

Good Performance From Not Only Stocks But Also Bonds

The stock market had all-around good performance from the large-caps, mid-caps, small-caps, and even the micro-caps. Risk assets appeared to draw support from the calmness of the Treasury market, which staved off pestering inflation concerns and accompanying valuation concerns.



The Nasdaq Composite (+2.1%), Russell 2000 (+2.4%), and iShares Micro-Cap ETF (IWC, +3.3%) rose more than 2.0%. The S&P 500 (+1.2%), Dow Jones Industrial Average (+0.9%), and S&P Mid Cap 400 (+1.4%) each advanced closer to 1.0%.

From a sector perspective, the consumer discretionary (+2.2%), communication services (+2.5%), information technology (+1.6%), and real estate (+2.1%) sectors finished atop the leaderboard. Conversely, the utilities (-1.6%), health care (-0.7%), consumer staples (-0.4%), and energy (-0.02%) sectors closed lower.

Highlighting some of the economic data, which should help explain the relative strength in the Treasury market (the 10-yr yield declined five basis points to 1.58%):

- New home sales declined 5.9% m/m in April to a seasonally adjusted annual rate of 863,000 (Briefing.com consensus 980,000).
- The Conference Board's Consumer Confidence Index dip 0.3 points to 117.2 in May (Briefing.com consensus 118.0).
- Durable Goods Orders unexpectedly decreased 1.3% m/m in April (Briefing.com consensus +0.8%).
- Personal income declined 13.1% m/m in April (Briefing.com consensus -15.0%), as the total of stimulus payments made was greatly reduced from March.

The data supported the thesis that economic growth rates are peaking, which in turn would suggest inflation rates are also peaking. The latter was corroborated by longer-dated Treasury yields moving lower (not higher) to the following inflation news:

- The PCE Price Index -- the Fed's preferred inflation gauge -- was up 3.6% yr/yr in April.
- The expected year-ahead inflation rate was a record 4.6% in the final May reading for the University of Michigan Index of Consumer Sentiment.

- Costco's (COST) CFO said, "inflationary factors abound" and estimated that overall price inflation at the selling level is in the 2.5-3.5% range, or above prior expectations.

The question that remains is will inflation really be as transient as the Fed expects, especially when additional fiscal stimulus appears to be on the horizon? Senate Republicans confirmed a \$928 billion infrastructure counteroffer to the Biden administration's \$1.7 trillion American Jobs Plan while the White House confirmed a \$6 trillion budget for FY22, which would include both the American Jobs Plan and American Families Plan.

The Treasury market thinks so.

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