# Weekly Market Review

*By: Joe Clark, CFA, Allegheny Research Team*

## *The Month Ending July 31, 2021*

The S&P 500 Index capped another positive month, ending July up 2.4% and trading close to yet another all-time high. Like the second quarter, we continue to see a rotation from the beginning of the year. Growth is back to outperforming value, and small caps are underperforming large caps. The Russell 2000 small-cap index even ended the month in the red, closing July down 3.6%. The last half of July had markets focused on both the economic environment and company fundamentals as earnings reports and second-quarter GDP data led to questions surrounding the speed of the economic recovery.

Economic data, most notably inflation, was one of the more popular headlines for the month. One-year inflation growth ending July 2021 was reported at 5.4%, the fastest rate in over 13 years. Excluding the more volatile food and energy sectors, core inflation rose 4.5%, the most rapid annual rate since 1991. Continued supply chain constraints and high demand in sectors most crippled by the COVID-19 pandemic are contributing the most to inflation's growth. For example, used car prices rose north of 45% over the past year and contributed a third to the annual inflation growth. As we emerge from the pandemic and see the most impacted sectors rise from depressed levels, inflation could easily be transitory, like many forecasters predict. However, what is the timeline for transitory? Last month we saw real wage growth decline due to elevated inflation levels. So, if transitory means another month or two, consumers most likely will not see as large of an impact. But if it continues for another six months or more, consumers' purchasing power will be affected and impact other areas of the economy.

The U.S. consumer has remained strong, accounting for 69% of the economy's 6.5% second-quarter growth. Although growth was strong in the quarter, it did miss economists' expectations due to lower government spending and an increase in imports. One might expect the stock market to take slower economic growth as negative news. Instead, it decided to focus on the fact that the economy has fully recovered from the pandemic, and Congress' proposed infrastructure bill would increase government spending in the coming quarters.

How can we talk about the recovery without considering the Federal Reserve's outlook? While inflation continues to increase, Chair Jerome Powell has made it clear that unemployment remains his top priority. Although the unemployment rate has been decreasing, nine million people are still without a job, and with pandemic era unemployment benefits set to expire, additional risks could arise. Between an accommodative Fed and Congress wanting to pass additional spending, there's no reason to get defensive. Volatility may increase, but we remain confident in the market's long-term outlook.



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