

June 2021

# Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for Periods Ended 6/30/2021

## Global Overview

U.S. markets outperformed both the developed and developing international markets in the month of June. The U.S. economy showed further signs of growth with an improving employment picture, while the growth outlook in Europe was brought into question with rising concerns regarding a new COVID-19 variant and mixed economic news across the rest of the globe. June also marked a reversal for growth indices vs. value indices as technology stocks had a strong month across the globe causing growth to outperform across all markets.

## U.S. Markets & Economy

Despite the U.S. markets having to digest mixed economic news and the relatively hawkish FOMC meeting minutes, the equity markets managed to eke out positive returns for the month of June and double digit returns for the first half of 2021. The S&P 500 Index returned 2.3% during the month and 15.3% for the first half of 2021. This was the fifth consecutive quarter of gains for the broad index, primarily the result of a strong Non-Farm Payroll report with 850,000 jobs added in the month of June as compared to the 700,000 increase in jobs expected. As Americans increasingly returned to the labor force, initial jobless claims fell to 364,000 for the last week in June. However, the unemployment rate increased slightly to 5.9% from 5.8%. As seen below in the Chart of the Month, the value indices struggled against growth as cyclical sectors were hurt by inflation concerns, and the strong jobs report contributed to a rally in the growth-oriented healthcare and technology stocks. With the economy reopening and coming off a low inflation base during the 2020 pandemic, May's headline CPI report posted a 5% increase year-over-year (reported during the first week in June), which was the largest CPI increase since 2008. The biggest price increases were seen in gasoline (+56%) and used cars and trucks (+30%). A labor shortage resulting in higher wages also contributed to the inflation rate as the average hourly earnings rose 3.6% year-over-year during the month. The Fed repeatedly assured the market the high inflation rate was transitory and would be short lived after the economy's re-opening momentum faded.

The U.S. fixed income market was also affected by rising inflation concerns with the yield curve flattening, as the 10-Year Treasury rate fell by 13 bps during June to a 1.47% yield and the 2-Year Treasury increased by 11 bps to a 0.25% yield. The FOMC meeting minutes showed several committee members moving up their estimate as to when the first rate hike would occur, with most shifting from one to two rate hikes in 2023 from 2024 combined with the Fed likely to start reducing the \$120 billion in securities they are purchasing each month by the end of 2021. As a result, the BB U.S. Aggregate Index returned 0.7% and the BB U.S. Government/Credit Long Index returned 3.6% during June.

## International Markets & Economy

In non-U.S. developed markets, the MSCI EAFE index posted a -1.1% return for the month of June, as value stocks lost their steam. The biggest detractor for the month was the United Kingdom as their market dropped 2.4% as the highly infectious delta strain of COVID-19 hit the country. Other markets across Europe were also negative as many feared the increase in positive cases could slow the summer tourism season. On a better note, economic data released at the end of the month helped the equity market recover slightly. The IHS Markit Composite PMI which combines both manufacturing and services PMI hit a 15 year high in June. Japanese equities outpaced the Eurozone, but still declined 0.3% for the month of June. Consensus estimates predict that Japan will narrowly avoid a double dip recession as the economy is expected to grow slightly in the second quarter.

