## LAKEVIEW CAPITAL PARTNERS – July 12, 2021

## LAST WEEK IN REVIEW

Last week, the major indexes closed mixed, with large-caps and growth stocks outperforming for the second consecutive week. Within the S&P 500 Index, the interest-rate-sensitive real estate sector performed best as longer-term Treasury yields decreased sharply. Energy stocks fared worst on concerns that disagreements among major oil producers would result in some violating output restrictions. Weakness among media firms also weighed on the communication services sector. Markets were closed last Monday in observance of Independence Day.

During the week, the primary driver of sentiment appeared to be the steep decline in US Treasury yields, with the yield on the benchmark 10-year Treasury note hitting a nearly five-month low on Thursday before climbing back somewhat to end the week. Equity investors appeared to welcome the decline early in the week, as falling bond yields typically improve the relative appeal of equities by implying a lower discount on future earnings and by making corporate dividends more attractive in comparison.

Perspectives seemed to shift on Thursday, with equity investors worrying that falling yields also signaled expectations for slowing global growth. Traders I spoke with noted that reports that Chinese officials might ease monetary policy to spur its economy seemed to add to such concerns. In addition, the global spread of the highly infectious delta variant of the coronavirus also appeared to dim the outlook, especially for travel-related companies.

## US - MARKETS & ECONOMY

The week's economic data generally indicated strong growth but surprised modestly on the downside, which may have helped push both equities and Treasury yields lower. The Institute for Supply Management's (ISM) gauge of service sector activity in June was lower than expected. The IBD/TIPP Economic Optimism Index fell back to its lowest level since February. Weekly jobless claims ticked higher, while May job openings rose a bit less than expected.

The sentiment seemed to swing back in a positive direction again on Friday, lifting the S&P 500 and the Nasdaq Composite Index to new records and sending the 10-year Treasury note yield sharply higher. Specific catalysts for the move were challenging to identify, but some pointed to expectations for the arrival of robust second-quarter earnings reports the following week. Analysts polled by both FactSet and Refinitiv are currently expecting overall earnings for the S&P 500 to have expanded by nearly two-thirds over the year before. However, this jump comes from lower numbers in 2020, given the shutdown of much of the economy last spring.

## US – EQUITY MARKET PERFORMANCE

| Index | Friday's Close Week Ending 7/9/2021 | Friday's Close Week Ending 7/9/2021 | % Change YTD Week Ending 7/9/2021 |
|---|---|---|---|
| DJIA | 34,870.16 | 83.81 | 13.93% |
| S&P 500 | 4,369.55 | 17.21 | 16.33% |
| Nasdaq Composite | 14,701.92 | 62.59 | 14.07% |
| S&P MidCap 400 | 2,706.42 | -3.15 | 17.33% |
| Russell 2000 | 2,280.01 | -25.75 | 15.45% |

***SOURCE: BLOOMBERG. THIS CHART IS FOR ILLUSTRATIVE PURPOSES ONLY AND DOES NOT REPRESENT THE PERFORMANCE OF ANY SPECIFIC SECURITY. PAST PERFORMANCE CANNOT GUARANTEE FUTURE RESULTS.***

## US YIELDS & BONDS

According to traders, the rally in bond prices was driven primarily by technical factors, although the misses in the economic data also played a role. The 10-year Treasury note yield sank to 1.25% in intraday trading on Thursday before partially retracing earlier moves. (Bond prices and yields move in opposite directions.) Minutes from the Federal Open Market Committee's June meeting, released Wednesday, seemed to evoke a slight reaction from market participants. The meeting summary revealed that policymakers do not believe the economic recovery has yet reached its goal of "substantial further progress" and suggested that most committee members were not eager to begin tapering the Fed's asset purchases.

Municipal bonds produced solid positive returns through most of the week but failed to keep pace with Treasuries.  The municipal traders I spoke with reported that light issuance and high cash balances led to more vigorous trading activity in the secondary market. Municipal Electric Authority of Georgia bonds were greeted with robust demand among the primary market's noteworthy deals.

Traders observed relatively lighter secondary trading volumes in the investment-grade corporate bond market. Volatility in rates seemed to dampen sentiment, and credit spreads widened, led by more volatile and energy sector credits. The high yield market was mainly quiet at the beginning of the week, as investors evaluated OPEC negotiation news, oil price movements, ISM data, and interest rate volatility.

The Fed's meeting minutes that reconfirmed policymakers' uncertainty on tapering seemed to have a muted impact on sentiment. But the high yield and broader risk markets later experienced weakness, given increased global growth concerns.


