Weekly Market Recap
June 21, 2021

Index	Price Close	Price Returns Week	Price Returns YTD
S&P 500 Index	4,166	-1.9%	10.9%
Dow Jones Industrial Average	33,291	-3.4%	8.8%
NASDAQ	14,030	-0.3%	8.9%
Russell 2000 Index	2,238	-3.8%	13.3%
MSCI EAFE Index	2,350	-0.6%	9.4%
10-yr Treasury Yield	1.43%	0.0%	0.5%
Oil WTI ($/bbl)	$71.67	1.2%	47.7%
Bonds*	$115.29	0.1%	-2.0%

Source: Bloomberg, FactSet

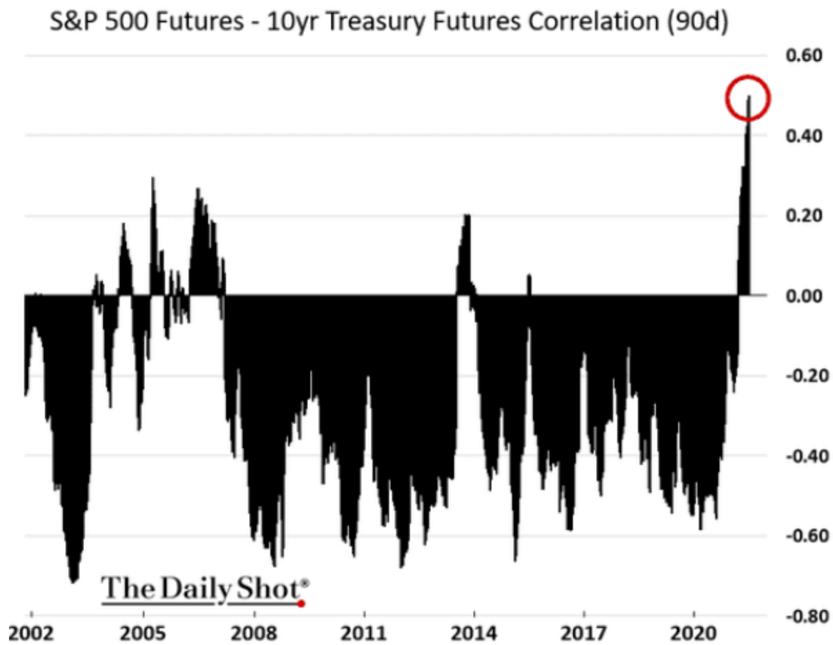
*Bonds represented by the iShares U.S. Aggregate Bond ETF

Last Week:

