

Investment Solutions

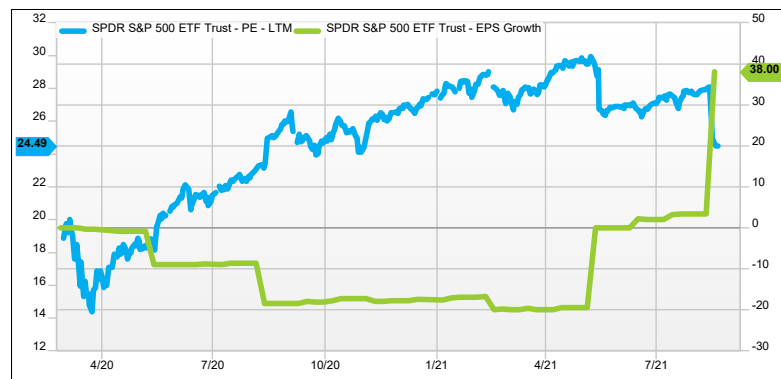
HIGHTOWER MARKET NOTE

with Stephanie Link

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Week of August 23, 2021

- Sentiment Shift Towards Defensives.** Market sentiment has shifted to favor companies with a defensive tilt, as Delta variant unknowns continue to grab headlines. Retail sales headlines missed expectations, bringing back the “peak growth” narrative, but we look through the headline numbers and see a strong economy and favorable environment for risk-assets and equities. The number of Delta cases are on a downward trajectory in areas first exposed, like India and the UK, which provides hope that as the US sees vaccination rates rise, we can begin to experience a similar downward trend in cases over the next few weeks. Though retail sales disappointed MoM, YoY retail sales are up 18%. Healthy consumer demand and continuation of strong earnings will benefit stocks as market prices follow profits. We continue to believe that this is a period to sift through the noise and focus on fundamentals.
- Value Opportunities Plentiful.** The sentiment in markets continues to provide a buying opportunity for stocks at low valuations, relative to their historical pricing. TJX recorded their best margin performance since the second quarter of 2016, further signaling a healthy consumer economy.¹ Companies like LOW also highlighted elevated demand from consumers, specifically in home improvement.² Healthcare companies are benefitting from patients returning to visit their doctors.³
- Fed Waiting for More Delta Variant Data Before Tapering.** The Fed Minutes released this week were largely in line with expectations – Board members looking to



¹ Source: [BusinessWire](#)

² Source: [CNBC](#)

³ Source: FactSet (chart)

taper (and likely this year) are growing, albeit at a slow pace (“several participants” is now “most participants”). However, the Fed has a large caveat to tapering this year: the spread of the Delta variant. To hedge this risk, they noted that no decisions are being made until the impact and longevity of the Delta variant becomes more apparent. As a result, the Jackson Hole symposium later this month – which was just changed to being a virtual meeting – is now unlikely to be the bombshell many investors had previously expected, and details of specific tapering amounts and timing seem unlikely. The retracement down of late July/early August’s jump in rates continued this week as we ended the week lower. Both the 10 and 30-year Treasuries rallied, closing the week at 1.25 and 1.86, respectively. Investment Grade Corporates and High Yield were both quiet, IG tightening by 3 bps and HY by 1bps. Municipals continue to sit at historically rich levels and were largely unchanged.

4. **“Buy the Dip” and “There is No Alternative.”** These mantras have presented themselves heavily in the media and for good reason. US Equities attracted \$12.8B last week, the largest inflow in nine weeks. Asset purchases by the Fed and fiscal stimulus have further reinforced these themes. Rising corporate profits and companies highlighting elevated demand provide a continued favorable environment for equity markets. Strong earnings are boosting company cash piles and have resulted in companies increasing their dividend and/or share repurchase programs as well as forecasting a ramp in capex. Initial claims hit a new post-pandemic low and the US continues to eschew widespread lockdowns.
5. **This Week’s Macro Events.** Though we are interested in Fed Chairman Jerome Powell’s conference on Friday, as we noted above, there’s limited expectations for breaking news surrounding the Fed’s Jackson Hole Symposium this week. Preliminary PMI Manufacturing and Services data for August are released Monday. Existing and New Home Sales are reported Monday and Tuesday. Thursday we receive a second preliminary Q2 GDP report and weekly Initial Claims. Friday is a big day with July PCE, Income, and Wholesale Inventories data being released – all of which play a role in analysis of the economy and inflation.
6. **This Week’s Corporate Earnings.** Tuesday: BBY, AAP, MDT, URBN. Wednesday: DKS, CRM, ULTA. Thursday: BURL, GPS.

Return for Selected Indices⁴

Index Name	End of Week	% Change		
		Week	Month	YTD
S&P 500 INDEX	4,442	-0.55%	2.04%	19.35%
DOW JONES INDUS. AVG	35,120	-1.01%	1.12%	16.13%
RUSSELL 1000 INDEX	2,487	-0.73%	1.63%	18.30%
RUSSELL 2000 INDEX	2,168	-2.47%	-2.89%	10.38%
FTSE 100 INDEX	7,088	-1.58%	2.08%	12.65%
HANG SENG INDEX	24,850	-5.75%	-8.62%	-6.92%
NIKKEI 225	27,013	-3.45%	-1.94%	-0.77%

Index Name	YTW	Spread	Duration	% Change		
				Week	Month	YTD
U.S. TREASURY	0.86%		7.12	0.30%	0.36%	-1.25%
U.S. AGGREGATE	1.43%	+56 bps	6.73	0.16%	0.23%	-0.65%
U.S. CORPORATE INV. GRADE	2.00%	+114 bps	8.74	0.19%	0.24%	-0.23%
U.S. CORPORATE HIGH YIELD	4.16%	+329 bps	3.89	-0.06%	-0.19%	3.59%
U.S. MUNICIPAL BOND INDEX	0.94%		4.83	0.02%	-0.25%	1.60%

Stephanie Link: CNBC TV Schedule

DATE	SHOW	TIME
Tuesday, August 24	Fast Money Halftime	12:00 PM ET
Wednesday, August 25	Squawk Box	6:00 AM ET
Thursday, August 26	Closing Bell	3:00 PM ET

⁴ Source: Bloomberg

Disclosure

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