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BAKER SCHULTZ
TAX & FINANCIAL

Market Month: May 2021

The Markets (as of market close May 28, 2021)

Stocks were volatile in May, likely a reflection of strength in the U.S. economy as well as concerns about inflation and the timing of when the Federal Reserve might begin to taper its accommodative policies. Regarding inflation, members of the Federal Open Market Committee acknowledged that prices may run higher than the 2.0% target set by the Committee due to transitory supply-chain bottlenecks, which are expected to fade.

Strong first-quarter corporate earnings reports, coupled with declining jobless claims, helped bolster equities during May. Stocks began the month on a high note, despite a lower-than-expected jobs report.

Stocks retreated mid-month as inflation indicators pointed to price growth, while cryptocurrency volatility added to investor uncertainty. Nevertheless, stocks rebounded during the last week of May to pull the major market indexes higher, with only the Nasdaq failing to outperform its April value. Otherwise, the Global Dow led the benchmarks for the month, followed by the Dow, the S&P 500, and the Russell 2000. Year to date, the Global Dow is up nearly 17.0%, followed by the Russell 2000, the Dow, the S&P 500, and the Nasdaq.

The market sectors ended the month mixed, with financials (5.6%), materials (4.6%), energy (3.2%), industrials (2.9%), and consumer staples (2.8%) closing the highest, while consumer discretionary (-3.5%) and information technology (-2.5%) fell the most. The yield on 10-year Treasuries fell 5 basis points in May. The dollar declined 1.3%. Crude oil prices climbed 5.0% to close at $66.64 per barrel. Gold prices advanced for the third consecutive month. The national average retail price for regular gasoline was $3.020 on May 24, $0.148 higher than the April 26 selling price of $2.872 and $1.060 more than a year ago.

Stock Market Indexes

Market/Index	2020 Close	Prior Month	As of May 28	Monthly Change	YTD Change
DJIA	30,606.48	33,874.85	34,529.45	1.93%	12.82%
Nasdaq	12,888.28	13,962.68	13,748.74	-1.53%	6.68%
S&P 500	3,756.07	4,181.17	4,204.11	0.55%	11.93%
Russell 2000	1,974.86	2,266.45	2,269.15	0.12%	14.90%
Global Dow	3,487.52	3,924.14	4,064.85	3.59%	16.55%
Fed. Funds target rate	0.00%-0.25%	0.00%-0.25%	0.00%-0.25%	0 bps	0 bps
10-year Treasuries	0.91%	1.63%	1.58%	-5 bps	67 bps
US Dollar-DXY	89.84	91.26	90.04	-1.34%	0.22%
Crude Oil-CL=F	$48.52	$63.50	$66.64	4.94%	37.35%
Gold-GC=F	$1,893.10	$1,768.20	$1,907.40	7.87%	0.76%

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not

Key Dates/Data Releases
6/1: Purchasing Managers' Manufacturing Index
6/3: Purchasing Managers' Services Index
6/4: Employment situation
6/8: International trade in goods and services, JOLTS
6/10: Treasury budget, Consumer Price Index
6/15: Retail sales, industrial production, Producer Price Index
6/16: FOMC statement, import and export prices, housing starts
6/22: Existing home sales
6/23: New home sales
6/24: Durable goods orders, GDP, international trade in goods
6/25: Personal income and outlays

be used to benchmark performance of specific investments.