U.S. Equity Market

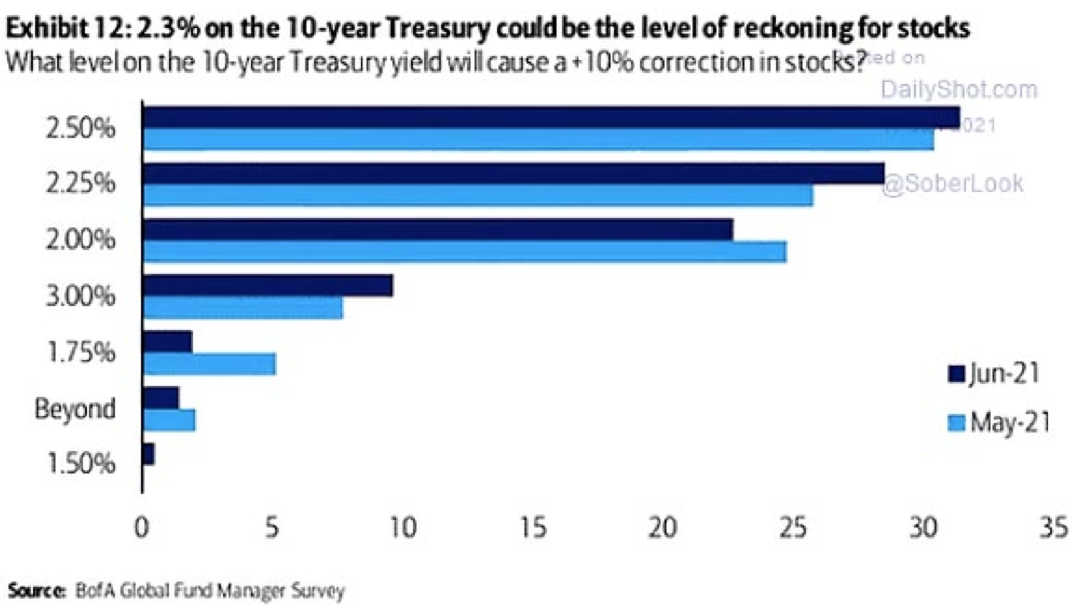
- U.S. large cap equities (S&P 500® Index) fell -1.9%, as the Federal Reserve held its June meeting and provided hawkish commentary about an upcoming tapering of its $120B/month asset-purchase plan, which weighed on both equity sentiment and the reflation trade. Growth/technology stocks outperformed value equities as financials, materials, industrials, and energy are more correlated to the reflation trade. Some hope for a bipartisan infrastructure deal emerged from Washington, though there are still key topics of disagreement. May retail sales, initial jobless claims, and housing starts/permits all missed elevated expectations, signaling that the economic rebound may be coming off its peak. The dollar was stronger, gold lost -5.9%, and WTI crude oil rose +1.2%.
- S&P 500 Index sector returns:
  - Information technology (+0.1%) was flattish, with strength from high-growth software, while semiconductors lagged.
  - Consumer discretionary (-0.1%) outperformed, with strength from **Amazon** (+4.2%), Tesla (+2.7%), and **Lennar** (+5.9%).
  - Health care (-0.8%) outperformed, led by MedTech. **Danaher** is acquiring privately-owned Aldevron for $9.6 billion in cash.
  - Communication services (-1.1%) outperformed, led by Netflix (+2.5%), Spotify (+1.6%), Twitter (+0.6%), **Facebook** (-0.5%), and **Alphabet** (-1.2%).
  - REITs (-2.6%), consumer staples (-2.9%), and utilities (-3.2%) underperformed, as investors favored less-defensive and interest rate-sensitive stocks.
  - Industrials (-3.8%) fell, led lower by airlines and machinery stocks.
  - Energy (-5.2%) fell, despite oil (WTI) rising 1.1%.
  - Financials (-6.2%) declined, as some banks issued more cautious guidance.
  - Materials (-6.3%) fell, led lower by precious metals miners.

- Other equity indices fared considerably worse than the S&P 500, with the S&P Midcap 400® dropping -5.1% for the week, while the S&P Smallcap 600® lost -4.7%.
- The stock-bond correlation continues to increase. What will happen if/when rates rise?



Source: The Daily Shot

- According to the Bank of America Global Fund Manager survey, a 2.5% ten-year Treasury yield has a higher probability of a U.S. stock market correction of 10%+.



X-axis is percentage of Fund Managers who believe that a ten-year yield will cause a 10% stock market correction. Y-axis is the ten-year yield.
Source: The Daily Shot