Source: Hedgeye.com

## US TREASURY MARKETS AND WEEKLY YIELD CHANGE

**3 Mth** 0.00 bps to 0.04%
**2-yr**: -0.02 bps to 0.21%
**5-yr**: -0.07 bps to 0.79%
**10-yr**: -0.06 bps to 1.36%
**30-yr**: -0.05 bps to 1.99%

***SOURCE: FOR THE WEEK ENDING July 9, 2021. BLOOMBERG. YIELDS ARE FOR ILLUSTRATIVE PURPOSES ONLY AND DO NOT REPRESENT THE PERFORMANCE OF ANY SPECIFIC SECURITY. YIELD CHANGES ARE FOR ONE WEEK. PAST PERFORMANCE CANNOT GUARANTEE FUTURE RESULTS.***

## INTERESTING NEWS OVERSEAS

Shares in Europe ended little changed, recovering from a sharp pullback stemming from concerns that a surge in coronavirus cases might hobble global economic growth. In local currency terms, the pan-European STOXX Europe 600 Index ended the week 0.19% higher. Major indexes were mixed. Germany’s Xetra DAX Index ticked up 0.24%, France’s CAC 40 Index declined 0.36%, and Italy’s FTSE MIB Index dropped 0.91%. However, the UK's FTSE 100 Index ended the week flat.

Core eurozone bond yields tracked US Treasury yields lower as global bonds rallied. The rapid spread of the delta variant of the coronavirus and weak US services activity data sparked concerns about the economic outlook and drove demand for high-quality government bonds, pushing yields lower. Peripheral eurozone government bonds and UK gilts largely tracked core markets this week.

Coronavirus infection rates continued to surge in the UK and Spain, partly due to the spread of the highly transmissible delta variant. In France, Health Minister Olivier Véran warned that the country could suffer a fourth wave of the pandemic by the end of July and urged as many people as possible to get vaccinated. In Spain, the number of cases exceeded the counts in Portugal and Russia, and some regions, including Catalonia, began to reimpose restrictions.

Japan's stock markets registered sharp losses for the week, with the Nikkei 225 Index falling 2.93% and the broader TOPIX index down 2.25%. The sentiment was dampened by concerns that the spread of the delta variant of the coronavirus would stall a global economic recovery. The yield on the 10-year Japanese government bond retreated to 0.03% amid expectations that the major central banks will not tighten monetary policy any time soon. At the same time, the pandemic continues to pose risks to growth. The yen strengthened to JPY 110.01 against the US dollar on safe-haven demand.

The government decided to place Tokyo under another coronavirus state of emergency to curb a recent rise in infections. The state of emergency, the fourth imposed by the government, could start on July 12 and last throughout the Olympics until August 22. The declaration means that the Games will be held without spectators in the capital—health experts, including the government's top COVID-19 adviser, have repeatedly warned that the event could trigger a surge in infections. Prime Minister Yoshihide Suga said that if the situation improves as more people get shots and the strain on the medical system eases, the government could consider lifting the state of emergency early.

Chinese stocks were mixed for the week, with the benchmark Shanghai Composite Index edging slightly higher and the large-cap CSI 300 Index recording a modest loss. Selling was pronounced in technology stocks amid heightened regulatory risk on reports that Beijing could tighten oversight of U.S.-listed Chinese companies, many of which are in the tech sector, as well as the government's continued crackdown on domestic tech companies.

On Friday, the People's Bank of China unexpectedly announced that it would cut its reserve requirement ratio (RRR), the amount of cash most banks must hold in reserve at the central bank. The move could unleash about RMB 1 trillion of long-term liquidity into the economy, according to Bloomberg, and effectively allow banks to increase lending to smaller companies hurt by rising costs. The RRR cut occurred two days after China's cabinet, the State Council, had called for such a move.

## THE WEEK AHEAD

In the US, investors' attention turns to the Q2 earnings season to kick off next week to get an update on the private sector recovery. S&P 500 earnings are estimated to have surged 65.8% from a year earlier, according to Refinitiv. Starting from Tuesday, big banks, including JPMorgan Chase, Goldman Sachs, Bank of America, Wells Fargo, Citigroup, and Morgan Stanley, report. On the data front, June's consumer price inflation rate will probably remain close to May's near a 13-year high, and retail sales figures for June are seen pointing to another month of weak domestic trade as consumers shift spending to services and travel picks up following the latest re-opening efforts. In addition, industrial output is likely to grow for a fourth consecutive month, and the preliminary reading of Michigan consumer sentiment for July could show a solid improvement in morale.

Have a great week.

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