First Trust

Weekly Market Commentary

Week Ended July 9th, 2021

US Economy and Credit Markets			
Yields and Weekly Changes:			
3 Mo. T-Bill:	0.043 (0.5 bps)	GNMA (30 Yr) 6% Coupon:	110-18+/32 (2.89%)
6 Mo. T-Bill:	0.048 (0.8 bps)	Duration:	3.86 years
1 Yr. T-Bill:	0.061 (0.3 bps)	Bond Buyer 40 Yield:	3.36 (-5 bps)
2 Yr. T-Note:	0.213 (-2.1 bps)	Crude Oil Futures:	74.56 (-0.6)
3 Yr. T-Note:	0.392 (-4.5 bps)	Gold Spot:	1,808.32 (21.02)
5 Yr. T-Note:	0.785 (-7.2 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	1.360 (-6.4 bps)	U.S. High Yield:	4.57 (-3 bps)
30 Yr. T-Bond:	1.989 (-5.1 bps)	BB:	3.61 (-4 bps)
		B:	5.14 (unch.)

U.S. government bonds rallied last week before yields rebounded on Friday as markets reconsidered bets on high economic growth and inflation, known as the reflation trade. The lower-than-expected reading of the ISM Services Index released on Tuesday particularly dampened the growth outlook. Despite missing expectations, the data showed the service sector continued to expand rapidly in June, albeit at a slower pace than May's all-time high. Hiring challenges, materials shortages, and inflation all limited June's expansion. Meanwhile, Fed minutes released last week showed a more hawkish Federal Reserve that might be willing to taper stimulus and raise interest rates earlier than expected. Concerns about Covid-19's Delta variant also dampened growth expectations and contributed to the bond rally. This week, the June Consumer Price Index reading will be released on Tuesday, the first since it rose 5% in May from a year earlier. Markets are currently pricing in the Fed's view that the high inflation rate is temporary. A rally in high yield markets, for example, recently pushed yields on below investment grade debt below May's year-over-year inflation rate. Major economic reports (related consensus forecasts, prior data) for the upcoming week include Tuesday: June CPI MoM (0.5%, 0.6%); Wednesday: July 9 MBA Mortgage Applications (N/A, -1.8%), June PPI Final Demand MoM (0.5%, 0.8%); Thursday: July 10 Initial Jobless Claims (350k, 373k), June Industrial Production MoM (0.6%, 0.8%), July Empire Manufacturing (18.4, 17.4); Friday: July Preliminary U. of Mich. Sentiment (86.5, 85.5), June Retail Sales Advance MoM (-0.4%, -1.3%).

US Equities			
Weekly Index Performance:		Market Indicators:	
DJIA:	34,870.16 (+0.25%)	Strong Sectors:	Real Estate, Cons Disc, Utilities
S&P 500:	4,369.55 (+0.42%)		
S&P Midcap:	2,706.42 (-0.11%)	Weak Sectors:	Energy, Financials, Comm Serv
S&P Smallcap:	1,359.58 (-0.72%)		
NASDAQ Comp:	14,701.92 (+0.44%)	NYSE Advance/Decline:	1,488 / 1,977
Russell 2000:	2,280.01 (-1.11%)	NYSE New Highs/New Lows:	380 / 90
		AAII Bulls/Bears:	40.2% / 24.5%

Markets were mixed for the holiday-shortened week with growth stocks leading the way as a rise in cases from the Delta variant and declining yields led traders to favor technology stocks. President Biden's executive order to limit the power of many of the largest corporations sent jitters through the market on Thursday before the S&P 500 rallied to an all-time high on Friday. Economic datapoints were mixed with the ISM Non-Manufacturing missing the consensus forecast but remained a still strong 60.1. Corporations are experiencing robust consumer demand, however, supply-chain issues, labor shortages and rising costs are current headwinds many firms face. In stock news, **Group 1 Automotive Inc**. pre-announced positive results that were nearly double the consensus estimates, despite limited inventory, as the owner of car dealerships sold vehicles for a higher margin. Railroad shares traded lower over speculation that President Biden's executive order is perceived to take aim at perceived anti-competitive pricing in ocean shipping and railroad industries. Shares of **Kansas City Southern** finished the week off over 3%. In tech news, the Joint Enterprise Defense Infrastructure (JEDI) Cloud contract, originally awarded to **Microsoft Inc.** was shelved for a multi-vendor approach that is likely to see **Amazon Inc.** as a big winner. Next week is the unofficial start to earning season with heavy reporting from the banking sector. Investors will be keyed in on the pace of the recovery as growth remains robust but could start to slow in future quarters as the second quarter 2020 was the nadir for S&P 500 earnings. In our view, equities could still see future gains if earnings continue to expand at a healthy clip.