Summary

Economic data for the week included largely unchanged Q1 GDP estimates, and a decline in durable goods orders. On the housing side, prices continue to show strong momentum, while sales fell due to increasingly tight inventories. Jobless claims continued to improve and point to labor market repair.

Global equity markets continued to benefit from strong economic rebound activity and consumer sentiment. Bonds also benefitted from a pullback in interest rates. Commodities were led by demand expectations for energy and metals.

Economic Notes

(0/+) The second release of Q1 2021 **GDP** was unrevised from the first edition, showing annualized real growth of 6.4%. However, market expectations were more along the lines of a tenth or two higher. Underlying data remained solid, with personal consumption growth revised upward by over a half-percent to 11.3%. This was due to strong revisions upward for intellectual property and residential investment, which offset downward revisions for equipment, inventories, and net exports.

The core **PCE price index** for Q1 was revised up a few tenths higher than expected, at an annualized 2.5% rate, bringing the year-over-year rate to a still-contained 1.6%. The PCE index, which the Fed relies upon, has a different composition than the more commonly-known consumer price index, which has a greater allocation to the effects of commodity prices and housing/shelter.

Based on the Atlanta Fed GDPNow, Q2 GDP is expected to grow in the range of 9.3%, while the New York Fed Nowcast model predicts 4.3%. Both are subject to change in coming weeks, but the consensus view is that we're perhaps nearing the peak of economic growth recovery in mid-2021, although growth may continue to run at levels still above-average for the coming year or two.

(-) **Durable goods orders** for April fell by -1.3%, which was in contrast to a gain the prior month and a 0.8% increase expected by consensus. However, this was explained largely by large decline in auto and auto parts orders for the month, which can be volatile, and lately affected by a shortage of semiconductors. Core capital goods orders, though, rose by 2.3% for the month, which far surpassed the 1.0% forecast, in addition to several upward revisions for three prior months of about a half-percent each. Core capital goods shipments increased 0.9%, which was a bit stronger than expected. While some supply bottlenecks have made their way into goods orders and other statistics, orders remain up 52% vs. April 2020, showing robust recovery.

(0) **Personal income** fell by -13.1% in April, which was actually an improvement upon the -14.2% drop expected. This was, in fact, the biggest single-month decline reported for that series, but merely represents the impact of March stimulus payments dropping off. Wage and salary income rose by 1.0%, however. **Personal spending** increased by 0.5%, on par with consensus expectations. The savings rate declined to 14.9%, but remains nearly twice the pre-Covid level. On the inflation side, headline and core PCE rose by a rounded 0.6% and 0.7%, respectively, with a larger-than-average contribution from healthcare costs. This pushed the year-over-year gains to a more dramatic 3.6% for headline and 3.1% for core inflation. The composition of PCE is different than CPI, though, with a quarter of the latter tied to housing, so it wouldn't be surprising to see the paths of these indexes diverge over time as the recovery takes hold, affecting sectors to different degrees.

(+) The **S&P/Case-Shiller home price index** rose 1.6% in March, beating expectations calling for 1.3% and representing the largest gain in decades. Prices rose in all 20 urban areas, led by the West, as Phoenix, Seattle, and San Diego each gained around 3% each for the month, while Las Vegas and Chicago were the laggards nationally. This brought the year-over-year gain up another 1.3% to 13.3%, which is robust, to say the least.

(+) The broader **FHFA house price index** experienced a gain of 1.4% during March, beating expectations of 1.0%. All nine regions gained, led by 2% increases for the Mountain and New England areas. The overall year-over-year rate of change here improved by a similar 1.4% to 13.9%. As noted for several months, continued tight inventories have pushed asking prices and eventual sales prices higher, particularly in more desirable areas.

(-) **New home sales** in April fell by -5.9% to a seasonally-adjusted level of 863k units. This was slightly better than the -7.0% decline to 950k expected, but included a sharp revision downward of 100k units for March. For April, the West was the only region with a slight gain in sales, while the South experienced the sharpest decline for the month. Inventory remained at 4.4 months' sales, which remains very tight, especially on the completed homes side. Sales overall remain strong, represented by the fact that they're up 20% from Feb. 2020 just as the pandemic was beginning, at the same pace as the median price of a new home of the past year.

(-) **Pending home sales** fell in April by -4.4%, which ran counter to the expected increase of 0.4%. This brought the year-over-year rate to over 53%. Regionally, only the Midwest saw an increase of 4%, while pending sales in all other areas declined, mostly in the Northeast. As pending sales lead to later 'existing sales,' the most notable component was the National Association of Realtors notations that 'lack of supply' has been a primary catalyst in the drop-off in recent housing sales activity, particularly in the 'affordable' segment.

