



# **THE CONCORD ADVISORY GROUP, LTD.**

*Institutional Investment Consulting Services*

## ***AUGUST 2021 MARKET HIGHLIGHTS***

***“TO BE A BORROWER”***

# THE CONCORD ADVISORY GROUP, LTD: AUGUST 2021 MARKET HIGHLIGHTS

## COMMENTARY: “TO BE A BORROWER”

In Hamlet Act 1, Scene III, William Shakespeare says through Polonius, “Neither a borrower nor lender be, for loan doth oft loses both itself and friend.” When Shakespeare wrote those words in the early 17th century, inflation-adjusted interest rates were around 9.5% according to Harvard Professor Paul Schmelzing. Today, with many inflation-adjusted bond yields in negative territory, we can decisively say it is better to be a borrower than a lender.

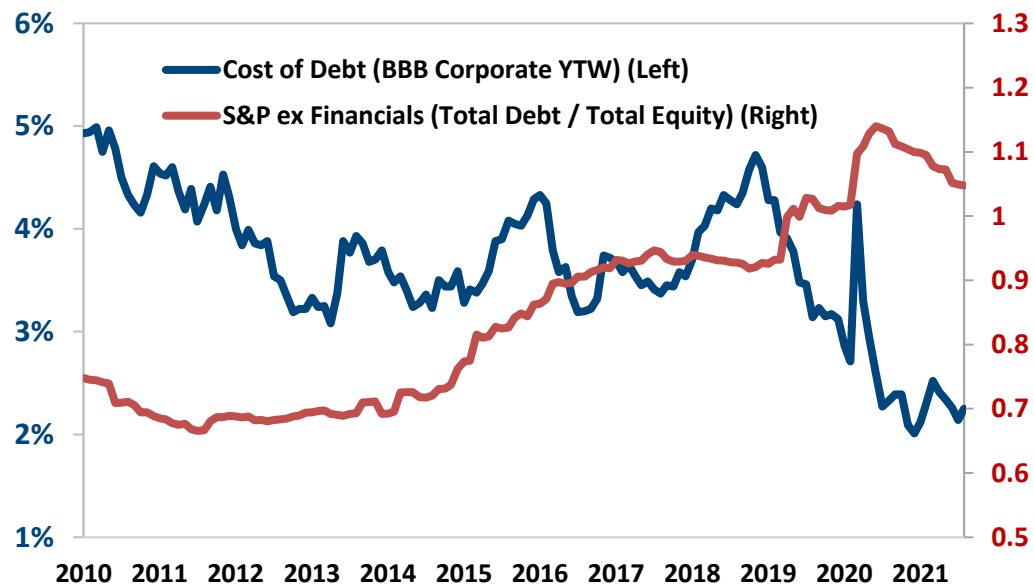
The advantage of borrowing over lending shines brightest when the borrowing is used to finance long-term appreciating assets. For example, year-to-date through July, the median selling price for houses increased over 16%; meanwhile, the mortgage bonds that finance most home purchases had a slightly negative total return.

It is intuitive that the optimal amount of debt for a company’s capital structure increases as the cost of that debt decreases. The average historic return on equity (ROE) of the S&P 500 has been 13%. Meanwhile, investment-grade companies can borrow in the corporate bond market at average yields around two percent, with the additional benefit being that interest payments are tax deductible. The opportunity to improve capital efficiency by adding leverage is huge. This has not gone unnoticed by corporations. The accompanying chart shows that public corporations are increasing their leverage as corporate bond rates move lower<sup>1</sup>. Even cash-rich companies, like Amazon, Apple, and Google, have issued debt

Low interest rates have created a transfer of wealth, robbing bondholders of future returns, and enriching current equity holders. The effects have been dramatic. House prices are at all-time highs, and year-to-date, the S&P 500 posted a 20 percent return and has closed at all-time record high levels in a remarkable 53 out of 167 trading days. As long as interest rates stay depressed, the opportunities for improving capital efficiency through debt will be exploited to the benefit of equity-owners.

<sup>1</sup>The recent decrease in corporate leverage is likely transitory. Many companies expanded borrowing in the first half of 2020 to accumulate liquidity to navigate through the pandemic and have unwound some of that borrowing as conditions normalized.

