INSIGHT

A WEEKLY NEWSLETTER PUBLICATION OF VIRTUE CAPITAL MANAGEMENT

Markets fall while wrestling with inflation indicators.

The key market driver we saw last week was clearly markets wrestling with several inflation indications courtesy of a relatively full calendar of economic releases.

Investors adhering to the old market aphorism - "Sell in May and Go Away" were emboldened a bit as U.S. equity markets fell approximately 1%-2% on average while developed international markets participated on the downside but not quite to the same extent. Technology and consumer discretionary (i.e., AMZN and TSLA) led on the downside while consumer staples, materials, and financials actually managed to post small gains. Rates moved slightly higher across the curve on the inflation data but importantly, not meaningfully so. The USD appreciated slightly, and commodities traded lower due to softness across the industrial metals while oil prices increased 1% to trade above $65/bbl.

Market Anecdotes

- Financial market reactions to the highly anticipated move higher in inflation was informative with volatility pronounced in longer duration growth stocks, a relatively muted reaction in U.S. treasury markets, and gold actually trading down early in the week.
- Consumer Price Index (CPI) wasn't the only anxiety provoking inflation data point last week. The NFIB survey showed businesses raising prices, five-year breakevens rose to their highest level since 2006, and Chinese Producer Price Index (PPI) moved firmly higher.
- Stocks and bonds haven't been providing diversification benefits of late as the correlation between stock prices and bond yields has been falling notably over the past several months.

Photo Source: www.bigstock.com

- Strategas emphasized the case for a bearish U.S. Dollar, upward bias on rates, and value overgrowth referencing technicals and underlying market internals. They also noted, according to two specific metrics, Monday morning marked the loosest monetary and financial conditions ever.
- Fourteen Fed speaking engagements last week did all they could to reassure markets the FOMC is not blinking in the face of the higher 'transitory' inflation data front and center last week.
- Futures markets received the news by pricing in rate hikes sooner here in the U.S. and Eurozone. Eurodollar futures priced a 9 bps more tightening over 2021-2023 in response to CPI data.
- With the Bank of Canada and Bank of Europe having announced plans to taper, timing of other major central banks looms. The Fed timing hinges on both inflation expectations and labor market tightness. European Central Bank indicators include inflation and Italy-German bond spreads while the Bank of Japan cites realized inflation.
- The Atlanta Fed GDPNow model estimate for real 2Q GDP growth fell from 13.6% to 11.0% in response to the big miss on the April jobs report.

Economic Release Highlights

- April's CPI report surprised notably on the upside with headline and core registering 4.2% and 3.0% respectively.
- April Retail Sales report fell short of expectations coming in flat Month over Month versus 1% consensus after a 9.8% surge in March.
- Industrial production in April grew 0.7% Month over Month, short of consensus calls for 1.2%. The manufacturing component also missed expectations (0.4% vs 1.8%).
- May's preliminary University of Michigan Consumer Sentiment registered 82.3, well below forecast of 90.3 from April's 88.3 level.
- NFIB Small Business Optimism Index rose to 99.8 as expected, just shy of consensus 100.8.
- The March JOLTS report showed job openings of 8.123mm, well in excess of consensus estimates for 7.455mm.
- China's April PPI moved from 4.4% to 6.8% Year over Year, coming in above consensus estimates for 6.5%.
- The May German ZEW survey revealed some positive momentum for the Euro Area with the current situation component rising 8.7 points from April and the economic expectations component surging 13.7 points to 84.4.

INSIGHT

MARKET ANALYSIS

Equity	Level	1 Wk	1 Mo	3 Mo	YTD	1 Yr
Dow Jones	34382	(1.08)	2.08	9.80	13.09	48.58
NASDAQ	13430	(2.32)	(3.03)	(4.55)	4.46	51.32
S&P 500	4174	(1.35)	1.30	6.47	11.73	48.72
Russell 1000 Growth		(2.10)	(2.05)	(1.08)	4.48	46.04
Russell 1000 Value		(0.72)	3.69	11.66	18.08	56.44
Russell 2000		(2.04)	(0.96)	(2.59)	13.01	81.80
Russell 3000		(1.44)	0.69	4.52	11.15	53.14
MSCI EAFE		(1.28)	1.38	4.25	8.21	48.23
MSCI Emg Mkts		(2.99)	(2.02)	(8.07)	1.87	48.67
Fixed Income	**Δ Yield**	**1 Wk**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**
US Aggregate	2.00	0.01	(0.05)	(0.12)	(0.14)	(0.52)
High Yield	4.79	0.01	(0.13)	(0.24)	(0.33)	(1.25)
Municipal	1.87	0.00	(0.01)	(0.02)	(0.04)	(0.22)

Commodities	Current	3/31/21	12/31/20	9/30/20
Oil (WTI)	64.92	59.19	48.35	40.05
Gold	1836.60	1836.60	1887.60	1886.90

Currencies	Current	3/31/21	12/31/20	9/30/20
USD/Euro ($/€)	1.21	1.17	1.23	1.17
USD/GBP ($/£)	1.40	1.30	1.37	1.29
Yen/USD (¥/$)	108.52	108.52	103.19	105.58

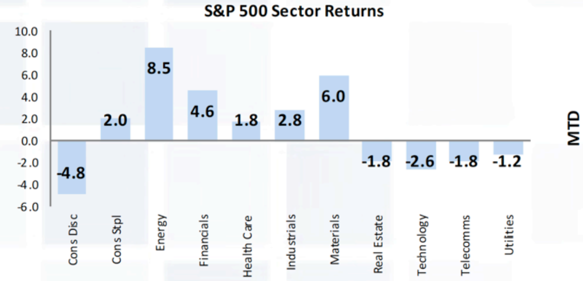
Treasury Rates	Current	3/31/21	12/31/20	9/30/20
3 Month	0.01	0.03	0.09	0.10
2 Year	0.16	0.16	0.13	0.13
5 Year	0.82	0.92	0.36	0.28
10 Year	1.63	1.74	0.93	0.69
30 Year	2.35	2.41	1.65	1.46

Style Returns

MTD

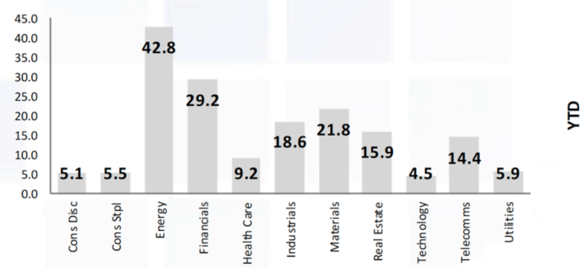
	V	B	G
L	2.05	-0.52	-3.09
M	1.37	-0.71	-4.85
S	1.82	-1.79	-5.59

S&P 500 Sector Returns



YTD

	V	B	G
L	18.08	11.03	4.48
M	20.15	12.85	-0.07
S	25.86	13.01	1.17



BECKER WEALTH MANAGEMENT, LLC

949-724-4575 | www.beckerwealthmanagementllc.com