Summary

Economic data for the week included unchanged GDP growth for the prior quarter, as well as stronger durable goods orders and jobless claims, while both existing and new home sales fell along with continued low inventories.

Global equity markets gained last week, led by the U.S., and particularly in small cap, due to news of a broader infrastructure agreement framework and more dovish Fed talk. Bonds were mixed, with higher rates holding back U.S. debt, while foreign bonds were boosted by a weaker dollar. Commodities gained across the board, with strength in energy and metals.

Economic Notes

(0) The third and final **U.S. GDP growth** rate estimate for Q1 came in at 6.4% (unchanged from the first two estimates). The underlying composition of the report, though, showed minor upgrades for business structures, equipment, and residential investment. Real export growth also improved in the third revision, as did the contribution of inventories slightly. Overall, changes were quite minor in the whole scheme of things. PCE headline inflation was revised down by about 10 bp to an annualized 1.5% for the single quarter, while core was revised down by about an eighth of a percent to a quarterly annualized rate of 1.25% (and year-over-year minimally down to 1.4%).

Estimates for Q2 have solidified, with the New York Fed GDP Nowcast currently calling for 3.4%, while the Atlanta Fed GDPNow is predicting 8.3%—both down a bit from recent weeks. Private forecasts from a variety of Wall Street firms have been ranging from 8.0% to 10.0%. Third-quarter estimates are beginning, with the New York Fed at 4.1%. The recovery in economic growth appears to be peaking right around now, although we could likely see above-average growth results for the balance of this year, and into at least early 2022.

(0) **Personal income** in May fell by -2.0%, which was a bit better than the median forecast of -2.5%, and reflected a normalization following the American Rescue Plan stimulus from the prior two months. **Personal spending** was unchanged for May, which fell below expectations calling for a 0.4% increase, although it was revised higher for the prior month. Spending has improved over the last several months, notably in cyclical sectors such as air travel, recreation, and hotels, but hasn't quite climbed back to pre-Covid levels. This brought the savings rate down to 12.4%, which remains elevated compared to the pre-pandemic rate. The PCE price index rose by 0.5% on both a headline and core level, largely in line with expectations. This brought the year-over-year PCE inflation rates to 3.9% and 3.4%, respectively, for headline and core.

(0) **Durable goods orders** for May increased by 2.3%, which reversed the decline of the prior month, including positive revisions, but fell just below the 2.8% consensus estimate. Gains were led by recoveries in commercial aircraft and autos, as well as metals, which were each up several percent. On a core level, removing the more volatile components, orders declined by -0.1% for the month, disappointing compared to the expected 0.6% increase. Core capital goods shipments rose 0.9%, roughly in line with expectations, and inventories also increased. Orders overall are up 42% from a year ago, with extreme reading from reopenings in 2020 showing stronger results than more recent months, where peak recovery growth has begun to taper off.

(0/-) **Existing home sales** for May fell by -0.9% to a seasonally-adjusted annualized rate of 5.80 mil. units, which was an improvement on the prior month as well as the forecasted drop of -2.1%. On a year-over-year basis, sales remain substantially higher—up 45%. Single-family sales fell by -1%, while condos/co-ops were flat. The Midwest saw the only regional increase, of 2%, while the West experienced the steepest drop of -4%. For the single month, the median sales price rose 0.5% to $350,300, which, while positive, was a deceleration of recent trend, although prices are still up 24% on a year-over-year basis. Average listing days fell to 17 (from 26 last year at this time), in addition to inventory falling substantially from May 2020. All-in-all, this points to continued tight conditions due to low housing inventories.

(-) **New home sales** in May fell by -5.9% to a seasonally-adjusted annualized rate of 769k units. This was a less severe decline than in April, but disappointing compared to consensus expectations calling for a 0.2% increase. Sales in the South fell by the sharpest amount (down -73k), while the Northeast and West saw small gains. The median new home price is up 18% from last year at $374,400. On the positive side, the months' supply of new homes rose by 0.5 to 5.1. Rising inventories are in contrast to existing home sales, but are concentrated in the segment of construction still in progress or 'not yet started,' which is less helpful to buyers.

(0) The final **Univ. of Michigan consumer sentiment index** for June fell by -0.9 points to 85.5, reversing a small increase earlier in the month and falling short of the expected 86.5. Consumer assessments of current conditions fell by several points, while future expectations ticked lower just slightly. Inflation expectations over the coming year rose by two-tenths to 4.2%, while those for the next 5-10 years were unchanged at 2.8%. Consumer sentiment is heavily influenced by 'day to day' life, notably whether someone is employed or not, as well as the price of gasoline.

