



Index/ETF	1-Mo	YTD	1-Y
Equities			
US Growth (QQQ)	2.86%	16.48%	37.94%
US Large-Caps (SPY)	2.44%	18.06%	36.31%
International Developed Equities (IEFA)	0.92%	10.90%	32.48%
US Value (IVE)	0.79%	17.23%	35.51%
US Mid-Caps (SPMD)	0.32%	17.96%	46.90%
US Small-Caps (SPSM)	-2.39%	20.44%	56.74%
Broad-based Emerging Markets (EEM)	-6.44%	0.30%	20.96%
China (MCHI)	-13.55%	-11.79%	0.65%
US Bonds			
Treasury Inflation Protected Notes (TIP)	2.68%	4.18%	6.42%
US Treasury 7-10 Year (IEF)	1.99%	-1.49%	-3.38%
Investment Grade Corporate Bonds (LQD)	1.42%	-0.37%	0.73%
US Aggregate Bond Index (AGG)	1.12%	-0.56%	-0.76%
Municipal Bonds (MUB)	0.46%	1.25%	2.58%
High Yield Credit (HYG)	0.10%	2.71%	7.62%
Commodities			
Gold (GLD)	2.53%	-4.79%	-8.42%
Crude Oil (USO)	1.56%	53.47%	74.27%
Broad-based Commodities (BCI)	1.52%	22.24%	39.53%
Silver (SLV)	-2.44%	-3.83%	4.33%

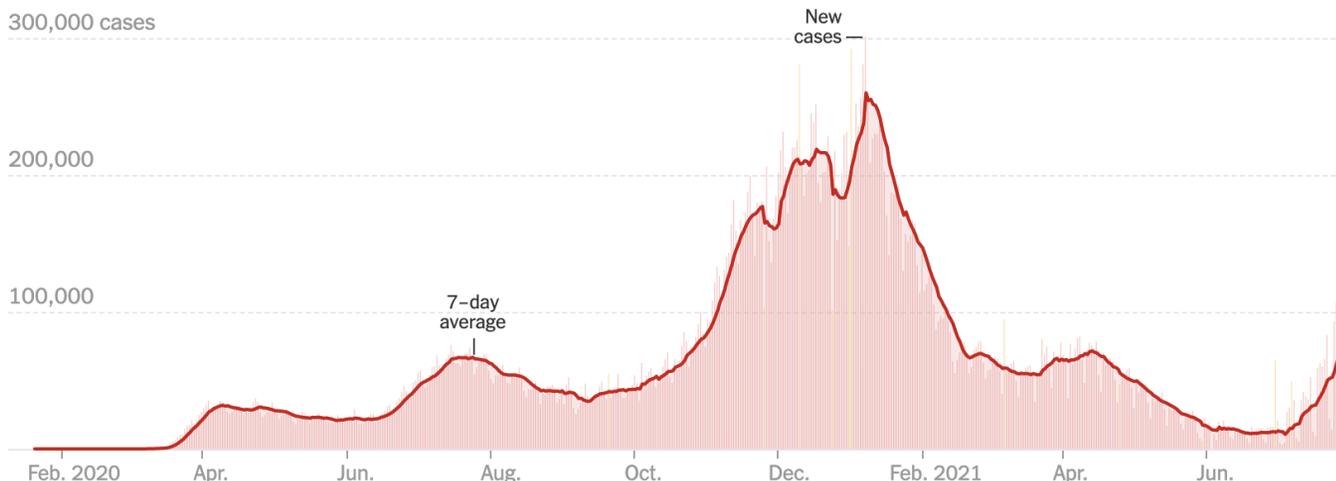
Rising Covid Cases? The Delta variant, originally discovered in India towards the end of last year, has recently caused an uptick in Covid cases around the world. Although the strain does not make people sicker, scientists are concerned because it is more contagious and can infect those who are fully vaccinated. According to the CDC, the Delta variant accounted for 83% of Covid cases in the US as of July 20th. As seen in the chart below, the total number of cases is still low relative to peak levels. However, many are still worried that mask mandates, social distancing requirements, and even quarantine measures may return, effectively slowing and endangering the economic resurgence.

China’s Regulatory Ramp Up Continues: As per a report released July 24th from Xinhua news agency, China is barring for-profit after-school tutoring companies. Though the ban aims to reverse the country’s declining birth rate by alleviating the financial burdens associated with

educating children, the announcement contributed to a sizeable drop in Chinese tech and education stocks this past week. Moreover, China’s tech regulator, the Ministry of Industry and Information Technology, announced a new 6-month rectification program that focuses on safeguarding data, complying with anticompetitive behavior laws, and more. Such regulatory tightening on tech companies has added to the drop, including an order for tech giant Tencent to give up exclusive music licensing rights for antitrust concerns and new worker protection requirements for food delivery app Meituan.

