OBSERVATIONS

- Big Investment bank profits reach record levels: J.P. Morgan, Goldman Sachs, and Morgan Stanley have reached the highest ever four quarter profit over the most recent four quarters. J.P. Morgan was the standout, earning nearly $130 million per day over that stretch.[1]
- The street now expects earnings for S&P 500 companies to be up **+90% YoY**, up from +65.4% at the start of July, according to Refinitiv data. So far, 89% of reports have beaten profit forecasts, the highest ever earnings beat rate based on data going back to 1994.
- The Institute for Supply Management's (ISM) manufacturing PMI — a measure of the manufacturing side of the economy —declined to six-month lows of 59.5, though continues to be solidly in expansion territory.[2]
- Meanwhile, the ISM services PMI — a measure of the services side of the economy — increased to 64.1 in July, a fresh record high, up from 60.1 last month.[1]
- Economic recovery, low rates, and a healthy debt market have helped bankruptcy filings dip — filings for companies with liabilities greater than $50 million are on pace to be lower than 2020 and 2019.[1]
- Service sectors in Asia surprise to the upside. China's services PMI rebounded to 54.9 in July from 50.3 in June and India's services PMI rose from 41.2 in June to 45.4 in July despite concerns of Delta Covid variant.[3]
- Chinese tech stocks swooned early last week, particularly Tencent, due to state media article that likened online video gaming to a "spiritual opium" but since have largely recovered as the article was deleted and Tencent indicated it would take steps to curb children's access to online games.[1]
- According to the July Senior Loan Officer Opinion Survey, banks eased standards and reported stronger demand across all three consumer loan categories—credit card, auto, and other consumer loans.[4]
- Non-farm payroll increased by 943k (vs expectations of 870k), the largest job gains in 10 months and the unemployment rate dropped to 5.4%, a 17-month low. Once again, employment in hospitality and leisure accounted for a significant portion of gains (380k). With the additional 943k jobs created, total employment now stands 3.7% below pre pandemic levels.[1]

EXPECTATIONS

- As expected, the opportunity to raise the so-called debt ceiling came and passed. The U.S. Treasury is now operating under emergency protocols to ensure the timely payments to bondholders, Social Security recipients, and others. Current estimates are that the Treasury will run out of cash by October or November. We fully expect for the debt ceiling to be raised, while avoiding default, as has been done 78 other times since 1960 (49 times under Republican Presidents and 29 times under Democratic Presidents).[5]

ONE MORE THOUGHT:[6] *COVID variants…. the reason, or the excuse?*
The S&P 500 has now gone 192 trading days without a -5% or more correction, while many other markets have experienced more severe declines. Since 1929, the S&P has experienced -5% declines every 92 trading days (roughly three times a year) — on average. That said, we have seen significant stretches throughout history where the S&P 500 did not experience such a decline. The longest of such streaks was from late 1957 to mid-1959, a stunning 409

