WEEKLY MARKET UPDATE, JUNE 14, 2021

GENERAL MARKET NEWS

• With future inflation expectations abated and investors returning to bonds, longer-term Treasury yields flattened last week. The 10-year Treasury yield dropped 9.7 basis points (bps) from last week's open, starting at 1.46 percent Monday morning. The 30-year yield fell 8.5 bps week-over-week, opening at 2.15 percent. On the shorter end of the curve, the 2-year opened at 0.15 percent, up slightly from the previous week.

• Markets moved higher last week, with the S&P 500 reaching an all-time high Friday. The Nasdaq Composite led the way as growth sectors, including technology, health care, and consumer discretionary, outperformed. Future inflation concerns eased, with analysts noting that much of the change in core prices for the month was driven by increases in new and used vehicle prices. Consequently, yields fell, which helped growth stocks rise on the prospect of cheaper capital for growth. In addition, the performance of REITs and health care was affected by individual company news: Blackstone acquired QTS Realty for $10 billion as part of a recent wave of REIT merger and acquisition activity. The largest individual stock news was the approval of Aduhelm, an Alzheimer's drug from Biogen. The approval, the first by the Food and Drug Administration (FDA) of a treatment for Alzheimer's in 18 years, is controversial because three FDA panel members stepped down after the approval. Underperforming sectors included financials, materials, and industrials. Banks, in particular, were hurt by the drop in yields.

• On Thursday, the Consumer Price Index for May was released. Consumer prices increased more than expected, with headline prices rising 0.6 percent during the month and 5 percent year-over-year. Economist forecasts called for a 0.5 percent increase in prices during the month and 4.7 percent year-over-year growth. Core consumer prices, which strip out the impact of volatile food and energy prices, increased 0.7 percent during the month and 3.8 percent year-over-year. As was the case with headline prices, core prices increased more than expected; forecasts called for a 0.5 percent increase during the month and a 3.5 percent year-over-year increase. For headline and core prices, some of the large year-over-year growth is due to base effect comparisons to last year, when initial lockdowns created deflationary pressure. With that being said, certain consumer goods have seen upward price pressure recently, due in large part to a surge in demand and a lack of available supply. Although Federal Reserve (Fed) members continue to state their case that the recent rise in prices will be transitory, this will be a closely monitored data release in the months ahead.

• We finished the week with Friday's release of the preliminary estimate of the University of Michigan consumer sentiment survey for June. This widely followed gauge of consumer confidence rose from 82.9 in May to 86.4 in June against calls for a more modest increase to 84.2. This result was driven by improving consumer views on the current situation and future expectations. Consumer confidence reached its second-highest level since the start of the pandemic, trailing only March's 88.3 reading. Confidence has rebounded well since hitting a lockdown-induced low of 71.8 last April; however, significant work remains to reach the pre-pandemic high of 101 from February 2020. Rising consumer confidence levels typically help support faster consumer spending growth, so this is a good sign for spending reports.

WHAT TO LOOK FORWARD TO

On Tuesday, the May retail sales report is set to be released. Economists expect headline retail sales to fall 0.5 percent after a flat April. The anticipated decline reflects the fading nature of federal stimulus payments. Sales surged 10.7 percent in March, driven in large part by the round of $1,400 checks hitting bank accounts during the month. Core retail sales, which strip out the impact of volatile auto and gas sales, are expected to remain flat in March after a 0.8 percent decline in April. As was the case with headline sales, core retail sales saw a stimulus-induced 8.9 percent increase in March. Although the forecasts for May's headline and core retail sales are modest, the overall level of sales has already rebounded well past pre-pandemic levels. Accordingly, the continued moderation of sales growth is understandable. Looking forward, additional progress on the mass vaccination front and improving consumer confidence levels may support a return to sales growth.

Tuesday will also see the release of the May Producer Price Index. Economists expect to see producer prices rise 0.4 percent during the month and 6.2 percent year-over-year. Core producer prices, which strip out the impact of volatile food and energy prices, are expected to increase 0.5 percent during the month and 4.8 percent year-over-year. As was the case with consumer prices, part of the anticipated annual rise in producer prices can be attributed to comparisons with last year's lockdown-affected prices. Producers have seen upward pressure on prices throughout this year, as rising material costs and supply bottlenecks boosted inflationary pressure. In addition, rising labor costs have become a concern for producers. Still, the Fed believes these headwinds will dissipate as we head toward more normal economic conditions.