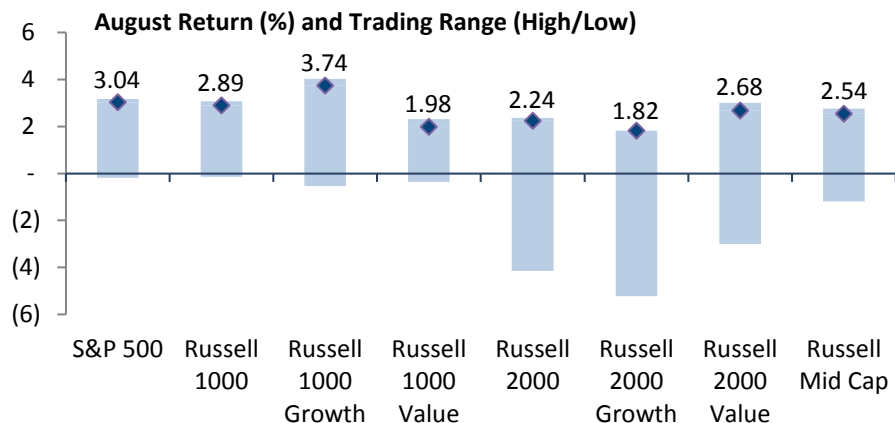
Corporations Adding Accretive Leverage <sup>1</sup>.



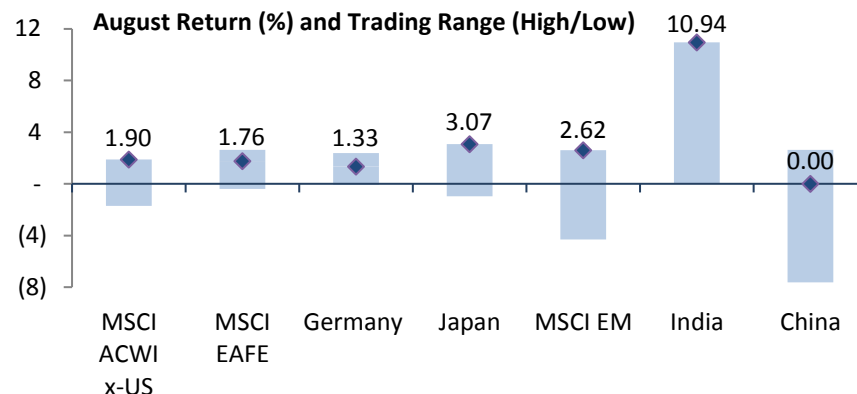
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## MONTHLY CHARTS

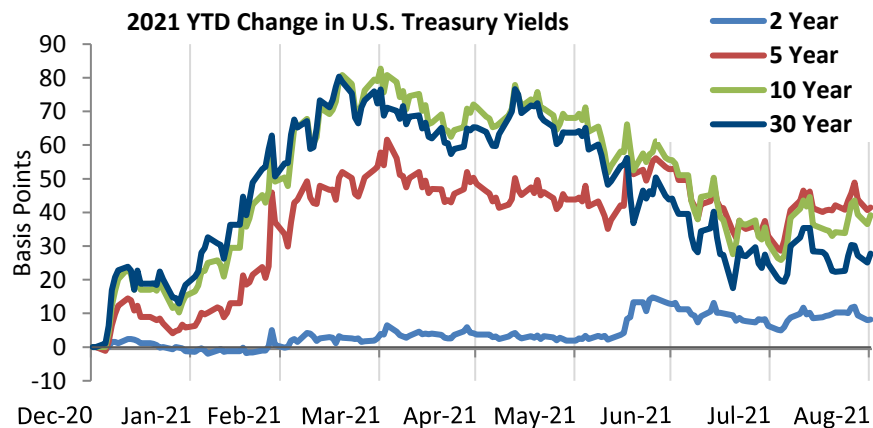
**U.S. Equities:** U.S. equities continued to advance in August. The market reached record highs throughout the month, in the face of rising COVID infection rates and inflation. Gains have surpassed 20%, YTD.



