Summary

Economic data for the week included stronger consumer inflation results, as well as higher job openings, and continued decline in the number of weekly jobless claims.

U.S. and European equity markets saw further gains, with accommodative policy and tempered longer-term inflation expectations swaying sentiment. Bonds earned positive returns as well, along with falling long-term interest rates. Commodities ticked higher, largely due to crude oil and natural gas prices.

Economic Notes

(-) The **consumer price index** for May came in showing a rise of 0.6% for headline and 0.7% for core, continuing the string of strong recent readings, and just a bit higher than consensus expectations for about 0.5% each. The sharpest rises originated from fuel oil, up 2% in the month alone, while gasoline prices normalized downward by nearly a percent. Supply shortages continued to dominate prices in selected sectors, with used car prices up another 7% in May (on top of a 10% gain in April), and new cars up another 2%. A secondary group reflected Covid-based reopenings, such as airfares up 7%, as well as strength in apparel, hotel rates, and parking fees. Other groups, such as shelter, medical care, and other services, were only slightly higher—within trend. Overall, the rate of increase for the past several month has been the strongest in over a decade.

The year-over-year readings accelerated a bit to 5.0% for headline and 3.8% for core. These are well above target, and inflation readings of the past few years before Covid. As noted from several May results, volatility has been focused on a few key items—those affected by broader Covid recovery demand or specific physical supply shocks. Examples are energy commodities up 55%, and used cars up 30% over the past year. Other items, such as furniture, have benefitted from the recent housing boom. Such one-off events tend to not be catalysts for secular higher inflation, notably as the other larger segments, including food, remain in the 2.0-2.5% range. The criticism of the Fed's 'transitory' inflation theory is that the extraordinary flood of monetary and fiscal stimulus is certain to result in higher goods prices. However, it appears that a bulk of those funds have been saved (or invested in financial markets), which has diffused their transmission into consumer goods.

(+) The initial June **Univ. of Michigan consumer sentiment** survey rose by 3.5 points to 86.4, exceeding expectations calling for 84.2. Assessments of current economic conditions rose a point, while expectations for the future continued to improve by a strong 5 points. Inflation expectations for the coming year fell back by -0.6% to 4.0%, while those for the next 5-10 years fell -0.2% to 2.8%—but remain high relative to history.

(+) The government **JOLTs** job openings report for April rose by a strong 998k to 9.286 mil.—a record level—and surpassed expectations calling for 8.200 mil. The job openings rate rose by 0.6% to 6.0%, while the hiring rate was flat at 4.2%. On the exiting side, the layoff rate fell by -0.1% to 1.0%, while quits rose 0.2% to 2.7%. As seen by the record set, this was a very strong report, and somewhat offset the lackluster employment situation report from the prior week. Each of these labor reports is based on slightly different data and measurement techniques, as well as timing of responses, so offer differing results. This report does show that low labor supply remains a key factor for the time being.

There has been a resurgence in 'quits' as of late, with a demand for workers resulting in employees departing for greener pastures—with a continued ability to work from home, better wages, and/or finding that the pandemic has allowed time for self-reflection and desire for career change. Regardless, it appears that the power of employers in the job market may be switching a bit in favor of employees. More generous unemployment benefits may have contributed to this, which may offer insight as these benefits are unwound.

(+) **Initial jobless claims** for the Jun. 5 ending week fell by -9k to 376k, but remained above the 370k level expected by consensus. **Continuing claims** for the May 29 week fell by a more dramatic -258k to 3.499 mil., below the median forecast of 3.665 mil. Initial claims dropped most sharply in PA and CA, with far less meaningful drops and rises in a variety of other states. The number of recipients of benefits through extended programs is far larger than these two measures capture, with a slight gain in recent weeks to remain around 9.2 million. Extended benefits have begun to be rejected by some more conservative states this summer, in hopes of encouraging employment, with Federal extra support ending in September.

