

In this month's recap: Stocks moved higher as investors looked past accelerating inflation and the Fed's pivot on monetary policy.

Monthly Economic Update

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U.S. Markets

Stocks moved higher last month as investors looked past accelerating inflation and the Fed's pivot on monetary policy.

The Dow Jones Industrial Average slipped 0.07 percent, but the Standard & Poor's 500 Index rose 2.22 percent. The Nasdaq Composite led, gaining 5.49 percent.¹

Inflation Report

The May Consumer Price Index came in above expectations. Prices increased by 5 percent for the year-over-year period—the fastest rate in nearly 13 years. Despite the surprise, markets rallied on the news, sending the S&P 500 to a new record close and the technology-heavy Nasdaq Composite higher.²

Fed Pivot

The Fed indicated that two interest rate hikes in 2023 were likely, despite signals as recently as March 2021 that rates would remain unchanged until 2024. The Fed also raised its inflation expectations to 3.4 percent, up from its March projection of 2.4 percent. This news unsettled the markets, but the shock was short-lived.³

News-Driven Rally

In the final full week of trading, stocks rallied on the news of an agreement regarding the \$1 trillion infrastructure bill and reports that banks had passed the latest Federal Reserve stress tests.

Sector Scorecard

Industry sector performance was mixed. Gains were realized in Communication Services (+2.96 percent), Consumer Discretionary (+3.22 percent), Energy (+1.92 percent), Health Care (+1.97 percent), Real Estate (+3.28 percent), and Technology (+6.81 percent). Losses were suffered in Consumer Staples (-1.95 percent), Financials (-3.84 percent), Industrials (-3.34 percent), Materials (-5.92 percent), and Utilities (-2.78 percent).⁴

What Investors May Be Talking About in July

Second-quarter earnings season is near, and investors will see whether Corporate America can build upon its first-quarter results.

Earnings are expected to increase 61 percent, in part driven by a nearly 20 percent growth in sales. In the first quarter, earnings rose 52 percent on an 11 percent increase in sales.⁵

First-quarter earnings didn't move the market, so it's uncertain whether second-quarter numbers will be a catalyst.

But if earnings miss the mark, analysts may find themselves evaluating stock valuations over the next few months.

TIP OF THE MONTH



Cancel monthly charges for services or products you really don't use or need. If you decide you do need them, you can always sign up for them again later.

World Markets

Overseas markets were mixed in June, with the MSCI EAFE Index falling 0.33 percent.⁶

European markets, however, edged higher. France picked up 0.93 percent, Germany tacked on 0.71 percent, and the U.K. rose 0.21 percent.⁷

In the Pacific Rim, Australia was among the standouts, gaining 2.11 percent. Hong Kong lost 1.11 percent, and Japan dropped 0.53 percent.⁸

Indicators

Gross Domestic Product: The final reading of first-quarter GDP growth was unchanged at 6.4 percent.⁹

Employment: Nonfarm payrolls increased by 559,000, dropping the unemployment rate to 5.8 percent. The leisure and hospitality sector experienced the largest gain, with 292,000 jobs added.¹⁰

Retail Sales: Retail sales declined 1.3 percent in May as consumers shifted their spending from goods to services such as airline travel.¹¹

Industrial Production: Output at America's factories, mines, and utilities rose 0.8 percent. It was the third consecutive month of expanded output.¹²

Housing: Housing starts rose 3.6 percent as the high cost of materials hampered activity.¹³

Existing home sales dropped for the fourth consecutive month, sliding 0.9 percent in May. Inventory shortages and declining affordability continue to weigh on the market.¹⁴

Sales of new homes fell 5.9 percent as the median sales price rose to a record \$374,400.¹⁵

Consumer Price Index: The prices of consumer goods surged in May, hitting levels not seen in almost 13 years. The CPI rose 0.6 percent from April 2021.¹⁶

Durable Goods Orders: Orders for long-lasting goods rose 2.3 percent, which represented the largest month-over-month gain since July 2020.¹⁷

QUOTE OF THE MONTH



“Never be limited by other people’s limited imaginations.”

DR. MAE JEMISON

The Fed

Following its June meeting, the Federal Open Market Committee indicated that two interest rate hikes in 2023 were likely. The Fed also raised its inflation expectations to 3.4 percent, up from its March projection of 2.4 percent.¹⁸

However, Fed officials continue to maintain that price increases will be transitory even though there has been no indication of when or by how much the Fed may begin tapering its monthly bond purchases.¹⁸

MARKET INDEX	Y-T-D CHANGE	June 2021
DJIA	12.73%	-0.07%
NASDAQ	12.54%	5.49%
S&P 500	14.41%	2.22%

BOND YIELD	Y-T-D	June 2021
10 YR TREASURY	0.52%	1.44%

Sources: Yahoo Finance, June 30, 2021

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

THE MONTHLY RIDDLE



You stand 8' away from a door. With each move, you advance half the distance to the door. How many moves will it take to reach the door?

LAST MONTH'S RIDDLE: A zookeeper has a certain number of cages and a certain number of tigers. If she puts one tiger in each cage, she has one tiger too many. If she puts two tigers in each cage she has one cage too many. How many tigers and cages does she have?

ANSWER: She has three cages and four tigers.

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