WEEKLY MARKET UPDATE, JUNE 21, 2021

GENERAL MARKET NEWS

• The Treasury curve flattened significantly after last week's Federal Reserve (Fed) meeting as investors grappled with the central bank's hawkish forecasts. The 10-year Treasury yield was mostly unchanged Monday morning, opening at 1.44 percent. The 30-year fell 11 basis points (bps) week-over-week, opening at 2.03 percent. Shorter-dated notes sold off sharply as the 5-year gained 18 bps week-over-week, opening at 0.89 percent, and the 2-year rose 8 bps to 0.23 percent.

• Last week's Fed meeting reflected a slight change in stance. Although interest rates were left unchanged, several committee members began calling for rate hikes in 2023—and some as early as 2022. Chairman Jerome Powell also mentioned the possibility, later this year, of scaling back the Fed's bond purchasing program, which has been instrumental in stabilizing markets during the pandemic. In post-meeting statements, the committee indicated it believes inflation bumps are transitory and revised its longer-term expectations slightly higher.

• On Tuesday, the May retail sales report was released. Headline sales fell 1.3 percent, which was a larger drop than the 0.8 percent decline that was expected. The report also showed that April's retail sales growth rate was revised up from 0 percent to 0.9 percent, so the decline isn't as bad as it seems. Core retail sales, which strip out the impact of volatile auto and gas sales, fell 0.8 percent against calls for no change; however, April's core retail sales growth was revised up from –0.8 percent to 0.1 percent. Although the larger-than-expected declines for headline and core retail sales were slightly disappointing, this follows two months with strong levels of stimulus-induced sales growth. High levels of consumer confidence and continued reopening efforts are expected to help support a return to sales growth in the months ahead.

• Tuesday also saw the release of the May Producer Price Index report. The report showed that producer prices rose 0.8 percent during the month, which was above economist estimates for a 0.5 percent increase. On a year-over-year basis, producer prices increased 6.6 percent, which exceeded economist estimates for a more modest 6.2 percent increase. Core producer prices, which strip out the impact of volatile food and energy prices, increased 0.7 percent during the month and 4.8 percent year-over-year. Part of the large year-over-year increase in headline and core producer prices can be attributed to base-effect comparisons to last year's lockdown-affected prices; however, producers have seen upward price pressure over the past few months, as the rising material costs of supply bottlenecks have hurt businesses. Rising labor costs have also been cited by some producers as a driver of additional inflationary pressure. The Fed still believes that, over the long run, these headwinds will fade as we head toward more normal economic conditions.

• The third major data release on Tuesday was the May industrial production report. Industrial production increased 0.8 percent, which was slightly better than economist estimates for a 0.7 percent increase. This marks three straight months of production growth after unseasonably cold weather caused production to decline in February. The increase was supported by higher levels of manufacturing output, as production rose 0.9 percent during the month against forecasts for 0.8 percent growth. High levels of consumer demand and low business inventory levels have served as a tailwind over the past few months; however, rising material costs and shortages have held back overall growth, especially in the auto industry. Ultimately, this report showed continued solid growth for the industrial and manufacturing sectors in May despite the headwinds created by rising prices and tangled supply chains.

• The final major data release for Tuesday was the National Association of Home Builders Housing Market Index for June. This widely followed measure of home builder confidence declined slightly from 83 in May to 81 in June against calls for no change. This is a diffusion index, where values above 50 indicate expansion, so this was still a positive result. The index remains above its pre-pandemic high of 76 from December 2019, but rising costs and home prices are starting to serve as a headwind for significantly faster levels of new home construction. The subindex that measures prospective home buyer foot traffic fell to its lowest level since January, indicating home buyers have started to feel the impact of limited supply and rising prices. With that being said, confidence at current levels signals that home builders plan to continue to build new homes in the months ahead.

• Speaking of new home construction, Wednesday saw the release of the May building permits and housing starts reports. These measures of new home construction showed mixed results, as permits declined 3 percent against calls for a 0.2 percent drop, while starts increased 3.6 percent against calls for a 3.9 percent increase. High levels of home buyer demand and low levels of existing homes for sale have served as a tailwind for additional new home construction over the past year; however, rising material costs and labor shortages have served as a headwind for significantly faster levels of construction. Although these headwinds may fade as we return to a more normal economic environment, these factors are expected to constrain overall construction levels for the time being. Nonetheless, if the pace of construction stays near current levels, it would still represent a noted improvement in the pace of new home construction compared with much of the past decade.

