Global Economy

Risk assets rallied in the month despite continued inflation concerns, supply-chain issues, labor shortages and the spread of the Delta variant. While purchasing manager indices suggest a softening of the global expansion, global growth remains strong. In the US, inflation remains elevated but monthly increases have moderated and payroll data surprised to the upside. The Delta Covid surge that is largely to blame for a recent decline in consumer sentiment has shown signs of abating both in the US and globally. Markets will remain susceptible to pullbacks as governments continue to deal with new variants. The possibility of new restrictions is a risk for global growth, but many regions are learning to navigate the coronavirus without the large-scale restrictions of the early-pandemic.

The Federal Open Market Committee did not formally meet in August, with investors instead eagerly anticipating Chairman Powell's speech at the Fed's annual Jackson Hole Economic Policy conference. Chairman Powell shared that most of the committee supported the reduction of asset purchases this year, while also emphasizing that such a decision is not tied to an increase in the Fed Funds Rate. Overall the speech provided little new information, but the dovish stance on rates cheered markets. The speech supported the existing expectations for tapering to commence in late 2021 or early 2022. For now the Fed continues to expand its balance sheet by at least $120 billion a month.

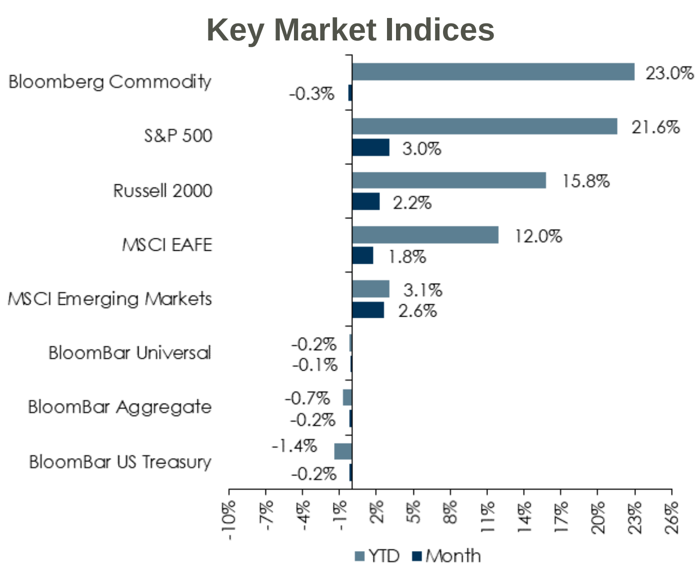
The second estimate of 2Q-21 real GDP indicated the US GDP expanded at a rate of 6.6% annualized, a 0.1% increase from the initial estimate. The update reflects upward revisions to nonresidential fixed investment and exports that were partly offset by downward revisions to private inventory investment, residential fixed investment, government spending, and imports. The Atlanta Fed's quantitative GDP forecast has declined in recent weeks to more modest growth of 3.7% in 3Q-21, down from a 6% estimate last month and below analysts' consensus estimates which range from 5% - 8%.

Weekly initial unemployment claims declined below 400,000 to the lowest levels of the pandemic era. For the month, a disappointing 235,000 jobs were added vs. expectations of 720,000, though unemployment still dropped 0.2 ppt to 5.2%. Employment in leisure and hospitality was unchanged, after increasing by an average of 350,000 per month over the prior 6 months. Core CPI fell to +4.3% as base effects have peaked. However strong demand and supply chain issues suggest elevated inflation will persist in the near-term. Core PCE was flat at +3.6% year-over-year through July.

	Current	Dec-20
US GDP (%)	6.60	4.30
US Unemployment (%)	5.20	6.70
CPI (Core) (%)	4.30	1.60
Fed Funds (%)	0.00 – 0.25	0.00 – 0.25
10 Year UST Yld (%)	1.31	0.92
S&P 500 Div Yld (%)	1.30	1.57
S&P 500 P/E (Trailing)	27.03	29.92
Gold/oz.	$1,815.80	$1,895.10
Oil (Crude)	$68.50	$48.52
Gasoline (Natl Avg)	$3.24	$2.33
USD/Euro	$1.18	$1.22
USD/GBP	$1.38	$1.37
Yen/USD	¥110.02	¥103.25

Source: Bloomberg

Global Markets



Source: Bloomberg

Global Equity – Equity indices were positive in August, with US markets outperforming Non-US markets. Emerging market stocks recovered to a positive month after the index lagged in recent weeks following regulatory crackdowns by the Chinese government and persistent virus outbreaks in less-vaccinated EM markets. Index level P/E multiples on forward earnings remain high but have moderated in recent months amid supportive earnings growth, and valuations currently favor non-US equities. The spread of Covid variants, peaking growth momentum, and a more hawkish Fed could produce headwinds for equities, but near-term support remains. Strong earnings growth is expected to continue, and relative valuations favor equities over credit given low interest rates and credit spreads.

Global Fixed Income – US Treasuries posted negative returns in the month with the 10-Yr yield rising from 1.22% to 1.31%. US Treasury yields rose across the curve ahead of the Fed's Jackson Hole Summit, where Chairman Powell shared that most of the committee supported the reduction of asset purchases this year, while also emphasizing that such a decision is not tied to an increase in the Fed Funds Rate. Core fixed income investing remains a challenge with nominal yields trailing inflation across the entire treasury curve and most grades of corporate credit, and credit spreads tight from an historical perspective. However a robust economy and demand for income should continue to support spread sectors.

Global Real Assets & Private Markets – Performance across all property types has improved but a disparity remains across sectors with industrial continuing to lead followed by multifamily, office, retail, and hotels. Measures for private equity purchase price multiples remain elevated as managers look to deploy dry powder. The broad commodities index was negative in August with the Energy sector down over 7% amid concerns over Covid and China's economy along with the general feeling that inflation has peaked. Ten-year inflation break-evens fell 6 bps in August to 2.34%.

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