# WEEKLY MARKET UPDATE, MAY 10, 2021

## GENERAL MARKET NEWS

- The 10-year Treasury yield opened Monday morning at 1.57 percent, down from last week's open of 1.63 percent. The 30-year opened at 2.28 percent, down 1.7 basis points (bps) from last week's open of 2.30 percent. On the shorter end of the curve, the 2-year opened at 0.15 percent—1.3 bps less than last week's open.

- The market had a mixed week of trading. The Dow Jones Industrial Average (DJIA) and the S&P 500 posted gains of more than 1 percent, while the Nasdaq Composite fell by 1.48 percent. The DJIA was supported by its higher allocation to financials, industrials, and energy, which were top contributors on the week. Investors await inflationary data after bond yields rose sharply and then receded slightly in recent months. The Federal Reserve (Fed) said it would wait to move rates, but a larger-than-expected uptick in inflation may push the Fed to make a decision. In addition, Treasury Secretary Janet Yellen suggested that interest rates may have to increase to prevent overheating. Although her comments caused technology stocks to sell off early in the week, Friday's employment report helped the stocks recoup some of their losses, as an unemployment rate of more than 6 percent makes it more difficult to raise rates.

- On Monday, the Institute for Supply Management (ISM) Manufacturing index for April was released. This widely monitored gauge of manufacturer confidence fell by more than expected, with the index dropping from 64.7 in March to 60.7 in April against calls for an increase to 65. Manufacturers largely cited supply chain constraints as the major factor in the slowdown, with the global shortage of semiconductor chips serving as a headwind for faster overall output growth in key industries. This is a diffusion index, where values above 50 indicate expansion, so the manufacturing industry is still set for further growth despite the miss against forecasts. Demand has been strong this year and is expected to remain that way as we continue to reopen the economy; however, supply chain constraints may serve as a headwind for significantly higher levels of manufacturing output in the short term until the issues are resolved.

- Wednesday saw the release of the ISM Services index for April. This widely followed measure of service sector confidence fell from 63.7 in March to 62.7 in April against forecasts for an increase to 64.1. This modest decline from March's record high for the index leaves it at its second-highest level on record, indicating strong service sector confidence. This is another diffusion index, where values above 50 indicate expansion, so the service sector continued to expand at a healthy pace during the month. Consumer demand has picked up over the past few months; however, service sector businesses cited supply chain disruptions as a headwind for faster growth. Despite the miss against expectations, this represents a strong result for service sector businesses and indicates that business owners are optimistic reopening efforts will help support businesses.

• We finished the week with Friday's release of the April employment report. The report showed that 266,000 jobs were added during the month, significantly below economist estimates for 1 million new jobs. This disappointing result leaves the overall level of employment well below pre-pandemic levels and highlights the continued work that remains to return the economy to normal. Reopening efforts continued to boost hiring in the hard-hit leisure and hospitality sector during the month; however, declines in temporary workers and transportation held back overall job growth. Business owners have noted that it has become difficult in some areas to find workers for open positions, likely reflecting lingering concerns around the pandemic, as well as the impact of enhanced unemployment benefits and the most recent round of stimulus checks. The underlying data was disappointing, too, as the unemployment rate increased from 6 percent to 6.1 percent against calls for a decline to 5.8 percent. This weaker-than-expected report is expected to support the Fed's view that the economy continues to require supportive policy.

## WHAT TO LOOK FORWARD TO

Wednesday will see the release of the April Consumer Price Index. Consumer prices are expected to increase by 0.2 percent during the month, following a 0.6 percent rise in March. On a year-over-year basis, consumer prices are slated to increase by 3.6 percent, up from a 2.6 percent annual growth rate in March. The jump in annual inflation is anticipated in part due to factoring in the sharp decline in prices during initial lockdowns last year. In addition, over the past few months, consumer prices have seen upward pressure, as demand rebounded along with the easing of restrictions. Core producer prices, which strip out the impact of volatile food and energy prices, are expected to rise by 0.3 percent during the month and 2.3 percent year-over-year. Still, despite anticipations for rising headline and core consumer inflation, Fed board members have made it clear they view this upward inflationary pressure as largely transitory.