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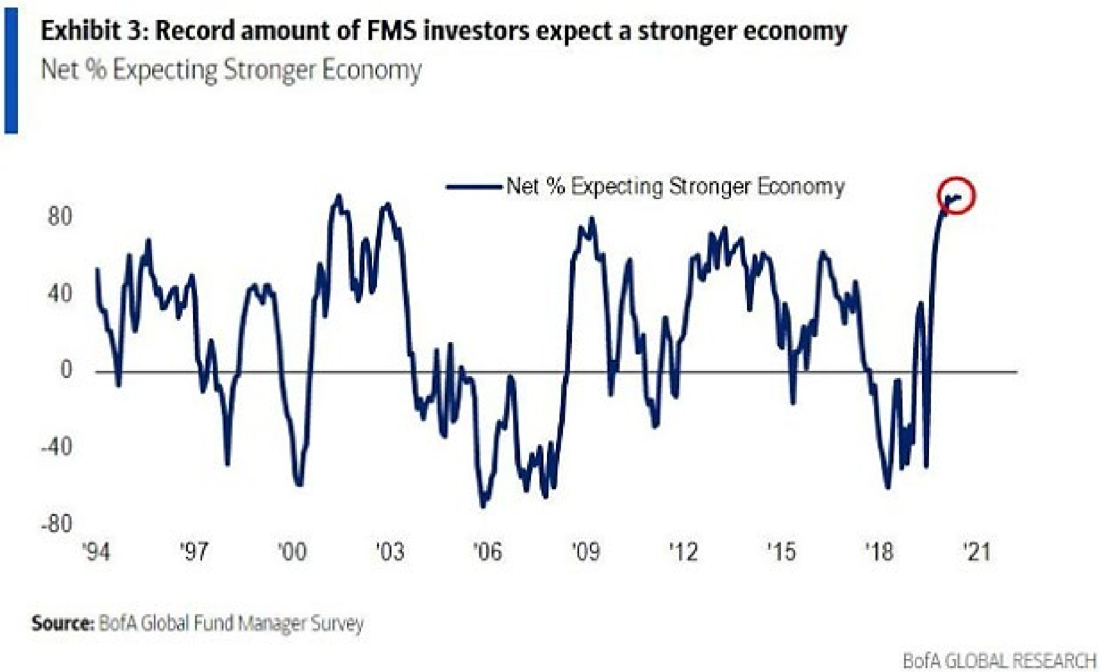
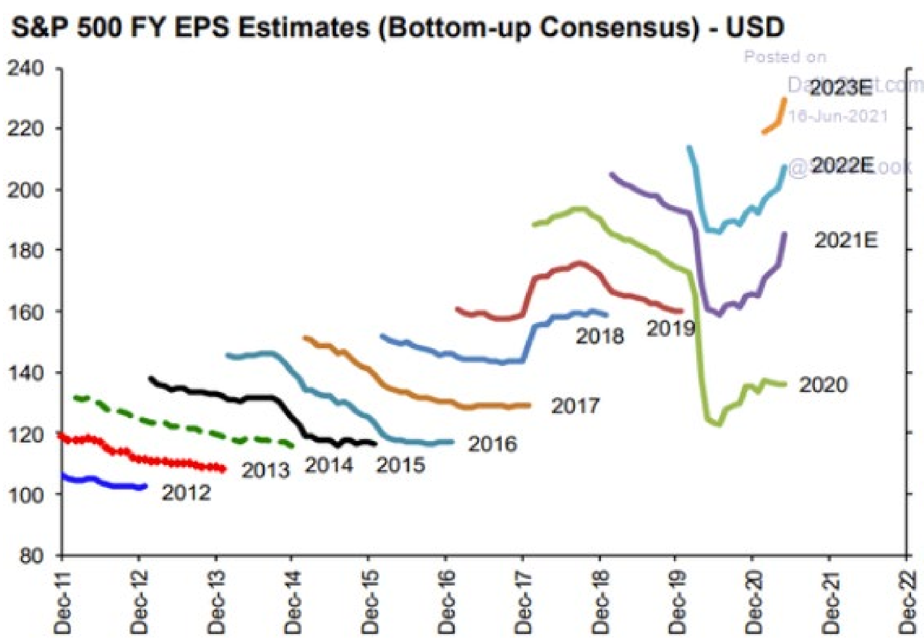
- Fund managers overwhelmingly believe the U.S. economy will improve.



