Key Take-Aways

- Major US indices hit new all time highs while the market structure raises questions.
- Market breadth is decreasing as the dominance of a few tech giants gains traction. The share of Apple, Microsoft, Google and Amazon in the S&P 500 index now stands at 24.25% whereas it was 18% at the end of 2019.
- Rotation back into growth stocks hurts value.
- Emerging Markets look cheap, but China has to stabilize first.
- The pandemic is resurging with the fourth (delta) wave hitting countries across the globe, clouding the short-term economic outlook.
- PMI data and retail sales have come in softer while industrial production reaches pre-pandemic levels.
- While some Covid-unemployment benefits end in September, the FED remains dovish as Powell signals that the top priority is full employment.
- The US economy is slowing down because people are losing or quitting jobs. The Fed knows this and stimulus will continue.
- The bond market has a strong bid. Yields remain low in spite of a recent uptick, and credit spreads are still historically tight.
- The dollar maintains its exorbitant privilege and remains dominant in the global financial system. But the absence of constraints on the dollar and other currencies resulted in an explosion of debt worldwide.
- We expect a bounce in non-USD currencies until we understand more about the Fed’s intention to reduce its bond purchases.
- Gold looks attractive below $ 1’750.- and silver can be bought at current prices.
- 50 years since Bretton Woods and the US government famously suspended the convertibility of US dollars into gold. The dollar was fixed to gold at $ 35 per ounce.

Review : August 2021

In August, the risk-on sentiment continued and most major equity indices ended the month higher: the Nasdaq added 4.31%, the S&P 500 rose by 3.04% and the Euro Stoxx 50 index returned 4.01%. Emerging Market equities on average rose by 2.4% but the Chinese Hang Seng index remained flat.

The FTSE 100 index and small caps represented by the Russell 2000 were among the weakest performers in August, adding 1.24% and 1.79%, respectively.

Sectorwise, telecoms were the best performing category ending the month 5.75% higher. Utilities, real estate and financials also returned north of 4%. Energy was the weakest sector, falling 3.65% in August.

The dollar continued to be well-bid and rose to 1.1664 during the month, ending the month half a percentage point higher vs. the euro. Sterling, on the other hand, remained weak, falling by 1% vs. the dollar.

Within fixed income, August marked a turning point for core yields which were falling since the highs reached in March: The US 10-year Treasury yield rose by 6bps and the German 10-year Bund yield added 8bps. In the UK this movement was even sharper with the benchmark yield rising 15bps. This impacted bonds negatively across the board. Moreover, credit spreads also widened during the first three weeks of the month, further putting pressure on bonds, before ending the month down 11 bps (US high yield) and 4bps (European high yield).

The marginal commodity buyer, China, dictates prices. And as the biggest buyer is slowing down, prices are correcting.

The Bloomberg Commodity index ended the month 30bps lower. The move was strongest in oil where WTI lost 7.36% over the period. Gold, on the other hand, remained flat but suffered a "flash-crash" at the beginning of the month, falling more than four percentage points in two days.

Equity market volatility, as measured by the VIX index, approached 15% level after temporarily spiking to 25%, thereby ending the month almost 10% lower.

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	4 530	0.15	0.74	3.04	5.40	20.59	21
Nasdaq	15 359	0.66	2.11	4.31	5.90	19.17	29
Russell 2000	2 276	0.11	1.65	1.79	-1.48	15.27	25
Euro Stoxx 50	4 227	0.74	1.10	2.68	4.01	18.99	16
Stoxx 600 EUR	473	0.48	0.27	1.97	4.48	18.57	16
FTSE 100	7 150	0.42	0.33	1.24	1.59	10.67	12
SMI	12 433	0.17	0.55	2.64	4.10	16.16	18
NIKKEI 225	28 451	1.29	2.62	2.95	-1.18	3.67	16
CSI 300 China	4 869	1.33	-0.59	-0.02	-6.79	-6.56	13
MSCI EM Index	1 309	1.81	2.62	2.40	-4.80	1.35	13

