***Summary***

Economic data for the week included a jobs report that came in a bit better than expected, in addition to strength in consumer confidence, home prices, and other labor metrics such as improved jobless claims. On the other hand, manufacturing sentiment declined a bit—but remained at a very high level.

U.S. equity markets moved to new highs along with continued improving economic data, while foreign stocks were held back by Covid and inflation fears. Bonds fared well as interest rates continued to temper across the curve. Commodities gained across the board, notably in agriculture last week.

***Economic Notes***

(0) The **ISM manufacturing index** for June fell back by -0.6 of a point to 60.6, just short of the 60.9 reading expected. The underlying report showed increases in production, supplier deliveries, and inventory further into expansion; it noted a deceleration in the pace of new orders, although they continued to expand generally. Prices paid accelerated even further, in fact to the fastest pace since 1979 (to a level of 92 on a scale of 100, which has only been matched in prior decades during periods of extreme oil shocks). On the other hand, employment fell a point, and declined by just a shade into contraction. Regardless, any figure above 60 for a diffusion-based index (where 50 is neither growing nor shrinking) remains very robust. Inflationary pressure in the near term are also obviously present, with the strong showing of prices paid.

(-) **Construction spending** in May declined by -0.3%, which was in contrast to an expected increase of 0.4%. Private construction fell in line with the overall index, with a rise in residential spending offset by a drop in non-residential of over a percent. Public residential spending rose by over a percent, also offset by a lesser decline in non-residential construction.

(+) The **S&P/Case-Shiller house price index** rose 1.6% in April, matching the pace of March, but fell just short of the 1.8% rise expected by consensus. Every city in the 20-member index experienced a price increase, with San Diego, Phoenix, and Seattle topping the list at 3% each. The year-over-year gain accelerated another 1.6% to 14.9%, which is the fastest pace in 16 years since just before the prior housing peak of the mid-2000s.

(+) The **FHFA house price index** pace of improvement increased further to 1.8% for April, an all-time record for a single month, and beating expectations of 1.6%. As with Case-Shiller, strength was widespread, with every region experiencing gains, led by the Mountain and Mid-Atlantic states. The national year-over-year rate accelerated by 1.7% to 15.7%—robust to say the least.

Home prices are continuing their ascent, fueled by low financing rates on mortgages and pandemic-related desire for lower density living. The rates of increase for both of the home price indexes noted above have significantly exceeded that of CPI over the past decade since the 2008 financial crisis—in fact at a steeper pace than the decade preceding the crisis. One behind-the-scenes driver appears to be that nearly a fifth of recent purchases have been from institutional/private equity firms. In some cases, such firms appear to have purchased entire housing developments. The goal, aside from hoped-for appreciation, is rental income in an ongoing low yield environment. The most attractive rentals, though, are often mid-range housing stock that is most affordable to the majority of individual buyers. This demand has further reduced available inventory for mass market housing in many cities.

(+) **Pending home sales** rose 8.0% in May, far exceeding the median forecast of a -1.0% decline and reversing last month's drop. Every region saw a gain, led by the Northeast and West, which rose by double-digits. The year-over-year rate of pending sales decelerated dramatically (from 54% to 14%), as distorted base effects from pandemic-based drop-offs in activity reset. The positive news about strong pending home sales is that it often acts as a precursor to stronger existing home sales in coming months.

(+) The **Conference Board index of consumer confidence** for June rose by 7.3 points to 127.3, but surpassing expectations of a small drop to 119. This represented the strongest reading since Feb. 2020, just prior to the broad emergence of Covid onto the scene. Consumer assessments of current economic conditions and future expectations both rose sharply, as did the labor differential that measures the ease in finding jobs (to its highest level in over 20 years).

(+) The **ADP private employment report** showed job growth of 692k for June, beating expectations calling for 600k, but about -200k slower than the pace of the downwardly-revised prior month. Services accounted for 624k of the increase, with leisure/hospitality representing just over 50% of that total—in keeping with continued restarts and easing of distancing restrictions. Goods-producing jobs rose by 68k, with 47k of these being in much-in-need construction industry. Manufacturing jobs now stand at about 95% of their year-end 2019 level, which shows far stronger recovery than leisure/hospitality, which still has a ways to go.

(+) **Initial jobless claims** for the Jun. 26 ending week fell by -51k to 364k, below the 388k level expected by consensus estimate. **Continuing claims** for the Jun. 19 week, on the other hand, rose by 56k to 3.469 mil., above the 3.340 mil. expected. Initial claims fell the most in PA, KY, and CA. Looking beyond these two measures, at emergency programs, it appears mid-June experienced a decline of several hundred thousand beneficiaries, to just under 9 million. This in keeping with several states prematurely ending additional benefit payments in order to incent job seeking (the national program otherwise ends in Sept., absent any further government action to extend it).