Market Notes

Period ending 6/11/2021	**1 Week (%)**	**YTD (%)**
DJIA	-0.78	13.65
S&P 500	0.43	13.84
NASDAQ	1.85	9.50
Russell 2000	2.18	18.73
MSCI-EAFE	0.34	11.60
MSCI-EM	0.08	7.81
BBgBarc U.S. Aggregate	0.47	-1.71

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2020	0.09	0.13	0.36	0.93	1.65
6/4/2021	0.02	0.14	0.78	1.56	2.24
6/11/2021	0.03	0.16	0.76	1.47	2.15

The strong CPI report on Thursday was a non-event for markets, perhaps due to the moderation in pace compared to the very strong April numbers. 'Some' inflation now appears baked into market expectations, with the status quo assumption of 'transitory' higher prices being accepted for the time being.

Sector results were largely led by the growth group, with healthcare, technology, and consumer discretionary all up over a percent—these were aided by lower interest rates that tend to aid 'longer duration' equities (those with higher expected long-term growth and lower dividend payouts). Specifically, healthcare was boosted by Biogen's newly FDA-approved Alzheimer's therapy (despite questions over the efficacy results, and an expected retail price of $56,000/year). On the other hand, more cyclical financials, industrials, and materials each lost upwards of -2% as the 'value' trade lagged. Real estate assets gained several percent as continued improvement in fundamentals and lower financing rates helped sentiment.

The U.S. Senate passed the United States Innovation and Competition Act of 2021, with support from both parties, in a long-awaited effort to provide research funding to technological and scientific endeavors. This is intended to help combat the growing strength of China in these areas, by limiting their ability to work with American research partners, as well as provide a more immediate shot in the arm to the supply-constrained semiconductor industry. Despite not being widely advertised, the U.S. government has historically played an important sponsorship role in science/technology over the decades, so this is really a revamp after a bit of a lapse in their involvement.

Interestingly, the prior weekend, the group of G7 nations reached an agreement on a global minimum tax of 15%. This concept has been years in the making, and is intended to prevent multinational companies from moving profits from one subsidiary to another on their balance sheet in order to take advantage of lower-tax jurisdictions (like Ireland, for example). This could get a bit complicated, and gets to the question of whether profits should be taxed on domicile of headquarters or where revenue is actually earned, but does at least prevent the revenue-negative proposition for countries losing firms to the lowest tax rate bidder. There could be pushback on this from the corporate side, as well as governments not wanting to cede tax rate control to a 'global' rulemaking body.

Foreign stocks in developed markets performed largely in line with domestic equities, driven by Covid reopening expectations and fiscal/monetary stimulus. The ECB meeting last week ended in promises of continued strong bond purchases for the coming quarter. While this was taken positively by markets, the pandemic situation in the U.K. remained dicey, with broader reopenings delayed due to the spread of a Covid variant. The smaller emerging equity market in Peru was especially hard-hit early in the week, down -10% overall following the close election results featuring the strong showing of a leftist/populist candidate for president. On the other hand, a Mexican election was expected to keep current moderate policies largely in place.

U.S. bonds experienced one of their strongest weeks in the last few months, as interest rates continued to moderate on the longer end of the treasury yield curve. Tighter credit spreads also held investment-grade corporate bonds fare best on the week, although all bond groups ended positively. Foreign bonds were flattish in developed markets, but USD-denominated emerging market debt gained nearly a percent last week in keeping with strength in risk assets broadly.

Commodities on average rose slightly last week, despite a stronger dollar, as gains in energy and industrial metals offset declines in agriculture. The price of crude oil gained another 2% to just under $71/barrel, while natural gas prices rose over 6% due to hotter weather across the central U.S. (One of the primary natural gas price drivers is cold and hot weather extremes.) In petroleum-related news, the proposed Keystone XL pipeline project was officially terminated under environmental and Presidential pressure. While this was seen as an environmental victory, it could eventually exacerbate the supply deficit that could reduce U.S. energy independence, and increase reliance on OPEC and other producing nations.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, HSBC, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.