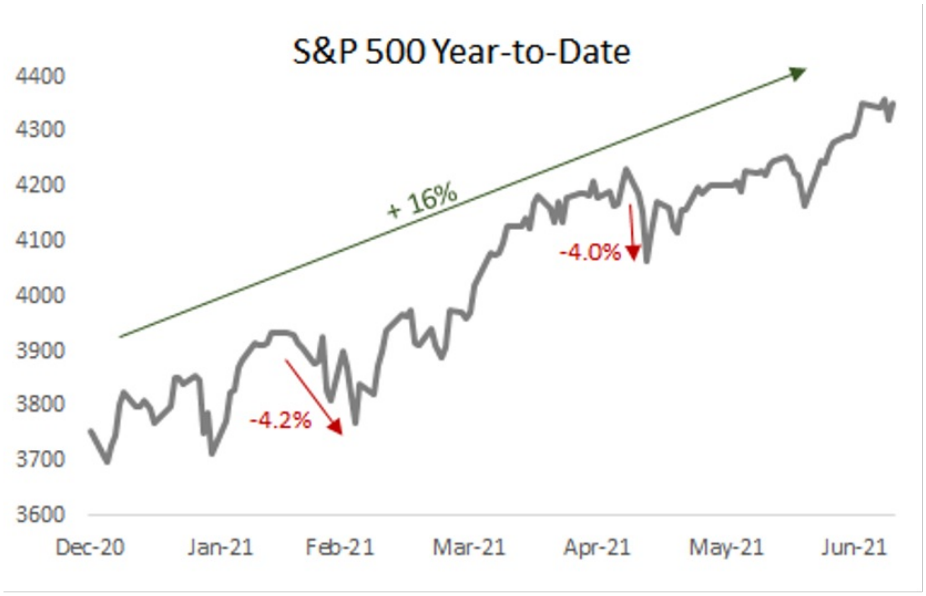
Weekly Market Commentary
July 12th, 2021

Mood Swings: Market Has Legs But Could Likely Stumble?

How it started:



Source: Bloomberg, past performance is not a guarantee of future results.

This chart shows the general increase in the S&P 500 despite short-term pullbacks and the outperformance by growth stocks this year.

- U.S. large-cap equities posted a strong start to the year, logging the 10th-best first half in the last 40 years. U.S. small-caps did even better amid historic GDP growth. International equities delivered solid gains (+9% for developed market large-caps and +6% for emerging markets) but trailed due to lagging economic rebounds overseas.
- Volatility remained low, with just two 4% pullbacks. An accommodative Fed, encouraging economic readings and healthy corporate earnings provided a sturdy foundation for sizable upside and limited downside for equities.

How It's Going:

Source: Bloomberg, past performance is not a guarantee of future results.

This chart shows the general increase in the S&P 500 despite short-term pullbacks and the outperformance by growth stocks this year.

- You should expect equity markets to endure more volatility in the second half than they did in the first. The prospects of reduced Fed stimulus will be a primary catalyst for bouts of anxiety in the markets. But with plenty of life left in this economic expansion, we believe 5%-10% market pullbacks can be viewed as buying or rebalancing opportunities. Since 1990, U.S. large-cap equities have averaged a total return of 18.1% during the two years preceding the Fed's initial rate hike. U.S. equities outperformed bonds by an average of nearly 6% during those periods.

- There is still upside in this market but should expect and anticipate more modest stock market gains ahead. Since 1980, when the S&P 500 gained 15% or more in the first six months of the calendar year, the second-half return averaged 5.7%.

- Corporate earnings are expected to rise more than 30% in 2021. This should help alleviate current elevated valuations while still supporting stock market gains. Over the past 40 years, periods of accelerating earnings have often seen outperformance from value investments, which are linked to economic momentum. The market may churn a bit under the surface as we advance, with declines in interest rates and worries over the speed of the economic expansion helping growth and defensive stocks. The pendulum swings back toward optimism will favor value and cyclicals.

(source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	34,870	.52%
S&P 500 Index	4,370	.92%
NASDAQ	14,702	.81%
MSCI EAFE	2,297	-.78%
10-yr Treasury Yield	1.36%	-5.56%
Gold	$1,808	1.18%
Bonds	$115.68	.41%

Source: Reuters/Wall Street Journal

Who Is The Target Of Biden's Anti-Monopoly Order (source: marketwatch)

President Biden signed an executive order Friday afternoon that takes aim at what the White House describes as the growing problem of corporate consolidation in the U.S. and the higher prices, lower wages, and reduced choice imposed by that trend on workers and consumers.

