WEEKLY UPDATE

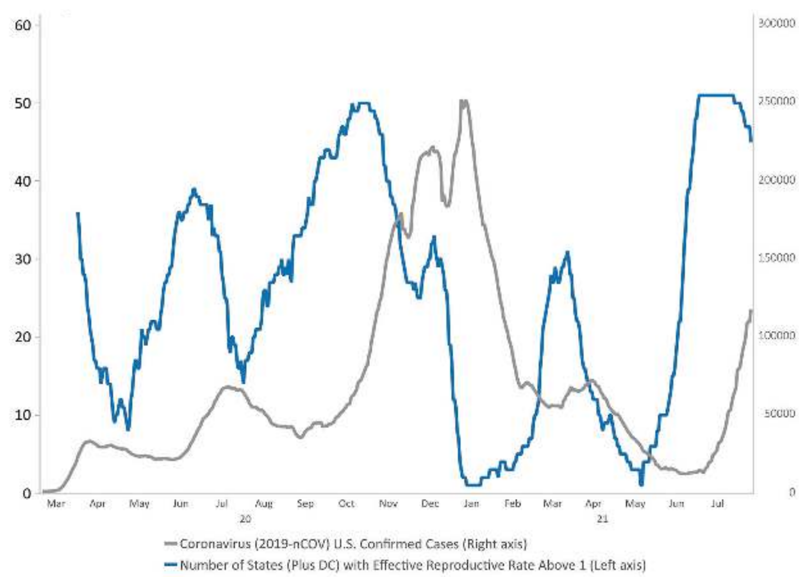
CARY STREET PARTNERS

AUGUST 16, 2021

MARKET UPDATE AND COMMENTS

Equities continued to grind higher last week. The S&P 500 Index picked up .75%[1] on the week. Within the market, cyclicals began to respond to their summer consolidation with better relative performance. That group picked up the slack from technology, at least for the week. We view the trigger for this back and forth rotational leadership to be the 10-year Treasury yield. This is the key data point for the year so far. A rising 10-year yield, such as we had the first three or four months of 2021, plays very much to the advantage of short-duration equities — stocks with immediate earnings impact from strengthening GDP growth, as well as groups such as financials that benefit directly from a steeper yield curve. We reference these companies broadly as "cyclicals." On the otherhand, long-duration equities are dominated by technology — companies with very bright, long-term earnings potential that are secular growers, not as dependent on robust GDP in any given period. These were the darlings of the first three quarters of 2020, during the depth of the pandemic. The short summary as to why the 10-year Treasury yield is such a trigger between the two groups: a falling 10-year yield is typically an indicator of weakening economic growth, or at least fear of weakening economic growth; a rising 10-year yield is typically indicative of strengthening economic growth, and reflation. Investors should maintain diversified exposure to both groups, noting the favorable dynamic for cyclicals has historically played out beyond what has taken place so far.

Case growth will moderate soon



Source: Renaissance Macro Research, Macrobond

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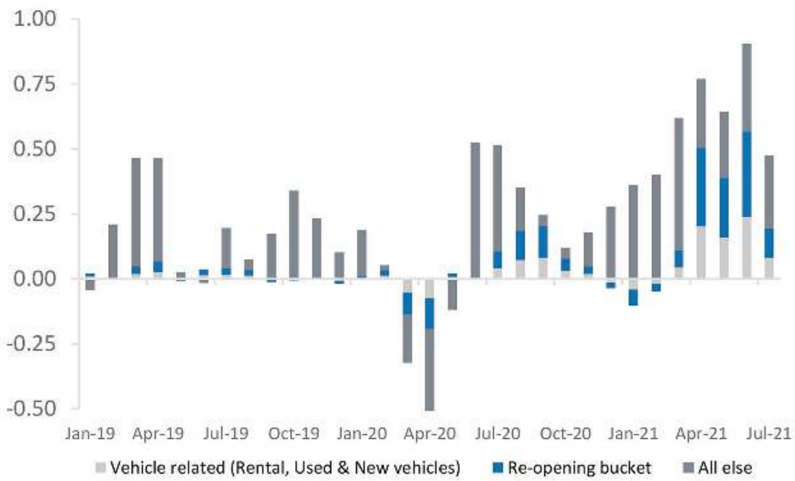
WEEKLY BENCHMARKS

GROUP/INVESTMENT	YTD Return (Cumulative) 8.13.2021
US EQUITY RETURNS	
SPDR® S&P 500 ETF TRUST	19.94
ISHARES DOW JONES US ETF	19.31
ISHARES RUSSELL 1000 ETF	19.07
ISHARES RUSSELL 1000 VALUE ETF	20.22
ISHARES RUSSELL 1000 GROWTH ETF	17.91
ISHARES RUSSELL 2000 ETF	13.09
GLOBAL EQUITY RETURNS	
ISHARES MSCI ACWI EX US ETF	9.11
ISHARES MSCI ACWI ETF	14.88
US FIXED INCOME RETURNS	
ISHARES SHORT TREASURY BOND ETF	-0.04
ISHARES CORE US AGGREGATE BOND ETF	-0.84
ISHARES TIPS BOND ETF	3.70
ISHARES IBOXX $ INVMT GRADE CORP BD ETF	-0.80
ISHARES IBOXX $ HIGH YIELD CORP BD ETF	2.74
ISHARES MBS ETF	-0.42
GLOBAL FIXED INCOME BENCHMARKS	
ISHARES CORE GLOBAL AGGT BD ETF USD DIST	-2.33
US FIXED INCOME MUNI RETURNS	
ISHARES NATIONAL MUNI BOND ETF	1.21
REAL ASSETS	
ISHARES GOLD TRUST	-6.34
SPDR® DOW JONES GLOBAL REAL ESTATE ETF	22.61

Source: Morningstar

Reopening price push broadly continues*

Consumer Price Index (contribution to MoM CPI, ppt)



* Reopening: public transportation, other recreation services, other lodging away from home (hotels/motels), food away from home

Source: Renaissance Macro Research, Haver Analytics

Recently, the 10-year yield responded to the upside following extremes to the downside seen two weeks ago. Prior to last Friday the 10 was trading at approximately 1.37%.[1] Following weak consumer sentiment readings on Friday, numbers not seen since 2011, the 10-year yield dropped to close the week at 1.30%.[1] The COVID surge is creating some degree of economic slowing, and to a large degree, fear of slowing. The Delta variant could peak around the September timeframe, and vaccinations in states with high numbers of COVID cases are picking up — the long term positive.

ECONOMIC NEWS

The primary economic news last week was around inflation. July CPI inflation data came in about as expected on Wednesday. Headline CPI rose .5% or 5.4% year over year. The number two Fed benchmark, core CPI, rose .3%, .2% short of consensus. That pace is consistent with core CPI growth of 4% annualized — above Federal Reserve forecasts and the Fed target of 2%. Most important within the numbers: rent is just starting to pick up. This is the stickiest and largest portion (about a third) of inflation data. This component is understated so far. Private sector data on rent has been a lot stronger than CPI, indicating an accelerating pace. The likelihood of rents accelerating given the labor and wage backdrop is high. The summary takeaway: inflation is easing somewhat, but not consistent with the Fed's outlook. Estimates will need to go up. Rents have normalized quickly, and its early in the cycle (more pressure to come). Our outlook remains for a higher structural inflation dynamic, not necessarily runaway numbers, but living in the 2 to 4% range (hopefully more like the 2 to 3% range) going forward.

[1] MarketWatch

Past performance is no guarantee of future results.

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