WEEKLY MARKET UPDATE, AUGUST 16, 2021

GENERAL MARKET NEWS

• Treasury yields moved slightly lower across the curve last week as July's Consumer Price Index report matched economist expectations. The 10-year Treasury yield fell 4 basis points (bps) to open Monday at 1.28 percent. The 2-year lost 1 bp to 0.20 percent, the 5-year shed 2 bps to 0.77 percent, and the 30-year was down 3 bps to about 1.9 percent.

• Trading in domestic markets was mixed, with the Dow Jones Industrial Average and S&P 500 Index up while the Nasdaq Composite and small-caps were down. Mixed trading was seen in international markets as well, with the MSCI EAFE Index up while emerging markets were down. Despite ongoing concerns over the Delta variant of the coronavirus, the Federal Reserve (Fed) has been preparing to lift its foot off the gas pedal of easy monetary policy. The financial sector was a top performer as it benefits directly from higher rates and a less accommodating Fed. Other leading sectors included materials, consumer staples, and utilities. Underperforming sectors included energy, consumer discretionary, and technology.

• On Wednesday, the Consumer Price Index for July was released. Consumer prices rose 0.5 percent, which was in line with expectations but a noted slowdown compared with the 0.9 percent increase in prices we saw in June. On a year-over-year basis, headline consumer prices increased 5.4 percent, which was slightly higher than economist estimates for a 5.3 percent increase. Core consumer prices, which strip out the impact of volatile food and energy prices, increased 0.3 percent for the month and 4.3 percent year-over-year. This was largely in line with forecasts that called for increases of 0.4 percent and 4.3 percent, respectively. The report showed a slowdown in inflationary pressure in some sectors that were affected by reopening efforts, including prices for air travel and used cars. The moderation in price growth for these reopening sectors helps support the Federal Reserve's (Fed's) view that much of the recent rise in prices will prove to be transitory.

• Thursday saw the release of the Producer Price Index for July. Producer prices increased 1 percent during the month against calls for a more modest 0.6 percent increase. On a year-over-year basis, producer prices increased 7.8 percent, which was up from 7.3 percent in June and higher than economist estimates for a 7.2 percent increase. Core producer prices, which strip out the impact of food and energy costs, also increased 1 percent against calls for a 0.5 percent increase. Core producer prices were up 6.2 percent on a year-over-year basis. As was the case with consumer prices, some reopening-related sectors saw moderate price growth; however, producer inflation still remains high on a historical basis. Producer prices have seen upward pressure this year caused by high levels of demand, supply chain constraints, and material shortages. Recently, producers have also started to contend with labor shortages, which also serve to increase inflationary pressure.

• We finished the week with Friday's release of the preliminary estimate for the University of Michigan consumer sentiment survey for August. This widely monitored gauge of consumer confidence fell by more than expected to start the month, dropping from 81.2 in July to 70.2 in August against forecasts calling for no change. This brought the index to its lowest level since 2011. The decline was largely driven by worsening consumer views on future economic prospects, as the subindex that measures future expectations fell from 79 in July to 65.2 in August. Rising medical risks and persistent worries about inflation negatively affected consumer confidence during the month, and the current conditions subindex also declined by more than expected. Historically, higher levels of confidence have supported faster consumer spending growth, so this sharp decline is a concerning signal for future consumer spending. Given the fact that consumer spending is the major driver for the overall economy, this will be an important area to monitor in the months ahead.

WHAT TO LOOK FORWARD TO

We'll start the week with Tuesday's release of the July retail sales report. Sales are expected to decline 0.3 percent after rising by 0.6 percent in June. Core retail sales, which strip out the impact of volatile auto and gas sales, are expected to remain flat, following a 1.1 percent surge in June driven largely by reopening-induced spending. High-frequency spending data showed that consumers continued to spend at newly reopened bars and restaurants in July. This is an encouraging sign that rising medical risks have not yet had a major impact on consumer spending. That said, a continued slowdown in auto sales is set to weigh on overall sales growth during the month. But, as sales have already recovered well past pre-pandemic levels, more moderate growth is expected as long as the economic recovery continues.

Tuesday will also see the release of the National Association of Home Builders Housing Market Index for August. This measure of home builder confidence is expected to remain unchanged at 80. This is a diffusion index, where values above 50 indicate growth, so the anticipated result would signal continued strength for new home construction. Home builder confidence rebounded swiftly following the end of initial lockdowns last year. If estimates hold, this report would mark 14 straight months of growth, keeping the index above the pre-pandemic high of 76 recorded in December 2019. Throughout the year, home builder confidence has been supported by strong levels of home buyer demand and low supply of existing homes for sale. Nonetheless, during this period, rising costs have served as a headwind for faster new home construction.

Speaking of new home construction, Wednesday will see the release of the July building permits and housing starts reports. Permits are expected to increase 1 percent, following a 5.1 percent decline in June. Starts are set to fall 2.3 percent in July, after seeing a 6.3 percent increase in June. Both of these measures of new home construction remain above pre-pandemic levels, however, supported by high home buyer demand and low supply of existing homes for sale. Although rising material costs have served as a headwind for faster construction throughout much of the year, a fall in lumber prices in

July could support additional single-family housing starts. Housing has been one of the strongest sectors of the economy throughout this recovery, driven by record-low mortgage rates and shifting home buyer preference due to the pandemic. July's reports on buildings permits and housing starts are expected to show continued strength for this important area of the economy.

Wednesday will also see the release of the Federal Open Market Committee (FOMC) meeting minutes from the Fed's recent July meeting. The Fed cut interest rates to virtually zero last March in response to the pandemic, and rates are not expected to change until at least 2023. No major changes to monetary policy were made at the July FOMC meeting, but we did get hints that the Fed may be considering a change to its asset purchase program. Currently, the central bank purchases $120 billion per month in Treasury- and mortgage-backed securities. Economists widely expect the Fed to taper these purchases by the end of this year or in early 2022, however. The minutes are expected to indicate the potential path and timing of any purchase tapering. It should be noted, however, that the Fed will likely telegraph its tapering plans well before making any changes to minimize potential market impact.

On Thursday, the initial jobless claims report for the week ending August 14 will be released. Economists expect to see 365,000 initial claims filed during the week, in an improvement from the 375,000 initial claims filed the week before. If estimates prove accurate, this result would represent the lowest number of initial claims in a week since the start of the pandemic. It would also mark four straight weeks with declining initial jobless claims. Throughout the course of the year, we've made solid progress in lowering initial jobless claims. The continued momentum from recent reopening efforts is expected to drive further improvements despite rising medical risks. Looking forward, continued labor shortages and the expiration of enhanced unemployment benefits are expected to serve as a tailwind for further improvements. Still, increased uncertainty caused by the continued spread of the Delta variant remains a risk to the labor market recovery that bears monitoring.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.75%	1.72%	20.02%	34.49%
Nasdaq Composite	–0.07%	1.06%	15.47%	35.46%
DJIA	0.94%	1.74%	17.31%	29.59%
MSCI EAFE	1.56%	2.62%	12.53%	28.01%
MSCI Emerging Markets	–0.85%	0.32%	0.54%	19.37%
Russell 2000	–1.06%	–0.09%	13.19%	42.35%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.11%	–0.82%	–0.21%
U.S. Treasury	0.10%	–1.55%	–2.15%
U.S. Mortgages	0.05%	–0.35%	–0.17%
Municipal Bond	–0.18%	1.58%	2.80%

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.

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