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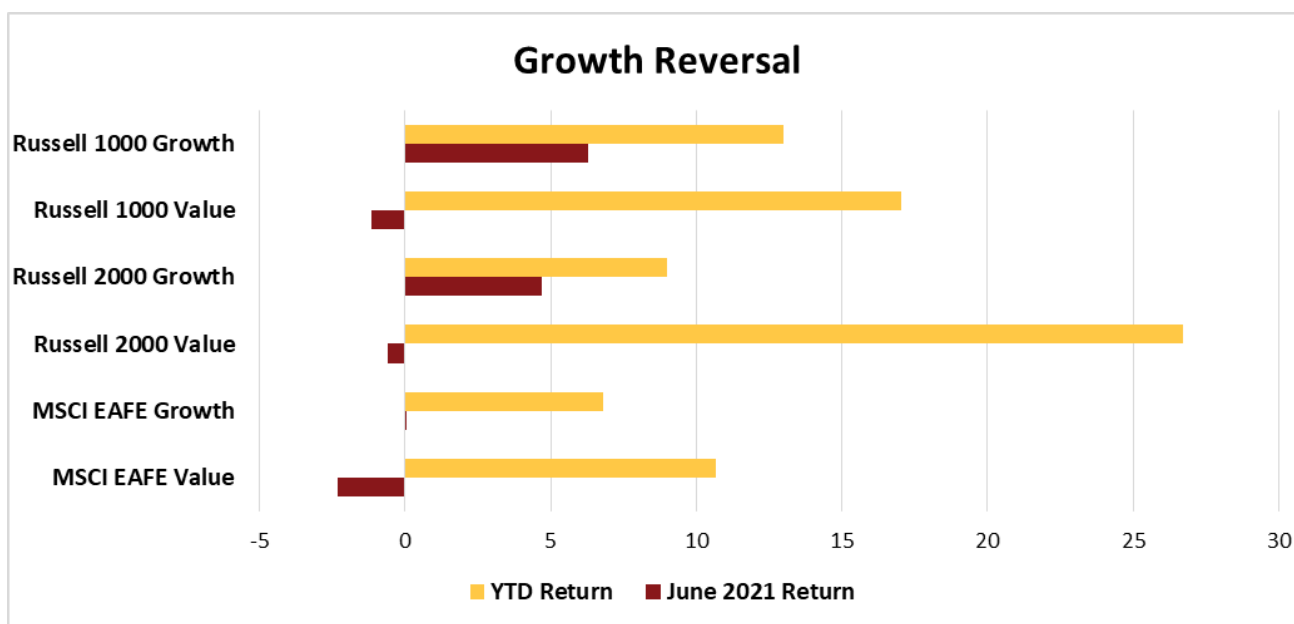
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During the month of June the MSCI EM index was relatively flat returning just 0.2%. In stark contrast to developed markets, many emerging market central banks have taken hawkish stances as countries such as Brazil and Russia have raised rates multiple times this year already, and countries such as Hungary, Mexico and the Czech Republic raised rates for the first time this year in June. Higher oil prices continued to benefit Russia and Brazil's stock market for the 2nd consecutive month. Tensions with China have increased as the U.S. Senate passed the U.S. Innovation and Competition Act, which would provide more than US\$250 billion to help American companies compete against Chinese technology companies, particularly in artificial intelligence, quantum computing, and semiconductors. Also this month, China's Communist Party celebrated their 100 year anniversary as President Xi Jinping spoke about consolidating and strengthening the party's power over domestic affairs. China approved record amount of investment outflows as their currency, the renminbi, has strengthened over 10% vs. the U.S. dollar YTD which officials worry will make Chinese exports less competitive.

## In the News

On June 24 the Federal Reserve released the results of their annual stress test on the largest U.S. banks. The annual stress test is meant to test banks' resiliency to an economic downturn in maintaining required capital levels. All 23 banks subject to the stress test passed the test and maintained capital "well above" the minimum required. As a result, the restriction on banks' ability to return capital to shareholders will be lifted which has been long awaited. Since 2008, U.S. banks have had to ask regulators for permission to increase dividends and buyback shares. Now, banks have the autonomy to undergo share buyback programs or raise dividends just like any other publicly traded company. Since the results were published, Morgan Stanley, JPMorgan Chase, Bank of America, Goldman Sachs and Wells Fargo have all announced dividend increases. U.S. bank stocks rallied on the news to close out the month, but not enough to help the value indices make up ground on the growth indices.

## Chart of the Month



Source:

