

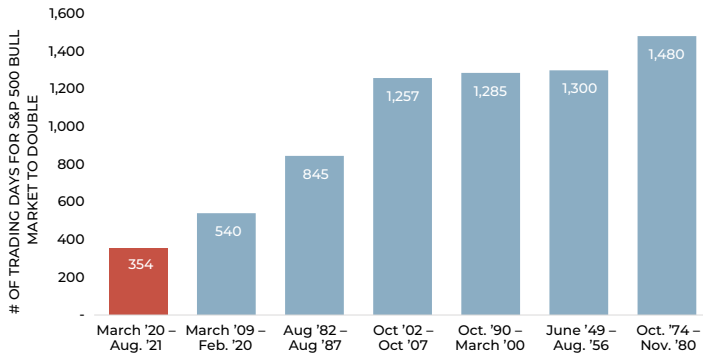
MARKETS IN FOCUS

Cracks in the Foundation

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The S&P 500 reached a new all-time high in August and officially posted its fastest start to a bull market since World War II, doubling its value in just 354 trading days (Exhibit 1). While this momentum is certainly impressive, we are not convinced the next leg of this bull market will be so easy.

EXHIBIT 1: THE CURRENT BULL MARKET IS OFF TO THE FASTEST START SINCE WORLD WAR II



Source: Bloomberg

3 REASONS FOR CAUTION

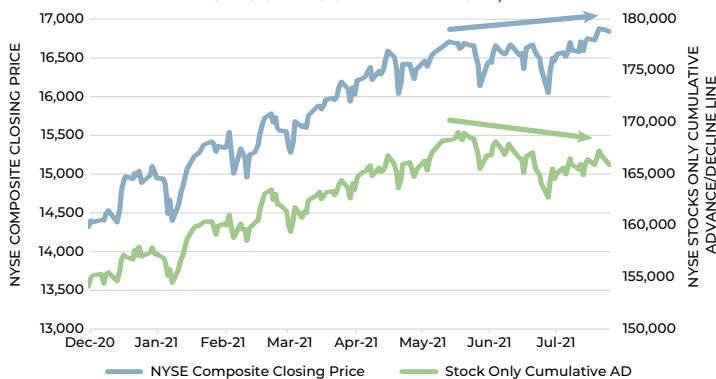
- 1) Market breadth is not supporting the trend
- 2) An increase in COVID-19 cases is negatively impacting consumer behavior
- 3) August and September are historically the worst performing months of the year

MARKET BREADTH IS NOT SUPPORTING THE TREND

Market breadth, the measure of how many individual stocks are participating in an uptrend, has been very poor in recent months. Despite indexes like the S&P 500 and the NYSE Composite making new all-time highs, few stocks are participating in the rally.

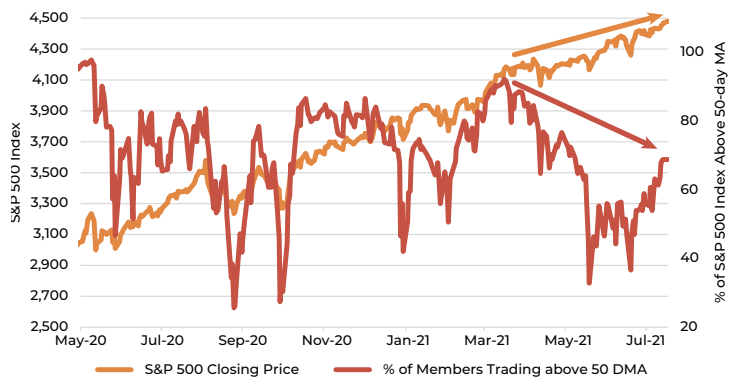
As shown in Exhibit 2, with the NYSE Composite Index at an all-time high, the NYSE Cumulative Stocks-Only Advance/Decline Line finished nearly 2% below its all-time high. In addition, only 69% of stocks on the S&P 500 are trading above their 50-day moving average (Exhibit 3). There is weakness under the surface of this stock market.

EXHIBIT 2: A MARKET BREADTH DIVERGENCE OCCURRED BETWEEN THE NYSE COMPOSITE INDEX & A/D LINE



Source: Bloomberg

EXHIBIT 3: A MARKET BREADTH DIVERGENCE OCCURRED BETWEEN THE NYSE COMPOSITE INDEX & A/D LINE



Source: Bloomberg

AN INCREASE IN COVID-19 CASES IS NEGATIVELY IMPACTING CONSUMER BEHAVIOR

Consumers are starting to react to the concerns about the rise in COVID-19 cases. For example, the University of Michigan Consumer Sentiment survey recently reached 70, its lowest level since 2011. July retail sales in the U.S. also experienced a larger-than-expected decline of -1.1%.

Alternative data is showing the same thing. As Exhibit 4 illustrates, the number of restaurant diners, airline travelers, and hotel revenue per room have all slowed during the past several weeks.

EXHIBIT 4: AUGUST AND SEPTEMBER ARE HISTORICALLY THE TWO WORST PERFORMING MONTHS OF THE YEAR



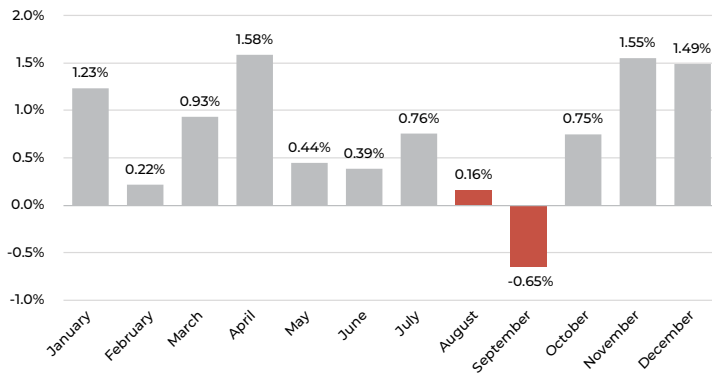
Source: Guggenheim Investments, Bloomberg, STR. Data as of 8.17.2021 for Diners and TSA, 8.7.2021 for hotels

SEASONALITY: AN UNCERTAIN TIME OF YEAR

The ‘doldrums’ is a popular nautical term that refers to the belt around the Earth near the equator, where sailing ships face windless waters, sometimes getting stuck. A place no sailor wants to be, this area serves as a collision course for trade winds from both the northern hemisphere and southern hemisphere.

This term has been popularly borrowed by investors as a reference to the stock market’s behavior between July and Labor Day weekend each year. Known as the “summer doldrums,” this period typically consists of below-average trading volume and liquidity, often leading to higher volatility and below-average returns (Exhibit 5). September 2020 was a great example, with the S&P 500 falling nearly 10% and not reaching a new high until November.

EXHIBIT 5: AUGUST AND SEPTEMBER ARE HISTORICALLY THE TWO WORST PERFORMING MONTHS OF THE YEAR



Source: Bloomberg



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