(0) **Initial jobless claims** for the Jun. 19 ending week declined by -7k to 411k, not quite dropping to the consensus expectation of 380k. **Continuing claims** for the Jun. 12 week fell by -144k to 3.390 mil., which fell below expectations for 3.460 mil. Initial claims fell by up to 5k in CA, NJ, and OH, while PA saw a large spike in claims. Including emergency programs, claims appeared to rise a bit in early June, to remain around the 9 mil. mark.

Market Notes

Period ending 6/25/2021	**1 Week (%)**	**YTD (%)**
DJIA	3.44	13.56
S&P 500	2.76	14.79
NASDAQ	2.36	11.79
Russell 2000	4.33	18.71
MSCI-EAFE	1.50	10.55
MSCI-EM	1.41	7.75
BBgBarc U.S. Aggregate	-0.41	-2.00

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
6/18/2021	0.05	0.26	0.89	1.45	2.01
6/25/2021	0.06	0.28	0.92	1.54	2.16

U.S. stocks fared far better than the prior week, experiencing one of the stronger weeks in several months, and new highs for several indexes. In addition to a broad outline for a bipartisan infrastructure plan announced, Fed Chair Powell's testimony to Congress relayed a more dovish tone than was presumed by the earlier FOMC statement, which seemed to help sentiment. Weakness and ongoing repair in labor markets has been a key focus of the Fed, and a reason for the continued long accommodative timeframe.

Every sector gained last week, led by energy and financials, up over 5% each, while defensive utilities and consumer staples lagged with meager returns. Financials were helped by positive government stress test results, which implied bank solvency would not be hampered by a severe recession (this outcome opens the door for resumed increases of dividends and buybacks). Real estate also gained 2%, in the middle of the pack, despite interest rates rising a bit, with continued strength in malls and retail. With a 'risk on' week, small caps sharply outperformed large caps.

A framework for a revised Biden/Congressional infrastructure deal appears to have been reached, with several more controversial progressive measures now removed (in areas of 'human infrastructure' targeting education, heath care, and poverty). It still features a lengthy road ahead, with possible passage over the summer, but the rough numbers are about $580 bil. in spending over the next five years, and $1.2 tril. over the next eight. Of the total 8-year figure, about a quarter ($312 bil.) appears allocated to transportation, with other large portions dedicated to waterways, broadband, and the power grid. The desired clean energy component, including funding for electric vehicles was reduced to about 10% of the package. The 'pay for' component of the bill so far looks to exclude personal tax increases for middle-income filers or reversals of business taxes from the Trump era, although specifics remain to be determined. The anticipated smaller size does put less pressure on tax increases than prior versions (which pleased financial markets as much as anything last week).

Foreign stocks performed positively across the board, following the positive sentiment in U.S. equity markets, but lagged U.S. returns. As with the U.S. Fed, European central banks continued their dovish accommodative tones in terms for near-term monetary policy. The U.K. and emerging market groups outperformed Europe and Japan, while not meaningfully. While equity sentiment between the U.S. and other global developed markets has been positively correlated in recent months, higher Covid infections and lower vaccination rates outside the U.S. have continued to weigh on the GDP growth recovery. Japanese sentiment has deteriorated, though, with the typical economic boost from an upcoming Olympic games a potential mixed blessing this summer with low local vaccination rates and limited international visitors.

The same pro-risk pattern was seen in emerging markets, where China, Mexico, and South Korea experienced sharper gains than the broader group. The central bank of Mexico raised interest rates by 0.25% in a surprise move to counterbalance recent inflation pressures. Emerging market central bank activity has, even recently, been far less 'managed' through forward guidance communications than the U.S., European, and Japanese central banks.

U.S. bonds fell back last week as interest rates ticked upward again. While treasuries and investment-grade corporates declined in similar fashion, high yield bonds gained a fraction of a percent as credit spreads continued to tighten along with a bullishness for risk assets. A weaker dollar last week helped developed market bonds slightly, which ended with positive returns, and local currency emerging market debt, which earned gains of nearly a percent.

Commodities reversed course by gaining ground last week, led by energy and industrial metals. Metals prices (copper in particular) had fallen in recent weeks, due to the Chinese government release of key industrial metals reserves, as well as some pullback in general inflation fears in the U.S. and globally, which reduced financial speculation in the asset class. The price of crude oil ticked up by 4% to just over $74/barrel, as global inventories declined. Natural gas prices rose 9% upon intensified cooling needs due to warmer-than-normal weather, especially in the West. Other less-financially traded futures have tempered—with lumber down -50% from peak prices in the last two months. Year-over-year spot prices remain up over 90% for crude oil and 60% for copper, both of which still exceed the S&P 500's total return of 40%.

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.