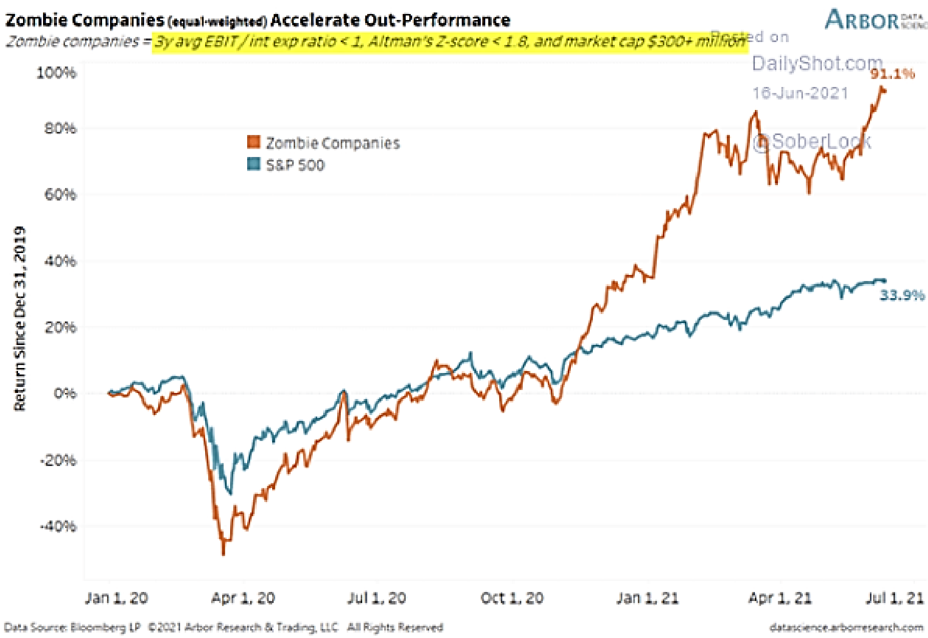
Source: Marketwatch

- Analysts continue to upgrade their S&P 500 Index earnings estimates.



Source: The Daily Shot

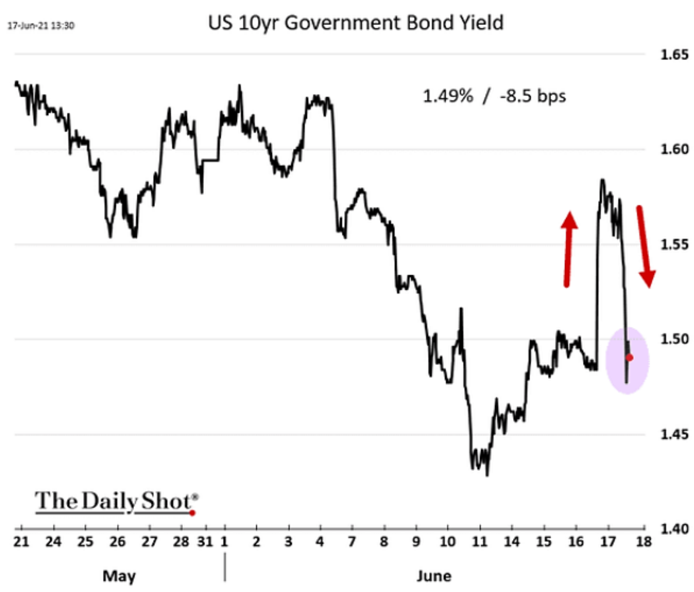
- Zombie companies continue to outperform the rest of the S&P 500 Index. How long will this last?



Source: The Daily Shot

Fixed Income Markets

- The Federal Reserve's hawkish commentary led to a flatter Treasury curve, with longer-dated Treasuries rallying. Two-year Treasury yields reached their highest level since March 2020 (albeit still just 0.226%), while ten-year Treasury yields fell, and 30-year yields plumbed their lowest level since February 18.



