THOUGHTS OF THE WEEK

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WEEKLY HEADINGS

This past Wednesday was National Odometer Day, a day set aside to appreciate the technological development that has been in existence since the 1600s! With vehicles now having self-driving features, it is easy to forget the more mundane devices on the dashboard, but odometers provide important information such as the distance traveled over a specific time and insights into fuel efficiency. The word odometer is derived from two Greek words meaning path and measure, and since the virus-induced lockdowns last year, we've been continually assessing the path of the US economic recovery and measuring the distance needed to return to pre-pandemic GDP levels. Needless to say, as the economy has traveled many miles from the depressed lows seen during this point last year, investors are eyeing any potential speed bumps and unexpected detours that may derail the progress made.

Key Takeaways

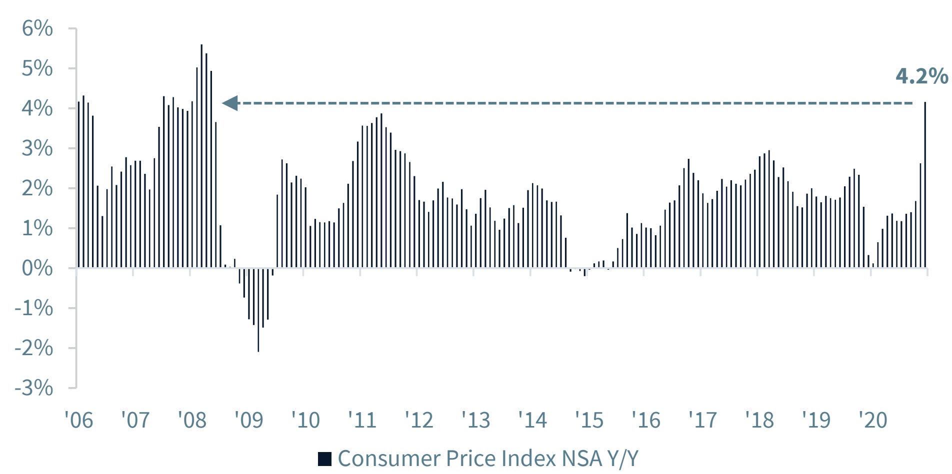
- Investors Fearing Inflation Is Going Into Overdrive
- Providing Context To The Surge In Consumer Prices
- The Disconnect Between Job Openings & Job Gains

- **Bottom Line—Keeping Our Eyes On The Road Ahead |** Between improving COVID-19 trends, surging economic activity, record earnings 'beats,' and accommodative fiscal and monetary policy, it is not surprising that the S&P 500 has rallied ~10% year-to date (the third best start to a year since 2000—21 years) and surpassed the 4,200 milestone for the first time in history. In short, a lot of good news has been priced into the equity market as reflected by the elevated valuations (S&P 500 NTM P/E: 21.2x). However, this week served as a reminder that the equity market is not impervious to increased downside volatility. The equity market declined on fears that the higher-than-expected inflation readings could force the Fed to adjust its policy ahead of schedule, with the S&P 500 posting its worst trading day (-2.14%) since February 25. Volatility is likely to remain elevated in the near term as market participants potentially overreact to singular data points. However, taking a longer view, we remain constructive on the equity market and would continue to use any headline–induced volatility as a potential buying opportunity.
  - **Fears Inflation Is Racing Above The Speed Limit |** With this week's year-over-year CPI figure surging to 4.2%—the fastest pace since 2008—and core CPI (excludes food and energy) prices posting their largest monthly gain since 1981, concerns intensified that that this inflationary spike may be more than what the Federal Reserve has telegraphed as 'transitory.' However, we disagree and firmly believe that this spike will likely peak during the third quarter at the latest, and settle down by year end. It is important to understand that we are in the midst of the most critical part of the 'base effect' as prices today are being compared to the severely depressed levels at this time last year—a time where demand was non-existent as the economy was in the middle of a lockdown. So while some of these increases are eye-popping as consumers are simultaneously coming out of spending hibernation, they need to be put into perspective. For example, while airline fares and hotel prices posted near record month-over-month increases, these two industries remain 18% and 6% below pre-pandemic levels.* As we progress through the summer, pent-up demand, supply-chain bottlenecks and shortages should subside and inflation should normalize. Our economist, Scott Brown, believes that core inflation will trend to 2.9% and 2.2% by the end of 2021 and 2022 respectively.
  - **Labor Market Traffic Jam May Complicate Stimulus Agenda |** There is a disconnect in the US labor market between job openings rising to a record high 8.1 million and the April job report (only 266k jobs created). Our sense is that the US economy is strong and that job growth will accelerate, so one disappointing number does not deter our optimistic outlook. However, this disconnect is forcing a deeper political divide in Washington and likely reduces the probability of a bipartisan infrastructure stimulus deal. The debate: Democrats suggest that the weak job numbers support additional, immediate stimulus so the economy does not stumble. Republicans argue that the extension of supplemental unemployment benefits (e.g., $300/week) disincentives some workers from taking a job. As a result, more than a dozen Republican-governed states have announced the termination of these benefits in June or July, well before the September 6 expiration, in the hopes of increasing job growth. As a result, it appears the passing of any or all of the additional ~$4 trillion in proposed stimulus will likely be a partisan Democratic effort through reconciliation. With stimulus having a major effect on spending and taxes (corporate, individual, estate, etc.), uncertainty over the final bill given the slim Democrat majority could lead to increased market volatility.

CHART OF THE WEEK

Fears Inflation Is Racing Above The Speed Limit

The year-over-year pace of the Consumer Price Index surged to 4.2%—the fastest pace since 2008—and alarmed the equity market as investors were concerned that it may force the Fed's hand in adjusting accommodative policy ahead of schedule.