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	4 530	0.15	0.74	3.04	5.40	20.59	21
UTILITIES	351	1.09	0.79	4.08	9.04	9.90	20
ENERGY	357	-1.49	-2.31	-3.65	-12.40	24.71	12
TELECOM	289	0.67	2.57	5.75	9.27	30.16	20
CONS STAPLES	750	0.29	0.84	2.08	3.98	7.76	20
REAL ESTATE	302	1.39	4.19	4.43	8.87	32.52	48
CONS DISCRET	1 473	0.34	1.81	1.73	2.88	13.09	26
MATERIALS	535	-0.32	-0.18	2.66	3.44	17.36	17
HEALTH CARE	1 566	-0.51	-0.60	2.12	6.57	18.24	17
INFO TECH	2 801	0.55	1.41	3.84	7.97	22.26	26
FINANCIALS	634	-0.49	-1.29	4.44	3.85	29.30	15
INDUSTRIALS	878	-0.43	-0.60	1.29	1.34	17.12	20

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	92.456	-0.18	-0.40	0.48	0.02	2.80
EUR-USD	1.1851	0.36	0.67	-0.51	-0.06	-2.99
USD-JPY	110.03	0.01	0.01	0.27	-0.98	6.16
USD-CHF	0.9146	-0.05	0.07	1.01	-1.14	3.21
EUR-CHF	1.0839	0.29	0.76	0.55	-1.20	0.25
GBP-USD	1.3789	0.25	0.19	-1.07	-0.30	0.87
EUR-GBP	0.8594	0.11	0.49	0.56	0.26	-3.99
JP EM FX Index	57.09	0.33	1.37	0.35	-0.28	-1.44

10 yr Yield Bps Change	Price	1 day	5 days	MTD	QTD	YTD
US	1.30	-1	-4	6	-16	39
Germany	-0.37	1	5	8	-17	20
UK	0.69	-2	10	15	-2	50
SWITZERLAND	-0.31	1	3	5	-9	24
Japan	0.03	1	1	0	-3	1
US IG Spread	95	-1	-3	1	8	-7
US High Yield spread	254	-3	-21	-11	26	-73
EUR High Yield spread	320	-4	-6	-4	11	-31

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	95.8	-0.18	1.11	-0.30	1.34	22.75
Gold Spot $/OZ	1815.1	0.08	1.35	-0.06	2.54	-4.39
Crude Oil WTI	67.8	-1.08	-0.95	-7.36	-7.77	39.65

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	16.0	-0.46	-0.77	-9.60	1.20	-6.73

Source: Bloomberg 01.09.2021

Macro, Fixed Income and Rates : Growth normalization

Exactly 50 years have passed since Richard Nixon suspended the U.S. dollar convertibility into gold. This action dismantled The Bretton Woods Monetary System which had foreign central banks to exchange excess U.S. Dollars for physical U.S. Treasury gold. Not unlike today, the U.S. faced a growing balance of payments deficit with the most powerful foreign economies. Due largely to debts incurred fighting the Vietnam War, the dollar began to lose its value. The vast dollar holdings largely of European governments, were depreciating precipitously.

The Bundesbank was forced to float the Deutschemark. Fearing a massive devaluation of the dollar the French and English demanded they be allowed to convert their vast dollar holdings to gold. Their rights under Bretton Woods Agreement were granted. The dollar has floated as a fiat currency ever since. The pandemic and economic realities of funding lockdowns and slowdowns will reverberate ever louder in the year ahead.