Earnings: In the second week of July, all 6 big banks in the US reported Q2 earnings and beat analysts’ expectations. While JPMorgan Chase, Bank of America, Wells Fargo, and Citigroup had a boost from releasing loan loss reserves, Goldman Sachs benefited from a strong IPO market and Morgan Stanley gained from its equities trading. Likewise, as of July 30th, 88% of S&P 500 companies that

Exhibit 1
US Coronavirus Case Count



Source: The New York Times. Data as of July 30, 2021. ■ These are days with a reporting anomaly. Read more [here](#).

reported earnings have exceeded estimates, according to FactSet, putting the index on track for its highest year-over-year earnings growth since Q4 of 2009. The remaining companies will continue to post their results throughout August.

Fed: Rates and Taper Talk?

As anticipated, the Federal Reserve kept rates at their current levels at the July FOMC meeting. The Fed slightly amended its statement on monetary policy, suggesting that it won't begin tapering until a level of "substantial further progress" of low unemployment and stable inflation targets are met. Fed officials also stated that progress has been made towards these economic objectives, and that it will be evaluated in future meetings, which some perceive as a hint that the Fed may start reducing its bond buying program later in the year. In the post meeting press conference, Fed chairman Jerome Powell unsurprisingly indicated that the central bank is nowhere near considering a rate hike. When discussing the increases of Covid cases due to the Delta variant, Powell expressed that he was not concerned about the economic consequences the surge could cause given "we've kind of learned to live with it."

US Economy Hits Bigger than Pre-Pandemic Levels

On Thursday, July 29th, the Commerce Department reported that US GDP grew 6.5% in the second quarter of the year. Although this is below economists' forecasts of 8.5% due to supply chain bottlenecks and labor shortages, it surpassed the first quarter's growth rate of 6.3%. GDP at the end of the second quarter reached \$19.4 trillion compared to \$19.2 trillion at the end of the fourth quarter of 2019, pushing the size of the US economy to greater than pre-pandemic levels. The growth was fueled by consumer spending which progressed at an 11.8% annualized rate. Specifically, consumers spent on goods, dining, and travel, given the latest round of government stimulus checks, eased restrictions, and increased vaccinations. While many see this as a sign that the US

is recovering from the pandemic, the Delta strain could cause uncertainty going forward.

Where to Find Value

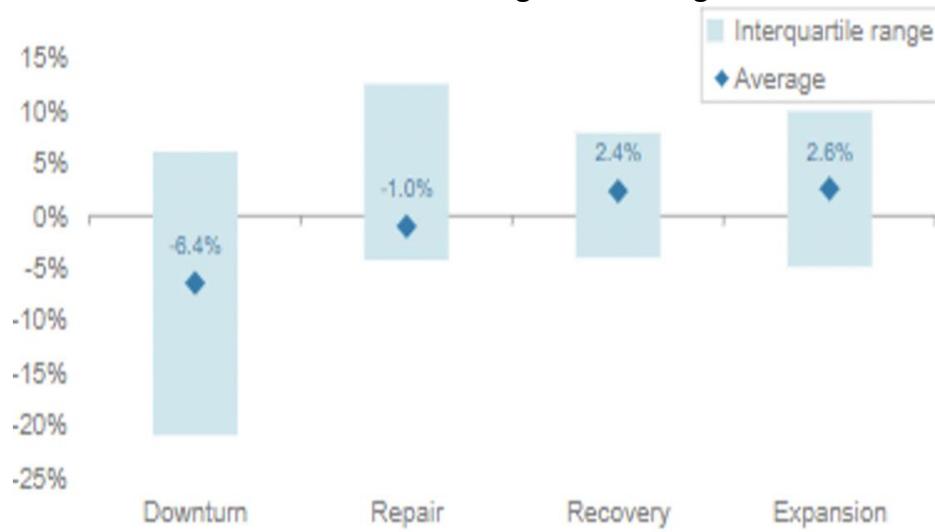
Given the US is at the forefront of vaccine distribution and thus the resurgence of its economy, valuations have richened. For instance, the S&P 500 index is trading at over 20 times forward earnings as of late July. As this suggests it may be challenging to find opportunities in the US large-cap cohort, investors may want to look for opportunities in international stocks, which are cheaper and have the potential for gains as the economies of these countries recover.

Should you worry about a transition from early to mid-cycle?

Historically, 12-month forward returns above the long-term average are highest in the expansion phase. So, regardless of if we are in the early-cycle or mid-cycle, stocks have historically done well in either phase.

Exhibit 2

S&P 500 12m Forward Returns vs. Long-Term Average



Source: Bloomberg, Morgan Stanley Research; Note: Data from 1985.

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