

Beacon Weekly Investment Insights

Last week started with the announcement of a mega-merger in the U.S. media industry when AT&T announced that it will spin off its WarnerMedia business that owns CNN, HBO and Warner Bros., and combine it with Discovery channels to better compete against other media giants such as Netflix and Disney. The newly formed business could be worth as much as \$150 billion.

It was a busy week in the retail industry as well. Walmart and Target first-quarter results beat expectations as the largest retailers benefited from continued expansion of their e-commerce businesses, grocery sales, and curbside pickup as customers had more money to spend through stimulus checks. Home Depot and Lowe's easily beat estimates as consumers continued to splurge on Do-it-yourself (DIY) home renovation projects such as kitchen/bathroom/basement renovations, backyard improvements, etc.

Minutes from the Federal Reserve's April meeting were released last week showing the Fed's acknowledgement that the economic recovery is strengthening, inflation pressures are rising, and the central bank may begin to ponder an adjustment to the ultra-accommodative monetary policy. The Fed has indicated that the economy is still in a recovery mode and stimulus is needed to ensure an even recovery in the labor markets.

Initial jobless claims dropped to 444,000, lower than economist expectations and lower than the prior week's number. Unemployment claims now sit at a pandemic-era low. Conference Board's Leading Economic Index (LEI) rose 1.6% in April following a 1.3% gain in March, two consecutive solid gains. The index has now fully recovered from the Covid-19 contraction. It is yet another sign that the economic recovery is gaining steam.

Housing starts in April dropped by 9.5% to an annual rate of 1.57 million units, following a 1.73 million rate in March due to a price surge in construction materials such as lumber. Sales of existing homes also declined 2.7% in April due to a sharp drop in homes available for sale. Median price of an existing home increased by 19.1% nationally, the largest annual increase on record, partly explained by strong activity on the higher end of the market. Purchasing Managers Index (PMI) was also released last week, showing strong growth in both manufacturing and services sectors, despite rising input costs.

Perhaps the most dramatic story of the week was the crash of the cryptocurrencies. Bitcoin, Ethereum, and Dogecoin plunged in value last week as the Chinese monetary regulators warned financial institutions not to conduct virtual currency related business including exchanging them for fiat currencies and U.S. Treasury announced that it will require any large transfers of cryptocurrencies to be reported to the IRS. This highlights the top concern we have been warning about cryptocurrencies: regulation. While some digital currencies will be survivors over the long-run, the price fluctuations will be too high for most clients to bear. By way of example, Bitcoin lost almost half of its value over the past month, including a 30% intra-day nosedive on Wednesday.

Speaking of risks, geopolitics is always part of our risk map. Investors are reminded of geopolitical risks with the recent conflict in the Middle East, which could have easily broadened out and had significant impact on the energy markets, but fortunately the conflict between Israel and Hamas has de-escalated and a ceasefire was announced at the end of the week.

S&P 500 finished the volatile week lower by 0.4% as the Nasdaq eked out a 0.3% gain during the week. This week, unofficially the last week of spring before the Memorial Day weekend, we will be watching the consumer confidence index and the new home sales data on Tuesday, durable goods orders on Thursday, and the all-important personal consumption expenditures price index, which is Fed's preferred inflation measure, on Friday.

Market Scorecard:	5/21/2021	YTD Price Change
Dow Jones Industrial Average	34,207.84	11.77%
S&P 500 Index	4,155.86	10.64%
NASDAQ Composite	13,470.99	4.52%
Russell 1000 Growth Index	2,531.88	4.29%
Russell 1000 Value Index	1,569.90	16.32%
Russell 2000 Small Cap Index	2,215.27	12.17%
MSCI EAFE Index	2,314.63	7.78%
US 10 Year Treasury Yield	1.62%	70 basis points
WTI Crude Oil	\$63.58	31.04%
Gold \$/Oz.	\$1,876.70	(0.87%)

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