WEEKLY MARKET UPDATE, MAY 17, 2021

GENERAL MARKET NEWS

• The yield curve moved modestly higher on the week as inflationary data came in above economists' expectations. The 10-year Treasury yield opened Monday morning slightly higher than 1.64 percent, up from last week's open of 1.58 percent. The 30-year opened at 2.35 percent, up 7.2 basis points (bps) from last week's open of 2.28 percent. On the shorter end of the curve, the 2-year opened at 0.15 percent. just 0.6 bps more than last week's open.

• The markets were down after a week of volatile trading. The April Consumer Price Index data gave us a comparison between prices in April 2021 and April 2020. The data came in higher than expected and led to a sell-off on Wednesday. Technology, consumer discretionary, and communication services led the market downward due to concerns that the Federal Open Market Committee (FOMC) will need to raise rates sooner than initially expected. Financials, consumer staples, and materials were among the top-performing sectors. Markets recovered toward the end of the week as investors realized that inflation is here, but we need to determine how long it will stay at higher levels.

• On Wednesday, the April Consumer Price Index report was released. Consumer prices rose by more than expected, increasing 0.8 percent against forecasts for a more modest 0.2 percent increase. This brought the pace of year-over-year consumer inflation to 4.2 percent, higher than the 3.6 percent annual increase that was expected. The increase in inflationary pressure was widespread, as core consumer prices, which strip out the impact of volatile food and energy prices, also rose more than expected. Core consumer prices increased 0.9 percent during the month and 3 percent year-over-year compared with economist estimates for a 0.3 percent and 2.3 percent increase, respectively. Although some of the year-over-year increase in core and headline prices is due to base effects caused by sharp price declines last April, the report indicates inflationary pressure is increasing. This marks six consecutive months with headline consumer price growth accelerating.

• Thursday saw the release of the April Producer Price Index report. Producer prices increased 0.6 percent during the month and 6.2 percent year-over-year against calls for more modest 0.3 percent growth during the month and 5.8 percent growth year-over-year. Once again, base effects are partially to blame for the large year-over-year surge in inflation. With that being said, producer prices have seen upward pressure recently due to rising material costs and supply chain disruptions. The Federal Reserve

(Fed) continues to closely monitor inflation; however, board members largely view rising inflationary pressure as transitive, and the central bank is expected to keep monetary policy supportive given the continued stress on the labor market.

• On Friday, the April retail sales report was released. Sales remained flat after an upwardly revised 10.7 percent surge in sales in March, coming in below economist estimates for a 1 percent increase. Core retail sales, which strip out the impact of volatile auto and gas sales, fell 0.8 percent during the month against calls for a 0.6 percent increase. The most recent round of federal stimulus checks caused retail sales to increase at the second-fastest level on record, so the pullback in April is understandable. Despite the miss against expectations for overall sales growth, there were still encouraging areas, including an increase in food and drink spending that indicates reopening efforts continue to support the economic recovery. Looking forward, high levels of consumer confidence and a swiftly reopening economy are expected to serve as tailwinds for a return to spending growth in the months ahead.

• Friday also saw the release of the April industrial production report. Industrial production increased 0.7 percent, slightly below estimates for a 0.9 percent increase. This is a step down form the upwardly revised 2.4 percent increase in production we saw in March, but it still represents two straight months with increased production. Manufacturing production rose 0.4 percent, slightly better than economist estimates for a 0.3 percent increase. Manufacturing was held back by a drop in auto production, which, in turn, was largely driven by the global semiconductor shorting that has slowed production. The producer side of the economy has been slower to recover compared with consumers; however, given high levels of consumer demand and continued progress with the pandemic and reopening the country, production is expected to continue to improve.

• We finished the week with Friday's release of the preliminary estimate for the University of Michigan consumer sentiment survey for May. Consumer sentiment fell to start the month, dropping from 88.3 in April to 82.8 in May against calls for an increase to 90. This disappointing result was driven by rising consumer inflation expectations, which weighed on current conditions and future expectations. The report showed that one-year inflation expectations increased by more than expected during the month, from 3.4 percent to 4.6 percent against calls for a more modest increase to 3.5 percent. Despite the miss against expectations, this still marks the third-highest level for the index since the start of the pandemic, and it should support continued consumer spending growth.

