

## Beacon Weekly Investment Insights

Retail sales declined by 1.1% in July, worse than expected, but still up 15.8% from a year ago. Consumers cut down on their spending in July due to concerns about the Delta variant and the expiration of certain government stimulus programs. Most of the drop is attributable to a decline in auto sales, although clothing stores and online sales also dropped. Despite the decline in retail sales, the outlook for the all-important consumer sector, which makes up 70% of U.S. economy, remains positive.

Industrial production rose 0.9%, beating estimates, due mostly to a significant increase in automobile production, which jumped by 11.2% as summer plant shutdowns were canceled. Total manufacturing output of the U.S. economy is still slightly below the pre-pandemic levels. Capacity utilization for the industrial sector, currently at 76%, also remains a few percentage points below its long-run average.

While lumber prices are down dramatically, 75% since May, and mortgage rates remain low, home affordability still remains a concern for buyers since the cost of other construction materials as well as the cost of skilled labor remain elevated. As a result, homebuilder sentiment fell to the lowest level in a year last week, although it still remains positive. U.S. housing starts also dipped more than expected due to supply and labor constraints.

Initial jobless claims for last week came in at 348,000, lower than expected and lower than the prior week, as they hit a new pandemic-era low. Continuing claims showed a similar trend. Nonetheless, fears about the pandemic, enhanced government benefits, and lack of childcare options continue to keep some Americans at home and the country unable to get back to full employment.

Fed minutes from Federal Reserve's July 27-28 meeting were released last week and they signaled that the monetary stimulus may be reduced in coming months, resulting in a market selloff. The minutes showed that the Fed officials agreed that it would be appropriate to reduce their bond purchase program later this year if the economy continues to expand at a fast pace and the labor market remains strong. Members were careful to not telegraph any link between tapering and any policy change on the interest rate front, where rates remain anchored near zero. Fed's next meeting will take place on September 21-22.

It was a busy week on the earnings front for the retail sector and the results were generally positive. Walmart and Target beat estimates as they expanded grocery sales and also had strong back-to-school sales. Home Depot and Lowe's also beat estimates, but reported a drop in foot traffic in their stores compared to last year's pandemic-fueled record pace. Stocks had a mixed reaction based on uncertain guidance as a result of the Delta variant.

Speaking of Covid, The White House, CDC director, and FDA commissioner officially made a recommendation last week to all eligible Americans who took Pfizer or Moderna vaccines to take a booster shot 8 months after their last dose. There is growing evidence that vaccine protection against infection drops over time, although vaccinated people are still highly protected against severe disease and hospitalization. The eligibility and rollout of booster shots begin on September 20<sup>th</sup>. FDA is expected to grant Pfizer vaccine full approval this week, making it the first vaccine to go from emergency use to full approval, which could encourage more unvaccinated people to get vaccinated.

Looking ahead to this week, Fed Chairman Jerome Powell will speak virtually at the annual Jackson Hole economic symposium, for the second year in a row due to the pandemic. We will be looking for further signs of when and how the Fed may begin to reverse its easy monetary policy. We will also be keeping an eye on existing home sales data on Monday, new home sales on Tuesday, durable goods orders on Wednesday, and personal consumption expenditures data on Friday, which is Fed's preferred measure of inflation.

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The House of Representative will be back in session this week after a summer recess. Top on their agenda will be the \$1 trillion physical infrastructure bill that passed the Senate on a bipartisan fashion, as well as the larger \$3.5 trillion social infrastructure bill that will likely face opposition.

<b>Market Scorecard:</b>	<b>8/20/2021</b>	<b>YTD Price Change</b>
Dow Jones Industrial Average	35,120.08	14.75%
S&P 500 Index	4,441.67	18.25%
NASDAQ Composite	14,714.66	14.17%
Russell 1000 Growth Index	2,844.43	17.16%
Russell 1000 Value Index	1,583.97	17.36%
Russell 2000 Small Cap Index	2,167.60	9.76%
MSCI EAFE Index	2,307.19	7.43%
US 10 Year Treasury Yield	1.26%	34 basis points
WTI Crude Oil	\$62.32	28.44%
Gold \$/Oz.	\$1,782.60	(5.84%)

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