Monthly Commentary & Economic Outlook

MEMBERS TRUST COMPANY

September 1, 2021

The equity markets rose in August, as the S&P 500 was up +3.04%, US small caps +2.02%, US mid-caps +1.95%, international developed +1.94%, and emerging markets +2.44%[1].

The 10-year Treasury yield rose in August from 1.22% to 1.31%[1]. On 8/27/21, US Federal Reserve (Fed) Chair, Jerome Powell, said that he and his fellow officials at the Federal Open Market Committee agreed that "it could be appropriate to start reducing the pace of asset purchases this year"[2]. Previously, many economists expected the Fed to reduce the pace of monthly asset purchases, including Treasury bonds, sometime in 2022. It seems the expectation that the Fed will reduce the amount of Treasuries it is purchasing sooner rather than later has had the effect of pushing Treasury bond prices lower, thus moving the yields higher. We expect the 10-year Treasury yield to continue to rise; in our view, Treasury purchases by the Fed (along with bond purchases by other major central banks around the globe) have been the primary reason that the 10-year Treasury yield has remained below 10-year inflation expectations of 2.33% annually, as estimated by the Federal Reserve Bank of St. Louis[3].

On 8/26/21, lives were lost including those of 13 US service members in an attack at the airport in Kabul, Afghanistan, and unrest in the region continues[4]. While we certainly value the lives lost, the equity markets generally only value the earnings of the underlying companies. In our view, the earnings impact of the situation in Afghanistan is minimal, which is why the equity markets have largely ignored these events.

Emerging market equities have continued to underperform the S&P 500 in August, seemingly due to continued concerns over regulatory actions by the Chinese government. As recently as 8/30/21, China's National Press and Publication Administration said that minors will only be allowed to play online games for up to three hours per week, which impacted Chinese gaming stocks[2].

INDICATOR	OUTLOOK
GDP	
Unemployment	
CPI	
Fed Policy	
Interest Rates	
Dollar Strength	
Market Valuations	

External sources: Bloomberg data[1], CNBC.com[2], St. Louis Fed[3], NPR.org[4].