***Summary***

On a holiday-shortened and light week for economic releases, data included improvement in job openings and jobless claims, as well as higher producer price inflation.

Global equity markets fell back throughout the course of the week, as continued Covid cases and rising prices have raised fears about the durability of the recent growth stretch. Bonds were little changed in the U.S., while foreign debt was negatively impacted by a stronger dollar. Commodities were mixed, with gains in industrial metals and energy offset by declines elsewhere.

***Economic Notes***

(0) The **producer price index** for August rose 0.7%, beating expectations by a tenth of a percent, but falling back a bit from the 1.0% July rate. Year-over-year, final demand PPI is up 8.3%. Since this data series was modernized in 2010, this represents the sharpest trailing 12-month pace. However, the 'core' series, less food, energy and trade services, the August index rose 0.3%, with the year-over-year gain a lesser 6.3%. More recently, goods prices rose at the fastest rates, which included industrial chemicals (5% for the month alone), meats, grains, metals, plastics, and electric power; these offset declines in other petroleum products and lumber. While the granular detail can be noisy month-to-month, the supply chain impacts and strong price gains in commodity markets are apparent as they've flowed into producer price inputs.

(+) The government **JOLTs job openings** indicator for July showed a sharp increase of 749k, to a record high level of 10.934 mil., surpassing the 10.049 mil. median forecast. The underlying increase was led by nearly 300k job openings in health care/social assistance, as well as over 130k in leisure/hospitality. The job openings rate rose by 0.4% to 6.9%, while the hiring rate fell by -0.2% to 4.5%. On the departure side, the quits rate was flat at 2.7%, while the layoff rate ticked slightly higher to 1.0%. Demand for labor remains high, which has a variety of economists expecting strong jobs numbers for the rest of the year, and potentially into 2022.

(0) **Initial jobless claims** for the Sep. 4 ending week fell by -35k to 310k, coming in below the 335k level expected by consensus estimate. **Continuing claims** for the Aug. 28 week declined by -22k to 2.783 mil., but above the 2.740 mil. median estimate. On the continuing claims side, reports showed a widening between states that ended benefits early, and those following the Federal program end on Labor Day weekend. Now, the point is moot. Looking at those benefit extensions through late August, rolls actually rose a bit to just under 7 mil.

Economists continue to debate the impact of how extended benefits programs may have slowed the jobs recovery, although the point is moot for now, with those extensions having now expired. Some anecdotal reports have implied a connection between the generosity of those larger benefits and delays in job searches; however, other studies show little connection. The next several months will prove telling, particularly for lower-wage workers most heavily aided by the extra payments. Other pre-pandemic trends are still in place, such as skill and regional mismatches in certain industries, which are more difficult to fix. Construction is one of particular note, as it affects the volume and speed of finished new homes available to the market, which desperately needs them.

(0) The **Fed Beige Book** of regional economic conditions from early July through late August described growth as 'downshifted slightly' to a moderate pace. While strength was seen in manufacturing, transportation, nonfinancial services, and residential real estate; the deceleration was centered on dining out, travel, and tourism in most regions, as the delta variant raised concerns over group activity. Otherwise, weaker industries include those affected by recent supply disruptions and labor shortages—including auto and home sales. (This is to be differentiated from demand, which has not weakened.) Residential construction was up, with loan volumes mixed across the country. Generally, business sentiment appeared still optimistic, although supply disruption issues continue to weigh, and likely hampered even stronger sentiment readings. Employment

continued to show strength nationwide, in both job creation and demand for workers, despite ongoing shortages due to a variety of demographic and pandemic-related factors. Due to these shortages, wages have risen in a variety of districts, particularly west of the Mississippi. Inflation remained elevated and steady nationwide, although it did not appear to be accelerating broadly. As noted in other reports, key areas of price pressure remain in metals, metal-based products, transportation, and construction materials (although lumber prices have fallen back to earth). This situation has pushed businesses anticipate raising sales prices in response to these higher input costs—causing inflation to push out to a second level. Despite some of these challenges, however, businesses appear optimistic, as they look beyond current hurdles to a smoother post-pandemic environment.

