August 9, 2021

Weekly Viewpoint

Job Market Continues to Heal

Performance for Week Ending 8.6.2021

The Dow Jones Industrial Average (Dow) finished up 0.78%, the Wilshire 5000 Total Market Index^{SM} (Wilshire 5000^{SM}) added 0.95%, the Standard & Poor's 500 Index (S&P 500) gained 0.94% and the Nasdaq Composite Index (NASDAQ) tacked on 1.11%. Sector breadth was positive with 10 of the 11 S&P sector groups closing higher. The Financials sector (+3.56%) led the way higher followed by Utilities (+2.28%) and Technology (+0.93%). On the downside, the Consumer Staples sector (-0.55%) was the only loser on the week.

Index*	Closing Price 8/6/2021	Percentage Change for Week Ending 8/6/2021	Year-to-Date Percentage Change Through 8/6/2021
Dow	35208.51	+0.78%	+15.04%
Wilshire 5000	46143.35	+0.95%	+16.95%
S&P 500	4436.52	+0.94%	+18.12%
Nasdaq	14835.76	+1.11%	+15.11%

Market Observations: 8/2/21–8/6/21

Stocks finished the week higher on another round of strong earnings reports and data showing the US economy added nearly 1.9 million jobs over the past two months. On Friday, the Labor Department reported that nonfarm payrolls grew by 943K jobs during July and the June data was upwardly revised to 938K from the initial estimate of 850K. During July the unemployment rate dropped to 5.4% from 5.9% and was solidly better than the 5.7% rate forecast by economists. The report suggested that employment growth has shifted into high gear, although this potentially leaves the door open that Fed Chair Powell could begin dropping stronger hints that tapering bond purchases could come sooner than expected. With that said, it is important to note that the July data was collected in advance of some areas of the country re-imposing mask mandates and other restrictions. While the report is certainly a step in the right direction, at least another month of data will likely be needed to draw any firm conclusions about the sustainability of the jobs market recovery.

Mixed Signals from Fed Heads: It seems there is a difference of opinion within the Fed as to when to start reducing bond buying activity. Recently, Fed Governor Lael Brainard suggested that the central bank won't announce a tapering of its bond purchase program at the Jackson Hole gathering at the end of the month. "I expect to be more confident in assessing the rate of progress once we have data in hand for September, when consumption, school, and work patterns should be settling into a post pandemic normal," she said. In contrast, Fed Governor Chris Waller, in a speech early last week, said the central bank could start to reduce its support for the economy by October if the next two monthly jobs reports show employment rising by 800,000 to 1 million, as he expects. There's "no reason" to go slow on tapering the Fed's bond purchase program, Waller said, adding that finishing up sooner would give the Fed the ability to start raising interest rates next year if needed.

Delta Headwinds? Stay Tuned: While there has been little evidence that the uptick in Covid cases related to the delta variant has impacted the economic recovery, there are building worries that headwinds maybe in the offing. Last week, Blackrock, Wells Fargo, and Amazon joined Lyft, Google, and Twitter among others in making adjustments to when workers will return to the office due to increasing delta variant concerns. Some areas of the country have reinstated mask mandates while New York City is requiring proof of vaccination to enter some establishments. There was however some good news on the vaccination front as Moderna published analysis of the company's late stage study of its Covid-19 vaccine and found that it's 93% effective 6-months after the standard two-dose regimen. Meanwhile, it was reported that the White House is considering using federal regulatory powers and the threat of withholding federal funds from institutions to push more Americans to get vaccinated.

Q2 EPS Season- the Strength Continues: Second quarter earnings season continued to wind down last week. Through Friday 443 members of the S&P 500 have released results with just over 85% surprising to the upside. Aggregate earnings are currently up almost 99% on a year-over-year basis, still modestly ahead of the nearly 94% estimated growth rate that analysts are forecasting when all is said and done. Sector-wise the biggest upside surprises are coming from Consumer Discretionary, Financials, and Communication Services. In terms of year-over-year growth, the biggest gainers are Industrials, Financials, and Materials – all of which were hit hard last year due to the pandemic.

Bullish Narrative Intact: As we look out over the remainder of the year, our favorable view on the equity market remains intact. While second half gains are unlikely to be as robust as what we saw during the first six months of the year, we feel the supportive macro environment should continue to provide a sturdy backbone for additional upside. The US economy continues to recover, and growth is expected to remain solid over the remainder of the year. The US consumer is in good shape and savings rates have become very elevated, suggesting that as consumers become more comfortable with the economic recovery, pent up demand will be unleashed. Earnings expectations also continue to trend higher. Based on consensus expectations from Bloomberg, earnings are forecast to grow by over 43 percent this year followed by over 9 percent growth in 2022 and just under 10% in 2023. As we enter the seasonal difficult period for the markets, a near-term period of consolidation cannot be ruled out. If a pullback were to occur in the months ahead, we would view it as a healthy correction and not the start of a broader move lower. Hence, periods of weakness would be viewed as buying opportunities.

The Week Ahead: With nearly 90% of the S&P 500 companies having already reporting results, the Q2 earnings calendar will begin to fade into the background. Inflation will be the focal point of the data calendar with the Consumer Price Index (CPI) report due out on Wednesday followed by the Producer Price Index (PPI) on Thursday. Both the CPI and PPI reports over the past few months have strongly surpassed expectations, as a combination of supply-demand dynamics and ongoing bottlenecks continue to fuel higher prices. This in turn has prompted some Fed officials to move in a more hawkish direction since the June FOMC meeting and pulled forward market expectations on eventual tightening. Other data reports of interest include the June Job Openings report, NFIB Small Business Optimism data for July and the University of Michigan Sentiment Index for August. It will be a relatively busy week for Fed-speak with six Fed Heads scheduled to make speeches.

Definitions

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

Wilshire 5000 Total Market Index^{SM} represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm's headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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.

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