

Making Sense

Each month, **Chief Investment Officer, Brent Ciliano** and **Manager of Institutional Portfolio Strategy, Phillip Neuhart** help you make sense of the markets and the economy. Below you'll find a summary of their most recent update. Watch the full update [here](#).

WHAT'S COVERED ON THIS MONTH'S WEBINAR? (WATCH IT [HERE](#).)

- Are we past "peak" **economic growth** in the US?
- US Labor Market** is stalling. **What may pick it back up?**
- US Corporate earnings** continue to soar.
- Yields are falling**. Where to? When will they get there?
- Inflation**: The pandemic and base effects are distorting the picture.
- Where do markets go from here?**

Inflation: The pandemic and base effects are distorting the picture.

- **June's core inflation print was significant, but 74%** of inflation increase came squarely from reflation areas, NOT cyclical! Excluding used cars, the year-over-year increase in core CPI rate **FELL** from the month prior. **Without the pandemic categories and base effects, core CPI inflation would be closer to 1.8%.** ⁱⁱ
- **Chances of a Great Inflation 2.0** (a la the '70s / '80s in the US) **are low.**

Where do markets go from here? ⁱⁱⁱ

- Wall Street consensus 12-month forward price target for the S&P 500 is 4,831.98 as of July 23rd, or ~10.6% return from July 22, 2021's market close.
- We believe markets will continue to make higher highs through year-end 2022. **For the S&P 500, 4,646 (or higher) is possible by year-end 2021 (+5.3%).** We will likely see volatility and a potential pullback from late summer (-5% to -7%) into early fall followed by higher highs into year-end.
- **How high? July 2024 S&P 500 earnings estimate currently sit at \$237** per share - that is a **45.3% cumulative gain** in earnings over 2019's \$163 per share.

How High? Apply 3 Scenarios:

- **22x (today's multiple) = 5,214 (+18.2%)**
- **23x (beginning of 2021 multiple) = 5,451 (+23.6%)**
- **24x (pre-Tech bubble valuations) = 5,806 (+31.6%)**

US Labor Market update:

- Labor market has largely recovered. From May of 2020 to June 2021, the **US has added back ~15.6 million jobs, or ~70% of what was lost.** Unemployment is now at 5.9% in mid-June. ^{iv}
- **Recovery continues to be slow** – we remain ~6.7M jobs below pre-pandemic levels, **but majority of UI benefits expiration by September should help accelerate jobs recovery.** ^v
- **What about UI Benefits?** States that have ended UI early have seen a nearly 20% drop in benefit claims. ^{vi}

Are we past "peak" economic growth in the US?

- US GDP is almost back to pre-pandemic levels. ^{vii}
- **Full year 2021 and 2022 are expected to generate above-trend growth** (US real GDP trend growth has averaged 2.8% from 1970 thru 2020). ^{viii}

Yields are falling and the curve as flattened

- US 10-year has seen its yield **FALL** from 1.58% to 1.29%. ^{ix}
- While consensus expectations for the 10-year today sit at 1.9% by year-end, we are more in the camp of a range bound 10-year, between 1.25% and 1.75%. ^x

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- i Bloomberg, Deutsche Bank 07/14/21
 - ii BLS, Haver Analytics, Deutsche Bank– 07-14-2021
 - iii FactSet, Bloomberg as of 07/23/21. Percentage gains from 7/23/21 market closing price
 - iv Bloomberg, BLS, Haver Analytics, Deutsche Bank – 07/09/2021
 - v Bloomberg, BLS, Haver Analytics, Deutsche Bank – 07/09/2021
 - vi Strategas Research Partners – 07/09/21
 - vii Strategas, BEA – 04/30/21
 - viii Bloomberg. Data as of 07-23-21, *Bloomberg data (quarterly) 12/31/1970 through 12/31/2020
 - ix Strategas Research Partners – 07-09-2021
 - x Strategas Research Partners – 07-09-2021