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Week in Review

June 7, 2021

LAST WEEK IN REVIEW

Last week major indexes closed moderately higher, with markets closed Monday in observance of Memorial Day. Energy shares performed best within the S&P 500 Index as oil prices reached their highest level in two years. Consumer discretionary shares lagged, weighed down by a decline in Tesla. Trading volumes were generally light, as is typical of the start of the summer holiday season. Traders noted that volumes would have been lighter if not for concentrated buying and selling by retail investors of what some have termed "meme" stocks—smaller-cap, consumer-oriented shares actively discussed on social media. Shares of theater chain AMC experienced particularly heavy trading and volatility.

U.S. – MARKETS & ECONOMY

The strength of the economic recovery remained in the spotlight, with Friday bringing the closely watched monthly nonfarm payrolls report. The Labor Department reported that employers added 559,000 jobs in May, somewhat below consensus forecasts of around 650,000. The labor force participation rate ticked down to 61.6% from 61.7% (which is not good news). However, on the positive side, the employment-to-population ratio—considered by some to be more critical to Fed officials—ticked higher, and the unemployment rate fell more than expected, from 6.1% to 5.8%. In addition, average hourly earnings rose 0.5%, above consensus and indicative of a tighter labor market.

Although the report offered mixed signals, stocks rose, and longer-term bond yields decreased on the news, suggesting that most investors expected it would give the Federal Reserve additional time to keep monetary policy highly accommodative. On Tuesday, Fed Governor Lael Brainard and Vice Chair Randal Quarles stressed that significant slack remained in the economy and that the Fed was far from achieving its inflation and employment targets. However, they both stressed that the Fed would be quick to act if the recent increase in inflation does not prove to be "transitory." On a side note, if there were a drinking game with every time a Fed official tried to tell us our increase in food prices is "transitory," we would all be wasted like Freshmen at College (shots…shots…shots).

U.S. – MARKETS & ECONOMY – cont.

Much of the rest of the week's economic data came in above consensus. Payroll processing firm ADP reported that its tally of private-sector jobs increased by 978,000 in May, well above consensus expectations for a gain of 650,000. Restaurants and other leisure and hospitality businesses were responsible for 440,000 of the new hires, and IHS Markit's gauge of service sector activity reached its highest level in records going back to 2009. Manufacturing signals generally remained strong, although construction spending grew less than expected, and construction employment surprised many by contracting a bit in May.

U.S. EQUITY MARKET PERFORMANCE

Index	Friday's Close	Week's Change	% Change YTD
DJIA	34,756.39	226.94	13.56%
S&P 500	4,229.89	25.78	12.61%
Nasdaq Composite	13,814.49	65.75	7.19%
S&P MidCap 400	2,726.68	1.24	18.30%
Russell 2000	2,286.41	17.44	15.78%

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

After increasing early in the week, the yield on the benchmark 10-year US Treasury note fell back on Friday following the May payrolls report. (Bond prices and yields move in opposite directions.) The broad municipal bond market outperformed Treasuries over much of the week, and muni traders reported improved secondary market trading volumes as the week progressed. According to the latest data from Lipper, municipal bond funds industrywide received net inflows of nearly USD 1 billion for the week ended June 2, including strong flows into tax-exempt high yield portfolios.

The corporate bond markets were relatively quiet. Investment-grade corporate bonds experienced relatively light trading volumes, and new issuance was in line with expectations. As a result, the high yield market was also reasonably subdued. However, traders reported that news of progress in negotiations over a new infrastructure bill appeared to support sentiment, and outflows from below-investment-grade funds subsided.

US YIELDS & BONDS – cont.

Source: Hedgeye.com

US TREASURY MARKETS & WEEKLY YIELD CHANGE

3 Mth: +0.01 bps to 0.01%
2-yr: 0.00 bps to 0.14%
5-yr: -0.02 bps to 0.78%
10-yr: -0.04 bps to 1.55%
30-yr: -0.05 bps to 2.23%

SOURCE: FOR THE WEEK ENDING june 4, 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 amid optimism about the prospect of an economic recovery. However, worries that central banks might begin withdrawing stimulus sooner than expected because of inflationary pressures curbed equities' advance. In local currency terms, the pan-European STOXX Europe 600 Index ended the week 0.80% higher. Italy's FTSE MIB Index climbed 1.59%, Germany's Xetra DAX Index gained 1.11%, and France's CAC 40 Index added 0.49%. The UK's FTSE 100 Index rose 0.66%.

