July 2, 2021

MARKET SIGHTLINES

Closer to Normal: Six Things We've Been Watching

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In February, we published Back Toward Normal: Six Things We're Watching, identifying various areas of focus as we looked forward to improvements in the pandemic and the economy. In this week's Sight|Lines, as we pass the mid-year mark, we provide an update on those six things we've been watching as we make our way back toward normal.

Vaccinations

In February, we reported that 55 million vaccination shots had been given in the U.S., and we estimated that about 60% of the population could have antibodies (either from having had the virus or getting vaccinated) by mid-June. Today, about 180 million vaccine doses have been administered in the U.S., representing about 55% of the population. So we've likely hit the 60% mark, and we're seeing some evidence of moving toward herd immunity, as the daily new case count has fallen. Of course, we'll be watching for troubling variants, like the delta variant, which can spread more easily and stress the herd immunity levels. Fortunately, it appears that warm weather is helping in limiting the spread of the virus.

Mobility

With so much of the population armed with mobile phones, companies like Google and Apple continue to publish mobility data, giving us to get a sense for where we are compared to the baseline, pre-pandemic levels. Google trends show us that mobility trends for retail and recreation (restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters) were 29% lower than the baseline in February, and now we see this measure has improved to be 4% below its baseline. So, in this case, closer to normal. Transit stations and workplaces are also improved at -17% and -26%, up from the February measures of -43% and -35%, respectively.

The Consumer/Employment

Consumption does make up about two-thirds of U.S. GDP, so continued gains in employment and consumer confidence have been important for the robust economic recovery. The U.S. Census Bureau's monthly retail sales report provides sales estimates for U.S. retail and food service firms. The May 2021 reading is $620 billion versus $560 billion in February, and reflects an increase of 28.1% from a year ago. Another retail sales measure that can be a little more volatile is the weekly Johnson Redbook Retail Sales Report. This index is heaviliy weighted by department and big-box stores and has been trending upward since May of last year. Consumer confidence remains slightly below pre-pandemic levels but is much improved from the levels seen in February.

Regarding employment, we monitor weekly initial jobless claims and unemployment, both of which have been improving further from February but remain somewhat elevated compared to pre-pandemic levels. We track employment recovery in the hardest-hit industries. For example, the leisure and hospitality sector lost over 8 million jobs at the peak of the shutdown but had recovered about 58% of the jobs lost by February. Since February, this sector has recovered an additional 900,000 jobs (11%) as consumers have become more comfortable dining out and travelling. We see improvements in employment.

Signs of Recovery in Hard-Hit Industries

In February, we shared other ways to monitor the recovery of hard-hit industries beyond employment. Back then, TSA traveler numbers were improving but were still over 60% below normal levels. Today, we're at 77% of pre-pandemic levels. Based on data from OpenTable, restaurant seating was 58% below pre-pandemic levels in February but today has risen to just about even with levels last seen in 2019. Hotel occupancy was down 31% in February, but has climbed 21% since then. We expect recovery to continue.

Atlanta Fed GDPNow…and GDP

In February, we were monitoring for a potential fourth-quarter U.S. GDP decline and tracking the Atlanta Federal Reserve (Fed)'s GDPNow model, a "running estimate of real GDP growth based on available economic data for the current measured quarter," to gauge first-quarter results. The actual annualized GDP growth for the first quarter was 6.4%, a positive result. The GDPNow estimate for second-quarter GDP annualized growth is 8.3%. Consensus forecast for 2021 GDP growth is 6.6%, with 2022 forecast GDP growth now at 4.1%. It appears that we're in a robust reovery.

KBW Restoration Index

Another way we are monitoring economic recovery is by tracking the KBW Restoration Index, which is published by our colleagues at Stifel's Keefe, Bruyette & Woods subsidiary. The index is comprised of 13 high-frequency economic indicators that were set to 100 as of the end of February 2020. Examples include initial jobless claims, MBA mortgage applications, mobility, dining reservations, and airport traffic, among others. The KBW Restoration Index level was at 75.8 in February, but it climbed to a post-pandemic high of 91.3 in June. So, there is still more recovery needed to get back to pre-pandemic levels.

Market Results

In February we were mostly looking forward and anticipating positive market results in 2021. For the first half of the year, we've experienced those positive results. The S&P 500 posted a year-to-date return of 15.3% through June 30. The Russell 2000, an index tracking small cap stocks, was up 17.5%, and the EAFE Index, which measures developed markets outside the U.S., posted a return of 8.8% over the same period. While there is always a chance of a market correction, we see modestly positive equity returns for the balance of the year.

Conclusion

In 2021 we've been thankful for the medical innovation that led to effective vaccines and the prospect of herd immunity. We've seen the reopening of the businesses and other activity accelerate, and we believe we're in a robust recovery. Yet with all this progress, we will continue to watch for signs of normal.

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Asset allocation and diversification do not ensure a profit and may not protect against loss. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Due to their narrow focus, sector-based investments typically exhibit greater volatility. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. Property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. The Standard & Poor's 500 index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the broader Russell 3000 Index, which measures the performance of the 3,000 largest U.S. companies based on total market capitalization. The average market capitalization is approximately $490 million, and the median market capitalization is approximately $395 million. The MSCI EAFE index (Europe, Australasia, and the Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

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