

MARKET VIEW WEEKLY

July 9th, 2021



ECONOMIC REVIEW¹

- Initial jobless claims came in above economists' forecasts with a reading of 373,000 versus the anticipated reading of 350,000.
- The ISM Services Index for the month of June came in at 60.5, missing the economists' expectations of 63.5.
- The Job Openings and Labor Turnover Survey (JOLTS) showed that there are currently 9.2 million open jobs in the U.S. economy.

INSIGHT: The economic data released during the shortened week for markets continued to come in softer than expectations. Initial jobless claims came in higher than expected and reported an upward revision to last week's print, however, the indicator remains at pandemic-era lows. Having only increased over last week's revised print by 2,000, it would be fair to say that layoffs have remained relatively consistent week-over-week and continue to support claims that the labor market is strengthening. Yet, job openings continue to remain stubbornly high. Economic activity is geared to pick back up, but people returning to work is critical for continued growth. The lack of labor supply is evident in the ISM Services Index. The index missed economists' expectations and fell from its record high. Still, at current levels the index is indicative of a recovery in the services sector of the economy. Ultimately, we remain optimistic that the services sector will trend higher in the months to come as labor shortages ease.



A LOOK FORWARD¹

- Consumer Price Index (CPI) will be released on Tuesday; economists are expecting prices to increase 0.5% on a month-over-month basis and 4.9% on a year-over-year basis.
- Producer Price Index (PPI) will be released on Wednesday; economists are expecting prices to increase 0.5% on a month-over-month basis and 6.7% on a year-over-year basis.
- Retail sales will be released on Thursday; economists are expecting sales to decrease -0.4% from a month prior.
- On Friday we will receive the University of Michigan Consumer Sentiment Index; economists are expecting a reading of 86.5.

INSIGHT: To start the week we will get some insight into how consumer and producer prices trended in the month of June. In previous months there has been concern over rapidly rising prices; however, the Federal Reserve has calmed investors' fears by stating that higher inflation is transitory. If this is true, we should see a slight reversal in prices by year end. Rising prices may be hindering consumer purchases as the retail sales number is expected to decrease for the second straight month. Conversely, consumer sentiment has been trending upward and economists expect a more confident consumer heading into the second half of the year. Both retail sales and consumer confidence are paramount in gauging the health of the economy as consumer spending makes up over two-thirds of U.S. GDP.



MARKET UPDATE¹

Market Index Returns as of 7/09/21	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	0.42%	1.72%	17.24%	39.33%	18.15%	17.43%
NASDAQ	0.43%	1.38%	14.47%	39.47%	24.55%	25.21%
Dow Jones Industrial Average	0.25%	1.11%	15.05%	36.39%	14.38%	16.36%
Russell Mid-Cap	0.00%	0.72%	17.09%	49.50%	15.74%	15.08%
Russell 2000 (Small Cap)	-1.11%	-1.31%	16.00%	61.97%	11.94%	15.09%
MSCI EAFE (International)	-0.07%	0.39%	9.26%	30.42%	8.26%	9.96%
MSCI Emerging Markets	-2.60%	-3.94%	3.22%	25.59%	9.62%	11.56%
Bloomberg Barclays US Agg Bond	0.31%	0.44%	-1.18%	-0.44%	5.40%	3.05%
Bloomberg Barclays High Yield Corp.	0.20%	0.40%	4.03%	14.61%	7.43%	7.02%
Bloomberg Barclays Global Agg	0.45%	0.47%	-2.75%	2.26%	4.39%	2.46%



OBSERVATIONS¹

- U.S. equities moved higher this week as indicated by the S&P 500 which was up +0.42% on the week.
- In the U.S., smaller sized companies underperformed their larger-sized counterparts, as the Russell 2000 index fell -1.11% on the week.
- International stocks as measured by the MSCI EAFE were negative on the week, down -0.07%, underperforming domestic stocks.
- Emerging market stocks were also negative on the week with the MSCI EM index down -2.60%.
- U.S. investment grade bonds were positive last week with the Bloomberg Barclays U.S. Aggregate Bond index up +0.31%.



FUN FACTS

TAXING AND SPENDING: The Congressional Budget Office (CBO) forecasted on Thursday 7/01/21 that during fiscal year 2021, i.e., the 12 months ending 9/30/21, the US government will receive \$3.8 trillion of tax revenue, spend \$6.8 trillion, resulting in a \$3.0 trillion fiscal year deficit. During the next 10 fiscal years, i.e., fiscal year 2022 through and including fiscal year 2031, the US government is projected to receive \$51.3 trillion of tax revenue, spend \$63.4 trillion, resulting in a \$12.1 trillion deficit over the next decade (source: CBO).

THE RIGHT DIRECTION: The rating agency Moody's upgraded the general obligation bonds issued by the state of Illinois on Tuesday 6/29/21. Moody's raised the state's rating from Baa3 to Baa2, the first upgrade issued by the rating agency for Illinois since June 1998 or 23 years ago. Baa3 is the lowest "investment grade" status issued by Moody's, just 1 rating above "junk" status (source: Moody's).

ITS DIFFERENT: The Federal Reserve measures inflation using the Personal Consumption Expenditures (PCE) price index while the government uses the Consumer Price Index (CPI) for the "cost of living adjustment" (COLA) to increase Social Security retirement benefits. The CPI gives "housing" prices a 42.1% weighting in its calculation, while the PCE gives "housing" just a 22.6% weighting. The CPI gives "medical care" prices an 8.8% weighting in its calculation, while the PCE gives "medical care" a 22.3% weighting (source: Federal Reserve).

NOT JUST KIDS: 19% of Americans that have outstanding student loan debt from college are over age 50, i.e., 8.7 million borrowers out of 44.7 million total borrowers (source: Federal Reserve Bank of New York).

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.

If you would like to talk with John about the topics discussed in this article, or you would like to set up a phone or in person appointment to review your accounts or discuss any concerns about the markets, etc., with John, then please contact our office at 408-440-1020, or John.plaza@securitiesamerica.com to arrange a time that is convenient for you.

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¹ Data Obtained from Bloomberg as of 7/09/2021