

CAPITAL MARKETS COMMENTARY

U.S. Economy Improving Despite COVID-19 Surge

AS OF JULY 31, 2021

- » Earnings Propel S&P 500 Higher
- » Spike In U.S. COVID-19 Cases
- » Nonfarm Payrolls Increase

S&P EARNINGS

Earnings results for companies in the S&P 500 index in the second quarter continue to be impressive through the end of the month. Nearly 300 companies of the S&P 500 Index have reported earnings, and on average they have seen very strong earnings growth year-over-year. One item of note is that while the major indexes remain near recent highs, there are fewer and fewer stocks participating in the uptrend. The S&P 500 Index climbed more than 2% higher in July to reach a year-to-date total return of nearly 18%.

ECONOMIC UPDATE

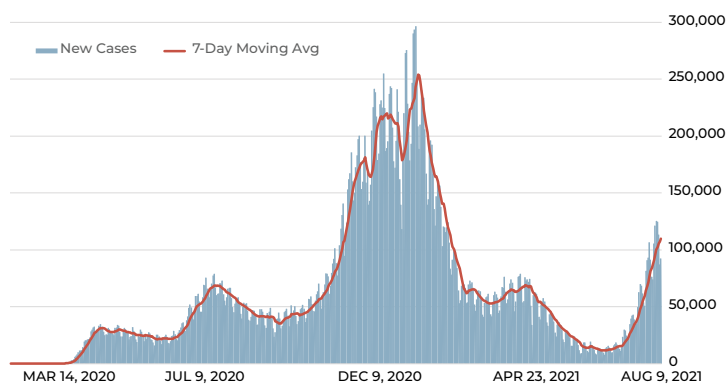
According to the Bureau of Economic Analysis, the U.S. trade deficit widened to its largest level ever to \$75.7 billion in June 2021. This is partially due to an increase in demand from reduced pandemic production sources, while exports are increasing at a slower rate. It is also a reason that inflation remains a top concern among investors. The core inflation rate rose to 4.5% year-over-year and was the largest increase since 1991. The Fed held their meeting on July 28th and remain committed to allowing rates to remain near zero until at least 2023. It also is continuing its purchases of \$120 billion in Treasury and agency mortgage-backed bonds. Part of the Fed's hesitancy to start reducing the monetary easing in the economy seems to be focused on the uptick in COVID-19 cases.

SPIKE IN U.S. COVID-19 CASES

According to Johns Hopkins, the 7-day moving average of confirmed cases in the U.S. increased to more than the peak confirmed cases that was seen last summer. The Delta variant is driving the vast increase in the number new cases, including those that previously received a vaccination. This abrupt change has led the CDC to change their guidance and recommend that in some instances, even fully vaccinated people should wear a mask in public indoor spaces. There are now more than 200 million confirmed cases of COVID-19 that have occurred globally. In the U.S., COVID-19 vaccinations continue to increase with 165.3

million vaccinated, according to the CDC. That brings the entire U.S. population to near 50% being vaccinated, while 60.7% of the population age 18 and older are vaccinated.

DAILY COVID-19 CASES REPORTED TO CDC



Source: CDC

As the numbers of vaccinated citizens increase, more of them are patronizing restaurants and other service-related businesses. This growth is occurring slowly, but steadily throughout the U.S. For example, U.S. GDP increased by 6.5% last quarter, but was significantly under the 8.4% estimates. GDP continues to improve each quarter after the massive drop due to the pandemic but remains more stagnant than forecasts. There are now a growing number of employers that are requiring COVID-19 vaccinations for their employees.

EMPLOYMENT SITUATION

In July, nonfarm payrolls increased by 943,000, exceeding the consensus estimate of 845,000. Most of the jobs created were in the Leisure and Hospitality sector which continue to grow as more businesses ramp up their employment levels. While payrolls are increasing, they are unfortunately are not even close in keeping pace with employer demand. For the first time ever, the Department of Labor reported a record high 10.1 million available jobs at the end of June. This is a significant increase even from the prior month's 9.2 million jobs. The national unemployment rate fell from 5.9% to 5.4% in July. This rate continues to fall but for perspective remains considerably higher than the pre-COVID-19 pandemic rate of 3.5%.

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