The move is the latest salvo in a widening war between the federal and state governments and big business over monopoly power and anti-competitive practices, and one the Biden administration hopes will boost the economic prospects of Americans without adding to the already substantial federal budget deficit.

Labor

The executive order targets policies and laws that prevent qualified workers from easily starting a new career or switching jobs within an industry in search of higher wages or better benefits and working conditions.

About 20% of all workers in America are covered by non-compete agreements that bar them from searching for work with a competitor of their employer, preventing them from seeking higher pay at those companies. These arrangements typically apply to better-compensated workers, but EIG's analysis showed that between 12% and 25% of workers making less than $80,000 a year are subject to such agreements.

Biden will direct the Federal Trade Commission to ban or restrict the use of non-compete agreements.

Healthcare

According to the White House, Biden has directed the Food and Drug Administration "to work with states and tribes to safely import prescription drugs from Canada." It doesn't mention that the Trump administration began this push through rulemaking at the Department of Health and Human Services last year.

Biden also directed the Federal Trade Commission to create a rule banning the practice of large drug companies paying generic manufacturers to delay the development of generic versions of their drugs. It should be noted that the agency has said that this practice peaked in use in 2014 and that FTC court actions and state laws like one recently enacted in California have been curtailing it in recent years.

Transportation

The order largely focuses on the airline industry, with the White House noting that just four commercial airlines control about two-thirds of the U.S. market. In a fact sheet explaining the executive order, recent consolidation in the industry is linked with an ability to charge even higher fees on things like ticket cancellation and baggage.

Agriculture

In May, the FTC issued a report to Congress describing a need for action to combat “right to repair” policies used by American manufacturers — notably manufacturers of farming equipment like Deere & Co. and Caterpillar Inc. — that ban users of products from having those products repaired by third-party entities.

The Biden order calls on the FTC to follow recommendations it made in the report to “consider reinvigorated regulatory and law-enforcement options” to combat this practice, which is also widespread in the markets for smartphones and other high-tech products.
Internet service

Internet service providers like Comcast and Verizon are often able to raise revenues by brokering “special deals with landlords of apartment complexes and other multiple-tenant environments that ensure only one ISP can serve the building’s tenants — even if multiple ISPs are equipped to serve the building.”

While the Federal Communications Commission has previously tried to ban such agreements, they have returned in the form of revenue-sharing deals, bulk billing arrangements, and exclusive wiring deals, New America explained.

Technology

Dominant tech platforms have drawn the ire of Democrats and Republicans alike in Washington, and several bipartisan antitrust bills have been put forward in Congress to beef up funding for antitrust enforcers and reform antitrust law.

Though there remains disagreement about what exactly should be done, both parties want greater oversight of powerful tech companies like Facebook and Google when it comes to their acquisition of nascent competitors and the collection of user data.

Banking

Finally, the Biden administration expressed concern about consolidation in the banking industry, noting that the past 20 years have seen the disappearance of 10,000 banks and the growth of America’s largest banks.

The Big Picture

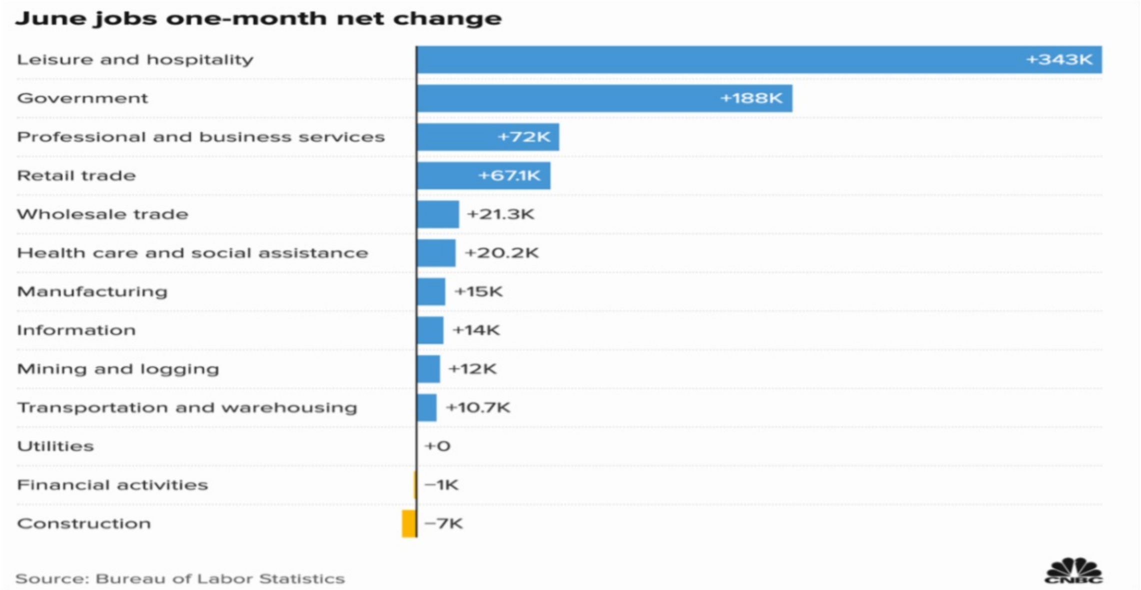
While the executive order could be a means to rally government agencies to Biden's pro-competition banner, many of the order's directives are already being pursued by the agencies, and the more important moves to watch in this sphere are Biden's yet-to-be-named nominees to head the DOJ's antitrust division and for a soon-to-be-open seat on the FTC.

