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Economic & Market review – August 2021

US equities reached new highs again in August. Market worries over the outcome of the Federal Reserve's annual Jackson Hole symposium were ultimately allayed by Chair Jerome Powell. Powell struck a cautious note in his statement, stating that while the US economy had made progress on some important targets – specifically on inflation - tapering too aggressively could derail progress at a sensitive time, reiterating a desire to see further progress in the labour market. The comments were consistent with expectations that tapering could begin this year, but were broadly perceived as dovish. The boost to sentiment overshadowed worries over Hurricane Ida and the Covid-19 Delta variant.

The Fed stated more specifically that “provided that the economy were to evolve broadly as they anticipated, they judged that it could be appropriate to start reducing the pace of asset purchases this year.” All FOMC participants assessed that the economy had made progress toward the maximum-employment and price-stability goals since last December, although most participants believed that “substantial further progress” toward maximum employment had not been achieved yet. The bipartisan infrastructure deal of roughly \$1 trillion passed in the Senate. The deal includes \$550 billion in new federal investments in physical infrastructure, spread over five years. The infrastructure bill now moves to the House for approval.

Financials, especially diversified financials such as Goldman Sachs, Blackrock and Morgan Stanley, performed well as revenues for major investment banks returned to pre-pandemic levels. Communications services – including giants such as Google parent Alphabet, Facebook and Netflix - were also amongst the strongest performers after announcing strong earnings at the end of July. Energy companies lagged the index.

European equities gained in August, supported by a positive Q2 earnings season and ongoing economic recovery from the pandemic. The Delta variant of Covid-19 continued to spread but most large eurozone countries have now vaccinated around 70% of their population against the virus.

Information technology was among the strongest performers with semiconductor and semiconductor equipment firms continuing to benefit from high demand. Other top performing sectors included communication services and utilities. Consumer discretionary saw a negative return. Luxury goods stocks came under pressure amid suggestions that China could seek greater wealth redistribution, which could hit demand for luxury products. Consumer staples also underperformed amid weakness in beverages groups.

Annual inflation in the eurozone was estimated at 3.0% in August, up from 2.2% in July.

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