MAY 24, 2021

Weekly Market Update

General Market News

- The yield curve ticked lower on the week as investors digested the most recent inflationary data and debated future inflation expectations. The 10-year Treasury yield opened Monday morning at 1.62 percent, only slightly lower than last week's open of 1.63 percent. The 30-year yield opened at 2.31 percent, down 4.1 basis points (bps) from last week's open of 2.35 percent. On the shorter end of the curve, the 2-year opened at 0.16 percent, just 0.6 bps more than last week's open.
- Markets were mixed on the week, highlighted by the volatility in the cryptocurrency market with bitcoin down by 30 percent in a 24-hour period. Developed international markets and emerging markets outperformed as vaccinations increased and case counts dropped in Europe and India. In the U.S., the tech-oriented Nasdaq Composite Index outperformed. The cyclical trade cooled this week with energy, industrials, materials, and consumer discretionary all among the worst performers. The defensive sectors in REITs, health care, utilities, and tech were the top performers.
- On Monday, the National Association of Home Builders Housing Market Index for May was released. The report showed that home builder sentiment remained healthy during the month, as the index was unchanged in May at 83, which was in line with economist estimates. This strong result left home builder confidence near the record high of 90 set in November 2020 and signals healthy levels of confidence during the month. Home builder sentiment rebounded swiftly after initial lockdowns ended last year, as low mortgage rates and high levels of home buyer demand sparked a housing sector rally. Supply of homes for sale remains low across much of the country, which has been another tailwind for increased home builder confidence and construction over the past year. This release was a positive signal that home builders remain confident in the current housing market expansion, despite rising material and construction costs, and is a good sign for additional construction in the months ahead.
- Speaking of construction, Tuesday saw the release of the April building permits and new home sales reports. Permits increased 0.3 percent during the month against calls for a 0.6 percent increase. Starts fell 9.5 percent in April, following an upwardly revised 19.8 percent increase in March. This was a larger decline than the 2 percent drop economists forecasted. Home builders cited supply chain disruptions and rising lumber costs as headwinds during the month. These two measures of new home construction can be volatile on a month-to-month basis; however, both have increased notably since initial lockdowns were lifted last year. New home construction has been supported by a limited supply of homes for sale and high levels of home buyer demand. Although

General Market News (continued)

the larger-than-expected decline in starts disappointed against expectations, continued high levels of home builder confidence and home buyer demand should support additional construction in the months ahead.

- We finished the week with Friday's release of the April existing home sales report. The pace of existing home sales fell 2.7 percent during the month, which was below economist estimates for a 1 percent increase. This marks three straight months with declining existing home sales, as low inventory levels and rising prices continued to hold back faster sales growth during the month. The report showed that the median sales price increased 19.1 percent year-over-year and that supply was down 20.5 percent. Despite the slowdown in sales over the past three months, the pace of existing home sales is still well above pre-pandemic levels. On a year-over-year basis, sales of existing homes were up 33.9 percent in April. Ultimately, while low levels of supply and rising prices may remain a headwind for significantly faster sales growth in the short term, if we continue to see sales near the current level, it would indicate that the housing market remains strong.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	–0.39	–0.49	11.29	42.87
Nasdaq Composite	0.33	–3.45	4.81	45.55
DJIA	–0.43	1.17	12.61	42.67
MSCI EAFE	1.06	2.34	9.08	44.17
MSCI Emerging Markets	1.74	–1.21	3.56	49.95
Russell 2000	–0.41	–2.19	12.55	65.24

Source: Bloomberg, as of May 21, 2021

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.07	–2.63	–0.52
U.S. Treasury	0.08	–3.55	–4.17
U.S. Mortgages	–0.03	–0.87	–0.50
Municipal Bond	0.08	0.59	4.75

Source: Morningstar Direct, as of May 21, 2021

What to Look Forward To

On Tuesday, the April new home sales report is set to be released. The pace of new home sales is expected to fall by 7 percent during the month, following a 20.7 percent surge in March. The jump in March brought new home sales to their highest level since 2006, so the anticipated pullback in April is understandable. New home sales are a smaller and more volatile portion of total sales compared with existing home sales. Still, despite the monthly volatility, the pace of new home sales has increased notably compared with pre-pandemic levels. If estimates hold, this segment will be up by more than 66 percent on a year-over-year basis in April. Some of this large year-over-year growth is due to comparisons with the results of last April, when new home sales plummeted during the initial lockdowns. Even accounting for the April drop, however, new home sales have been supported by low mortgage rates and high home buyer demand over the past year.

Tuesday will also see the release of the Conference Board Consumer Confidence Index for May. This widely followed gauge of consumer sentiment is expected to decline slightly from 121.7 in April to 119.4 in May. This modest decline would echo the results for the preliminary estimate of the University of Michigan consumer sentiment survey for May. If estimates hold, this release would represent the second-highest level for the index since the start of the pandemic. Confidence has improved notably this year, as the index is expected to remain well above the 87.1 reading we saw in December 2020. Improvements on the public health front and additional federal stimulus payments have supported the rise in consumer confidence we've seen so far this year. Given continued progress with vaccinations and the accelerated reopening efforts throughout much of the country, confidence is expected to remain high as we head into the summer months. This should support additional consumer spending growth.

On Thursday, the preliminary estimate for the April durable goods orders report is set to be released. Orders of durable goods are expected to increase by 0.8 percent during the month, matching the 0.8 percent uptick in March. If estimates hold, this release will mark 12 consecutive months with rising durable goods orders. Starting last May, orders rebounded swiftly once initial lockdowns were lifted. Core durable goods orders, which strip out the impact of volatile transportation orders, are expected to increase by 0.7 percent in April, following a 1.9 increase in March. This result would mark two consecutive months with rising core durable goods orders, following a weather-related slump in February. Core durable goods orders are often viewed as a proxy for business investment. So, continued growth in April would be a positive sign that business have continued to spend, even though core durable goods orders have already surpassed pre-pandemic levels.

Thursday will also see the release of the initial jobless claims report for the week ending May 22. Economists expect the number of initial unemployment claims to decline from 444,000 to 425,000. If estimates prove accurate, this report would bring the pace of weekly layoffs to its lowest level since the start of the pandemic. It would also mark four straight weeks with declining initial claims. Still, despite the impressive improvement in the pace of jobs lost throughout the year, the number of weekly initial claims remains high on a historical basis. This fact, along with the slowdown in hiring in April, indicates the labor market continues to face stress. Accordingly, this release will continue to be widely monitored, as it provides economists with an up-to-date look at the labor market recovery.

What to Look Forward To (continued)

On Friday, the personal income and personal spending reports are set to be released. Spending is expected to increase by a healthy 0.5 percent during the month, following a stimulus-induced 4.2 percent surge in March. This result would mark two straight months with personal spending growth, signaling that the tailwind from the recent stimulus payments lingered into April. Personal income has been very volatile on a month-to-month basis throughout the pandemic, driven by shifting federal stimulus and unemployment payments. In March, the stimulus payments caused incomes to spike by a record 21.1 percent. In April, economists expect to see personal income decline by 15 percent. Still, despite the anticipated income drop, consumer spending is expected to remain robust. It should be supported by high levels of consumer savings and continued progress on vaccinations and reopenings, as well as high levels of consumer confidence.

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