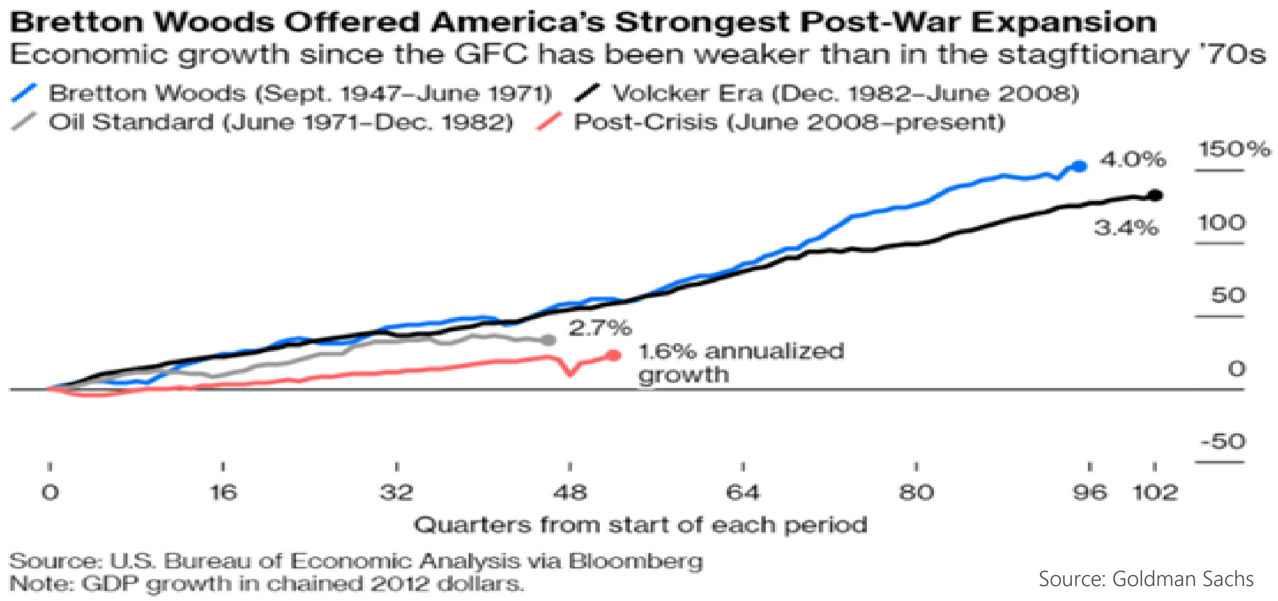
We must be humble about what we know and what we don't know about the pandemic. Anecdotes tell us what the data can't: Vaccinated people appear to be getting coronavirus at a surprisingly high rate. But exactly how often isn't clear, nor is it certain how likely they are going to spread the virus to others.

This uncertainty represents the greatest threat to economic recovery. Government can only respond with the information they are given. It has gotten conflicting data and will continue to get information which is unclear. The population is fearful . They do not want to go back to work.

The Dallas Fed Mobility Index has been negative since March 2020, and in the major urban centers - in the most populous states - increasingly so. The national office occupancy rate is 32% of pre-pandemic levels. In New York City it is 22%. In Chicago it is 29%. In Los Angeles it is 28%. In San Francisco it is 19%.

A New York Times survey indicates that 25% of NYC households with children will home-school them this academic year. Other similar surveys say that 25% of the +55 workforce will not return to the workplace. 35% of working age women will not return to offices, and the 25-30 age group of young working people say they are only interested in stay-at-home employment. This cohort, by the way is also the 2nd-least-vaccinated of total population, trailing only minorities.

