Weekly Market Update

General Market News

- With investors awaiting the Federal Reserve's (Fed's) virtual symposium and Chairman Jerome Powell's speech this Friday, Treasury yields were mixed across the curve. The 10-year Treasury yield was unchanged week-over-week, opening at 1.26 percent on Monday. The 2-year picked up about 2 basis points (bps) to roughly 0.21 percent, the 5-year gained approximately 3 bps to 0.78 percent, and the 30-year was down 4 bps to about 1.88 percent.

- Global equity markets sold off last week, with emerging markets among the hardest hit. That sector continues to be affected by China's regulatory crackdown. Chinese equities, particularly in the internet space, sold off heavily as new regulations continued to add to the cost of doing business. The week's other major story was the fear of slower global growth due to the continued spread of the Delta variant. U.S. large-caps continued their recent outperformance, however, as the country has been well positioned to ramp up vaccine efforts.

- On a sector basis, utilities, health care, real estate, and technology outperformed. Underperforming sectors were energy, materials, industrials, and financials. At its virtual symposium, the Fed is expected to discuss tapering asset purchases and reducing liquidity in certain areas of the market, including mortgages and Treasuries.

- On Tuesday, the July retail sales report was released. Sales fell by more than expected, with headline sales declining 1.1 percent against forecasts for a 0.3 percent decline. This follows an upwardly revised 0.7 percent increase in sales in June. The Amazon Prime Day event in June contributed to the increased pace of sales in June and slowdown in July as nonstore sales fell 3.1 percent. A 3.9 percent decline in auto sales also contributed to the larger-than-expected decline in headline sales, and core retail sales also struggled in July. Core retail sales, which strip out the impact of volatile auto and gas sales, fell 0.7 percent for the month against calls for a more modest 0.1 percent drop. The report still showed some silver linings, as restaurant spending increased, indicating that reopening efforts continued to drive improvements for service sector spending.

- Tuesday also saw the release of the National Association of Home Builders Housing Market Index for August. This measure of home builder confidence declined by more than expected, dropping from 80 to 75 against calls for no change. Despite the miss against expectations, this is a diffusion index, where values above 50 indicate growth, so the housing market continued to expand—just at a slightly slower pace. This result brought the index to its lowest level since July 2020 and highlights the challenges facing home builders. Tangled supply chains continue to serve as an obstacle for builders, even though lumber prices have retreated from recent highs. Home builders have also had to contend with shortages of skilled labor. Supply chain challenges are expected to moderate but, for the time being, these bottlenecks are a headwind for new home construction.

- Wednesday saw the release of the July building permits and housing starts reports. The reports came in mixed as starts fell 7 percent while permits increased 2.6 percent. Economist forecasts called for a 2.6 percent decline for starts and a 1 percent increase for permits. These measures of new home construction can be volatile on a month-to-month basis;

General Market News (continued)

however, both rebounded swiftly following the end of initial lockdowns last year and remain above the pre-pandemic trend. Rising costs and prices have slowed the pace of construction over the past few months, but high levels of home buyer demand continue to support healthy levels of new home construction. New home construction has also been supported by a lack of available homes for sale, which gives home builders confidence that newly built homes will sell quickly. Although the recent slowdown in the pace of construction is worth monitoring, if the pace of new home construction stays near current levels, it would still signal continued growth for this important sector of the economy.

