

Market Commentary

For the week of July 19, 2021

The Markets

Returns Through 7/16/21	WTD	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials (TR)	-0.52	14.45	32.33	13.98	16.03
NASDAQ Composite (PR)	-1.87	12.33	38.74	23.88	24.72
S&P 500 (TR)	-0.96	16.12	36.66	17.79	17.11
Barclays US Agg Bond (TR)	0.24	-0.94	-0.48	5.48	3.16
MSCI EAFE (TR)	-0.46	8.76	27.02	7.99	9.69

Observations

- U.S. equities moved lower this week as indicated by the S&P 500 which was down -0.96% on the week.
- In the U.S., smaller sized companies underperformed their larger-sized counterparts, as the Russell 2000 index decreased -5.11% on the week.
- International stocks as measured by the MSCI EAFE were negative on the week, down -0.46%, though they outperformed domestic stocks.
- Emerging market stocks were positive on the week with the MSCI EM index up +1.72%. U.S. investment grade bonds were positive last week with the Bloomberg Barclays U.S. Aggregate Bond index up +0.24%.

Data Obtained from Bloomberg as of 7/16/2021



Economic Review

- The Consumer Price Index (CPI) came in stronger than expected for the month of June, with prices increasing 0.9% month-over-month and 5.4% year-over-year.
- The Producer Price Index (PPI) came in better than expected for the month of June, with prices increasing 1.0% month-over-month and 7.3% year-over-year.
- Initial jobless claims came in at 360,000 for the week ending July 10th, missing economists' expectations of 350,000 but still down from last week's reading of 373,000.
- Retail sales grew more than expected in June, increasing 0.6% from a month prior.
- The University of Michigan Consumer Sentiment Index came in at 80.8, below economists' expectations of 86.5.

INSIGHT: As inflation trends higher, investors continue to gauge how it will impact markets and the overall economy. According to the Federal Reserve (Fed) Chairman Jerome Powell, while higher than the Fed's initial estimates, these levels of inflation are still temporary. As the economy re-opens, demand continues to outweigh supply, which is leading to shortages of goods and services and spikes in prices. Many of the shortages in goods and services are due to employers having a hard time filling open positions. Until more potential workers are vaccinated, schools fully reopen, and federal benefits expire, we could see this slog in the labor market persist which could ultimately slow down the economic recovery. Similarly, consumer sentiment fell to a 5-month low as the impacts of higher prices are clearly having an impact on lower and middle-income individuals. Consumers expect inflation to rise 4.8% over the next year, the highest since August 2008. Higher inflation seems to be driving down sentiment, but in the present, consumers continue to spend as we saw retail sales unexpectedly increase in the month of June.

A Look Forward

- Housing starts will be released on Tuesday and economists expect 1.590 million starts, up from last month's reading of 1.572 million.
- Building permits will also be released Tuesday and economists expect permits to come in at 1.7 million, up from last month's reading of 1.68 million.
- Existing home sales data will be announced on Thursday and economists expect sales to increase to 5.9 million units, up from 5.8 million a month prior.

INSIGHT: The housing market has run hot to start the year, with skyrocketing prices, bidding wars and not nearly enough inventory to keep pace with demand. The median existing-home sales price in May topped \$350,000 for the first time, according to the National Association of Realtors. However, more recently, price growth has slowed with more listings hitting the market across the country. In June, the number of new listings nationwide grew 11% from May and 5.5% compared with June of 2020, according to Realtor.com. As a result of increased supply, the median listing price only increased 12.7% year-over-year, compared with a jump of 17.2% in April. While demand is still strong, we may see some fatigue in the market as potential buyers instead spend on travel and other summer activities. Therefore, while starts and permits trend higher we would not be surprised to see existing home sales miss expectations when released later this week.



Fun Facts

BULL RALLY - The current bull market for the S&P 500 is the index's 8th bull run in the last 50 years. This bull has gained +97.6% (total return) from 3/23/20 through last Friday 7/16/21. 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).

ONLY ONCE - Inflation, using the "Consumer Price Index" (CPI) as the measurement, was up +5.4% on a trailing 1-year basis as of 6/30/21. In the last 30 years, there was only 1 month when trailing 1-year inflation was greater than +5.4%. Inflation was up +5.6% for the 1-year ending 7/31/08 (source: Department of Labor). **CHANGED MY MIND** - 25% of 1,006 "soon-to-graduate" college students who were surveyed in the 1st quarter of 2021 said the 2020 pandemic caused them to change the industry they intend to work in following their college years (source: Joblist).

OFFICE SPACE - 73% of Fortune 500 CEOs surveyed in May 2021 say their firms will need less office space in the future than they required in 2019 before the pandemic occurred (source: Fortune).

BIG SKY BENEFIT - The state of Montana has been paying a \$1,200 "Return-to-Work Bonus" since 5/04/21 to jobless individuals who were receiving unemployment benefits, and then went back to work for at least 4 weeks (source: Montana.gov).

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