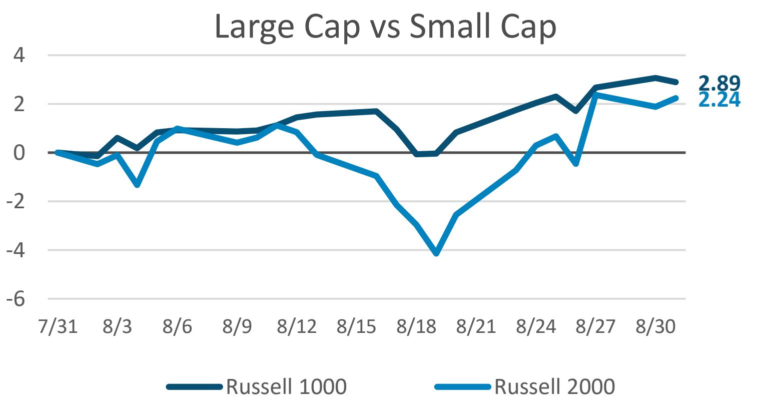
Source: Bloomberg

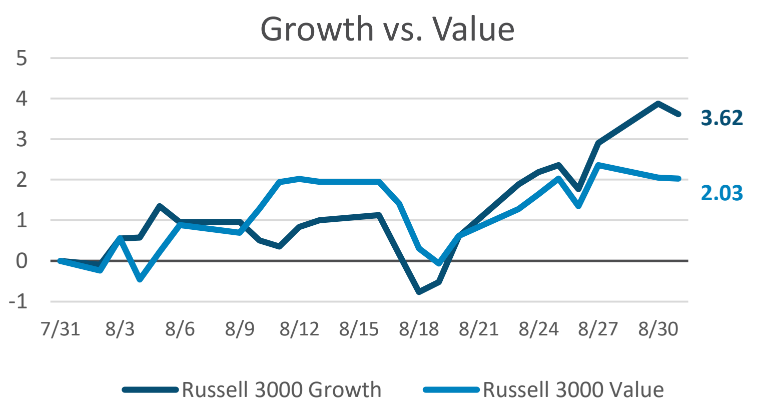
<u>Bottom Line</u>: Market participants will closely monitor inflation, employment, and the spread of the delta variant (or rise of new variants) for signs of the economic recovery stagnating or the Fed's actions not aligning with their recent commentary.

