Summary

Economic data for the week included continued high readings for import and producer prices; consumer price inflation remained elevated as well, although showing signs of deceleration. Other data pointed to stronger job openings and a continued reduction in jobless claims.

Global developed equity markets ended the week with gains generally, while emerging market and U.S. small cap lost ground. Bonds eked out small gains as interest rates again ticked down across the yield curve. Commodities earned marginally positive returns, with crude oil prices little changed for the week on net.

Economic Notes

(0) **Import prices** 0.3% in July, about half the 0.6% the pace expected by consensus. Removing the stronger impact of petroleum (up 2% last month), prices only rose 0.1%, with half-percent increases for autos and capital goods offset by little change in industrial supplies (which included a -50% correction in lumber prices). Year-over-year, headline import prices are up over 10%, while prices ex-petroleum are 7% higher (importantly, export prices were up 17%). Import prices represent the 'bad' inflation, stemming from prices of manufacturing raw materials, which increase U.S. producer and consumer costs, without any of the small fringe benefits of higher growth that have accompanied domestically-generated inflation.

(0/-) The **producer price index** in July rose by 1.0% on both a headline and core basis—both about a half-percent higher than expectations. This included a 3% increase in energy prices, which was offset by a -2% drop in the price of food. On a year-over-year basis, the headline figure is up 7.8%, which reflects prices for intermediate goods up 23% during that time, with unprocessed goods up 55% (in line with spot prices for a variety of commodity assets). To a greater degree than CPI, prices have been in an upward trend during the last six months relative to the prior six. PPI has a far more direct relationship to goods input prices, which explains these strong recent readings. A key area of focus looking ahead will be how quickly these price spikes normalize, as supply-shortage and demand-recovery influences are expected to ease in coming months and quarters.

(0/+) The **consumer price index** for July slowed to a 0.5% increase on a headline level, and 0.3% for core. The month was led by a 2.3% increase in the price of energy commodities (gasoline), which added to the back end of the 42% 12-month increase for that segment. The core side was highlighted by a 1.7% rise in new car prices, which continue to be affected by a shortage of semiconductor chips needed in the manufacturing process, as well as an ongoing shortage of desired new car inventory. Used car prices, a big driver of core inflation over the past year, appear to have peaked for now, up 0.2% in the month, but remain up an astonishing 42% over the past year. Some signs of inflation (labor-related) were seen in the leisure/restaurant segment. Housing/shelter represented the most-normalized figure, only up 0.3% on the month, with rent as a sub-component even less.

Year-over-year, the pace of CPI also decelerated slightly to a rounded 5.4% on a headline side, and to 4.3% for core. Granted, not much deceleration, but a flattening nonetheless. It's interesting to note the changing narrative about inflation in the broader media, and among economists. Strong readings over the last several months were seen as 'proof' by some that the feared runaway price inflation was here to stay, so 'get ready'. Then again, the rapid leveling off of prices for lumber, petroleum, and other individual inputs have already started a 're-thinking' of the earlier hypothesis. Then again, several trillion USD of spending pent-up in the banking system and a shortage of selected skilled labor continue to underpin inflationary threats going forward, even when supply constraints ease.

(-) The preliminary August edition of the **Univ. of Michigan index of consumer sentiment** fell by -11 points to 70.2, a disappointment compared to the unchanged 81.2 level expected by consensus. In fact, this result was below that seen than during last year's lockdowns, and the lowest level since Dec. 2011. Assessments of current conditions fell by nearly -7 points, but was surpassed by a -14 point drop in future expectations. Inflation expectations for the coming year fell by -0.1% to a still-robust 4.6%, while those for the next 5-10 years rose by 0.2% to 3.0%. Based on commentary, it appeared the weaker report was driven by rising fears surrounding the Covid delta variant, and sharply rising national Covid case counts.

(+) The government **JOLTs** job openings report for June showed an increase of 590k to 10.073 mil., beating expectations of 9.270 mil. The service sector represented the majority of growth, while manufacturing actually lost a bit of ground for the month. The job openings rate ticked up by 0.4% to 6.5%, as did the hiring rate to 4.6%. As for departures, the layoff rate was unchanged at 0.9%, while the quits rate rose by 0.2% to 2.7%. Based on this report, the number of job openings substantially exceeds the number of unemployed, which last occurred just before Covid. This continues to show proof of the broader jobs market showing recovery, with a particularly high demand for skilled labor, and greater choice for job seekers/changers.

