Weekly Market Update

General Market News

- Treasury yields moved slightly lower across the curve week-over-week. The 10-year Treasury yield slid about 7 basis points (bps) to open near 1.21 percent. The 2-year fell roughly 2 bps to 0.17 percent, the 5-year dropped approximately 5 bps to 0.67 percent, and the 30-year shed 5 bps to about 1.89 percent. Investors are in a holding pattern after last week's Federal Reserve (Fed) meeting, awaiting guidance on impending monetary policy shifts.
- U.S. equity markets were down as we entered a busy week of earnings, with market giants Tesla, Apple, Microsoft, Google, Facebook, and Amazon all reporting. Despite each beating expectations by at least 14 percent, several sold off because of peak-growth concerns. Amazon was down 9 percent despite beating earnings estimates by roughly 23 percent; e-commerce sales growth dropped to 16 percent for the quarter, compared with 49 percent last year during the worst of the pandemic. Top-performing sectors included financials, materials, health care, and energy. In addition to consumer discretionary, other underperforming sectors included technology and communication services.
- On Tuesday, the preliminary estimate of the June durable goods orders report was released. Orders increased 0.8 percent, below economist expectations for a 2.2 percent increase. The report also showed that May's durable goods orders growth was upwardly revised from 2.3 percent to 3.2 percent, so the miss in June against expectations isn't as bad as it first looks. Core durable goods orders, which strip out the impact of volatile transportation orders, increased 0.3 percent following an upwardly revised 0.5 percent increase in June. This marks four straight months with core durable goods orders growth, an encouraging sign for business spending during the second quarter. The continued growth in headline and core orders was especially impressive, given that the overall level of orders has already passed pre-pandemic levels.
- Tuesday also saw the release of the Conference Board Consumer Confidence Index for July. This widely followed measure of consumer confidence increased more than expected, from an upwardly revised 128.9 in June to 129.1 in July against calls for a decline to 123.9. This result brought the index to its highest level since the start of the pandemic. This marks six straight months with improving confidence, as positive developments on the public health front and reopening efforts throughout the first half of the year supported improved sentiment. One area of notable strength in the report was the share of consumers who cited that jobs were plentiful, reaching a 21-year high during the month. Overall, this was an encouraging report that signaled continued high levels of consumer confidence, despite rising medical risks from the Delta variant.
- On Wednesday, the Federal Open Market Committee (FOMC) rate decision from the Fed's July meeting was released. The Fed cut rates to virtually zero last year in response to the pandemic, and there were no changes to rates at this meeting, as expected. The major focus was on the Fed's news release and Chair Jerome Powell's post-meeting news conference. The Fed is currently purchasing $120 billion in Treasury and mortgage bonds per month, and it did not change the pace of asset purchases at this meeting. With that being said, the news release noted that the economic recovery has made additional progress toward the Fed's dual mandate of maximum employment and long-term inflation at 2 percent. Given improving economic fundamentals, economists expect to see further discussion on potential taper timing from upcoming Fed meetings; however, any change to the asset purchasing program is expected to be communicated well in advance to limit potential market volatility.
- On Thursday, the advance report of annualized GDP growth in the second quarter was released. The report showed that the economy grew at an

General Market News (continued)

annualized rate of 6.5 percent during the quarter, which was up from the downwardly revised 6.3 percent annualized growth rate we saw in the first quarter but below expectations for an 8.4 percent growth rate. This miss against expectations was primarily due to headwinds from international trade and declining business inventories, which, combined, took roughly 1.5 percent off of the overall growth rate in the second quarter. The silver lining from the report was personal consumption, which increased 11.8 percent on an annualized basis during the quarter against calls for a more modest 10.5 percent growth rate. This represents the second-best quarter for personal consumption growth since 1952 and signals that high levels of consumer saving throughout the pandemic continued to support spending growth during the quarter. Although overall economic growth missed against expectations, strong personal consumption growth is a good sign for the overall health of the economic recovery.