Morningstar

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## Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	1.49	7.74	13.05	39.04	14.99	14.83	10.65
	BBgBarc US Agg Bond TR USD	0.70	1.83	(1.60)	(0.33)	5.34	3.03	3.39
	Russell 3000 TR USD	2.47	8.24	15.11	44.16	18.73	17.89	14.70
	DJ Industrial Average TR USD	0.02	5.08	13.79	36.34	15.02	16.66	13.50
	NASDAQ Composite PR USD	5.49	9.49	12.54	44.19	24.53	24.53	17.99
	MSCI EAFE NR USD	(1.13)	5.17	8.83	32.35	8.27	10.28	5.89
	FTSE Treasury Bill 3 Mon USD	0.00	0.01	0.03	0.08	1.31	1.14	0.60
	Bloomberg Commodity TR USD	1.85	13.30	21.15	45.61	3.90	2.40	(4.44)
Domestic Equities	S&P 500 TR USD	2.33	8.55	15.25	40.79	18.67	17.65	14.84
	S&P MidCap 400 TR	(1.02)	3.64	17.59	53.24	13.17	14.29	12.40
	S&P SmallCap 600 TR USD	0.33	4.51	23.56	67.40	12.20	15.82	13.49
	Russell 1000 TR USD	2.51	8.54	14.95	43.07	19.16	17.99	14.90
	Russell 1000 Growth TR USD	6.27	11.93	12.99	42.50	25.14	23.66	17.87
	Russell 1000 Value TR USD	(1.15)	5.21	17.05	43.68	12.42	11.87	11.61
	Russell Mid Cap TR USD	1.47	7.50	16.25	49.80	16.45	15.62	13.24
	Russell Mid Cap Growth TR USD	6.80	11.07	10.44	43.77	22.39	20.52	15.13
	Russell Mid Cap Value TR USD	(1.16)	5.66	19.45	53.06	11.86	11.79	11.75
	Russell 2000 TR USD	1.94	4.29	17.54	62.03	13.52	16.47	12.34
	Russell 2000 Growth TR USD	4.69	3.92	8.98	51.36	15.94	18.76	13.52
	Russell 2000 Value TR USD	(0.61)	4.56	26.69	73.28	10.27	13.62	10.85
International Equities	MSCI ACWI Ex USA NR USD	(0.65)	5.48	9.16	35.72	9.38	11.08	5.45
	MSCI EAFE NR USD	(1.13)	5.17	8.83	32.35	8.27	10.28	5.89
	MSCI EAFE Growth NR USD	0.04	7.42	6.81	30.97	12.45	12.47	7.76
	MSCI EAFE Value NR USD	(2.30)	3.01	10.68	33.50	3.78	7.81	3.86
	MSCI Japan NR USD	(0.29)	(0.28)	1.28	24.84	7.24	10.19	7.15
	MSCI AC Asia Ex Japan NR USD	(0.12)	3.60	6.40	39.64	12.22	14.50	7.04
	MSCI Europe NR USD	(1.36)	7.42	11.80	35.09	8.66	10.34	5.58
	MSCI United Kingdom NR USD	(2.40)	5.97	12.52	31.29	1.90	5.70	3.68
	MSCI EAFE Small Cap NR USD	(1.65)	4.34	9.04	40.98	8.40	12.03	8.38
	MSCI EM NR USD	0.17	5.05	7.45	40.90	11.27	13.03	4.28
MSCI China NR USD	0.10	2.27	1.83	27.39	10.36	16.59	7.71	
Fixed Income	BBgBarc US Govt/Credit TR USD	1.01	2.42	(1.96)	(0.39)	5.95	3.31	3.71
	BBgBarc US Govt/Credit Interm TR USD	0.08	0.98	(0.90)	0.19	4.70	2.63	2.76
	BBgBarc US Govt/Credit Long TR USD	3.56	6.44	(4.64)	(1.86)	9.92	5.45	7.30
	ICE BofA US High Yield TR USD	1.37	2.77	3.70	15.62	7.15	7.30	6.50
	Credit Suisse HY USD	1.17	2.51	3.89	15.69	6.77	7.17	6.37
	S&P/LSTA Leveraged Loan TR	0.37	1.47	3.28	11.65	4.39	4.99	4.39
	FTSE WGBI NonUS USD	(2.10)	0.45	(6.00)	3.06	2.81	1.28	0.79
	BBgBarc Gbl Agg Ex USD TR	(2.02)	0.92	(4.42)	4.60	3.12	1.63	0.99
REITs	FTSE Nareit All REITs TR	2.74	11.71	21.19	34.24	11.49	8.04	10.17
	Wilshire US REIT TR USD	3.06	12.84	22.78	37.52	10.06	6.36	9.38