50th Anniversary of the End of the Gold Standard



Source: Goldman Sachs

Macro, Fixed Income and Rates : Growth normalization

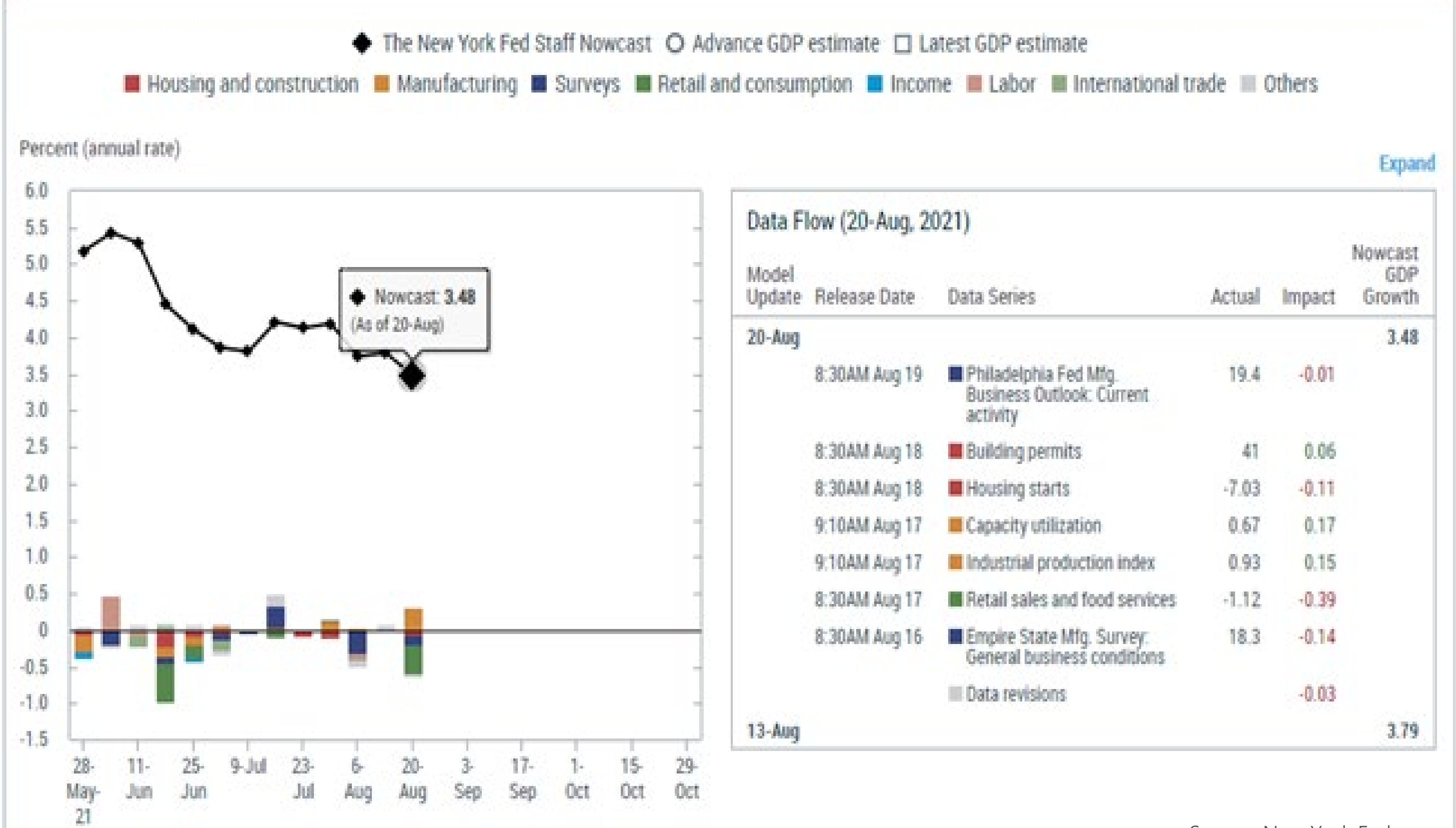
In the fixed income market, rates have been steady. There is a clear trend globally that rates will fall along with inflation expectations, as household income and consumer spending trends fall..

The Treasury bond market is the largest and most liquid market in the world. In 2020, U.S. Treasuries traded over $600b in value per day, well above the $450b traded in the U.S. stock market. This number is independent of the enormous notional amounts that trade in futures and other derivative products. The reach of the Treasury market is massive. For decades, sophisticated market participants have looked to treasuries as the best and fastest interpreter of emerging macroeconomic data. The Treasury market is viewed as the leader of market moves while other markets and asset prices tend to follow. Treasury yields are not driven by inflation or by Fed QE. They are priced based on where we are in the business cycle. If growth is real then durable rates will rise.

Large scale government transfers and quantitative easing both contribute to the rising money supply, but economists have proven that monetary and fiscal actions are largely impotent in stimulating economic activity due the massive debt overhang in the U.S and most major foreign economic powers. There is also proof that the benefit of debt financed fiscal stimulus disappears under the weight of debt.

The macro-economic result is that funds are being shifted to sectors of the economy that are the least productive engines of economic growth, and away from the high multiplier ones. Fear of pandemic, increasing debt, and the non-productive nature of subsidized livelihoods are decreasing the economy's ability to grow.

Boost in GDP Growth will fade toward the end of the year
New York Fed live calculation of the US GDP and its various components



Source: New York Fed

Equity : tech dominance and consolidation continue

The structure of the equity market is fragile. Breadth is deteriorating, small caps are underperforming big caps, growth is outperforming value, and the Dow Transports are underperforming the Dow. The number of stocks making new 52-week lows is higher than those making 52-week highs. These things have happened before and are not without some precedence in previous bear markets. But the SPX is at an all-time high again – which makes it highly unusual.

