

## Quarterly Market Outlook

July 2021

### The Economy Is Booming

Global growth has been very robust on the back of the vaccination rollout, led by the U.S. reopening. U.S. GDP grew at an estimated 10% annualized rate in the second quarter and is now above pre-pandemic levels.<sup>1</sup> With Europe not far behind and many emerging markets likely to follow in H2 2021, the world is on track for a strong synchronized recovery by year end.

### Vaccinations Accelerate Globally but Slow in US

55% of the U.S. has already received at least one vaccine dose, and Canada, the U.K. and many E.U. countries (e.g., Italy, Spain, Germany) have now surpassed the U.S. in vaccinations per capita.<sup>2</sup> Most emerging countries continue to lag behind, however, and with the emergence of the highly contagious Delta variant, these countries may continue to suffer until distribution catches up. Slowing vaccination rates in the U.S. and the prospect of other variants remain risks.

### Major Legislative Packages Are Still Being Negotiated

Congress continues to negotiate two major packages, a bipartisan \$1.2 trillion infrastructure plan and the highly partisan \$1.8 trillion American Families Plan. The latter would be passed exclusively by Democrats through budget reconciliation.<sup>3</sup> If the Democrats lose their majority in the mid-terms, it may prove difficult to sustain current levels of fiscal stimulus. The prospect of higher taxes, which would be required to pay for the American Families Plan, is another potential headwind to the recovery.

### Inflationary Pressures Are Growing

Inflation concerns continue to dominate headlines, with U.S. CPI up 5.4% year-over-year in June, the highest reading in over a decade. The reopening has exacerbated supply chain disruptions, oil is now above \$70/barrel, and new and existing home prices were up 18% and 24% year-over-year in May, respectively — among the highest increases on record.<sup>4</sup> Forward-looking inflation expectations have also increased and are now above the Fed's 2% target.<sup>5</sup>

### Job Growth Is Strong as Wages Rise

Job and wage growth have likewise been strong. Unemployment fell to 5.9% in June, still above the pre-pandemic low of 3.5% but recovering rapidly.<sup>6</sup> While job openings are at record highs, so are unemployment benefits, which is keeping workers on the sidelines and pushing wages higher. Average hourly earnings are up 6.6% since February 2020, rising at a rate not seen since the early 80s.<sup>7</sup>

### Fed Sparks Tightening Concerns

Against this backdrop, the Fed indicated in June that it could taper bond purchases and raise short-term rates earlier than expected, sparking concerns that tighter policy in the near term could jeopardize the recovery longer term. In response, the yield curve flattened as long treasuries continued their rally, with the 10-year yield falling from a post-pandemic peak of 1.74% at the end of Q1 to 1.47% three months later.<sup>8</sup> U.S. real yields are now back at long-term lows. This bond market pricing reflects an expectation that inflation pressures are likely to subside over the longer term.

## Equities Continue To Rally, but Growth Gains Against Value

Global stocks continued to make strong gains, up 7.4% in Q2 and 12.3% YTD, as current and expected earnings improved.<sup>9</sup> But in a reversal from Q1, growth outperformed value, leaving sectors like industrials, financials and energy again at historically “cheap” levels vs. growth.<sup>10</sup> The more cyclical international markets are likewise trading at lower P/E multiples than U.S. stocks. Stocks still look cheap compared to bonds, but valuations remain high.

## Looking Forward

Going forward, we see two major questions facing markets. The first is whether the recovery will be self-sustaining. Will consumers spend their pent-up savings and drive corporates to expand hiring and production, or will the economy falter as the stimulus is withdrawn? The second question is whether the recent inflationary spike will prove transitory. Will pressures subside as supply is brought back online, or will inflation persist, forcing central banks to react? How growth and inflation unfold will likely drive markets (and policymakers) in the second half of 2021.

Inflation hedges can offer valuable diversification benefits, particularly in this environment. And with long-term returns to stocks and bonds both likely to disappoint, high-quality private-market alternatives may offer a more compelling return to risk for investors who can access them.

