

Beacon Weekly Investment Insights

Inflation was the financial headline of the week, with the Consumer Price Index (CPI) turning in its highest print since August 2008, at 4.2% annualized rate. Stocks tumbled in the aftermath of the inflation report, falling almost 4% at its worst point intraweek. However, a weak retail sales report released on Friday provided some evidence that inflation pressures may not be as severe as they seemed earlier. Net-net the S&P 500 fell a tolerable 1.4% over the course of the week, an especially benign number in the context of its 11%+ year to date return. Value stocks have continued to outperform Growth stocks over the course of the week and on a year to date basis, partially closing the gap that occurred over the prior few years.

Outside of the financial markets, the Center for Disease Control (CDC) made an announcement that many have been waiting for since the pandemic began. Fully vaccinated individuals have the CDC's blessing to go mask-less in many situations. Walmart, Costco, Trader Joe's and many other firms followed with similar pronouncements for their shoppers. Individual states are making their own announcements. Although many were elated with the news, the coast is not fully clear. Sports fans in your circle of friends will remind you that eight members of the New York Yankees tested positive for COVID-19 despite being fully vaccinated. The good news of these "breakthrough" cases is that the affected team members had no or mild symptoms. The vaccination process continues to gather momentum around the world, despite notable ongoing problems in India and Brazil.

The earnings season is largely behind us and companies have trounced expectations. More than 85% of companies reported earnings that were better than expected, far exceeding the historical number of 65%. However, with easy comparisons behind most firms due to the COVID-19 induced economic shutdown, comparisons looking ahead will be far harder. Last week we shared news with you about an important energy pipeline spanning much of the east coast, Colonial Pipeline, which was shut down due to a devastating ransomware attack. As we write this update, the pipeline is now fully operational, but *The Wall Street Journal* reported that Colonial paid \$5 million in ransomware. Cybersecurity is an increasing risk for all companies and the payment of ransomware may embolden criminals to step up their attacks.

The bond market stayed remarkably calm given the surprising robust CPI report and underwhelming retail sales report. The yield on the benchmark 10-Year Treasury Note edged up over the course of the week from 1.57% to 1.65%. Importantly, bonds proved their diversification properties during the intraweek market turmoil. When equities fell sharply, Bitcoin fell ever harder, losing more than 15% intraweek. Even gold fell amidst the market turmoil, defying its safe haven status. Leadership from the Federal Reserve and U.S. Treasury Departments remained consistent with their longstanding remarks. Namely, they believe the surge in inflation is transitory and that it remains contained over the intermediate to long-term. The near-term future of the stock market may hinge on the accuracy of this prediction.

Political risk is an ever constant. The FBI has determined that the Colonial Pipeline ransomware attack emanated from somewhere in Russia, although evidence has not formally tied it to the Russian government. After years of relative quietness, a new conflict has emerged between Israel and Hamas. Although we hope that a peace process quickly emerges, these conflicts have the potential to spread and negatively impact commodity prices further.

The economic calendar is fairly light this week. On Thursday, the Conference Board's Leading Economic Index (LEI) will be released. Unlike many economic reports, the LEI is a forward-looking indicator, hence we pay a little bit closer attention to it. The Index is expected to show further expansion as the stimulus funds continue to permeate the economy.

Several real estate-oriented reports will also be released this week. More specifically, the NAHB Home Builders' Index will be released on Monday and reports related to Building Permits and Housing Starts will be released on Tuesday, and Existing Home Sales on Friday. The real estate market is expected to exhibit continued strength.

Market Scorecard:	5/14/2021	YTD Price Change
Dow Jones Industrial Average	34,382.13	12.34%
S&P 500 Index	4,173.85	11.12%
NASDAQ Composite	13,429.98	4.20%
Russell 1000 Growth Index	2,529.44	4.19%
Russell 1000 Value Index	1,581.50	17.18%
Russell 2000 Small Cap Index	2,224.63	12.65%
MSCI EAFE Index	2,292.17	6.74%
US 10 Year Treasury Yield	1.635%	72 basis points
WTI Crude Oil	\$65.51	35.30%
Gold \$/Oz.	\$1,843.80	(3.04%)

 **Beacon Trust** 163 Madison Avenue, Suite 600 | Morristown, NJ 07960 | 973.377.8090 | BeaconTrust.com

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