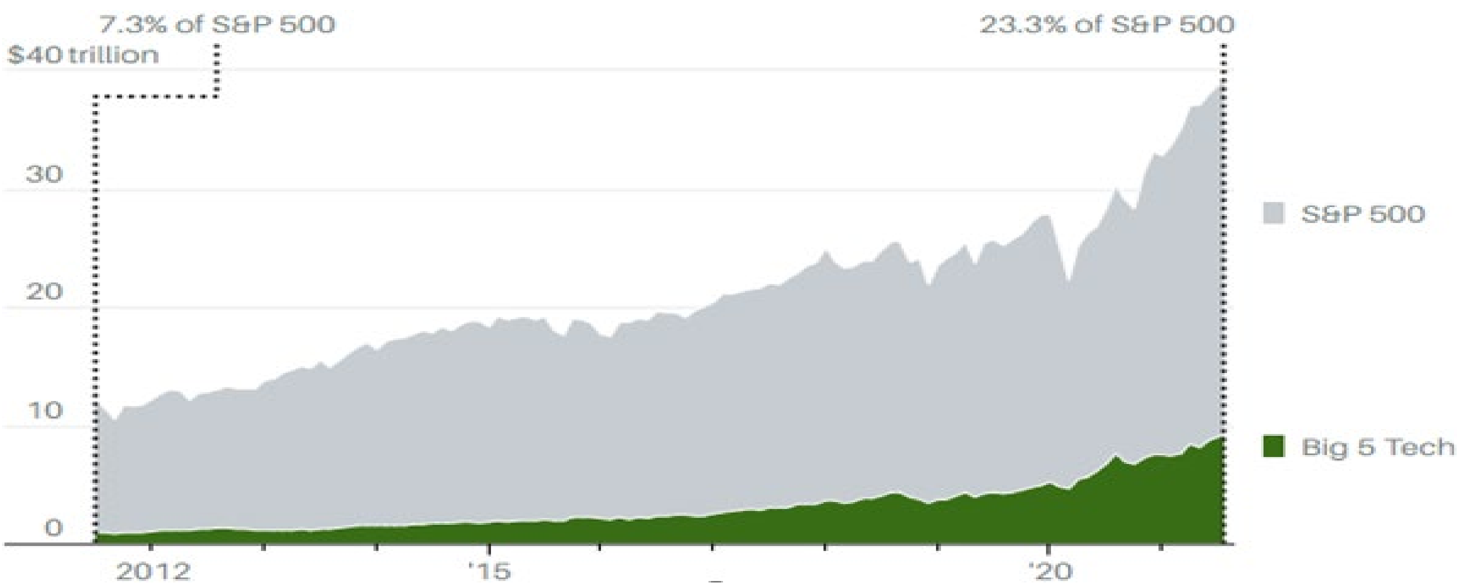
There is more than that. The consolidation of business in America is accelerating at an increasing rate. Ten U.S banks control 60% of financial assets. Verizon, AT&T, T-Mobile, control 98% of the mobile service market, four airline control two thirds of the travel market, and virtually every cereal, candy, snake food, or soda is owned by a large, global conglomerate.

As true and stunning as that is, what is happening in the Big Cap Tech stocks is more than unusual, it is historical

The information technology portion of the economy is the fastest growing industry, it is the most profitable industry and it is the most consolidated industry.

<AAPL>, <MSFT> ,<GOOG>, <AMZN>, and <FB> are in positions to completely dominate the post-pandemic American economy. With a combined market cap of $9.7t they now make up 24.25% of the market cap of the S&P 500 ($40t). At the end of 2019 that share was 18%. Since then, the shares of each of these stocks has gained at least 70%. That is because they offer a way to invest in the best sectors of the global economy. These are digital transformation, cloud computing, communications, entertainment, health care, finance, and education. Not to mention on-line commerce and transportation logistics. Business is shifting computing to the cloud and these five have the best business models on the planet. They are dominating economic consolidation trends. They are very smart, very well-connected with government, and can spend enormous amounts to capture market share to consolidate their positions in American and global business.