Notable declines of 5% or more in 2021

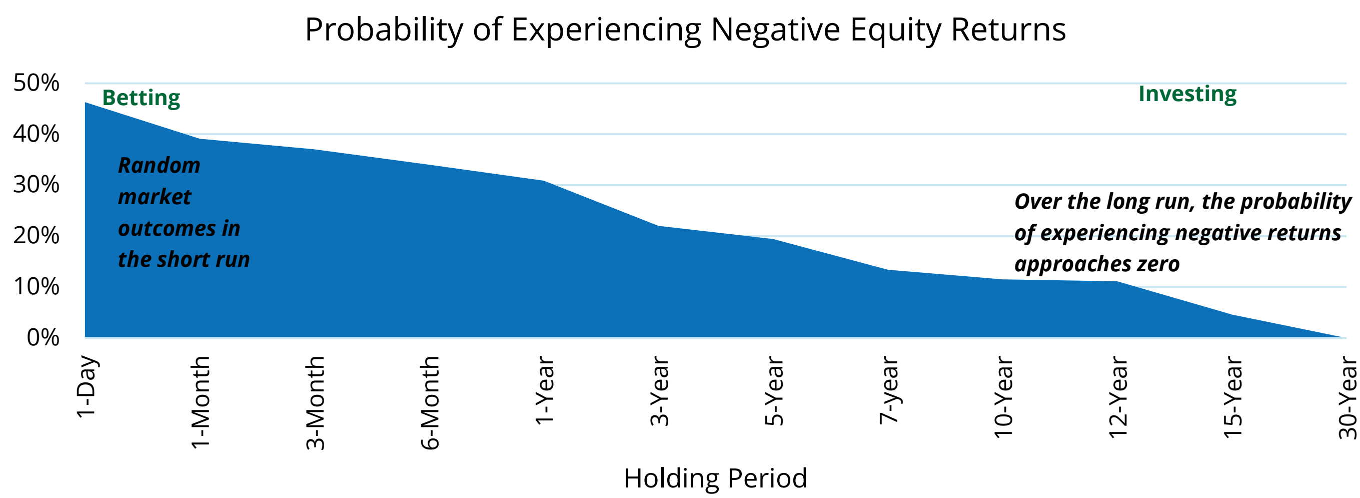
Index	Drawdown Dates		Decline
Russell 2000	4/28/2021	5/12/2021	-7.3%
Russell 2000 Growth	4/26/2021	5/12/2021	-10.9%
Russell 2000 Value	6/8/2021	7/19/2021	-12.1%
Russell 1000 Growth	4/26/2021	5/12/2021	-6.8%
NASDAQ 100	4/26/2021	5/12/2021	-7.4%
Renaissance IPO Index	2/12/2021	5/13/2021	-29.0%
IPOX SPAC Index	2/17/2021	5/11/2021	-24.3%
MSCI China	2/17/2021	7/27/2021	-31.1%

Source: Clearstead, Bloomberg LP

[1] *Bloomberg LP*
[2] *https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/pmi/july/*
[3] *https://www.markiteconomics.com/Public/Release/PressReleases*
[4] *https://www.federalreserve.gov/data/sloos/sloos-202107.htm*
[5] *WSJ, Committee for a Responsible Federal Budget, U.S. Department of the Treasury*
[6] *Bloomberg LP, https://www.wsj.com/articles/BL-MBB-38515*

trading sessions without a -5% loss while more recently, the market experienced a similar stretch from mid-2016 to early 2018 (399 trading sessions). So yes, the S&P is in the middle of a relatively remarkable stretch but perhaps not surprising given the continued surprises in corporate profits. If the delta variant (or other variants to follow) leads to draconian government response, then a COVID variant shall likely be the reason for this streak to end. Otherwise, the streak may come to an end for a variety of other reasons such as the potential for policy surprise at the Federal Reserve's upcoming Jackson Hole Symposium, inflation surprises, or China's self-inflicted market turmoil spilling over. Under those circumstance the headline garnering COVID variants are likely just to be an excuse for markets, with the true catalysts taking shape elsewhere. Our view is that any S&P 500 decline in the near future will likely be contained given the strong fundamental backdrop and is more likely to be related to non-COVID related risks given the lower probability we assign to draconian measures in response to the rise in COVID cases. All this said, we also point out the role of gamblers fallacy (chart of the week) in winning streaks and why it is important to keep a long-term perspective, or to ensure your investment portfolio is properly aligned with objectives.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, http://www.econ.yale.edu/~shiller/data.htm, All periods greater than 1-day are monthly rolling total returns and inflation adjusted from S&P 500 1871-2021, 1-day total return data from 1928-2021 not inflation adjusted

We expect, like most, that stocks are likely to generate less returns over the coming decade than in past. The path for earning that return remains less clear but history does provide a good perspective. Stocks produce a reliable stream of positive inflation adjusted total returns when held over a long enough time horizon (i.e., greater than 10 years). That stands in stark contrast to the randomness of markets over shorter horizons, where the potential for negative market outcomes increases.

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