AMB Wealth Management

Market Update July 8, 2021

Markets are looking a little shaky today following yesterday's Fed minutes. Similarly, there has been a deterioration in the technicals for weeks. When the S&P 500 hit new highs on Tuesday (black line in chart below), only 45 companies made new highs while around 50% of the index was trading below their respective 50-day moving averages (green line in chart below). When breadth disappears and only a handful of stocks are driving price movements, markets are more susceptible to downside risk. Please see **chart 1** on the following page.

Recent macroeconomic data has been very mixed. Signs are increasing that indicate stagflation may be on the horizon, as evidenced by the Bloomberg chart below that highlights the divergence between the Citi Inflation Surprise Index and the Bloomberg Industrial Sector Surprise Index. If those signs continue to play out, the economy could look similar to that of the Carter administration. Slower economic growth with inflation pushing to the upside is not a good mix. Please see **chart 2** on the following page.

Interest rates have continued to fall. We still believe this is driven by technical factors as long/short data still shows an imbalance. Ten-year Treasury rates have moved swiftly lower past a reasonable standard deviation, suggesting a mean reversion higher in the next few weeks. We do not foresee inflation subsiding in the second half of the year, and we believe the trend will worsen before improving. We also continue to think economic growth could surprise to the upside. In our view, we should still see rates climb toward 2% over the next four months.

We continue to believe high-growth technology stocks remain in a bubble, which that at some point will pop. We will continue to invest in quality companies with strong fundamentals despite being out of favor over the last month. We believe that trend will subside over the coming weeks as well. Our opinion on the most favorable sectors remains the same: Financials, Industrials, Materials, and other cyclical sectors.

Investors should remember that corrective activity is a natural occurrence in a healthy market. This past Tuesday, the markets achieved new highs on seven straight days which has only occurred on five other occasions in history – none of which marked a top in the market. An appropriate perspective reminds us that equities have posted solid returns this year and down days will occasionally occur.

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Market Update, Cont'd

Chart 1

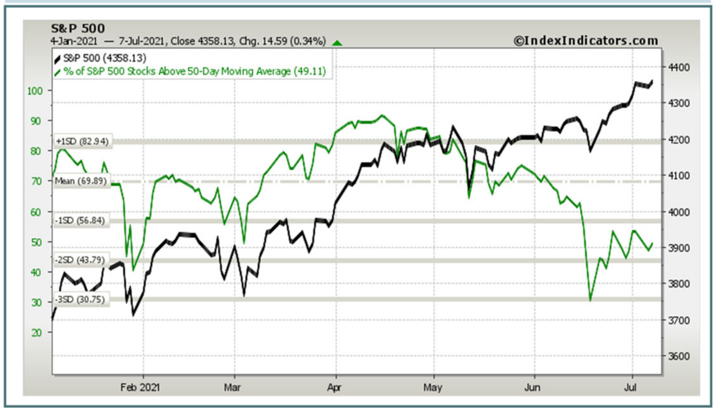

Chart 2

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