

Market Commentary

For the week of August 2nd, 2021

The Markets

Returns Through 7/30/21	WTD	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials (TR)	-0.36	15.31	35.38	13.88	16.30
NASDAQ Composite (PR)	-1.10	14.26	49.58	25.53	24.49
S&P 500 (TR)	-0.35	17.99	37.51	18.35	17.35
Barclays US Agg Bond (TR)	0.25	-0.50	-0.65	5.76	3.13
MSCI EAFE (TR)	0.62	9.65	28.49	7.57	9.36

Observations

- U.S. equities moved lower this week as indicated by the S&P 500 which was down -0.35% on the week.
- In the U.S., smaller sized companies outperformed their larger-sized counterparts, as the Russell 2000 index increased +0.76% on the week.
- International stocks as measured by the MSCI EAFE were positive on the week, up +0.62%, underperforming domestic stocks.
- Emerging market stocks were negative on the week with the MSCI EM index down -2.50%.
- U.S. investment grade bonds were positive last week with the Bloomberg Barclays U.S. Aggregate Bond index up +0.25%.

Data Obtained from Bloomberg as of 7/30/2021



Economic Review

- New Home Sales came in below expectations at 676,000 versus the forecasted reading of 796,000
- The Conference Board Consumer Confidence Index came in at 129.1, beating the expected reading of 123.1
- GDP missed consensus estimates of +8.6%, coming in at an annualized rate of +6.5% in the second quarter
- Initial jobless claims missed economists' forecasts of 385,000, coming in at 400,000
- Inflation in the US, as measured by Personal Consumption Expenditures (PCE) increased +0.5% on a month over-month basis and +4.0% on a year-over-year basis

INSIGHT: Data released on new homes indicated a continued deceleration in the housing market. This slowdown may have come because of the rapid appreciation in new home prices, which rose at a record annualized rate of +16.6% as of May.2 Additionally, GDP growth missed economists' forecasts by -1.9% despite personal consumption, the largest component of GDP, beating estimates and increasing +11.8%. The strength of consumers in the U.S is evident in the breakdown of GDP for the second quarter and is further substantiated by the increase in consumer confidence for the month of June, which rose to 129.1, beating estimates. However, despite this uptick in consumer confidence we continued to see some weakness in the job market, with initial jobless claims coming in higher than expected with a reading of 400,000. Although near pandemic-era lows, initial jobless claims remain stubbornly high. Concerns over the delta variant may be driving some of this weakness as businesses start to work through how the recent surge in cases may affect their reopening plans. Any further shortage in labor or supply of goods could significantly impact prices, as is evident through yet another measure of inflation, PCE, coming in above expectations.

A Look Forward

- The ISM Manufacturing Index will be released on Monday, with economists' projecting the print to come in unchanged from the prior reading of 63.1
- The ISM Services Index will be released on Wednesday, with economists' projecting a slight uptick from the prior reading of 60.1 to 60.5
- Nonfarm Payrolls will be released on Friday with the U.S. expected to add 900,000 jobs o Economists are expecting unemployment to decrease from 5.9% to 5.7%

INSIGHT: Despite supply chain constraints, higher prices, and lack of labor, both the manufacturing and services sectors of the economy finished the first half of the year on solid footing. It appears economists expect this trend to continue, in large part due to more people returning to the labor market. Jobs are expected to grow solidly from the prior month; however, we are still roughly seven million jobs above pre-pandemic levels of employment. Ultimately, the sooner we can get people back to work the greater economic growth will be.



BY THE NUMBERS

STOCK PERFORMANCE - The S&P 500 has gained +18.0% YTD (total return) through Friday 7/30/21. The stock index has gained at least +15% (total return) for the calendar year in 13 of the last 25 years. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).

MARGIN DEBT - The use of margin debt on the New York Stock Exchange (NYSE) increased to \$882 billion in June 2021, the 8th consecutive month setting an all-time high, i.e., new monthly records have been set from November 2020 through and including June 2021. Before this 8-month run began, the record level for margin debt was \$669 billion set in May 2018 (source: Financial Industry Regulatory Authority).

THE TEN-YEAR NOTE - Tomorrow (Tuesday 8/03/21) is the 2,500th trading day that the 10-year Treasury note has been traded since 8/05/11, the day S&P downgraded the USA's top-rating that America had held for 70 years. The yield on the 10-year note was 2.57% on 8/05/11. The yield on the 10-year note closed at 1.24% on Friday 7/30/21. Ironically, most bond market watchers anticipated the cost of borrowing for the Treasury Department would rise as a result of the 2011 credit downgrade (source: Treasury Department). Reprinted with permission from BTN.

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Mark Temperato, CLU, ChFC, RICP
Wealth Management Advisor/Partner
580 Fishers Station Rd. Victor, NY 14564
Office: 585-466-3275
Cell: 585-356-9658
MTemperato@DashCapitalAdvisors.com



Matt Piaseczny, ChFC, RICP
Wealth Management Advisor/Partner
580 Fishers Station Rd. Victor, NY 14564
Office: 585-466-3270
Cell: 585-451-4028
MPiaseczny@DashCapitalAdvisors.com

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