# WEEKLY MARKET UPDATE, JULY 26, 2021

## GENERAL MARKET NEWS

• Treasury yields stabilized after a volatile session at the start of last week. The 10-year yield came in at 1.24 percent on Monday morning, showing a gain of 5 basis points (bps) week-over-week after trading as low as 1.13 percent early last week. The 30-year yield climbed 7 bps week-over-week, sitting at roughly 1.89 percent on Monday morning. Shorter-dated notes saw less-pronounced moves as the 2-year shed 2 bps and the 5-year lost 1 bp week-over-week to open at around 0.19 percent and 0.69 percent, respectively. Investors remain apprehensive about virus variants and how they might weigh on economic growth into the fall.

• Markets sold off swiftly to start last week, with all three major U.S. indices down by more than 1 percent on the day. The Dow Jones Industrial Average dropped more than 2 percent as investors feared that rising case counts, due to the Delta variant of the coronavirus, would temper future growth expectations. Fortunately, the market bounced back the remaining four days of the week, with all three indices up more than 1 percent. Despite the rise in case counts, investors seemed to focus on the good news later in the week as high vaccination rates helped keep hospitalization numbers below that of prior waves. The result was a rebound, with communications services, consumer discretionary, and technology outperforming. Financials, energy, and utilities were among the worst-performing sectors as low-bond yields continued to weigh on the banks and energy was forced to dig itself out of a 7.5 percent sell-off in oil.

• Monday saw the release of the National Association of Home Builders Housing Market Index for July. Home builder confidence slipped slightly, with the index falling from 81 in June to 80 against calls for an increase to 82. Although this marks two consecutive months with declining home builder confidence, the index remains above pre-pandemic levels. In addition, this is a diffusion index, where values above 50 indicate expansion, so this report signals that home builders continued to build in earnest during the month. The housing market has benefited from record-low mortgage rates and high levels of prospective home buyer demand since initial lockdowns were lifted last year; however, rising material and labor costs have recently started to weigh on home builder sentiment. Despite the headwinds created by rising construction costs, high levels of prospective home buyer demand and low inventory of homes for sale should help 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 were released. These measures of new home construction were mixed. Housing starts rose 6.3 percent against calls for a more modest 1.2 percent increase; however, permits declined 5.1 percent, below expectations for a 0.7 percent increase. The better-than-expected result for housing starts brought the pace of new home construction to its highest level in three months. Home builders have ramped up construction over the course of the past year due to a lack of homes for sale and high levels of home buyer demand, driven by record-low mortgage rates and shifting home buyer preferences due to the pandemic. The continued growth in June despite rising costs for builders is a positive development for the overall housing market, as lack of supply and rising prices have served as a headwind for faster sales. Looking forward, high levels of home builder confidence and a backlog of homes set to be built should continue to support additional new home construction.

• We finished the week with Thursday's release of the June existing home sales report. Existing home sales increased 1.4 percent, slightly lower than economist estimates for a 1.7 percent increase. Single-family home sales hit a three-month high in June, driven by strong sales growth in the Northeast and Midwest. This marks the first increase in existing home sales in five months and signals continued high levels of home buyer demand. The increase in June kept the pace of existing home sales above pre-pandemic levels; however, lack of supply and rising prices have hindered overall sales growth over the past few months. The report showed the average price for a home was up 23.4 percent year-over-year, while the number of existing homes for sale was down 18.8 percent. Given the supply constraints, the growth in June is an encouraging sign that home buyer demand remains strong and continues to drive the housing market growth we've seen since the start of the pandemic.

## WHAT TO LOOK FORWARD TO

On Tuesday, the preliminary estimate of the June durable goods orders report is set to be released. Durable goods orders are expected to increase by 2.1 percent during the month, following a 2.3 percent increase in May. Core durable goods orders, which strip out the impact of volatile transportation orders, are expected to increase by 0.8 percent during the month. If estimates hold, this would mark four straight months with core durable goods orders growth, which would be a good sign for business spending and investment in the second quarter. Businesses have ramped up spending ever since the end of initial lockdowns last year, and durable goods orders have surpassed pre-pandemic levels. Business confidence has remained well above pre-pandemic levels for most of the year, which has helped support increased spending. Given the continued reopening efforts and high levels of business confidence, further growth for durable goods orders is expected in the months ahead, as long as the economic recovery continues.

