Summary

Economic data for the week included some improvement in prior-quarter GDP, continued gains in personal income and spending, decent home sales figures, while durable goods and consumer sentiment were little changed.

Global equity markets gained last week, as formal Pfizer vaccine approval appeared to raise hopes for continued improvement in world vaccination rates. Bonds were little changed in the U.S., but fared well abroad from a weaker U.S. dollar. Commodities gained due to the same currency effect and jump in crude oil prices, along with the Afghanistan terror attack and impending Gulf Coast hurricane.

Economic Notes

(+) The 2nd release of **2nd Quarter U.S. GDP** came in at 6.6%, a tenth of a percent better than the initial release and 0.3% stronger than Q1—and just short of the 6.7% expected. This updated figure featured revisions upward for nonresidential fixed investment and exports; on the other hand, private inventory investment, equipment, residential fixed investment, and state/local government spending were revised down. Headline PCE inflation for Q2 was revised up slightly (by under 10 bps) to an annualized rate of 6.5%, and the year-over-year rate slightly to 3.9%. Core PCE also ticked up a bit to an annualized rate of 6.1%, bringing the year-over-year rate to 3.4%. While elevated, both have continued to come in under CPI and PPI, due to differences in the underlying goods/services baskets.

For Q3, the Atlanta Fed's GDPNow model is expecting growth of 5.1%, while the New York Fed Nowcast is predicting 3.8% (although these numbers change week to week). Q2 was generally expected to be the peak of recovery growth from the Covid lockdowns and reopenings for the current cycle, although growth is seen as likely to run above-trend for several more quarters. Growth for 2021 as a whole is predicted to be in the 5-7% range, with 2022 falling a few percent to 3-5%. Naturally, the course of the delta and other variants create a moving target for the ongoing magnitude and duration of the current growth cycle.

(+) **Personal income** rose by 1.1% in July, far surpassing expectations calling for 0.3%. **Personal spending** in the month rose by 0.3%, which was a tenth below expectations. Comparing the two, the personal savings rate ticked up by 0.8% in July to a still-elevated level of 9.6%. (This remains several percent above the pre-pandemic rate.) Over the past 12 months, income has risen 3% (with private-sector wages/salaries up 11%), while spending is up 12%. The income function has obviously been aided by massive stimulus efforts to bridge the employment gap for many, while spending is being compared to a low base from a year ago. Future months should show a lessened base effect from these extreme changes from 2020 trough levels.

The **PCE price index** for July rose by 0.4% on a headline level, and just over 0.3% on the core side, ex-food and energy. This caused the year-over-year figure to evolve to 4.2% and 3.6% for headline and core, respectively. What's interesting to note is that the PCE 'trimmed mean' inflation measure (which excludes the most extreme inflation readings on both the high and low end), came in at 2.0%, in line with the sedate level seen regularly in recent years.

(0) **Durable goods orders** for July ticked down by -0.1%, which was a bit better than the -0.3% decline expected by consensus. Removing the more volatile transportation sector (commercial aircraft specifically, which experienced a sharper decline), orders rose 0.7%. This core group was led by computers, industrial machinery, and metals. Core capital goods orders otherwise were unchanged for the month, which disappointed compared to expectations a bit. Capital goods shipments, however, rose by 1.0%, exceeding consensus.

(+) **Existing home sales** in July rose by 2.0% to a seasonally-adjusted rate of 5.99 mil. units, which beat expectations calling for a decline of -0.5%. This was led completely by single-family units, which gained 3%, which offset a decline in similar magnitude for condos/co-ops. Regionally, the Midwest and West saw gains of 3-4%, with flatter movements elsewhere. The median U.S. sales price rose by a percent for the month to $359,900, which amounted to a nearly 18% gain over the past 12 months (while actual sales are only up 1.5% versus a year ago). On the positive side for the ongoing problem of tight inventories, the months' supply of homes ticked up a tenth of a month to a still very tight 2.6 mo.

The NAR themselves, although undoubtedly bullish on housing normally, noted that the recent trend in rising prices is likely to level off as inventory begins to improve (supply being the primary wildcard with an uncertain timeframe for improvement). The number of first-time buyers has fallen a bit (to around the 30% level), with distressed sales similar to a year ago at only 1%. There remains uncertainty surrounding the future of pandemic-driven foreclosure (and renter eviction) moratoriums. States have enacted their own timelines, but, in the worst case, foreclosure activity could rise in coming months, which has historically acted as a headwind to market pricing.

