WEEK IN REVIEW

June 18, 2021

The Bottom Line

- Equities finished another volatile week solidly lower, with the S&P 500 dropping -1.9%. After leading large caps for three consecutive weeks, the small cap Russell 2000 fell sharply, losing -4.2% for the week.
- The yield on the 10-year U.S. Treasury was little changed, down-1 basis point, but that masked some big swings in the bond market. Following a surprisingly hawkish tone by the Fed, short yields doubled and long yields fell.
- Homebuilder confidence remains historically high, but it has been dropping lately and now building permits are falling too. Meanwhile May retail sales were softer than expected and unemployment claims unexpectedly rose.

Stocks battered, yield curve flatter

Global equities finished another volatile week solidly lower, as the U.S. Federal Reserve surprised markets by forecasting earlier-than-expected rate hikes and indicated it will discuss tapering asset purchases in coming meetings. The Federal Open Market Committee (FOMC) is now forecasting that it will hike rates twice in 2023 after previously predicting no hikes until 2024. Comments from St. Louis Fed President James Bullard—a non-voting member this year—added to the Fed's hawkish tenor with his comments Friday morning. The so called “reflation trade”, which favored value stocks and commodities, came under immediate pressure following the FOMC shift. The bond market also saw significant swings this week as the Treasury yield curve flattened noticeably, with the yield on the 2-year note almost doubling and longer-term yields, such as the 30-year bond, falling (the 30-year US Treasury yield plunged -16 basis points on Thursday alone). The U.S. Dollar Index rallied to levels not seen since April. Economic data didn’t help as May retail sales came in softer than expected, manufacturing growth in New York and Philadelphia slowed, jobless claims snapped a string of weekly declines, and producer inflation ran hot.

Digits & Did You Knows

SLIGHTLY USED — The average age of vehicles on U.S. roads last year was 12.1 years, a record high. The average has been rising steadily for 15 years as car quality has improved, but the pandemic accelerated the trend (source: Dow Jones).

LEAVING TOWN — Between 7/01/19 and 6/30/20, 5 of the 10 largest cities in the U.S. saw their populations decline – New York City, Los Angeles, Chicago, Philadelphia and San Jose (source: Census Bureau, BTN Research).

SPENDING — Americans imported $278 billion of foreign goods and services in March 2021 and $274 billion of imports in April 2021, the 2 highest months in U.S. history (source: Bureau of Econ. Analysis, BTN Research).

Market Snapshot	Index Level	1-week Price Return	2021 Price Return
EQUITIES			
S&P 500	4,166.45	**-1.91%**	**+10.93%**
Nasdaq Composite	14,030.38	**-0.28%**	**+8.86%**
Russell 2000	2,237.75	**-4.20%**	**+13.31%**
Nikkei-225 (Japan)	28,964.08	**+0.05%**	**+5.54%**
STOXX Europe 600	452.05	**-1.19%**	**+13.29%**
RATES			
2-Year UST Note	0.25	11 bps	13 bps
10-Year UST Note	1.44	-1 bps	53 bps

QUALIFIED PLAN ADVISORS

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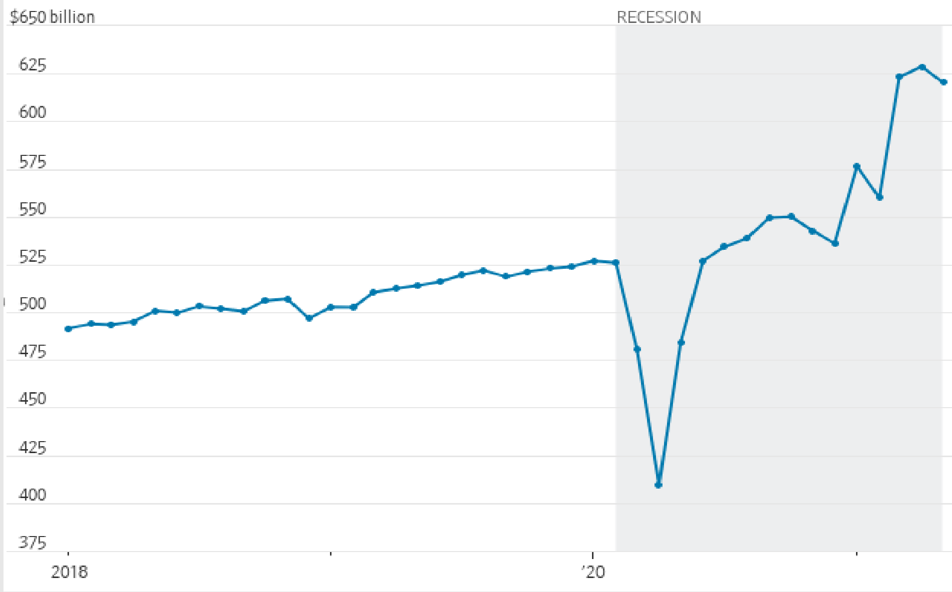
Chart of the Week

May **Retail Sales** disappointed falling -1.3% from April, more than the expected -0.6% decline. It was the first decline in three months. U.S. shoppers pulled back as sales fell from the double-digit gains in March. Businesses across the country raised prices, spending shifted to services from goods, and fiscal stimulus from the American Rescue Plan has subsided. Vehicle sales were a primary detractor, dropping -3.7%, the most in over a year. **Core retail sales**, which excludes autos, gasoline and building materials, unexpectedly slid -0.7% versus forecasts for a +0.5% gain. On the positive side however, the previous month was revised up to +0.9% from flat, effectively making up for the miss in expectations. Overall though, retail sales remain well above pre-pandemic levels.