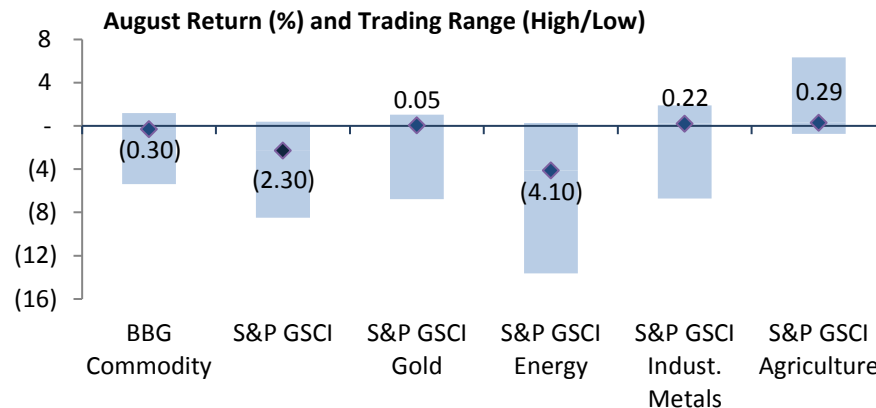
**International Equities:** Developed non-U.S. markets ended the month positive, with strong results from Western Europe. Emerging markets also fared well, despite weak results from China.



**Fixed Income:** A small increase in interest rates led to modestly negative returns in most fixed income sectors.



**Commodities:** Broad commodities prices declined in August, as falling oil prices weighed on the index.

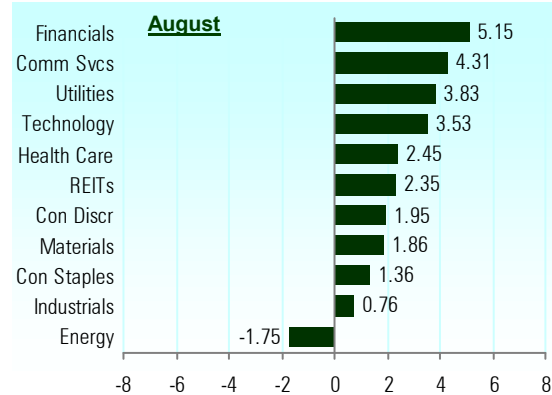


# Concord Advisory Group: August 2021 Market Performance

Equity Markets	Past Month	Past 3 Months	YTD	1 Yr	3 Yrs	5 Yrs
S&P 500	3.04%	7.95%	21.58%	31.17%	18.08%	18.02%
Russell 1000	2.89%	7.66%	20.74%	32.25%	18.42%	18.24%
Russell 1000 Growth	3.74%	13.88%	21.08%	28.53%	24.60%	24.35%
Russell 1000 Value	1.98%	1.62%	20.32%	36.44%	11.46%	11.68%
Russell MidCap	2.54%	4.85%	20.12%	41.24%	15.59%	15.41%
Russell 2000	2.24%	0.45%	15.83%	47.08%	10.75%	14.39%
Russell 2000 Growth	1.82%	2.71%	6.92%	35.61%	12.28%	16.58%
Russell 2000 Value	2.68%	-1.60%	25.43%	59.49%	8.41%	11.66%
MSCI ACWI	2.50%	4.57%	15.91%	28.64%	14.34%	14.30%
MSCI World	2.49%	5.88%	17.94%	29.76%	14.96%	14.83%
MSCI ACWI Ex-US	1.90%	-0.43%	9.40%	24.87%	9.37%	9.92%
MSCI EAFE	1.76%	1.38%	11.58%	26.12%	9.00%	9.72%
MSCI EM	2.62%	-4.12%	2.84%	21.12%	9.87%	10.40%
Bloomberg Commodity	-0.30%	3.42%	23.01%	31.00%	5.81%	4.17%

