CORBETT ROAD

MACRO MUSINGS

August 18, 2021

Charting the Course 2021

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SUMMARY

- Every August, we "Chart the Course" by reviewing a series of charts illustrating the important trends in the economy and markets. We find that the data shown in many of these charts is consistent with what we see in **macro**cast™. We hope you enjoy these, and we will resume publication of our regular, monthly Macro Musings in September.

CHARTING THE COURSE: **THE ECONOMY**

Job openings are at all-time highs. While the labor market continues to recover, it remains below peak employment levels seen in February 2020. There are several reasons for this, but a lack of available jobs is not one of them, with over 10 million openings reported in the latest survey. This bodes well for continued job growth as we move beyond the pandemic and its effects.

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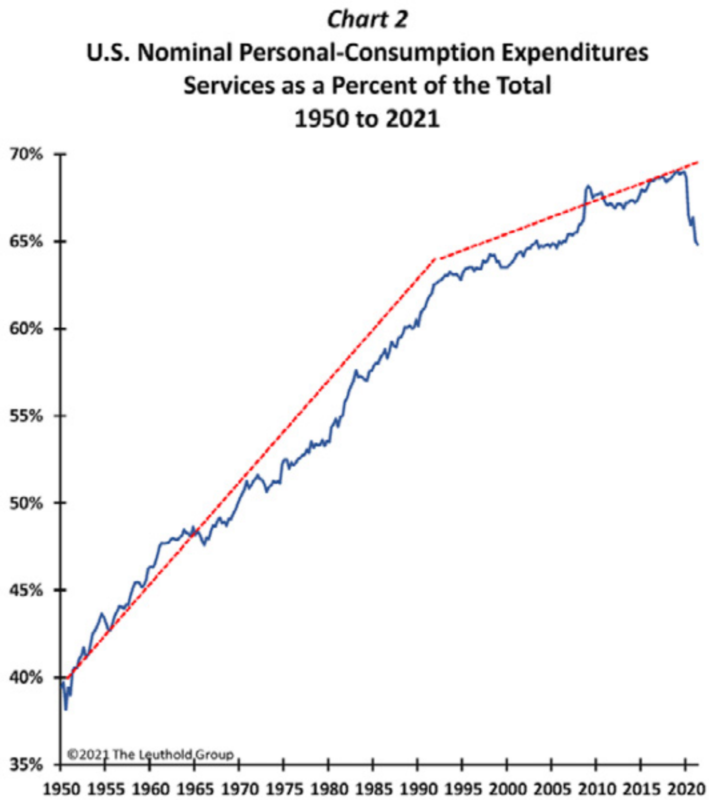
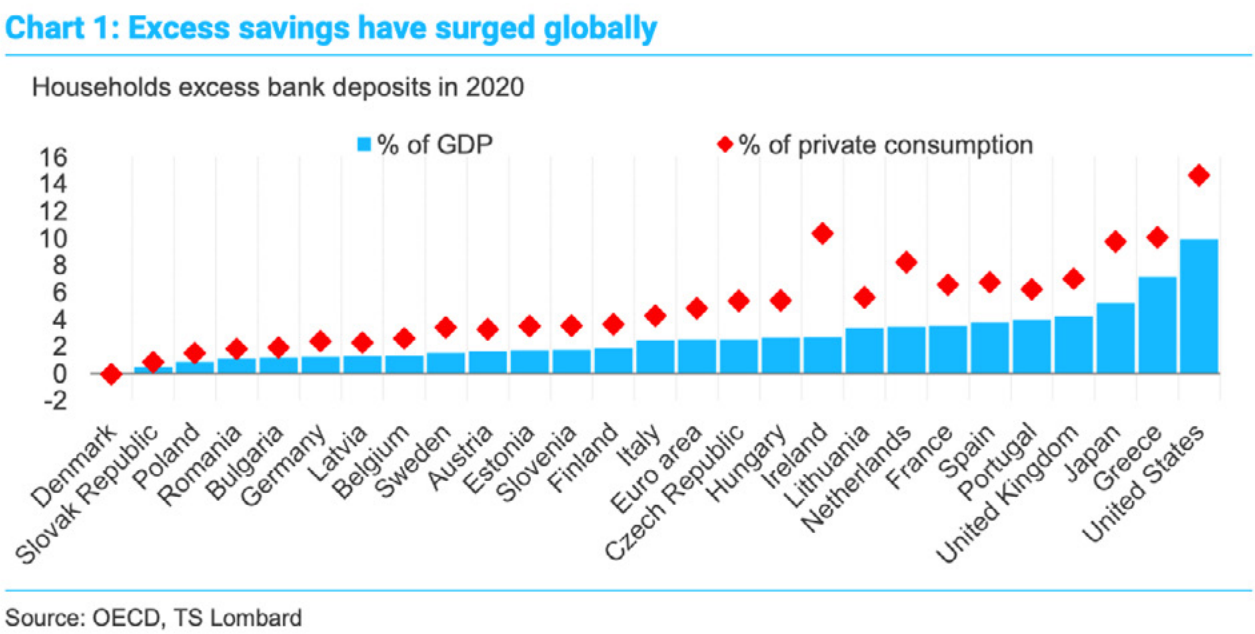
Spending on services is the lowest in 15 years. US has become much more of a service-based economy over the last 70 years. The pandemic disrupted that trend, as consumers were unable to spend as much as they normally would on traveling, restaurants, and other in-person activities. As a result, the percentage of spending that went to services dropped to the lowest level since 2005 (Chart from Leuthold Group):



