WEEKLY MARKET UPDATE, JUNE 28, 2021

GENERAL MARKET NEWS

• Treasury yields moved slightly higher last week. The 10-year opened at about 1.5 percent on Monday morning, mainly unchanged week-over-week. The 30-year was the biggest mover across the curve, picking up roughly 2 basis points (bps) to open near 2.13 percent, followed by the 5-year, which rose nearly 2 bps to open at 0.9 percent on Monday. The 2-year held steady, opening at about 0.25 percent.

• Several members of the Federal Reserve (Fed) and Federal Open Market Committee (FOMC) spoke publicly last week. Chairman Jerome Powell testified before Congress, highlighting the effect of labor shortages and supply constraints on inflation. He also said the central bank expects these pressures to ease as job creation continues. Although several members are calling for a rate hike next year, others struck a more dovish tone. John Williams, New York Fed president, said that, though rate hikes are a long way off, tapering asset purchases should be discussed.

• Markets recovered after their selloff in the previous week. The small-cap stocks of the Russell 2000 and the more cyclical Dow Jones Industrial Average led the way as fears of a Fed rate hike waned. Underperforming sectors included utilities, REITs, and consumer staples.

• On Tuesday, the May existing home sales report was released. Sales of existing homes fell 0.9 percent, which was a smaller decline than the 2.1 percent drop economists forecasted. This marks four consecutive months with declining existing homes sales, as low levels of available homes to buy and rising prices continue to serve as a headwind for faster levels of sales. Despite the recent declines, the pace of existing home sales remains above pre-pandemic levels.

• Thursday saw the release of the preliminary estimate of the May durable goods orders report. The report showed that durable goods orders rose 2.3 percent, slightly less than the forecasted 2.8 percent increase. This is a solid rebound for orders after an upwardly revised 0.8 percent decline in April. May's gain was partially caused by a rebound in aircraft orders. Core durable goods orders, which strip out the impact of volatile transportation orders, increased 0.3 percent, below estimates for a 0.7 percent increase. April's core durable goods orders growth was revised up from 1 percent to 1.7 percent, so the miss in May against forecasts is not as bad as it first looks. Core durable goods orders are often viewed as a proxy for business investment, so the continued growth in core orders was an encouraging signal that businesses continued to invest despite headwinds caused by rising prices.

• On Friday, May's personal income and personal spending reports were released. The reports showed that personal spending remained flat during the month, which was below economist estimates for a 0.4 percent increase. April's spending growth was revised up from 0.5 percent to 0.9 percent, which helps account for the miss in May. Personal spending increased 5 percent in March, as stimulus payments and reopening efforts led to a surge in spending. The slowdown in spending since then indicates that the tailwind from the most recent stimulus checks has largely faded and that rising prices may be starting to affect consumer spending decisions. Personal income has been volatile on a month-to-month basis throughout the pandemic, driven by shifting federal stimulus payments. Personal income fell 2 percent during the month, less than the 2.5 percent drop that was forecasted. This follows a 13.1 percent drop in income in May and a 20.9 percent increase in March. Despite the drop in income, the personal savings rate remains well above pre-pandemic levels, which should allow for further consumer spending growth in the months ahead.

• We finished the week with Friday's release of the second and final estimate of the University of Michigan consumer sentiment survey for June. The preliminary estimate showed that the index increased by more than expected to start the month; however, Friday's release showed that confidence declined from 86.4 mid-month to 85.5 at month-end against calls for a modest increase to 86.5. Despite the intramonth decline, this still represents an improvement from May, when the index finished the month at 82.9. The index is at its second highest level since the start of the pandemic, indicating continued improvements for consumer sentiment. The subindex that measures consumer expectations for future economic conditions rose notably during the month, from 78.8 at the end of May to 88.6 at the end of June, driven in part by declining consumer inflation expectations. Although the final report for June disappointed slightly against expectations, the improvement compared with May is a sign consumer confidence continued to rise during the month.