On Thursday, the April Producer Price Index is set to be released. Producer prices are expected to increase by 0.3 percent during the month and 5.8 percent year-over-year. As was the case with consumer inflation, the expectations for large annual growth can be partially attributed to the effect of the lockdown-induced decline in prices we saw last April. Core producer prices, which strip out volatile food and energy prices, are expected to increase by 0.4 percent during the month and 3.8 percent year-over-year. Producer prices have seen upward pressure recently due to rising material costs and supply chain disruptions that have negatively affected shipping costs and times. Nonetheless, the Fed is not expected to tighten policy as a response, although it is monitoring inflationary pressure. For the time being, the central bank is focused on supporting the labor market recovery.

Thursday will also see the release of the initial jobless claims report for the week ending May 8. Economists expect to see 500,000 initial unemployment claims filed during the week, in line with the 498,000 initial claims filed the week before. If estimates hold, this report would mark the fifth straight week with initial claims coming in under 600,000. Claims near current levels represent a notable improvement from the 2021 high of more than 900,000 initial weekly claims in early January. Still, despite the recent progress made in getting initial claims down, the April job report showed that the labor market continues to face pressure. Given a level of claims that remains historically high, as well as the April slowdown in hiring, this weekly look at the health of the job market will continue to be widely monitored.

On Friday, the April retail sales report will be released. Economists expect to see sales increase by 1.1 percent during the month, following a 9.7 percent surge in March. Core retail sales, which strip out the impact of volatile auto and gas sales, are expected to increase by only 0.7 percent in April, after rising by 8.2 percent in March. In March, the stimulus-fueled surge in spending was the second-largest monthly increase on record. So, a pullback in April is understandable. If estimates hold, this report would mark two consecutive months of retail sales growth. This would be a good sign that consumers continued to benefit from reopening efforts and the federal stimulus payments. Continued sales growth would also be a positive sign for the overall economic recovery. Consumer spending accounts for the majority of economic activity in the country.

Friday will also see the release of the April industrial production report. Industrial production is expected in increase by 1.3 percent during the month, following a 1.4 percent rise in March. The March result was partially driven by a 2.7 percent increase in manufacturing production. In April, economists are forecasting a solid 2.3 percent increase in manufacturing production, which would continue to support overall industrial production levels. Over the past year, the producer side of the economy has been slower to recover than the consumer side. But we have seen an increase in producer output this year. Supply chain constraints and rising input costs may serve as a headwind for significantly higher levels of manufacturing growth, especially for the auto sector. With that said, high consumer demand is expected to support manufacturing output in the months ahead, as we continue to reopen the economy.

We'll finish the week with Friday's release of the preliminary estimate for the University of Michigan consumer sentiment survey for May. This widely followed measure of consumer confidence is expected to increase from 88.3 in April to 90 in May. If estimates hold, this report would mark three straight months with increased confidence, bringing the index to its highest point since the start of the pandemic. Consumer confidence has been supported by recent improvements on the public health front, as well as the federal stimulus payments. The recent stabilization in gas prices, along with four consecutive months of job growth, should support higher confidence levels in May. Historically, improving confidence levels have supported faster spending growth, so any improvement for the index would be a positive sign for spending in May. While work must be done to get confidence back to pre-pandemic highs, the recent improvements are an encouraging sign we're heading in the right direction.

| Equity Index | Week-to-Date | Month-to-Date | Year-to-Date | 12-Month |
|---|---|---|---|---|
| S&P 500 | 1.26% | 1.26% | 13.25% | 46.84% |
| Nasdaq Composite | –1.48% | –1.48% | 6.94% | 51.92% |
| DJIA | 2.72% | 2.72% | 14.33% | 45.91% |
| MSCI EAFE | 2.59% | 2.59% | 9.36% | 44.16% |
| MSCI Emerging Markets | 0.09% | 0.09% | 4.93% | 50.97% |
| Russell 2000 | 0.25% | 0.25% | 15.35% | 72.79% |

Source: Bloomberg

| Fixed Income Index | Month-to-Date | Year-to-Date | 12-Month |
|---|---|---|---|
| U.S. Broad Market | 0.28% | –2.34% | 0.46% |
| U.S. Treasury | 0.30% | –3.25% | –3.68% |
| U.S. Mortgages | 0.00% | –0.55% | –0.28% |
| Municipal Bond | 0.19% | 0.68% | 6.77% |

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. Basis points (bps) is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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