Global consumers have a lot of savings left to propel the economy. The record amount of government support, rapid rebound in the economy, and inability to spend on services caused savings to skyrocket last year. There is still plenty of "dry powder" left to support economic growth in the years ahead.



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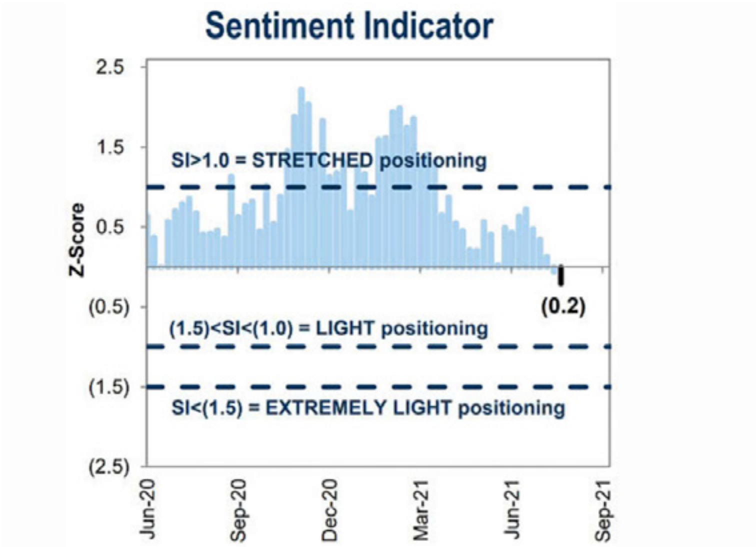
CHARTING THE COURSE: **SENTIMENT**

Fund flows into equities are still negative over the past year. Even though the market is near all-time highs and has doubled from the March 2020 lows, fund flows into stocks remain negative on a one-year trailing basis (chart from Fidelity):

Data source: FMRCo, Bloomberg, Global Financial Data (GFD), Coinmetrics, Haver Analytics, FactSet. Data as of 08/08/2021. Past performance is no guarantee of future results.

Fidelity INVESTMENTS

Recent positioning is not extreme. Goldman's sentiment indicator is neutral. While this indicator does not predict the market's direction, it does suggest market participants are not excessively bullish on the market despite record highs and strong year-to-date performance.



Note: Sentiment Indicator measures stock positioning across retail, institutional, and foreign investors versus the past 12 months. Readings below -1.0 or above +1.0 indicate extreme positions that are significant in predicting future returns.

