Capital Market Review

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The Month Ending August 31, 2021

This year started with a negative month, sending market commentators on editorials focused on the worst; rising rates, inflation fears, continued COVID-19 cases, etc. Since January, every month has ended in positive territory. Even as delta variant cases of COVID-19 increased throughout the world, most equity markets finished August in the green. Last month did not provide us with much new information. Rather, it confirmed the ongoing economic recovery, albeit slower than earlier in the year, and continued above-average inflation. However, the Federal Reserve did provide some clues on their future plans.

As has been the case since the 2008 Financial Crisis, the Federal Reserve draws all the attention as investors try to decipher what and when their next move might be. The Fed's loose monetary policies were a major factor in bailing markets out of their COVID-induced tailspin, but now investor's attention is focused on how these policies become unwound. Chair Jerome Powell gave a hint last week at the Fed's annual Jackson Hole Symposium. While the committee has no plans to raise interest rates in the foreseeable future, the current stimulus of $120 billion per month will slowly be decreasing, perhaps starting at the end of 2021. However, this expectation is based on June and July jobs' reports showing close to two million jobs added during the two months. August's disappointing jobs report might put the brakes on that expectation and continue the loose policies longer than anticipated.

The strong jobs growth during the recovery has been driven by a rebound in the leisure and hospitality sector, averaging 350,000 jobs per month for most of 2021. The Delta variant of COVID-19 has led to a slowdown primarily impacting this same sector, even reporting no growth in August. The Delta variant also increased the number of workers saying they are not looking for a job due to COVID concerns; this number now stands at 5.6 million people. While August was an unexpected slowdown in jobs, wages continue to accelerate, increasing incomes that could be spent back in the economy and keeping pressure on inflation.

While risks remain in the economy, the stock market has not noticed and continues to trade higher. The only S&P 500 sector to trade in negative territory last month was energy, holding back value stocks as growth had another month of outperformance. As the same risks from January continue, the S&P 500 has closed at an all-time high 54 times this year and experienced zero pullbacks of even 5%. It is difficult to predict which factors can impact the stock market. The one area of consistency is the importance of staying invested. No one knows the short-term trajectory of the stock market, but we remain confident in the long-term outlook.

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