JULY 12, 2021

Weekly Market Update

General Market News

- Treasury yields plunged last week as investors weighed concerns about virus variants and shifting monetary policy and the potential effects on the global recovery. The 10-year yield fell about 13 basis points (bps) week-over-week to open at 1.33 percent on Monday morning. The 5-year yield also fell 13 bps to open at 0.76 percent. The 30-year yield was the next biggest mover, shedding 10 bps to open at 1.96 percent. The 2-year yield fell about 5 bps from 0.26 percent to 0.21 percent.

- Large-cap domestic equities faired the best in a shortened but volatile week of trading. Emerging markets were hurt by the cybersecurity review of Didi, a ride-sharing firm that had its initial public offering on the New York Stock Exchange last week. The result led to a drop in the company's shares and added uncertainty for future U.S. listings of Chinese firms. Small-caps were hurt by the drop in Treasury yields due to the larger regional bank exposure within the space. The European Central Bank upped its inflation target from less than 2 percent to 2 percent. Additional policy support came from China, which loosened its restriction on the reserves banks must hold in their vaults. The market took this as a possible sign of slower-than-expected growth for China, which has been trying to unwind its growth in debt and credit as of late.

- The top-performing sectors were real estate, consumer discretionary, utilities, and technology, all of which benefit from lower rates. Underperforming sectors included energy, financials, communication services, and materials as cyclical recovery trades waned as confidence in future growth eased.

- Tuesday saw the release of the Institute for Supply Management (ISM) Services index for June. This widely followed measure of service sector confidence dropped from 64 in May to 60.1 in June against calls for a more modest drop to 63.5. This is a diffusion index, where values above 50 indicate expansion, so this report still signals continued growth for the service sector. Service sector confidence remains above the pre-pandemic high of 56.7 that we saw in February 2020, highlighting the positive effects of the ongoing economic recovery for service sector businesses. Service sector confidence was supported by strong consumer demand, especially in sectors that have been hit hard during the pandemic, such as in-restaurant dining, hotels, and air travel. Material and labor shortages continued to serve as a tailwind for faster service sector growth, and this continued expansion was an encouraging sign that service sector businesses are continuing to successfully adapt.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	0.42	1.72	17.24	39.33
Nasdaq Composite	0.43	1.38	14.47	39.47
DJIA	0.25	1.11	15.05	36.39
MSCI EAFE	–0.07	0.39	9.26	30.42
MSCI Emerging Markets	–2.60	–3.94	3.22	25.59
Russell 2000	–1.11	–1.31	16.00	61.97

Source: Bloomberg, as of July 12, 2021

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.31	–1.18	0.44
U.S. Treasury	0.44	–1.99	–2.95
U.S. Mortgages	0.12	–0.58	–0.32
Municipal Bond	0.58	1.73	4.33

Source: Morningstar Direct, as of July 12, 2021

What to Look Forward To

On Tuesday, the Consumer Price Index for June is set to be released. Economists have forecasted a 0.5 percent and a 4.9 percent increase in consumer prices during the month and year-over-year, respectively. Core consumer prices, which strip out the impact of volatile food and energy prices, are expected to rise by 0.4 percent during the month and 4 percent year-over-year. Part of the anticipated year-over-year growth for both headline and core consumer prices can be attributed to base-effect comparisons with data from last summer when initial lockdowns led to deflationary pressure. But, in addition, consumer prices have seen upward pressure over the past few months. High levels of consumer demand, low business inventories, and tangled supply chains have contributed to the rising prices. Despite the growing inflationary pressure, Federal Reserve (Fed) members have continued to indicate they view inflation as largely transitory, which supports the Fed's supportive monetary policy.

Wednesday will see the release of the Producer Price Index for June. Producer prices are expected to increase by 0.5 percent during the month, following a 0.8 percent increase in May. On a year-over-year basis, producer prices are slated to rise by 6.8 percent in June, up modestly from May's 6.6 percent year-over-year rate. The forecasts for core producer prices, which strip out the impact of volatile food and energy prices, are for an increase of 0.4 percent in June, following a 0.7 percent gain in May. On a year-over-year basis, core producer prices are expected to increase by 5.1 percent. As was the case with consumer inflation, the anticipated rise for year-over-year producer prices can be attributed to base-effect comparisons and rising price pressure. Rising material and labor costs have been driving these trends. As a result, we're starting to see producers pass on some of these rising prices to customers, which is reflected in the forecasts for June.

On Thursday, the initial jobless claims report for the week ending July 10 will be released. Economists expect to see 350,000 initial claims filed during the week, in an improvement compared with the 373,000 initial claims filed the week before. If estimates prove accurate, this

What to Look Forward To (continued)

report would represent the fewest number of initial unemployment claims in a week since the start of the pandemic. Still, although we've made notable progress in reducing initial claims this year, they remain relatively high on a historical basis. Additionally, the pace of improvement has slowed over the past few weeks. So, despite the support high demand and successful nationwide reopening efforts should provide to the labor market in the months ahead, the pace and path of the recovery is uncertain. Given this uncertainty, economists will continue to monitor this weekly release to gauge the status of the labor market recovery.

Also on Thursday, the June industrial production report is set to be released. Economists expect to see production increase by 0.6 percent during the month, following a 0.8 percent rise in May. If estimates hold, this report would mark four straight months with increased production following the weather-related slump in February. The solid growth we've seen this year has been driven in large part by high levels of pent-up consumer demand and low business inventories. These trends have also contributed to a rebound in manufacturing output, which is slated to increase by 0.3 percent in June, following a 0.9 percent increase in May. Still, despite the high demand, rising material costs, shipping delays, and supply shortages are headwinds for faster growth for manufacturing and industrial production. Nonetheless, given the high consumer demand and continued global recovery, economists expect to see industrial production continue to expand throughout the year. The total level of industrial production is expected to reach pre-pandemic levels in upcoming months.

On Friday, the June retail sales report is set to be released. Retail sales are expected to fall by 0.6 percent during the month, following a 1.3 percent decline in May. Recently, headline retail sales have been pressured by declining auto sales, as the semiconductor shortage has led to lower inventories and rising prices for cars. Core retail sales, which strip out the impact of volatile auto and gas sales, are expected to increase by 0.2 percent in June, following a 0.8 percent drop in May. The anticipated decline in headline retail sales would be a modest disappointment. Nonetheless, a return to core retail sales growth in June would be a sign that consumers remain willing and able to spend, despite the previous rebound past pre-pandemic levels for overall sales. Given the high consumer confidence we've seen, as well as the continued economic recovery, further retail sales growth is expected.

Speaking of consumer confidence, we'll finish the week with Friday's release of the preliminary estimate of the University of Michigan consumer sentiment survey for July. This widely followed measure of consumer confidence is expected to increase from 85.5 in June to 86.5 in July. If estimates hold, this release would mark two consecutive months with improving confidence. It would also bring the index near the pandemic-era high of 88.3 we saw in April. Historically, high consumer confidence has supported consumer spending growth, so any improvement for the index would be seen as a positive development for the overall economy. June's release showed that consumers remained worried about rising inflationary pressure in June, which held back overall confidence during the month. While the headline number will garner most of the attention regarding this release, the underlying data that investigates consumer inflation expectations and big-ticket spending plans will also be worth monitoring. They will provide a glimpse into consumer spending plans in the upcoming months.

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