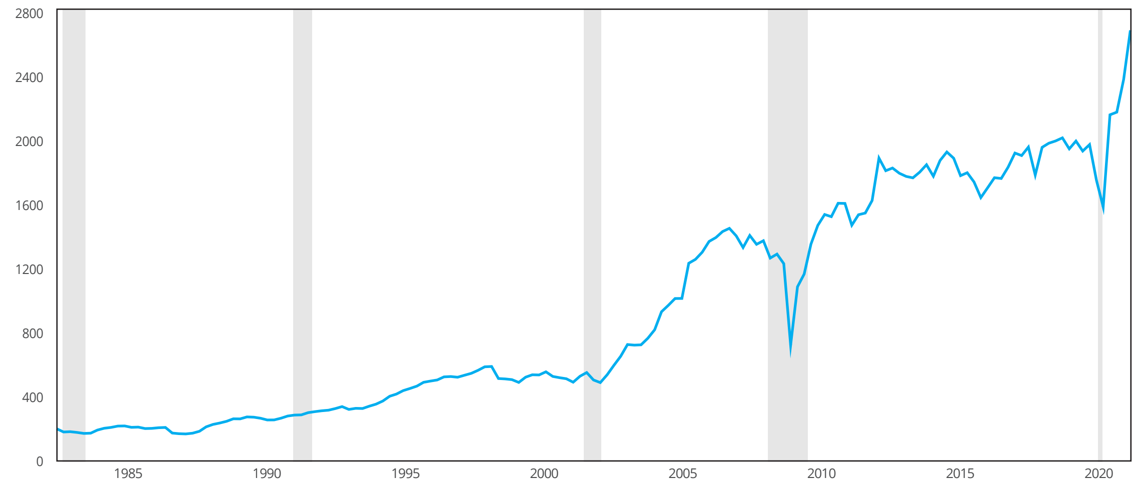
Weekly Wire

AUGUST 30, 2021

Productivity, Profits, and Pay

Despite the Delta variant of the coronavirus, supply chain bottlenecks, a spike in input prices, and a meaningful employer/employee mismatch (there are more job openings than there are job seekers), the US economy continues to power ahead. Last week, the Bureau of Economic Analysis (BEA) let us know they revised their estimate of Q2 real GDP growth from 6.5% to 6.6% and that current dollar GDP sits at $22.7 trillion. What is remarkable about the rate of GDP growth is that it's taking place despite the staffing challenges confronting so many companies. Remember, GDP is essentially the coming together of people (the size of the labor force) and how much stuff they can make (productivity). In a perfect economic world, you have more people producing more goods and delivering more services that satisfy end-market demand. While productivity gains have been key to the dramatic rebound of the US economy (worker productivity grew 4.3% in the first quarter and 2.3% in the second quarter; those figures compare with average annual productivity growth of 1.2% from 2010 to 2019), productivity gains can also be key to the sustainability of the recovery as they would enable companies to keep producing more even in the face of labor shortages and, importantly, pay employees more (which should support consumer spending), while maintaining or even increasing corporate profitability (which is key for both the stock market and corporate investment). On that front, corporate profits hit a record $2.7 trillion in Q2 even as average hourly earnings are up about 4% year-on-year (and up much more than that across broad swaths of the economy). In sports, commentators and athletes often talk about winning curing all sorts of problems; well, in economics, productivity growth cures all sorts of problems.

Corporate Profits After Tax (without IVA and CCAdj)



Stocks, bonds, and commodities (8/27/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4509.37	4.93%	20.06%	28.54%
MSCI AC World ex USA	348.11	-1.11%	6.63%	20.34%
MSCI EAFE	2349.46	1.93%	9.40%	22.96%
MSCI EM	1272.67	-7.42%	-1.44%	13.47%
Bloomberg Barclays US Agg	106.73	0.46%	-2.85%	-3.21%
Crude Oil WTI	68.67	-6.53%	41.53%	59.81%
Natural Gas	4.41	20.93%	74.74%	66.13%

Treasury rates (8/27/2021)

	Price	Yield
2Y	99.25 / 0.00	0.219
3Y	99.28 / 0.00	0.412
5Y	99.23 / 0.00	0.801
7Y	100.0 / 0.00	1.090
10Y	99.14 / 0.00	1.308
30Y	101.2 / 0.00	1.915

Weekly reports

This week
- Chicago PMI SA Aug
- Nonfarm Payrolls SA Aug

Last week
- Markit PMI Manufacturing SA Aug 61.2
- Richmond Fed Index Aug 9.0

Brinker Capital Market Barometer

AUGUST 2021

The US economy is on track to experience strong growth in the second half of the year despite recent concern regarding COVID-19 variants. Fiscal policy is currently supportive; however, the additional spending package expected later this year will require tax increases as an offset. The Fed has reaffirmed its commitment to support the economy; however, recent higher inflation readings have caused concern for an earlier than expected unwinding of stimulus. Our base case is the increase in inflation is more transitory in nature, driven by base effects and temporary supply and demand mismatches, but we continue to watch closely for signs it could become structural. Intermediate- and long-term Treasury yields have declined from levels seen in April. Consumer and business sentiment continue to improve, and earnings growth is expected to reflect the strength in nominal GDP. Overall, the barometer remains tilted positively in July, aligned with our overweight risk positioning across portfolios.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Market momentum remains solid
Trend				●	US markets remain above 50-day and 200-day moving averages
Investor sentiment		●			Bullish sentiment has retreated in recent weeks but remains above its LT average
Seasonality		●			Currently in the weakest point of the calendar historically

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Additional fiscal stimulus likely in '21; concern over potential higher taxes
Monetary policy				●	Federal Reserve and global central banks remain very supportive
Inflation			●		Inflation has picked up; Fed expects it to be transitory but watching closely
Interest rate environment				●	Treasury yields have continued to fall
Macroeconomic				●	Expect continued solid economic growth in the second half of 2021
Business sentiment				●	CEO confidence increased again in 2Q to a record high level
Consumer sentiment				●	Consumer confidence rose further in July for the sixth consecutive month
Corporate earnings				●	Continued strength in earnings growth
Credit environment				●	Credit spreads remain tight; high yield spreads at levels last seen in 2007

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation		●			Equity valuations well above long-term averages but not a near-term driver
Business cycle				●	We've entered a new expansion period with positive GDP growth since 3Q20
Demographics			●		Mixed - US and emerging markets positive but developed international negative

2400-BCI-8/30/21