

Market Pulse

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In focus

On Wednesday, the minutes were released from the Federal Open Market Committee's July session. They showed what many already assumed – that a growing number of Federal Reserve (Fed) officials believe tapering its asset purchases this year will be appropriate. The muted response throughout the U.S. Treasury curve shows the Fed's communication strategy since the strong July jobs report prepared investors well for the shift in its forward guidance.

The Fed's dual mandate – to foster price stability and maximum sustainable employment – presents a very difficult balancing act. Fed officials must keep inflation in check while remaining accommodative enough to support the labor market's rehabilitation. The combination of burgeoning demand and disrupted supply chains is creating upward price pressures. While we expect to see inflation readings fall from their recent levels as supply challenges ease, current inflationary pressures will not vanish overnight. From a price perspective, it is clearly appropriate for the Fed to start winding down its asset purchases from its crisis-mode setting.

The employment side of the equation is less clear-cut. Millions of U.S. jobs have still not been replaced since the onset of the pandemic. The July jobs report showed meaningful progress toward closing the jobs gap, but the Fed would like to see a few more similarly robust reports before kicking off the tapering process. We expect payrolls to grow sufficiently over the next few months to allow the Fed to move toward a late 2021 taper. In the meantime, the Fed will use platforms like this week's economic symposium in Jackson Hole to tee up its future policy shifts and limit chances of a market tantrum. Clear messaging and transparency will be key.

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A look back

- Last week, the S&P 500 fell 0.6% while the MSCI ACWI declined 1.8% on rising Delta variant concerns. Emerging markets tumbled 4.6%.
- The 2/10-year U.S. Treasury curve flattened 4 basis points to 1.03%. Investment grade and high yield credit spreads widened 3 and 4 basis points, respectively, in response to last week's risk-off bias.
- Minutes from the Federal Open Market Committee's July meeting showed a growing number of Fed officials are in favor of reducing asset purchases later this year instead of waiting until early 2022.

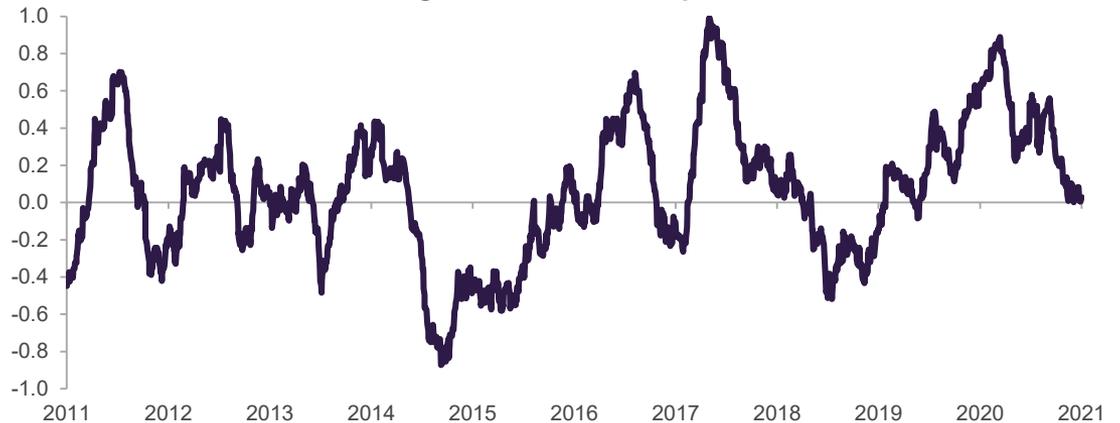
A look ahead

- Fed officials will use the Jackson Hole Economic Policy Symposium to publicly discuss its policy plans in an effort to avoid communication-related miscues. Chair Powell will speak Friday at 10am.
- The FDA approved the Pfizer-BioNTech two-shot vaccine on Monday morning. It becomes the first vaccine to move from emergency use authorization to full FDA approval.
- Economic releases: 2Q U.S. GDP, Markit U.S. Manufacturing, Personal Income/Spending, PCE inflation, Durable Goods Orders, and Home Sales.

Chart of the week – Economic data and expectations converge

Economic expectations plummeted in the middle of last year. The resilience of the U.S. economy, supported by enormous stimulus measures, helped U.S. activity far exceed downbeat projections. Since April, the Bloomberg Economic U.S. Surprise Index has fallen near zero, meaning U.S. data is no longer beating expectations on a consistent basis. That said, we still view the U.S. economy as being on solid footing and expect above-trend growth through 2023.

