June 11, 2021

6/11/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,479.60	-276.79	-0.80	1.74	12.65	37.21
S&P 500	4,247.44	17.55	0.41	1.36	13.08	41.48
NASDAQ	14,069.42	254.94	1.85	0.67	9.16	48.21
S&P MidCap 400	2,752.17	23.50	0.86	1.25	19.32	59.58

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.15	Euro/Dollar	1.21	-0.44
5-Year	0.74	Dollar/Yen	109.77	0.23
10-Year	1.45	GBP/Dollar	1.41	-0.34
30-Year	2.14	Dollar/Cad	1.21	0.47

Source: Bloomberg/FactSet

What Caught Our Eye This Week

From cars and bicycles to furniture and lumber, American consumers who have grown accustomed to fully-stocked shelves and breadth of choice are finding it challenging to locate the products they want to purchase. Since Toyota pioneered “Just-in-Time” inventory in the 1970s by having parts arrive just prior to when they were needed to limit inventory overhead, U.S. shoppers and businesses alike have benefited greatly. Manufacturers and merchants were able to reduce storage space and free up capital that would have been spent maintaining stock of goods while their customers enjoyed an abundance of choice and items that were almost always available. More recently, natural disasters and the Covid-19 pandemic brought disruption to the global supply chain and raised questions about the tradeoffs between speedy delivery and cheap cost of goods relative to having the products we want consistently available. Just this week, Starbucks announced that as many as 25 items used in its products (oat milk, coffee, hazelnut syrup, toffee nut syrup, chai tea bags, green iced tea, etc.) have been placed on “temporary hold” due to supply challenges. Just-in-time inventory may need to be replaced by just-in-case.

Economy

The most anticipated report this week was the consumer price index, which was released on Thursday. The CPI rose 0.6% in May and is now up 5% year-over-year. This twelve-month surge is the largest since August 2008 when this metric rose 5.4%. The “core” CPI advanced 0.737% and is now up 3.8% year-over-year (biggest increase since June 1992) . Used vehicle prices led the way rising 7.3% and airfares posted a 7.0% increase. Overall consumer prices have soared at a 9.4% annualized rate over the three months ended in May. Earlier in the week the JOLTS report (job openings & labor turnover survey) showed 9.286 million job openings on the last day of April, a new all-time high. Over the past twelve months, there is now a net employment gain of 11.3 million. The “quits” rate has moved up to a record high of 2.7%. On Thursday, weekly jobless claims dropped 9,000 to 376,000 during the week ending June 5th. The four-week moving average is now at 403,000. Finally, on Friday, the University of Michigan consumer sentiment index rose from 82.9 to 86.4 in the preliminary June report.

Fixed Income/Credit Market

In the municipal bond market, retirement of debt traditionally spikes higher during the June through August period as many state and local governments begin their new fiscal budgets on July 1st. This year, the net effect is even more pronounced because municipalities are realizing better revenues in addition to federal aid relief, both of which are contributing to reduced issuance. Across the U.S., 30-day visible supply stands at $14 billion while total redemptions (maturities and calls) will remove $43.6 billion from the market which equates to negative net supply of $29.6B. The lack of available muni bonds has kept interest rates in the sector near historic lows. Currently, the Bloomberg 10-year AAA benchmark yields approximately 0.87%, roughly 110 basis points (bps) below the benchmark’s average since it was created in January of 2010. The supply/demand imbalance has been a boon for investors who already own muni bonds. Bloomberg’s muni bond index has returned 1.43% year-to-date (YTD). For context, Bloomberg’s U.S. Aggregate Bond index has returned -1.65% YTD.

Equities

The S&P 500 ended on Friday with slight gains, rising 0.41% for the week to mark a new record high. The Nasdaq followed suit with the S&P 500, rising 1.85% on the week. The Dow however finished with a slight weekly loss of -0.8%. The upward trend was driven by strong performances in the information technology, consumer discretionary, and healthcare sectors. Gains in the software and hardware spaces drove tech names higher – while strength in the retail goods space bolstered the discretionary space. Healthcare also performed well, up 1.93%, lifted by the FDA’s approval of the Alzheimer’s drug by Biogen. Additionally, growth topped its value counterpart by a wide margin of 2.35%. Investors’ overall outlook on the market still remains widely positive; however, optimism has softened recently due to concerns over inflation, potential tax hikes, and high valuations. The Cboe Volatility Index fell below 16 for the first time since February 2020.

Our View

Consumer prices rose sharply in May. The consumer price index jumped higher than expected with a 5% year-over-year increase and the core CPI lifted at the fastest pace since 1992. With demand springing to life in segments of the economy that were more deeply affected by the economic shutdown, such as restaurants and travel, temporary supply shortages are creating a *short-term acceleration in prices*. The Federal Reserve is likely to maintain its stance that inflationary pressures are transitory and remain committed to current monetary policy. The Fed has publicly stated it will keep rates near zero until late next year at the earliest and will taper its bond purchases well ahead of rate increases. Investors and other central banks will be closely watching next week’s Fed meeting (June 15 and 16) to see if there is any modification of the Fed’s timeline given recent inflation data. Some economists believe that the Fed may communicate its taper strategy later this summer at its Jackson Hole symposium in August. The communication process for shifting monetary policy toward normalization is important and needs to be done with some sensitivity. Interest rates spiked higher during the 2013 “taper tantrum” because the normalization strategy was poorly communicated and surprised financial markets. In turn, higher rates in the U.S. produced a significant amount of capital flight from many foreign economies, especially in emerging markets. The central banks of some emerging market economies were forced to raise rates to defend their currencies. Today, many countries are still struggling to recover economically from the pandemic, so a sudden increase in interest rates or a constriction of credit caused by capital flight could have a very detrimental impact on global demand. Several central banks have already moved to preempt the Fed (Canada and Norway) by announcing plans to reduce accommodation and to raise rates soon. The Fed’s eventual normalization of monetary policy looms as a substantial global risk for many other central banks and a potential source of financial market volatility. These factors are obviously not lost on the Fed. We expect a well thought out and carefully communicated normalization strategy by the Fed.

COMING UP NEXT WEEK		Consensus	Prior
06/15 Empire State Index SA	(Jun)	20.0	24.3
06/15 PPI ex-Food & Energy SA M/M	(May)	0.40%	0.70%
06/15 PPI SA M/M	(May)	0.40%	0.60%
06/15 PPI NSA Y/Y	(May)	6.2%	6.2%
06/15 Retail Sales SA M/M	(May)	-0.50%	0.0%
06/15 Capacity Utilization NSA	(May)	75.0%	74.6%
06/15 Industrial Production SA M/M	(May)	0.60%	0.70%
06/16 Housing Starts SAAR	(May)	1,630K	1,569K
06/17 Leading Indicators SA M/M	(May)	1.1%	1.6%

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