WEEKLY UPDATE

CARY STREET PARTNERS

JUNE 14, 2021

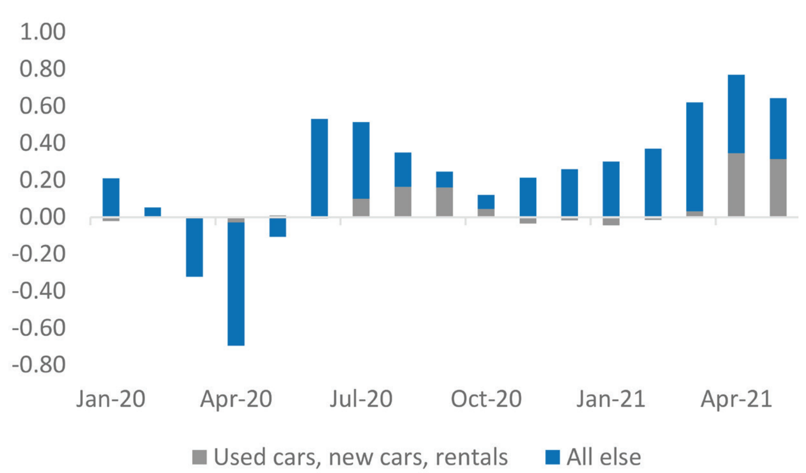
MARKET UPDATE AND COMMENTS

Equity markets continued to move incrementally higher last week as the S&P 500 Index picked up .43%.[1] Within the market, the REIT sector maintained leadership, although technology turned in a decent week as well. On an S&P Sector basis, REITS were up 2.02%[1] on the week, and technology 1.39%.[1] Stocks pushed through the May CPI inflation data released on Thursday, more on that below.

Bond yields have puzzled some recently. Higher yields are the generally expected reaction to stronger GDP and inflation figures, but as indicated by the 10-year Treasury, yields have recently moved lower. That movement occurred despite higher GDP and inflation. Keep in mind, bond yields and prices are inverse. For context, 10-year yields began the year at .92% and topped out at 1.77%. A great deal of this increase occurred in Q1, during which the pace of increase was a several standard deviation event: extremely fast. The rapid sell-off of longer-dated bonds in the first quarter is a reminder that prices always move sooner and faster than fundamentals. Bond bears were overconfident coming out of Q1 and remain excessive, even after the recent rally. Nothing in this business is a one-way street, bonds became oversold in Q1, and the short-term rally commenced. This relief has resulted in the Bloomberg Barclays U.S. Aggregate Index improving its 2021 performance to -1.71%. The 10-year Treasury closed last week at a 1.46% yield. For now, this is consolidation in an uptrend for yields, although a little tenuous, and bears watching given the continued excessive bearish sentiment.

Used and new car prices account for half the increase

Consumer Price Index (MoM% change, contribution)



Source: Renaissance Macro Research, Haver Analytics

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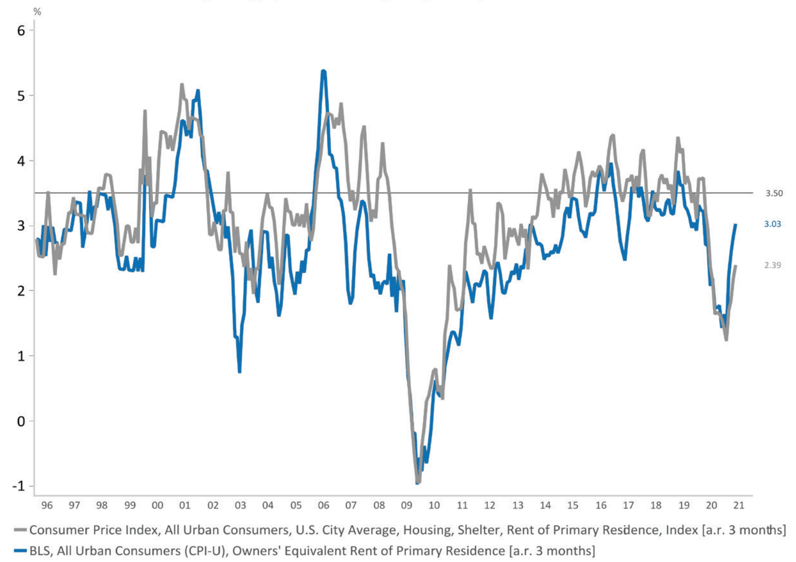
WEEKLY BENCHMARKS

GROUP/INVESTMENT	YTD Return (Cumulative) 6.11.2021
US EQUITY RETURNS	
SPDR® S&P 500 ETF TRUST	13.78
ISHARES DOW JONES US ETF	13.53
ISHARES RUSSELL 1000 ETF	13.43
ISHARES RUSSELL 1000 VALUE ETF	18.60
ISHARES RUSSELL 1000 GROWTH ETF	8.56
ISHARES RUSSELL 2000 ETF	18.66
GLOBAL EQUITY RETURNS	
ISHARES MSCI ACWI EX US ETF	11.10
ISHARES MSCI ACWI ETF	12.15
US FIXED INCOME RETURNS	
ISHARES SHORT TREASURY BOND ETF	-0.02
ISHARES CORE US AGGREGATE BOND ETF	-1.74
ISHARES TIPS BOND ETF	1.12
ISHARES IBOXX $ INVMT GRADE CORP BD ETF	-2.29
ISHARES IBOXX $ HIGH YIELD CORP BD ETF	2.46
ISHARES MBS ETF	-0.74
GLOBAL FIXED INCOME BENCHMARKS	
ISHARES CORE GLOBAL AGGT BD ETF USD DIST	-2.28
US FIXED INCOME MUNI RETURNS	
ISHARES NATIONAL MUNI BOND ETF	1.22
REAL ASSETS	
ISHARES GOLD TRUST	-0.64
SPDR® DOW JONES GLOBAL REAL ESTATE ETF	20.98

Source: Morningstar

Rents still have a way to go, but starting to pick up



Source: Renaissance Macro Research, Macrobond

ECONOMIC NEWS

The economic event of the week was the aforementioned May CPI data. Both headline and core numbers came in hotter than expectations. Headline came in at a 5% year-over-year increase and core came in at 3.8% year-over-year. Core CPI is one of the two Federal Reserve inflation benchmarks. Strong comparisons have been expected for recent months due to the low rate of inflation at this time last year, referenced as base effect. Also expected have been price increases related to reopening and supply chain disruptions. Indeed, a significant portion of last week's report was of the one-off, transitory variety. Half of the headline increase was new- and used-car prices, especially used-car prices. Automotive prices have been heavily influenced by a shortage of semiconductor chips, the roots of which lie in pandemic cancellations and re-orders. But not all inflation data is transitory, rents are rising quickly as an example, and they tend to be a lot stickier. The debate as to whether inflation is transitory or persistent will continue through the summer, at which point base effects and reopening effects will have worn off.

Longer-term inflation is a monetary phenomenon and the big change here is that the Federal Reserve began pursuing a new policy last summer. That policy targets 2% AVERAGE inflation, which indicates policy will accommodate higher structural inflation than experienced in the last decade-long cycle. During that period, inflation barely touched 2% due to pre-emptive Fed action. Going forward expect periods of greater than 2% to reach the average.

[1] MarketWatch

Past performance is no guarantee of future results.