SGMC CAPITAL

June Monthly Review

A summary of key events and market trends during the month of June

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June Monthly Newsletter

- Broad US equity indices were up for the fifth straight quarter
- The Nasdaq, which was flat in Q1, added more than 11 % in Q2
- The S&P 500 had most sectors showing positive performance; indicative of strength across the board
- The Volatility Index (VIX) closed below 16 which is the lowest since the March 2020 sell-off.

The Federal Reserve is now talking about talking about tightening policy …

The 10 Year vs 2 Year spread flattened 25 bps for the month

Key markets

Index	Month to Date (%)	Year to Date (%)
Topix	1.17	8.89
Hang Seng China Enterprises	-1.34	0.67
Dax	0.71	13.21
Euro Stoxx 50	0.70	16.59
S&P 500	2.33	15.24
Dow Jones	0.02	13.79
Nasdaq 100	6.40	13.34
US 10 Year Treasury	- 0.12 pts	0.55 pts
EUR USD	-3.02	-2.93
USD JPY	1.41	7.62
Gold	-7.17	-6.76

Recap of the month …

A global resurgence of virus cases on account of the spread of the Delta variant has markets on pause for the moment. Even countries which have had good controls in place have not been able to dodge this bullet. The expectation is that higher vaccination rates across populations should help to counter the effects of the virus and we will be closely watching developments here.

The Federal Reserve is now talking about talking about tightening policy and this would likely mean tapering government and mortgage security purchases before any move on policy rates. The Fed's dot-plot at its latest meeting indicated rates lifting off in 2023 with some Governors talking about potentially 2022 and Chair Powell pushing the goal posts back again during his Congressional testimony.

All in, a somewhat unclear policy landscape; however, given where broad risk markets are trading its evident that most participants believe this to be a somewhat distant concern.

US employment numbers are still not able to deliver the big push which would indicate a robust enough recovery. Some part of the sluggishness is due to generous government unemployment support which dissuades some currently unemployed workers from actively seeking employment. This support rolls off towards the end of the year and will likely be a drag till then.

Another factor is likely the shift in approach towards work due to the pandemic. "Remote work" is now widely accepted and many large corporates, and smaller firms as well, are re-evaluating their staffing requirements. Can fewer, better connected employees do more than the larger pre-pandemic work forces? This seems likely the case, and if yes, will require a re-thinking of staffing needs.

For the second quarter all sectors of the S&P 500 reported positive sales and earnings surprises. The technology sector continues its juggernaut display of growth and the smaller cap names clawed back a good amount of ground that they lost in the first quarter.

With a Democratic leaning House and Senate, concerted regulatory action against Big Tech appears to be grabbing the headlines of late. This issue will be a tail-risk for the space for some time.

The US dollar appreciated off the lows and with the next monthly jobs report due in a couple of days will likely take further direction from how quickly or not the labor market is recovering jobs lost during the pandemic. Precious metals have given up the gains for the year and again, the developing employment and rate outlook will dictate near term price action.

The VIX has continues its time mostly below 20; this is conducive to continuing flows into risk assets. The next Federal Reserve meeting at the end of July and the annual Jackson Hole symposium in August will see further fine-tuning of US monetary policy. Before that we have earnings season kick-off again and will be closely watched for clues on equity performance.

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