PALUMBO
WEALTH MANAGEMENT
PARTNERING TO DELIVER STRENGTH

PWM Weekly Observations

July 24, 2021

Philip G. Palumbo, CFP®
Chief Investment Officer

Doug Augenthaler, CFA® CFP®
Chief Portfolio Strategist

As it often does, the stock market hit a rough patch in the beginning of the week due to concerns around the delta variant, economic growth, interest rates and more. Although no two market pullbacks are exactly alike, there have already been several periods of short-term volatility this year in response to similar headlines. **For long-term investors, it's important to remember that these setbacks are a natural, expected and manageable part of investing.**

Many daily headlines are focused on the fact that COVID-19 cases have begun to rise again in the U.S. and globally, driven by the delta variant. While the public health crisis continues to be severe outside the U.S., the market impact today should be quite different from other spikes in cases over the past 18 months. Not only are existing vaccines reported to be effective against the variant, but markets already know what to expect in terms of the range of economic effects. In any situation, it is less likely today that cities will be placed on lockdown, much less the entire country.

Despite this, it is natural for some investors to be concerned. Stock market pullbacks are never pleasant, especially when they occur unexpectedly, even if they are a completely normal part of investing. One source of this dissonance is the uncertainty that investors perceive compared to actual market performance. **So far this year, the largest peak-to-trough pullback has not even been as bad as 5% - despite what one might think from the constant flurry of headlines and concerns.**

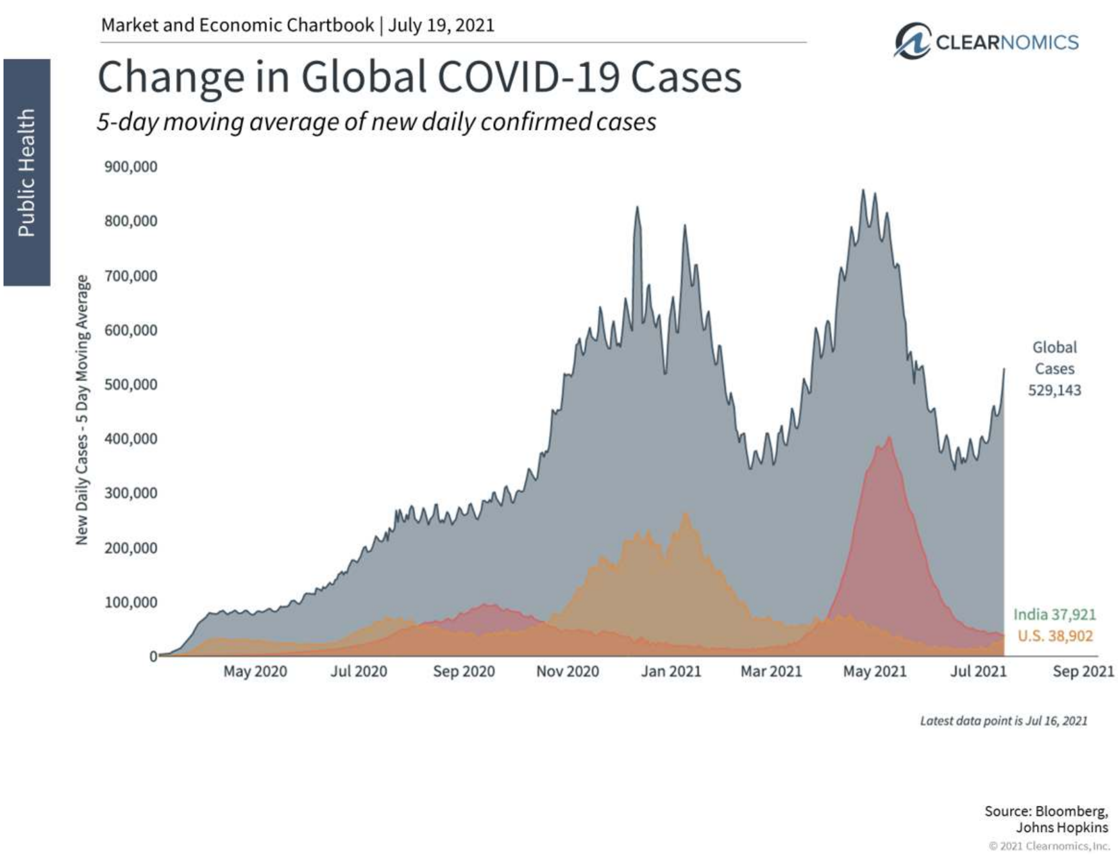
In contrast, **the average year experiences four to five distinct 5% pullbacks** - a hypothetical measure based on an investor who checks their statements too often. Whether or not there is a prolonged market correction or economic recession, each pullback feels as if it will last indefinitely. **More often than not, however, they turn around quickly**, **and markets resume what they do best: reacting to corporate and economic data.** In the current environment, with strong underlying growth trends for both companies and the broader economy, there are reasons to be positive despite worrisome headlines.

