LCP LAKEVIEW CAPITAL PARTNERS

Week in Review

May 31, 2021

LAST WEEK IN REVIEW

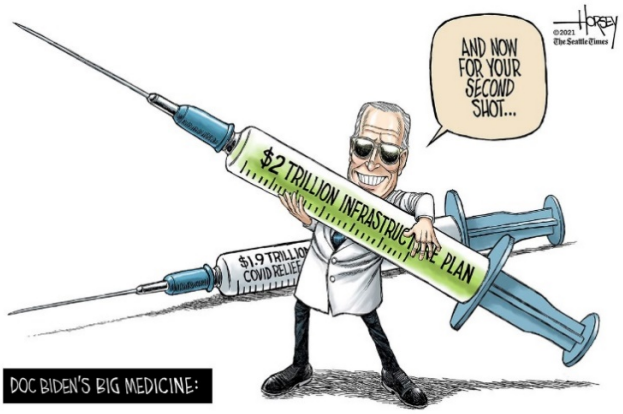
Stocks recorded solid gains last week, bringing the large-cap S&P 500 Index to within roughly 0.5% of the all-time intraday high it established on May 7 and leaving it with a small gain for the month. Traders I spoke with noted that trading volumes were exceptionally light, however, with Monday marking the fifth-lowest turnover in a non-holiday session since the pandemic began. The technology-heavy Nasdaq Composite and small-cap Russell 2000 indexes performed best.

Growth shares handily outperformed their value counterparts; Facebook and Google parent Alphabet helped communication services stocks outperform within the S&P 500, and a rebound in Tesla boosted consumer discretionary shares. The light trading volumes came in advance of the long Memorial Day weekend, with US markets scheduled to be closed today, May 31.

The major indexes were relatively steady for most of the week, which traders attributed in part to a seeming lack of directional drivers. However, investors did appear to keep a close eye on economic data, although the week's reports sent conflicting signals. On the positive side, weekly jobless claims fell more than consensus expectations, to a new pandemic-era low of 406,000, and durable goods orders excluding the volatile transportation sector increased by 1% in April, also more than expected. On the downside, some regional manufacturing gauges came in lower than anticipated, although still indicating solid expansion. Negotiations also continued on a new round of infrastructure spending, with Republicans unveiling a USD 928 billion counteroffer to President Joe Biden's latest proposal of roughly USD 1.7 trillion.

LAST WEEK IN REVIEW - Cont.

President Biden waited to release his first budget until Friday afternoon of a holiday weekend, a signal that the White House wasn't looking for much attention on its (mind-blowing – my words) proposal to spend $6 trillion in 2022. This spending is roughly a 35 percent increase from pre-pandemic-era federal government spending (gulp).



Source: Syarcuse.com

U.S. – MARKETS & ECONOMY

Consumer confidence data pulled back from recent highs, with many polled citing inflation concerns. Indeed, some evidence emerged during the week that consumers were postponing purchases in response to rising prices, particularly in the housing sector—pending home sales fell 4.4% in April, defying expectations for a small gain. According to the S&P CoreLogic Case-Shiller Index, average home prices in major metropolitan areas rose 13.2% in the year ended in March, up from a 12.0% annual rate the prior month and the highest rate of growth since December 2005. In addition, the Commerce Department reported that the median price of a new home sold in April was up 20.1% from a year earlier, the most substantial annual gain since 1988.

Concerns about inflation resulting from supply chain pressures and the release of pent-up consumer demand may have also restrained the week's gains. The Commerce Department reported on Friday that its core (less food and energy) personal consumption expenditure price (PCE) index increased 3.1% in the year ended in April. This was slightly above expectations and the biggest increase in nearly three decades—and well above the Fed's 2% target for its preferred inflation gauge.

U.S. EQUITY MARKET PERFORMANCE

Index	Friday's Close Week Ending 5/28/2021	Friday's Close Week Ending 5/28/2021	% Change YTD Week Ending 5/28/2021
DJIA	34,529.45	321.61	12.82%
S&P 500	4,204.11	48.25	11.93%
Nasdaq Composite	13,749.74	277.75	6.68%
S&P MidCap 400	2,727.45	37.61	18.24%
Russell 2000	2268.97	53.70	14.89%

SOURCE: BLOOMBERG. THIS CHART IS FOR ILLUSTRATIVE PURPOSES ONLY AND DOES NOT REPRESENT THE PERFORMANCE OF ANY SPECIFIC SECURITY. PAST PERFORMANCE CANNOT GUARANTEE FUTURE RESULTS.

US YIELDS & BONDS

Fixed-income investors appeared to be reassured by the Fed officials' comments, with the yield on the benchmark 10-year US Treasury note decreasing over the week. (Bond prices and yields move in opposite directions.) The broad municipal bond market posted positive returns through most of the week. According to traders, light trading activity in the secondary market led to large oversubscriptions for primary market deals.

The US investment-grade corporate bond market traded with a solid tone for much of the week, supported by generally positive economic signals and better demand out of Asia. According to traders, buy and sell activity was mainly balanced, but selling shorter maturities favoring longer-term bonds was evident. The high yield market was focused on issuance early in the week, with new deals generally met with healthy interest. But sellers were also active amid persistent outflows from below-investment-grade funds. As a result, both the primary and secondary markets became noticeably quieter as the holiday weekend drew near, with no new issues announced or priced.