• We finished the week with Wednesday's release of the Federal Open Market Committee (FOMC) rate decision from the Fed's June meeting. The Fed cut interest rates to virtually zero in March 2020 due to the pandemic, and there were no changes to interest rates at this meeting, as expected. The major news came from the Fed's updated dot-plot projection of future interest rates, as the newly released dot plot showed the Fed expects to see two 25 bps rate hikes in 2023, a step up from the one rate hike that was previously projected. Market reaction to the slightly more hawkish projection was largely muted. There were no additional hints regarding the future path of the Fed's asset purchase program, which currently consists of $120 billion in monthly asset purchases. Markets expect the Fed to begin discussing potential plans to start tapering these purchases by the end of the year; however, market participants largely expect any tapering plans to be gradual.

WHAT TO LOOK FORWARD TO

On Tuesday, the May existing home sales report is set to be released. Sales of existing homes are set to fall 2.2 percent after a 2.7 percent decline in April. If estimates hold, this report would mark four straight months with declining sales, with the seasonally adjusted annual rate of sales set to fall to 5.72 million. This figure is down from the recent high of 6.37 million annual existing home sales recorded in October 2020; nonetheless, given the swift rebound for this sector once initial lockdowns were lifted last year, the pace of existing home sales is projected to exceed pre-pandemic levels. Over the past year, existing home sales have been supported by low mortgage rates and shifting home buyer preference due to the pandemic. Recently, however, a lack of supply of homes for sale and rising prices have served as a headwind for sales growth. Still, looking forward, sales near current levels would signal continued high levels of home buyer demand despite the headwinds.

On Thursday, the initial jobless claims report for the week ending June 19 will be released. Economists expect to see 380,000 initial claims filed during the week, an improvement from 412,000 the week before. If estimates hold, this report would bring the four-week moving average for initial claims to its lowest level since the start of the pandemic. As previously noted, we've made solid progress in getting initial weekly claims down throughout the year. The number of claims remains high on a historical basis, however, indicating continued stress on the labor market. Going forward, the most likely path is additional improvement for the job market. Accordingly, this weekly report will continue to be widely monitored over the upcoming months. It gives economists an up-to-date look at the pace and path of the recovery.

Thursday will also see the release of the preliminary estimate of the May durable goods orders report. Economists expect to see durable goods orders rise 3 percent after a 1.3 percent decline in April. The April decline was mainly due to a drop in volatile aircraft orders. Core durable goods orders, which strip out the impact of transportation orders, are expected to increase 0.8 percent in May after a 1 percent increase in April. Core durable goods orders are often viewed as a proxy for business investment, so an increase would be a positive signal for overall business spending. May's business confidence reports showed high levels of service sector and manufacturer confidence. May's durable goods orders should show the positive impact that high confidence can have on spending growth. If estimates prove accurate, this report would be encouraging, demonstrating that businesses continued to invest during the month.

On Friday, May's personal income and personal spending reports are set to be released. Personal spending is expected to increase by 0.3 percent after a 0.5 percent increase in April. If estimates hold, this report would mark three consecutive months with personal spending growth. This trend has been powered in large part by the continued reopening efforts across the country and the lingering tailwind from the federal stimulus checks that hit bank accounts in March and April. Personal income has been very volatile on a monthly basis throughout the pandemic, as shifting stimulus payments caused large swings in average monthly income. Economists expect to see a 2.7 percent decline in personal income in May. Previously, we saw a 13.1 percent income drop in April after a record 20.9 percent income increase in March. Still, consumers have been able to increase savings notably over the past year. These high savings levels should support spending growth as the country heads toward more normal economic conditions.

We'll finish the week with Friday's release of the second and final estimate of the University of Michigan consumer sentiment survey for June. According to the preliminary estimate, the index increased by more than expected to start the month. It rose from 82.9 in May to 86.4 in June, against calls for a more modest increase to 84.2. Economists expect to see continued improvement throughout the month, with their average forecast calling for the index to rise to 86.8. If estimates prove accurate, this release would bring the index closer to the pandemic-era high of 88.3 recorded in April. Historically, improving consumer sentiment has supported consumer spending growth, so any further gain for the index would be a positive signal for June's consumer spending reports. Although work must be done to return confidence to pre-pandemic levels, the improvement we've seen so far this year is an encouraging signal we're heading in the right direction.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–1.87%	–0.81%	11.71%	36.61%
Nasdaq Composite	–0.26%	2.08%	9.21%	42.08%
DJIA	–3.40%	–3.50%	9.79%	31.26%
MSCI EAFE	–2.40%	–1.04%	8.92%	30.88%
MSCI Emerging Markets	–1.45%	–0.95%	6.25%	38.68%
Russell 2000	–4.17%	–1.32%	13.78%	59.45%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.11%	–1.60%	–0.12%
U.S. Treasury	0.16%	–2.46%	–2.73%
U.S. Mortgages	–0.34%	–0.97%	–0.54%
Municipal Bond	–0.35%	1.10%	4.40%

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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