WEEKLY UPDATE

CARY STREET PARTNERS

MAY 17, 2021

MARKET UPDATE AND COMMENTS

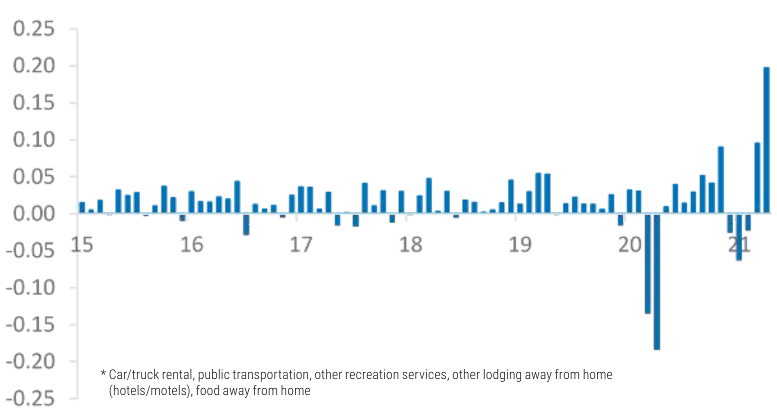
Last week unfolded as an actual pullback in stocks versus the sideways consolidation noise of the prior two weeks. The triggering event was April inflation figures coming in above expectations. The S&P 500 Index dropped about 4.5%[1] from top to bottom early in the week. Following a rally on Thursday and Friday, the S&P finished with a 1.35%[1] loss for the full week. The technology-heavy NASDAQ was deeper in the red, declining 2.34%.[1] Later in the week our short-term market internal measures began to retreat from their recent overbought extremes. This was most evident in leadership. Coming into the week, the number of NYSE stocks reaching new 52-week highs was at 537. That is the highest measure since May 2013, after which the S&P dropped 7.5%.

The CBOE Volatility Index (VIX) spiked higher prior to the rally, well above its 200-day moving average. A volatility-induced pullback, with the absence of credit stress, is historically a high- probability bullish set-up. Credit stress is not evident. A way to think about this: a decent amount of fear has come back into the market, as demonstrated by the VIX price – without the credit stress that is an early and essential component of a larger equity problem.

As Q1-earnings season begins to fade, keep this in mind: companies in the S&P 500 are projected to realize 33% growth in 2021 and 17.5% in 2022 versus 23.2% and 16.8%, respectively, forecasted just six months ago, according to FactSet. Reported earnings are so strong they could be causing analysts to revise their estimates upward for 2021 and even 2022. Small-caps and cyclicals are expected to soar off of low comps in 2021 but still maintain above-market growth in 2022. The earnings backdrop to the market is supportive of the long- term uptrend.

Reopening coming back to life

Consumer Price Index, Reopening* (contribution to MoM CPI, ppt)



* Car/truck rental, public transportation, other recreation services, other lodging away from home (hotels/motels), food away from home

Source: Renaissance Macro Research, Haver Analytics

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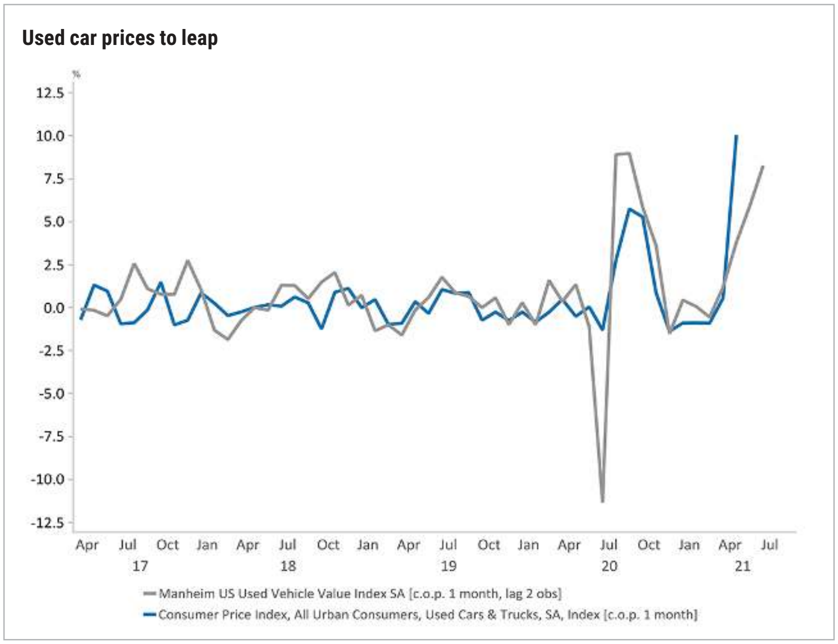
WEEKLY BENCHMARKS

GROUP/INVESTMENT	YTD Return (Cumulative) 5.14.2021
US EQUITY RETURNS	
SPDR® S&P 500 ETF TRUST	11.69
ISHARES DOW JONES US ETF	11.04
ISHARES RUSSELL 1000 ETF	10.97
ISHARES RUSSELL 1000 VALUE ETF	17.97
ISHARES RUSSELL 1000 GROWTH ETF	4.42
ISHARES RUSSELL 2000 ETF	12.94
GLOBAL EQUITY RETURNS	
ISHARES MSCI ACWI EX US ETF	7.12
ISHARES MSCI ACWI ETF	9.04
US FIXED INCOME RETURNS	
ISHARES SHORT TREASURY BOND ETF	0.00
ISHARES CORE US AGGREGATE BOND ETF	-2.72
ISHARES TIPS BOND ETF	0.67
ISHARES IBOXX $ INVMT GRADE CORP BD ETF	-4.41
ISHARES IBOXX $ HIGH YIELD CORP BD ETF	1.52
ISHARES MBS ETF	-0.91
GLOBAL FIXED INCOME BENCHMARKS	
ISHARES CORE GLOBAL AGGT BD ETF USD DIST	-3.17
US FIXED INCOME MUNI RETURNS	
ISHARES NATIONAL MUNI BOND ETF	0.31
REAL ASSETS	
ISHARES GOLD TRUST	-2.89
SPDR® DOW JONES GLOBAL REAL ESTATE ETF	12.17

Source: Morningstar



Source: Renaissance Macro Research, Macrobond

ECONOMIC NEWS

It was all about inflation last week, as the April report was an echo of last year. The inflation news was hot Wednesday, coming in higher than expected. Some detail, which points to a lot of transitory increase in this particular report: a lot of reopening data points were very hot: car rental, public transport, hotel, restaurants, recreation services (movies and sporting events). Also, a surge in used car prices as new car production is interrupted by the chip shortage. All the reopening data is largely one time, supporting the Fed thinking on transitory price pressures. The base effect version of inflation lasts through the summer, after that we will know if we have a more-persistent intermediate issue related to supply chains and/or longer-term inflationary persistence due to excessive money growth. In addition to the stock market reaction, bonds sold off as the benchmark 10-year Treasury yield rose to close at 1.63% on the week.

[1] MarketWatch