Market Commentary

For the week of July 12, 2021

The Markets

Returns Through 7/9/21	WTD	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials (TR)	0.25	15.05	36.39	14.38	16.36
NASDAQ Composite (PR)	0.43	14.47	39.47	24.55	25.21
S&P 500 (TR)	0.42	17.24	39.33	18.15	17.43
Barclays US Agg Bond (TR)	0.31	-1.18	-0.44	5.40	3.05
MSCI EAFE (TR)	-0.07	9.26	30.24	8.26	9.96

Observations

- U.S. equities moved higher this week as indicated by the S&P 500 which was up +0.42% on the week.
- In the U.S., smaller sized companies underperformed their larger-sized counterparts, as the Russell 2000 index fell -1.11% on the week.
- International stocks as measured by the MSCI EAFE were negative on the week, down -0.07%, underperforming domestic stocks.
- Emerging market stocks were also negative on the week with the MSCI EM index down -2.60%.
- U.S. investment grade bonds were positive last week with the Bloomberg Barclays U.S. Aggregate Bond index up +0.31%.

Data Obtained from Bloomberg as of 7/09/2021

Economic Review

• Initial jobless claims came in above economists' forecasts with a reading of 373,000 versus the anticipated reading of 350,000.
• The ISM Services Index for the month of June came in at 60.5, missing the economists' expectations of 63.5.
• The Job Openings and Labor Turnover Survey (JOLTS) showed that there are currently 9.2 million open jobs in the U.S. economy.

INSIGHT: The economic data released during the shortened week for markets continued to come in softer than expectations. Initial jobless claims came in higher than expected and reported an upward revision to last week's print, however, the indicator remains at pandemic-era lows. Having only increased over last week's revised print by 2,000, it would be fair to say that layoffs have remained relatively consistent week-over-week and continue to support claims that the labor market is strengthening. Yet, job openings continue to remain stubbornly high. Economic activity is geared to pick back up, but people returning to work is critical for continued growth. The lack of labor supply is evident in the ISM Services Index. The index missed economists' expectations and fell from its record high. Still, at current levels the index is indicative of a recovery in the services sector of the economy. Ultimately, we remain optimistic that the services sector will trend higher in the months to come as labor shortages ease.

A Look Forward

• Consumer Price Index (CPI) will be released on Tuesday; economists are expecting prices to increase 0.5% on a month-over-month basis and 4.9% on a year-over-year basis.
• Producer Price Index (PPI) will be released on Wednesday; economists are expecting prices to increase 0.5% on a month-over-month basis and 6.7% on a year-over-year basis.
• Retail sales will be released on Thursday; economists are expecting sales to decrease -0.4% from a month prior.
• On Friday we will receive the University of Michigan Consumer Sentiment Index; economists are expecting a reading of 86.5.

INSIGHT:vTo start the week we will get some insight into how consumer and producer prices trended in the month of June. In previous months there has been concern over rapidly rising prices; however, the Federal Reserve has calmed investors' fears by stating that higher inflation is transitory. If this is true, we should see a slight reversal in prices by year end. Rising prices may be hindering consumer purchases as the retail sales number is expected to decrease for the second straight month. Conversely, consumer sentiment has been trending upward and economists expect a more confident consumer heading into the second half of the year. Both retail sales and consumer confidence are paramount in gauging the health of the economy as consumer spending makes up over two-thirds of U.S. GDP

Data Obtained from Bloomberg as of 7/09/2021

Fun Facts

TAXING AND SPENDING: The Congressional Budget Office (CBO) forecasted on Thursday 7/01/21 that during fiscal year 2021, i.e., the 12 months ending 9/30/21, the US government will receive $3.8 trillion of tax revenue, spend $6.8 trillion, resulting in a $3.0 trillion fiscal year deficit. During the next 10 fiscal years, i.e., fiscal year 2022 through and including fiscal year 2031, the US government is projected to receive $51.3 trillion of tax revenue, spend $63.4 trillion, resulting in a $12.1 trillion deficit over the next decade (source: CBO).

THE RIGHT DIRECTION: The rating agency Moody's upgraded the general obligation bonds issued by the state of Illinois on Tuesday 6/29/21. Moody's raised the state's rating from Baa3 to Baa2, the first upgrade issued by the rating agency for Illinois since June 1998 or 23 years ago. Baa3 is the lowest "investment grade" status issued by Moody's, just 1 rating above "junk" status (source: Moody's).

ITS DIFFERENT: The Federal Reserve measures inflation using the Personal Consumption Expenditures (PCE) price index while the government uses the Consumer Price Index (CPI) for the "cost of living adjustment" (COLA) to increase Social Security retirement benefits. The CPI gives "housing" prices a 42.1% weighting in its calculation, while the PCE gives "housing" just a 22.6% weighting. The CPI gives "medical care" prices an 8.8% weighting in its calculation, while the PCE gives "medical care" a 22.3% weighting (source: Federal Reserve).

NOT JUST KIDS: 19% of Americans that have outstanding student loan debt from college are over age 50, i.e., 8.7 million borrowers out of 44.7 million total borrowers (source: Federal Reserve Bank of New York).

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