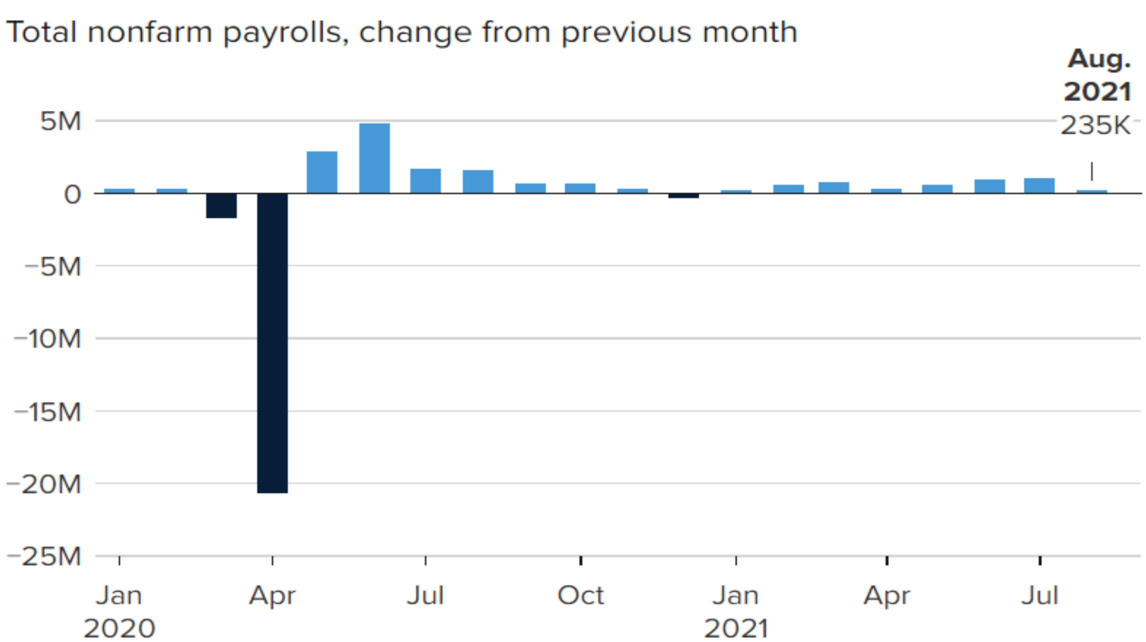
Market Review August 2021

August was another strong month for the US economic recovery. U.S. market indices rose for the seventh straight month, its longest winning streak since January 2018.

Unemployment Rate Drops to 5.2% while payroll data disappoints

According to the latest data released by the Bureau of Labor Statistics, non-farm payrolls in the U.S. increased by 235,000 for the month of August against an estimated increase of 720,000 (based on economist survey conducted by Dow Jones). The unemployment rate however dropped to 5.2% from 5.4%, in line with estimates.

The payroll number was the worst since January 2021 and comes amidst increased fears of the pandemic with rising Delta- variant related infections in the U.S. and the potential impact these could have on the relatively robust recovery post the early shock caused by economic shut-downs. The weaker August report further complicates the policy options for the U.S. Federal Reserve which is already weighing options to pull back the massive stimulus it has been adding to the economy since the covid-19 outbreak in early 2020. The graph below shows the total non-farm pay rolls data since January 2020.



Despite the overall disappointing payroll data, the unemployment rate reported a 0.2% improvement during August. The drop in the headline unemployment rate looked even stronger considering that the labor force participation rate ticked up to 61.7%, tied for the highest level since the pandemic hit in March 2020. Although the unemployment rate has tumbled from pandemic high of 14.8%, it remains well above the 3.5% level recorded before the crisis.

