WEEKLY UPDATE

CARY STREET PARTNERS

AUGUST 2, 2021

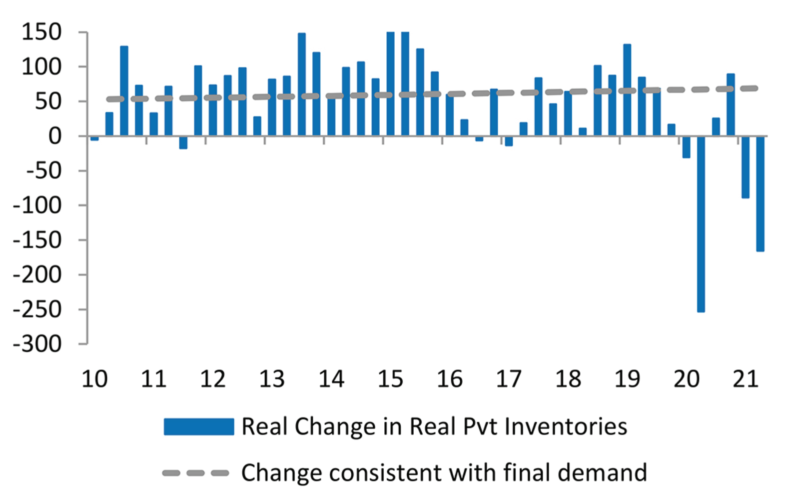
MARKET UPDATE AND COMMENTS

Stocks closed out July last week, turning in a small weekly loss for the S&P 500 Index. For the full month the S&P was up 2.38%[1], continuing a string of monthly gains stretching back six months. Markets largely consolidated prior-week gains last week, although the underlying names participated in a more meaningful way to the upside. The small-cap Russell 2000 was up another .76%[1] last week, following a strong preceding week. Sentiment remains anything but complacent, a contrarian positive, as investors remain concerned about the COVID Delta variant. Markets have climbed over the last six months despite the underlying skittishness. Good markets climb a wall of worry. And while we are certainly frustrated with the vaccination response in the U.S., there is not a lot of evidence this is impacting the economy or corporate earnings. Globally, the news on COVID has improved as other advanced economies, especially in Europe, are catching up and passing the U.S. on vaccinations. Data in the U.S. reflects increased vaccination activity in the areas seeing the greatest COVID surge. Some estimates have the Delta surge peaking in the U.S. around September 1st.

Lots of expectations have been met in terms of corporate earnings at this point. As reality converges with expectations, the trajectory of stocks typically moderates. This year has been hallmarked by a more challenging rotational environment, the first few months characterized by the reflation and duration beneficiaries (cyclicals) leading higher, followed by recent leadership in the form of technology. Continued rotation would not be a surprising development going forward. The vital equity support of credit remains robust. Credit markets provide early signals, in the form of widening spreads, to larger problems in equities, something larger than frequent and typical pullbacks. Credit markets are wide open.

Inventories have a lot of room to lift growth

(Billions $)



Source: Renaissance Macro Research, Haver Analytics

WEEKLY BENCHMARKS

GROUP/INVESTMENT	YTD Return (Cumulative) 7.30.2021
US EQUITY RETURNS	
SPDR® S&P 500 ETF TRUST	17.92
ISHARES DOW JONES US ETF	17.46
ISHARES RUSSELL 1000 ETF	17.24
ISHARES RUSSELL 1000 VALUE ETF	17.85
ISHARES RUSSELL 1000 GROWTH ETF	16.60
ISHARES RUSSELL 2000 ETF	13.20
GLOBAL EQUITY RETURNS	
ISHARES MSCI ACWI EX US ETF	7.23
ISHARES MSCI ACWI ETF	13.00
US FIXED INCOME RETURNS	
ISHARES SHORT TREASURY BOND ETF	-0.04
ISHARES CORE US AGGREGATE BOND ETF	-0.54
ISHARES TIPS BOND ETF	4.13
ISHARES IBOXX $ INVMT GRADE CORP BD ETF	-0.21
ISHARES IBOXX $ HIGH YIELD CORP BD ETF	3.08
ISHARES MBS ETF	-0.26
GLOBAL FIXED INCOME BENCHMARKS	
ISHARES CORE GLOBAL AGGT BD ETF USD DIST	-2.03
US FIXED INCOME MUNI RETURNS	
ISHARES NATIONAL MUNI BOND ETF	1.53
REAL ASSETS	
ISHARES GOLD TRUST	-3.59
SPDR® DOW JONES GLOBAL REAL ESTATE ETF	22.14

Source: Morningstar

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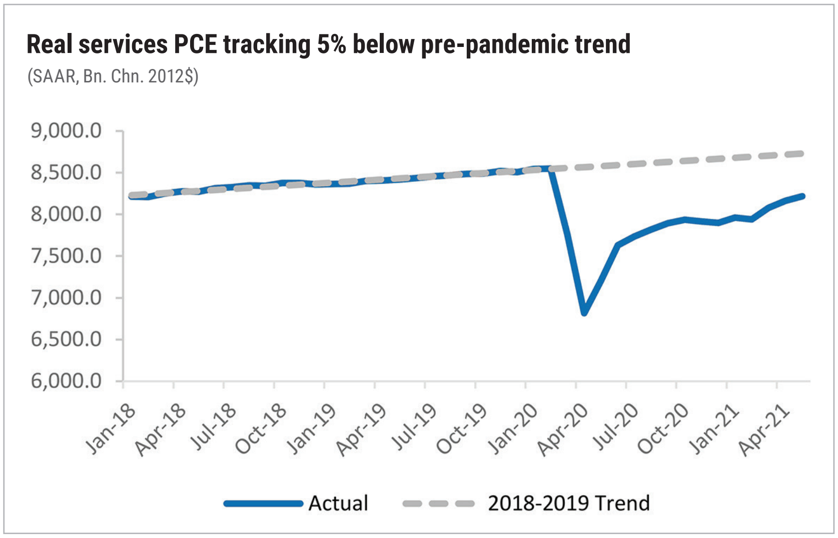

Source: Haver Analytics, Renaissance Macro Research

ECONOMIC NEWS

There was lots of economic news last week. Initial Q2 GDP data was released Thursday, indicating the economy grew 6.5%[1] on an annualized basis for the quarter. This came in below consensus expectations of 8.5% but was heavily influenced by inventory drawdown. Inventories rebuilt in Q4 of last year, close to the point of meeting final demand. Over both Q1 and Q2 of this year they have drawn down again. In Q2, inventory drawdown took about 1.1% out of GDP, accounting for a large portion of the miss. As inventories rebuild again to catch up to final demand, there will be a positive influence on growth in the second half of the year. Factories are going to remain very busy. Consumption data in last week's release was very strong, with plenty of room to increase.

On Friday, monthly inflation data in the form of the PCE (Personal Consumption Expenditures) was released. Core PCE is one of two Fed benchmarks, and the preferred benchmark over core CPI. June core PCE was up year over year 3.5%[1], slightly below estimates of 3.6%. While strengthening the hand of the transitory-inflation crowd somewhat, inflation data still solidly falls into the higher regime outlook that we hold. In summary, the last ten years have witnessed inflation running between zero and 2%; the new regime is 2% or higher. An outcome of a 2% to 3% range would not be a surprise — a higher structural range.

[1] MarketWatch