

# WEEK IN REVIEW

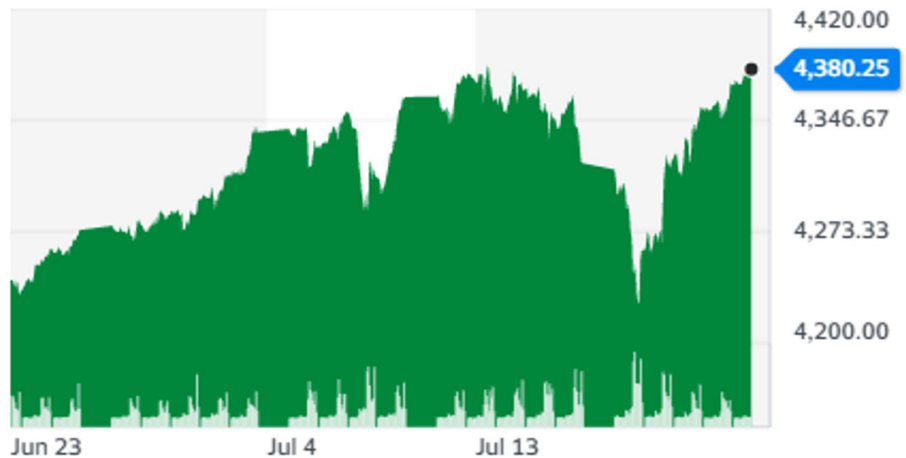
FRIDAY, JULY 23RD, 2021

## 1. EQUITY MARKETS RECOVER FROM BOUT OF VOLATILITY

This past week commenced with a sell-off in the equity markets that was precipitated by concerns about the COVID-19 resurgence and the possibility of peak growth in the economy.

As has been the case so far in 2021, sell-offs have corrected quickly. This week's price action came during a busy period for corporate earnings reports where most companies have beaten expectations and projected a positive outlook for the rest of the year. Positive corporate earnings likely provide support for a continued recovery in economic growth from the pandemic.

S&P Index – 1 Month



Source: Yahoo Finance

## 2. COMMODITY ASSETS HAVING HISTORICAL YEAR

Commodity assets have been experiencing a historical year in terms of returns year-to-date (YTD) relative to other investment classes. So far in 2021, the commodity asset class is up 29% leading the next best asset class, REITS, and well above equities. This year is definitely proving to be an outlier as over the past 11 years returns for commodities have been negative on an annual basis almost 2/3 of the time with an average annual return of -6.6%.

As we have discussed before, stronger than anticipated demand growth, supply constraints and distribution bottlenecks have contributed to this spike from recent history.

US Multi Asset Class Performance Comparison - 10 Years

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD
REITS	28%	13%	19%	38%	30%	5%	18%	31%	0%	31%	33%	29%
TIPS			Developed	Small Cap	REITS	Growth	Value	Emerging	Agg Bonds	Value	Growth	Commodities
Small Cap	28%	9%	19%	35%	14%	2%	18%	27%	-1%	31%	21%	26%
REITS			Emerging	Mid Cap	Mid Cap	REITS	Small Cap	Growth	TIPS	Growth	Large Cap	REITS
Mid Cap	26%	8%	18%	34%	13%	2%	12%	26%	-1%	31%	19%	17%
Agg Bonds			REITS	Growth	Value	Large Cap	Emerging	Developed	Growth	Mid Cap	Small Cap	Value
Emerging	19%	2%	18%	32%	13%	0%	12%	23%	-3%	31%	18%	17%
Growth			Small Cap	Value	Large Cap	Agg Bonds	Large Cap	Large Cap	Large Cap	Large Cap	Mid Cap	Growth
Growth	17%	2%	17%	32%	12%	0%	11%	19%	-6%	29%	15%	17%
Large Cap			Value	Large Cap	Growth	Developed	Mid Cap	Mid Cap	REITS	REITS	Emerging	Large Cap
Value	16%	0%	16%	22%	8%	-1%	10%	16%	-9%	27%	11%	15%
Value			Mid Cap	Developed	Small Cap	Mid Cap	Commodities	Small Cap	Value	Small Cap	TIPS	Mid Cap
Large Cap	14%	-2%	16%	2%	6%	-2%	9%	15%	-9%	22%	10%	14%
Mid Cap			Large Cap	REITS	Agg Bonds	TIPS	REITS	Value	Small Cap	Developed	Developed	Small Cap
Commodities	8%	-3%	15%	-2%	3%	-4%	7%	5%	-9%	20%	7%	9%
Commodities			Growth	Commodities	TIPS	Value	Growth	REITS	Mid Cap	Emerging	Agg Bonds	Developed
Developed	8%	-3%	7%	-2%	1%	-4%	5%	4%	-14%	16%	2%	5%
Small Cap			TIPS	Agg Bonds	Emerging	Small Cap	TIPS	Commodities	Commodities	Commodities	Value	Emerging
TIPS	6%	-13%	4%	-5%	-6%	-15%	3%	4%	-14%	9%	-5%	3%
Developed			Agg Bonds	Emerging	Developed	Emerging	Agg Bonds	Agg Bonds	Developed	Agg Bonds	REITS	TIPS
Agg Bonds	6%	-19%	-1%	-9%	-34%	-33%	3%	3%	-15%	8%	-24%	-1%
Emerging			Commodities	TIPS	Commodities	Commodities	Developed	TIPS	Emerging	TIPS	Commodities	Agg Bonds

Source: Factset Data

Rising commodity prices are having an impact on some business' financial performance at least in the short term. Global consumer staples bellwether Unilever reported earnings this past week and said that higher costs for ingredients, packaging, and transportation would lower its full year profitability. The company warned of accelerating price increases across a range of its products to counter the cost of inflation. Unilever has not been alone as consumer staples company Kimberly Clark also cut its full-year EPS guidance noting significantly higher input costs.

On the downside in terms of asset class performance, bonds have realized a negative return YTD which has not happened since 2013 when the Federal Reserve announced plans to phase out the quantitative easing programs. The Fed this year has been very cautious to discuss such plans and tempered expectations for long-term inflation and next week's Federal Open Market Meeting Committee (FOMC) meeting is not expected to see any incremental change in their position on the timing for tapering.

In any event, the directional movement of the asset class performance book ending in 2021 so far seems rationale, with market dynamics and higher commodity prices resulting in higher prices and inflation. The hurdle for the Fed to start discussion of tapering would appear lower now than in 2013.

### 3. PROGRESS ON INFRASTRUCTURE BILL

A bipartisan group of 22 senators is reportedly moving closer to crafting a \$529 billion infrastructure bill which would include a deal on how to pay for it. In a separate effort, the Democrats' \$3.5 trillion broader infrastructure bill still faces challenges due to opposition to measures to pay for it, such as higher taxes for corporations and high-income earners, as well as scrapping tax benefits for energy companies.

## THINKING AHEAD

Markets have retained their positive trajectory as corporate financial performance remains intact. Escalation of COVID-19 cases is concerning, but the risk is mitigated by the increasing rate of vaccinations. The Fed is likely to remain accommodative even in the face of rising commodity prices and inflation.

Pallas Capital Advisors will continue to monitor economic, political, and corporate data for implications to markets.

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