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

Source: Morningstar

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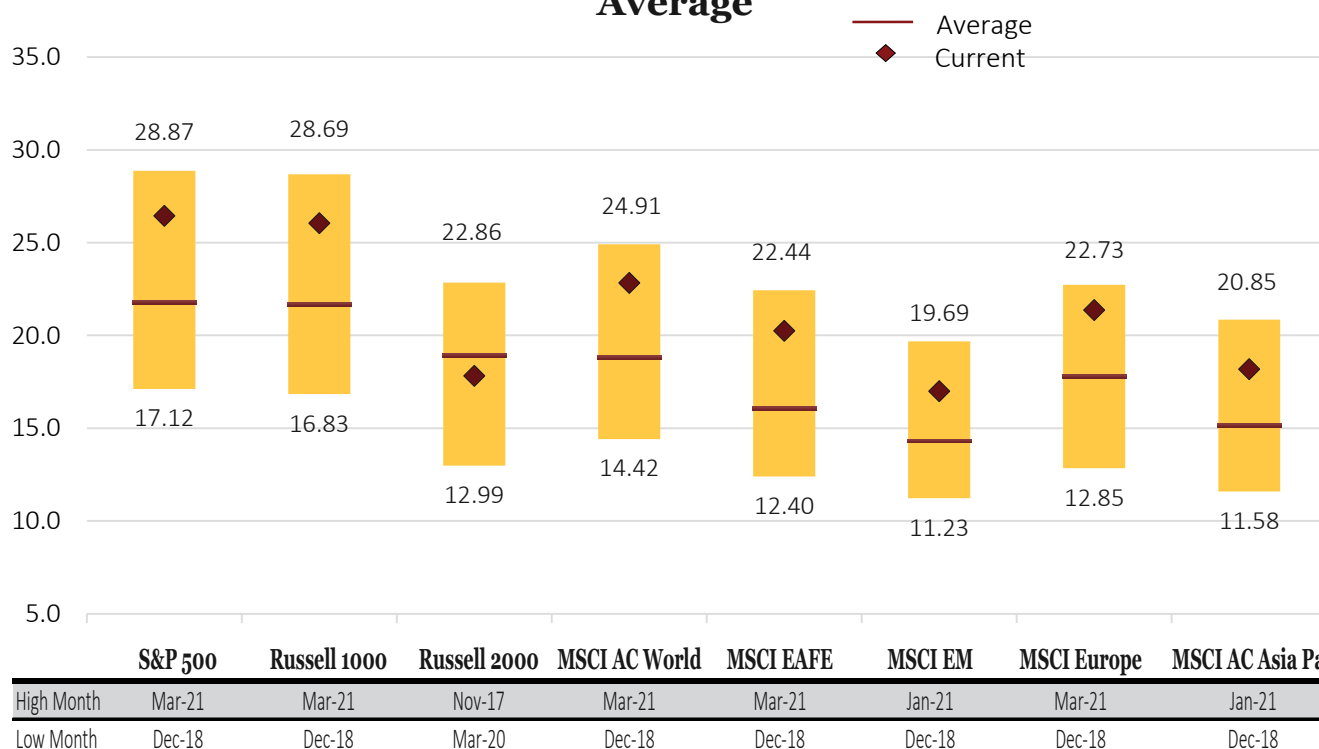
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## Current Trailing P/E vs. Trailing 5-Year High, Low, Average



Source: Morningstar

## Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates <sup>3</sup> per US \$		Inflation <sup>2</sup>
	Latest	2021 <sup>1</sup>	2022 <sup>1</sup>	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
<b>United States</b>	6.40	6.90	3.60	5.90	1.47	-	-	3.80
<b>China</b>	0.60	8.50	5.80	5.00	3.09	6.46	7.07	0.90
<b>Japan</b>	-1.00	2.60	2.00	3.00	0.05	111.05	107.77	0.10
<b>United Kingdom</b>	-1.60	7.20	5.50	4.70	0.72	1.38	0.81	2.00
<b>Euro Area</b>	-0.30	4.30	4.40	7.90	0.38	1.18	0.89	0.90
<b>Germany</b>	-1.80	3.30	4.40	3.70	-0.20	1.18	0.89	1.90
<b>France</b>	-0.10	5.80	4.00	8.10	0.13	1.18	0.89	0.90
<b>Italy</b>	0.10	4.50	4.40	10.50	0.82	1.18	0.89	0.30
<b>Canada</b>	1.40	6.10	3.80	8.20	1.39	1.24	1.36	2.80
<b>India</b>	2.10	9.90	8.20	11.90	6.05	73.58	75.71	6.30
<b>Mexico</b>	0.80	5.00	3.20	4.00	6.97	19.91	23.08	4.58
<b>Brazil</b>	1.20	3.70	2.50	14.70	9.12	5.01	5.48	4.16