Core eurozone bond yields drifted lower as comments from some policymakers contributed to expectations that the European Central Bank (ECB) would likely opt to maintain the pace of bond purchases at its June 10 meeting. However, yields in peripheral European bond markets tracked their core counterparts. For example, UK gilt yields largely followed the upward move in US Treasury yields.

INTERESTING NEWS OVERSEAS - cont.

In the UK, a sharp increase in cases of the highly transmissible Delta variant of the novel coronavirus stoked concerns among scientists and government officials, sparking a debate on whether lockdown measures should be fully lifted on June 21. Although the number of new coronavirus cases rose to levels not seen since late March, Prime Minister Boris Johnson said there was not yet enough evidence to delay a full reopening. In Germany, Chancellor Angela Merkel said she was ready to give up emergency powers, as coronavirus infections have been improving. According to The Guardian newspaper, the European Union plans to lift all quarantine rules for those who have been vaccinated, starting July 1, and introducing digital passports for travelers (here comes big brother).

Over in the Far East, Japan's stock market returns were mixed for the week, with the Nikkei 225 Index falling 0.71% and the broader TOPIX Index gaining 0.60%. Sentiment remained weak following the government's extension of the coronavirus state of emergency in Tokyo, Osaka, and seven other prefectures by three weeks to June 20. The Japanese 10-year government bond yield was little changed at 0.08%, while the yen weakened to close at around JPY 110.18 against the US dollar.

Japan's household spending rose 13.0% year-over-year in April after a 6.2% rise in March. The increase was the biggest since comparable data became available in January 2001. Consumers sought out beauty treatments, dining, accommodation, and domestic tourism packages. Autos and apparel also contributed. Spending picked up amid a reprieve from the coronavirus restrictions. However, gains were inflated partly by the sharp comparison with the pandemic-driven plunge over the same period last year. While the rise was larger than expected, worries remain about the pace of Japan's recovery, with separate data showing that service sector activity shrank at a faster pace in May due to coronavirus restrictions.

Lastly, Chinese stocks retreated after recording three weeks of gains. According to Reuters, the large-cap CSI 300 Index shed 0.7%, and the Shanghai Stock Exchange benchmark edged down 0.2%. Foreign investors bought USD 8.7 billion of Chinese stocks in May, the highest single month this year, Reuters added. In the bond market, the downtrend in yields took a breather. The yield on the 10-year Chinese government bond (CGB) rose 2 basis points to 3.11%, a relatively high level compared with other significant government bond yields. Over the last six months, Bloomberg's local currency index for CGBs returned 3.4%, while the spread over comparable 10-year US Treasury yields tightened almost 100 basis points.

In credit markets news, China's finance ministry plans to transfer its stakes in the country's big four asset management companies into a new holding company, Bloomberg reported. The move would reduce the government's controlling stakes in the state-run companies and separate its dual roles as regulator and shareholder. In currency trading, the renminbi weakened slightly against the US dollar to end at 6.40 per dollar.

After China's surprise May 31 announcement that it would relax the current two-child policy and allow couples to have a third offspring, many economists believe that the measure could do little to alter the trajectory of the country's looming demographic crisis. Many analysts point to the relatively low number of births that occurred when China relaxed its birth policy, starting January 2016, when the government allowed two children per family. This policy left Chinese officials to say, "if this room's a rock-in, don't come a knock-in." (Note this is a joke and no Chinese official said this, I am just trying to be funny).

THE WEEK AHEAD

G7 finance ministers reached a historic agreement on Saturday to reform the global tax system, saying they would back a minimum global corporation tax rate of at least 15%. The move aims to get tech giants to pay a fair share and pave the way for a more comprehensive deal between G20 nations next month. Also, the heads of government of the world's seven largest advanced economies, along with the EU and guest countries, will be meeting in Carbis Bay, Cornwall, on 11-13 June 2021. The meeting will be President Biden and Prime Minister Suga's first G7 summit and is expected to be Chancellor Merkel's last before she departs her role.

In the US, the consumer price report for May could show the inflation rate rising to 4.6 percent, the highest since September 2008 and well above the Federal Reserve's target of about 2 percent. At the same time, the preliminary estimate of Michigan consumer sentiment for June will likely show a slight improvement in morale from May's three-month low. Other notable publications include foreign trade, JOLTs job openings, the government's monthly budget statement, and the final reading of wholesale inventories.

Have a great week.

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