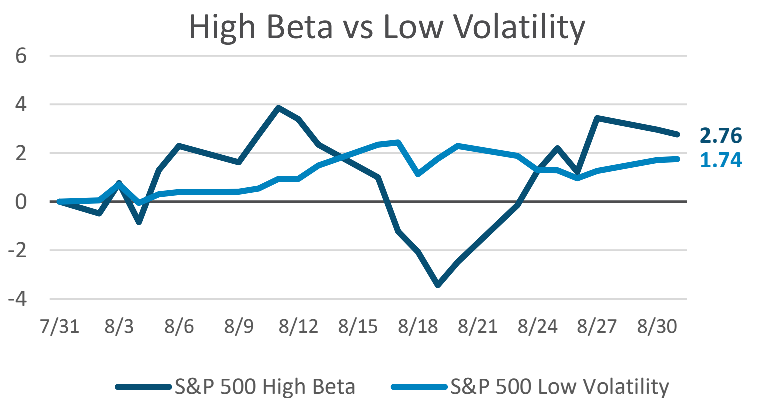
August 2021
Equity Themes

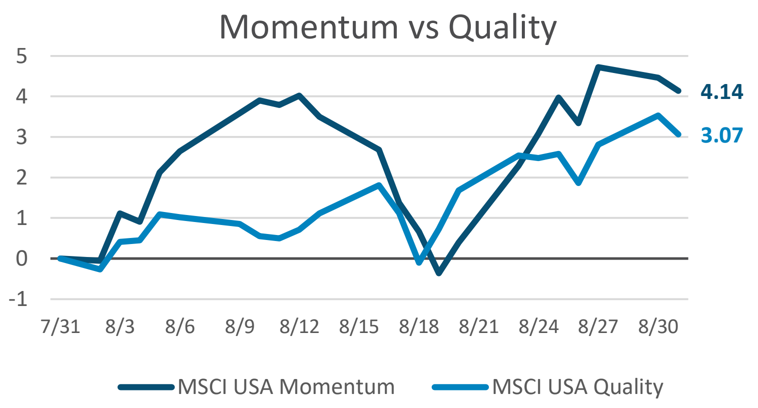
What Worked, What Didn't

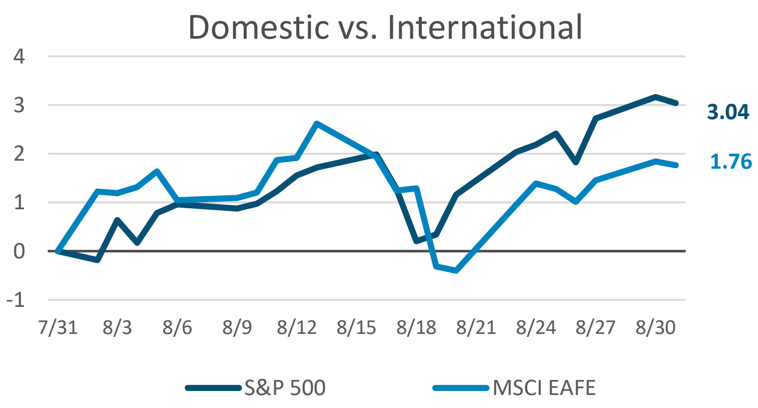
- **Growth and Momentum.** Momentum and Growth were the top equity styles in August, advancing +4.1% and +3.6% respectively. It was the third straight monthly gain for both groups, but while Growth has outperformed Value the past three months, August was the first month since April that it has outperformed Quality.
- **Everybody's a winner.** All equity styles were positive in August despite all suffering a mid-month pullback. Small Caps, High Beta, and Emerging Markets were all down about -4% before rallying in the second half of August.
- **Eight is enough?** The S&P 500 has posted positive returns for seven straight months now and has made 53 all-time highs in 2021 through August, a pace that if sustained will surpass 1995's record total of 77 all-time highs.

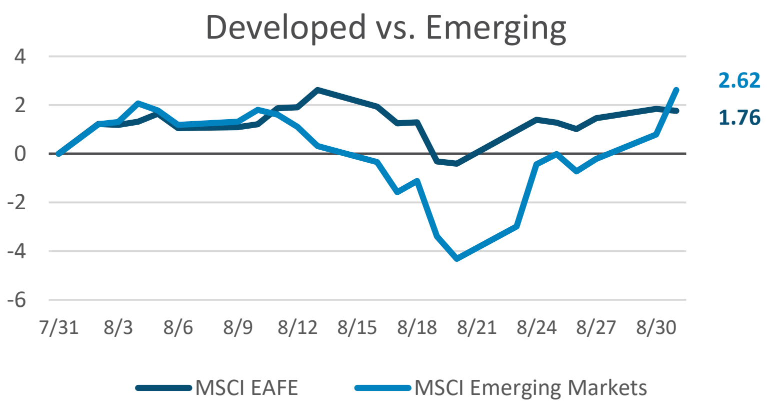












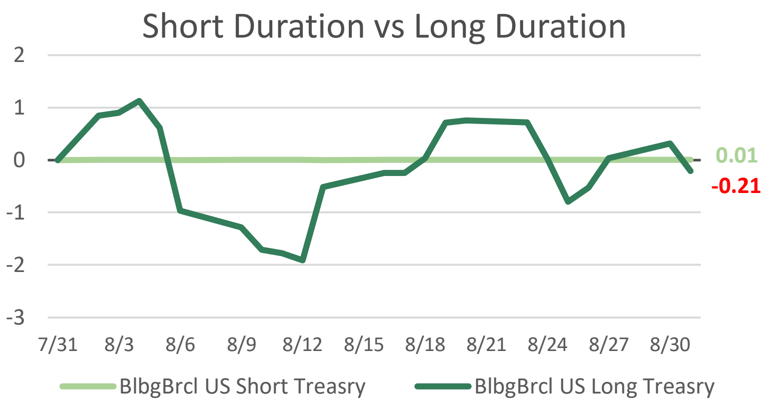
Source: Bloomberg.