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Forecasted data from OECD 3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

2. In terms of CPI All Items

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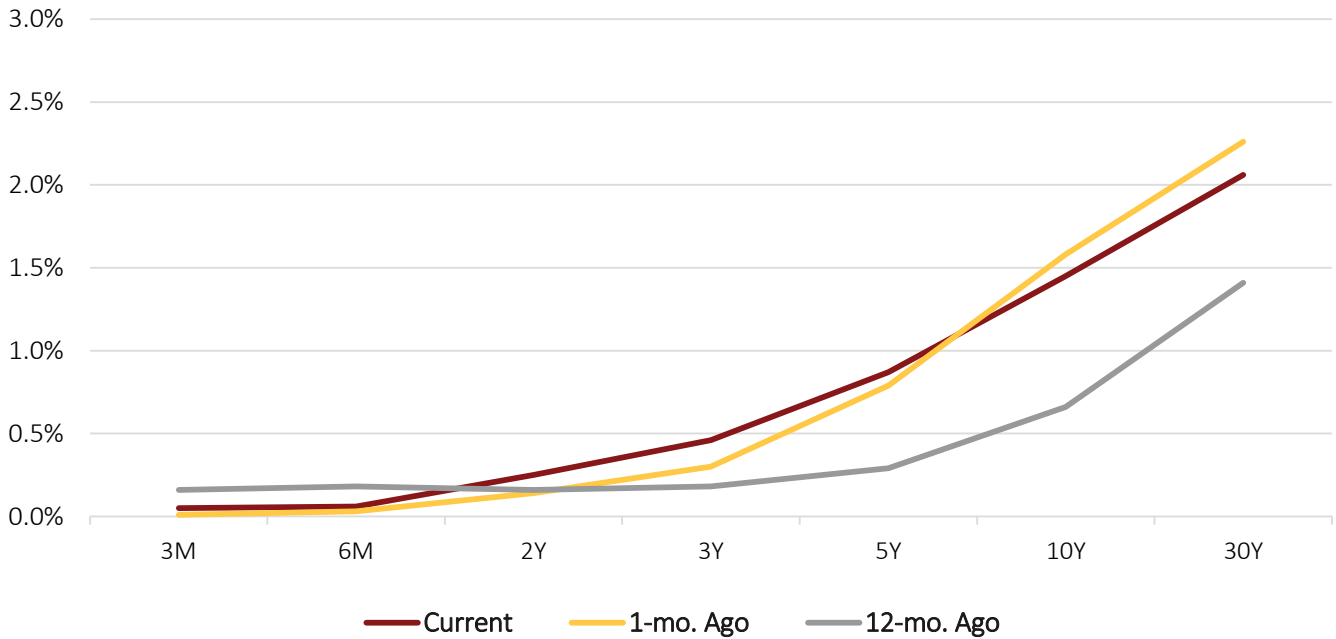
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## U.S. Treasury Yield Curves

