LAKEVIEW CAPITAL PARTNERS – May 24, 2021

LAST WEEK IN REVIEW

Last week stocks posted mixed results in a volatile week of trading, with the large-cap S&P 500 Index ending modestly lower and the tech-heavy Nasdaq Composite Index gaining a little ground. These mixed results likely reflect strength in the US economy, as well as concerns about inflation and the timing of when the Federal Reserve might begin to rein in its accommodative policies. Within the S&P 500, health care posted the most significant gain. Conversely, energy and industrials lost ground.

US - MARKETS & ECONOMY

Minutes from the Federal Open Market Committee's (FOMC) meeting in late April offered additional insight into policymakers' thinking on the economy and inflationary pressures. Investors focused on a statement that "a number of participants" suggested that policymakers "begin discussing a plan" for tapering the Fed's monthly asset purchase program, which stands at USD 120 billion. On the inflation front, FOMC members acknowledged the potential for inflation to run "temporarily" above their 2% target due to "transitory supply chain bottlenecks" that would fade (they are dreaming). However, some highlighted the risk that price increases could reach "unwelcome levels before they become sufficiently evident to induce a policy reaction." Still, many policymakers noted that longer-term inflation expectations align with the central bank's longer-term goals.

US equities gained ground on Friday, lifted by the release of preliminary estimates for the IHS Markit Flash US Composite PMI Output Index. The index came in at a record 68.1 in May—a significant improvement from April's 63.5 reading and above the consensus forecast. (PMI readings above 50 suggest an expansion in economic activity.) The service sector component of the survey was solid, with the flash PMI reading climbing to a record 70.1 from 64.7 in April. In addition, PMI for the manufacturing sector advanced to 61.5, a month-over-month improvement from 60.5. The preliminary PMI data also highlighted inflationary pressures in the US economy, with the rate of input price increases surging to a record and output charges recording their sharpest rise since October 2009, when data collection began.

US – EQUITY MARKET PERFORMANCE

Index	Friday's Close Week Ending 5/21/2021	Friday's Close Week Ending 5/21/2021	% Change YTD Week Ending 5/21/2021
DJIA	34,207.84	-174.29	11.77%
S&P 500	4,155.86	-17.99	10.64%
Nasdaq Composite	13,470.99	41.01	4.52%
S&P MidCap 400	2,689.83	-32.06	16.61%
Russell 2000	2,215.27	-9.38	12.17%

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

Last week US Treasury yields were roughly unchanged for the week. Traders I spoke with stated that Wednesday's sharp sell-off in cryptocurrencies sparked a bid for Treasuries. However, yields soon increased following the release of the FOMC's April meeting minutes, which led investors to pull forward their expected timeline for rate hikes. (Bond prices and yields move in opposite directions.) Municipal bonds recorded modestly positive returns through most of the week. According to municipal traders, high-grade and high yield deals were met with solid demand in the competitive market. The technical environment remained supportive of the asset class, but based on data from Lipper, the pace of flows into municipal bond funds industrywide slowed over the past week.

According to traders, strong overnight demand from Asia supported the investment-grade corporate bond market at the start of the week. Primary issuance was in line with expectations, and the deals that reached the market received adequate demand. However, the high yield market was reasonably quiet as inflation concerns, global coronavirus developments, and reopening growth dynamics influenced investor sentiment.

US TREASURY MARKETS AND WEEKLY YIELD CHANGE

3 Mth: 0.00 bps to 0.00%
2-yr: 0.00 bps to 0.15%
5-yr: +0.01 bps to 0.82%
10-yr: -0.01 bps to 1.62%
30-yr: -0.02 bps to 2.32%

SOURCE: FOR THE WEEK ENDING May 21, 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 rose on signs that the economy is rebounding as restrictions instituted to control coronavirus spread began to ease. However, worries about inflation curbed gains. In local currency terms, the pan-European STOXX Europe 600 Index ended the week 0.43% higher. Major indexes were mixed: Italy's FTSE MIB Index advanced, while Germany's Xetra DAX Index and France's CAC 40 Index were little changed. The UK's FTSE 100 Index fell 0.36%, as robust economic data lifted the British pound versus the US dollar.

Core eurozone bond yields ended higher on expectations that the European Central Bank (ECB) could slow its bond purchases. However, peripheral eurozone bond yields fell. Uncertainties over Italy's economic reform plans and the potential slowing of ECB bond purchases initially drove yields higher, but markets began to stabilize, and peripheral yields ended lower. UK gilt yields fell on concerns about the spread of a new coronavirus strain and its potential to delay the full reopening of the UK economy.

Japan's stock markets finished the week higher, with the Nikkei 225 Index returning 0.83% and the broader TOPIX index up 1.13%. Economic data were mixed, with Japan's gross domestic product shrinking more than expected in the first quarter. However, export growth in April was strong, and manufacturers' business confidence rose to its highest level since late 2018 in May. The 10-year Japanese government bond yield fell slightly to 0.08%, while the yen strengthened, finishing the week at around JPY 108.66 against the US dollar.

Lastly, Chinese stocks recorded a mixed week. The benchmark Shanghai Composite Index shed 0.1%, while the large-cap CSI 300 Index, whose growth stocks have fallen in recent weeks, added 0.5%. In the fixed income market, yields on Chinese bonds fell following disappointing April economic data. In currency trading, the renminbi ended the week roughly unchanged versus the US dollar. The renminbi has strengthened since early April against the dollar, driven by China's widening current account surplus, foreign direct investment, and foreign portfolio investment in Chinese bonds and stocks. The renminbi's recent appreciation has pushed the official trade-weighted index—which measures the Chinese currency's value against a basket of 24 major currencies—close to its 2018 high.

THE WEEK AHEAD

It will be a relatively busy week regarding US economic data. The second estimate of first-quarter GDP is set to confirm the economic recovery gathered pace during the January-March period, helped by the country's reopening efforts, the government's massive stimulus package, and one of the world's most successful vaccination campaigns. Other notable publications include personal income and outlays; PCE price index; durable goods orders; CB consumer confidence; new and pending home sales; Chicago Fed National Activity Index; Chicago PMI; Case-Shiller home prices; the advance estimates of goods trade balance and wholesale inventories; and the final reading of Michigan consumer sentiment.

On the political front, US President Biden's entire fiscal 2022 budget proposal will be released on May 28 and will provide detailed information on the programs Biden wants to expand or cut - from foreign aid to immigration and policing.

Have a great week.

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