August 2, 2021

Weekly Viewpoint

Down Week but a Solid Month of July

Performance for Week Ending 7.30.2021

The Dow Jones Industrial Average (Dow) finished off 0.36%, the Wilshire 5000 Total Market Index[SM] (Wilshire 5000[SM]) lost 0.51%, the Standard & Poor's 500 Index (S&P 500) fell 0.37% and the Nasdaq Composite Index (NASDAQ) shed 1.11%. Sector breadth was mixed with 7 of the S&P sector groups closing higher and 4 closing lower. On the upside, Materials (+2.78%) and Energy (+1.58%) were the best performers while Consumer Discretionary (-2.57%) and Communication Services (-0.96%) were the worst.

Index*	Closing Price 7/30/2021	Percentage Change for Week Ending 7/30/2021	Year-to-Date Percentage Change Through 7/30/2021
Dow	34935.47	-0.36%	+14.14%
Wilshire 5000	45707.99	-0.51%	+15.84%
S&P 500	4395.26	-0.37%	+17.02%
Nasdaq	14672.68	-1.11%	+13.85%

Market Observations: 7/26/21–7/30/21

Stocks finished the week lower as investors digested a slew of earnings reports, the outcome to the two-day FOMC meeting, a rise in delta variant coronavirus cases, and uncertainty surrounding the approval of the infrastructure stimulus package. Despite the down week, the S&P 500 gained 2.27% during the month of July, the sixth straight monthly gain.

FOMC Meeting: At the conclusion of last week's Federal Open Policy Committee (FOMC) meeting, Fed Chair Jay Powell said substantial economic improvement is still needed before the central bank starts dialing back its easy-money policies. The Fed reiterated its view that the economy continues to "strengthen" despite the spread of the delta coronavirus strain, but Powell stressed that the economy is a good deal away from achieving the Fed's dual mandates of stable prices and maximum employment.

“We have some ground to cover on the labor market side,” Powell said at his press conference. “I think we’re some ways away from having had substantial further progress toward the maximum employment goal. I would want to see some strong job numbers.” Powell also noted the rising threat that the pandemic and its delta variant is posing but said he does not see it having a major economic impact.

Infrastructure Deal? Last week the Senate was able to come up with a $550bn bipartisan agreement on infrastructure. The details are still being negotiated but the biggest allocation ($110B) will goes toward rebuilding roads, bridges, and other major transportation projects. Other major allocations will be directed to power infrastructure, upgrades to railroad infrastructure, broadband access, water infrastructure, and airports. While the Senate vote was a step in the right direction, the biggest potential headwind to full approval maybe the desire to combine this bipartisan agreement with a Reconciliation-based bill totaling $3.5T. Given the lack of GOP support for the $3.5T bill, it is possible that the bipartisan agreement could still fall apart.

Q2 EPS Season- Strong to Very Strong: Second quarter earnings season continues to be a shining star. Through Friday 294 members of the S&P 500 have released results with just over 87% surprising to the upside. Aggregate earnings are currently up over 99% on a year-over-year basis, still solidly ahead of the 89% 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, Consumer Discretionary, Materials and Financials – 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 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: The period from late-July through the month of August is often referred to as the ‘summer doldrums’ as many Wall Streeters are out of the office on vacation which typically results in light trading activity. While volumes may drift lower, the data and events calendar won’t be taking the week off. The focal point of the week will be the July Payroll report on Friday, which according to Bloomberg is expected to show a 900K jump in nonfarm payrolls and for the unemployment rate to fall to 5.7% from 5.9% in June. The report will be monitored very closely for clues on the state of the economic recovery and the implications for monetary policy. Fed Chair Powell said in his press conference last week following the conclusion of the FOMC meeting that “the labor market has a ways to go”, and that the unemployment rate of 5.9% “understates the shortfall in employment, particularly as participation in the labor market has not moved up from the low rates that have prevailed for most of the past year.” The earnings calendar will remain front and center with 146 members of the S&P 500 scheduled to release results. Outside of the jobs report on Friday, other economic reports of interest include the July ISM Manufacturing and Services reports, June Factory Orders, Vehicle sales during the month of July, and Weekly Jobless Claims.

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.