The third major data release on Tuesday will be the release of the May industrial production report. Production is expected to increase 0.6 percent after a 0.7 percent increase in April. If estimates hold, this report would mark three straight months with increased production after a drop in February attributed to unseasonably cold weather. The rebound in overall industrial production has been supported by increased manufacturing production over the past two months. Manufacturing production is expected to rise 0.7 percent in May, driven by continued high levels of consumer demand. This result would be an improvement from the 0.4 percent increase in April's manufacturing output. It would also mark three straight months with increased production. Overall, if estimates hold, this report is expected to show steady growth for industrial and manufacturing production, despite headwinds created by rising prices and supply chain constraints.

The final major data release scheduled for Tuesday is the release of the National Association of Home Builders Housing Market Index for June. This measure of home builder confidence is expected to remain steady at 83, marking three consecutive months with no change for the index. (This is a diffusion index, where values above 50 indicate expansion.) The estimated result would be positive, signaling continued high levels of home builder confidence. The index is expected to remain well above the pre-pandemic high of 76 we saw in December 2019. Home builder confidence has been supported throughout the past year by record-low mortgage rates and shifting home buyer demand due to the pandemic. In addition, a lack of supply of homes for sale has boosted builder confidence. Although rising material and labor costs have recently become a headwind for home builder confidence and construction, the housing market should continue to show healthy growth in the months ahead.

Wednesday will see the release of the May building permit and housing starts reports. These measures of new home construction are expected to show mixed results. Permits are expected to decline by 0.2 percent and starts are expected to increase by 5.2 percent. Permits and starts have rebounded well since initial lockdowns were lifted last year. High home builder confidence and low supply of homes for sale have supported the surge in new home constriction over the past year. If estimates hold, permits and starts would come in above pre-pandemic levels, highlighting the improvement for this important sector. Looking forward, rising material and labor costs may serve as a headwind for significantly faster levels of new home construction. Still, if the pace of construction remains near current levels, it would signal a healthy housing market.

Wednesday will also see the release of the Federal Open Market Committee (FOMC) rate decision from the Fed's June meeting. The Fed cut interest rates to virtually zero last March due to the pandemic, and economists do not anticipate any changes at this meeting. In fact, the Fed has projected that no interest rate hikes will occur until 2023 at the earliest. Accordingly, economists' focus will be on the news release, as well as Fed Chairman Jerome Powell's post-meeting news conference. The Fed is currently purchasing $120 billion per month in Treasury and mortgage-backed securities. The meeting may see discussion about when and how the Fed plans to taper these asset purchases going forward. Market participants expect a gradual tapering, but, so far, the Fed has not given any material guidance on such plans. Any mention of this topic has the potential to affect the markets, so this meeting will be widely followed.

We'll finish the week with Thursday's release of the initial jobless claims report for the week ending June 12. Economists expect the number of weekly initial unemployment claims to fall from 376,000 to 360,000. If estimates prove accurate, weekly layoffs would sink to their lowest level since the start of the pandemic, marking seven straight weeks with declining claims. This year, following a high of more than 900,000 initial weekly claims set in January, we've made solid progress reducing claims. Continued improvements on the public health front and associated reopening efforts across the country have been driving this progress. So, though work remains to return the job market to pre-pandemic levels, the continued improvement for initial claims throughout the year signals we're on the right path.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.43%	1.08%	13.84%	41.84%
Nasdaq Composite	1.85%	2.36%	9.50%	47.79%
DJIA	–0.78%	–0.10%	13.65%	37.34%
MSCI EAFE	0.34%	1.39%	11.60%	36.84%
MSCI Emerging Markets	0.08%	0.51%	7.81%	42.88%
Russell 2000	2.18%	2.97%	18.73%	70.13%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.47%	–1.71%	–0.04%
U.S. Treasury	0.48%	–2.61%	–2.93%
U.S. Mortgages	0.09%	–0.63%	–0.45%
Municipal Bond	0.45%	1.45%	4.83%

Source: Morningstar Direct

Disclosures: Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg Barclays US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg Barclays US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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