

Keeping focused on your long-term goals

Market Commentary | Week ending June 25, 2021



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Market Performance Snapshot (Week ending June 25, 2021 and Year-to-Date)

- Dow Jones Industrial Average®: +3.4% | +12.5%
- S&P 500® Index: +2.7% | +14.0%
- NASDAQ Composite® Index: +2.4% | +11.4%
- Russell 2000® Index: +4.3% | +18.2%
- 10-year U.S. Treasury note yield: 1.53%
 - Up 9 basis points from 1.44% on June 18, 2021
 - Up 61 basis points from 0.92% on December 31, 2020
- Best-performing S&P 500 sector this week: Energy, +6.7%
- Weakest-performing S&P 500 sector this week: Utilities, +0.7%

Past performance is not a guarantee of future results.

Equity markets stage a comeback

Markets overcame the previous week’s concerns about potential Federal Reserve tightening, sending major stock indices higher and pushing the S&P 500 and NASDAQ Composite to new closing highs. All 11 S&P sectors finished the week in positive territory. The 10-year Treasury yield mostly traded in a tight range around 1.50%, breaking above that mark as the week ended.

- Technology stocks powered the NASDAQ Composite higher, as investors continued to pursue growth opportunities. However, the index did turn slightly negative on Friday as bond yields rose. Energy stocks rose amid a strong economic growth outlook.
- Following the release of the Federal Reserve’s bank stress test results on Thursday, financial stocks climbed on expectations of resumed stock buybacks and more capital being returned to investors via increased dividend payouts. The move eased financial stocks’ recent slide, which was prompted by interest rate concerns. The sector was up 5.3% for the week.
- In testimony before Congress, Federal Reserve Chairman Jerome Powell pinned the recent inflation spike on unique circumstances surrounding the economic recovery and reiterated his expectation that inflation readings above the Fed’s 2% inflation goal will abate later this year: “What we’re seeing now, we believe, is inflation in particular categories of goods and services that are being directly affected by this unique historical event that none of us have ever lived through before.”

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- Powell added that recent inflationary factors “have been larger than we expected, and they may turn out to be more persistent than we have expected, but the incoming data are very consistent with the view that these are factors that will wane over time, and inflation will then move down toward our goals – and we’ll be monitoring that carefully.”
- Other Fed policymakers made statements throughout the week about the timing of tapering asset purchases and raising short-term interest rates, with some favoring a rate increase in 2022 and others in 2023. It appears likely that tapering assets purchases would precede any increase in the Fed’s target range for the Fed Funds rate.
- Economic data continued to show an economy on the mend, but with challenges:
 - The latest reading on Q1 GDP confirmed a growth rate of 6.4%.
 - The core Personal Consumption Expenditures (PCE) price index – the Federal Reserve’s preferred inflation gauge – rose 3.4% year-over-year in May, the largest annual gain since April 1992. On a monthly basis, core PCE rose 0.5%, which was slightly below expectations. Equity markets continued climbing on the news, while bond yields rose modestly.
 - New orders of durable goods – manufactured products expected to last at least three years – rose 2.3% in May after falling 0.8% in April. Airplane orders surged as travel maintained its upward trajectory.
 - IHS Markit’s June report on manufacturing activity reached the highest level since 2009. However, manufacturers report ongoing supply chain struggles and difficulty filling jobs. Supplier delivery times are now the longest on record.
 - Initial unemployment claims dipped slightly to 411,000, though they remained above 400,000 for the second week in a row after briefly falling below that mark.

Three federal policy issues to watch: infrastructure, tech, debt

Recent action in Washington highlighted issues that market participants will be keeping an eye on in coming months.

- President Biden and a bipartisan group of senators announced Thursday they had reached agreement on an infrastructure bill. Reports suggest the package will focus on physical infrastructure – such as roads, airports, and utilities – and result in nearly \$1 trillion of spending over five years. Taxes would not go up, though IRS enforcement measures would be beefed up. Additional revenue would come from municipal bonds and new public-private partnerships. Equity markets rose after the deal was announced, however the pathway to final bill passage is highly contingent on political and procedural considerations in the full House and Senate.
- A U.S. House committee advanced several bills designed to diminish big tech companies’ power over data and commerce, with companies such as Amazon, Google, Facebook, and Apple in the crosshairs. However, while the desire to rein in big tech has generated bipartisan agreement in principle, there are still many details to be worked out, and final legislation is a long way off. Investors should watch how the regulatory framework for big tech evolves.
- Treasury Secretary Janet Yellen warned that the U.S. government could have trouble meeting its financial obligations as early as August unless Congress raises or suspends the statutory debt limit (often called the debt ceiling). By law, the federal government can’t issue debt above the limit, which could hinder the Treasury’s ability to pay bills or lead to a default on government obligations. The limit has been suspended since 2019, but the suspension expires on July 31. While the limit will likely be raised or suspended again, the timing and process matter. Lack of agreement to raise the debt ceiling relatively close to previous deadlines has, on occasion, unsettled markets.

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Final thoughts for investors

Wall Street's inflation watch continues. Markets will parse every statement from Fed officials and examine every economic data point to try to determine if inflation has undergone a structural increase and how soon the Fed may act. No one – not even Chairman Powell – knows the exact answer yet, so anticipate more market fluctuations. Speak with a financial professional about staying on track toward your long-term goals.

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