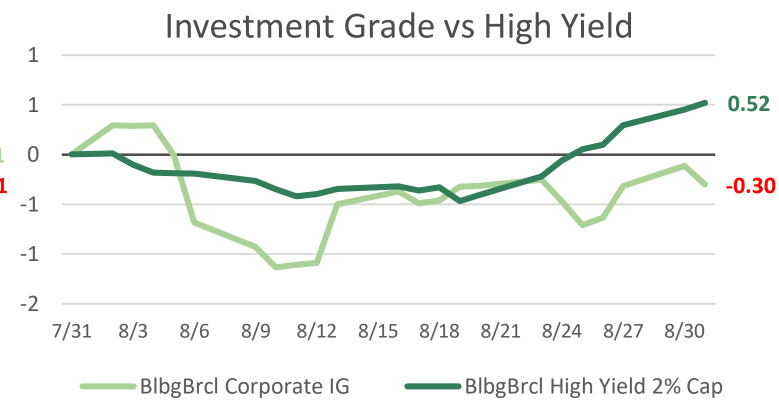
August 2021
Bond Themes

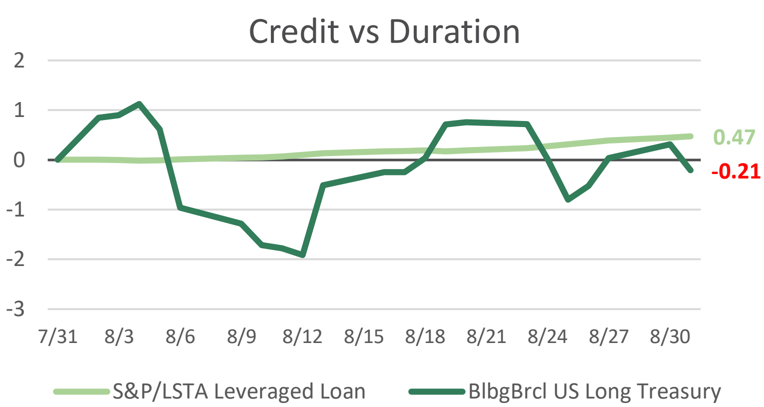
MONTH IN REVIEW

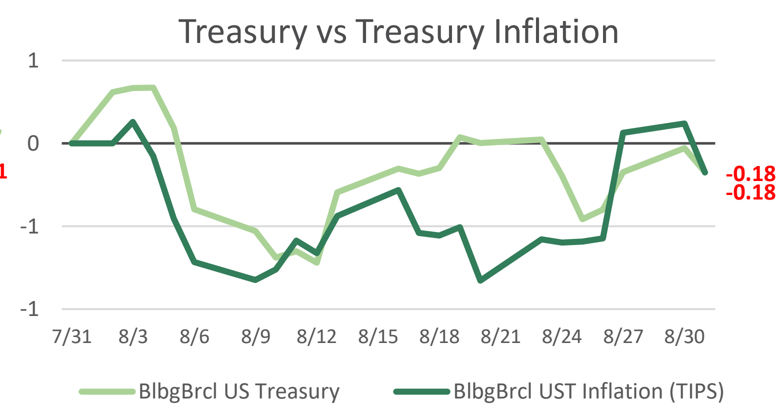
What Worked, What Didn't

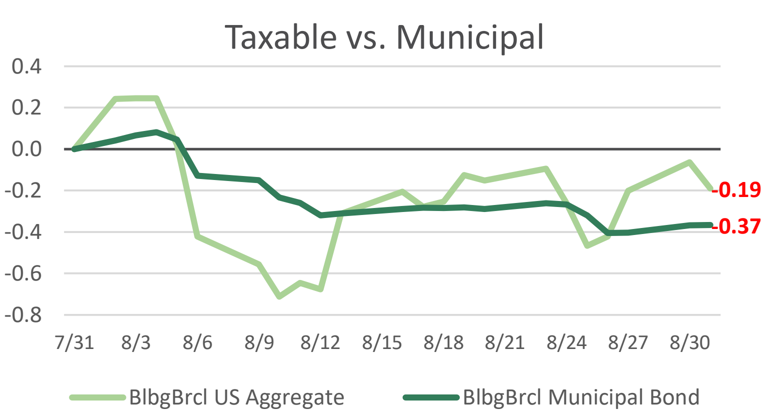
- **Bonds behaving badly.** Other than the credit-oriented sectors of High Yield and Leveraged Loans, most bond sectors ended August in the red. Loses were muted with most sectors down just -0.2% to -0.4%. International bonds were the worst performing, dropping -0.6% for the month.
- **High Yield beats back Investment Grade.** After trailing Investment Grade bonds for the last three months, High Yield bonds outperformed by 80 basis points in August and have been positive for 11 consecutive months now.
- **Municipals slip.** Muni bonds had been positive for 5 straight months before slipping -0.4% in August and trailing their taxable counterparts for the month. But for 2021 Munis are up +1.5% and taxable are down -0.7%.

