THE PRIVATE CLIENT GROUP
BALANCING LIFE & WEALTH

ECONOMIC & MARKET INSIGHTS

An Executive Summary for July 2021

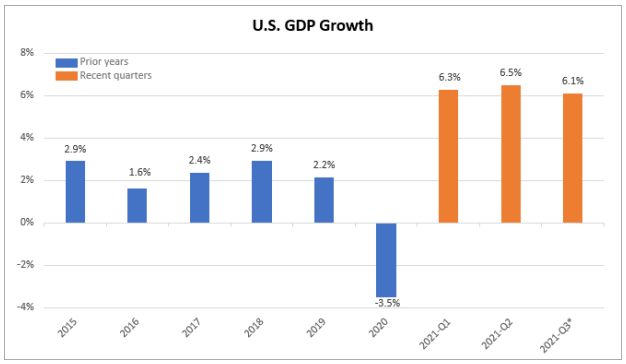
Despite anxiety about new COVID-19 variants, July was a solid month for investment markets. Broad equity markets reached new highs as investors assessed healthy economic and corporate earnings data against a backdrop of surging inflation and heightened asset valuations. At the same time, the resurgence of the coronavirus pandemic dominated the news, boosting bonds and other defensive assets. Bond yields fell to levels not seen in several months, suggesting investors foresaw a slowdown in economic growth and inflation.

The U.S. economy continued to recover from the COVID recession. Annualized real GDP growth of 6.5% during the second quarter was below expectations due to supply shortages which affected construction and auto sales. Consumer confidence and spending were healthier than expected. The labor market remains below pre-pandemic levels, but jobs are being added at a robust pace. Inflation continues to be high due to supply shortages in labor and raw materials, but inflation expectations have eased. Vaccination rates in Europe are catching up to those in the U.S., driving a surge in activity and shifting Eurozone GDP growth into positive territory. It is important to note that economic data is on a lag and does not reflect the effects of rising COVID rates and the return of restrictions in some regions.

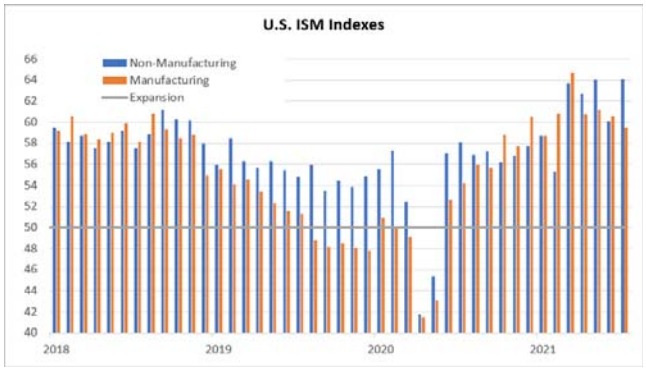
Although broad equity markets did well for the month, results across regions and sectors were mixed. In the U.S., over 90% of reporting companies beat earnings expectations and an unusually high level of share buybacks boosted stock prices. Although growth stocks overall beat value stocks, defensive sectors, such as real estate and healthcare, were top performers. Small capitalization and energy stocks dropped as investors shifted away from sectors expected to be hardest hit by a slowdown. Although the energy sector remains positive year-to-date, OPEC's plan to maintain the oil supply will likely be a headwind in the coming months. The emerging equity market index was weighed down by China, its largest component. Increased government oversight and tighter regulations for the housing market, online educational services, and technology companies triggered a sharp decline in Chinese stock prices.

U.S. Treasuries had the best month in almost a year as demand for safe-haven assets and fears of an economic slowdown shifted the yield curve lower. Real interest rates are negative and arguably at unsustainable levels. The Federal Reserve reiterated its commitment to dovish policies but suggested that bond purchases will likely be cut back by early next year which puts upward pressure on interest rates. Demand has been unusually robust with institutional and retail investors pursuing a mix of safe-haven bonds and riskier higher-yielding securities. Strong demand combined with paltry debt issuance pushed bond prices higher but tight credit spreads limited the upside for corporate and municipal bonds.

