Summary

Economic data for the week included stronger results in the manufacturing and construction segments, while services sentiment and the monthly employment situation report came in weaker than expected. Home prices also continued to increase at historically impressive rates.

Global equity markets gained last week, with economic data coming in as expected for the most part and little late summer news. Bonds were similarly flat in the U.S., with little trading volume, although foreign issues fared better due to a weaker dollar. Commodities ticked higher, particularly natural gas, due to recent disruptive storm activity.

Economic Notes

(+) The **ISM manufacturing index** for August rose by 0.4 of a point to 59.9, beating the median forecast calling for a decline to 58.5. Production and new orders both improved, even further into expansion, while employment fell almost -4 points and ending just slightly into contraction. Supplier deliveries and prices paid both fell by several points, but each remained strongly expansionary. Under the hood, 15 of 18 industries reported monthly growth, with anecdotal data showing that supply chain disruptions, as well as difficulty in finding labor, held manufacturing back a bit from even better gains. Recent data showing some 'peaking' growth levels has certainly been hampered by supply disruptions; better clarity on the latter will help in identifying where we are in the recovery cycle.

(0/-) The **ISM services/non-manufacturing index** fell by -2.4 points in August to a level of 61.7, ending just a tenth above the expected 61.6. The underlying components of new orders, employment, supplier deliveries, and business activity all fell by at least several points, but remained solidly expansionary—at above-50 readings—with all but one of the 18 industry segments still showing expansion. Prices paid also fell by several points, but also remained expansionary. The blip downward, along with other Aug. readings, may have been the result of rising delta variant cases, but the strong expansionary readings show that recovery is still well intact.

(0) **Construction spending** for July rose by 0.3%, surpassing expectations by a tenth. Most groups saw positivity, with private construction spending on the residential side gaining a half-percent, which offset a non-residential decline. Public construction spending gained in both residential and non-residential.

(+) The **S&P/Case-Shiller home price index** rose 1.8% in June, meeting the high median forecast expectation. Among the constituents, all 20 cities saw increases, led by Phoenix, Tampa, and Las Vegas, each of which experienced gains over 3% gains for the single month. The year-over-year rate of increase accelerated to an all-time high of 19.1%.

(+) The **FHFA house price index** for June rose at a slightly lower 1.6% pace, below the 1.9% gain expected. Like the Case-Shiller, but capturing a broader and less-urban focused universe of activity, all nine regions saw increases for the month, led by the Mountain (MT south through NM) and West South Central (OK, AR, TX, LA) states, which rose 2-3%. Overall, the year-over-year pace of growth accelerated to 18.8%, which also was an all-time (30-year) record for this price series.

Obviously, the lack of available inventory and strong recovery demand for single-family homes resulted in strong price gains over the past 12 months—even more so than the exceptionally strong markets of the mid-2000s, where lending standards became looser and looser prior to the Great Recession. While there is some celebration by those riding the real estate 'wave', there also appears to be a concession that rising asset prices are very much due to an accommodative environment of low interest rates, strong stimulus/money supply, regional urban/suburban/rural disruptions, and shortage of new homes being built—all of which appear to have contributed to the 'perfect storm' of higher prices.

(-) **Pending home sales** in July fell by -1.8%, in contrast to the 0.3% increase expected. Sales in the West district rose by a few percent, but declined elsewhere, up to -7% in the Northeast. This series tends to have some predictive power for existing home sales in the next few months. Year-over-year pending sales fell by a rate of -9.5%, with some base recovery effects from 2020 apparent. Anecdotal commentary from the National Association of Realtors, who generates this data, noted that a lack of supply was the primary culprit.

(-) The Conference Board **index of consumer confidence** for August declined by -11.3 points to 113.8, well below the 123.0 level expected. Both consumer assessments of current conditions and expectations for the future declined by around -10 points, while the labor differential fell by just over a point, continuing to run at a high level. Anecdotally, it was noted that 'delta variant concerns' were a primary driver of the more negative recent outcomes.

(-) The **ADP employment** private sector report for August showed a gain of 374k, falling far short of the 625k expected. As usual, services accounted for the bulk of the gain—329k in this case, 60% of which were from the leisure/hospitality segment. Goods-producing jobs rose by a far lesser 45k, 30k of which were in construction. As with a variety of figures, a truer test of this metric could be looking at Sept. and Oct. numbers, when the back-to-school and drop-off of extended unemployment benefits effects will likely be more apparent, offset by any negative impact from the delta variant.

(+) **Initial jobless claims** for the Aug. 28 ending week declined by -14k to 340k, below the 345k median forecast. **Continuing claims** for the Aug. 21 week fell by -160k to 2.748 mil., which came in below the 2.808 mil. consensus estimate. Initial claims continued to be mixed among states, with no major outliers. When looking at overall benefits, with extensions and emergency programs, the mid-Aug. figure showed a continued decline of a few hundred thousand to around 6.8 mil. Over the past 4-5 months, claims for states that ended extended benefits early declined at a faster rate than those choosing to keep benefit extensions in place until the Federal deadline this week.

