June 14, 2021

REGIONS ASSET MANAGEMENT

WEEKLY MARKET COMMENTARY

What We're Watching

MARKET UPDATES

June 11, 2021: Recorded Leadership Discussion Featuring: Regions Chief Economist, Chief Investment Officer and Federal Government Affairs.

June 18, 2021: Join the upcoming live Regions Market Update.

KEY OBSERVATIONS

Stocks: S&P Reaches New All Time High; Growth Stocks Bounce Back. Global equity markets saw their fourth weekly advance as markets continue to assess global central banks willingness to raise interest rates in the face of higher inflation data. The S&P 500 reached a new all-time high Friday ending the day at 4247 and ending the week up 0.43%. The current prevailing market view continues to be that higher inflation may be transitory. This was welcome news for growth stocks, whose valuations tend to be more sensitive to interest rates, as investors assume the Federal Reserve may not feel the need to immediately raise interest rates. This was evident as the NASDAQ rallied 1.85% for the week. Domestic small caps also had another strong week as the Russell 2000 increased 1.11%. Abroad, international equities, as measured by the MSCI EAFE, were up 0.34% on news that the ECB agreed to extend monetary accommodation throughout the summer. Emerging markets ended the week up 0.04% as emerging central banks are likely under more pressure than their developed market counterparts to raise interest rates as higher inflation has a more pronounced impact on consumers in those countries.

Bonds: May CPI Hotter Than Expectations But Treasury Rates Move Lower; ECB Leaves Policies Unchanged. There was significant investor focus on the May consumer price index (CPI) data released on Thursday. CPI increased 0.6% month-over-month in May vs. an expected 0.4% and increased 5% year-over-year. About a third of the month-over-month increase was due to rising used-car prices which went up 7.3% in May largely due to supply-chain distributions. Travel related prices also saw substantial increases with airfares being notable increasing 7.0% month-over-month. The 10-year yield closed out the week 9 basis points lower than where it began at 1.55%, with the 30-year yield doing the same, falling 9 bps to 2.15%.

WHAT WE'RE WATCHING

- The May Producer Price Index (PPI) will be released on June 15. Consensus estimates show a 0.45% month over month increase vs an April month over month print of 0.60%.
- On June 15 and June 16, the FOMC will meet and the market expectation is that it will be non-event and the tapering conversation won't start until later in the year.
- On June 17, weekly initial claims for unemployment insurance will be released. Consensus estimates show 350k expected vs 376K in the prior week.

	Price/Yield	Total Return (%)					
	6/11/2021	1 Week	1 Month	Year to Date	1 Year	3 Years	5 Years
Dow Jones Industrial Average	34479.60	-0.78	0.88	13.65	39.98	13.37	16.73
S&P 500	4247.44	0.43	2.46	13.84	43.73	17.31	17.40
NASDAQ	14069.42	1.85	5.16	9.50	49.29	23.64	24.77
Russell 2000 Index	2335.81	1.11	4.83	17.49	72.29	12.82	16.24
MSCI World ex US	2379.97	0.62	3.67	12.93	37.37	8.91	11.02
MSCI EM	1381.99	0.04	4.24	7.92	42.41	9.60	13.92
BbgBarc US Aggregate	1.45	0.47	1.04	-1.71	-0.20	5.50	3.17
BbgBarc Global Aggregate	1.08	0.29	0.60	-2.19	3.30	4.58	2.74
BbgBarc US Corporate	2.04	0.87	2.01	-1.78	3.67	7.67	4.97
BbgBarc 10-Year Muni	0.83	0.42	0.64	1.01	4.33	5.52	3.54
BbgBarc High Yield	3.88	0.50	0.94	3.04	14.17	7.16	7.34

	Price/Yield						
	6/11/2021	1 Week Ago	1 Month Ago	12/31/2020	1 Year Ago	3 Years Ago	5 Years Ago
1 Month LIBOR (rate)	0.07	0.08	0.09	0.14	0.19	2.05	0.45
30 Year Mortgage (average rate)	3.08	3.10	3.06	2.88	3.38	4.49	3.57
2 Year Treasury (yield)	0.15	0.14	0.15	0.12	0.16	2.52	0.73
10 Year Treasury (yield)	1.46	1.55	1.62	0.92	0.65	2.96	1.64
30 Year Treasury (yield)	2.15	2.24	2.35	1.65	1.40	3.10	2.45
WTI Crude (closing price)	70.91	69.57	65.31	48.35	36.43	66.10	49.09
Brent Crude (closing price)	72.69	71.30	68.83	51.22	37.76	74.58	49.70
Gold (NYM $/oz)	1877.40	1889.80	1835.90	1893.10	1732.00	1298.90	1273.40

Source: FactSet

WHAT HAPPENED LAST WEEK?

