WEEKLY MARKET UPDATE, JULY 19, 2021

GENERAL MARKET NEWS

• Treasury yields rebounded modestly last week before a sharp sell-off cratered yields on Monday morning. The 10-year lost 14 basis points (bps) week-over-week to open at around 1.2 percent, its lowest level since early February of this year. The 30-year shed 15 bps to open around 1.83 percent early Monday. Shorter-dated bonds saw smaller adjustments but still moved lower, as the 5-year yield lost 7 bps to open at about 0.72 percent and the 2-year lost 2 bps to open at around 0.2 percent. The latest moves mark a renewed fear of virus variants and questions about economic growth in the near term.

• U.S. markets sold off last week; small-caps and the Nasdaq Composite were the hardest hit. Small-caps sold off as bond yields continued their recent slide and inflation expectations dropped. The result was a challenging environment for both oil and financials, which were among the worst performers on the week and make up roughly 19 percent of the Russell 2000 Index. Oil posted its largest weekly loss since September 2020 as investors seemed to agree with the Federal Reserve (Fed) that inflation will be transitory as commodities such as lumber roll over. The Nasdaq was pulled down by its weight in names such as Amazon (AMZN), NVIDIA (NVDA), Facebook (FB), and Tesla (TSLA), which all lost at least 1.9 percent for the week. The top-performing space was emerging markets, which was supported by China's reported second-quarter growth of 7.9 percent, as well as a recovery in its stock market after recent tensions with the U.S. The top-performing major U.S. index was the Dow Jones Industrial Average (DJIA), which benefited from investors' move to defensive sectors such as utilities, consumer staples, and real estate.

• On Tuesday, the Consumer Price Index for June was released. Consumer prices rose faster than expected, with headline consumer prices up 0.9 percent in June against expectations for a 0.5 percent increase. Consumer inflation increased by 5.4 percent year-over-year, which was higher than economist estimates for 4.9 percent. The report showed that food, energy, and housing prices all showed noted gains during the month, but inflation was widespread across most sectors. Core consumer prices, which strip out the impact of volatile food and energy prices, increased by 0.9 percent during the month and 4.5 percent year-over-year. Some of the year-over-year growth is due to base effect comparisons to last summer when the pandemic weighed on price growth. Consumer prices have seen upward pressure over the past few months, however, due to high levels of demand and slim business inventories.

• Wednesday saw the release of the Producer Price Index for June. Producer prices also rose by more than expected, with headline producer prices increasing by 1 percent against calls for a more modest 0.6 percent increase. On a year-over-year basis, producer prices rose by 7.3 percent, which was higher than the 6.7 percent increase that was expected. Core producer prices, which strip out food and energy prices, also increased by 1 percent during the month and 5.6 percent year-over-year. As was the case with consumer prices, producer inflation was widespread and seen in most sectors. Producers have had to contend with rising material costs and tangled global supply chains, and recently, rising labor costs have also started to contribute to rising inflationary pressure. Fed members continue to reiterate the view that inflation is largely a product of the economic recovery and will ultimately prove to be transitory. Rising inflation remains a risk that market participants are closely monitoring, however.

• On Friday, the June retail sales report was released. Retail sales rose by 0.6 percent against forecasts for a 0.3 percent decline. This better-than-expected result was broad-based, as sales increased across a variety of sectors. Restaurant, clothing, and appliance sales were notably strong, as consumers continued to show pent-up demand. While most sectors saw increased sales, auto sales fell, driven by the low supply of cars for sale and rising prices. Core retail sales, which strip out the impact of volatile auto and gas sales, increased by 1.1 percent, easily surpassing the 0.5 percent increase that was expected. Retail sales have been supported this year by the improvements on the public health front and the associated nationwide reopening efforts, along with the tailwind provided by additional federal stimulus payments. Looking forward, economists expect to see further growth as the economic recovery continues.

