August 4, 2021

Overview

In July, the performance of US equities fluctuated significantly from one sector to another. The S&P's 500 was up **2.38%** on a total return basis. The Nasdaq Composite was also up **1.19%** but the Russell 2000 (small caps) was down **3.61%.**
Internationally, the EPAC BMI index was up a mere **.32%** while the MSCI EM (emerging markets) shrunk **6.73%** and frontier markets registered a positive performance of**.15%**.

These divergent performances reflect the anticipated impact of rising Covid infections on subsectors of the economy and on different parts of the word. Investors believe that, should this resurgence become more problematic, smaller US corporations would suffer more than larger ones and that larger developed economies would contain it better than emerging ones. The graph below illustrates these conditions.

In purple and orange are the YTD performances of the S&P's 500 (up **16.99%**) and of a clone of the Nasdaq (up **15.79%**). In blue is the performance of VWO, an all-encompassing emerging market equity ETF (up **2.25%**). The vertical line marks the beginning of the surge of the Delta variant. Since then, VWO is down about **6%** while the large cap US indices have managed to go up about 3% to 4%.

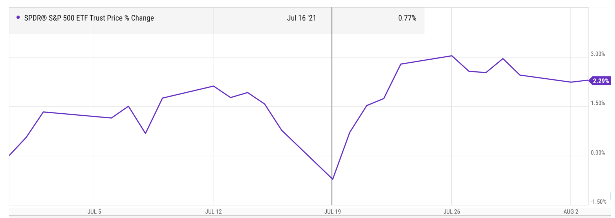
During July, fixed income markets did generally well, with the long bond up **3.65%**, on the back of fears of an economic slowdown (since then appeased). Other fixed income sectors progressed as well.
US Corporate bonds were up **1.37%** while the Bloomberg High Yield index rose **.37%** and the S&Ps' municipal bond index **.70%.**

In July, the performance of our clients' portfolios hovered between **0%** and **1.17%.** Over the same period, a portfolio consisting of 50% ACWI (World Equity Index ETF) and 50% AGG (US bond aggregate proxy) rose **1.02%**. Year-To-Date (YTD), clients' portfolios are up from **5.96%** to **8.91%,** net of fees. Our benchmark stands at **6.40%** over the same period.

The equity allocation in our clients' portfolios ranges currently from 40% to 70%, depending on risk profiles.

Market developments

There were two distinct phases in equity market behaviors this past month. First, from July 1 through July 19 when equities essentially treaded water and even went down a bit; then, from July 19 through the end of the month when they forged ahead, yet again. See the chart of SPY (S&Ps' 500 ETF) in July below:



What caused these two different sequences are two types of economic data and investor behaviors. During the first phase the strong employment report for June, released on July 2, contained a worrisome inflationary component in the form of a 3.6% surge in wages (from the preceding yearly period). Also, rising oil prices contributed to adding to inflationary concerns. Meanwhile, fixed income markets rallied, especially the long bond, providing another sign of investors' skittishness and concern about the long-term growth rate of the economy. Investors felt then that the best of the economic recovery was behind us.

Internationally, the Chinese government's political crackdown intensified in Hong Kong as well as on its own corporate sector adding to concerns of slowing economic conditions in Asia in the near future. Emerging markets equities suffered as a result. The USD went up.

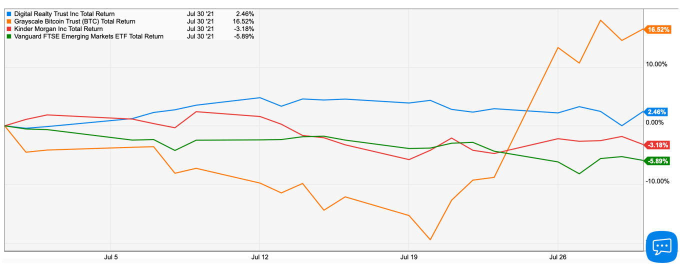
Then, starting on July 14, came strong second quarter earnings from US corporations. Above expectations earnings for 89% of corporations, as of this writing, have reversed investors' mood and gradually brought most large capitalization indices up in the US, if not quite as much internationally.

Note however that small capitalization stocks have suffered in July. While they recovered somewhat in the second part of the month, their negative performance in July clearly indicates concerns about a slowing US economic growth rate over the coming months as well as trepidations about the impact of the Delta variant on that sub-sector of the economy.

Tilts and Allocations

July was a month that, from one sector of the market to another, saw very differentiated performances as investors tried to make their way through contradictory pieces of economic data and conflicted sentiment. In this environment, I decided to do absolutely nothing.

For those readers who might be new to investing, it is good to mention that doing nothing while managing a portfolio IS an investment decision; all the more as acting without a clear investment rationale is generally painfully punished. I am glad I held to this line of (in)action. The table below illustrates some of the idiosyncratic investment positions we have in several (if not all) clients' portfolios. The contrasting performances of the four investment vehicles below show how treacherous buying and selling can be when markets and investors are so conflicted.



GBTC-Orange line, our cryptocurrency investment, went up **16.52%** in July. DLR-Blue line, our real estate investment trust, went up **2.46%** over the same period. KMI-Red line, our short-term play on the oil and gas sector, went down **3.18%** and VWO-Green line, our emerging market investment went down **5.89%.**

Trying to anticipate movements of that type in different sectors is a fool's errand. During periods such as the one we are going through and as long as your portfolio is invested according to your risk and return objectives, doing nothing is more often than not the best course of action.

Conclusion

At the beginning of last month, I wrote that we should all enjoy our new and almost "mask free" environment…Well, it looks as if we may have to wait a little longer to see this reality establish itself.

I am encouraged though to read that vaccinations levels in Midwestern and Southern States are finally increasing.

Looking ahead, I am reasonably optimistic that after a likely increase in market volatility from now until early September (when trading desks are sparsely manned), equities will continue their slow progression, aided by a continuing economic rebound.

Thank you for your continued trust.

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