Source: Haver, EPFR, FactSet, CFTC, and Goldman Sachs Global Investment Research.

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CHARTING THE COURSE: **INTEREST RATES**

It is hard to imagine interest rates in the US heading much higher without global rates also rising. Government bond yields in the US are among the highest in the world. Unless we see a rise in rates in Europe & Japan, significantly higher rates are unlikely.

Country	2-Year Bond Yield (%)	5-Year Bond Yield (%)	7-Year Bond Yield (%)	10-Year Bond Yield (%)
New Zealand	1.063	1.247	1.483	1.691
Singapore	0.328	0.734		1.312
United States	0.200	0.716	1.005	1.212
Canada	0.463	0.823	0.956	1.159
Australia	0.028	0.588	0.844	1.148
Norway	0.483	0.870	0.996	1.125
Israel	0.060	0.320	0.670	0.910
Hong Kong	0.016	0.461	0.688	0.804
Italy	-0.507	-0.127	0.116	0.528
United Kingdom	0.084	0.230	0.372	0.522
Greece	-0.558	-0.273		0.517
Spain	-0.624	-0.439	-0.217	0.203
Portugal	-0.672	-0.545	-0.293	0.097
Sweden	-0.338	-0.234	-0.119	0.041
Japan	-0.146	-0.142	-0.132	0.004
Ireland	-0.706	-0.630	-0.453	-0.113
France	-0.729	-0.562	-0.443	-0.162
Belgium	-0.762	-0.660	-0.517	-0.176
Denmark	-0.658	-0.632	-0.503	-0.208
Finland	-0.815	-0.735	-0.527	-0.257
Austria	-0.793	-0.681	-0.556	-0.274
Netherlands	-0.840	-0.755	-0.688	-0.385
Switzerland	-0.799	-0.740	-0.634	-0.462
Germany	-0.783	-0.767	-0.674	-0.501

**Source: Bloomberg 08/5/21*

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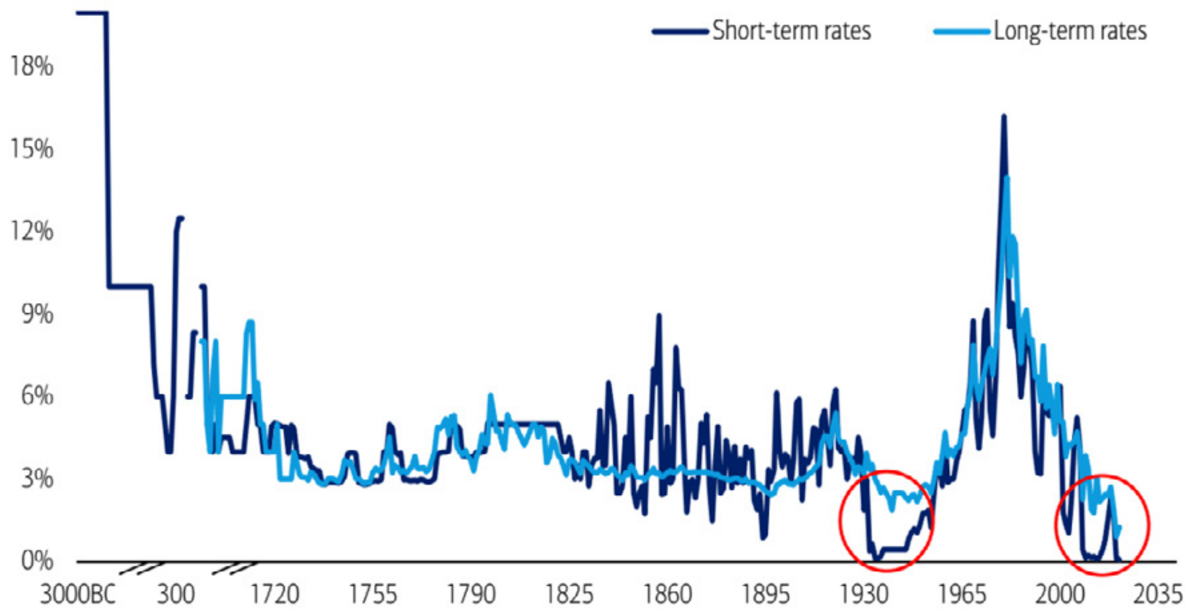
In fact, global rates have never been lower since lending began. This chart from Bank of America shows that global interest rates are the lowest they've been in history.