WHAT TO LOOK FORWARD TO

On Monday, the National Association of Home Builders Housing Market Index for May was released. Home builder sentiment remained healthy during the month, as the May index was unchanged at 83, in line with economist estimates. This strong result left home builder confidence near the record high of 90 set in November 2020, signaling robust levels of confidence. Home builder sentiment rebounded swiftly following the end of initial lockdowns last year, as low mortgage rates and high home buyer demand sparked a rally for the housing sector. Supply of homes for sale remains low across much of the country, which has served as another tailwind for increased home builder confidence and construction over the past year. This release was a positive signal that home builders remain confident in the current housing market expansion despite rising material and construction costs. This is a good sign for construction growth in the months ahead.

Speaking of construction, Tuesday will see the release of the April building permits and new home sales reports. Permits are expected to increase by 0.7 percent during the month, following a 2.3 percent increase in March. Starts are expected to decline by 2 percent, after seeing a 19.4 percent rise in March. The pace of housing starts hit its highest level since 2006 in March, so a modest decline in April would be understandable. These measures of new home construction can be volatile on a month-to-month basis. Nonetheless, both have rebounded well past pre-pandemic levels, driven by low supply of homes for sale and high levels of home buyer demand. The fast pace of new home construction this year has been especially impressive given rising lumber and construction costs. If estimates prove accurate, these reports would be another signal that housing remains one of the bright spots in the current economic recovery.

On Wednesday, the FOMC meeting minutes from the April meeting will be released. The Fed cut interest rates to virtually zero at the start of the pandemic last March, and no changes to interest rates were made at this meeting, as expected. Additionally, the Fed did not make any changes to its current pace of $120 billion a month in asset purchases. Still, despite the meeting's lack of major announcements regarding monetary policy, economists will be looking at the minutes closely in order to get a better understanding of the Fed's view on the ongoing economic recovery. Given that recent inflation reports have come in above expectations, any mention of rising inflationary pressure and potential Fed responses will be examined. As Fed board members have indicated they view the current rise in inflation as largely transitory, no surprises are expected. Still, any hints about the Fed's view on the pace of the recovery and long-term monetary policy will be closely monitored.

Thursday will see the release of the initial jobless claims report for the week ending May 15. Economists expect to see the number of initial unemployment claims fall from 473,000 to 460,000. If estimates hold, this report would bring the pace of weekly layoffs to its lowest level since the start of the pandemic, indicating that the labor market recovery has continued. While we have seen noted improvement this year in getting weekly jobless claims down, they are still high on a historical basis. Given this fact and the recent slowdown in the pace of hiring in April, the weekly initial jobless claims report will continue to be a widely monitored release. It gives economists a relatively up-to-date look into the heath of the labor market.

We'll finish the week with Friday's release of the existing home sales report for April. Existing home sales are expected to rise by 0.9 percent during the month, following a 3.7 percent decline in March. The March drop was largely driven by low levels of supply of homes available for sale, as well as rising mortgage rates and housing prices. A return to sales growth in April would indicate that housing demand remains strong. Despite the March results, the pace of existing home sales remains well above pre-pandemic levels. Sales were up by 14 percent on a year-over-year basis during April. Low mortgage rates have supported the housing market over the past year. Notably, however, we saw rates rise in February and March, which contributed to the slowdown in sales during those two months. With that said, mortgage rates declined in April, which should support a return to sales growth for the month.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–1.35%	–0.10%	11.73%	48.12%
Nasdaq Composite	–2.32%	–3.77%	4.46%	50.11%
DJIA	–1.08%	1.61%	13.09%	48.20%
MSCI EAFE	–1.29%	1.26%	7.94%	46.97%
MSCI Emerging Markets	–3.00%	–2.91%	1.79%	48.10%
Russell 2000	–2.04%	–1.79%	13.01%	78.97%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.37%	–2.70%	–0.25%
U.S. Treasury	–0.40%	–3.63%	–4.45%
U.S. Mortgages	–0.29%	–0.84%	–0.51%
Municipal Bond	–0.17%	0.51%	5.76%

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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