Latest Economic Reports

- **Employment:** Employment is expanding, but not at the pace that was forecast. April saw 266,000 new jobs added, well below the level predicted. The March figure was revised down from 916,000 to 770,000 — an indication that job gains were not quite as robust as had been estimated. In April, the unemployment rate edged up 0.1 percentage point to 6.1%, the first increase in a year. The number of unemployed persons rose by roughly 100,000 to 9.8 million in April. Among the unemployed, the number of persons on temporary layoff increased in April by 100,000 to 2.1 million. This measure is down considerably from the recent high of 18.0 million in April 2020 but is 1.4 million higher than in February 2020. The number of persons not in the labor force who currently want a job fell from 6.9 million in March to 6.6 million in April. The number of employed persons who teleworked in April because of the coronavirus pandemic fell to 18.3%, down from 21.0% in the prior month. In April, 9.4 million persons reported that they had been unable to work because their employer closed or lost business due to the pandemic. This measure is down from 11.4 million in March. Notable job growth in April occurred in leisure and hospitality, which increased by 331,000. More than half of the increase in leisure and hospitality was due to a rise in food services and drinking establishments (+187,000). In April, the labor force participation rate inched up 0.2 percentage point to 61.7%, and the employment-population ratio rose 0.1 percentage point to 57.9%. Average hourly earnings increased by $0.21 to $30.17 in April after declining $0.04 in March. Average hourly earnings are up 0.3% from a year ago. The average work week increased by 0.1 hour to 35.0 hours in April.
- Claims for unemployment insurance have maintained a fairly steady pace over the past few months. According to the latest weekly totals, as of May 15 there were 3,642,000 workers receiving unemployment insurance benefits, down marginally from the April 17 total of 3,660,000. Since April 17, the insured unemployment rate remained unchanged at 2.6%. During the week ended May 8, Extended Benefits were available in 14 states (15 states during the week of April 10); 51 states and territories reported 6,515,657 continued weekly claims for Pandemic Unemployment Assistance benefits (6,974,068 in April), and 51 states and territories reported 5,191,642 continued claims for Pandemic Emergency Unemployment Compensation benefits (5,192,711 in April).
- **FOMC/interest rates:** The Federal Open Market Committee did not meet in May, so the target range for the federal funds rate remained at its current 0.00%-0.25%. The FOMC next meets in June.
- **GDP/budget:** According to the second estimate, the economy accelerated at an annual rate of 6.4% in the first quarter of 2021 after advancing 4.3% in the fourth quarter of 2020. Consumer spending, as measured by personal consumption expenditures, increased 11.3% in the first quarter after rising 2.3% in the fourth quarter. Nonresidential (business) fixed investment climbed 10.8% following a 13.1% increase in the fourth quarter; residential fixed investment continued to advance, increasing 12.7% in the first quarter after climbing 36.6% in the prior quarter. Exports decreased 2.9% in the first quarter of 2021 after advancing 22.3% in the fourth quarter of 2020, and imports (which are a negative in the calculation of GDP) increased 6.7% in the first quarter (29.8% in the fourth quarter of 2020). Federal nondefense government expenditures climbed 44.8% following a fourth-quarter decline of 8.9% due primarily to added federal stimulus payments and aid.
- The Treasury budget deficit was $225.6 billion in April, following the March deficit of $659.6 billion. Government receipts were $439.2 billion in April ($267.6 in March), while outlays in April totaled $664.8 billion ($927.2 billion in March). The deficit is 69.0% lower than it was in April 2020. The deficit for the first seven months of fiscal year 2021, at $1.932 trillion, is 30.0% higher than the same period in the previous fiscal year, as government outlays rose by 22.0% to $4.075 trillion, far exceeding the 16.0% increase in receipts of $2.143 trillion.
- **Inflation/consumer spending:** Inflationary pressures continued to advance in April. According to the latest Personal Income and Outlays report, consumer prices edged up 0.6% in April after advancing 0.6% in March. Prices have increased 3.6% since April 2020. Excluding food and energy, consumer prices increased 0.7% in April and 3.1% since April 2020. Personal income decreased 13.1% in April after climbing 20.9% in March. Disposable personal income dropped 14.6% in April following a 23.4% advance the prior month. The decrease in personal income in April primarily reflected a decrease in government social benefits, as payments to individuals from the American Rescue Plan Act of 2021 and unemployment insurance decreased. Consumer spending increased 0.5% in April following a 4.7% increase in March.
- The Consumer Price Index climbed 0.8% in April following a 0.6% increase in March. Over the 12 months ended in April, the CPI rose 4.2% — the largest 12-month increase since a 4.9% increase for the period ended in September 2008. Core prices, excluding food and energy, advanced 0.9% in April and are up 3.0% over the last 12 months, which is the largest gain since January 1996. Energy prices slipped 0.1% in April but are 25.1% higher than a year ago. Food prices rose 0.4% in April and are up

2.4% since April 2020. Overall, nearly every component of core prices rose in April, led by a 10.0% increase in prices for used cars and trucks.