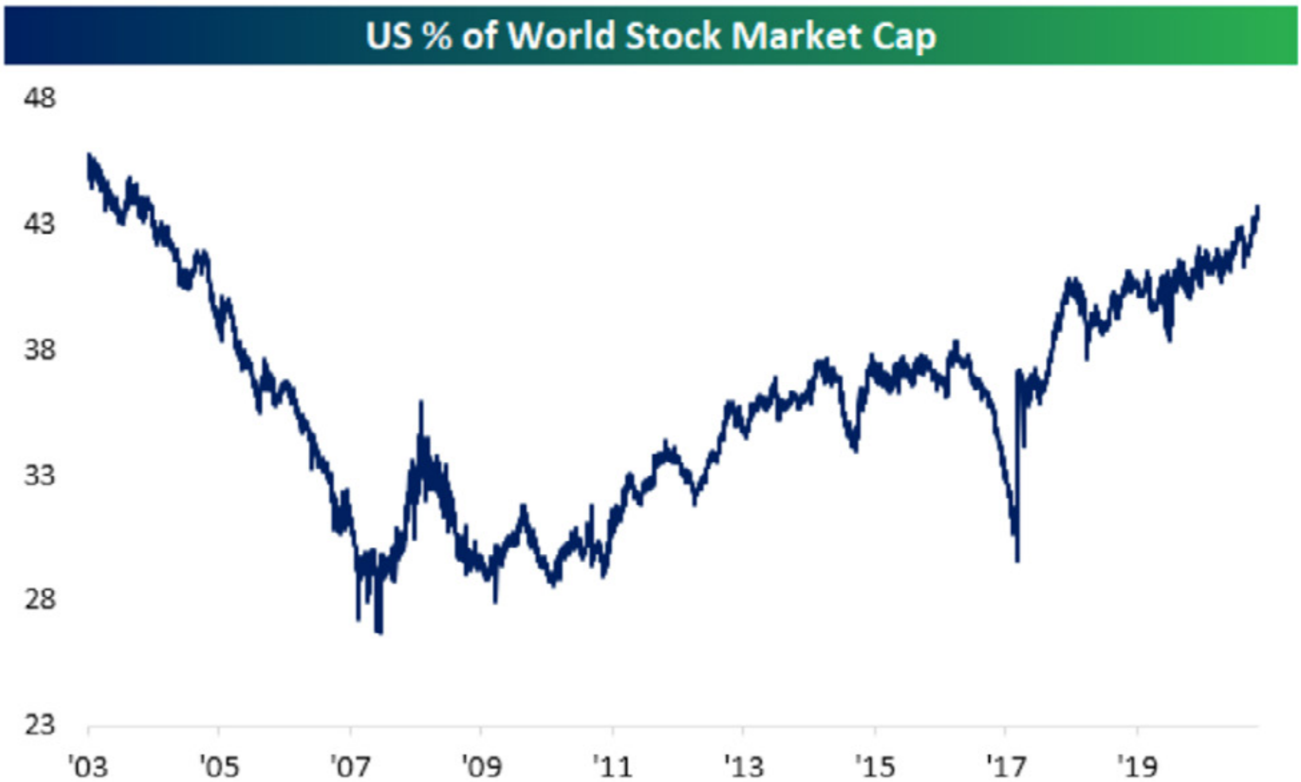
Chart 2: Price of money remains at 5000 year lows
Interest rates since 3000BC



