

Monthly Economic Update

June 2021

U.S. Markets

Stocks traded in a narrow range in May, with technology and other high-valuation companies under selling pressure.

The Dow Jones Industrial Average gained 1.93 percent while the Standard & Poor's 500 Index rose 0.55% percent. The Nasdaq Composite, home for many technology and high-growth companies, dropped 1.53 percent.¹

Solid Earnings

Stock prices moved erratically throughout May as investors digested more solid corporate earnings reports, accelerating inflation and mixed economic signals.

With 95 percent of S&P 500 constituent companies reporting, 86 percent reported positive earnings surprises. The estimated earnings growth rate was 51.9 percent, the highest rate since the first quarter of 2010.^{2,3}

Inflation Story

The emerging inflation story, however, dampened investor optimism and weighed on the stock market. The latest Consumer Price Index report was particularly unsettling to investors, as consumer prices rose 0.8 percent in April 2021 and jumped by 4.2 percent year-over-year. A 6.2 percent year-over-year spike in the Producer Price Index followed, representing the most significant jump since 2010.^{4,5}

Any acceleration in inflation fans investors' fears that the Federal Reserve will adjust its monetary policy.

Particularly hard hit during the month were technology and other high-growth stocks. Investors appeared to reduce positions on concerns that higher inflation may lead to higher interest rates, and that combination could reduce the value of future earnings.

Sector Scorecard

The majority of industry sectors were positive in May, with gains in Communication Services (+3.60 percent), Consumer Staples (+2.79 percent), Energy (+7.58 percent), Financials (+5.92 percent), Health Care (+0.47 percent), Industrials (+2.96 percent), Materials (+5.01 percent), and Real Estate (+1.51 percent). Losses were posted in Consumer Discretionary (-2.98 percent), Technology (-3.61 percent), and Utilities (-1.34 percent).⁶

What Investors May Be Talking About in June

The inflation worries that roiled the stock market in May are likely to persist as investors try to gauge whether inflationary pressures are truly transitory, as the Fed believes, or if they will become a more permanent feature of the economic landscape.⁷

Investors may expect to keep a close eye on the Consumer Price Index, the Producer Price Index, the Personal Consumption Expenditures Index, and the wage growth component of the monthly employment report that captures job growth and the unemployment rate.

Recent news that some companies have hiked wages to attract workers has intensified concerns that rising wages may spark sustained inflationary pressures. Such costs typically pass on to the consumer.

World Markets

A pick-up in vaccination efforts in Europe led to broad global gains, with the MSCI-EAFE Index picking up 2.50 percent in May.⁸

European markets led the gains in overseas markets. France rose 2.83 percent, Germany added 1.88, and the United Kingdom tacked on 0.76 percent.⁹

Pacific Rim stocks joined the rally. Australia gained 1.93 percent while Japan edged higher, adding 0.16 percent. Argentina's volatile Merval index jumped 20.82 percent.¹⁰

Indicators

Gross Domestic Product: The second estimate of the first quarter's GDP growth remained unchanged at 6.4 percent.¹¹

Employment: Employers added just 266,000 jobs in April, a figure well below expectations. The unemployment rate ticked higher to 6.1 percent.¹²

Retail Sales: Retail sales were flat in April, following stimulus check-funded increases in the previous month.¹³

Industrial Production: Industrial output rose 0.7 percent, despite a substantial decline in auto production due to a chip shortage.¹⁴

Housing: Housing starts declined 1.5 percent. Year-over-year, housing starts were 39.2 percent higher.¹⁵

Existing home sales fell 2.7 percent as rising prices and declining inventory continued to crimp sales.¹⁶

Sales of new homes dropped 5.9 percent as the median price surged by 20.1 percent from a year earlier.¹⁷

Consumer Price Index: The prices of consumer goods surged in April, jumping 0.8 percent month-over-month and posting a 4.2 percent increase over last April's prices. Strong consumer demand, supply chain kinks, and comparisons to the previous year's pandemic-induced price declines contributed to the spike in prices.¹⁸

Durable Goods Orders: Durable goods orders fell 1.3 percent, registering the first monthly decline in 11 months. The shortage of semiconductor chips weighed on auto production, which contributed to April's decline.¹⁹

The Fed

The Federal Open Market Committee (FOMC) released the minutes of its two-day April 2021 meeting.

The minutes showed that a number of committee participants had raised the idea that—if the economy continues to make progress—it might be appropriate to adjust the pace of the Fed's monthly bond purchase program. But for now, there was no change in the purchase program.²⁰

“In addition, the Federal Reserve will continue to increase its holdings of Treasury securities by at least \$80 billion per month and of agency mortgage-backed securities by at least \$40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals,” Fed officials said in a prepared statement.²¹

“These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.”²¹

MARKET INDEX	Y-T-D CHANGE	May 2021
DJIA	12.82%	1.93%
NASDAQ	6.68%	-1.53%
S&P 500	11.93%	0.55%

BOND YIELD	Y-T-D	May 2021
10 YR TREASURY	0.66%	1.58%

Sources: Yahoo Finance, May 31, 2021

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

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TWSE Taiwan 50 Index is a capitalization-weighted index of stocks comprising 50 companies listed on the Taiwan Stock Exchange developed by Taiwan Stock Exchange in collaboration with FTSE. The MSCI World Index is a free-float weighted equity index that includes developed world markets and does not include emerging markets. The Mexican Stock Exchange, commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. The U.S. Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. The publisher is not engaged in rendering legal, accounting, or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

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