# WEEKLY MARKET UPDATE, JUNE 7, 2021

## GENERAL MARKET NEWS

• The yield curve flattened slightly last week as fixed income investors weighed the reopening of the economy against the possibility the Federal Reserve (Fed) will taper its policy later in the year. The 10-year Treasury yield opened the week at 1.58 percent and closed about 2.2 basis points (bps) lower. On Monday morning, the 10-year opened at 1.57 percent, reversing most of last week's move. The 30-year opened Monday at 2.25 percent, 7.8 bps lower than last week's open. On the shorter end of the curve, the 2-year Treasury opened at 0.16 percent, 0.6 bps higher than last week's open.

• Markets moved modestly higher last week, with emerging markets leading the way. China, which makes up roughly 40 percent of the MSCI Emerging Markets Index, changed its foreign reserve holding requirements for banks in the country to mitigate the rise in the Chinese yuan and make its exports more competitive globally. In the U.S., the Dow Jones Industrial Average continued to lead the way, with energy, real estate, and financials among the top-performing sectors. Underperforming sectors included health care, consumer discretionary, and industrials.

• Turning to economic data, we started the week with Tuesday's release of the ISM Manufacturing index for May. This widely followed measure of manufacturer confidence increased by more than expected, rising from 60.7 in April to 61.2, against forecasts for an increase to 61. This result brought the index to its second-highest level on record, driven in large part by strong consumer demand, which was evidenced by increased new order growth. This is a diffusion index, where values above 50 indicate expansion, so the reading is a positive signal that manufacturing output continued to improve despite headwinds created by rising prices and supply chain constraints. Manufacturer confidence has increased notably since hitting a lockdown-induced low of 41.7 in April 2020. Overall, this was an encouraging report that showed the continued manufacturing recovery, driven by sky-high levels of demand as reopening efforts accelerated during the month.

• Thursday saw the release of the ISM Services index for May. As was the case with manufacturer confidence, service sector confidence improved; the index rose from 62.7 in April to 64, beating forecasts for a more modest increase to 63.2. This better-than-expected result brough the index to its highest level since records began in 1997. This is another diffusion index, where values above 50 indicate expansion, so this strong report indicates the service sector continued to recover during the month. Service sector confidence rebounded well after declining during initial lockdowns last year, and this result marks 12 consecutive months with service sector growth. Continued reopening efforts across the country have helped spur increased demand for services, which has, in turn, given business owners increased confidence. Looking forward, service sector confidence is expected to remain in healthy expansionary territory over the months ahead.

• We finished the week with Friday's release of the May employment report. The report showed that the pace of hiring increased during the month, with 559,000 jobs added, up from the 278,000 that were added in April but below economist estimates for 675,000 jobs. This solid result marks five straight months with job growth. The continued reopening efforts throughout most of the country helped support the pickup in job growth during the month as businesses scrambled to hire workers to meet a surge in demand. This report was an encouraging signal that the April slowdown in hiring was a temporary lull, rather than a sign that the labor market recovery has stalled. Underlying data was positive, too—the unemployment rate fell from 6.1 percent to 5.8 percent, against calls for a more modest decline to 5.9 percent. Ultimately, this was a solid report that signals an accelerating labor market recovery, which is a good sign for the pace of the overall economic recovery.

## WHAT TO LOOK FORWARD TO

We'll start the week with Tuesday's release of the April international trade report. The trade deficit is expected to narrow, with economists calling for a decline from $74.4 billion in March to $68.8 billion. March's deficit was the largest single-month trade deficit on record; the anticipated result for April would bring the deficit close to levels last seen in January. The previously released advance report on April's trade of goods showed that a rise in exports and a decline in imports caused the trade deficit for goods to decline. This explains the anticipated decline for the overall trade deficit during the month. The increase in exports of goods in April was impressive given the month's 8 percent decline in automobile exports, which was driven by the global semiconductor shortage. Overall, if estimates hold, this report would signal that the global economic recovery has started to bring internal trade closer to pre-pandemic levels.

On Thursday, the Consumer Price Index for May is set to be released. Economists expect consumer prices to increase 0.4 percent, following a 0.8 percent increase in April. Core consumer prices, which strip out the impact of volatile food and energy prices, are also expected to increase 0.4 percent. On a year-over-year basis, headline consumer inflation is set to rise 4.7 percent, while core prices are expected to go up by a more modest 3.4 percent. Part of the large annual growth is due to the comparison with numbers from last May, when initial lockdowns put downward pressure on prices. Rising prices for consumer goods have also contributed to the growth. Reopening efforts have caused a surge in demand, and supply chain constraints and low business inventories have put upward pressure on prices. The Fed has indicated it sees the recent rise in inflationary pressure as largely transitory. Still, given this year's swift increase in prices and rising investor concerns about inflation, this release will be widely monitored.

Thursday will also see the release of the initial jobless claims report for the week ending June 5. Economists expect 365,000 initial claims to be filed, which would be a modest improvement from the 385,000 initial claims filed the week before. If estimates hold, this report would demonstrate that the labor market recovery in May has accelerated in June. Weekly claims have fallen notably since hitting a 2021 high of 904,000 in early January. With further improvement in June, we could see claims approach pre-pandemic levels. Very real work remains to get the labor market all the way back, but the improvements so far this year show we're heading in the right direction.

We'll finish 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 is expected to increase from 82.9 in May to 84 to begin June. This result would represent an encouraging rebound. The index hit a pandemic-era high of 88.3 in April, but rising inflation fears in May led to a pullback. Consumer confidence has improved notably since the index hit a pandemic-induced low of 71.8 in April 2020. Nonetheless, the index sits well below the pre-pandemic high of 101 recorded in February 2020, indicating further room for gains. Historically, improving confidence levels have supported faster sales growth, so any uptick would be seen as a positive sign for June's consumer spending reports. Ultimately, if estimates prove accurate, this release would demonstrate that consumer confidence remains at healthy levels.

| Equity Index | Week-to-Date | Month-to-Date | Year-to-Date | 12-Month |
|---|---|---|---|---|
| S&P 500 | 0.64% | 6.76% | 13.35% | 34.55% |
| Nasdaq Composite | 0.49% | 4.43% | 7.51% | 41.80% |
| DJIA | 0.69% | 5.78% | 14.55% | 30.79% |
| MSCI EAFE | 0.73% | 7.48% | 11.22% | 30.63% |
| MSCI Emerging Markets | 1.59% | 5.32% | 7.72% | 40.58% |
| Russell 2000 | 0.78% | 3.11% | 16.20% | 53.38% |

Source: Bloomberg

| Fixed Income Index | Month-to-Date | Year-to-Date | 12-Month |
|---|---|---|---|
| U.S. Broad Market | 0.12% | –2.17% | 0.21% |
| U.S. Treasury | 0.13% | –3.07% | –2.13% |
| U.S. Mortgages | 0.01% | –0.72% | –0.38% |
| Municipal Bond | 0.21% | 0.99% | 4.95% |

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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