- Friday saw the release of the personal income and personal spending reports for June. Personal spending increased 1 percent against calls for a more modest 0.7 percent increase. The better-than-expected result was driven in large part by increased spending on services, as nationwide reopening efforts allowed consumers to dine out and travel. This marked four straight months with increased service spending, which is an encouraging sign that consumer demand remains robust. Personal income has been very volatile on a month-to-month basis throughout the pandemic and economic recovery, as federal stimulus payments have led to large monthly swings in income growth. Personal income increased 0.1 percent during the month, which was above economist estimates for a 0.3 percent decline. The increase was largely due to rising wage income, which, in turn, was supported by reopening efforts and a short supply of potential workers. Given the high levels of consumer confidence and the continuing economic recovery, spending and income are expected to show continued improvements in the months ahead.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.35	2.38	17.99	36.45
Nasdaq Composite	–1.10	1.19	14.26	37.53
DJIA	–0.36	1.34	15.31	34.79
MSCI EAFE	0.62	0.75	9.65	30.31
MSCI Emerging Markets	–2.50	–6.73	0.22	20.64
Russell 2000	0.76	–3.61	13.29	51.97

Source: Bloomberg, as of July 30, 2021

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.25	–0.50	–0.70
U.S. Treasury	0.27	–1.25	–3.01
U.S. Mortgages	0.14	–0.15	0.03
Municipal Bond	0.04	1.90	3.29

Source: Morningstar Direct, as of July 30, 2021

What to Look Forward To

On Monday, the Institute for Supply Management (ISM) Manufacturing index for July was released. This widely monitored gauge of manufacturer confidence declined modestly, falling from 60.6 in June to 59.5 in July against forecasts for an increase to 61. As this is a diffusion index, where values above 50 indicate expansion, the result demonstrates continued strength in manufacturer production despite the miss against expectations. Supply constraints remained a headwind for production growth in July, as order backlogs increased. Rising material costs, tangled supply chains, and labor shortages have negatively affected manufacturers over the past few months. Nonetheless, throughout the year, high levels of consumer demand have supported increased output. In addition, the July report showed a welcome pickup in manufacturing employment, demonstrating that manufacturers succeeded in finding workers to address high levels of consumer demand. Overall, this report was relatively encouraging, signaling continued growth despite the headwinds facing the manufacturing sector.

Wednesday will see the release of the ISM Services index for July. Service sector confidence is expected to show modest improvement, as economist forecasts call for the index to rise from 60.1 in June to 60.5 in July. This is another diffusion index, where values above 50 indicate expansion. So, if estimates hold, the result would demonstrate accelerated growth during the month. The service sector accounts for the lion's share of economic activity in the U.S., so any improvement for the index would be an encouraging sign for the overall economic recovery. As was the case with manufacturer confidence, service sector confidence has remained in expansionary territory and well above pre-pandemic levels since June of last year. This indicates that businesses across industry sectors remain confident and willing to spend.

On Thursday, the June international trade report is set to be released. Economists expect to see the trade deficit widen from $71.2 billion in May to $73.0 billion in June. If estimates hold, this report would bring the deficit to its second-widest level on record, trailing only the $75 billion deficit recorded in March of this year. The advance report on the trade of goods showed a 0.3 percent increase in goods exports in June, but a 1.5 percent increase in the import of goods was more than enough to offset the modest export growth. High levels of domestic consumer demand have driven a surge in imports throughout the year, which has weighed on overall economic growth. With that said, the continued global economic recovery is expected to serve as a tailwind for further export growth and recovery.

Thursday will also see the release of the initial jobless claims report for the week ending July 31. Economist forecasts call for initial claims to decline from 400,000 the week before to 378,000. If the estimates prove accurate, this report will mark the fewest number of initial claims in three weeks. It would also bring the number of claims close to the post-pandemic low of 368,000 set during the week ending July 9. Still, though notable progress has been made in reducing claims, compared with data from earlier in the year, the pace of improvement slowed in June and July. Concerns about the Delta variant of the coronavirus may be playing a part in the slowdown. But, given the volatile nature of weekly initial unemployment claims, it's too early to tell if rising medical risks have negatively affected the labor market recovery. If claims decline to end July, this report will indicate that the labor market recovery continues.

Speaking of the labor market recovery, we'll finish the week with Friday's release of the July employment report. Economists expect to see 900,000 jobs added during the month, a step up from the 850,000 jobs added in June. If estimates hold, this report would represent the greatest number of jobs added during a month since August 2020. It would also mark seven straight months of job growth. Following accelerated hiring in June, growth in July would be an

What to Look Forward To (continued)

encouraging sign that reopening efforts are continuing to boost the labor market. The underlying data should also improve for the month. The unemployment rate is set to fall from 5.9 percent in June to 5.6 percent in July, and year-over-year growth for average hourly earnings should increase from 3.6 percent to 3.9 percent. If estimates prove accurate, they would signal that the labor market recovery continued to pick up steam to start the second half of the year.

Authored by Brad McMillan, CFA,® CAIA, MAI, managing principal, chief investment officer, and Sam Millette, senior investment research analyst, at Commonwealth Financial Network®.