- Wednesday also saw the release of the Federal Open Market Committee (FOMC) meeting minutes from the Fed's recent July meeting. The Fed cut interest rates to virtually zero last March due to the pandemic, and economists expect rates to remain there until at least 2023. The Fed did not make any major changes to monetary policy at this meeting; however, the minutes showed that there was further discussion surrounding its asset purchase program. The Fed is currently purchasing $120 billion per month in Treasury and mortgage-backed securities, and economists have been closely monitoring the central bank for months to understand how and when the Fed will taper these purchases. The minutes showed that most FOMC participants believe it may be appropriate to start tapering purchases this year, which is the first time we've seen a clear signal the central bank may be nearing a taper before the end of the year. The Fed's September meeting will be closely monitored for further guidance on the timing and pace of the anticipated taper.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.55	1.16	19.36	32.74
Nasdaq Composite	–0.70	0.36	14.67	30.99
DJIA	–1.01	0.71	16.13	28.17
MSCI EAFE	–2.95	–0.40	9.21	25.49
MSCI Emerging Markets	–4.62	–4.31	–4.10	13.98
Russell 2000	–2.47	–2.56	10.39	41.08

Source: Bloomberg, as of August 20, 2021

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.16	–0.65	–0.32
U.S. Treasury	0.30	–1.25	–2.29
U.S. Mortgages	–0.05	–0.40	–0.22
Municipal Bond	0.02	1.60	3.14

Source: Morningstar Direct, as of August 20, 2021

What to Look Forward To

Monday saw the release of the July existing home sales report. Sales of existing homes beat expectations, increasing 2 percent against calls for a 0.5 percent decline. This result brought the pace of existing home sales to its highest level in four months. Over the past year, existing home sales have been supported by record-low mortgage rates and shifting home buyer preferences due to the pandemic. Nonetheless, a lack of supply has been a headwind for sales throughout 2021. The strong July result coincided with an increase in the supply of homes for sale. The number of existing homes for sale increased 7.3 percent during the month, reaching the highest level since October 2020. This is an encouraging signal that the housing market is starting to normalize after surging sales growth over the past year led to reduced supply and rising prices. Looking ahead, the supply of homes for sale remains relatively low on a historical basis, which is expected to hamper sales growth. If sales remain near the current pace, however, they would signal healthy levels of home buyer demand.

On Wednesday, the preliminary estimate for the July durable goods orders report is set to be released. Durable goods orders are expected to decline 0.2 percent after a 0.9 percent increase in June. Core durable goods orders, which strip out the impact of volatile transportation orders, are expected to increase 0.4 percent following a 0.5 percent increase in June. Core durable goods orders are often viewed as a proxy for business investment, so continued growth would be a positive signal that businesses continued to spend despite rising health risks. Service sector and manufacturer confidence remained in healthy expansionary territory, which should support business spending during the month. Throughout much of the economic recovery, business spending has been steady. With this report, total durable goods orders have rebounded past pre-pandemic levels, signaling the potential for slower growth in the months ahead.

Thursday will see the release of the initial jobless claims report for the week ending August 21. Economists expect to see 350,000 initial jobless claims filed during the week, a modest increase from the 348,000 initial claims filed the week before. Still, despite the anticipated increase, this report would represent the second-fewest initial claims in a week since the start of the pandemic. If estimates prove accurate, this encouraging result would indicate that rising health risks did not derail the ongoing labor market recovery. Ultimately, the pace of the overall economic recovery is expected to remain largely dependent on the health of the labor market. Accordingly, continued good news on the jobs front would be a welcome signal.

On Friday, July's personal income and personal spending reports are set to be released. Income and spending are expected to show growth, with economist forecasts calling for a 0.2 percent and 0.4 percent increase in income and spending, respectively. June's report showed that consumer spending continued to benefit from reopening efforts, with personal spending rising 1 percent on the back of additional service sector purchases. Although retail sales fell more than expected in July, the increased spending on services was a silver lining in the retail sales report. The personal spending report is expected to show a similar increase in service spending. Personal income has been quite volatile on a monthly basis throughout the pandemic, as shifting federal stimulus payments have caused large swings. A modest increase in July's personal income

What to Look Forward To (continued)

would mark two consecutive months with rising incomes after two months of declines. The July employment report showed that wage growth has started to accelerate due to labor shortages. Looking ahead, continued improvements for personal income are expected, which may support continued spending growth.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg Barclays US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg Barclays US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million. Basis points (bps) is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.. Rev. 08/21.

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