(+) The June government employment situation report came in better than expected. **Nonfarm payrolls** rose by 850k, which surpassed the 720k expected. It also continued a steadily stronger results over the past three months, with job growth in about two-thirds of industries. Notable gains were seen in leisure/hospitality (343k, half of which were in restaurants), public/private education (269k), professional/business services (72k), and retail (67k). However, all of those sectors remain down significantly from the prior high in Feb. 2020. A variety of other areas showed little change for the month, including construction, information technology, and health care, while manufacturing fell due to semiconductor shortages.

The **unemployment rate** actually ticked up by 0.1% on a rounded basis to 5.9%. This is not entirely surprising as more workers re-enter the workforce, which adjusts the fraction. However, the more inclusive U-6 underemployment rate fell by another -0.4% to 9.8%—continuing a stretch of improvement over the last six months, as the number of part-time workers and those on layoff fell.

**Average weekly earnings** rose $0.10 to $30.40, or 0.3%, which was a deceleration from the prior two months but in line with expectations. Earnings were improved for hospitality workers, specifically, as hours expanded. This pushed year-over-year wage growth to 3.6%. The **average workweek** shortened by -0.2 of an hour to 40.2.

What is the current condition of the labor market? Certainly, there has been a strong bounceback this year as reopenings have led to some absorption of demand. This has been particularly evident in lower-wage services jobs in the leisure/hospitality sector, which have begun to see stronger activity (albeit nowhere near pre-Covid 'normal'). There is further to go on this front. On the other hand, there is robust demand in higher-skilled segments, such as in construction, but available supply of workers remains weak. There are other factors we've discussed before, such as home caregiving and summer school vacations, which may rectify further as older children become vaccinated and many school districts are pressed to reopen in the fall (this may ease the burden on female workers particularly).

***Market Notes***

| Period ending 7/2/2021 | 1 Week (%) | YTD (%) |
|---|---|---|
| DJIA | 1.06 | 14.76 |
| S&P 500 | 1.71 | 16.75 |
| NASDAQ | 1.96 | 13.98 |
| Russell 2000 | -1.18 | 17.30 |
| MSCI-EAFE | -1.10 | 9.34 |
| MSCI-EM | -1.65 | 5.97 |
| BBgBarc U.S. Aggregate | 0.54 | -1.48 |

| U.S. Treasury Yields | 3 Mo. | 2 Yr. | 5 Yr. | 10 Yr. | 30 Yr. |
|---|---|---|---|---|---|
| 12/31/2020 | 0.09 | 0.13 | 0.36 | 0.93 | 1.65 |
| 6/25/2021 | 0.06 | 0.28 | 0.92 | 1.54 | 2.16 |
| 7/2/2021 | 0.05 | 0.24 | 0.86 | 1.44 | 2.05 |

U.S. stocks reached to more new highs, as consumer confidence and the employment situation report for June generally were in line with the current narrative of continued economic improvement. 'Growth' sectors technology, consumer discretionary, and health care led, while energy came in the rear with a decline of a percent. Real estate provided flattish returns for the week, in line with the defensive utilities sector.

The stronger employment report continued to be a mixed blessing of sorts for stock and bond markets, as the improvement in labor conditions is welcomed from a broader economic standpoint. However, the strength of such reports could well continue to shorten the remaining life of the Fed's accommodative low-interest rate stance. Overall, the stronger labor market may force the Fed's hand toward a 'tapering' announcement late in 2021, with rate increases still likely down the road when they're more certain about long-term job market repair more solidly occurring.

Foreign stocks lost ground last week, underperforming domestic equities, as a stronger dollar pushing returns lower than in local terms. Both rising inflation caused some concerns of premature central bank rate hikes, in addition to more pervasiveness of the 'delta' Covid variant—despite assurances from health professionals that current vaccines provide protection.

U.S. bonds gained ground as interest rates continued to tick downward across the yield curve. This appeared to be due to the effects of quarterly rebalancing by the government (still a big buyer) and others. Long treasuries fared best, while high yield came in weakest—behind investment-grade corporates. Foreign bonds gained in local terms, but returns turned slightly negative when adjusted for a rising dollar. The U.S. federal borrowing limit is in the headlines again, with Treasury Secretary Yellen advising Congress that even the hint of a default on U.S. debt would be 'unthinkable' (and unnecessary, to say the least).

Commodities gained on net last week, despite the headwind of a stronger dollar. Every segment saw positive returns, led by the agriculture group as corn and soybean prices spiked by 10%, due to drought/weather stress. The price of crude oil continued to rise last week, by over a percent to just above $75/barrel, as summer demand ramps up. A potential deal for higher production levels at last week's OPEC+ meeting appeared to be held up by the UAE, with hopes for an agreement this coming week. Otherwise, current production levels are in place by default until April 2022. Improving demand and no supply adjustment could certainly be a recipe for higher oil prices, all else equal. This can be a blessing and a curse for oil producers—while the larger short-term revenues are welcome, a well-known adage is that 'the cure for high prices is high prices,' meaning that energy-saving activity kicks in once prices reach a certain level, and threatening demand.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.