

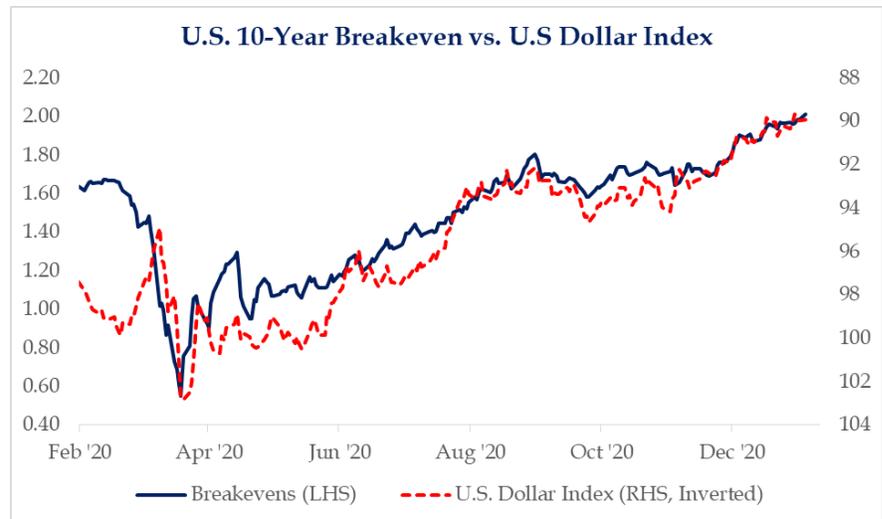
Strategas Daily Macro Brief

Prepared by Strategas Securities, a Baird Company

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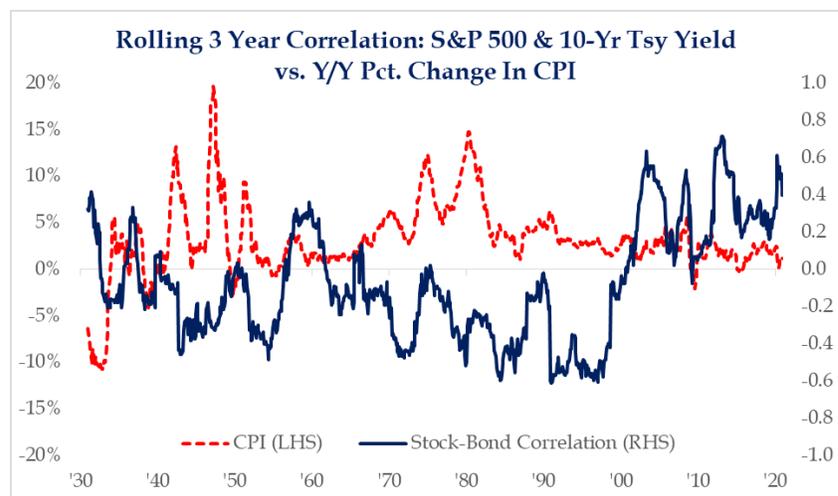
U.S. DOLLAR & BREAKEVENS INVERSELY CORRELATED

Over the last nine months, the move higher in breakevens has coincided with a falling U.S. dollar index. In the near-term, additional increases in inflation expectations look likely to be reliant on further dollar weakness. Be mindful that there may be some elevated inflation readings over the coming months due to the lapping of the broad economic shutdown in 2020.



INFLATION & U.S. STOCK-BOND CORRELATION

Since 1930, the U.S. stock-bond correlation has averaged -0.1, with periods of higher and more variable inflation associated with negative correlations. However, the positive correlation over the last 20-years made hedging stocks with bonds rather easy, but that could change if inflation rises and correlations decline.



Please see the Appendix on page 3 for important disclosures.

65-DAY U.S. STOCK-BOND CORRELATION BREAKING DOWN

The shorter-term relationship between stocks and bonds has already fallen significantly but remains in positive territory. In our view, this may be a less traditional indicator to watch for any signs of a shift in inflation expectations, but breakeven levels are already being widely observed by market participants.



THINKING ABOUT SECTOR POSITIONING FOR INFLATION BEFORE IT ARRIVES

Based on the five periods highlighted below, Technology and Energy are the best performing sectors during periods of rising inflation, while the Financials and Staples sectors are the worst-performing ones. However, the playbook this time around may not be the same. Technology has benefitted from the global pandemic and stay at home orders, while ultra-low rates have hindered the Financials. Should interest rates rise from the current levels, the playbook could be reversed.

Sector Performance During Periods of Rising Inflation (Annualized)						
Index	4/30/1998	6/30/2002	10/31/2006	7/31/2009	4/30/2015	Average (Sorted)
	4/30/2000	9/30/2005	7/31/2008	9/30/2011	7/31/2018	
Technology	60.1%	10.4%	1.0%	10.5%	20.7%	20.5%
Energy	5.3%	23.7%	18.6%	8.6%	1.2%	11.5%
Real Estate	NA	15.9%	-9.1%	28.7%	6.8%	10.6%
Utilities	8.2%	15.1%	7.1%	12.6%	9.5%	10.5%
Industrials	10.5%	9.0%	1.1%	12.2%	12.0%	9.0%
Discretionary	17.3%	6.3%	-13.0%	18.8%	14.6%	8.8%
S&P 500	15.8%	8.8%	-2.7%	9.0%	12.0%	8.6%
Communication	22.7%	6.6%	-5.3%	11.9%	3.0%	7.8%
Health Care	7.8%	5.7%	-0.4%	8.7%	8.7%	6.1%
Materials	-7.5%	7.8%	13.5%	4.7%	7.6%	5.2%
Staples	-11.1%	3.8%	6.1%	13.3%	6.1%	3.6%
Financials	0.4%	7.7%	-22.5%	-3.2%	13.7%	-0.8%

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