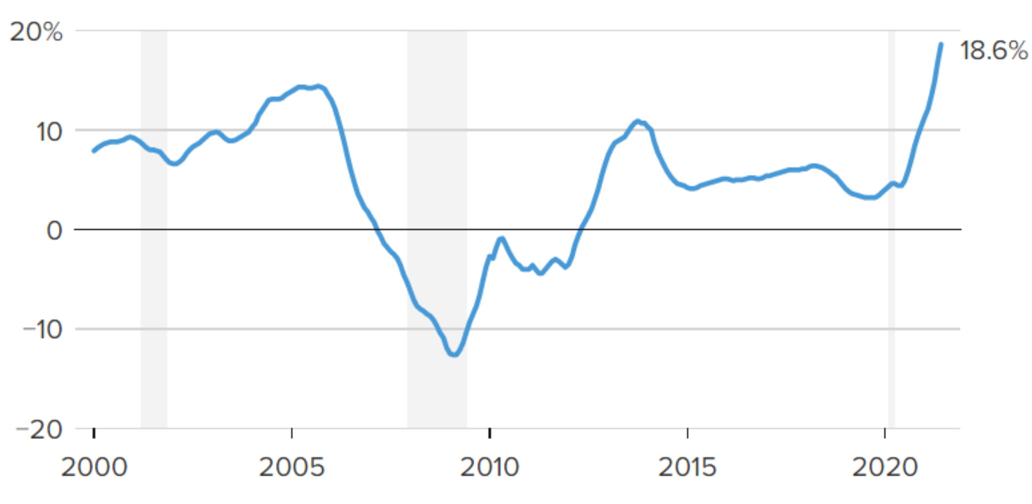
Home Sales Number Dropped in July Amid Inflated Home Prices

According to the National Association of Realtors, signed contracts to purchase previously owned homes fell by 1.8% in July as compared to June as elevated home prices have caused affordability to drop dramatically in the past several months. Based on data compiled by Mortgage News Daily, the mortgage rates fell sharply during July, with the average rate on the popular 30-year fixed mortgage starting the month at 3.18% and ending at 2.84%. However, as the data shows, the lower rates were not enough to reinvigorate buying activity in the housing market. Total housing inventory at the end of July 2021 was 1.32 million units, an increase of 7.3% from June's supply and down 12% from on a year on year basis.

Home prices have continued to follow a red-hot trend during 2021. The S&P/Case-Shiller index, which measures home prices across 20 major U.S. cities, rose 1.77% in June, bringing the YoY gain to a staggering 19.1%. That's the largest jump in the series' recorded history going back to 1987. For perspective, the biggest annual gain in prices prior to the subprime meltdown and 2008 financial crisis was the 14.4% increase in September 2005.

S&P Case-Shiller national home price index

Percent change from prior year



Note: Shaded areas indicate U.S. recessions.

Inflation Indicators Continue to Rage

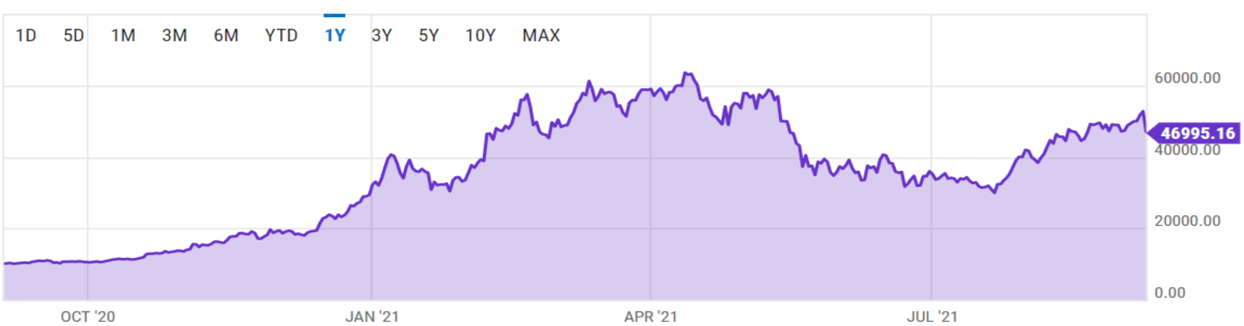
Core personal consumption expenditures price index; which is an inflation measure used by the Federal Reserve to take policy decisions; rose by 3.6% YoY in July, registering its highest level since 1991. Personal income also surged for the month, jumping 1.1%, well ahead of the 0.3% Dow Jones estimate whereas consumer spending increased 0.3% during July.

Much of the current inflation pressure is coming from energy and food sectors, which rose 23.6% and 2.4%, respectively on a YoY basis. The Federal Reserve officials have viewed the post-pandemic inflationary pressures as largely temporary factors. However, Fed officials in recent days have conceded that the situation may last longer than originally thought. A growing contingent within the Fed’s virtual halls is raising concerns that the supply chain disruptions, burgeoning demand and shortages of labor and supplies could push the current inflationary trend well into 2022 and beyond which may raise additional policy questions for the Fed going forward.

