

Market Commentary

For the week of June 21, 2021

The Markets

Returns Through 6/18/21	WTD	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials (TR)	-3.40	9.79	31.26	13.34	15.95
NASDAQ Composite (PR)	-0.26	9.21	42.08	23.21	24.95
S&P 500 (TR)	-1.87	11.71	36.61	16.99	17.02
Barclays US Agg Bond (TR)	0.11	-1.60	-0.12	5.45	3.23
MSCI EAFE (TR)	-2.40	8.92	30.88	8.21	9.62

Observations

- U.S. equities moved lower this week as indicated by the S&P 500 which was down -1.87% on the week.
- In the U.S., smaller sized companies underperformed their larger-sized counterparts, as the Russell 2000 index fell -4.17% on the week.
- International stocks as measured by the MSCI EAFE were negative on the week, down -2.40%, underperforming domestic stocks.
- Emerging market stocks were also negative on the week with the MSCI EM index down -1.45%.
- U.S. investment grade bonds were positive last week with the Bloomberg Barclays U.S. Aggregate Bond index up +0.11%.

Data Obtained from Bloomberg as of 6/18/2021



Economic Review

- Retail Sales, released on Tuesday, came in below economist expectations with a -1.3% print.
- The Producer Price Index (PPI) came in above forecasts with the month over month print of 0.8% and a 6.6% year over year print, versus economist forecasts of 0.6% and 6.2% respectively.
- Building permits missed forecasts with a print of 1.68 million versus the 1.73 million expected.
- Housing Starts also missed forecasts with a print of 1.572 million versus the 1.63 prediction for the month, a 3.6% increase

INSIGHT: Consumers seem to be shifting away from spending on goods, such as electronics and furniture, towards services, such as entertainment and travel. We find this to not come as a surprise, as it can be expected that consumers would shift their consumption habits towards the services industry as the country continues to emerge from the pandemic and more states reopen their economies. With the PPI print coming in above forecasts, we view this as further proof that the economy is still in the early stages of its reopening, causing disruption to supply chains. These disruptions could continue to lead to high PPI prints as demand should still outweigh supply in the coming months. We see a similar supply and demand imbalance in the housing industry, as highlighted by the building permits print missing forecasts. With surging lumber prices and uncertainty behind the availability of necessary supplies, moving forward, we believe that building permits and new housing starts may continue to miss forecasts. To further this argument, builder confidence has come down from the historic highs hit in late 2020. Overall, we believe that once the issues surrounding supply chains are resolved, the demand for housing will remain strong. This should provide significant upside potential for 2022.

A Look Forward

- Existing home sales will be released on Monday with economists forecasting 5.71 million for the month of May.
- New Home sales will be released on Wednesday and are expected to increase from the prior month to 875,000.
- Personal Income is expected to decrease by -2.8% during the month of May while personal spending is forecasted to increase by 0.3% over the same period.
- Personal Consumption Expenditures (PCE) deflator is expected to increase month over month by 0.6%.

Data Obtained from Bloomberg as of 6/18/2021



INSIGHT: New home sales are expected to increase 1.4% to 875,000 for the month of May. This highlights the continuing strength of demand for housing by consumers. However, as prices for existing homes remain near record highs, economists forecast that existing sales will decline month over month as consumers may be hesitant to enter the market at such elevated price levels. Elevated prices are showing up not only in the housing market, but in multiple sectors of the economy. The PCE deflator, one of the Federal Reserve System's (FED) favorite measures of inflation, is expected to increase by 0.6% month over month. Economists believe that price increases may very well impact the amount of money that consumers have in their pockets, therefore, it is important to see an increase in personal income if prices continue to rise. However, the main key to sustained economic activity is consumer spending. As states lift restrictions, consumers should continue to spend, which should continue to support growth in the economy.

Fun Facts

AT A MINIMUM: The Treasury Department maintains a "checking account," aka the Treasury General Account with a minimum balance of \$150 billion. As of Wednesday 6/09/21, the Treasury General Account had a balance of \$730 billion. The US government is forecasted to spend \$20 billion a day during fiscal year 2021, i.e., the 12 months ending 9/30/21 (source: Treasury Department).

HALF: 51% of the \$64.2 trillion forecasted by the Biden White House that the US government will spend over the next 10 fiscal years, i.e., fiscal year 2022 through and including fiscal year 2031, are outlays for Social Security, Medicare and Medicaid (source: Budget of the U.S. Government released 5/28/21).

FEWER CHOICES: There were 1.16 million existing homes for sale nationwide as of 4/30/21. The 1.03 million "for sales" as of 2/28/21 was the lowest level ever reported for a statistic that has been tracked since 1999 (source: National Association of Realtors).

NO TURNING BACK: 42% of 1,046 full-time American workers surveyed in early March 2021 said they would quit their jobs if their employer did not allow them to continue to "work from home" permanently and they would seek new employment with a company that does (source: Prudential's Pulse of the American Worker Survey).

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