US TREASURY MARKETS & WEEKLY YIELD CHANGE

3 Mth: 0.00 bps to 0.00%
2-yr: -0.01 bps to 0.14%
5-yr: -0.02 bps to 0.80%
10-yr: -0.03 bps to 1.59%
30-yr: -0.04 bps to 2.28%

SOURCE: FOR THE WEEK ENDING May 28, 2021. BLOOMBERG. YIELDS ARE FOR ILLUSTRATIVE PURPOSES ONLY AND DO NOT REPRESENT THE PERFORMANCE OF ANY SPECIFIC SECURITY. YIELD CHANGES ARE FOR ONE WEEK. PAST PERFORMANCE CANNOT GUARANTEE FUTURE RESULTS.

INTERESTING NEWS OVERSEAS

Shares in Europe advanced on continued affirmations of ultra-easy monetary policy and reports of a massive US fiscal spending plan. In local currency terms, the pan-European STOXX Europe 600 Index ended the week up 1.02%. France's CAC 40 gained 1.53%, Germany's Xetra DAX Index added 0.53%, and Italy's FTSE MIB Index advanced 0.78%. The UK's FTSE 100 Index ended roughly flat, in part reflecting the UK pound's appreciation versus the US dollar. However, the reopening of the economy and comments from Bank of England (BoE) policymaker Gertjan Vlieghe, who said the central bank could raise interest rates as soon as the first half of next year, helped the currency rise for a fifth consecutive week.

Core eurozone bond yields eased. Germany's 10-year bund rallied early in the week, supported by dovish comments from European Central Bank policymakers, who said they saw no evidence of sustained inflationary pressure and that winding down emergency bond purchases would be premature. However, yields abruptly rose toward the end of the week as US Treasury yields dropped. Bond yields in peripheral European markets largely tracked those in the core. UK gilt yields were broadly flat after a turbulent week. They followed core markets lower early on but rose sharply after Vlieghe's comments regarding the BoE possibly raising interest rates in the first half of next year if the economy recovers faster than expected.

Japan's stock markets registered a gain for the week, with the Nikkei 225 Index rising 2.94% and the broader TOPIX Index up 2.24%. Signs that Japan was accelerating its COVID-19 vaccine rollout were supportive of sentiment. The 10-year Japanese government bond yield was broadly unchanged at 0.08%, while the yen weakened notably to around JPY 109.82 against the US dollar.

INTERESTING NEWS OVERSEAS – cont.

Amid the worsening coronavirus crisis, Japan kicked off a mass vaccination program of people age 65 or older in Tokyo and Osaka, scheduled to stretch over the next three months. The debut of the two mass vaccination centers underscores the central government's willingness to play a more active role. However, municipalities remain responsible for the large chunk of the nation's vaccine rollout. As a result, the country significantly lags other developed nations in its vaccination drive, and its health care system is struggling to cope with the latest surge in cases.

The fourth wave of infections has led authorities to declare states of emergency covering much of the country, including Tokyo, raising some concerns about the Olympic Games due to begin on July 23. Japan, struggling to convince its own public and the international community that it's ready to host the event, was dealt a further blow by the US State Department issuing a warning that Americans should avoid traveling to Japan.

Lastly, the Chinese stocks rose strongly, with both the CSI 300 Index and Shanghai Composite Index posting the best weekly gain in more than three months, according to Reuters. Tourism-related names and other stocks leveraged to an economic reopening rose after China passed a milestone of over 500 million COVID-19 vaccinations. In an effort to reduce financial risks, policymakers promised zero tolerance for commodity speculation and further cracked down on cryptocurrency mining. Separately, Chinese regulators turned down applications to issue RMB 154 billion of asset-backed securities from various companies, including fintech company Ant Group, according to domestic news portal Sina.com. The amount was twice the amount rejected in 2020 and reflects the government's renewed focus on curbing financial risks.

In credit markets, the yield on the 10-year sovereign bond ended the week at 3.09%. Huarong Asset Management—whose liquidity issues have raised questions about Beijing's willingness to backstop state-linked entities—is "nowhere near" defaulting on its onshore bonds. However, the company needs to repair the damage caused by its former chairman, reported financial news outlet Caixin. In money markets, short-term rates remained low and stable as they have for most of May. Analysts see this due to a dovish liquidity bias from the central bank and reduced government bond issuance. In currency trading, the renminbi rose 1.1% against the US dollar to 6.365, its highest level against the dollar since June 2018.

Northbound equity inflows from Hong Kong into China hit USD 3.4 billion on Wednesday, among the largest-ever daily net inflows. The week saw a return of southbound Stock Connect buying of Hong Kong-listed China shares. Mainland funds were active in buying large-cap favorites like Hong Kong Exchanges and Clearing and e-commerce giant Tencent.

THE WEEK AHEAD

Investors' focus turns to the May's jobs report in the US, which could show a payroll increase of 650 thousand, after a smaller-than-expected 266 thousand gain in April. At the same time, the unemployment rate is seen falling below the 6 percent mark for the first time since March 2020, when the pandemic first hit the labor market. Meanwhile, the ISM PMI surveys should signal solid manufacturing and service growth rates during May, on the back of the country's reopening efforts, the ongoing government support, and one of the world's most successful vaccination campaigns. Other notable publications are factory orders, construction spending, ADP employment change; IBD/TIPP Economic Optimism; Dallas Fed Manufacturing Index; and the final readings of first-quarter labor productivity and Markit PMI surveys. US stock markets will be closed today for Memorial Day.

Have a great week.

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