Bitcoin Mounts Comeback in August 2021 to Serge Past 50,000

Bitcoin recorded a sharp rebound during August as the world's largest cryptocurrency crossed the psychological barrier of $50,000 to rise rose as high as $50,562 as investors bet on the prospects of more U.S. stimulus spending which is expected to lead to further asset price gains and as more main stream financial services firms made moves to deal in this nascent asset class. Bitcoin has climbed a remarkable 82% since hitting a yearly low of $27,700 in January 2021. The cryptocurrency recovery is also underscored by more established financial services companies offering their customers access to this asset class. PayPal Holdings has announced during August that it would allow its customers in Britain to buy, sell and hold bitcoin and other cryptocurrencies which marks a major nod for this nascent asset class.

Note that bitcoin closed August at $47,125 after a sell-off at month end primarily driven by profit-taking activities and the overall volatile trend of this asset space. Bitcoin is an inherently volatile cryptocurrency and it has started the year 2021 at just under $29,000 and surged to its all-time high of $64,863 during April, recording a staggering return of, 123%. The graph below shows bitcoin’s erratic price trends over the past one year.

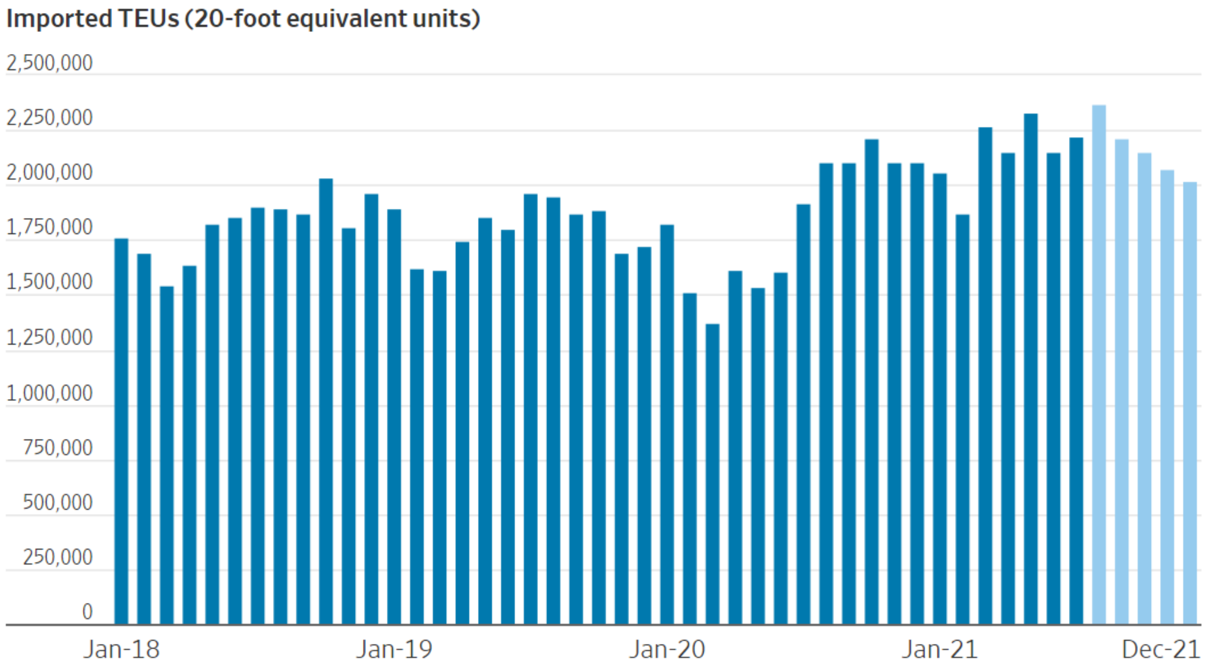


U.S. Ports See Shipping Logjams To Extend Far Into 2022

Major U.S. ports were forecast to handle the equivalent of some 2.37 million imported containers in August, according to the Global Port Tracker report produced by Hackett Associates for the National Retail Federation. This is the most for any month in records dating back to 2002.

Boxed Up

Monthly container volumes imported into major U.S. ports



Note: August 2021 is projected and September-December 2021 are forecasts

Source: Global Port Tracker, prepared by Hackett Associates for the National Retail Federation

Hundreds of thousands of containers are stuck aboard container ships waiting for a berth or stacked up at terminals waiting to be moved by truck or rail to inland terminals. The congestion has contributed to a world-wide shortage of shipping containers and spiraling costs for ocean freight. Congestion is worst at the Ports of LA and Long Beach, which account for more than a third of all U.S. seaborne imports. Forty or more ships have been waiting off the coast there on any given day for the past few months. The surge is a result of importers stocking up on additional inventory and Americans shifting their spending away from services such as restaurants and vacations, to home improvements, office equipment and consumer goods.