## FOOTNOTES

<sup>1</sup> Source: <https://www.reuters.com/business/us-business-inventories-rise-may-autos-stocks-decline-2021-07-16/>

<sup>2</sup> Source: <https://ourworldindata.org/covid-vaccinations>

<sup>3</sup> Source: <https://thehill.com/homenews/morning-report/562005-the-hills-morning-report>

<sup>4</sup> Source: Bloomberg (CL1 Comdy, CPRTUCT% Index, NHSLAVS% Index, ETSLMP%Y Index)

<sup>5</sup> Source: JPMorgan, Guide to the Markets, 3Q 2021, at 31

<sup>6</sup> Source: <https://www.wsj.com/articles/june-jobs-report-unemployment-rate-2021-11625176511>

<sup>7</sup> Id.

<sup>8</sup> Source: Bloomberg (GTII10 Govt)

<sup>9</sup> Source: Bloomberg (MSCI ACWI Index, symbol NDUEACWF Index); Evoke analysis

<sup>10</sup> Source: JPMorgan, Guide to the Markets, 3Q 2021, at 53

## IMPORTANT INFORMATION

Past performance is not an indication of future results.

Advanced Research Investment Solutions, LLC (“ARIS”) and Evoke Wealth, LLC (“Evoke Wealth”) (collectively referred to hereinafter as “Evoke Advisors”) are SEC-registered investment advisers that provide investment advisory services and investment consulting services to a select set of clients and pooled investment vehicles. None of Evoke Advisors’ services are intended to represent a complete investment program.

This publication is for educational, illustrative and informational purposes only and does not represent investment advice or a recommendation of or as an offer or solicitation with respect to the purchase or sale of any particular security, strategy or investment product, or any Evoke Advisors investment product mentioned herein. Past performance is not indicative of future results.

Different types of investments involve varying degrees of risk, including possible loss of the principal amount invested. Therefore, it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended and/or undertaken by Evoke Advisors), or any non-investment related content, will be profitable, equal any corresponding indicated historical performance level(s), be suitable for a client’s portfolio or individual situation, or prove successful. Nothing contained herein is intended to predict the performance of any investment. There can be no assurance that actual outcomes will match the assumptions or that actual returns will match any expected returns.

This publication does not constitute, and should not be construed to constitute, an offer to sell, or a solicitation of any offer to buy, interests in any Evoke Advisors-sponsored fund, which can only be made by means of an offering memorandum and other governing documents for the respective fund.

This publication does not take into account your particular investment objectives, financial situation or needs, should not be construed as legal, tax, financial or other advice, and is not to be relied upon in making an investment or other decision.

Certain information contained herein constitutes forward-looking statements (including projections, targets, hypotheticals, ratios, estimates, returns, performance, opinions, activity and other events contained or referenced herein), which can be identified by the use of terms such as “may,” “will,” “should,” “expect,” “anticipate,” “project,” “estimate,” “intend,” “continue” or “believe” or other variations (or the negatives thereof) thereof. Due to various risks, assumptions, uncertainties and actual events, including those discussed herein and in the respective analyses, actual results, returns or performance may differ materially from those reflected or contemplated in such forward-looking statements. As a result, you should not rely on such forward-looking statements in making any investment decisions.

Certain information contained herein has been obtained or derived from unaffiliated third-party sources and, while Evoke Advisors believes this information to be reliable, neither Evoke Advisors nor any of its affiliates make any representation or warranty, express or implied, as to the accuracy, timeliness, sequence, adequacy or completeness of the information.

The information contained herein and the opinions expressed herein are those of Evoke Advisors as of the date of writing, are subject to change due to market conditions and without notice, and have not been approved or verified by the United States Securities and Exchange Commission (the “SEC”), the Financial Industry Regulatory Authority (“FINRA”), or by any state securities authority.

This publication is not intended for redistribution or public use without Evoke Advisors’ express written consent.