(-) **Consumer confidence** for May ticked down by -0.3 of a point to 117.2, compared to expectations calling for a gain to 118.8. While consumer assessments of present economic conditions rose by over 12 points, expectations for the future declined by -9 points. Importantly, the labor differential, which measures the ease in job-finding, rose by 13 points to pre-Covid levels. This was highlighted by nearly half of respondents finding that 'jobs are plentiful.'

(+) The final May **Univ. of Michigan index of consumer sentiment** ticked up by 0.1 of a point to 82.9, recovering the decline from the early-month preliminary report. Consumer assessments of current conditions fell by just over a point, while expectations for the future improved by a similar amount. Inflation expectations for the coming year were flat at a decade high 4.6%, while those for the coming 5-10 years ticked lower by a tenth to 3.0%. Inflation concerns remain present undoubtedly, with the pace of increase being the key question from consumers.

(+) **Initial jobless claims** for the May 22 ending week fell by another -38k to 406k, well below the 425k consensus forecast. **Continuing claims** for the prior May 15 week also fell sharply, by -96k to 3.642 mil., which was lower than the median estimate of 3.680 mil. On the initial claim side, the largest drops were in WA, NJ, and FL, while several other states saw minor increases that were likely weather-related. In looking at broader pandemic emergency programs, the rolls continued to show declines largely on par with official jobless claims numbers, although the releases were for prior weeks. The overall claims total has fallen from 10 mil. closer to 9.2 mil.

Market reaction to jobless claims has been interesting, and a bit mixed. While the knee-jerk response has often been a positive market jolt upon stronger data, it's become less of a surprise due to expectations of gradual improvement this summer. At the same time, there remain the uncertainties about data that is 'too good'—potentially spurring some wage inflation and a shorter timeline for Fed accommodative monetary policies. These could be the key questions surrounding the summer economic recovery.

Market Notes

Period ending 5/28/2021	**1 Week (%)**	**YTD (%)**
DJIA	1.03	13.76
S&P 500	1.20	12.62
NASDAQ	2.08	6.98
Russell 2000	2.45	15.30
MSCI-EAFE	1.22	10.42
MSCI-EM	2.39	6.03
BBgBarc U.S. Aggregate	0.35	-2.29

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
5/21/2021	0.01	0.17	0.84	1.63	2.33
5/28/2021	0.01	0.14	0.79	1.58	2.26

U.S. stocks gained on a lighter pre-Holiday week, with economic data coming in largely as expected overall. Soothing language from government officials about inflation staying 'transitory' seemed to calm market fears to some degree. By sector, communications and consumer discretionary led the way with gains above 2%, with Facebook, Alphabet and a rebound by Tesla providing leadership. Small caps fared about twice as well as large caps, along with their perceived greater sensitivity to recovery. On the other hand, defensive utilities, health care, and consumer staples lost ground last week. Real estate also gained a few percent, fueled by more tempered interest rates. Results in May were led by 'value' (particularly financials and energy) as the post-Covid reflation trade continued, outperforming 'growth' which lost ground during the month (mostly consumer discretionary but also technology).

Foreign stocks were driven by similar drivers of reopening activity and stronger economic data, as well as widening vaccinations (although still well behind the U.S.). Emerging markets outperformed developed markets, with leadership in both Asia as well as commodity-sensitive nations such as Brazil and Russia. For the past few weeks, a weaker dollar has played a more important role, pushing net returns higher—particularly in more volatile emerging markets. Hopes for a stronger post-Covid recovery remain robust in those areas, despite current struggles on the ground in several countries, including India and Brazil.

U.S. bonds fared positively last week again, as interest rates fell—particularly along the longer end of the treasury yield curve. Investment-grade debt outperformed both high yield and bank loans. With little change in the dollar last week, foreign developed market bonds performed similarly to U.S. government, while emerging market fared slightly better. For the month of May, emerging market bonds outperformed other areas with strong gains along with tighter spreads due to continued risk-taking by investors.

Commodities gained across the board last week, led by positive returns in energy and industrial metals. Higher supplies for corn caused a bit of a correction on the agricultural side, which flattened returns for that group during the week. The price of crude oil regained over 4% to over $66/barrel, at the higher end of its recent range. Factors include virtual OPEC meetings this coming week, as the market continues to digest strengthening energy demand, but also high Covid case levels in several countries, and the potential impact of new supply from Iran. In May, most groups experienced gains, especially high-single digit returns for precious metals, which experienced a reversal in recent sub-par performance along with market concerns over rising inflation. However, as we've noted previously, the relationship between precious metals and inflation is not as clear-cut or consistent as its historical performance as a more effective 'risk-off' asset.

Have a good week.

Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, 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.