Apple, Microsoft, Alphabet, Amazon and Facebook now make up nearly a quarter of the S&P 500's total value

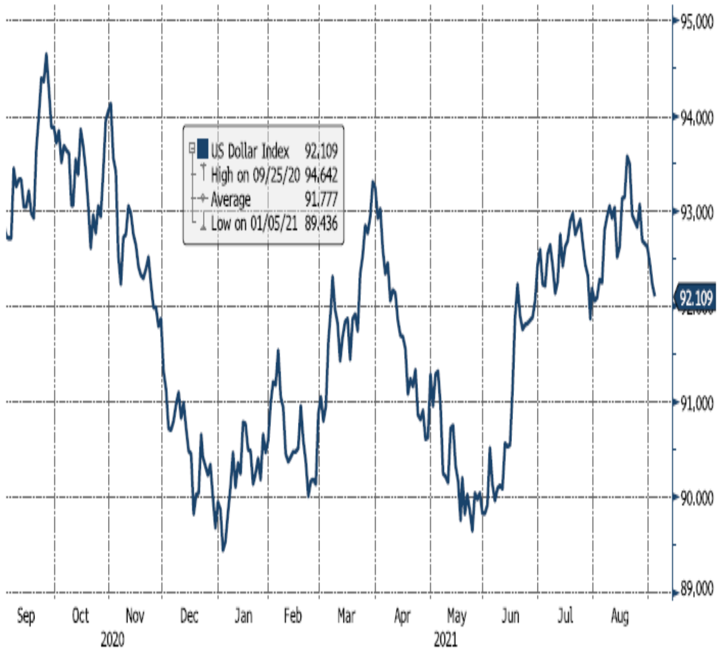


Source: Arbor Research

FX and Commodities: US Dollar in a tight range

There are only a few things to say here this month: The US Dollar Index has had a strong third quarter (+2.65%) and a strong August (+2%).

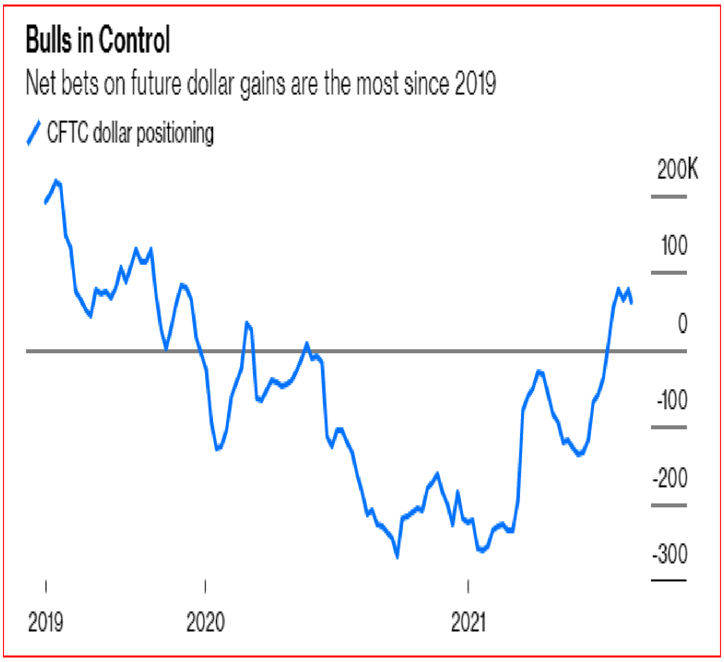
The print on August 20, 2021 (93.73) is the high for the year and the highest-print since last November. It is however substantially below the pandemic high of 102.99. It is in a range against its major trading partners, where it will likely stay. Let's call the top of it: 95.00 and the bottom of it: 90.00.



Source: Bloomberg

Gold has reversed higher by 4.8% in July because of dollar weakness and the swoon in real yields to all-time lows. (Which have plunged below the pandemic lows in March 2020).

It is clear: Gold is up on a weaker dollar and investor awareness that the Fed will maintain its support for the U.S economy after growth data severely missed forecasts. If we are right, real yields will plumb to new depths. As real yields fall, real assets will rise.



The CRB (commodity Index) made a six year high on July 29, 2021 (211.24). That puts it up 117% from the pandemic low: 101.20. We would not worry about it in this cycle. The CRB high was: 473 at the start of the Great Financial Crisis of 2008.

Powell is right to let it run until the economy gets closer to stabilization. That's a few years away. The economy will have substantially lower potential until then. Lower personal income, lower disposable income and lower consumer demand are coming, that will go a long way in reducing prices of food, energy and materials

OIL - The price of oil has historically been determined by that which is already on the surface. Now it seems it is determined by how much is bought by the Chinese, and by how dangerous it is to get out of the Persian Gulf. That is not an easy backdrop to figure out where this stuff is going.

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