

Weekly Update

Economic Enthusiasm Energizes Equities

August 13, 2021

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New answers.®

The Economy

- U.S. equity markets closed the week ending August 13 at record highs amid positive corporate and economic data, and renewed faith in the nation's economic recovery. Robust corporate earnings and an increasingly favorable outlook for inflation data provided a tailwind to U.S. stocks. The fear of persistently higher inflation appears to have dissipated in recent weeks with stock indexes notching record highs and bond yields moving lower after peaking in April.
- U.S. inflation expanded by 5.4% year over year in July, the biggest annualized increase since 2008, as measured by the Department of Labor's consumer price index. However, some market participants believe inflation may have peaked. Core inflation (which excludes volatile food and energy prices) accelerated by 4.3% over the same period. The Federal Reserve continues to closely monitor price pressures in an effort to gauge how soon the central bank will need to begin increasing interest rates.
- The number of U.S. job openings (a measure of labor demand) hit a record-high 10.1 million in June, as reported by Department of Labor. Leisure and hospitality businesses posted the highest number of opportunities as the sector continued to rebound from pandemic-induced lockdowns. The quits rate jumped to 3.9 million, signaling worker confidence in finding new jobs.
- Producer prices moved higher by 1.0% in July (as measured by the Department of Labor's producer-price index, which tracks the average change in prices that producers receive for goods and services), pointing to escalating inflation as the U.S. economy strengthened further amid easing lockdown restrictions and climbing demand for goods and services.
- In a continued rally from early-pandemic price declines that stemmed from supply-chain disruptions and key materials shortages, total import prices rose by 0.3% in July due to higher energy prices and a weaker U.S. dollar. Export prices grew by 1.3% during the month on increasing agricultural and nonagricultural costs. Both import and export prices have benefited from swelling demand as the global economy recovers.
- Consumer sentiment plummeted to 70.2 in August from 81.2 in July, as measured by the University of Michigan's consumer sentiment survey, on concerns of a spike in COVID-19 cases and whether inflationary pressures could stall U.S. economic growth. The expectations component of the survey reflects the six-month consumer outlook for business conditions, employment and income.
- Mortgage-purchase applications climbed by 1.8% for the week ending August 6, while refinancing applications jumped by 3.0%. The average interest rate on a 30-year fixed-rate mortgage increased from 2.77% to 2.87%.
- The rate of initial jobless claims during the week ending July 31 contracted to 375,000 from 387,000 in the previous week. Jobless claims continued to hover near recent pandemic lows, suggesting sustained healing in the labor market.

Stocks

- Global equities closed higher during the week. Developed markets led emerging markets.
- U.S. equities were in positive territory. Financials and materials were the top performers, while energy and consumer discretionary lagged. Value stocks led growth stocks and large caps beat small caps.

Bonds

- The 10-year Treasury bond yield fell to 1.29%. Global bond markets were in negative territory this week. High-yield bonds led, followed by global corporates and global government bonds.

The Numbers as of August 13, 2021	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI (\$)	0.5%	13.7%	28.7%	734.8
MSCI EAFE (\$)	0.8%	10.0%	23.5%	2362.8
MSCI Emerging Mkts (\$)	-0.1%	0.0%	17.8%	1290.9
US & Canadian Equities				
Dow Jones Industrials (\$)	0.9%	16.0%	27.3%	35515.4
S&P 500 (\$)	0.6%	18.9%	32.3%	4464.7
NASDAQ (\$)	-0.1%	15.0%	34.2%	14822.9
S&P/TSX Composite (C\$)	0.2%	17.6%	24.1%	20508.5
UK & European Equities				
FTSE All-Share (£)	1.4%	12.8%	20.2%	4144.5
MSCI Europe ex UK (€)	1.3%	19.4%	28.3%	1710.7
Asian Equities				
Topix (¥)	1.4%	8.4%	20.5%	1956.4
Hong Kong Hang Seng (\$)	0.8%	-3.1%	4.6%	26391.6
MSCI Asia Pac. Ex-Japan (\$)	-0.2%	-0.2%	17.1%	660.7
Latin American Equities				
MSCI EMF Latin America (\$)	-0.5%	1.2%	23.9%	2480.2
Mexican Bolsa (peso)	0.7%	16.8%	33.3%	51489.7
Brazilian Bovespa (real)	-1.4%	1.8%	20.5%	121103.7
Commodities (\$)				
West Texas Intermediate Spot	0.2%	41.1%	62.0%	68.4
Gold Spot Price	1.0%	-6.2%	-9.1%	1776.7
Global Bond Indices (\$)				
Barclays Global Aggregate (\$)	-0.2%	-2.6%	0.7%	544.3
JPMorgan Emerging Mkt Bond	-0.3%	-0.6%	2.2%	927.9
10-Year Yield Change (basis points*)				
US Treasury	-1	37	57	1.29%
UK Gilt	-4	38	33	0.57%
German Bund	-1	10	-5	-0.47%
Japan Govt Bond	2	1	0	0.03%
Canada Govt Bond	-5	52	55	1.19%
Currency Returns**				
US\$ per euro	0.3%	-3.4%	-0.2%	1.180
Yen per US\$	-0.6%	6.1%	2.5%	109.56
US\$ per £	0.0%	1.5%	6.1%	1.387
C\$ per US\$	-0.3%	-1.6%	-5.3%	1.252

Source: Bloomberg. Equity-index returns are price only, others are total return. *100 basis points = 1 percentage point. **Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

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