Summary

Economic data for the week included gains in existing home sales and housing starts, along with continued rising prices and tight inventory. Jobless claims were mixed, with seasonal effects affecting near-term claims, while continuing claims showed ongoing improvement.

U.S. equity markets rebounded into positive territory last week after a sharp Monday downturn, fueled by fears around the Covid Delta variant. Foreign stocks in developed markets gained to a lesser degree, while emerging markets lost ground. Domestic bond prices ticked slightly higher as yields and credit spreads continued to decline. Commodities were mixed, despite some early week demand concerns for crude oil, which later recovered.

Economic Notes

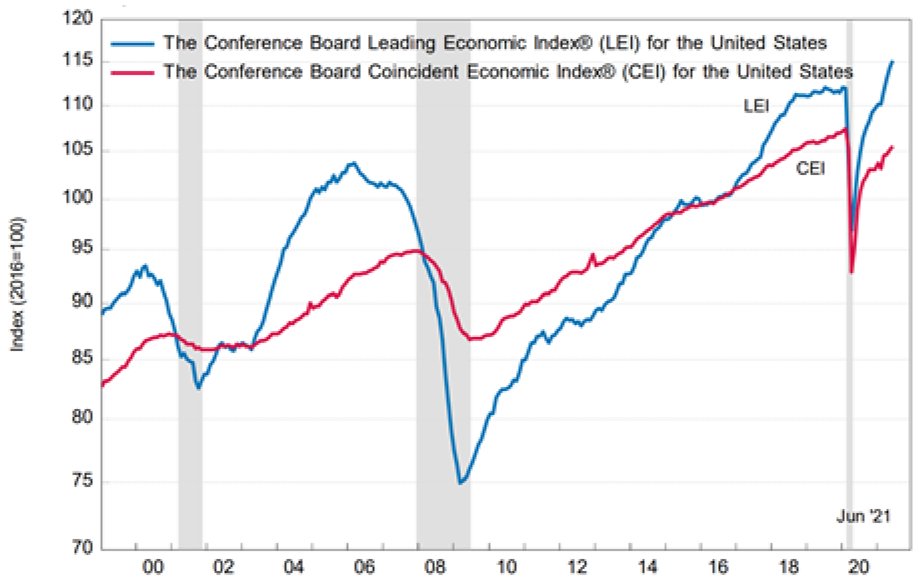
(0) **Existing home sales** for June rose by 1.4% to a seasonally-adjusted annualized rate of 5.86 mil. units—just short of the median forecast calling for 1.7%. On a non-seasonally-adjusted pace, this represented the best month in 15 years. In June, both single-family units and condos/co-ops gained at a similar pace; all regions ended up showing positive sales, with the Midwest and Northeast seeing the strongest gains, up 3%. The average sales price rose by 1% to $363,300 for the single month, and 23% over the trailing 12 months. The months' supply of homes ticked up by a tenth of a percent to 2.6, but remains about a full month below the period prior to Covid. Tight inventory conditions continue to be an issue nationwide—as they remain down nearly -20% from last year at this time, with sales having picked up 23% over the same time frame (dramatic annual change on both counts).

(0/+) **Housing starts** in June rose by 6.3% to a seasonally-adjusted annualized rate of 1.643 mil., exceeding the median forecast of a 1.2% gain. Single-family and multi-family starts rose by similar degrees. Regionally, the West and South experienced gains at 10% or more, while the Northeast and Midwest saw declines nearly as strong. **Building permits**, on the other hand, declined by -5.1%, versus an expected gain of 0.7%. This was led by single-family permits down -6%. All regions fell, led by the Northeast and West for the month. Housing starts are up nearly 30% over the trailing 12 months, pointing to a significant recovery; permits are up 25%. While there remain complaints about insufficient units being built in the industry to accommodate current demand, the pace of building is the most rapid since the pre-financial crisis housing boom.

(-) The **NAHB housing market index** fell -1 point to the 80 level in July, despite expectations of holding steady. The index was led downward by prospective buyer traffic falling -6 points, while current sales only fell slightly, and future sales expectations rose by several points. Regionally, the Midwest saw slight improvement, while all other regions fell by a few points.

(+) The Conference Board Index of **Leading Economic Indicators** rose by 0.7% for June, which was about half of the rate of improvement for the prior two months. The coincident index was up by 0.4% and the lagging index was unchanged for the month. In the leading index, most indicators showed strength, led by jobless claims, ISM new orders, and the credit index. The exceptions were the negative contributors of building permits and workweek length.

Over the six months from January through June, the LEI rose at an annualized growth rate of 10.3%, which represented a deceleration from the 13.7% annualized pace of the latter half of 2020. Nevertheless, recovery growth remains strong on a broader basis, with few concerns over a possible recession in the coming quarters.



Source: The Conference Board. Shaded areas indicate recessions, as defined by the NBER.