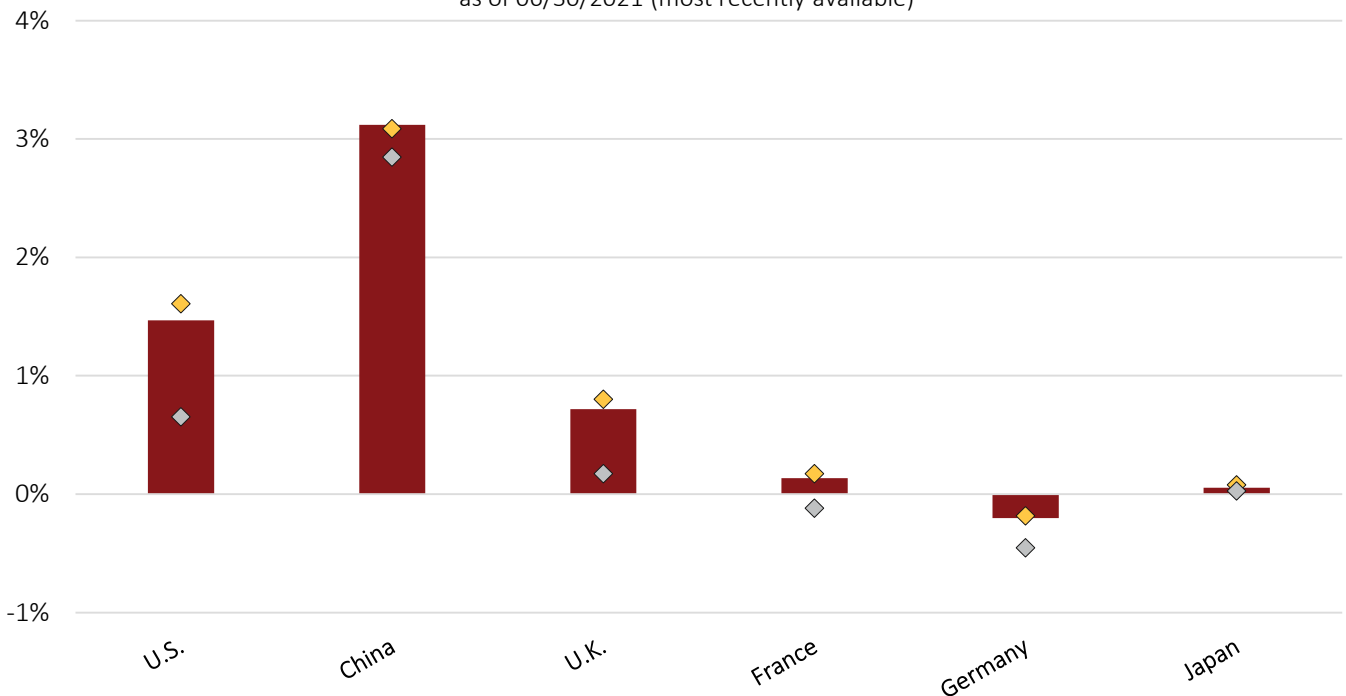
as of 06/30/2021



Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics

## 10-Year Sovereign Yields

as of 06/30/2021 (most recently available)