Fixed Income Markets	Past Month	Past 3 Months	YTD	1 Yr	3 Yrs	5 Yrs
Barclays Capital Aggregate	-0.19%	1.63%	-0.69%	-0.08%	5.44%	3.11%
Barclays Capital Global Aggregate	-0.42%	0.02%	-2.33%	0.52%	4.56%	2.47%
Barclays Capital Intermediate Aggregate	-0.16%	0.60%	-0.29%	0.10%	4.40%	2.61%
Barclays Capital Universal	-0.07%	1.67%	-0.22%	0.88%	5.72%	3.48%
Barclays Capital Government	-0.17%	1.79%	-1.37%	-2.02%	4.94%	2.45%
Barclays Capital Credit	-0.24%	2.58%	-0.23%	2.26%	7.37%	4.54%
Barclays Capital Municipal	-0.37%	0.74%	1.53%	3.40%	5.10%	3.31%
Barclays Capital High Yield	0.51%	2.25%	4.55%	10.14%	7.11%	6.66%
Barclays Capital Mortgage	-0.16%	0.42%	-0.31%	-0.18%	3.76%	2.29%
Barclays Capital 1-3 Yr Gov/Credit	0.00%	0.02%	0.17%	0.39%	2.88%	1.93%
FTSE 3-Month Treasury Bill	0.00%	0.01%	0.03%	0.06%	1.20%	1.13%
FTSE World Govt Bond	-0.57%	-0.02%	-3.76%	-1.31%	4.17%	1.95%
Barclays Capital U.S. TIPS	-0.18%	3.11%	4.26%	5.56%	7.33%	4.61%
BofAML Invest Grade Convertible	0.75%	1.25%	6.38%	14.84%	9.96%	12.87%

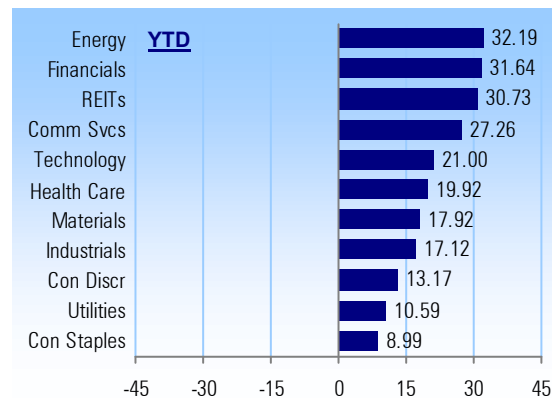
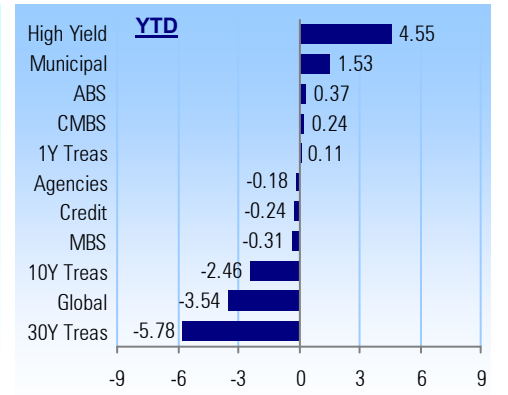
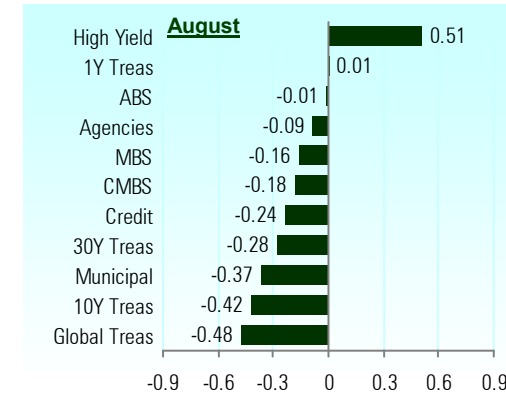
## Equity Sector Returns (%)



## Equity Style Returns (%)

Style	Value	Core	Growth
Large	1.98	2.89	3.74
Mid	2.14	2.54	3.23
Small	2.68	2.24	1.82

## Fixed Income Sector Returns (%)



Style	Value	Core	Growth
Large	20.32	20.74	21.08
Mid	22.77	20.12	15.18
Small	25.43	15.83	6.92

## Treasury Yield Curve

