BUILDING BENJAMINS

Economic and Market Review

August 31, 2021

Equity Indices	YTD Return
Dow Jones	15.53%
S&P500	20.41%
NASDAQ	18.40%
MSCI - Europe	13.48%
MSCI–Emerging	1.35%
Bonds	**Yield**
2yr Treasury	0.20%
10yr Treasury	1.30%
10yr Municipal	0.94%
US Private Agg	1.31%
Commodities	**Price**
Gold	$1,817/oz
Silver	$23.91/oz
Crude Oil	$68.52/barrel
Currencies	**Rate**
USD/CAD	$0.79
USD/GBP	$1.37
JPY/USD	¥109.85
USD/EUR	$1.17

Delta Variant Disrupts Economy

As the Delta variant has spread, many companies, schools and government agencies have begun imposing vaccine requirements for employees and students. The World Health Organization has identified 20 Covid variants throughout the world, four of which are categorized as Variants of Concern (VOC).

Supply chain disruptions brought about by the pandemic have fostered inflationary pressures not seen since the late 1970's. Shortages of essential components and lack of qualified workers have driven prices higher in nearly every industry nationwide.

Delayed deliveries of imports from Asia are disturbing inventory levels and product sales throughout the U.S. The twin ports of Los Angeles and Long Beach in California reported 44 container ships anchored off the coast at the end of August, exceeding the record of 40 from earlier this year. Labor shortages and Covid safety protocols mandated among container vessels and ports have created supply bottlenecks preventing millions of imported products from getting to stores and consumers.

Drought in the West

Federal officials ordered water cuts on the enormous Colorado River system, the first time ever since the Colorado River Compact was drafted in the 1920s. Water from the river serves more than 40 million residents and farmers in Arizona, California, Nevada, Colorado, New Mexico, Utah and

Wyoming. Under a treaty signed with Mexico in 1944, water from the Colorado River is also siphoned to farmers in Mexicali. An extensive drought with minimal rainfall for seasons has led to dangerously low reservoir levels, devastated farms, and sparked treacherous forest fires.

Big Spending Bill

Congress proposed a $3.5 trillion spending bill, focused on health, jobs, education, agriculture, and energy. The Senate Finance Committee expects to pay for the bill with taxes on the wealthy and corporations, uncollected taxes, and other measures. Some believe that the additional increase in taxes proposed may not be enough to fund the spending bill.

Federal Reserve Tapering

The Federal Reserve announced that it doesn't intend to raise interest rates just yet, but does plan on possibly buying fewer mortgage and Treasury bonds later this year, also known as tapering. The Fed's buying of bonds in the open market has been a form of stimulus support during the pandemic which has helped keep rates low and market conditions fluid.

Covid Hitting Economic Growth and Corporate Earnings

Financial markets are becoming more in-tune with the evolution of Covid-19 variants, as recent mutations have reintroduced social distancing mandates and begun to influence earnings estimates and economic projections.

Evictions will be Allowed

The U.S. Supreme Court voted to allow evictions for those not paying rent. Even though the decision affects renters and landlords nationally, various cities and states have extended eviction moratoriums and will continue to enforce a ban on evictions. It is estimated that approximately 10 million people nationwide are behind on their rent payments.

Weak Consumer Sentiment

Consumer sentiment fell in August due to uncertainty surrounding the Covid variants and inflationary pressures weighing on spending decisions. The University of Michigan, which compiles and releases the Index of Consumer Sentiment each month, reported a 13.4% decrease in August from July, the largest monthly decline since 2005 following hurricane Katrina.

Millions Spend Nearly Half of Income on Rent

As home prices have soared over the past year and housing inventories fallen, more and more families are being forced to rent rather than own. As

the demand for rentals has been increasing, the level of home ownership has been falling. Some attribute this dynamic to a low inventory of homes on the market, while others blame speculation contributing to rapidly rising home prices.

A lack of available houses along with the increased demand for rentals has propelled rental costs upward. The number of families dedicating almost half of their income to rent was approximately 10 million people in 2020, according to the annual State of the Nation's Housing Report from the Joint Center for Housing Studies.

As rental prices have been rising faster than wages, losing such a large portion of a paycheck to cover housing means cutting back on essentials such as food, clothing and health care. This can be draining on young families trying to save for a down payment on a home purchase and not knowing if they'd be able to get approved or not.

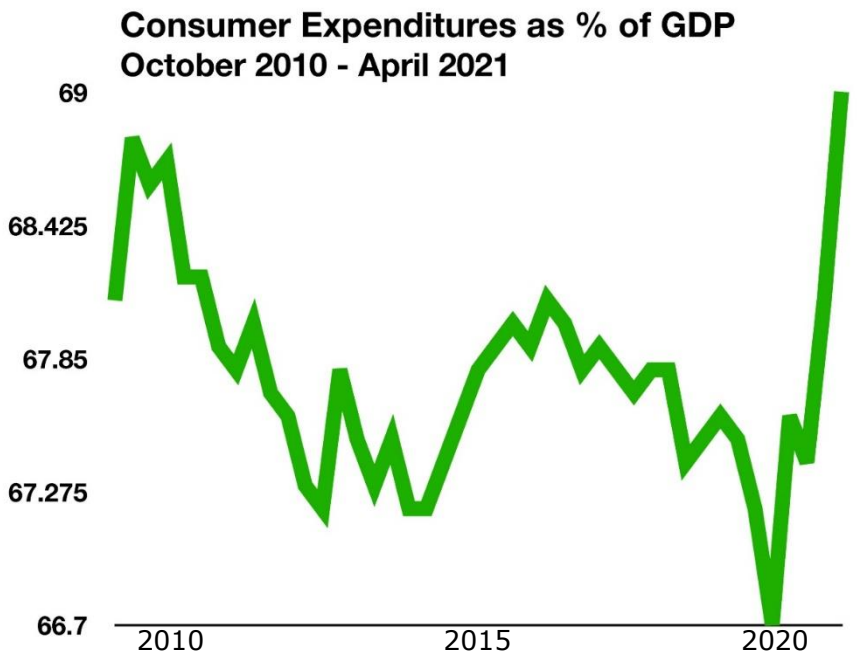
More affluent renters are staying in the rental market longer and driving up the demand for housing. Traditionally, the wealthy move on to become homeowners, but tight inventory in the housing market is keeping them in rentals longer.

The report found that most new apartment construction has focused on the higher income earners. Those earning $75,000 and over have contributed the most to rental growth over the past few years.

Consumers Drive Economic Growth, Not Government

Each month the Department of Commerce releases its Gross Domestic Product (GDP) report. This report is the single most recognized indicator of how the economy is performing.

GDP is made up of private consumption, gross investment, government spending, and net exports. The single largest contributor of these components is consumer consumption, making nearly 70% of GDP.



Historical data provided by the Bureau of Labor Statistics shows that U.S. economic growth has steadily become more reliant on consumer expenditures. Consumer expenditures as a percentage of GDP have risen to their highest levels over the past three years since the end of World War II. The importance of how much we consume as consumers each and every day has become that much more significant.

Additional data from the Fed shows that consumers have also adjusted their spending behaviors, relying less on credit and more on government stimulus payments to spend, vastly different from the peak of easy credit seen in 2004-2006.

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