

Beacon Weekly Investment Insights

Although the weather in the Northeast was not characteristic of the beginning of summer, we hope that everyone enjoyed the Memorial Day weekend.

Once again, we experienced a week filled with positive economic news as more and more COVID restrictions are eased nationwide, consumers continue to spend and travel, and sentiment remains high. Equity indices for the month reflect this with gains for the Dow Jones Industrial Average, which celebrated its 125th birthday on Wednesday, the S&P 500, and the Russell 2000 small caps. The NASDAQ Composite was the only major domestic index to decline in May snapping its six month positive streak.

Looming, however, is the question on everyone's mind – Is inflation about to ramp up given the amount of stimulus, actual spending and proposed spending? Last week's release of the Federal Reserve's preferred inflation measure, the Personal Consumption Expenditure index, rose 3.6% in April year over year, a sharp rise from March's 2.4% pace. The core index, which excludes food and energy prices, rose 3.1% in April, up from 1.9% in March. Federal Reserve officials continue to reiterate that the inflationary forces we see in these numbers is indeed transitory in nature and should subside in the months to come. They also continue to reiterate the language that they do have the necessary tools to tamp down inflation if in fact it proves to be pervasive. Thus far the fixed income markets have digested the inflationary data without any disruption or fear. The benchmark 10-Year US Treasury yield remains in a very tight range around 1.6% after the initial surge to start the year.

The Biden Administration released their proposed fiscal year 2022 budget which was unveiled at \$6 trillion. The largest spending items include big increases in spending on infrastructure, public health, education, military, and other domestic programs. Financing the increased spending would come primarily from an increase in corporate taxes, already proposed at 28% from the current 21% rate, and additional tax increases on high income earners (\$1 million and above), which includes a hike in capital gains taxes retroactive to April 2021. As you might expect, there are immediate reactions to the proposed budget from both sides of the political aisle. The negotiations have already begun, and we caution investors to not make any rash decisions based only on proposals!

One final note on corporate earnings season: with now about 98% of S&P 500 companies having reported first quarter earnings, we can report an impressive 50.2% year over year earnings growth, with 10.7% revenue growth. The industries hit hardest by the pandemic led the way as sectors such as consumer discretionary had 208% earnings growth and financials had 135% earnings growth.

This week begins the final month of the second quarter and the economic calendar is quite full. We start on Tuesday with a look into the manufacturing sector with the ISM Manufacturing index. Thursday we have the same look into the service economy with the ISM Services index. Initial jobless claims that fell last week to 406,000 will also be reported on Thursday. The week will conclude with Friday's important nonfarm payroll report and unemployment rate for May.

Market Scorecard:	5/28/2021	YTD Price Change
Dow Jones Industrial Average	34,529.45	12.82%
S&P 500 Index	4,204.11	11.93%
NASDAQ Composite	13,748.74	6.68%
Russell 1000 Growth Index	2,572.83	5.98%
Russell 1000 Value Index	1,584.49	17.40%
Russell 2000 Small Cap Index	2,268.97	14.89%
MSCI EAFE Index	2,325.27	8.28%
US 10 Year Treasury Yield	1.58%	66 basis points
WTI Crude Oil	\$66.62	37.30%
Gold \$/Oz.	\$1,903.93	(0.01%)

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