- Prices that producers receive for goods and services continued to climb in April, increasing 0.6% after advancing 1.0% in March. Producer prices increased 6.2% for the 12 months ended in April, which is the largest yearly gain since November 2010 when 12-month data was first calculated. Producer prices less foods, energy, and trade services rose for the twelfth consecutive month after advancing 0.7% in April. Food prices rose 2.1%, while energy prices fell 2.4% in April.
- **Housing:** In April, sales of existing homes fell for the third consecutive month, declining 2.7% after decreasing 3.7% in March. Nevertheless, over the past 12 months, existing home sales increased 33.9%. The median existing-home price was $341,600 in April ($329,100 in March), up 19.1% from April 2020. Unsold inventory of existing homes represented a 2.4-month supply in April, slightly higher than the 2.1-month supply in March. Sales of existing single-family homes decreased 3.2% in April following a 4.3% drop in March. Year over year, sales of existing single-family homes rose 28.9%. The median existing single-family home price was $347,400 in April, up from $334,500 in March.
- New single-family home sales declined in April after advancing in March. New home sales fell 5.9% in April after increasing 20.7% in March. Sales of new single-family homes have increased 48.3% from April 2020. The median sales price of new single-family houses sold in April was $372,400 ($334,200 in March). The April average sales price was $435,400 ($400,500 in March). The inventory of new single-family homes for sale in April represents a supply of 4.4 months at the current sales pace, up from the March estimate of 4.0 months.
- **Manufacturing:** Industrial production increased 0.7% in April after advancing 2.4% the previous month. Manufacturing output increased 0.4% in April following a 3.1% increase in March. In April, mining increased 0.7% (5.7% in March) and utilities rose 2.6% (-11.4% in March). Total industrial production in April was 16.5% higher than its year-earlier level, but it was 2.7% below its pre-pandemic (February 2020) level.
- New orders for durable goods decreased in April for the first time in 11 months, falling 1.3% after advancing 1.3% in March. New orders for transportation equipment (-6.7%), motor vehicles and parts (-6.2%) and defense aircraft and parts (-8.5%) contributed to the overall downturn in April. Excluding transportation, new orders increased 1.0% in April. Excluding defense, new orders were unchanged. New orders for capital goods fell 0.5% in April following a 2.7% decline in March.
- **Imports and exports:** Both import and export prices rose higher in April for the fifth consecutive month. Import prices climbed 0.7% in April following a 1.4% increase in March. Import prices rose 10.6% over the 12 months ended in April, the largest 12-month advance since an 11.1% increase for the 12 months ended October 2011. Import fuel prices rose 0.5% in April following a 7.5% increase in March. Import fuel prices rose 126.5% for the year ended in April, the largest 12-month advance for the index since a 145.1% increase for the 12 months ended in February 2000. Nonfuel import prices rose 0.7% in April following a 0.9% advance in March. Export prices increased 0.8% in April after climbing 2.4% in March. For the year ended in April, the price index for exports rose 14.4%, the largest 12-month increase since the index was first published in September 1983. Agricultural export prices increased 0.6% in April following a 2.4% jump in March. Nonagricultural exports rose 0.9% in April after increasing 2.4% in March.
- In April, the international trade in goods deficit was $85.1 billion, down $6.8 billion, or 7.3%, from March. Exports increased 1.2%, while imports fell 2.2%. For the 12 months ended in April, exports have risen 50.4%, while imports have increased 37.2%.
- The latest information on international trade in goods and services, out May 4, is for March and shows that the goods and services trade deficit was $74.4 billion, 5.6% over the February deficit. March exports were $200.0 billion, or 6.6%, greater than February exports. March imports were $274.5 billion, or 6.3%, higher than February imports. Year over year, the goods and services deficit increased $83.2 billion, or 64.2%, from March 2020. Exports decreased $21.0 billion, or 3.5%. Imports increased $62.2 billion, or 8.5%.
- **International markets:** Inflationary pressures are beginning to mount globally as countries begin phasing out lockdowns. Consumer prices rose 0.5% in Canada in April and are up 3.4% on the year. In April and over the last 12 months, consumer prices have risen in several countries including Germany (0.7%/2.2%), France (0.3%/1.4%), the United Kingdom (0.6%/1.5%), and China (0.6%/1.5%). However, inflationary pressures have been slow to develop in Japan, where prices dipped 0.4% in April and are down 0.4% for the year. In the markets, the STOXX Europe 600 Index gained about 2.8% in May; the United Kingdom's FTSE rose 1.1%; Japan's Nikkei 225 index climbed 1.2%; and China's Shanghai Composite Index added nearly 4.5%.
- **Consumer confidence:** According to the latest report from the Conference Board, consumer confidence dipped slightly in May from the previous month. The Consumer Confidence Index® fell 0.2

percentage point in May to 117.2, after rising sharply in April to 117.5. The Present Situation Index, based on consumers' assessment of current business and labor market conditions, increased from 131.9 in April to 144.3 last month. However, the Expectations Index, based on consumers' short-term outlook for income, business, and labor market conditions, fell to 99.1 in May from April's 107.9. According to the report, consumers' assessment of present-day conditions improved; however, consumers' short-term optimism weakened, prompted by expectations of decelerating economic growth and softening labor market conditions in the months ahead. Consumers were also less upbeat in May about their income prospects, which could be a reflection of both rising inflation expectations and a waning of further government support.

Eye on the Month Ahead

The easing of COVID-related restrictions in June should encourage for more travel. Labor should see more new jobs added, while unemployment claims are expected to decrease. Overall, economic activity is expected to pick up. However, rising inflation will remain in a concern, especially based on April's Consumer Price Index and Personal Income and Outlays report.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Forecasts are based on current conditions, subject to change, and may not come to pass. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuate with market conditions. Bonds are subject to inflation, interest-rate, and credit risks. As interest rates rise, bond prices typically fall. A bond sold or redeemed prior to maturity may be subject to loss. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

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