Of course, this does not mean that there won't be more volatility ahead or differing impacts across markets. At the moment, interest rates appear to have taken the brunt of the macroeconomic impact. **The 10-year U.S. Treasury yield, which has been declining since the first quarter, is now back to February levels.** This reflects both a flight-to-safety as investors buy Treasuries as well as uncertainty over the level of inflation. Ultimately, the supply and demand disruptions that pushed inflation higher this year and the consequences of loose monetary policy will be the deciding factors.

Investors should continue to expect periods of stock market volatility. There will always be causes for concern especially as the business cycle enters a new phase of growth, following the initial recovery. Although the delta variant may be worrisome from a public health perspective, the lesson for investors since last April is that markets can and do look through negative events if there are positive trends. Below are three charts that help provide perspective on this important topic.

1. COVID delta variant cases are on the rise

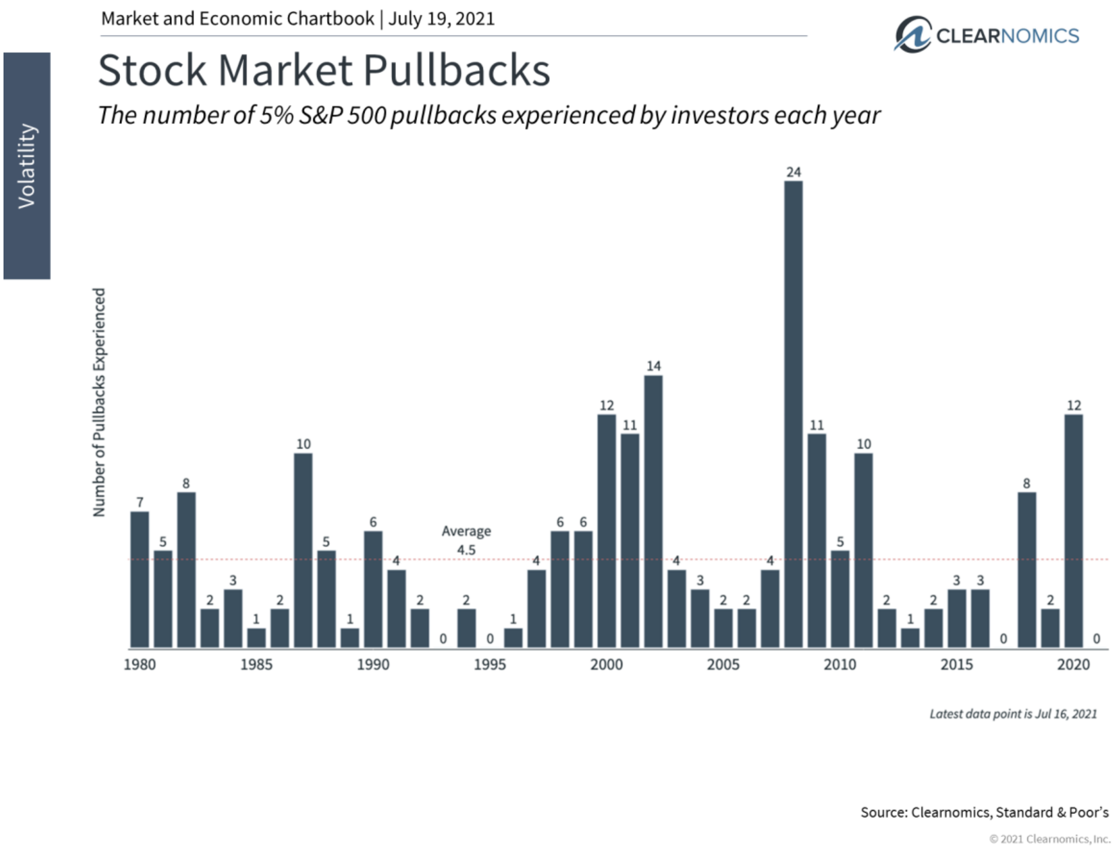
Change in Global COVID-19 Cases
Find this chart under "Public Health"



COVID-19 cases have begun to rise again due to the delta variant. However, not only do existing vaccines appear to be effective at minimizing severe cases and hospitalizations, but markets are also better equipped to understand and react to the on-going pandemic.