(0/+) **New home sales** for July rose by 1.0% to a seasonally-adjusted annualized rate of 708k units, but fell short of the median forecast calling for 3.1%. However, this included an upward revision from June of 25k homes. For the single month, sales rose in the West most substantially, while the Midwest experienced a double-digit decline. The months' supply of homes ticked up by 0.2 to 6.2, a measure which continues to show increasing inventories from recent trough levels, although they represent more homes under construction than completed units. For the year-over-year period, sales of new homes are down -27%, with peak sales decelerating from what appears to be lack of available inventory as well as growing unaffordability. The median price of new homes is up 18% from last year to $390,500—demonstrating the latter constraint.

(0) The final August **Univ. of Michigan index of consumer sentiment** report showed an improvement of 0.1 point relative to the earlier version to 70.3, which had surprisingly fallen sharply (over -10 points); it still fell short of the 70.8 forecast. While assessments of current economic conditions were higher, these were offset by a minor decline in expectations for the future. Inflation expectations for the coming year were flat, at 4.6%, while those over the next 5-10 years fell a tenth to 2.9%.

(0) **Initial jobless claims** for the Aug. 21 ending week rose by 4k to 353k, exceeding expectations a bit, which called for 350k. Claims were down sharply in MI, while increases were dispersed among several larger states. Some of the normal summer volatility in claims, such as auto factory shutdowns for retooling, was tempered this season as carmakers kept production at higher levels to relieve ongoing shortages. **Continuing claims** for the Aug. 14 week declined by -3k to 2.862 mil., above the 2.772 mil. expected, with figures still skewed a bit between states that ended extended benefits early and those that didn't (there could be an impact of 1.5 mil. claims ultimately when this extension expires next month). When totaling extended benefits and emergency programs through early August, the rolls ticked up by nearly 100k to roughly 7 million. A key question remains around how quickly jobs numbers pick up following this expiration—with the assumption in the economic community that some workers have been holding off on seeking new jobs due to the disincentive of higher benefit payments.

Market Notes

Period ending 8/27/2021	1 Week (%)	YTD (%)
DJIA	0.98	17.26
S&P 500	1.54	21.20
NASDAQ	2.82	17.90
Russell 2000	5.06	15.98
MSCI-EAFE	1.86	11.24
MSCI-EM	4.28	0.00
BBgBarc U.S. Aggregate	-0.05	-0.70

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
8/20/2021	0.05	0.23	0.80	1.26	1.87
8/27/2021	0.05	0.22	0.79	1.31	1.91

U.S. stocks reversed their negativity of the prior week, by gaining ground across the board—led by small caps up 5%. It appeared the FDA's full approval of the Pfizer-BioNTech Covid vaccine helped general sentiment, as it could provide a stronger support for acceptance rates and backing for public/private mandates. By sector, cyclicals outperformed, with energy gaining over 7%, followed by financials and materials. Defensive stocks—consumer staples, utilities, and health care—suffered minor declines for the week.

Fed chair Jerome Powell's presentation at the virtual Jackson Hole conference was largely assumed to contain hints about the future 'tapering' path. Being scripted, it largely met expectations, as he noted substantial improvement in the economy and labor markets—albeit conditions still not yet back to normal. Notably, reversing course too early was described as being particularly 'harmful'. This is in keeping with a possible announcement of tapering later this year (Nov. or Dec.). Powell did remind viewers that a pullback in accommodative bond purchases does not necessarily align with interest rate hikes, which were described as a second step with a much higher threshold for action.

Foreign stocks gained along similar lines to U.S. equities, with a weaker dollar not providing a strong tailwind. In Europe, sentiment continued to improve, along with manufacturing sentiment readings—similar to those in the U.S. although a few quarters behind in the cycle. Along with risk-taking generally, emerging markets bounced back last week. This included strong gains in the commodity-sensitive group of Brazil and South Africa, while China also recovered.

U.S. bonds were generally flat, with yields ticking up slightly on the longer end of treasury curve. High yield and bank loans outperformed, earning slightly positive returns. A weaker dollar benefited foreign developed and emerging market debt—especially EM local bonds, most sensitive to currency fluctuations. South Korea became the first developed nation to raise interest rates in the current Covid cycle, by 0.25% to 0.75% last week, with inflation expectations only having ticked up to just over 2%. Per the central bank, the focus in doing so is to reduce financial imbalances (like asset bubbles).

Commodities saw gains in every sector last week, helped by the U.S. dollar down around a percent. Energy outpaced more modest gains in metals and grains, as the price of crude oil recovered by over 10% to near $69/barrel. Expectations of OPEC+ output increases, which can often temper pricing, were offset by the attack on U.S. forces in Afghanistan, which brought back terrorist fears. This was in addition to the expected weekend landfall of Hurricane Ida into the Gulf Coast, assumed to result in infrastructure damage and outages, with nearly half of U.S. refining capacity based in that region.

Have a good week.

Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

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, National Association of Realtors, 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.