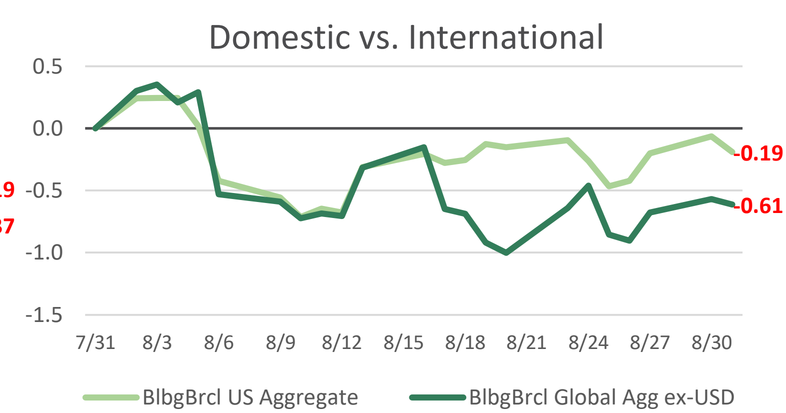












Source: Bloomberg.

August 2021
Asset Class Performance

MONTH IN REVIEW

The Importance of Diversification. From period to period there is no certainty what investment will be the best, or worst, performer. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as less portfolio volatility, improved risk-adjusted returns, and more effective compounding.