2. Despite investor concerns, pullbacks have been small

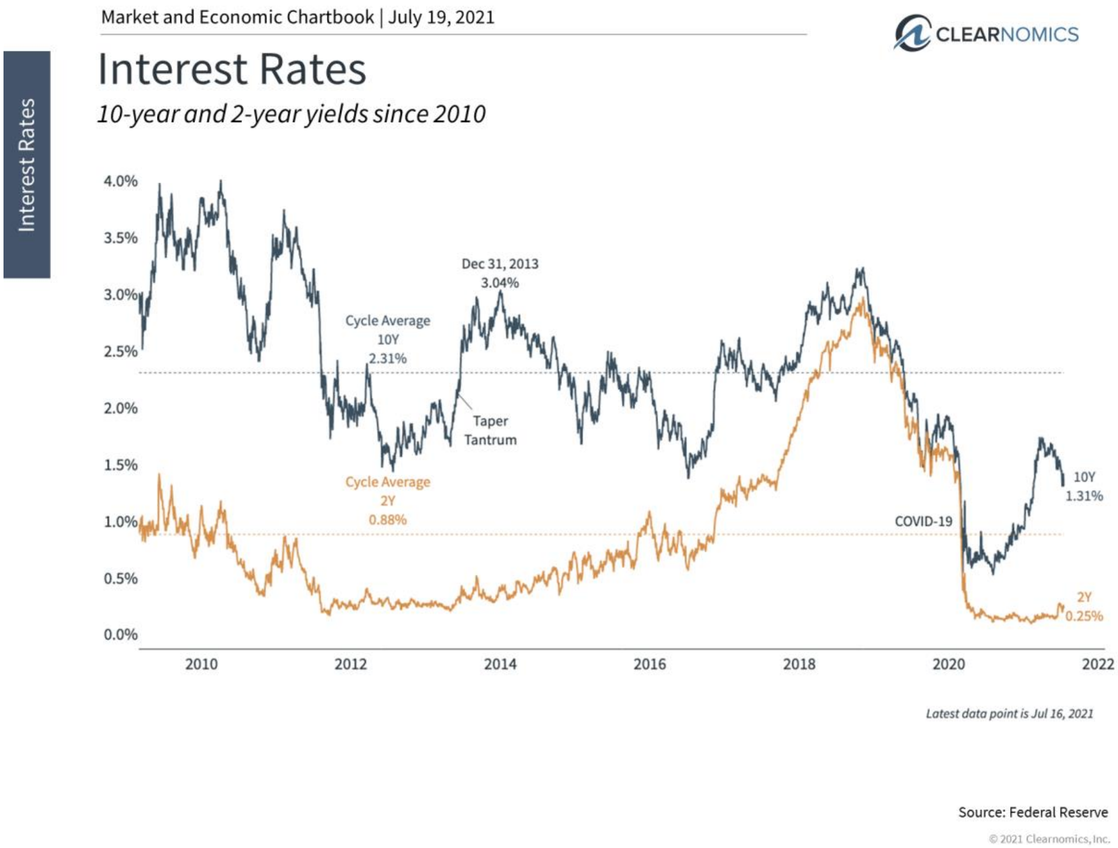
Stock Market Pullbacks
Find this chart under "Volatility and Staying Invested"



Despite the perception that the economic landscape is increasingly uncertain, the largest stock market pullback has been smaller than average this year. So far, there has not been a single pullback as large as 5%.

3. Interest rates have also fallen in recent weeks

Interest Rates
Find this chart under "Interest Rates"



Interest rates have moved in unexpected ways over the past year. Although many expected the 10-year yield to reach 2%, it has reversed over the past 3 months and is now back to February levels. Where rates go from here will depend on growth and inflation trends.

The bottom line? Investors ought to stay focused as volatility picks up. Not only is this a natural part of investing, but it is one reason long-term investors are rewarded in the long run.

