July 2021 Recap:

- **US equities were mostly higher in July with the S&P up for a sixth straight month**. The path of least resistance remained to the upside with a largely intact bullish narrative surrounding easy financial conditions, central bank liquidity tailwind, excess savings from fiscal stimulus, reopening momentum, vaccine efficacy, upside earnings surprises, elevated operating leverage, corporate buyback boom and retail impulse. The longstanding buy-the-dip (BTD) and there-is-no-alternative (TINA) mantras also remained in focus.
- The **reflation trade remained under scrutiny in July** with several different dynamics in focus, including traction behind the peak growth, peak inflation themes and peak policy themes, the spread of the Delta variant of Covid-19, and thoughts (coming out of the June FOMC meeting) that the Fed may not be as willing to let the economy run as hot as initially envisaged under its policy framework shift to flexible average inflation targeting (FAIT).
- **Growth outperformed value by ~300 bp** in July after a more than 700 bp outperformance in Q2 that reversed a good chunk of the reopening trade's outperformance in Q1. Megacap names like AAPL +6.5% and MSFT +5.2% boosted **tech**. GOOGL +10.4% was the standout in **communications services**. Defensive sectors were the best performers with **utilities** and **REITs** up over 4%. **Healthcare** also gained more than 4% with distributors, med-tech and hospitals among the notable gainers.
- **Energy** snapped a big eight-month winning streak in July. **Financials** was the only other sector to finish down as banks were hit by the move in rates and an unwillingness to reward credit-driven earnings beats. **Consumer discretionary** lagged with weakness in AMZN (3.3%) and the bulk of the reopening names (dept. stores, cruise ships, casual dining, casinos). Upside in the **industrials** sector was capped by weakness in the transports. **Materials** only slightly lagged the tape thanks to the strength in industrial metals.
- One of the highlights of the reflation trade unwind was the **rally in Treasuries**, which saw 10-year yields decline (for a fourth straight month) more than 20 bp to 1.23%. There seemed to be a lot of confusion surrounding the magnitude of the move (JPMorgan said in early July when 10s were at~1.30% that yields were three standard deviations below fair value) though bearish positioning and technical dynamics (including QE and the TGA rundown) received attention.
- The **spread of the Delta variant of Covid-19**dominated the headlines as the month progressed with US cases over 100K a day at the end of July for the first time since February. However, **economists and strategists were fairly sanguine about the recovery and market risks** given vaccine efficacy, high vaccination rates in the most vulnerable populations, higher natural immunity, reluctance to impose new restrictions, and broader fatigue surrounding social distancing and other behavioral changes.
- Thoughts that concerns about the Delta variant and the rally in Treasuries were overdone played into the narrative from some firms that the **reflation trade unwind had gone too far**. There was also some discussion about how inflation, reflation, and reopening ae likely to remain in focus as global economies recover from the pandemic. In addition, JPMorgan pointed out that many reopening stocks are trading below June 2020 levels, a time before vaccine breakthroughs and only a few months into the pandemic.
- The Fed said in its July policy statement that **progress is being made toward tapering**. However, Fed Chair Powell also stressed that the **labor market has a "ways to go" before hitting full employment**, reiterating the **high bar for liftoff**. In addition, he did not sound

concerned about inflation and highlighted the extent to which supply chain and input price pressures can be traced to reopening dynamics.

- Fed tapering continued to fit into the **peak policy theme** while the RBNZ wrapped up its asset purchase program, the BOC further tapered its asset purchase pace and the Bank of Korea hinted at an August tightening. However, the ECB strengthened its forward guidance, China surprised with a RRR cut and record low real yields late in the month fit with thoughts about the **difficulties central banks will face in trying to meaningfully unwind extraordinary support measures**.
- The **Senate voted in late July to advance debate on a ~$1T bipartisan infrastructure package** that features ~$550B of new spending on transportation, power, water and broadband. However, the **path to additional fiscal stimulus remains complicated by a separate reconciliation bill** focused on Democratic priorities that **includes higher corporate and capital gains tax rates** (which are more important for the market than spending).
- **Q2 earnings reported in July were strong** with the blended growth rate for the S&P 500 at ~85% (with ~60% of the index having reported), on track for the best performance since Q4 2009. Earnings and revenue beat rates were both running at 88% at the end of the month, representing record levels. In aggregate, companies were reporting earnings 17.2% ahead of consensus, the fourth-highest on record, and revenues 4.5% ahead of consensus, the highest on record.
- Companies from a wide range of industries highlighted a **strong demand backdrop on** their conference calls in July. Top-line strength kept the focus on **elevated operating leverage** though **supply constraints, input price pressures and labor shortages** also dominated the narrative and are expected to persist in 2H. A pickup in labor-related mentions was flagged as potential risk for margins while dampened revision momentum also played into the **peak earnings theme**.
- Companies in **epicenter industries** continued to highlight reopening momentum. Some **pandemic winners** came played into concerns about peak growth. However, **big tech** is still expected to benefit from its secular growth and disruption leverage. **Margin pressures** were a particular area of scrutiny for consumer staples. **Semi supply constraints** remained prevalent. Digital ad revenue, digital transformations, cost savings and productivity improvements, and housing, freight and staffing demand were bright spots.
- **S&P 500 Sector Performance:**
    - **Outperformers:** Healthcare +4.74%, REITS +4.30%, Utilities +4.21%, Tech +3.82%, Communications Svcs. +3.39%, Consumer Spls. +2.37%
    - **Underperformers:** Energy (8.44%), Financials (0.61%), Consumer Disc. +0.48%, Industrials +0.85%, Materials +2.00%

Source: Kevin Vandermeer (IA Solutions), Bloomberg, CNBC *research report accurately reflect the research analyst's personal, independent, and objective views about any and all the companies and securities that are the subject of this report discussed herein*