Weekly Market Update

General Market News

- The Treasury yield curve steepened modestly last week after Federal Reserve (Fed) Chairman Jerome Powell's remarks at the Fed's virtual annual symposium. The 10-year Treasury yield picked up 5 basis points (bps) week-over-week to open at about 1.3 percent on Monday morning. The 2-year fell about 1 bp to around 0.21 percent, the 5-year gained approximately 2 bps to 0.79 percent, and the 30-year was up 5 bps to 1.92 percent. After these muted moves, the markets are looking ahead to the August jobs report.

- Global equity markets moved higher, with domestic small-caps and emerging markets as notable leaders. The largest news last week was Powell's speech, in which he discussed potentially easing the Fed's asset purchases later this year. Unsurprisingly, risk assets moved higher, with cyclicals particularly in favor; energy, financials, consumer discretionary, materials, and industrials were all top performers. Bond proxies in utilities and consumer staples lagged as investors continued to flock to risk assets with the Fed remaining supportive of the recovery.

- Monday saw the release of the July existing home sales report. Sales of existing homes came in above expectations, as sales increased 2 percent during the month against calls for a 0.5 percent decline. This better-than-expected result brought the pace of existing home sales to its highest level in four months. Existing home sales have been supported by record-low mortgage rates and shifting home buyer preference for more space due to the pandemic; however, a lack of supply has been a headwind for sales throughout 2021. The strong July result coincided with an increase in the supply of homes for sale, as the number of existing homes for sale increased 7.3 percent and hit its highest level since last October. This is an encouraging signal that the housing market is starting to normalize after a surge in sales growth over the past year led to reduced supply and rising prices. Looking forward, the supply of homes for sale still remains relatively low on a historical basis and is expected to hamper overall sales growth; however, if sales remain near the current pace, it would still signal healthy levels of home buyer demand.

- On Wednesday, the preliminary estimate for the July durable goods orders report was released. Durable goods orders fell 0.1 percent during the month, which was slightly better than economist estimates for a 0.3 percent decline. The headline decline was due to a slowdown in volatile aircraft orders. Core durable goods orders, which strip out the impact of transportation orders and are often viewed as a proxy for business investment, increased by a strong 0.7 percent against calls for a 0.5 percent increase. This better-than-expected result was a positive signal that businesses continue to invest to meet high levels of demand. This was an encouraging report, as rising medical risks appear to have a relatively muted effect on business confidence and spending. Business spending has been robust since initial lockdowns were lifted last year. Looking ahead, the pace of the ongoing economic recovery is expected to be supported by continued business spending.

General Market News (continued)

- On Friday, July's personal income and personal spending reports were released. Both income and spending increased during the month, with incomes rising 1.1 percent against calls for a 0.3 percent increase, while spending rose 0.3 percent against forecasts for a 0.4 percent increase. Income has been very volatile throughout the pandemic, as shifting federal stimulus and unemployment claims have led to large monthly swings in average income. The 1.1 percent increase in July, for example, was due in large part to advance child tax credit payments. The increase in spending in July was a welcome sign that consumers continued to go out and spend the additional cash, and it marks five straight months of spending growth. Reopening efforts throughout the country have served as a tailwind for increased spending growth, and we saw a continued increase in spending on services. Overall, this was an encouraging report that showed consumers are willing and able to spend despite rising medical risks.

% Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.54	2.72	21.20	30.48
Nasdaq Composite	2.82	3.19	17.90	30.26
DJIA	0.98	1.70	17.26	26.10
MSCI EAFE	1.86	1.45	11.24	25.70
MSCI Emerging Markets	4.28	–0.22	0.00	15.67
Russell 2000	5.06	2.37	15.98	45.76

Source: Bloomberg, as of August 27, 2021

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.05	–0.70	0.14
U.S. Treasury	–0.18	–1.43	–1.83
U.S. Mortgages	0.08	–0.32	–0.19
Municipal Bond	–0.11	1.49	3.37