(-) The employment situation report for August came in weaker than anticipated. Some of this appears to be due to concerns over the delta variant, August vacations and summer employment, and an ongoing mismatch between demand for skilled workers and the supply of such workers—both in the right industries, and geographically. Despite the disappointment month, it appears that improvement in labor markets continues. The September numbers, which will include the impact of parents returning to work as children re-join physical school, and the expiration of extended pandemic jobless benefits, may provide a more realistic indicator of current labor conditions.

Nonfarm payrolls rose by 235k, which disappointed compared to the 733k level expected. However, the report did include 134k in revisions for prior months. Job gains were most pronounced for the month in professional/business services (+74k), transportation/warehousing (+53k), private education, and manufacturing. On the other hand, retail jobs fell for the month (-42k in restaurants/bars), as did those in construction slightly. Growth occurred in just over 60% of industries, which represented lower breadth than expected. Permanent job losers continued to decline, with improvement in the number of part-time workers for economic reasons, despite the ramp up in temporary layoffs over the month.

The **unemployment rate** fell by -0.2% to 5.2%, which matched consensus expectations. The U-6 rate of underemployment also improved, by -0.4% to 8.8%. This included little change in the labor force participation rate, which remains nearly two percentage points below Feb. 2020 'peak' levels. Under this household survey, employment appeared to increase by 509k, with a large impact from an estimated half-million workers 'on unpaid absence', reflecting the current delta variant concerns.

Average hourly earnings rose by 0.6%, which was twice the rate of expectations. This monthly rise was led by the recovering industries of leisure/hospitality, as well as retail. This brought the year-over-year rate of increase to 4.3%. **Average weekly hours** were flat at 34.7.

In an earlier report, final nonfarm **productivity** for Q2 was revised down by -0.2% to an annualized rate of 2.1%, below expectations calling for an expected increase to 2.5%. The year-over-year rate was revised down a tenth to 1.8%. **Unit labor costs** were revised up by 0.3% to an annualized 1.3% in the Q2 final report, above the 0.9% figure expected. Year-over-year unit labor costs was revised up a tenth to 0.2%, with year-over-year compensation coming in at an unchanged 2.0%.

Market Notes

Period ending 9/3/2021	**1 Week (%)**	**YTD (%)**
DJIA	-0.14	17.10
S&P 500	0.62	21.95
NASDAQ	1.57	19.75
Russell 2000	0.68	16.77
MSCI-EAFE	1.80	13.24
MSCI-EM	3.42	3.42
BBgBarc U.S. Aggregate	-0.06	-0.76

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
8/27/2021	0.05	0.22	0.79	1.31	1.91
9/3/2021	0.05	0.21	0.78	1.33	1.94

U.S. stocks were mixed to higher last week, with economic releases generally meeting expectations, and late summer volumes tending to be lower. A weaker employment report cast a shadow on markets briefly Friday, with the implications that labor markets are losing steam (despite summer seasonal issues). At the same time, weaker numbers raise the possibility that the Fed's tapering actions (let alone rate increases) could be pushed back further. However, it's only one report, and an imprecise one at that. By sector, defensive groups consumer staples, health care, and utilities led again, with gains over a percent for the week. Cyclical financials and energy lost the most ground, down 1-2%. Real estate also fared well, as the sector continues to recover from pandemic-related concerns.

Foreign developed market stocks in Europe performed largely in line with U.S. issues, while Japanese and emerging market stocks fared far better. Slowing growth in Europe continues to be a concern, as growth abroad was slower than that of the U.S. to begin with, along with still-high Covid cases, and just-tightened travel restrictions (specifically on the U.S.). Japanese equities jumped sharply upon the surprise resignation of the prime minister, upon criticism of his handling of the pandemic. It's important to note that governments outside the U.S. change frequently, so often don't generate the market disruption one might expect—in fact, surfacing of market- or stimulus-friendly candidates may be a bullish signal, as it was in Japan last week. Chinese equities bucked recent negativity with the government announcement of a new stock exchange, focused on capital financing for small- and mid-cap firms, as well as additional credit facilities for such firms.

U.S. bonds were little changed, with minimal movement of treasury yields during the last 'summer' trading week, a period which often features lighter volumes. High yield and floating rate bank loans fared better, with gains. A weaker dollar propelled foreign bonds higher, mostly on the emerging local debt side, which tends to be more volatile, and gained a percent.

Commodities were little changed on net, which included gains in energy, industrial metals and precious metals; these offset agricultural price declines. The price of crude oil ticked higher by under a percent to just over $69/barrel, while natural gas prices spiked by 8% in the aftermath of Hurricane Ida, and production shutdowns, along with associated storm flooding along the East Coast last week.

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.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.