(source: marketwatch)

Market News, Corporate Earnings, and News & Notes

(source: CNBC)

Here’s where the jobs are in one chart…but will they get filled? (source: CNBC)



Robust hiring at restaurants and bars, local public schools, and retailers helped lead the U.S. economy to post 850,000 jobs in June 2021.

Strong hiring in those industries further suggests a booming recovery for those employers that were hit hardest during the Covid-19 pandemic as Americans rush to return to indoor dining and shopping.

CNBC studied the net changes by industry for June jobs based on data contained in the government's employment report.

The leisure and hospitality sector again proved the brightest point of the Labor Department's monthly jobs report with 343,000 positions added in June as restaurants hired droves of cooks, bartenders, and service staff. The number represents the sector's second-best print of 2021.

As the industry that saw the most intense layoffs during the coronavirus pandemic, leisure and hospitality has posted a powerful rebound since spring 2020. While the industry lost about half of its entire workforce in between March and April of 2020, June's jobs report shows that it has now recouped some 73% of those losses.

Leisure and hospitality are about 13% below its pre-pandemic payroll count at 14.7 million employees. Bars and restaurants alone accounted for more than 190,000 payrolls in June. "Notable job gains occurred in leisure and hospitality, public and private education, professional and business services, retail trade, and other services," the Bureau of Labor Statistics said in a press release.

"In June, employment in leisure and hospitality increased by 343,000, as pandemic-related restrictions continued to ease in some parts of the country," the bureau added. "Over half of the job gain [in that sector] was in food services and drinking places."

The real question is whether or not they will get filled. In a recent study, 10% of surveyed people said they are not returning to work because of the extended unemployment checks, 18% said they are not returning due to caretaker responsibilities now post-pandemic for their children or parents, and a whopping 20% of people surveyed stated that they have a current financial cushion and that is why they won't return to work.

This may be a time where people are in self-reflection thinking about their career path or considering what work-life balance will look like in the future. Above it all, people seem to be enjoying some of the freedoms and liberties of a post-pandemic summer, so there does not appear to be a big change on the horizon for people to return to work quickly. That, of course, could change with the law of supply and demand if companies hike wages and pay bonuses to entice people to get back to the grind.

Earnings Highlights This Week

(source: CNBC)

Stay tuned…..no earnings to report this week and earnings season begins next week!!!

News and Notes:

WXP: Susan Hendricks /Will Post Covid Include A 4 Day Work Week

- **Why are companies like Kickstarter considering a 4 day work week?**
    - There is a blank slate for companies post-pandemic to redesign the workweek.
    - Employees are refusing to come to work, reporting burnout, and employers are now rethinking workplace flexibility.
    - Time, effort, activity, or results---which matters most? Results. If you can do it in 4 days, it could work.

- **Has a 4 day work week been proven to be successful? (Has it worked anywhere else?)**
    - In 2019, Microsoft Japan tested it out and reported a 40% jump in productivity (they also capped meetings at 30 minutes).
    - U.S. Companies including Buffer and Wildbit are testing it out and countries including Spain and Ireland are testing as well.
    - Not enough data yet to say if this works or not.

- **Do you think the future will be a hybrid model, 4 day work week or will we go back to 5 days a week in the office?**
    - In a recent report, 63% of businesses said it's easier to attract and retain talent with a four-day workweek.
    - As long as employees are productive and profits are growing, a flexible work model will continue into the future.
    - The pandemic has taught us that a global corporation can actually run with people working from home.

From the team at J M Brown Financial Partners
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