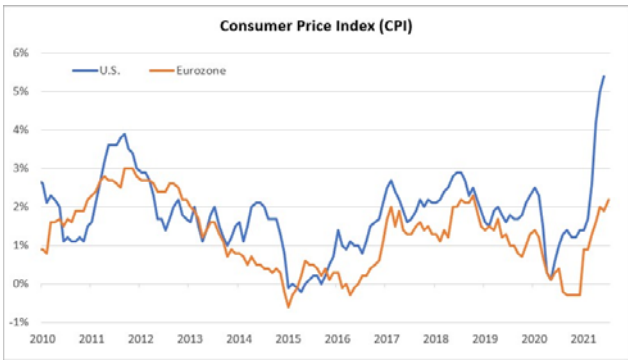
With the equity and bond markets sending mixed signals, investors should expect elevated volatility in the coming weeks. The unpredictable path of the coronavirus pandemic and political turmoil may contribute to investor's unease. The U.S. Congress seems poised to pass an infrastructure bill that would increase domestic spending, providing a catalyst for economic growth and inflation, but a divided Congress may make this task difficult. The U.S. debt ceiling has once again expired, an event that has triggered market volatility in the past. China is also a wildcard with a long history of government intervention and a precarious relationship with the United States. Investors should ensure that portfolios are aligned with their long-term risk tolerance and incorporate defensive and diversifying components.



*U.S. Department of Commerce, * Atlanta Fed GDP Now Estimate*

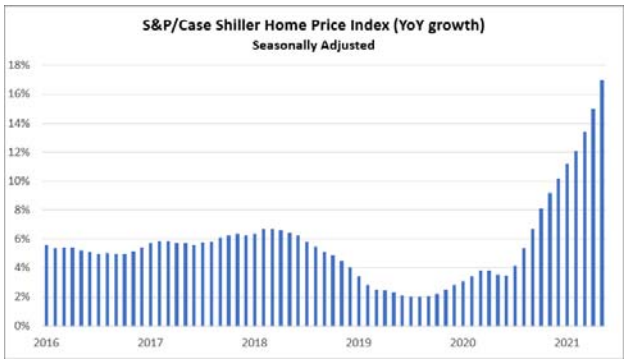


Institute for Supply Management

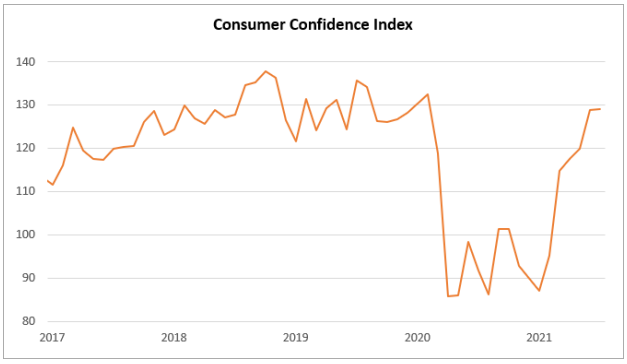


U.S. Bureau of Labor Statistics

Bloomberg



S&P/Case Shiller



Conference Board

U.S. GDP growth refers to the percent change in real Gross Domestic Product (GDP), the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. Real GDP corrects the nominal GDP for price changes and is net of inflation. The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms. It is considered to be a key indicator of the state of the U.S. economy. The ISM Non-Manufacturing Index is an economic index based on surveys of more than 400 non-manufacturing (or services) firms' purchasing and supply executives. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. TIPS Implied Inflation Expectations is the difference in the yields between U.S. treasury bonds and Treasury Inflation-Protected Securities (TIPS) with the same maturity date and is a useful measure of the market's expectation of future consumer price index inflation. The S&P Case-Shiller Home Price Index measures the value of single-family housing within the United States. The index is a composite of single-family home price indices for the nine U.S. Census divisions. The Consumer Confidence Index is based on a survey administered by The Conference Board that reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectation for inflation, stock prices and interest rates. U.S. corporate high yield spreads are the calculated spreads between the Barclays Capital Option Adjusted Spread index of U.S. dollar denominated below investment grade rated corporate debt publicly issued in the U.S. domestic market and a spot Treasury curve. Data in this newsletter is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss. Economic and market forecasts presented herein reflect our judgment as of the date of this presentation and are subject to change without notice. These forecasts are subject to high levels of uncertainty that may affect actual performance. Accordingly, these forecasts should be viewed as merely representative of a broad range of possible outcomes. These forecasts are estimated, based on assumptions, and are subject to significant revision and may change materially as economic and market conditions change. These forecasts do not take into account the specific investment objectives, restrictions, tax and financial situation or other needs of any specific client.

Steven W. Lieberman is the President and CEO of The Private Client Group Wealth Management, LLC. Investment advisory and financial planning services are offered through Summit Financial, LLC, an SEC Registered Investment Adviser ("Summit"). 4 Campus Drive, Parsippany, NJ 07054. Tel. 973-285-3670. Securities brokerage offered through Purshe Kaplan Sterling Investments, Member FINRA/SIPC. Headquartered at 80 State Street, Albany, NY 12207 ("PKS"). PKS and Summit are not affiliated companies. 08102021-0727