Source: Trading Economics

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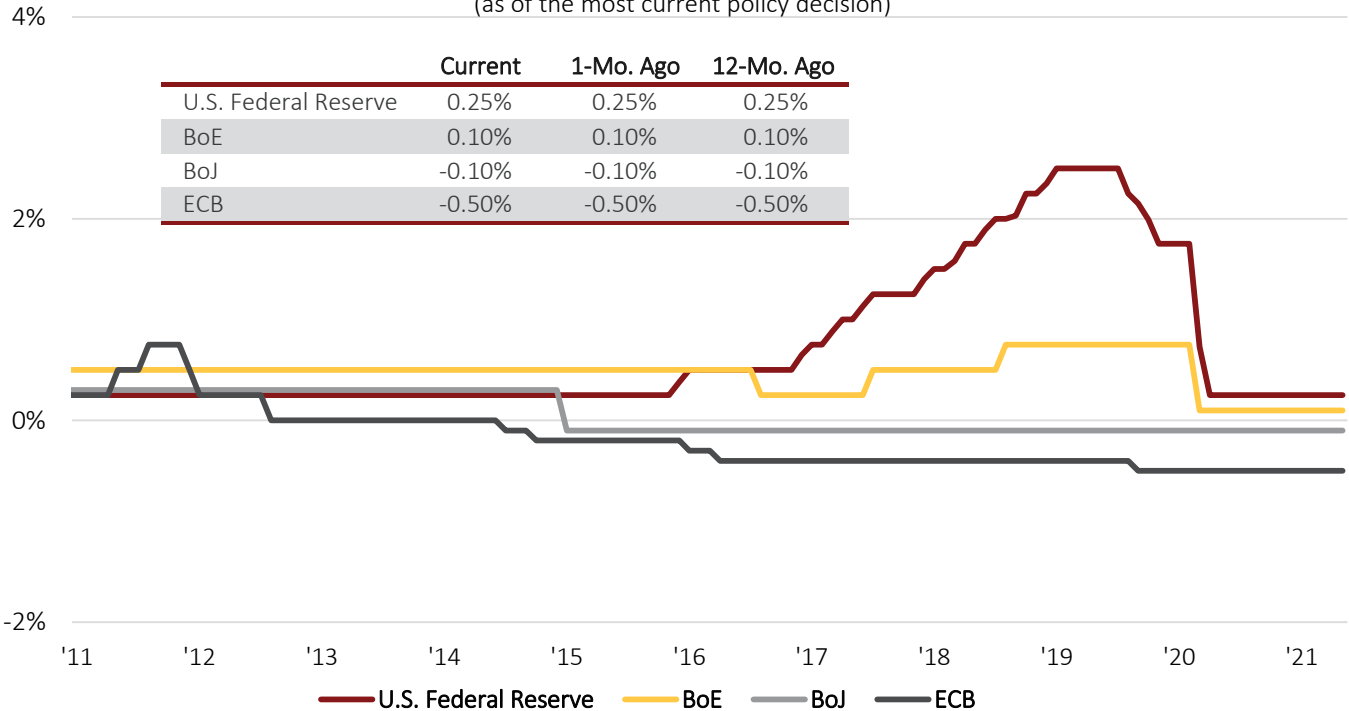
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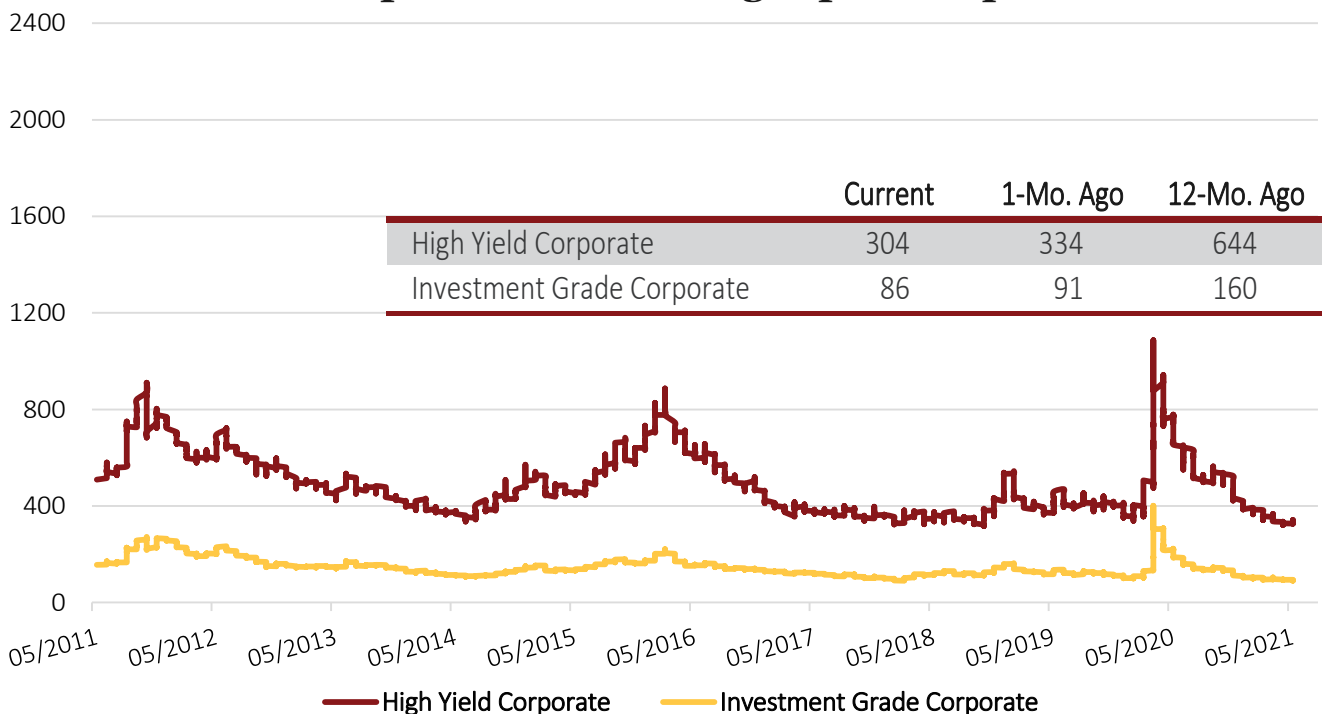
## Central Bank Policy Rates

(as of the most current policy decision)



Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics

## Corporate Bond Average Spread (bps)



Source: Federal Reserve Bank, Bank of America