WHAT TO LOOK FORWARD TO

Tuesday will see the release of the Conference Board Consumer Confidence Index for June. Economists expect this widely followed measure of consumer confidence to increase from 117.2 in May to 119. If estimates hold, this would bring the index to its highest level since the start of the pandemic. In addition, it would echo improvements made during the month for the University of Michigan consumer sentiment survey. What's been driving the uptick in consumer confidence throughout the year? Largely, the gains are due to improvements on the public health front and the associated reopening efforts throughout the country. Historically, improving consumer confidence has supported consumer spending growth, so any increase for the index would be a positive development. Still, work remains to get the index back to the pre-pandemic high of 132.6 we saw in February 2020.

On Thursday, the initial jobless claims report for the week ending June 26 is set to be released. Economists expect the number of initial unemployment claims to fall to 384,000, down from 411,000 the week before. If estimates prove accurate, this report would represent the second-lowest level for weekly initial jobless claims since the start of the pandemic. Furthermore, the four-week moving average for initial claims would sit at a new pandemic-era low. As previously mentioned, we've made solid progress in getting initial jobless claims down over the course of the year. To get closer to historically normal claim levels, however, much work must still be done. For reference, in 2019, before the start of the pandemic, we averaged roughly 220,000 initial claims per week. Given that claims are still historically high, this weekly report will continue to be a widely monitored look at the health of the labor market.

On Thursday, the Institute for Supply Management (ISM) Manufacturing index for June is set to be released. This measure of manufacturer confidence is expected to decline slightly, from 61.2 in May to 61. Because this is a diffusion index, where values above 50 indicate expansion, a gain would indicate continued growth for manufacturing in the face of headwinds created by rising prices and supply chain bottlenecks. Once initial lockdowns were lifted last year, manufacturer confidence improved markedly. High levels of consumer demand and lean business inventories supported the manufacturing rebound in 2020. Since then, we've seen further improvements, driven in large part by nationwide reopening efforts and the economic recovery in 2021. Notably, the index hit a 38-year high in March. Then, in April, rising material costs led to a modest pullback, followed by a partial rebound in May. Looking ahead, high levels of manufacturer confidence are expected to support additional growth for the manufacturing sector as part of the ongoing economic recovery.

Friday will see the release of the international trade report for May. Economists expect the trade deficit to widen during the month, from $68.9 billion in April to $71 billion in May. If estimates hold, this report would bring the trade deficit to its second-widest level on record, trailing only the $75 billion deficit we saw in March. According to previously released data, the trade deficit for goods widened in May, which explains the anticipated widening of the overall deficit. The widening of the goods deficit was driven by a 0.3 percent drop in exports of goods and a 0.8 percent increase in imports during the month. Still, despite the decline in goods exports in May, overall export volume has recovered closer to pre-pandemic levels. Looking forward, the continued global economic recovery is expected to support additional export growth throughout the year. As a result, the deficit should return to more normal levels as the global economy continues to recover.

We'll finish the week with Friday's release of the June employment report. Economists expect 700,000 jobs to be added during the month, a step up from the 559,000 jobs added in May. If estimates hold, June would represent the best month for job creation since March, when 785,000 jobs were added. Weekly initial jobless claims showed notable improvement throughout June, which indicates the pace of layoffs fell as the nationwide reopening efforts picked up. The underlying data is also expected to show further improvements. Forecasts are calling for the unemployment rate to fall from 5.8 percent in May to 5.6 percent in June. This figure would represent the lowest unemployment rate since the start of initial lockdowns last year. Still, despite the improvements for the job market since the end of initial lockdowns, we have a long way ahead to return to pre-pandemic employment levels. So, though any improvement in June would be welcome, this monthly release will continue to be closely monitored as an important indicator of the overall economic recovery.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	2.76%	1.92%	14.79%	44.51%
Nasdaq Composite	2.36%	4.50%	11.79%	48.25%
DJIA	3.44%	–0.18%	13.56%	40.41%
MSCI EAFE	1.50%	0.44%	10.55%	34.59%
MSCI Emerging Markets	1.41%	0.45%	7.75%	40.86%
Russell 2000	4.33%	2.95%	18.71%	71.14%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.41%	–2.00%	–0.74%
U.S. Treasury	–0.57%	–3.02%	–3.78%
U.S. Mortgages	0.07%	–0.91%	–0.51%
Municipal Bond	–0.17%	0.93%	4.08%

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. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

Authored by the Investment Research team at Commonwealth Financial Network.