Source: BofA Global Investment Strategy, Bank of England, Global Financial Data, Homer and Sylla "A History of Interest Rates" (2005)
BofA GLOBAL RESEARCH

CHARTING THE COURSE: **THE STOCK MARKET**

The US has seen large gains in global market cap. The S&P 500 has been by far the best performing major asset class over the past decade. As a result, the percentage of the world stock market cap represented by the United States is at the highest level since the early 2000s (chart from Bespoke):



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The market has risen six straight months. That momentum has historically led the market higher. After finishing down 1% in January, the market has posted six consecutive positive months. That has happened 21 times since 1950, and a year later, the market was higher 18 of those times, with a median gain of 10% (table from LPL):

Six Month S&P 500 Index Win Streaks

Long Monthly Win Streaks Have Produced Strong Future Returns

		S&P 500 Future Returns After 5 Month Win Streak			
Month	Ultimate Monthly Win Streak	1 Month	3 Month	6 Month	12 Month
February 1954	11	3.0%	11.6%	14.1%	40.6%
August 1958	11	4.8%	9.9%	16.0%	24.8%
April 1961	7	1.9%	2.2%	5.1%	-0.1%
May 1964	8	1.6%	1.8%	5.0%	10.0%
April 1971	6	-4.1%	-8.0%	-9.4%	3.7%
May 1972	6	-2.0%	1.6%	6.7%	-4.0%
June 1975	6	-6.8%	-11.9%	-5.3%	9.5%
September 1980	8	1.6%	8.2%	8.4%	-7.4%
January 1983	9	1.9%	13.2%	11.9%	12.5%
March 1986	6	-1.4%	5.0%	-3.2%	22.1%
April 1991	7	3.9%	3.3%	4.6%	10.6%
February 1993	7	1.9%	1.5%	4.6%	5.4%
May 1995	8	2.1%	5.3%	13.5%	25.4%
April 1996	8	2.3%	-2.2%	7.8%	22.5%
April 1998	6	-1.9%	0.8%	-1.2%	20.1%
August 2003	6	-1.2%	5.0%	13.6%	9.5%
November 2006	8	1.3%	0.4%	9.3%	5.7%
August 2009	7	3.6%	7.3%	8.2%	2.8%
April 2013	7	2.1%	5.5%	10.0%	17.9%
September 2017	10	2.2%	6.1%	4.8%	15.7%
September 2018	6	-6.9%	-14.0%	-2.7%	2.2%
July 2021	6*	?	?	?	?
Average		0.5%	2.5%	5.8%	11.9%
Median		1.9%	3.3%	6.7%	10.0%
% Positive		66.7%	81.0%	76.2%	85.7% (18 of 21)

Source: LPL Research, FactSet 07/30/21 * Streak not over yet

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

Remember that corrections happen, even in secular bull markets. The market has fully recovered from the COVID crash last year and has posted strong annual returns since the global financial crisis. Still, those gains have not come without significant and, in some cases, lengthy declines. This type of volatility is necessary for the opportunity to earn a risk premium over safer investments (table from Ben Carlson):

S&P 500 Corrections Since March 2009

Peak	Trough	Peak	Trough	Drawdown	Number of Days
4/23/2010	7/2/2010	1,217.28	1,022.58	-16.0%	70
4/29/2011	10/3/2011	1,363.61	1,099.23	-19.4%	157
11/3/2015	2/11/2016	2,109.79	1,829.08	-13.3%	100
1/26/2018	2/8/2018	2,872.87	2,581.00	-10.2%	13
9/20/2018	12/24/2018	2,930.75	2,351.10	-19.8%	95
2/19/2020	3/23/2020	3,386.15	2,237.40	-33.9%	33

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BACK TO SCHOOL

This time of year typically serves as a reminder for many parents and grandparents that they are one year closer to their children or grandchildren shipping off to college. If you have any questions, thoughts, or would like to discuss establishing a plan to help your child or grandchild fund their education, please contact your Corbett Road Wealth Manager today!

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