(0) **Nonfarm productivity** for Q2 rose by an annualized rate of 2.3%, which trailed the expected figure of 3.2% (both being below the prior quarter's 4.3% result). Year-over-year, the productivity rate fell back to 1.9%. **Unit labor costs** rose 1.0% for Q2, generally in line with expectations, and an improvement upon Q1's -2.8% decline. On a trailing 12-month basis, labor costs decelerated to a meager 0.1%.

(+) **Initial jobless claims** for the Aug. 7 ending week fell by -12k to 375k, on par with the median consensus forecast. Initial claims numbers were mixed by state, with no extreme outliers. **Continuing claims** for the Jul. 31 week fell by -114k to 2.866 mil., which was just below the 2.900 mil. consensus expectation. These claims, when combined with extended and emergency benefits, continued to fall by nearly -500k to 7.2 mil. These levels no doubt remain high, but steady improvement is also apparent. There is also some continued differential between states that have and have not ceased additional benefits prior to the national program ending next month.

Market Notes

Period ending 8/13/2021	**1 Week (%)**	**YTD (%)**
DJIA	0.94	17.31
S&P 500	0.75	20.02
NASDAQ	-0.07	15.47
Russell 2000	-1.06	13.19
MSCI-EAFE	1.56	12.53
MSCI-EM	-0.85	0.54
BBgBarc U.S. Aggregate	0.11	-0.82

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
8/6/2021	0.06	0.21	0.77	1.31	1.94
8/13/2021	0.06	0.23	0.79	1.29	1.94

U.S. stocks ended in the positive for the week, as continued strong earnings and a variety of data releases (including inflation) pointed to benign conditions—aside from rising concerns over the fast-spreading Covid delta variant. Small cap stocks bucked the broader trend, by declining a percent. Sector results were unusual, with leadership from both cyclical value (financials and materials) as well as traditional defensives (consumer staples and utilities)—each up around 2% or more. Energy lagged, with a small negative return, while real estate was little changed for the week.

In addition to the $1 tril. infrastructure plan passed by the Senate last week, the ongoing Congressional budget plan appeared to be closer to finalized over the past week, with Senate approval of a $3.5 tril. reconciliation bill (with extensive spending on climate projects, paid leave, child care, education, and health care). Congress is not expected to address the bill for weeks or months, however. An upcoming debt limit increase must also be dealt with, with strong language already flying in both directions. That routine matter used to fly under the radar, and was taken as a given in past decades. However, after the increase being held hostage in 2011 (resulting in the downgrade of U.S. treasury debt's credit rating from AAA to AA+ by several rating agencies, including S&P, due to the uncertainty it created), it no longer is assumed to get through Congress as smoothly and before the 11th hour as it used to.

Foreign stocks outperformed U.S. across the board in developed regions, in keeping with a stronger euro, while emerging markets lagged all major groups by registering a decline. Results in EM were mixed, with gains in China, India, Russia, and Mexico—the latter along with a quarter-percent interest rate increase. Brazil and South Korea registered declines. Chinese markets may have been helped somewhat by additional government clarity surrounding recent technology, et. al. company crackdowns, which has alleviated some investor concerns.

U.S. bonds experienced a favorable week as interest rates ticked lower across the longer-end of the treasury curve, with sentiment vacillating between concern of an earlier Fed taper and re-elevated Covid fears. Investment-grade corporates outperformed treasuries and high yield slightly. Foreign debt in both developed and emerging markets fared a bit better, in keeping with a weaker U.S. dollar over the course of the week.

Commodities indexes ticked up slightly on net, perhaps helped a bit by a weaker dollar. Agriculture gained several percent, followed by industrial and precious metals. On the other hand, energy as a whole declined, as natural gas prices fell by over -6%. The price of crude oil was little changed at just under $68.50/barrel, despite intraweek volatility caused by concerns over weaker demand due to the delta variant's spread, along with concerns over higher production.

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.