Summary

Economic data for the week included Q2 GDP growth that came in robust, but below market expectations. Housing metrics were mixed, with strong prices but weaker sales. Consumer confidence continued to improve slightly.

U.S. equity markets were mixed, as large caps lost ground but small caps gained. Foreign stocks were similarly mixed, with emerging markets were pulled down by volatility in certain Chinese sectors. Bonds gained slightly as interest rates continued to pull back. Commodities were helped from a weaker dollar, particularly in energy and industrial metals.

Economic Notes

(0/-) The advance **U.S. GDP** growth number for Q2 came in at 6.5%, stronger than Q1's 6.3% rate, but falling short of the 8.5% expected by consensus. Strength originated from personal consumption (up 12%, beating expectations by a percent, mostly in the services segment), in addition to similar gains in equipment and intellectual property. These were offset by a drag in inventories (pulling GDP down by -1%, but can easily flow from one quarter to the next), in addition to a drop in government spending, as well as structures. It appears that 2021's supply bottlenecks have played a bit of a role in the overall growth disappointment, pulling down actual growth compared to earlier optimistic expectations. However, Q2's growth has pushed the size the economy to finally above that of the prior peak before the pandemic early last year.

Although economic growth isn't evaluated regularly on a year-over-year basis in the middle of the year, the June-to-June figure represents a 12% increase—the strongest rate since the early 1950s. Based on estimates, Q2 may be the peak for quarterly growth this year. The core PCE price index rose by an annualized 6.1% for Q2, which was higher than the Q1 rate of 2.7%, but about on par with expectations and not far from CPI.

Estimates for the 2021 as a whole have been settling around 6.5-7.0% based on rough survey of private economists. For the Q3 specifically, the New York Fed Nowcast is estimating 4.2%, and Atlanta Fed's GDPNow is 6.1% (although these both underestimated Q2 growth a bit). A slightly slower and longer recovery for services (the overwhelmingly larger part of the economy, compared to goods) has caused estimates to fall a bit for the latter half of 2021. Some of this has been caused by employees continuing to work from home, but also some lingering hesitancy about the Covid delta variant, and other factors.

(0) **Personal income** ticked up in June by 0.1%, bucking expectations for a -0.3% decline. Wage/salary income rose by 0.8%, but was offset by a drop of several percent in personal transfer income, due to the ending of pandemic insurance benefits in several states. **Personal spending** for the month rose 1.0%, exceeding expectations calling for 0.7%, with gains in areas such as food services and travel. The differential caused the savings rate to tick down to 9.4%. The **PCE price index** rose 0.5% on both a headline and core level, after rounding, a shade below expectations for each. Year-over-year, this took the inflation rate to 4.0% and 3.5% for headline and core, respectively—high, but not as much so as the mainstream Consumer Price Index due to differences in composition. A key differentiation in personal income will be the increasing separation between wages/salary, as labor markets continue to improve, and government transfer payments, assuming these continue to taper off. One might expect spending to also taper off somewhat as well.

(0/+) **Durable goods orders** for June increased by 0.8%, but decelerated from the prior month's pace and fell well short of the 2.8% gain expected. Removing the more volatile components from the measure trimmed core durable goods orders to a 0.5% gain, a few tenths below expectations. This was due to positive headline index influence of a 17% spike in commercial aircraft. Core capital goods shipments rose 0.6%, which fell short by a few tenths of a percent from consensus as well, while durable goods inventories rose nearly a percent.

(+) The **S&P/Case-Shiller home price index** for May rose by 1.8%, beating expectations calling for a 1.5% increase. Every city in the 20-city index experienced an increase for the month, led by increases of 2.5-3.5% in Phoenix, Tampa, and Las Vegas. The year-over-year rate of gain accelerated further by a further 1.8% to 16.6%.

(+) The **FHFA house price index** rose a similar 1.7% for May, exceeding expectations by a tenth of a percent. All nine national regions experienced gains, led by the Pacific and New England states, up between 2.0-2.5% for May. The year-over-year rate for this index, too, showed acceleration—by another 2.2% to 18.0%. This happened to be the highest growth rate in the three-decade history of this particular index. Both of these indexes continue to show the strongest price gains since the pre-financial crisis period, although they're stronger by some measures, fueled by low financing rates.

(-) **New home sales** in June fell by -6.6% to a seasonally-adjusted annualized rate of 676k homes, in the opposite direction of an expected 3.5% increase. Additionally, prior month sales were revised down sharply for April and May. Median prices also fell by -5%. Regionally, the Midwest saw a minor rise in sales, but the other three areas experienced declines, with the South faring worst. This report represented a decline in sales of nearly -20% on a year-over-year basis, which might be somewhat surprising. From anecdotal industry reports and commentary, it appears that builders have been fulfilling prior orders prior to expending energy on new projects (which would be expected given time constraints). This is seen in inventory numbers, which have grown in the 'not started' and 'under construction' segments, while 'finished' homes have not—pointing to the tight sales markets of late.