	Aug-02	Aug-03	Aug-04	Aug-05	Aug-06	Aug-09	Aug-10	Aug-11	Aug-12	Aug-13	Aug-16	Aug-17	Aug-18	Aug-19	Aug-20	Aug-23	Aug-24	Aug-25	Aug-26	Aug-27	Aug-30	Aug-31	Aug
High	EM 0.72	LCV 0.83	EM 0.52	SCG 1.84	SCV 1.16	EM 0.33	SCV 0.77	MCV 0.88	LCG 0.52	IBD 0.66	LCG 0.22	RE 0.01	EM 0.16	RE 0.55	SCG 1.78	SCG 2.23	EM 2.27	MCG 0.77	USB 0.01	SCG 2.86	RE 1.04	EM 1.37	LCG 3.65
	IEQ 0.50	SCV 0.83	MCG 0.13	SCV 1.76	LCV 0.67	MCG 0.08	LCV 0.59	SCV 0.80	MCG 0.40	IEQ 0.61	USB 0.05	USB -0.08	IBD 0.04	LCG 0.32	SCV 1.66	EM 1.52	SCG 1.11	MCV 0.63	HYB -0.06	SCV 2.69	LCG 1.04	RE 0.47	MCG 3.28
	IBD 0.25	MCV 0.73	LCG 0.08	RE 1.01	MCV 0.59	LCG 0.00	MCV 0.54	IEQ 0.68	RE 0.39	RE 0.57	HYB 0.03	HYB -0.23	USB 0.01	USB 0.17	LCG 1.06	SCV 1.43	MCG 1.09	SCV 0.53	RE -0.12	MCG 1.31	MCG 0.25	SCV 0.21	SCV 2.53
	USB 0.21	IEQ 0.71	USB -0.01	MCV 0.83	SCG -0.04	IEQ -0.05	IEQ 0.22	LCV 0.62	HYB 0.17	USB 0.36	LCV 0.02	LCV -0.49	HYB -0.23	HYB -0.01	MCG 1.04	MCG 1.28	SCV 0.88	LCV 0.37	IBD -0.36	MCV 1.28	EM 0.21	SCG 0.21	MCV 2.14
	60/40 0.13	LCG 0.66	IBD -0.14	MCG 0.75	HYB -0.11	IBD -0.08	EM 0.13	RE 0.57	LCV 0.11	60/40 0.24	RE -0.13	60/40 -0.63	IEQ -0.39	MCG -0.02	MCV 0.79	LCG 1.28	MCV 0.69	SCG 0.35	60/40 -0.40	EM 1.24	IBD 0.16	MCV 0.09	LCV 1.95
	MCG -0.04	MCG 0.55	HYB -0.18	LCG 0.68	RE -0.24	60/40 -0.12	60/40 -0.01	60/40 0.29	USB 0.01	LCG 0.23	IBD -0.14	IBD -0.63	60/40 -0.40	IBD -0.29	LCV 0.60	IEQ 0.93	LCV 0.31	LCG 0.16	IEQ -0.52	LCG 0.98	60/40 0.14	HYB 0.02	RE 1.94
	LCG -0.14	EM 0.42	60/40 -0.22	LCV 0.59	60/40 -0.27	USB -0.18	IBD -0.11	EM 0.27	60/40 0.00	HYB 0.22	60/40 -0.19	MCG -0.90	SCG -0.70	LCV -0.31	RE 0.51	MCV 0.81	60/40 0.31	EM 0.12	MCG -0.54	RE 0.97	HYB 0.13	60/40 0.01	SCG 1.85
	RE -0.22	60/40 0.40	IEQ -0.30	IEQ 0.49	IEQ -0.37	LCV -0.19	USB -0.13	HYB 0.16	IEQ -0.09	LCV 0.01	MCV -0.20	LCG -0.93	MCG -0.71	60/40 -0.31	60/40 0.41	60/40 0.65	LCG 0.22	HYB 0.10	LCG -0.58	IEQ 0.91	USB 0.11	LCV -0.05	EM 1.57
	SCG -0.23	RE 0.20	RE -0.39	60/40 0.31	LCG -0.38	HYB -0.23	HYB -0.23	USB 0.10	MCV -0.13	MCV -0.10	MCG -0.42	IEQ -0.94	LCG -0.92	MCV -0.52	IEQ 0.39	LCV 0.61	IEQ 0.21	60/40 0.09	LCV -0.61	LCV 0.86	IEQ -0.02	IEQ -0.05	IEQ 1.45
	HYB -0.25	HYB 0.11	SCG -0.57	HYB 0.23	USB -0.45	SCG -0.29	SCG -0.31	IBD 0.06	IBD -0.17	MCG -0.10	IEQ -0.52	MCV -1.01	MCV -0.95	IEQ -0.99	HYB 0.24	IBD 0.33	HYB 0.14	IEQ 0.04	MCV -0.81	60/40 0.80	SCG -0.26	USB -0.15	60/40 1.21
	LCV -0.25	USB 0.03	LCV -0.98	IBD -0.11	MCG -0.64	MCV -0.30	LCG -0.44	SCG 0.00	SCG -0.19	EM -0.25	SCV -0.72	SCV -1.05	RE -0.97	SCV -1.15	IBD 0.19	HYB 0.31	IBD 0.00	RE -0.01	EM -0.95	IBD 0.44	LCV -0.26	IBD -0.20	HYB 0.61
	MCV -0.26	IBD 0.03	MCV -1.05	EM -0.15	EM -0.84	RE -0.54	MCG -0.47	MCG -0.14	SCV -0.26	SCV -0.72	EM -0.91	SCG -1.36	SCV -1.03	SCG -1.24	USB 0.01	USB 0.00	USB -0.15	IBD -0.06	SCG -1.00	USB 0.28	MCV -0.36	LCG -0.28	USB -0.20
Low	SCV -0.74	SCG 0.00	SCV -1.92	USB -0.22	IBD -0.87	SCV -0.71	RE -1.00	LCG -0.15	EM -0.88	SCG -1.13	SCG -1.09	EM -1.83	LCV -1.10	EM -1.71	EM -0.08	RE -0.22	RE -0.45	USB -0.19	SCV -1.14	HYB 0.27	SCV -0.63	MCG -0.40	IBD -0.99

Legend

60/40 Allocation (60/40)	Large Growth (LCG)	Mid Growth (MCG)	Small Growth (SCG)	Intl Equity (IEQ)	U.S. Bonds (USB)	Intl Bonds (IBD)
	Large Value (LCV)	Mid Value (MCV)	Small Value (SCV)	Emg Markets (EM)	High Yield Bond (HYB)	Real Estate (RE)

Source: Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees for and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by the Prime Capital Investment Advisors. The performance of those funds June be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx $ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as "Allocation" is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate.