TOWNSEND
Retirement & Legacy Planning

WEEKLY MARKET COMMENTARY

For the Week of July 26, 2021

ECONOMIC REVIEW[i]

- Housing starts came in at 1.643 million starts, beating economists' forecasts of 1.572 million
- Building permits came in at -5.1%, significantly missing economists' forecasts of +0.7%
- Existing home sales came in at 5.86 million units, also missing economists' forecasts of 5.90 million
- Initial Jobless claims came in higher than expected posting a reading of 419,000 versus economists' forecast of 350,000 and a jump from last week's reading of 360,000

INSIGHT: Economic data for this week came in weaker than economists' estimates. Initial jobless claims surged higher by 59,000 compared to the prior week's reading, reversing the downward trend in claims reported for the prior few weeks. Digging into the headline initial claims number, the rise in claims can be attributed primarily to four states, Michigan, Missouri, Kentucky, and Texas, where supply chain shortages affecting industries such as auto manufacturers continue to be a headwind for their economies. Furthermore, the data coming in for this week continues to point to a slowdown in the housing market, with both building permits and existing home sales coming in below forecasts. However, more recently, commodity prices have come off their highs which has boded well for certain areas of the market such as housing starts. Ultimately, concerns surrounding the delta variant have caused a resurgence of skepticism by consumers and businesses regarding the economic recovery. However, we hope that delta variant fears are overheated and do believe that supply chain bottlenecks should subside.

A LOOK FORWARD[1]

- New Home Sales will be released on Monday with economists' expectations of 800,000, an increase from the prior month's reading of 769,000
- GDP quarter-over-quarter readings will be released on Thursday, and consensus estimates have GDP growth at an annualized rate of +8.6%
- Consumer Confidence Index will come out on Tuesday, with an expected reading of 124.3

INSIGHT: The previous few quarters have been tumultuous for consumers, however with vaccinations rolling out and restrictions easing there is much optimism surrounding the growth of the economy. Gross Domestic Product (GDP) is one of the most prevalent data points pertaining to how well an economy is growing. Before the pandemic, GDP was increasing each quarter at a rate of 2%. This previous norm points to the amazing strides the economy has made since the pandemic, as the newest estimation for second quarter GDP is over 8%. Next, although Consumer Confidence is expected to decrease for the month of June the number is just below pre-pandemic levels of early 2020, and 2019. The peak in 2019 was 132, before falling to 86 at the height of the pandemic. These prints continue to support the strength of the economic recovery.

OBSERVATIONS

- U.S. equities moved higher this week as indicated by the S&P 500 which was up +1.97% on the week.
- In the U.S., smaller sized companies outperformed their larger-sized counterparts, as the Russell 2000 index increased +2.15% on the week.
- International stocks as measured by the MSCI EAFE were positive on the week, up +0.20%, underperforming domestic stocks.
- Emerging market stocks were negative on the week with the MSCI EM index down -2.09%.
- U.S. investment grade bonds were positive last week with the Bloomberg Barclays U.S. Aggregate Bond index up +0.19%.

BY THE NUMBERS

NEXT MONTH: August has been the 2nd worst performing month for the S&P 500 index over the last 30 years (1991-2020), losing an average of 0.2% (total return) over the period. However, the S&P 500 gained +7.2% (total return) in August 2020 (source: BTN Research).

THEY HAD TO BE SURE: The government announced on Monday 7/19/21 that the recession the United States entered into at the end of February 2020 lasted just 2 months, ending on 4/30/20. The recession, the 18th in the country in the last 100 years, was the shortest recession in the last century. The other 17 recessions in the last 100 years lasted on average 13.6 months (source: Business Cycle Dating Committee of the National Bureau of Economic Research).

JUST TAKE UBER: The price of used cars and trucks in the United States is up +45.2% for the 1-year period ending 6/30/21. Over the same period, the price of "medical care services" is up just +1.0% (source: Bureau of Labor Statistics).

HAPPENED EARLIER THAN EXPECTED: Between March 2020 (i.e., the beginning of the global pandemic) and June 2021, 1.7 million more Americans retired from the workforce than would have normally retired if historical trends had continued (source: Schwartz Center for Economic Policy Analysis).

Economic Definitions

Initial Jobless Claims: Initial unemployment claims track the number of people who have filed jobless claims for the first time during the specified period with the appropriate government labor office. This number represents an inflow of people receiving unemployment benefits.

Non-farm Payrolls: This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

Unemployment Rate: The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.

The Conference Board Consumer Confidence Index: The Consumer Confidence Survey® reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectation for inflation, stock prices and interest rates. Data are data available by age, income, region and top 8 states.

Personal Income: Consumer or Household Income (often referred to as personal income) tracks all income received by households including such things as wages and salaries, investment income, rental income, transfer payments, etc. This concept is not adjusted for inflation.

Personal Spending: Consumer or Household Spending (also referred to as consumption) tracks consumer expenditures on goods and services. This concept is not adjusted for inflation.

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

New Home Sales: This concept tracks sales of newly constructed homes during the reference period. The Implicit US index is computed by taking the number of house sold in the US and dividing it by the seasonally adjusted number of houses sold in the US.

University of Michigan Consumer Sentiment Index: Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collects data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures. This Index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Components of the Index of Consumer Sentiment are included in the Leading Indicator Composite Index. Unit: Index (Q1 1966=100)

The Federal Reserve System: The central bank of the United States. It performs several general functions to promote the effective operation of the U.S. economy and, more generally, the public interest.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as
of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition,
are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

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[i] Data Obtained from Bloomberg as of 7/09/2021