Source: The Daily Shot

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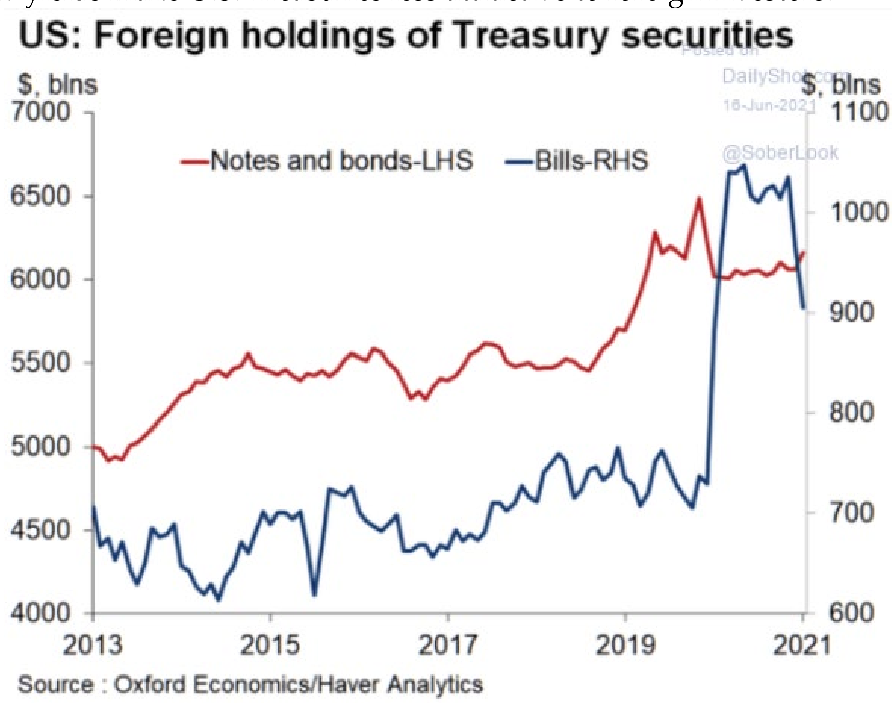
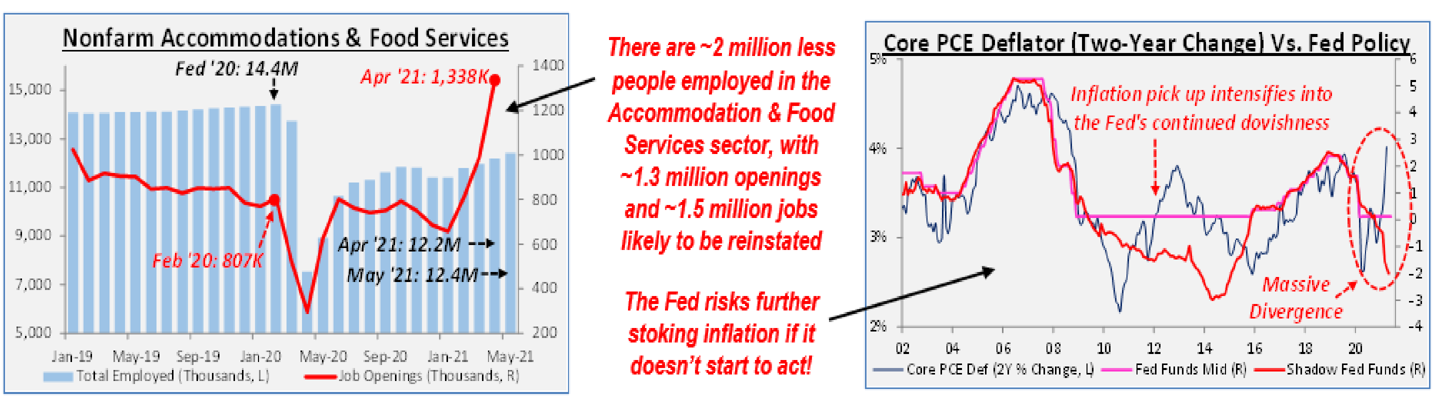
- Extremely low yields make U.S. Treasuries less attractive to foreign investors.