PALUMBO
WEALTH MANAGEMENT
PARTNERING TO DELIVER STRENGTH

What We're Reading

- *Former Wells Fargo CEO expects 20% market decline in next 18 months (3 Min Vid)*
- *Too Much Money Portends High Inflation* ***(WSJ Subscription Required)***
- *Start-up Claims Breakthrough in Long Duration Batteries*
- *GM forced to halt most large pickup truck production due to chip shortage*
- *Fauci says vaccinated people 'might want to consider' wearing masks indoors*
- *From coal to cars, Chinese floods tangle supply chains*
- *Mercedes-Benz hits accelerator in e-car race with Tesla*
- *Embedded as a risk, new COVID cycle could challenge Fed, recovery*
- *How the garbage industry outperformed the market (15 min. Video)*
- *Global supply chains buckle as virus variant and disasters strike*
- *Beijing tutoring crackdown slams U.S.-listed Chinese stocks*

Markets This Week

The stock market got off to a very rough start on Monday, but rapidy recovered during the remainder of the week and stocks finished strongly higher. Emerging Markets were 2% lower, driven by Chinese stocks as Bejing cracked down on some U.S. listed Chinese stocks (See the "Beijing tutoring crackdown" link above). The defensive utilty sector was down almost 1% and energy was also weak as oilprices corrected. Growth and Techionolgy took the lead again as COVID concerns could be slowing the recovery. Commodities continued their strong run, and bonds generally registered modest gains.

US Equities	1 week	YTD	Fixed Income	1 week	YTD	Sector Breakdown	1 week	YTD
S&P 500 (SPY)	1.99%	18.05%	20+ Yr. Treasuries (TLT)	0.20%	-5.10%	Consumer Disc. (XLY)	2.95%	14.34%
Dow (DIA)	1.10%	15.42%	Barclays US Aggregate (AGG)	0.27%	-0.78%	Info. Technology (XLK)	2.81%	19.39%
NASDAQ (QQQ)	2.96%	17.64%	Intermediate Municipal (MUB)	-0.03%	1.40%	Financials (XLF)	0.39%	24.05%
Russell 1000 Growth (IWF)	3.31%	18.14%	US Corporate Bonds (LQD)	0.59%	-0.55%	Health Care (XLV)	2.22%	16.76%
Russell 1000 Value (IWD)	0.95%	17.17%	Barclays US High Yield (HYG)	0.32%	2.84%	Utilities (XLU)	-0.85%	6.40%
Vanguard Mid-Cap (VO)	2.56%	16.44%	Dollar Index (DXY)			Industrials (XLI)	1.67%	17.74%
Vanguard Small-Cap (VB)	2.27%	13.69%				Energy (XLE)	-0.33%	30.71%
						Materials (XLB)	0.79%	13.88%
International Equities	**1 week**	**YTD**	**Commodities**	**1 week**	**YTD**	Consumer Staples (XLP)	0.51%	7.13%
MSCI EAFE (EFA)	1.15%	10.06%	Commodities (PDBC)	0.91%	31.06%	Comm. Services (XLC)	3.26%	24.18%
MSCI Emerging (EEM)	-2.02%	2.08%	Gold (GLD)	-0.50%	-5.49%	REITS (VNQ)	0.51%	26.25%
						Homebuilders (XHB)	4.82%	29.39%

The table above is an analysis of the weekly and year to date returns of various markets/sectors that we follow (More RED = worse performing markets/sectors; More GREEN = best performing markets/sectors). Source: IEX Trading & PWM Research.

Retirement Planning:

[If you’re still working at 65, be sure to avoid costly Medicare mistakes]

You could face lifelong late-enrollment penalties if you don’t sign up for Medicare when you’re supposed to.

Estate Planning:

[Too Young for an Estate Plan? Think Again]

For young adults, the inevitable is typically not at the forefront when it comes to making future plans, precluding many from giving any thought to what may happen to their assets on death. In reality, all young adults should have some form of an estate plan in place.

Tax Planning:

[Here’s how to tap your house for cash as home prices soar]

Soaring home prices are making many homeowners wealthier and wealthier.

Health:

[Here’s Where COVID-19 Cases Are Rising and Falling]

According to figures from the CDC, the average number of new U.S. cases has risen to about 27,000 a day, about 7,000 more than the previous week.

Disclosures:

Palumbo Wealth Management (PWM) is a registered investment advisor. Advisory services are only offered to clients or prospective clients where PWM and its representatives are properly licensed or exempt from licensure. For additional information, please visit our website at www.palumbowm.com

Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this newsletter, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio.

The information provided is for educational and informational purposes only and does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your attorney or tax advisor.

The views expressed in this commentary are subject to change based on market and other conditions. These documents may contain certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. Any projections, market outlooks, or estimates are based upon certain assumptions and should not be construed as indicative of actual events that will occur.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.