

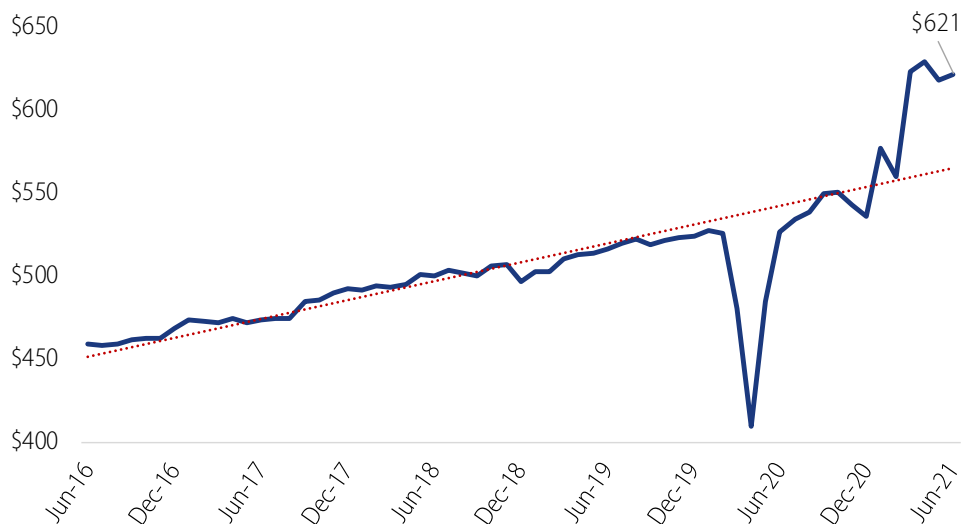
Retail Sales Rebound as Consumers Increase Summer Spending

Stronger-than-expected consumer spending during the month of June nudged bond yields higher this morning as a more robust economy may signal less need for an accommodative Fed. Retail sales climbed +0.6% last month to \$621.3 billion, well above the -0.3% median forecast and +18.2% above pre-pandemic levels. Analysts had speculated that in the absence of additional government stimulus checks and with federal unemployment benefits expiring, spending would slow. This was indeed the case in May as headline sales dropped by a revised -1.7%; however, Americans were clearly in the mood to spend some of their cash in June.

The monthly retail sales report focuses almost entirely on goods, with the only service component being restaurant and bar sales which rose +2.3%. Clothing sales were up +2.6% reflecting a gradual return to the traditional office. This category is likely to rise further in July and August as students prepare to return to the classroom. Gasoline station sales climbed +2.5% in June, although much of this increase is a result of higher gasoline prices.

Several key categories showed declines last month, including auto sales (-2.0%), which is primarily the result of depleted dealer inventories and elevated vehicle prices. A drop in furniture sales (-3.6%) and building materials (-1.6%) are indicative of a housing market also grappling with lean supply and lack of skilled workers.

Retail & Food Services Sales Total (\$ Billions, seasonally adjusted)



Americans were clearly in the mood to spend some of their cash in June.

Source: U.S. Census Bureau

The retail sales control group (which excludes building materials, gasoline, autos and food services) rose +1.1% last month, well above the +0.4% median forecast, while May was revised downward from -0.7% to -1.4%. The control group is particularly important because it reflects the consumption component of the GDP calculation, which historically accounts for nearly 70% of economic growth in the U.S.

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Director
512.481.2012
greg.warner@hilltopsecurities.com

Given the downward revisions to May sales, the month-over-month June data isn't as impressive as the headline, but at the same time spending would likely be higher if inventories were fully stocked. This morning's report indicates consumers are anxious to spend accumulated savings which bodes well for future months as production returns.

Given the downward revisions to May sales, the month-over-month June data isn't as impressive as the headline, but at the same time spending would likely be higher if inventories were fully stocked.

Market Indications as of 9:55 A.M. Central Time

DOW	Down 101 to 34,886 (HIGH: 34,996)
NASDAQ	Down 5 to 14,537 (HIGH: 14,733)
S&P 500	Down 11 to 4,349 (HIGH: 4,384)
1-Yr T-bill	current yield 0.07%; opening yield 0.07%
2-Yr T-note	current yield 0.23%; opening yield 0.22%
3-Yr T-note	current yield 0.31%; opening yield 0.31%
5-Yr T-note	current yield 0.79%; opening yield 0.78%
10-Yr T-note	current yield 1.32%; opening yield 1.30%
30-Yr T-bond	current yield 1.95%; opening yield 1.92%

The paper/commentary was prepared by Hilltop Securities Asset Management (HSAM). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS and/or HSAM as of the date of the document and may differ from the views of other divisions/departments of affiliates Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. Sources available upon request.

Hilltop Securities Asset Management is an SEC-registered investment advisor. Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS and HSAM are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP.