

MARKET UPDATES

[May 7, 2021: Recorded discussion What You Need to Know: Potential Estate and Income Tax Legislation featuring Head of Wealth Planning, Head of Government Affairs, and Partners from Waller.](#)

[May 14, 2021: Join the upcoming live Regions Market Update.](#)

KEY OBSERVATIONS

Stocks: 'Growth' Bounces As Nonfarm Payrolls Fall Short, But Underperforms 'Value' On The Week; Developed Markets Abroad Lead While Small Caps Lag. Friday's lackluster nonfarm payrolls report provided equity investors with a classic 'bad news is good news' scenario, the S&P 500 rallying 0.7% to close at an all-time high, ending the week 1.2% higher. Domestic stocks struggled to make gains throughout much of last week amid expectations that the FOMC might find itself in tightening or tapering mode sooner than expected, but the April payrolls report highlighted how fragile the economic recovery is at present, leaving investors more confident that the Fed would indeed need to remain on the sidelines for quite a while longer as the labor market heals. Abroad, European markets continue to rally, with the iShares Euro Stoxx 50 index rising 3.3% on the week amid broad-based strength with indices tracking the United Kingdom, Germany, Italy, and Spain all higher by over 3%, respectively, on the week.

Bonds: Treasury Yields Initially Fall, But Ultimately Rise On Weak Nonfarm Payrolls; Corporate Credit Remains Well-Behaved. The April nonfarm payrolls report was released last Friday to much fanfare amid building optimism surrounding the labor market, the consensus estimate calling for 975,000 jobs to have been created during the month. The actual number of 266,000 fell well short of those lofty expectations while the jobs number for March was also revised lower and the unemployment rate rose slightly to 6.1% during the month. Long-term Treasury yields initially fell sharply on the day, the 10-year yield, specifically, briefly dipping below 1.50% before ending the week at 1.58% after closing the prior Friday at 1.65%. The 1.50% level could act as a floor of support for the 10-year yield, and should a re-test of that level over coming weeks generate another bounce, traders could increase short bets against long dated Treasuries, a scenario that could lead to a rapid resumption of the uptrend in long-term yields.

WHAT WE'RE WATCHING

- The National Federation of Independent Business (NFIB) Index for April is released Tuesday after coming in at a strong 98.2 for March.
- The U.S. Treasury will auction 10-year notes on Wednesday. The bid-offer (dollars of bids per \$1 of bonds offered) and the percentage of bids from abroad will be worth watching for potential signs of waning demand which could push the 10-year yield back toward the upper end of the 1.55% to 1.75% range.
- Consumer Price Index (CPI) for April is released Wednesday and is expected to rise 3.6% year over year and 0.2% month over month. CPI rose 2.6% Y/Y and 0.6% M/M in March.
- The University of Michigan Consumer Sentiment Index is released Friday and is expected to rise to 90.0 in May from 88.3 in April.

	Price/Yield			Total Return (%)			
	5/7/2021	1 Week	1 Month	Year to Date	1 Year	3 Years	5 Years
Dow Jones Industrial Average	34777.76	2.72	4.09	14.33	48.73	15.24	17.13
S&P 500	4232.60	1.26	3.85	13.25	49.35	18.78	17.78
NASDAQ	13752.24	-1.48	0.51	6.94	54.36	24.92	25.04
Russell 2000 Index	2271.63	0.25	2.23	15.35	79.10	14.40	16.86
MSCI World ex US	2334.74	1.75	3.88	10.42	48.22	8.14	10.75
MSCI EM	1348.57	-0.34	0.87	5.01	54.00	8.70	13.88
BbgBarc US Aggregate	1.49	0.28	0.70	-2.34	0.17	5.31	3.21
BbgBarc Global Aggregate	1.11	0.64	1.18	-2.64	5.44	4.18	2.75
BbgBarc US Corporate	2.13	0.51	1.04	-3.10	5.86	7.21	4.96
BbgBarc 10-Year Muni	0.91	0.17	0.69	0.39	6.63	5.47	3.51
BbgBarc High Yield	3.91	0.29	0.73	2.24	19.47	7.08	7.73

	Price/Yield						
	5/7/2021	1 Week Ago	1 Month Ago	12/31/2020	1 Year Ago	3 Years Ago	5 Years Ago
1 Month LIBOR (rate)	0.10	0.11	0.11	0.14	0.20	1.93	0.44
30 Year Mortgage (average rate)	3.06	3.11	3.18	2.88	3.53	4.41	3.60
2 Year Treasury (yield)	0.14	0.16	0.16	0.12	0.11	2.50	0.73
10 Year Treasury (yield)	1.56	1.63	1.65	0.92	0.63	2.95	1.78
30 Year Treasury (yield)	2.28	2.30	2.34	1.65	1.32	3.12	2.63
WTI Crude (closing price)	64.82	63.50	59.77	48.35	23.68	70.74	44.59
Brent Crude (closing price)	68.28	67.73	61.86	51.22	24.23	74.75	45.81
Gold (NYM \$/oz)	1831.10	1767.30	1740.10	1893.10	1721.80	1312.20	1292.90

WHAT HAPPENED LAST WEEK?

Stocks: 'Growth' Bounces As Nonfarm Payrolls Fall Short, But Underperforms 'Value' On The Week; Developed Markets Abroad Lead While Small Caps Lag.

Friday's lackluster nonfarm payrolls report provided equity investors with a classic 'bad news is good news' scenario, the S&P 500 rallying 0.7% to close at an all-time high, ending the week 1.2% higher. Domestic stocks struggled to make gains throughout much of last week amid expectations that the FOMC might find itself in tightening or tapering mode sooner than expected, but the April payrolls report highlighted how fragile the economic recovery is at present, leaving investors more confident that the Fed would indeed need to remain on the sidelines for quite a while longer as the labor market heals. Abroad, European markets continue to rally, with the iShares Euro Stoxx 50 index rising 3.3% on the week amid broad-based strength with indices tracking the United Kingdom, Germany, Italy, and Spain all higher by over 3%, respectively, on the week.

Emerging markets lagged developed foreign markets last week, with the MSCI EM index ending lower by 0.3% as weakness out of China offset strong gains out of Brazil, India, South Korea, and others. While continued weakness in the U.S. dollar would be a positive for commodity importing developing economies - many commodities are priced in dollars and as the dollar weakens they become more affordable - but given that the information technology and communication services sectors account for over 1/3 of the index, higher interest rates would likely continue to be a headwind, weighing on valuations and could lead to muted returns.

- Growth sectors experienced a half-hearted bounce on Friday amid a weaker than expected nonfarm payrolls report, but both the information technology and communication services sectors lagged the S&P 500 on the day. Cyclical sectors continued to be the place to be, with energy, financial services, industrials, and materials leading the charge, all three sectors outperforming the S&P 500 on the week.

- Small caps continued to lag last week, with growth consistently much weaker than value farther down the cap spectrum, the Russell 2000 Growth index now trails the Russell 2000 Value index by 5.2% over the past month.

- The CBOE Volatility Index, or VIX briefly climbed above 20 for the first time since late March. In our view, this is healthy as the put/call ratio has been exceedingly low, highlighting little demand for hedging and minimal investor fear of a pullback, leading us to have concerns surrounding elevated investor sentiment and aggressive positioning. The VIX trading around 20 is indicative of what we view as healthy skepticism returning to the marketplace, a positive in our view as ultra-low volatility can lull investors into a false sense of confidence, lead to offside positioning, and ultimately spikes in volatility and sharp pullbacks.

Bonds: Treasury Yields Initially Fall, But Ultimately Rise On Weak Nonfarm Payrolls; Corporate Credit Remains Well-Behaved.

The April nonfarm payrolls report was released last Friday to much fanfare amid building optimism surrounding the labor

market, the consensus estimate calling for 975,000 jobs to have been created during the month. The actual number of 266,000 fell well short of those lofty expectations while the jobs number for March was also revised lower and the unemployment rate rose slightly to 6.1% during the month. Long-term Treasury yields initially fell sharply on the day, the 10-year yield, specifically, briefly dipping below 1.50% before ending the week at 1.58% after closing the prior Friday at 1.65%. The 1.50% level could act as a floor of support for the 10-year yield, and should a re-test of that level over coming weeks generate another bounce, traders could increase short bets against long dated Treasuries, a scenario that could lead to a rapid resumption of the uptrend in long-term yields.

- Aside from the nonfarm payrolls report, the prospect of some dissent in the ranks at the Fed was another hot topic among fixed income investors last week. Federal Open Market Committee (FOMC) Chair Jerome Powell and Treasury Secretary Janet Yellen each made comments regarding their stance on the path forward for monetary policy last week, but in a rare disconnect, publicly anyway, didn't appear to be talking from the same playbook. Chair Powell and most, although not all, of the members of the FOMC appear to be on the same page, continuing to state that a patient approach remains warranted given how far away from their full employment and price stability targets the U.S. economy continues to be. However, last Tuesday morning, Powell's predecessor, former FOMC Chair and current Treasury Secretary Janet Yellen made comments that led market participants to believe that perhaps the FOMC could be forced to hike the Fed funds rate sooner than expected to combat rising inflation and prevent the U.S. economy from overheating. It's notable that later that same day, Yellen walked back her comments, stating that she is "neither predicting nor recommending that the Federal Reserve raise interest rates." The perceived disconnect between Chair Powell and Secretary Yellen's remarks rattled markets, leading to a sell-off in stocks and a mild pullback in riskier, higher yielding corporate credits. We don't expect a hike in the Fed funds rate this year, and well before a rate hike is required, we expect a substantial tapering or elimination of the Fed's current \$120B per month in bond purchases. We expect a framework for taper to trickle out leading up to the Kansas City Federal Reserve's annual Jackson Hole symposium in August, and fixed income investors should prepare for fireworks between now and then.

- While the S&P 500 ended the week at a new all-time closing high, corporate credit responded positively as well, the Bloomberg Barclays Corporate index rallying 0.5% on the week, followed by the Bloomberg Barclays U.S. High Yield index which turned out a 0.3% weekly return. The Bloomberg Barclays U.S. High Yield index entered last week with a credit spread (OAS) over the Treasury curve of 291 basis points and a yield-to-worst (YTW) of 3.99%, but even after Tuesday's turmoil spurred by mixed messages out of the FOMC Chair and Treasury Secretary, and the weak April nonfarm payrolls report, the index closed out the week little changed with an OAS of 289 and a YTW of 3.91%.

Source: Bloomberg, FactSet

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