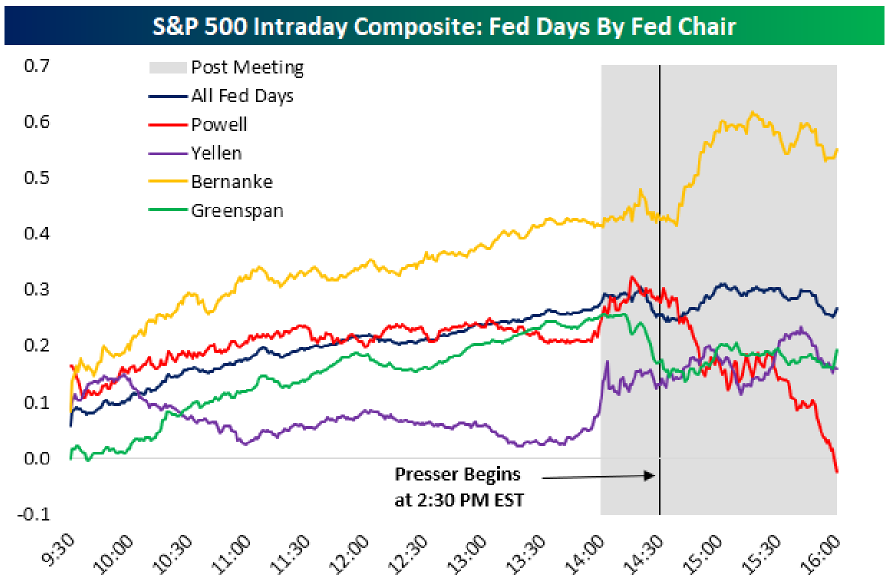
Source: The Daily Shot

- The narrative that the Federal Reserve fell behind the curve, with respect to addressing inflation, has gathered steam.



Source: Wolfe Research

- The Fed's dot plot now shows two interest rate hikes by 2023, and the Federal Open Market Committee (FOMC) raised its forecast for Personal Consumption Expenditures (PCE) inflation this year to 3.0%. Mr. Powell also said it is time to retire the phraseology, that his Federal Reserve previously used, that it's not "thinking about thinking about thinking about" raising rates. Instead, he characterized the current FOMC meeting as "talking about talking about tapering." That caused stocks to sell off Wednesday afternoon, consistent with how stocks performed on previous "Fed Days" under Fed Chair Powell.



Source: Bespoke

U.S. Economic and Political News

- California fully reopened from COVID-19-related restrictions on Tuesday.
- Increasingly, it appears that existing COVID-19 vaccines will require a "booster" to enhance their effectiveness after 6-12 months.

Vaccine	Virus Variant	Initial Effectiveness Against Infections	After 6 Months	After 12 Months
Pfizer/Moderna	Original Strain	94-95%	~84%	58-70%
	UK Strain	~90%	~74%	45-56%
	S. Africa/Brazil Strains	~76%	~47%	15-22%
Janssen	Original Strain	~66%	~40%	8-12%
	UK Strain	~49%	~22%	<10%
	S. Africa/Brazil Strains	~20%	<10%	~0%
Natural Infection By The Original Strain	Original Strain	~84%	~62%	35-42%
	UK Strain	~74%	~50%	20-25%
	S. Africa/Brazil Strains	~47%	~22%	<10%

Source: Morgan Stanley Research.

