



A WORD FROM
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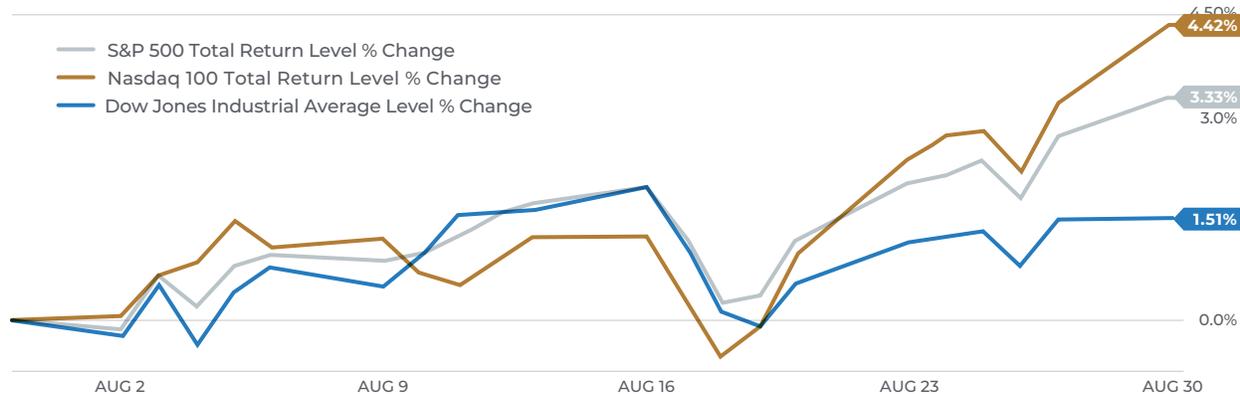


The S&P 500 posted its seventh straight positive month in August and has notched 53 all-time highs thus far in 2021. For the S&P 500, it will be its longest winning streak since a 10-month run ending in December 2017. This is also the benchmark's 9th positive month in the last 10 months.

Major U.S. averages collectively had a solid month as investors overcame concerns of the global spreading of the Covid-19 Delta variant. While the S&P 500 was up 3%, the tech-heavy Nasdaq Composite climbed 4% and the blue-chip Dow ended up a more modest 1.3%. The Nasdaq Composite Index pushed higher in August to close above the 15k point milestone. It took the index 196 days to notch the latest 1k point advance. This accomplishment relied heavily upon a beloved FAANG constituent, Apple. It was 10 years ago this August that Tim Cook became CEO of Apple, just a few months before the passing of Steve Jobs. Since Tim Cook took the reins in 2011, AAPL has returned over 1,000% on a price return basis and 27.1% on an annualized basis (through 8/25).

Today, Apple remains the world's largest company with a market cap that passed \$2.5 trillion and possesses the single-largest stock weighting in the S&P 500 and Nasdaq 100 indexes, accounting for 5.90% and 11.0%, respectively. Three years ago, it became the first U.S. company to hit \$1 trillion and, last year, the first to hit \$2 trillion.

Fed Speak: Fed Chairman Powell noted in his Jackson Hole virtual speech that the Fed is likely to begin tapering before year-end, but that interest rate hikes are by no means imminent. As I have mentioned previously, a move to start scaling back the Fed's massive monthly asset purchases (\$120B per month) should not be taken as bad news let alone misconstrued as a signal for interest rates to move higher. Chairman Powell noted that there is





still “much ground to cover” before the economy reaches full employment. He also reaffirmed his conviction that high inflation is transitory and noted that the hurdle for interest rate hikes in 2022 remains very high. A strong August jobs report on Friday could accelerate the current conversation that tapering will commence in either November or December of this year, but his continued ambiguity provides plenty of cover to hold off until 2022.

Earnings Season, Strong Corporate Profits

Continue: With another impressive earnings season in the rearview mirror, U.S. corporate profits surged at an annual rate of +45% in Q2, indicating that employment gains and business spending should strengthen. This healthy expansion helps explain the jump in corporate profits, provides valuation support for stock prices to march higher, and supports consumer spending projections at an annualized 5.0% increase in the current quarter, according to Bloomberg survey data, after a robust 11.9% rise in the three months through June. Having optimism that the COVID-19 Delta variant may have peaked in August, reopenings could potentially accelerate and consumer confidence should further increase. It appears that the recent disappointment in consumer sentiment, at 70.3 in August according to the University of Michigan survey, was an outlier.

Infrastructure: More questions than answers remain on the U.S. federal budget. House Democrats passed the \$3.5 trillion budget resolution in August, which will lead to the reconciliation bill. House Speaker Pelosi has committed to a path of approval by the end of September. However, the bill's future is uncertain in the Senate, where moderate Democrats Senator Joe Manchin and Senator Krysten Sinema have

pushed for a much smaller, narrower bill. Financial markets continue to assess the tax considerations connected to this bill, as President Joe Biden's original plan outlined an increase in the corporate tax rate as well as higher rates on incomes and investments for wealthy individuals. We believe moderates are likely to face pressure especially on higher taxes, which are certain to be a particularly contentious issue ahead of the 2022 midterm elections.

Positioning: I remain optimistic on equity markets for several reasons, including favorable interest rates, a dovish Federal Reserve and the fact that \$4.5 trillion in cash remains on the sideline. Specific sector exposure and remaining tactical going into the fall should prove valuable.

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