Tuesday will also see the release of the Conference Board Consumer Confidence Index for July. Economists expect to see the index decline from 127.3 in June to 124.3 in July, which would mirror a similar decline in the University of Michigan consumer sentiment survey that was released earlier in the month. Consumers cited rising prices for big-ticket items (e.g., houses and cars) as the primary cause for the decline in sentiment that we saw in the University of Michigan survey. While confidence has rebounded well past the pandemic-era lows that we saw during initial lockdowns last year, concerns about inflation and the Delta variant could weigh on sentiment in the short term. Historically, higher levels of consumer confidence have helped support faster consumer spending growth. As such, the anticipated decline in confidence during the month will be worth monitoring, especially if we continue to see further declines in the months ahead.

On Wednesday, the Federal Open Market Committee rate decision from the Federal Reserve's (Fed's) July meeting is set to be released. The Fed cut rates to virtually zero last year in response to the pandemic, and economists do not anticipate any rate changes until 2023 at the earliest. Given the lack of anticipated changes to interest rates, the focus will largely be on the Fed's press release, as well as Fed Chair Jerome Powell's post-meeting press conference. The Fed is currently purchasing $120 billion in Treasury and mortgage-backed securities per month, and economists will be looking for any hints about the central bank's plan to potentially start tapering these asset purchases. So far, the Fed has not set any timetable on when it may start to taper purchases. But given the fact that a tapering could affect markets and cause short-term volatility, any mention of changes to the asset-buying program will be closely examined. Ultimately, the Fed is expected to keep policy supportive at this meeting. Any surprises could negatively affect markets; therefore, this will be a widely monitored release.

On Thursday, the advance report of annualized gross domestic product growth in the second quarter is set to be released. Economists are anticipating that the economy grew at an annualized rate of 8.4 percent during the quarter, which would be a step up from the 6.4 percent annualized growth rate that we saw in the first quarter. Personal consumption is expected to be the major driver of overall growth during the second quarter, with economists calling for a 10.5 percent annualized increase in consumption during the quarter. If estimates hold, this would be a slight decline in the pace of personal consumption growth from the first quarter, but it would still represent a very strong quarter for consumption growth on a historical basis. Personal consumption growth was supported by the most recent federal stimulus bill that provided checks to individuals near the start of the quarter. Overall, this report is expected to show that the economic recovery remained largely on track to finish out the first half of the year.

Thursday will also see the release of the initial jobless claims report for the week ending July 24. Economists expect to see the number of initial unemployment claims decline from 419,000 to 380,000 during the week. Given the surprising increase in initial claims the week before, this will be a widely monitored report, giving economists a better idea into whether the recent rise in claims noise in the data or the start of a new upward trend was just driven by rising health risks. While this data can be volatile on a week-to-week basis, the trend has largely been downward throughout the course of the year. If the estimates hold, it would be an encouraging sign that the labor market recovery remains on track. Given the importance of the labor market recovery on the overall economic recovery, a return to declining initial claims during the week would be a positive signal for the health of the overall economy.

We'll finish the week with Friday's release of the personal income and personal spending reports for June. Spending is expected to increase by 0.6 percent during the month, following a flat result in May. Spending growth has been relatively strong throughout the year, as reopening efforts and federal stimulus payments have helped support increased spending growth. Personal income is expected to decline by 0.6 percent during the month, following a 2 percent drop in May. Personal income has been very volatile on a month-to-month basis throughout the pandemic and recovery, as shifting federal stimulus payments have led to large monthly swings in income growth. This was highlighted in March, when another round of federal stimulus checks caused personal income to increase by a record 20.9 percent during the month. Given the high levels of consumer saving that we've seen throughout the pandemic and the continued economic recovery, economists expect to see continued spending growth in the months ahead, even if incomes remain volatile on a month-to-month basis.

| Equity Index | Week-to-Date | Month-to-Date | Year-to-Date | 12-Month |
|---|---|---|---|---|
| S&P 500 | 1.97% | 2.74% | 18.41% | 39.33% |
| Nasdaq Composite | 2.84% | 2.32% | 15.53% | 44.21% |
| DJIA | 1.12% | 1.70% | 15.72% | 35.08% |
| MSCI EAFE | 0.20% | 0.14% | 8.98% | 26.76% |
| MSCI Emerging Markets | –2.09% | -4.34% | 2.79% | 25.92% |
| Russell 2000 | 2.15% | –4.34% | 12.44% | 52.16% |

Source: Bloomberg

| Fixed Income Index | Month-to-Date | Year-to-Date | 12-Month |
|---|---|---|---|
| U.S. Broad Market | 0.19% | –0.75% | –0.65% |
| U.S. Treasury | 0.19% | –1.52% | –2.93% |
| U.S. Mortgages | 0.18% | –0.29% | 0.15% |
| Municipal Bond | 0.09% | 1.86% | 3.61% |

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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