A rock was thrown down the well and no one heard a splash. Markets are merely a year and a few months removed from the onset of a global pandemic that sent all corners of financial markets into a coordinated tailspin. Main street shuttered (voluntarily or otherwise), airports more closely resembled abandoned warehouses, and equity markets repeatedly tripped circuit breakers in a race to the bottom.

The well was dry, at least temporarily, and consumers as well as market participants understood it alike. We would argue, at the time, this was a period of certainty rather than uncertainty.

As the only actors that could, fiscal and monetary policymakers stepped in with firehoses. Unprecedented measures ensued to restore calm including multiple rounds of direct checks to individuals, forgivable loans to businesses, and a monetary policy that makes the FOMC of '08-'09 appear hawkish. The well was full once again. By virtually any measure, whether hard economic data, surveys of sentiment, or risk assets, we find ourselves at or near record levels:

Key financial indices and economic indicators at or near record highs:

Financial Index	**Level**	**Date**
S&P 500 Index	4,385	July 2021
Nasdaq Composite Index	14,733	July 2021
High Yield CDX	269 (bps)	July 2021
Economic Indicator		
S&P CoreLogic Case-Shiller Home Price	257	April 2021
IHS Markit Composite PMI	68.7	May 2021
IHS Markit Manufacturing PMI	62.1	May 2021
IHS Markit Services PMI	70.4	May 2021
US Debt/GDP *	136%	Q2 2020
US Job Openings	9.2 MM	May 2021
New York Empire State Manufacturing	43	July 2021

*Highest in post-war era
-Data provided by Bloomberg, LP

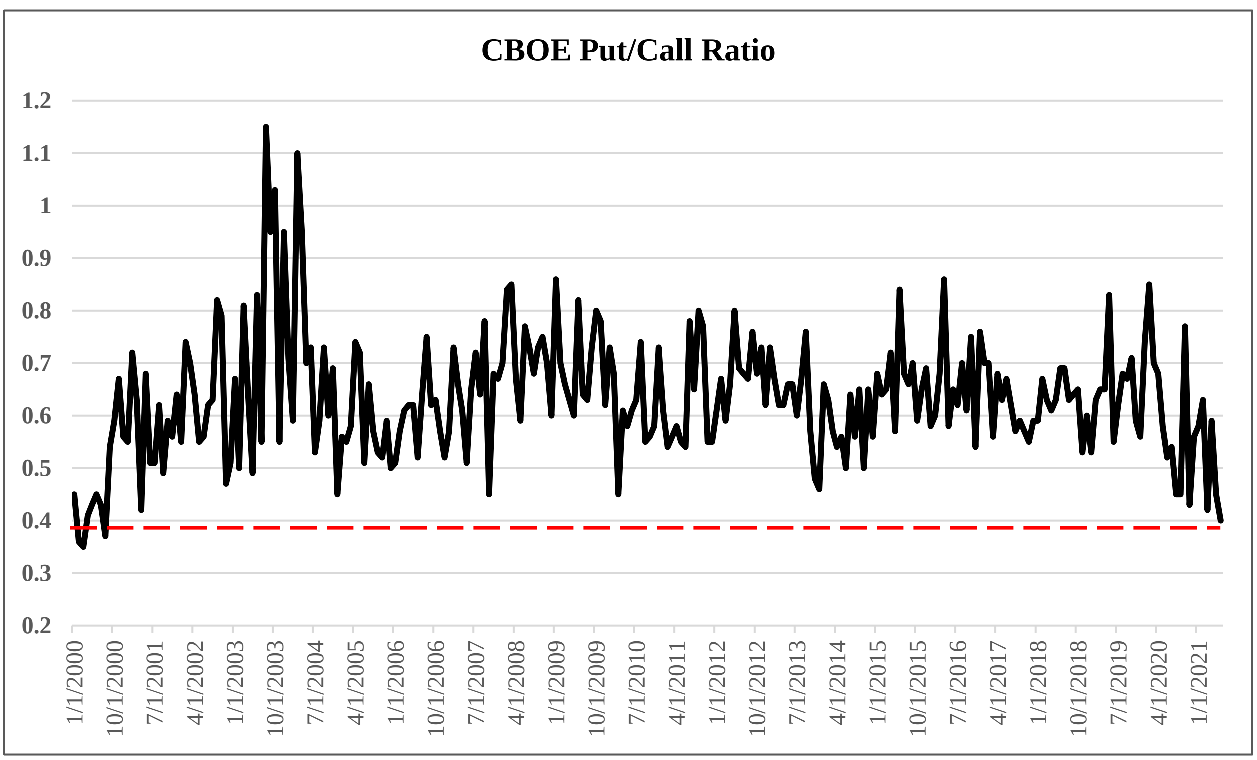
As we enter Q3, equity and credit markets would suggest certainty abounds yet again, albeit in the opposite direction of where we stood in early 2020. **But should it? The well is still full, but the firehoses are set to throttle back.**

We would argue we are entering a period of high uncertainty as record stimulus measures may be forced to unwind.

The rate of fiscal spending is unsustainable. The Fed is grappling with a core inflation rate not seen since the savings and loan crisis of the late '80s and early '90s. Meanwhile forward guidance is increasingly vague with the words "transitory" and "substantial further progress" being redefined with each FOMC press conference. The Fed is clinging to an elevated unemployment rate for cover at a time when extended unemployment benefits have expired in some states and are set to expire in the remaining over the coming months.