Source: Morgan Stanley

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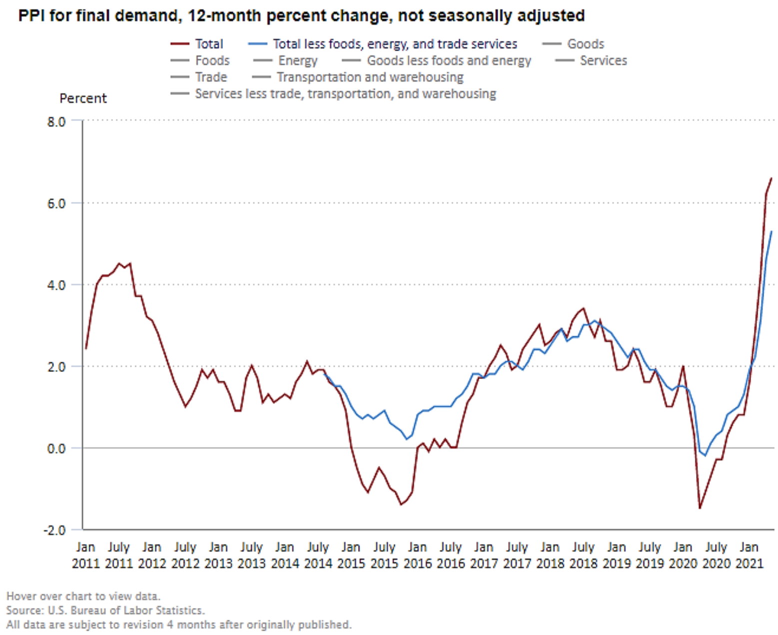
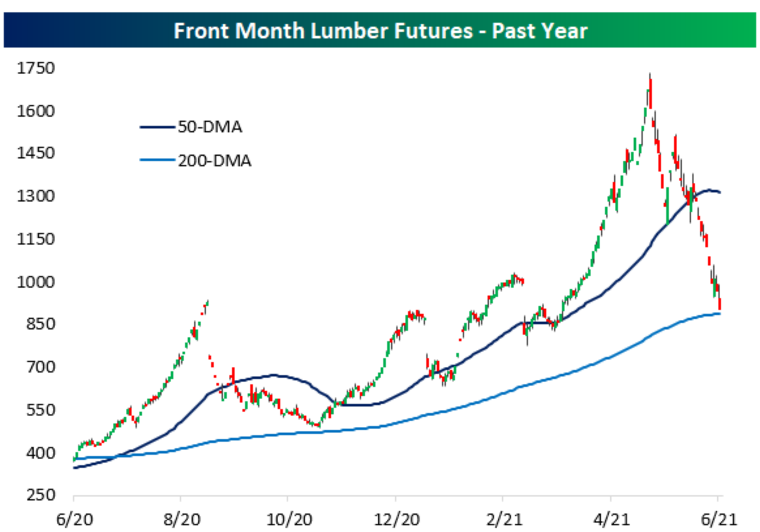
- In a 7-2 vote, the Supreme Court upheld the constitutionality of the Affordable Care Act.
- The Producer Price Index jumped 0.8% in May (above the 0.5% Street forecast), with core PPI rising 0.7%. On a year-over-year basis, the rise in producer prices accelerated to +6.6%, the largest gain on record.



Source: Bureau of Labor Statistics

- Oil prices continued to push higher. It remains to be seen if wage inflation proves more durable versus "transitory." However, commodities ranging from lumber to copper recently plunged from multi-year highs, so perhaps some forms of inflation are already easing. See the chart below of lumber prices over the past year.



Source: Bespoke

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- The Empire Manufacturing Index came in at 17.4 in June, below the 22.0 consensus forecast.
- The Philadelphia Fed Index printed 30.7, a tad below the 31.2 Street view.
- Industrial Production increased 0.8% in May, above the Street's 0.6% estimate. Capacity Utilization came in at 75.2%, a shade above the 75.0% consensus forecast.
- Retail Sales declined -1.3% in May, worse than the -0.5% consensus estimate, while on an ex-Autos basis the monthly figure reflected a -0.7% drop, well below the +0.3% Street view. Meanwhile, April data was revised up from an originally reported flat reading to +0.9%. So the initial reports should be viewed with a grain of salt.
- Weekly Jobless Claims rose by 37,000 to 412,000.

