August 16, 2021

Weekly Viewpoint

Strong Earnings Continue to Power the Market Higher

Performance for Week Ending 8.13.2021

The Dow Jones Industrial Average (Dow) finished up 0.87%, the Wilshire 5000 Total Market Index℠ (Wilshire 5000℠) added 0.51%, the Standard & Poor's 500 Index (S&P 500) gained 0.71% and the Nasdaq Composite Index (NASDAQ) dipped 0.09%. Sector breadth was positive with 10 of the 11 S&P sector groups closing higher. The Materials sector (+2.68%) led the way higher followed by Consumer Staples (+2.07%) and Financials (+1.88%). On the downside, the Energy sector (-0.81%) was the only loser on the week.

Index*	Closing Price 8/13/2021	Percentage Change for Week Ending 8/13/2021	Year-to-Date Percentage Change Through 8/13/2021
Dow	35515.38	+0.87%	+16.04%
Wilshire 5000	46378.58	+0.51%	+17.54%
S&P 500	4468.00	+0.71%	+18.95%
Nasdaq	14822.90	-0.09%	+15.01%

Market Observations: 8/9/21–8/13/21

Stocks finished the week mostly higher with the Dow, the S&P 500 and Wilshire 5000 all closing at new all-time highs. Driving the recent gains has been the stellar Q2 earnings season, improving economic data and the Senate's passage of a large infrastructure bill. Early signs that inflationary pressure may have peaked added to the positive sentiment. Last week, the Labor Department reported that the Consumer Price Index (CPI) increased 0.5% in July, the smallest gain in five months. Core CPI, which excludes food and energy, increased 0.3%, the least in four months. On a year over year basis, the CPI increased by 5.4% while the core CPI rose 4.3%, off modestly from the 4.5% pace in the prior. The slight deceleration is a positive sign that inflation may have peaked, as the 'base effect' dissipates and the demand/supply dynamics begin to normalize. Meanwhile, the Labor Department also reported that initial jobless claims fell 12K last week to 375K, slightly below the consensus estimate of 380K and the third consecutive weekly decline.

While inflationary pressure may be starting to peak, Kansas City Fed President Esther George said it was time for the central bank to end its bond-buying program. "Today's tight economy ... certainly does not call for a tight monetary policy, but it does signal that the time has come to dial back the settings," George said during a virtual seminar organized by the National Association for Business Economics. Separately, Dallas Fed President Robert Kaplan told CNBC that he wanted the Fed to announce tapering plans in September and begin the gradual winddown in purchases the following month.

Q2 EPS Season- the Strength Continues: Second quarter earnings season continued to wind down last week. Through Friday 456 members of the S&P 500 have released results with just over 85% surprising to the upside. Aggregate earnings are currently up over 99% on a year-over-year basis, still modestly ahead of the nearly 94.5% 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 44 percent this year followed by over 9 percent growth in 2022 and just under 10% in 2023. As we maneuver the seasonally 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: The data calendar will be relatively light as we head into the back half of August. Key economic reports include July retail sales, July housing starts and building permits, jobless claims, and the leading economic indicators report for July. With over 90% of the S&P 500 companies having already reporting results, the Q2 earnings calendar will move to the backburner. This week just 18 members of the S&P 500 are expected to report results. Amongst this group are Dow components Wal-Mart, Home Depot and Cisco Systems. It will be a relatively quiet week for the Federal Reserve ahead of the Jackson Hole Economic Policy Symposium in the last week of August. The main highlight will be the release of the July FOMC meeting minutes, in which investors will be looking for discussions of tapering as well as any thoughts on inflation metrics. There are also scheduled appearances planned for Fed Chair Powell as well as regional Fed Presidents Kashkari and Kaplan.

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 IndexSM 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.