Source: Morningstar Direct, as of August 27, 2021

What to Look Forward To

Tuesday will see the release of the Conference Board Consumer Confidence Index for August. This widely followed measure of consumer sentiment is expected to decline from 129.1 in July to 123. July's result brought the index back to pre-pandemic levels, marking a new pandemic-era high for consumer confidence. Given that, the anticipated decline in August is understandable. If estimates prove accurate, confidence will remain well above lockdown-induced lows and at levels supporting continued consumer spending growth. Consumer confidence has been resilient this year, compared with data from last spring when initial lockdowns caused sentiment and spending to plummet. The rising medical risks are real, however, and should be monitored for a sustained decline in confidence and spending. A drop in these indicators could threaten the pace of the overall economic recovery as we head into fall.

On Wednesday, the Institute for Supply Management (ISM) Manufacturing index for August is set to be released. This measure of manufacturer confidence is expected to decline slightly from 59.5 in July to 58.6. This is a diffusion index, where values above 50 indicate expansion, so the anticipated result would signal continued growth for the manufacturing industry. Manufacturing confidence has been supported this year by reopening efforts, high levels of consumer demand, and low levels of business inventory. High input prices continue to serve as a headwind for the industry, however. Tangled global supply chains continue to drive up costs of materials, and, recently, labor shortages have started to drive up employment costs. Despite these headwinds, high levels of demand should continue to serve as a tailwind for manufacturers in the months ahead.

Thursday will see the release of the initial jobless claims report for the week ending August 28. Economists expect to see 346,000 initial unemployment claims filed during the week, in a drop from the 353,000 initial claims filed the week before. If estimates prove accurate, the report would represent a new record low for weekly initial claims since the start of the pandemic. We've made solid progress this year in getting the number of initial claims down, though work remains to return to pre-pandemic levels. In 2019, we averaged roughly 220,000 initial claims per week. The Fed continues to closely monitor the labor market recovery, as a full economic recovery will rely on further improvements in the job market.

Thursday will also see the release of the July international trade balance report. The trade deficit is expected to narrow slightly, from $75.7 billion in June to $74.1 billion. If estimates prove accurate, this report would mark the third-largest monthly trade deficit on record, trailing only results from June and March of this year. According to the advanced report on the trade of goods, the exports of goods increased 1.5 percent in July, while imports fell 1.4 percent. Part of the decline in imports of goods was due to a slowdown in consumer goods imports during the month, which reflects slowing consumer demand. Looking ahead, there is room for more improvement in export growth, as the total level of exports remains below pre-pandemic levels. Given the uneven nature of the global economic recovery, it may take some time to get export growth back to earlier highs. Over the long term, however, rising global demand for U.S. goods should drive further improvements.

What to Look Forward To (continued)

On Friday, the August employment report will be released. Economists expect to see 750,000 jobs added during the month, in a step down from the 943,000 jobs added in July. Still, this result would represent a notable increase in the pace of hiring compared with data from earlier in the year. Reopening efforts supported faster hiring growth in June and July. If estimates for August prove accurate, they would signal strongly that the recovery remains on track despite rising coronavirus case counts. The underlying data is also expected to show continued improvement, with the unemployment rate set to drop from 5.4 percent to 5.2 percent. Average hourly earnings are expected to increase 0.3 percent in August, reflecting continued high levels of demand from businesses for additional employees. Overall, if estimates prove accurate, this report would be a sign that the labor market recovery continued in earnest during the month. This may provide additional support for the Fed's potential plans to taper asset purchases later this year.

We'll finish the week with Friday's release of the ISM Services index for August. This gauge of service sector confidence is expected to decline from 64.1 in July to 62. This is another diffusion index, where values above 50 indicate growth, so the anticipated result would signal continued expansion for the service sector. July's result marked a record high for the index, so a modest pullback would be understandable, especially when rising case counts and increased local restrictions on businesses are considered. Service sector confidence has been supported throughout the year by reopening efforts allowing businesses to ease off on pandemic restrictions. But, with some areas of the country starting to reimpose anti-pandemic measures, we may see service sector confidence face new headwinds. The service sector accounts for the majority of economic activity in the country, so this release will continue to be widely monitored.

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