Beacon Trust
INNOVATING WEALTH STRATEGY

June 7, 2021

Beacon Weekly Investment Insights

The S&P 500 edged up a modest 0.6% during the week, close to its record highs, but a number of important news events percolated beneath the surface. The widely watched unemployment report was released on Friday. The headline number was good, with the unemployment rate falling from 6.1% to 5.8%. However, the main driver of the drop in the unemployment rate was the low labor force participation rate. A confluence of factors are likely behind recent labor force participation trends. Some people are not comfortable with going back to work due to the ongoing, but improving, COVID pandemic. The comfort level may be tied to health concerns or child/elder care responsibilities. Others may be enjoying the stimulus and unemployment checks which are ongoing in many states. The pandemic has also resulted in much "soul searching" with many people contemplating retirement or a career change.

The Federal Reserve made a small, but potentially significant, announcement last week. It said it will begin to sell its corporate bond ETFs on Monday. The Fed's corporate bond portfolio is "only" $14 billion, a drop in the bucket compared to its balance sheet of nearly $8 *trillion*. The $64,000 question is, "Will this be the beginning of a meaningful taper of the Fed's Balance Sheet?" We should know the answer to this question by the end of the summer. However, it is becoming increasingly clear that we are moving further and further away from the emergency conditions that resulted in massive government intervention. Bonds took the week's events in stride, with the benchmark 10 Year U.S. Treasury Bond meandering around the 1.6% level, a figure that is not expecting rampant inflation.

U.S. Treasury Secretary Janet Yellen was not to be outdone by the Fed's mini-taper announcement. Secretary Yellen spearheaded a G7 meeting that led to a historic announcement. Specifically, the finance leaders from the G7 nations agreed to institute a minimum 15% global corporate tax rate. This announcement may not sound like much, but it may increase tax coffers in the U.S. and most other nations, while reducing the need to engage in regulatory arbitrage and other tax saving transactions. The impact will be mostly felt by large, multinational companies that have a strong focus on intellectual property assets. Importantly, the incremental tax revenue may be used to fund a compromise infrastructure bill in the U.S. and reduces the likelihood of a 28% corporate tax rate. In our view, both developments would be a positive for equities.

Later this month President Biden will be meeting with Russia's leader, Vladimir Putin, in Geneva. Russia launched an opening salvo, stating that its sovereign wealth fund will not be holding U.S. dollars anymore. The U.S. is likely to enact additional economic sanctions on Russia and press for further progress on human rights and climate change. Russia may bend a bit on the former topic, but the heart of its economy is focused on commodities, so they are unlikely to agree to a meaningful climate accord agreement. Recent cyberattacks, such as those impacting the Colonial Pipeline and food processor JBS, have emanated from Russia, but have not been tied to the Russian government. However, cybersecurity is certain to be one of the topics of the upcoming summit.

COVID-19 cases have continued to trend downward, a positive sign for progress on herd immunity, since large gatherings without a mask are now permitted in many areas of the country. COVID-19 vaccines are now approved for 12-15 year olds are being tested on even younger children. Progress is not quite as sanguine in the rest of the world, but the U.S. is accelerating its "vaccine diplomacy" efforts sending tens of millions of much needed doses to several countries around the world.

The economic calendar is fairly light this week, but all eyes will be on the Consumer Price Index (CPI) report on Thursday. The Core CPI, followed closely by The Fed and which excludes the volatile food and energy components, will also be released on Thursday. With earnings season largely behind us, macroeconomic data, such as the latest CPI reading, may garner increased attention from investors.

Consumer sentiment has regularly been improving since the depths of the pandemic last year. The latest sentiment reading will be released on Friday and is expected to show modest further improvement.

Market Scorecard:	**6/4/2021**	**YTD Price Change**
Dow Jones Industrial Average	34,756.39	13.56%
S&P 500 Index	4,229.89	12.61%
NASDAQ Composite	13,814.49	7.19%
Russell 1000 Growth Index	2,581.09	6.32%
Russell 1000 Value Index	1,595.97	18.25%
Russell 2000 Small Cap Index	2,286.41	15.78%
MSCI EAFE Index	2,357.79	9.79%
US 10 Year Treasury Yield	1.560%	64 basis points
WTI Crude Oil	$69.37	43.29%
Gold $/Oz.	$1,894.10	(0.39%)