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**August market review**

Record-setting earnings, official FDA approval of the Pfizer vaccine and anticipation that booster shots will begin in September helped drive equity markets steadily higher in August. The S&P 500 index, a common measure for U.S. large-cap performance, reached 12 highs during the month on its way to gains of roughly 3%.

Since Memorial Day, the S&P 500 has gained more than 7%, belying the idea that equity markets take the summer off.

“Summer strength continued in August, dispelling the myth that investors ‘sell in May and go away,’” said Raymond James Chief Investment Officer Larry Adam. “Investors looked past the resurgence in COVID-19 cases, which has had only limited impacts to economic momentum so far.”

U.S. Federal Reserve officials and most economists believe recent inflation will be transitory, though production bottlenecks and other supply issues are likely to continue for a while, according to Chief Economist Scott Brown.

The Federal Reserve is expected to start reducing (“tapering”) its monthly asset purchases – currently $120 billion – later this year. However, “any increase in short-term interest rates is still a long way off,” Brown said.

Here’s a recap of year-to-date index performance:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | 12/31/20 Close | 8/31/21 Close | Change Year to Date | % Gain/Loss Year to Date |
| DJIA | | 30,606.48 | 35,360.73 | +4,754.25 | +15.53 |
| NASDAQ | | 12,888.28 | 15,259.24 | +2,370.96 | +18.40 |
| S&P 500 | | 3,756.07 | 4,522.68 | +766.61 | +20.41 |
| MSCI EAFE | | 2,147.53 | 2,358.28 | +210.75 | +9.81 |
| Russell 2000 | | 1,974.86 | 2,273.77 | +298.91 | +15.14 |
| Bloomberg Aggregate Bond | | 2,392.02 | 2,378.43 | -13.59 | -0.57 |
| Performance reflects price returns as of market close on August 31, 2021. MSCI EAFE and the Bloomberg Aggregate Bond figures reflect August 30, 2021, closing values. | | | | |

Here are some other notable events and trends through August.

**S&P 500 continues climb**

The S&P 500 notched seven consecutive months of positive performance on its way to setting 53 record highs through the first eight months of the year. Sector rotation continues to transpire, but the S&P 500 breakout to new highs in August came on improved participation beneath the surface – a welcome sign technically for a market that had gotten fairly narrow. We continue to recommend a balanced, but pro-cyclical tilt to sector allocations.

**Yield curve steepens slightly**

Investor attentiveness intensified again, creating a see-saw effect with interest rates during August. For example, the 10-year Treasury yield stayed in a tight range between 1.22% and 1.36% through the month. The net result of this interim volatility was a slight steepening in the yield curve; intermediate and long-term rates were up while the short end finished pretty much where it started. Demand remains strong for shorter maturities.

**Geopolitics likely to affect federal policy debate**

September brings a series of deadlines for fiscal policy, including the start of the fiscal year, the bipartisan infrastructure deal, the debt limit, and the path forward on the proposed $3.5 trillion reconciliation package. There is a lot that needs to be accomplished in a short time and the potential for policy-driven volatility remains high. We continue to expect Democrats looking to deliver a domestic policy win, as they head into the 2021 and the midterm elections.

**International markets produce small gains**

Assisted by continued progress in the quarterly corporate earnings growth season, markets in both Europe and Asia produced small monthly gains despite heightened inflation talk. The need for tighter central bank policy was apparent in South Korea, Mexico and Brazil during recent weeks, a discussion that will deepen in many other countries over the next year.

**The bottom line**

We remain positive on the fundamental backdrop for the capital markets. Earnings season finished well ahead of expectations for the fifth quarter in a row, and we believe upside remains for forward estimates. Investors can expect short-term volatility as we work through debates about taxes, infrastructure and the debt ceiling, but the fundamental and technical backdrop appear supportive of equities over the intermediate term.

If you have any questions about your investments, your financial plan, this letter – or anything else – please reach out at your earliest convenience. We remain grateful for our relationship and your continued trust in us.

Sincerely,

Your WealthPlan Advisors Team

All investments are subject to risk, including loss. All expressions of opinion reflect the judgment of the authors and are subject to change. There is no assurance the trends mentioned will continue or that the forecasts discussed will be realized. Past performance may not be indicative of future results. Economic and market conditions are subject to change. The Dow Jones Industrial Average is an unmanaged index of 30 widely held stocks. The NASDAQ Composite Index is an unmanaged index of all common stocks listed on the NASDAQ National Stock Market. The S&P 500 is an unmanaged index of 500 widely held stocks. The MSCI EAFE (Europe, Australia, Far East) index is an unmanaged index that is generally considered representative of the international stock market. The Russell 2000 is an unmanaged index of small-cap securities. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. An investment cannot be made in these indexes.

The performance mentioned does not include fees and charges, which would reduce an investor’s returns. Small-cap securities generally involve greater risks. International investing is subject to additional risks such as currency fluctuations, different financial accounting standards by country, and possible political and economic risks. These risks may be greater in emerging markets. Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. The value of fixed income securities fluctuates and investors may receive more or less than their original investments if sold prior to maturity. High-yield bonds are not suitable for all investors. Material prepared by Raymond James for use by advisors