(-) **Initial jobless claims** for the Jul. 17 ending week rose by 51k to 419k, exceeding the consensus forecast calling for 350k. **Continuing claims** for the Jul. 10 week, on the other hand, fell by -29k to 3.236 mil., which was still higher than the 3.100 mil. expected. By state, the largest increases occurred in MI, TX, and KY. Under the hood, it appeared that part of the increase was due to normal retooling in auto plants, which tends to occur during the summer. When looking at overall benefits, including extensions and emergency programs, it appeared the entire roll fell by nearly -700k in early July to about 7.5 mil. While high, this remains an improvement from levels that peaked at over 10 mil.

Market Notes

Period ending 7/23/2021	**1 Week (%)**	**YTD (%)**
DJIA	1.12	15.72
S&P 500	1.97	18.41
NASDAQ	2.84	15.53
Russell 2000	2.15	12.44
MSCI-EAFE	0.20	8.98
MSCI-EM	-2.09	2.79
BBgBarc U.S. Aggregate	0.19	-0.75

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
7/16/2021	0.05	0.25	0.79	1.31	1.93
7/23/2021	0.05	0.22	0.72	1.30	1.92

U.S. stocks fared well last week as early negativity was quickly reversed. First thing Monday, strong expected earnings results were overshadowed by fear over the spread of the Covid Delta variant in recent weeks. It has been particularly pronounced in regions where large groups remain unvaccinated, but mask-wearing has been re-implemented for public areas in some larger cities (LA, etc.). It's possible that dire comments through the round of Sunday morning political talk shows may have fanned the flames of greater Delta variant concern. Ongoing days saw a sharp improvement in sentiment, due to stronger housing and corporate earnings numbers—the latter of which continue to surprise on the upside across the board.

By sector, growth stocks regained their leadership, with gains upwards of 3% for communications, consumer discretionary, and technology (last year's winners), while utilities and energy ended the week as the only groups with negative returns, albeit barely.

Since the Russell 2000 small cap index reached a -10% drawdown from mid-March highs, representing an official correction, this is probably a good a time as any to provide a reminder about market volatility, and potential for drawdowns in broader markets. Historically, -10% equity market declines have occurred about one time per year. This is what you'd call a fairly routine occurrence (with deeper declines -20% or more about once every six years, per data compiled by the Capital Group).

In the current case, we have a variety of factors that point to higher potential for a stock market inflection point. Economic growth has moved practically straight up since the lows in March 2020 (and the S&P 500 literally up 100% in total return since that low). Now, with activity levels such as ISM peaking at multi-decade highs, and having flattened a bit since, questions have now evolved to: 'Is this the best it gets?' and 'What's next?' This is not to mention the uncertainty about inflation persistence. Recovery growth may continue, of course, but a slower ultimate pace would be a reasonable estimate. Per research published by Goldman Sachs, the direction of interest rates is the wildcard that has historically been most related to the performance of cyclical vs. defensive stocks in this type of environment. The results over time have been mixed, with rising yields somewhat favoring cyclicals and falling yields favoring defensives, although sector-by-sector returns have been the real driver. As conditions normalize, results become a lot more nuanced than simply the 'easy' theme of cyclicals being a clear recovery winner, and stable growth performing better under slower economic growth.

In foreign equity markets, Europe and Japan saw gains, albeit to a lesser degree than the U.S., with continued accommodative ECB policies and stronger growth. In Britain, Covid 'Freedom Day' was announced, although cases continue to rise throughout Europe and elsewhere. Emerging markets experienced a negative week, mostly led by a -4% drop in China shares, with losses muted elsewhere. Aside from recent flooding issues, concern has risen over the condition of the Chinese economy, with recent lowering of the bank reserve rate (which is a stimulative action by the central bank) and apparent weakness in credit markets—with a variety of real estate holdings showing increasing delinquencies. This is a hidden concern in the post-Covid recovery—the health of China's 'shadow banking' system. As China was the first to implement lockdowns in 2020, they were also the first to 'reopen' for the most part, with strong economic growth. However, that growth has fallen off, partially due to lower global demand generally for Chinese goods as trade volume has decreased. The Chinese have utilized substantial amounts of credit to get through this period, with increasing concerns about the amount, should future GDP growth rates fall below those of past years (which seems likely, as they enter a next stage of domestic growth focused to a greater degree on services).

U.S. bonds gained ground as rates fell slightly across the curve, and credit spreads continued to tighten—the latter resulting in corporate outperformance over treasuries. Early in the week, the 10-year treasury yield fell briefly under 1.20%—beyond the prior recent low, as equity markets fell back and investors moved away from risk. A stronger held back foreign debt in both developed and emerging markets, especially in EM local bonds, which lost ground.

Commodities gained slightly across the board, although prices were muted compared to recent weeks. Small gains in energy and industrial metals outweighed minor declines in precious metals and agriculture. The price of crude oil dipped sharply on Monday to as low as $66 before quickly recovering to a shade above $72/barrel. As with equities, the Delta variant concerns translated into potentially far weaker forward demand, before recovering relatively quickly. Natural gas prices spiked by 10% along with continued high summer cooling needs.

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.