Stocks: S&P Reaches New All Time High; Growth Stocks Bounce Back.

Global equity markets saw their fourth weekly advance as markets continue to assess global central banks willingness to raise interest rates in the face of higher inflation data. The S&P 500 reached a new all-time high Friday ending the day at 4247 and ending the week up 0.43%. The current prevailing market view continues to be that higher inflation may be transitory. This was welcome news for growth stocks, whose valuations tend to be more sensitive to interest rates, as investors assume the Federal Reserve may not feel the need to immediately raise interest rates. This was evident as the NASDAQ rallied 1.85% for the week. Domestic small caps also had another strong week as the Russell 2000 increased 1.11%. Abroad, international equities, as measured by the MSCI EAFE, were up 0.34% on news that the ECB agreed to extend monetary accommodation throughout the summer. Emerging markets ended the week up 0.04% as emerging central banks are likely under more pressure than their developed market counterparts to raise interest rates as higher inflation has a more pronounced impact on consumers in those countries.

• The healthcare and real estate sectors were the big winners for the week. Within healthcare, Biogen, one of the largest biotech companies in the world, increased over 40% on Monday on news that the FDA approved an Alzheimer's drug, though there was some concern over the FDA's decision. Within the real estate sector, REITs continue to see improvement, notably in commercial and retail office REITs, as parts of the US economy continue to re-open. Technology stocks, especially the mega cap FAAMGS, had a strong week thanks in part to Microsoft which was up 2.83% for the week on news they will continue to pursue console-less cloud gaming technology. Financials, which have been the of the best sector thus far in 2021, saw some reprieve for the week. The CBOE Volatility Index (VIX), a popular measure of market risk, declined to its lowest level in a year as investor sentiment remains bullish on equities.

• Commodity prices, which have risen dramatically in recent months, broadly declined last week as China released some of its strategic commodity reserves to help stabilize prices and reduce internal inflation pressures. Additionally, China has imported more corn from the United States this year than it has in the last 20 years combined and is set to import 26 million tons of corn by the end of the year. While much of this is due to the drought in Brazil and African swine flu, China's growing demand for diets that includes pork, has increased its need for corn and other grains. Grain imports have been so intense that some have reported it has taken over a month for some ships to unload their cargo. China's increased commodity demand is likely to persist as it prepares to host the Winter Olympics in 2022.

• The aptly named "meme stocks" garnered headlines again this week as popular retail stocks like AMC and GameStop once again defied the laws of modern finance. Once thought to be a fleeting trend, the retail trading phenomenon continues to be a concern for regulators as SEC Chairman Gensler mentioned this week the need for additional scrutiny on meme stocks and the "gamification" of retail trading platforms. Markets remain on standby as additional SEC regulations will not only involve these platforms but will also likely involve cryptocurrencies/ digital assets as well.

Bonds: May CPI Hotter Than Expectations But Treasury Rates Move Lower; ECB Leaves Policies Unchanged.

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• Despite CPI being higher than expectations, investors seemed to shrug off the news on the belief that rising prices are temporary and not sustainable on a longer-term basis. Members of the Federal Reserve have insisted on that notion as well noting that inflation should normalize as the economy normalizes. Typically, when inflation comes in greater than expected, Treasuries will sell-off as the present value of future coupon and principal payments decreases thus leading to an increase in rates. This jump in CPI was very well telegraphed by the Fed so markets didn't move dramatically.

• On Thursday, the 10-year yield went slightly higher on the release of the CPI data before falling 3.4 bps for the full day, continuing the downward momentum from earlier in the week. The 10-year Treasury yield has been trading within a range of 1.40% to 1.75% since March and last week we saw it fall to levels not seen since March. Despite yields at the intermediate and long-end of the curve being at their lowest levels since March, Treasury auctions were still met with strong demand throughout the week. The move lower for the week was largely technical driven rather than fundamental driven. On Thursday, the move could be partially attributed to short-covering by investors who expected inflation to run much hotter than expectations and expected a move upward in rates.

• On Thursday, the European Central Bank (ECB) left policy unchanged as expected. The ECB did not signal when it may begin tapering its purchases under the pandemic emergency purchase programme (PEEP) noting that it will continue thru at least the end of March 2022 or until "it judges that the coronavirus crisis phase is over." Our strategic long-term allocation to international fixed income is 10%; however, in November 2019 we moved half of that allocation to domestic investment grade bonds on a tactical basis. We continue to favor US investment grade bonds over international investment grade bonds as we do not believe investors are being compensated for the risk profile of investment grade international bonds. For reference, the Bloomberg Barclays Global Aggregate ex US Index has a yield to worst of just 0.76% with a duration of 8.24 years. Within our international fixed income allocation, we continue to prefer emerging market debt.

Source: Bloomberg, FactSet

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