July 26, 2021

Weekly Viewpoint

Strong Earnings Lead to New Market Highs

Performance for Week Ending 7.23.2021

The Dow Jones Industrial Average (Dow) finished up 1.08%, the Wilshire 5000 Total Market Index℠ (Wilshire 5000℠) added 2.27%, the Standard & Poor's 500 Index (S&P 500) gained 1.96% and the Nasdaq Composite Index (NASDAQ) tacked on 2.84%. Sector breadth was positive with 9 of the 11 S&P sector groups closing higher. The Communication Services sector (+3.24%) paced the gains followed by Consumer Discretionary (+2.85%) and Technology (+2.77%).

Index*	Closing Price 7/23/2021	Percentage Change for Week Ending 7/23/2021	Year-to-Date Percentage Change Through 7/23/2021
Dow	35061.55	+1.08%	+14.56%
Wilshire 5000	45940.79	+2.27%	+16.43%
S&P 500	4411.79	+1.96%	+17.46%
Nasdaq	14836.99	+2.84%	+15.12%

Market Observations: 7/19/21–7/23/21

Stocks finished the week higher with the S&P 500 closing at a new all-time high. After slumping early in the week, the markets found their footing as the strong start to second quarter earnings season helped outweigh concerns about the threat to economic growth from a surge in Delta variant coronavirus cases. Last week, the Centers for Disease Control and Prevention (CDC) warned that the U.S. is at "another pivotal point" in the pandemic, with the seven-day average of cases up sharply from the prior week. While the uptick in cases has resulted in some wobbliness for the markets, investors have been much more focused on economic and earnings growth. On the latter, through Friday 118 members of the S&P 500 have released results with over 87% surprising to the upside. Aggregate earnings growth is currently up 119% on a year-over-year basis, solidly ahead of the 78% estimated growth rate that analysts are forecasting when all is said and done.

In US economic news, the Conference Board's Leading Economic Index (LEI) increased 0.7% in June, up for the 14th consecutive month. Eight of its ten components increased, led by fewer initial jobless claims and stronger manufacturing new orders. Meanwhile, the National Association of Realtors reported that existing home sales rose 1.4% in June to a 5.86-million-unit annual rate. Tight inventories continue to push up home prices, with the median existing home price rising 23.4% y/y to a record $363,300. In other economic news, the National Bureau of Economic Research (NBER), the official arbiter of U.S recession/expansion dates, declared that the recession that started in February 2020 lasted only two months, ending in April 2020. This was the shortest recession on record, taking that title away from a 6-month recession in 1980.

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 40 percent this year followed by over 10 percent growth in 2022. While a near-term period of consolidation cannot be ruled out, we would view pullbacks as a 'pause to refresh' and not the start of a broader move lower. Hence, periods of weakness would be viewed as buying opportunities.

The Week Ahead: The two-day Federal Open Market Committee (FOMC) will be the focal point of the coming week. While Fed officials are not expected to make any changes to policy, they are likely to begin discussing the timing of the when to begin tapering their $120 billion per month bond buying program. Investors will also be looking for updated thoughts on inflation after the June inflation data surprised to the upside, with the latest CPI reading at +5.4%, and core CPI at +4.5%, which is the highest for the latter since 1991. The earnings calendar will remain front and center with nearly 180 members of the S&P 500 expected to report results. Amongst this group will be ten members of the Dow 30 Index. The data calendar will bring the first look at the Q2 GDP figures, which according to Bloomberg are expected to show the economy surged by 8.5% during the April through June period. Other reports of interest include June new home sales, June durable goods orders, July consumer confidence, and personal income and spending during June.

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℠ 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.