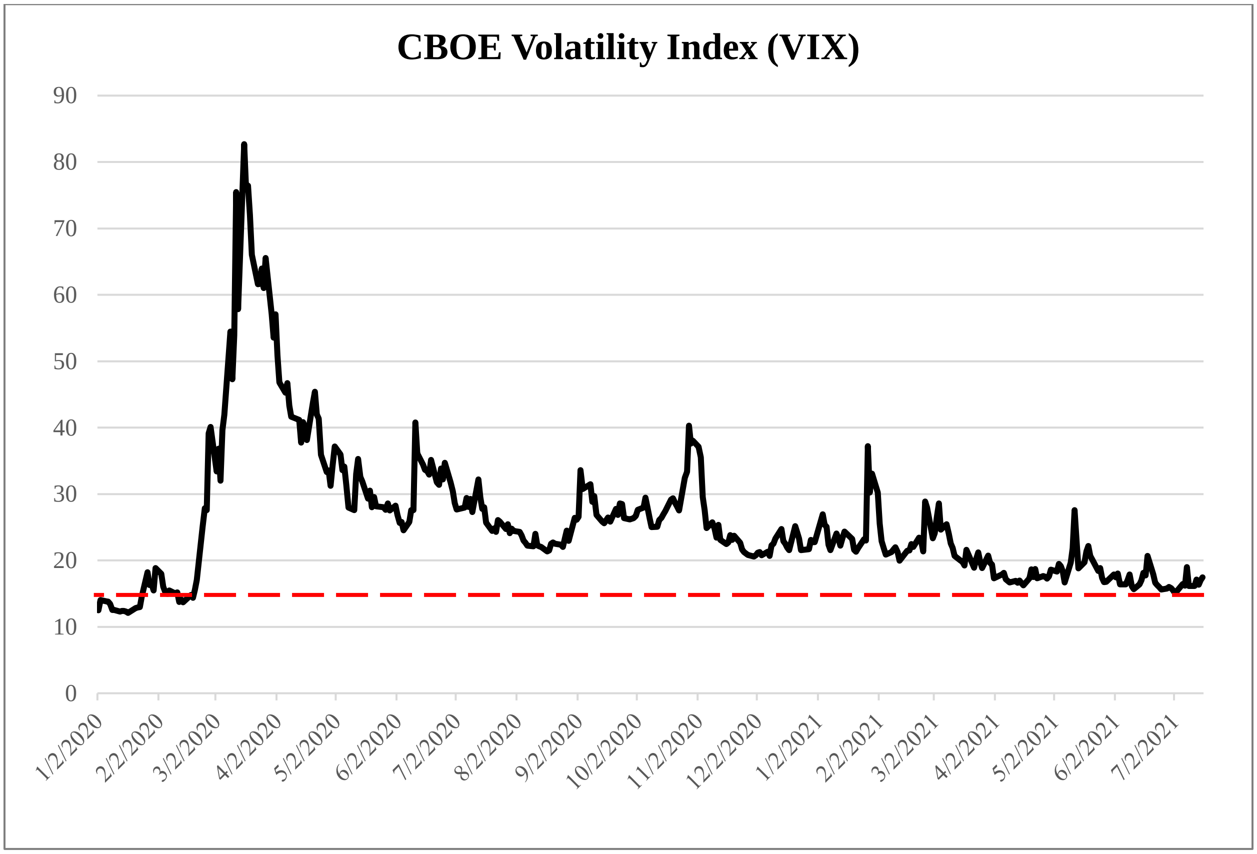
Put/Call ratios are at staggeringly low levels, credit spreads leave minimal room for error, and the VIX Index is at its lowest point since the early days of COVID reports:

Put/Call Ratio reaches lowest point since early 2000



-Data provided by Bloomberg, LP

Volatility returns to pre-pandemic levels



-Data provided by Bloomberg, LP

Yet, the nominal 10-year Treasury has retraced from 1.75% back to 1.25%, potentially reflecting the need for the Fed to tighten sooner than it is projecting.

The U.S. is enjoying levels of growth once thought unachievable and the recovery has certainly been one to celebrate. Amid the current calm, the horizon is begging for more caution. ***This is not to suggest a collapse in asset prices, rather an awareness that markets may not be pricing in the potential for a misstep.***

In the second half of 2021, the risks to the downside appear to outweigh those to the upside. Market participants are still drawing from the well with reckless abandon without knowing quite how deep it is or how long it can be artificially refilled.

Reach out to our team to find out more at sales@corealt.com

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Disclosures:

Indexes are unmanaged and one cannot invest directly in an index.

Investing involves risk, including the possible loss of principal.

Diversification may not protect against market loss.

The CBOE Volatility Index (VIX) is a real-time index that represents the market's expectations for the relative strength of near-term price changes of the S&P 500 index (SPX). Because it is derived from the prices of SPX index options with near-term expiration dates, it generates a 30-day forward projection of volatility. Volatility, or how fast prices change, is often seen as a way to gauge market sentiment, and in particular the degree of fear among market participants.

The CBOE put-call ratio is the ratio of the trading volume of put options to call options and is used as an indicator of investor sentiment in the markets. Put-call ratios are indicators of relative trading volumes of put options to call options in the options market. A put-call ratio above 1 is considered to be an indicator of a selloff while a put-call ratio below 1 is an opportunity to buy. The put-call ratio provides information about relative trading volumes of an underlying security's put options to its call options. It has long been viewed as an indicator of investor sentiment in the markets, where a large proportion of puts to calls indicates bearish sentiment, and vice versa.

A put is a derivative instrument that gives the holder the right, but not the obligation, to sell a specified amount of an underlying security at a pre-determined price within a specified time frame. A call works in the same way, but gives its holder the right to buy rather than sell.