• We finished the week with Friday's release of the preliminary estimate of the University of Michigan Consumer Sentiment survey for July. This report showed that confidence surprisingly dropped, falling from 85.5 in June to 80.8 in July, against calls for an increase up to 86.5. This disappointing result brought the index to its lowest level since February and signaled growing consumer concern. Rising prices were cited as the primary cause for the decline in confidence as rising costs for big-ticket items such as cars and houses weighed on consumer sentiment. Expectations for inflation over the next year increased up to 4.8 percent, which is the highest level since 2008. Ultimately, this report served as a reminder that there is still a lot of work to be done to get economic activity back to pre-pandemic levels.

WHAT TO LOOK FORWARD TO

Monday saw the release of the National Association of Home Builders Housing Market Index for July. Home builder confidence slipped slightly during the month, with the index falling from 81 in June to 80 in July, against calls for an increase up to 82. This report marks two consecutive months with declining home builder confidence, although the index remains above pre-pandemic levels. Additionally, this is a diffusion index, where values above 50 indicate expansion, so this report signals that home builders have continued to build in earnest. The housing market has benefited from record-low mortgage rates and high levels of prospective home buyer demand ever since initial lockdowns were lifted last year. Nonetheless, rising material and labor costs have recently started to weigh on home builder sentiment. Still, despite the headwinds created by rising construction costs, high levels of prospective home buyer demand and low inventory of homes for sale should support healthy levels of home builder confidence and new home construction in the months ahead.

On Tuesday, the June building permits and housing starts reports are set to be released. These two measures of new home construction are expected to show growth during the month. Permits and starts are set to rise by 1 percent and 1.2 percent, respectively, if estimates hold. As these results would bring the pace of new home construction well above pre-pandemic levels, they would be seen as a positive sign for the overall housing industry. Given the lack of available homes for sale and the high levels of home builder confidence in June, we may see the pace of construction improve by more than expected. Falling timber prices may serve as an additional tailwind for construction growth, and home builders have a large backlog of homes permitted for construction but not yet started. Looking forward, lack of supply is expected to be the main challenge for the housing market, so any improvement in the pace of construction would be seen positively.

Thursday will see the release of the initial jobless claims report for the week ending on July 17. Economists expect to see 350,000 initial unemployment claims filed during the week, marking an improvement from the 360,000 initial claims filed the week before and a new pandemic-era low. The anticipated result would also bring the four-week moving average of claims to a new low. Still, although we've seen steady progress in getting initial layoffs down over the course of the year, work remains to be done to return to pre-pandemic levels. Throughout 2019, weekly initial jobless claims averaged roughly 220,000 per week. Ultimately, the overall pace and path of the economic recovery will likely depend on the speed of the labor market recovery. Accordingly, this weekly release will continue to be closely monitored, as it provides an up-to-date look into the ongoing recovery.

We'll finish the week with Thursday's release of the June existing home sales report. Home sales are expected to increase by 1.7 percent, following a 0.9 percent decline in May. If estimates prove accurate, this report will break a fourth-month streak of declining sales and keep the pace of sales well above pre-pandemic levels. Housing sales rebounded impressively once initial lockdowns were lifted last year, driven in large part by record-low mortgage rates and shifting home buyer preferences due to the pandemic. Throughout much of this year, however, we have seen the pace of sales slow due to a lack of homes available for sale and rising prices. Looking forward, the supply constraints are expected to serve as a headwind for significantly higher levels of existing home sales. If, however, sales stay near current levels, they would represent an improvement compared with pre-pandemic data and demonstrate the continued strength of buyer demand.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.96%	0.75%	16.12%	36.27%
Nasdaq Composite	–1.87%	–0.51%	12.33%	38.35%
DJIA	–0.52%	0.58%	14.45%	32.60%
MSCI EAFE	–0.46%	–0.07%	8.76%	27.03%
MSCI Emerging Markets	1.72%	–2.29%	4.99%	29.33%
Russell 2000	–5.11%	–6.35%	10.07%	48.38%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.24%	-0.94%	-0.43%
U.S. Treasury	0.29%	–1.71%	–2.72%
U.S. Mortgages	0.11%	–0.47%	–0.17%
Municipal Bond	0.04%	1.77%	3.91%

Source: Morningstar Direct

Disclosures: Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg Barclays US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg Barclays US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million. Basis points (bps) is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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