

MONTHLY RECAP

July 2021 Recap

At-A-Glance

The broad market S&P 500 finished July just 0.59% below its all-time high set July 26 at 4,222.30. The benchmark equity index has posted 41 record-setting highs so far this year, seven in July.

The Dow Industrials gained 1.34% (+433 points) in July trailing the S&P 500 by 1%, while both indices extended gains into a sixth month.

The tech-heavy Nasdaq Composite rose 1.19% last month.

The Small Cap Russell 2000 Index ended negative last month (-3.61%), breaking a nine-month rally (which was its longest since June 1983).

Among major asset classes since the March 23, 2020 bear market low, the S&P 500 has more than doubled (+100.8%), the Bloomberg Barclays U.S. Aggregate Bond Index has gained 5.9% and the Bloomberg Commodities Index has climbed 55.3%.

Gold prices rose 2.6% last month, paring its YTD loss to 4.1%. In contrast, copper rose 3.7% to extend its YTD gain to 25.2%.

Market Indices ¹	July	Year-to-Date
S&P 500	2.38%	17.99%
Russell 3000	1.69%	17.06%
Russell 2000	-3.61%	13.29%
MSCI EAFE	0.75%	9.65%
MSCI Emerging Markets	-6.73%	0.22%
Barclays U.S. Aggregate Bond	1.12%	-0.50%
Barclays U.S. Municipal Bond	0.83%	1.90%
Barclays U.S. Corporate High Yield	0.38%	4.01%

¹Morningstar Direct (all equity performance is total return based, which include reinvested dividends)

U.S. large cap stocks outperformed in July, with the S&P 500 posting gains for a sixth straight month, its longest winning streak since 2018. Equities finished lower the last week of the month amid renewed concerns over rising caseloads of the Delta variant and weaker-than-expected second quarter revenue and slower third quarter sales outlooks from a small number of mega cap tech companies. Meanwhile, investors dialed back fears over the timing of when the Federal Reserve will begin tapering their monthly asset purchases. Policymakers voted unanimously 11-0 to keep interest rates and bond purchases unchanged at current levels. Amid the varying crosscurrents, the Cboe VIX Volatility Index increased 15.2% in July, its first increase in six months.

Despite a revenue miss in a handful of big tech firms, Wall Street estimates still point toward a stellar 82% year-over-year rise in S&P 500 second quarter earnings per share versus a 60.2% forecast at the start of the reporting season. With earnings reporting 55% complete, second quarter year-over-year earnings per share gains are forecast for 10 of the 11 major S&P 500 sectors and 86% of its 124 sub-industries. Moreover, 78% of all sub-industries have reported upward revisions to second quarter earnings estimates. Overall, full year 2021 S&P 500 EPS will likely rise 37.3%, comprised of a 7.2% expected gain for its Growth components and a 38.7% increase for its Value group.

In key July economic data, U.S. real Gross Domestic Product (GDP) growth was a strong 6.5% in the second quarter, the fourth-highest quarterly GDP reading since 2000. While robust, overall growth missed expectations (+8.5%) primarily as inflation ran hot at 6% (5.4% expected) along with constrained inventories. The good news is that GDP has now expanded beyond pre-pandemic levels as second quarter consumer spending came in ahead of expectations (+11.8% vs. 10.5% forecast). Separately, the Fed's core preferred inflation measure associated with personal consumption rose 0.5% in June and is up 4% year-over-year for a second month.

As shown in the style boxes below, small and mid cap stocks underperformed in July as the Russell 2000 small cap-focused index delivered negative returns while the Russell Mid Cap Index performed only marginally better, gaining 0.77% last month. For the month, investors rotated mostly out of small caps into large cap, with a defensive emphasis into growth. Value stocks (aka cyclicals or economically sensitive companies and industries that prosper when the economy improves) continue to outperform on a year-to-date basis, although with narrowing differentials.

	July			YTD		
	Value	Core	Growth	Value	Core	Growth
Large	0.80%	2.08%	3.30%	17.98%	17.34%	16.71%
Mid	0.62%	0.77%	1.03%	20.19%	17.14%	11.58%
Small	-3.58%	-3.61%	-3.64%	22.16%	13.29%	5.01%

Style Box Index returns above are represented by: Large Value (Russell 1000 Value), Large Core (Russell 1000), Large Growth (Russell 1000 Growth), Mid Value (Russell Mid Cap Value), Mid Core (Russell Mid Cap), Mid Growth (Russell Mid Cap Growth), Small Value (Russell 2000 Value), Small Core (Russell 2000), Small Growth (Russell 2000 Growth). Source: Morningstar Direct, total return based, including reinvested dividends.