(-) **Pending home sales** fell by -1.9% in June, which disappointed relative to an expected unchanged reading. Regionally, the Midwest and Northeast saw slightly increases for the month, while the West and South fell by 3-4% each. Year-over-year pending sales reversed from nearly a 15% rate to a decline of -3%, although based on weak 2020 base effects. This bodes negatively for existing home sales numbers for the next few months.

(+) The Conference Board's **consumer confidence index** for July ticked up by 0.2 of a point to 129.1, contrary to expectations of a decline by about -5 points. While expectations for the future declined marginally, perceptions of current conditions improved by over a half-point to lead the index higher. The labor differential, measuring the ease in finding employment, also rose slightly, but did reach another 20-year high.

(+) The final July version of the **Univ. of Michigan consumer sentiment index** rose by 0.4 of a point to 81.2, beating expectations of no change at 80.8. Consumer assessments of current conditions were unchanged from the earlier reading, while expectations for the future ticked up by 0.6 of a point. Inflation expectations fell by a tenth for the coming year, to 4.7%, as well as for the next 5-10 years, to 2.8%.

(0) **Initial jobless claims** for the Jul. 24 ending week fell by -24k to 400k, exceeding the consensus estimate of 385k slightly. **Continuing claims** for the Jul. 17 week rose by 7k to 3.269 mil., which exceeded the median forecast calling for 3.183 mil. Initial claims numbers rose by 14k in CA, but fell sharply in PA, TX, and IL. When combining all the numbers, including emergency programs and extensions, mid-July numbers increased by a few hundred thousand to about 7.8 mil. It's expected that these figures will sharply adjust in Sept. when additional benefit programs expire, coupled with 'back to school', which may affect employment more than normal.

Market Notes

Period ending 7/30/2021	1 Week (%)	YTD (%)
DJIA	-0.36	15.31
S&P 500	-0.35	17.99
NASDAQ	-1.10	14.26
Russell 2000	0.76	13.29
MSCI-EAFE	0.62	9.65
MSCI-EM	-2.50	0.22
BBgBarc U.S. Aggregate	0.25	-0.50

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
7/23/2021	0.05	0.22	0.72	1.30	1.92
7/30/2021	0.06	0.19	0.69	1.24	1.89

U.S. large cap stocks ended up slightly in the negative last week, while small caps gained. By sector, cyclical materials and energy led with gains of several percent, followed by financials, which also fared positively. On the negative side, consumer discretionary, communications, and technology lost ground to lead overall markets downward. The consumer discretionary sector was led by a drag in Amazon shares, which declined sharply as revenues fell below expectations, despite decent earnings results. Real estate gained slightly on the week.

It's not overly surprising that financial markets fared positively with the late-week GDP growth disappointment—lower and peaking growth rates could mean a Fed keeping the gas pedal down for longer. On the positive side, per FactSet, nearly 90% of S&P 500 companies have reported an earnings and revenue surprise, with overall estimated index earnings growth for the quarter pegged at 63% on a year-over-year basis. Last week also saw the preliminary agreement on a Congressional infrastructure deal (a Senate vote to begin formal consideration of it). This most recent version is around $1 tril. in size, with half being set aside for public works projects. Roads/bridges represent the largest component (10%), and include power grid enhancements, broadband expansion, waterworks, and other segments. The understanding is that a far larger 'social infrastructure' bill is in the works to be attached to the scaled-back primary 'regular' infrastructure plan, led by Congressional Democrats.

Foreign stocks gained slightly in developed markets, helped a bit by a weaker U.S. dollar, as strength in Europe and the U.K. overshadowed a percent decline in Japan. As in recent weeks, stronger rates of economic and earnings recovery have been tempered with uncertainty about the severity of the Covid delta variant. However, growth remains far more subdued that than in the U.S., with Q2 eurozone GDP coming in at 2%, with inflation also far lower, at 2.2%.

Although most emerging market nations in the index earned positive returns for the week, the overall group lost ground due to a -5% drop in China, and to a latter extent, Brazil. Russian stocks moved in the opposite direction, gaining as their central bank raised interest rates by a percent in order to combat higher inflation. Various Chinese stocks were pummeled early in the week as popular technology names were down upwards of -10%. The catalyst was the Chinese communist government ordering Tencent to give up music licensing rights, in addition to crackdowns on other successful industries, including for-profit education/tutoring. In response, the latter fell over -50%, a few of which were popular among certain emerging markets funds, such as New Oriental Education. The targets appear to be any business that threatens the country's priority of 'social cohesion', regardless of global market impact. This was combined with a breakdown in U.S.-China diplomatic talks last week surrounding several key disagreements.

U.S. bonds earned positive returns as interest rates ticked down across the treasury curve. Both treasuries and investment-grade corporates gained at roughly similar rates, while high yield and senior loans fell back. Foreign developed market and emerging market local bond markets both gained as the dollar declined.

Commodities gained with the help of a weaker dollar. All primary sectors saw gains, with energy and industrial metals providing leadership. The price of crude oil rose by over 2% to a few cents under $74/barrel while natural gas fell back at about the same rate, reversing a price spike from the prior week.

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.