Bloomberg Economic U.S. Surprise Index



Data Source: Truist IAG, Bloomberg

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As of August 20, 2021

Index % Total Return	Week	MTD	QTD	YTD	1 Yr
MSCI ACWI (net)	-1.78	-0.11	0.58	12.95	28.64
S&P 500	-0.55	1.16	3.56	19.36	33.05
MSCI EAFE (net)	-2.95	-0.40	0.35	9.21	24.98
MSCI Emerging Markets (net)	-4.62	-4.31	-10.75	-4.10	15.11
Dow Jones Industrials	-1.01	0.71	2.06	16.13	28.97
NASDAQ Composite	-0.73	0.29	1.45	14.17	30.49
S&P U.S. REIT	-0.35	-0.29	4.53	26.62	37.35
Bloomberg Commodity Index	-4.21	-5.31	-3.57	16.82	26.96
Bloomberg Barclays Aggregate	0.16	-0.15	0.97	-0.65	-0.27
ICE BofA US High Yield	-0.09	-0.41	-0.06	3.64	10.13
Bloomberg Barclays Municipal Bond Blend 1-15 Year	0.02	-0.17	0.56	1.14	2.32
ICE BofA Global Government xUS (USD Unhedged)	-0.58	-0.79	1.06	-5.19	-1.23
ICE BofA Global Government xUS (USD Hedged)	0.20	0.32	1.79	-0.20	0.92
JP Morgan EMBI Global Diversified	0.23	0.17	0.59	-0.08	3.63

Rates (%)	8/20/21	6/30/21	3/31/21	12/31/20	9/30/20
Fed Funds Target	0.25	0.25	0.25	0.25	0.25
Libor, 3-Month	0.12	0.14	0.19	0.23	0.23
T-Bill, 3-Month	0.05	0.05	0.02	0.07	0.10
2-Year Treasury	0.21	0.25	0.16	0.11	0.13
5-Year Treasury	0.78	0.87	0.93	0.36	0.27
10-Year Treasury	1.26	1.44	1.73	0.91	0.68
30-Year Treasury	1.87	2.06	2.42	1.64	1.45
Bloomberg Barclays Aggregate (YTW)	1.43	1.50	1.61	1.12	1.18
Bloomberg Barclays Municipal Bond Blend 1-15 Year	0.68	0.76	0.87	0.77	0.96
ICE BofA US High Yield	4.12	3.85	4.27	4.24	5.76
Currencies	8/20/21	6/30/21	3/31/21	12/31/20	9/30/20
Euro (\$/€)	1.17	1.19	1.18	1.22	1.17
Yen (¥/\$)	109.81	110.99	110.50	103.25	105.53
Pound (\$/£)	1.36	1.38	1.38	1.37	1.29
Commodities	8/20/21	6/30/21	3/31/21	12/31/20	9/30/20
Crude Oil (WTI)	62.14	73.47	59.16	48.52	40.22
Gold	1,784	1,772	1,716	1,895	1,896
Volatility	8/20/21	6/30/21	3/31/21	12/31/20	9/30/20
CBOE VIX	18.56	15.83	19.40	22.75	26.37

U.S. style % total returns (S&P indexes)						
Week			YTD			
Value	Core	Growth	Value	Core	Growth	
-1.39	-0.55	0.18	17.95	19.36	20.57	Large
-2.31	-2.02	-1.70	22.35	16.88	11.48	Mid
-2.38	-2.11	-1.81	23.23	18.89	14.60	Small



Data Source: Truist, FactSet

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S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general. S&P 500 Information Technology Index —a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the information technology sector based on GICS® classification. The CBOE Volatility Index® (VIX®) is a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

MSCI ACWI Index (MSCI All Country World) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 45 country indices comprising 24 developed and 21 emerging market country indices.

MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

MSCI EM Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Bloomberg Barclays Global Aggregate Index is an index of investment grade debt including treasury, government-related, corporate and securitized debt, from 24 local currency benchmarks.

Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

The ICE BofAML U.S. High Yield Index tracks the performance of below investment grade, but not in default, U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.

The Bloomberg Barclays Municipal Bond Blend 1-15 Year (1-17 Yr) is an index of municipal bonds with a minimum credit rating of at least Baa, issued as part of a deal of at least \$50 million, that have a maturity value of at least \$5 million and a maturity range of 12 to 17 years.

The Bloomberg Dollar Spot Index tracks a basket of 10 leading global currencies versus the U.S. dollar.

The ICE BofAML Global Government ex U.S. Index tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency excluding all securities denominated in U.S. dollars.

JP Morgan EMBI Global Diversified index includes only USD-denominated emerging markets sovereign bonds and the traditional, market capitalization weighted method for country allocation is modified to limit the weights of index countries with larger debt loads by only including a specified portion of the eligible fact amounts of the debt outstanding.

The Bloomberg Commodity Index is a composition of futures contracts on physical commodities in five sectors including energy, agriculture, industrial metals, precious metals and livestock.

The S&P U.S. REIT index measures the investable universe of publicly traded real estate investment trusts domiciled in the United States.

IA SBB1 U.S. Large Stock Index measures the total return of U.S. large cap stocks on a monthly basis.

IA SBB1 Intermediate-Term Government Bond Index measures the total return of U.S. intermediate-term government bonds on a monthly basis.

IA SBB1 U.S. 30-day T-Bill index measures the total return of T-Bills with a maturity of one month on a monthly basis.

The S&P 500 High Beta index measures the performance of 100 constituents in the S&P 500 that are the most sensitive to changes in market returns.

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