In sector performance shown below, Healthcare companies performed best followed by Real Estate and Utilities, both of which typically pay hefty dividends that are attractive when markets turn more volatile. Note that the weakest performing sectors in July are still among the top YTD gainers, as investor shifted into more defensive-oriented sectors in July. Technology gained 3.86% in July, extending its YTD gain to 18.15%

Top Performers – July	Top Performers – YTD ¹
Healthcare (+4.90%)	Energy (+33.60%)
Real Estate (+4.64%)	Real Estate (+29.01%)
Utilities (+4.33%)	Financials (+25.14%)
Bottom Performers – July	Bottom Performers – YTD ¹
Consumer Discretionary (+0.50%)	Consumer Discretionary (+10.82%)
Financials (-0.44%)	Consumer Staples (+7.70%)
Energy (-8.27%)	Utilities (+6.82%)

¹ Morningstar Direct (all performance percentages are total return based, which include reinvested dividends)

Foreign equity markets underperformed relative to domestic equities in July, with the MSCI EAFE Index, representing developed markets outside of the U.S. and Canada, gaining 0.75%, extending YTD gains to nearly 9.7%. Europe's Stoxx Euro 50 index, representing that region's largest blue chips also rose 0.75% last month, but extended YTD gains to 17.5% nearly in line with the USA. Emerging markets slumped in July, retreating more than 6.7%, with China and Brazil falling the most. China's A-shares, which represent about a third of the MSCI Emerging Market Index sank 13.8% last month, while Brazil lost over 6.1%. Globally, the MSCI All-Country World Index rose just 0.69% in July, while the same index excluding the U.S. fell 1.65%.

Turning to fixed income markets, U.S. Treasuries posted their strongest monthly gain in a year in July, with the Bloomberg Barclays U.S. Government Bond Index gaining 1.34%, capping its first four-month rally since April 2020. Longer-term Treasuries performed even better, jumping 3.63% last month. The Bloomberg Barclays U.S. Treasury Inflation Protected Securities (TIPS) index also outperformed, climbing 2.67% to extend its YTD gain to 4.44%. On a broader basis, investment-grade bonds of all types rose 1.12% in aggregate last month, while municipal bonds slightly trailed (+0.83%). Higher-risk, non-investment grade high yield corporate bonds under half as much (+0.38%) while continuing support from the Fed's ongoing monthly asset purchases of high-yield bonds.

The Bloomberg Barclays Commodity Index gained 1.84% in July amid strong demand and continuing weakness of the U.S. Dollar (-0.28%). Copper prices, which often serve as an economic bellwether, advanced 3.7% in July, while recovering travel demand amid more balanced supply prospects drove U.S. WTI crude up 0.7% for the month ending at \$73.95/barrel (+52.4% YTD).

This report is created by Cetera Investment Management LLC. For more insights and information from the team, follow [@CeteraIM](#) on Twitter.



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Glossary

The **Bloomberg Barclays Capital U.S. Aggregate Bond Index**, which was originally called the Lehman Aggregate Bond Index, is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.

The **Bloomberg Barclays US Municipal Bond Index** covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holding have a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly.

The **Bloomberg Barclays US Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.

The **Barclays U.S. Government Bond Index** is comprised of the U.S. Treasury and U.S. Agency Indices. The index includes U.S. dollar-denominated, fixed-rate, nominal US Treasuries and US agency debentures (securities issued by US government owned or government sponsored entities, and debt explicitly guaranteed by the US government). The US Government Index is a component of the U.S. Government/Credit and U.S. Aggregate Indices, and eligible securities also contribute to the multi-currency Global Aggregate Index. The U.S. Government Index has an inception date of January 1, 1973.

The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components).

The **Cboe Volatility Index**[®] (VIX[®]) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The **MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **Russell Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The **S&P BSE SENSEX Index** is a free-float market-weighted index of 30 well-established and financially sound stocks on the Bombay Stock Exchange, representative of various industrial sectors of the Indian economy.

The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index.

The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.

West Texas Intermediate (WTI) is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.