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Blowout jobs number puts the Fed in a tight spot. Earnings season continues to impress. More mask mandates enacted. Inflation worries persist.

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The Hot List

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1. COVID-19

As the Delta Variant spreads rapidly, businesses are dealing with new mask mandates. (<https://apnews.com/article/business-health-coronavirus-pandemic-7181d060be318e7aebdd2fa8922a937c>) The Lambda Variant (<https://www.cnn.com/2021/08/07/health/lambda-coronavirus-variant-wellness-explainer/index.html>) has emerged and is something to keep an eye on.

2. Inflation

Prices are rising across the board as the economy reopens. The debate is over whether they are “transitory.” One main area of concern is **rising rents** (<https://www.wsj.com/articles/rising-rents-pose-risks-to-the-feds-inflation-outlook-11628424000>).

3. Federal Reserve

The Fed’s 2-day July meeting concluded (<https://www.forbes.com/advisor/investing/fomc-meeting-federal-reserve/>) last Wednesday. Last week, Fed Presidents Clarida, Bullard, and Waller each made comments about tapering. There are expectations of more taper talk at Jackson Hole later this month. (<https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/>)

4. Employment

July’s jobs report (<https://www.nytimes.com/2021/08/06/business/economy/july-2021-jobs-report.html>) came in better than expected (943,000 vs 865,000). The employment rate also decreased to 5.4%.

5. Earnings

We are over half way into earnings season and companies are not only beating expectations but are **raising their guidance** (<https://www.cnbc.com/2021/07/29/halfway-through-earnings-season-the-peak-everything-story-may-need-to-be-put-on-hold.html>).

Last Week

Monday: S&P -8.15 (-0.19%) to 4387.11. No major headlines.

Tuesday: S&P +36.04 (+0.82%) to 4423.15. No major headlines.

Wednesday: S&P -20.47 (-0.46%) to 4402.68. ADP report released.

Thursday: S&P +26.42 (+0.60%) to 4429.10. Weekly jobless claims reported.

Friday: S&P +7.6 (+0.17%) to 4436.70. July jobs report released. Unemployment rate fell.

Technical Look

Possible Support: Last week, the S&P 500 broke below 4400 and bounced off the 20-day before moving higher. This makes both 4400 and the 20-day moving average areas to watch for support.

Possible Resistance: Nearing all-time highs, there is no clear resistance to the upside.

My Watchlist

Tech Titans (US) (<https://dreamwork.financial/tech-titans-us/>)

Cloud Computing (<https://dreamwork.financial/cloud-computing/>)

Financials (<https://dreamwork.financial/defensive/>)

Tactical Opportunities (<https://dreamwork.financial/tactical-opportunities/>)

Value (<https://dreamwork.financial/value/>)

My Take

July's strong jobs report should give investors confidence in the strength of the underlying economy. Unfortunately, it should also give the Federal Reserve confidence. In response, treasury yields rose sharply on Friday.

On the other hand, the COVID-19 Delta Variant remains the wildcard. It has become enough of a threat to the economy that the Fed really has to question raising interest rates too quickly. But with inflation becoming more apparent, the Fed is really backed into a corner. There has been expectations of taper talk at the Jackson Hole meeting later this month, and I'd expect it to only increase now.

As rates begin to rise, growth stocks and the TINA trade may be the victims as safer opportunities with acceptable yields will start to arise. If we hit a period of slowly rising interest rates, value stocks and financials should become more attractive. However, if rates really start to jump, then look for serious turbulence among stocks, but the Fed appears fully committed to the recovery. So if they start to lose control of rates, they may act.

In the meantime, I'd expect the momentum to continue in both growth and value stocks as investors hunt for real returns – net of inflation. The best thing you can do is make sure you have a game plan as volatility will probably start to pick up.

If you need help, please contact me at DreamWork Financial Group (<https://dreamwork.financial/contact/>) to build your Investing Gameplan™.

Until next time,

Clint Kirby

Chief Financial Strategist

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