***Market Notes***

| Period ending 9/10/2021 | 1 Week (%) | YTD (%) |
|---|---|---|
| DJIA | -2.11 | 14.63 |
| S&P 500 | -1.68 | 19.91 |
| NASDAQ | -1.61 | 17.82 |
| Russell 2000 | -2.80 | 13.50 |
| MSCI-EAFE | -0.31 | 12.90 |
| MSCI-EM | -0.47 | 2.94 |
| BBgBarc U.S. Aggregate | 0.02 | -0.74 |

| 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 |
| 9/3/2021 | 0.05 | 0.21 | 0.78 | 1.33 | 1.94 |
| 9/10/2021 | 0.05 | 0.23 | 0.82 | 1.35 | 1.94 |

U.S. stocks lost ground consistently last week—a pattern investors have not been used to as of late. Sentiment took a turn for the worse early, as rising Covid delta variant cases nationwide raised concerns over a dampening of economic growth and continuation of supply-fueled inflation. Several well-publicized downgrades of Q3 and Q4 potential GDP exacerbated those worries from a market standpoint. In addition, stronger producer prices fueled inflation concerns leading to speculation about an earlier Fed exit from bond buying—perhaps from December to November. Every sector was in the negative last week, with industrials and health care leading the way, each down -2% to -3%. Cyclical real estate also fared poorly, losing -4% for the week. Interestingly, consumer discretionary stocks fared far better than average last week, only down a fraction of a percent.

From the standpoint of U.S. fiscal policy, Sen. Joe Manchin, one of the centrist Democrats opposed to the largest and most progressive version of the infrastructure package, called for a 'strategic pause' on the budget reconciliation legislation. While this seems unlikely to derail an ultimate passage of the deal, the larger $3.5 tril. size might in doubt, with estimates of half that figure looking increasingly likely. This appears to be a bit of a mixed bag for markets—which tend to think short-term. While the potential for needing to implement higher taxes (especially corporate) may fall with a smaller package size, the spending surge into the economy will fall as well. Somewhat related to this, a debt limit increase vote will be necessary in the next few weeks, with hopes that negotiations go smoother than they have in the past. The potential for a negative outcome in these discussions may also be weighing on risk assets under the surface.

Foreign stocks also declined for the most part last week, but to a lesser degree, despite the headwind of a stronger dollar. The European Central Bank, split between policy alternatives with still-high Covid case counts, decided to lower the pace of bond purchases starting in Q4. (They referred to it as 'recalibrating', emphatically noting it was unique from the dreaded 'tapering' label.) Bucking the trends elsewhere, Japanese stocks gained over a percent as Prime Minister Suga's choice to not see reelection has caused sentiment to surge—based on expectations of more stimulus forthcoming. Emerging markets also fell to a lesser degree than U.S. stocks, although country-by-country results were mixed. Minimal further declines in China were offset by far larger declines in more cyclically-sensitive and inflation-hit Brazil, Turkey, South Korea, and South Africa. Commodity-sensitive exporters Russia and Mexico have also fared a bit better, buoyed by price strength in the materials segment.

U.S. bonds were flattish last week, despite the drop in stocks, which can often fuel a flight to safety. Treasury yields were little changed, while high yield and bank loan prices fell back somewhat—to be expected given their higher correlation to equities. Strength in the dollar last week had a negative effect on both foreign developed and emerging market debt, which ended in the negative for the week.

Commodities ended the week mixed, with strong returns in industrial metals of over 4%, as well as those for natural gas, were offset by declines in agriculture and precious metals. The price of crude oil rose by under a percent on net to just under $70/barrel, in a seesaw-type week with little volatility.

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.



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