At Your Service...

Total U.S. retail and food-service sales



Source: US. Census Bureau via St Louis Fed, The Wall Street Journal.

Economic Rundown

- Producer inflation came in higher than expected with the **Producer Price Index (PPI)** up +0.8% in May, the fourth largest increase since data started in December 2009. **Core PPI** (PPI excluding food and energy), rose +0.7%, also one of the biggest gains on record, and above the forecast of +0.5%. Annually, PPI increased +6.5%, while the Core PPI was up +4.8%, both the most on record.
- May **Industrial Production (IP)** increased +0.8%, above the forecasts of +0.6%. Manufacturing output rose 0.9%, led by a 6.7% rebound in vehicle production, the most in ten months. Core IP (excludes energy, technology, and vehicles) rose +0.4%. On a annual basis, IP increased +16.3%, while the core was up +13.3%. **Capacity Utilization** rate rose to 75.2%, above the expectations for 75.1%. All remain under of their pre-recession peaks.
- Builder confidence cooled in June as the **NAHB/Wells Fargo Housing Market Index (HMI)** fell 2 points to 81, below the expectations for an unchanged reading of 83. May **Housing Starts** and **Building Permits** both missed expectations. Housing starts were up +3.6%, but permits fell -3.0%, a seven-month low.
- Initial **Jobless Claims** rose +37,000 to 412,000, the first rise in 7 weeks and above forecasts of -13,000 decline. Continuing Claims rose 1,000 to 3.518 million.
- The **Conference Board's Leading Economic Index (LEI)** grew +1.3% in May, its 13th consecutive gain, pointing to continued fast growth. Seven of the ten indicators rose.

The Week Ahead

Monday	• Chicago Fed Nat Activity Index (CFNAI)
Tuesday	• Existing Home Sales • Richmond Fed Manufacturing Index
Wednesday	• MBA Mortgage Applications • Markit Purchase Managers Indices (PMI) • New Home Sales
Thursday	• Weekly Jobless Claims • Durable Goods Orders • Gross Domestic Product (GDP) • Kansas City Fed Manufacturing Activity
Friday	• Personal Income & Spending • U. of Mich. Consumer Sentiment

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Asset Class Performance

WEEK IN REVIEW

The Importance of Diversification. From period to period there is no certainty what investment will be the best performer… or the worst. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as lowering portfolio volatility, improving risk-adjusted returns, and helping investments to compound more effectively.

	Monday	Tuesday	Wednesday	Thursday	Friday	WEEK	
High	Large Growth 0.91	Small Value 0.25	Small Value -0.07	Mid Growth 1.33	U.S. Bonds 0.27	Large Growth 0.53	High
	Mid Growth 0.46	Intl Equity 0.12	High Yield Bond -0.14	Large Growth 1.24	High Yield Bond -0.05	Mid Growth 0.22	
	Real Estate 0.44	Large Value 0.09	Mid Growth -0.19	Emg Markets 0.55	Intl Bonds -0.47	U.S. Bonds 0.05	
	Emg Markets 0.27	U.S. Bonds 0.04	Small Growth -0.32	U.S. Bonds 0.31	Mid Growth -0.51	High Yield Bond -0.22	
	Intl Equity 0.17	Mid Value 0.00	U.S. Bonds -0.32	Real Estate 0.16	Large Growth -0.64	60/40 Allocation -1.71	
	Small Growth 0.10	High Yield Bond -0.01	Large Growth -0.42	High Yield Bond 0.07	Emg Markets -0.70	Emg Markets -1.92	
	60/40 Allocation -0.03	60/40 Allocation -0.12	60/40 Allocation -0.53	Small Growth 0.01	60/40 Allocation -0.90	Intl Bonds -2.50	
	High Yield Bond -0.09	Intl Bonds -0.13	Intl Equity -0.62	60/40 Allocation -0.15	Real Estate -1.58	Small Growth -2.70	
	Intl Bonds -0.13	Large Growth -0.55	Large Value -0.65	Intl Equity -0.69	Small Growth -1.65	Real Estate -2.91	
	U.S. Bonds -0.25	Emg Markets -0.69	Mid Value -0.70	Intl Bonds -0.84	Mid Value -1.87	Intl Equity -3.06	
	Large Value -0.52	Mid Growth -0.85	Real Estate -0.90	Large Value -1.25	Large Value -1.88	Large Value -4.14	
	Mid Value -0.68	Small Growth -0.86	Intl Bonds -0.94	Mid Value -1.57	Intl Equity -2.07	Mid Value -4.74	
Low	Small Value -0.73	Real Estate -1.05	Emg Markets -1.36	Small Value -2.16	Small Value -2.92	Small Value -5.55	Low

Source: Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees for and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by the Prime Capital Investment Advisors. The performance of those funds may be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx $ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as "Allocation" is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 31% International Stock, 7% Emerging Markets, 3% Real Estate.