International Markets and News

- Meanwhile, the Chinese stock market (Shanghai Composite) fell -1.8%, as domestic brokerage CITIC Securities reported tighter A-share liquidity in June as northbound Stock Connect inflows declined, while domestic mutual funds experienced greater redemptions.
    - Huarong Asset Management plans to sell off several non-core assets as its financial woes raised questions about Beijing's desire to backstop state-owned companies.
    - Chinese consumer spending was cautious, and retail sales grew a below-forecast 4.5% based on a two-year average growth rate.
    - Over the weekend, China issued further cautionary guidance about cryptocurrencies, causing such so-called currencies to plunge anew this morning.*
- European markets (STOXX 600 Index) fell -1.2%, as the U.S. Federal Reserve indicated it would reduce accommodative policies sooner than expected, and U.K. Prime Minister Johnson delayed a full reopening of England for another month, saying the vaccination campaign would be accelerated
    - In the U.K., the number of infections caused by the "Delta" variant of the novel coronavirus has surged.
    - U.K. inflation jumped again in May, accelerating to 2.1%.
    - Spain and Portugal's two national recovery plans were supported by the European Commission and EUR 800B from the Next Generation EU fund.
- Japanese equities (Nikkei 225 Index) rose 0.1%, as the government announced an easing in some COVID-19 restrictions just over a month ahead of the start of the Olympics.
    - The state of emergency in nine prefectures is to be lifted, although seven areas, including Tokyo and Osaka, will remain under a quasi-emergency state.
    - The Bank of Japan (BoJ) left key policy rate targets and guidance unchanged at its June monetary meeting, as expected, but it did extend the duration of the special COVID-19 financing support program by six months to the end of March 2022.
    - The BoJ also announced a measure to support bank lending to climate-friendly businesses.

**Sterling Capital Management in no way recommends cryptocurrencies.*

This Week:

- Corporate earnings reports are relatively sparse this week with notable earnings including, but not limited to: Nike, **Accenture**, **FedEx**, **Carmax**, Markit, Darden Restaurants, and BlackBerry.
- U.S. Economic data:
  - Monday: Chicago Fed National Activity Index (actual 0.29 versus consensus 0.70), New York Federal Reserve President and CEO Williams speaks in webinar
  - Tuesday: Existing Home Sales, Richmond Fed Index
  - Wednesday: MBA Mortgage Purchase Applications, Current Account Balance, Retail Sales (m/m), Retail Sales ex-Autos, Flash Manufacturing PMI, Flash Services PMI, Flash Composite PMI, New Home Sales
  - Thursday: Core Durable Orders, Durable Orders ex Transport, Durable Orders, GDP Chain Price (second revision), GDP (second revision), Wholesale Inventories, Kansas City Fed Manufacturing Index, Initial Claims, Continuing Jobless Claims. New York Federal Reserve President and CEO Williams will speak in a Webinar.
  - Friday: Core PCE Deflator, Personal Spending, Personal Income, Michigan Consumer Sentiment (Final)

As always, thank you very much for your interest in our thoughts and support of our services.

Whitney Stewart, CFA®
Executive Director

Adam Bergman, CFA®
Executive Director

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*Technical Terms: **Zombie Company**: a term used to describe an uncompetitive company that needs a bailout to successfully operate or an indebted company that is only able to repay interest on its debt (interest-coverage ratio of 1 or less). These companies generate only enough cash flow to pay the interest on the debt and are unable to reduce the actual principal amount. Therefore, they do not have excess cash or capacity and are stagnant, which means they are too weak to invest or grow. (Technical definitions are sourced from Corporate Finance Institute.)*

Performance is compared to an index, however, the volatility of an index varies greatly. Indices are unmanaged and investments cannot be made directly in an index.

***The S&P 500® Index** is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.*

***The S&P Midcap 400® Index** provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.*

***The S&P SmallCap 600® Index** seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.*

***The Russell 2000® Index** measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.*

***The Dow Jones Industrial Average (DJIA)** is an index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.*

***The NASDAQ Composite Index** is the market capitalization-weighted index of over 2,500 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.*

***The MSCI EAFE Index** is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the U.S. and Canada. With 900 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Developed Markets countries in the MSCI EAFE Index include: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the U.K.*

***The STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.*

***The Nikkei 225** is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.*

***The Shanghai Stock Exchange Composite Index** is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.*

*The **Chartered Financial Analyst® (CFA)** charter is a graduate-level investment credential awarded by the CFA Institute — the largest global association of investment professionals. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.*

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