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In this week's recap: Stocks reach all-time highs and the housing market showed significant improvement.

Weekly Economic Update

Presented by Ed Papier, June 28, 2021

THE WEEK ON WALL STREET

Stocks reached new all-time highs last week as markets staged a strong rebound from the previous week's declines.

The Dow Jones Industrial Average rose 3.44%, while the Standard & Poor's 500 picked up 2.74%. The Nasdaq Composite index increased 2.35%. The MSCI EAFE index, which tracks developed overseas stock markets, gained 0.97%.[1,2,3]

STOCKS CLIMB

Stocks rallied on the first day of trading last week and gained further momentum on Thursday and Friday. Despite some discouraging data on housing and initial jobless claims, stocks managed to set new highs, as investors cheered an agreement between President Biden and a group of senators that appeared to pave the way for the passage of a $1 trillion infrastructure bill.[4]

Positive results from the Federal Reserve's stress tests of banks, which raised the prospect of banks raising their dividend payouts and share buybacks, and a key inflation measure coming in at market expectations provided impetus for further gains. The S&P 500 had its best week since February and ended the five-trading days at a record high.[5]

HOUSING HEADWINDS

Historically low mortgage rates, the COVID-19 pandemic, and a flush consumer have contributed to a very strong housing market in recent months. Last week's housing data for May, however, showed that housing may be running into headwinds. The rising cost of materials and labor led to a 5.9% decline in new single home sales in May even as the median price hit an all-time high.[6]

Meanwhile, sales of existing homes fell 0.9%, the fourth-straight month of declines, owing to a very low inventory. High demand, coupled with a depressed supply, led to a 23.6% increase in the median price of an existing home.[7]

THE WEEK AHEAD: KEY ECONOMIC DATA

Tuesday: Consumer Confidence.

Wednesday: ADP (Automated Data Processing) Employment Report.

Thursday: Jobless Claims. ISM (Institute of Supply Management) Manufacturing Index.

Friday: Employment Situation Report. Factory Orders.

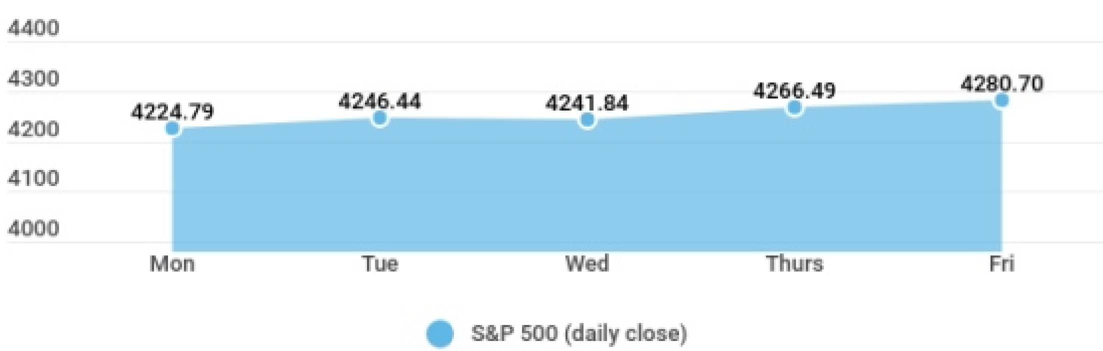
QUOTE OF THE WEEK

"The more a society drifts from truth

the more it will hate those who speak it"

GEORGE ORWELL

Market Index	Close	Week	Y-T-D
DJIA	34,433.84	+3.44%	+12.51%
NASDAQ	14,360.39	+2.35%	+11.42%
MSCI-EAFE	2,330.95	+0.97%	+8.54%
S&P 500	4,280.70	+2.74%	+13.97%



	Treasury	Close	Week	Y-T-D
	10-Year Note	1.54%	-0.10%	+0.61%

Sources: The Wall Street Journal, June 25, 2021; Treasury.gov, June 25, 2021
Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, June 18, to Friday, June 25, close. Weekly performance for the MSCI-EAFE is measured from Friday, June 18, open to Thursday, June 24, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

Who isn't baffled by the continuing run-up in stock prices? Behavioral scientists. They explain that we have a host of biases that make us irrational. Here are the reasons that we have a stock market bubble, presented in two tables. (Links are to Wikipedia).[8]

Bubble Inflators	Behavioral Bias
1 Vaccines will cure the pandemic quickly	Base rate fallacy
2 Earnings will soar in an economic recovery	Gambler's fallacy
3 Federal Reserve will dump $trillions	Hyperbolic discounting
4 Interest rates will remain low	Recency illusion
5 Greed: FOMO is fear of missing out	Dread aversion
6 Investor euphoria: Hopium	Irrational escalation
7 Huge foreign demand	Confirmation bias
8 Millennials believe markets only go up	Continued influence effect
9 FAANG Stock phenomenon	Less-is-better effect
10 Apple &Tesla are each worth a fortune	Neglect of probability
11 The election.	Normalcy bias
12 Belief that amateurs can beat Wall Street	Overconfidence effect
13 Stock buybacks	Outcome bias
14 SPACs: Special Purpose Acquisition Companies	Pro-innovation bias
15 IPOs: Initial Public Offerings	Decoy effect
16 Inflation caused by money printing is ignored	Money illusion

Bias	Type	Description
1 Base rate fallacy	Extension neglect	The tendency to ignore general information and focus on information only pertaining to the specific case, even when the general information is more important
2 Gambler's fallacy	Logical fallacy	The tendency to think that future probabilities are altered by past events, when in reality they are unchanged or actually worse
3 Hyperbolic discounting	Extension neglect	The tendency for people to have a stronger preference for more immediate payoffs relative to later consequences
4 Recency illusion		Favors recent events over historic ones
5 Dread aversion	Prospect theory	Just as losses yield double the emotional impact of gains, dread yields double the emotional impact of savoring
6 Irrational escalation	Logical fallacy	People justify increased investment in a decision, based on the cumulative prior investment, despite new evidence suggesting that the decision was probably wrong.
7 Confirmation bias	Confirmation bias	The tendency to search for, interpret, focus on and remember information in a way that confirms one's preconceptions
8 Continued influence effect	Confirmation bias	The tendency to believe previously learned misinformation even after it has been corrected
9 Less-is-better effect	Extension neglect	The tendency to prefer a smaller set to a larger set judged separately, but not jointly.

10 Neglect of probability	Extension neglect	The tendency to completely disregard probability when making a decision under uncertainty.
11 Normalcy bias	Cognitive dissonance	The refusal to plan for, or react to, a disaster which has never happened before.
12 Overconfidence	Egocentric bias	Excessive confidence in one's own abilities
13 Outcome bias		The tendency to judge a decision by its eventual outcome instead of based on the quality of the decision at the time it was made.
14 Pro-innovation bias		The tendency to have an excessive optimism towards an invention or innovation's usefulness throughout society, while often failing to identify its limitations and weaknesses
15 Decoy effect	Framing effect	Preferences for either option A or B change in favor of option B when option C is presented.
16 Money illusion		The tendency to concentrate on the nominal value (face value) of money rather than its value in terms of purchasing power

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Know someone who could use information like this?
Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

CITATIONS:

1. The Wall Street Journal, June 25, 2021
2. The Wall Street Journal, June 25, 2021
3. The Wall Street Journal, June 25, 2021
4. CNBC, June 23, 2021
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8. www.advisorperspectives.com/articles/2021/06/04/behavioral-finance-explains-the-stock-market-bubble?topic=behavioral-finance