RAYMOND JAMES

ECONOMY

- The Consumer Price Index rose 0.8% in April, up 4.2% y/y, reflecting a 10% jump in the index for used motor vehicles, a rebound from the low levels of a year ago (what are called 'base effects'), and restart inflation pressures as the economy recovers. Restart pressures should eventually fade as supply chains are repaired, but could last longer and lead to an increase in long-term inflation expectations. The Fed repeated its expectation that higher inflation should be temporary, but indicated that, if the underlying trend in inflation were to increase significantly, it has the tools to bring it down and is confident in its ability to do so.
- Jobless claims fell below 500,000 again, as the previous week was revised higher, still elevated, but trending lower. Job openings rose to a record 8.12 million in March (7.29 million for the private sector), while hiring and quit rates were relatively high.*
- **Focus of the Week**: Next week, we are likely to see an improvement in residential construction activity and the Index of Leading Economic Indicators is expected to post a gain of about 1.6%, led by the drop in jobless claims and higher equity prices.

May 17- May 21

MON

TUE

WED FOMC Minutes

THU Leading Economic Indicators

FRI Markit PMI

FUTURE EVENTS 5/25 Consumer Confidence
5/28 Personal Consumption Expenditure (PCE)

US EQUITY

- This week's 'inflation scare' is creating volatility in the equity markets, particularly the long-duration growth names (i.e., Technology). We ultimately believe this will be a 'noise event,' resulting in a buying opportunity for equities on the pullback. However, we are in one of those 'noise' drawdowns right now, and it is hard to predict how far or long it will go, especially with so much algorithmic trading and factor investing. The Technology sector is oversold enough to experience a relief bounce, and the S&P 500 is rebounding from technical support at its 50 DMA (4,056).* However, the market as a whole is not deeply oversold yet, so we will need to monitor price action in the coming days to assess whether the current bout of volatility is over.* Longer term, the overall trend remains bullish (>90% of stocks above their 200 DMA) and there are plenty of potential technical support levels nearby. We view this current period as a normal pullback, and would use weakness as an opportunity to accumulate favored names.
- **Focus of the Week:** Next week we will be watching the market reaction to the 'noise' pullback to see if the 50 DMA holds. As volatility seems sharper on pullbacks, the markets could move lower—creating a good buying opportunity.

FIXED INCOME

- A much larger than expected jump in consumer prices caused a sell-off in the bond market, with the 10-year Treasury yield rising to 1.70%. The sharp jump in Treasury yields caused the 2/10 spread to widen to 154 basis points.* 5-year breakeven rates also rose to their highest level since 2006 following the CPI report.
- While Fed officials believe it is premature to discuss tapering asset purchases, other central banks around the world (e.g. Bank of England and Bank of Canada) have begun to reduce their bond purchases. This has led to speculation that the Fed may announce it will taper as soon as year end, which could spark some interim volatility in risk assets. However, the Fed has been very transparent about remaining accommodative for as long as necessary and has stated that it is not near a shift to tightening policy.
- **Focus of the Week:** Next week, watch for the release of the FOMC minutes on May 19th to affirm the Fed's direction.

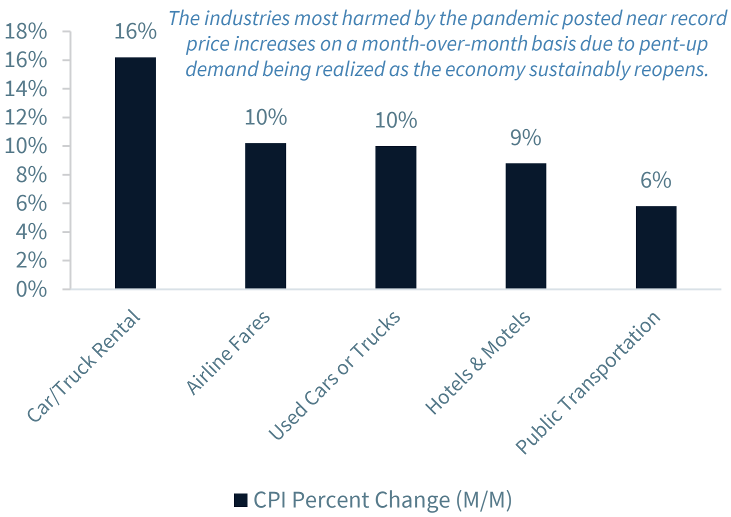
COVID-19 & ENERGY

- **COVID-19:** Over the past week, the US saw a 29.6% decline in new COVID-19 cases compared to the week before, as ~2.16 million doses of the COVID-19 vaccine were administered each day.* However, that numbers is down from the 3.37 million 7-day average just one month ago, when the pool of eager-to-be-vaccinated individuals was wider. Mitigating vaccine hesitancy and maintaining the momentum of the robust vaccine rollout are critical to continuing the progress we have seen and defending against troublesome variants. According to Dr. Fauci, trends in declining case counts are promising, but we still have room to improve; this week, he said, "As you get more people vaccinated, the number of cases per day will absolutely go down… We've got to get [our daily case count] much, much lower than that," citing that lower daily case counts reduce risk of infection, both among indoor and outdoor settings.
- **Vaccines:** The FDA has issued emergency use authorization for the COVID-19 vaccine from Pfizer in adolescents aged 12 to 15. The announcement marks the first time a COVID-19 vaccine has been authorized for use in <16 year olds and preceded a recommendation from CDC's Advisory Committee on Immunization Practices (ACIP) that endorsed the safety and effectiveness of the vaccine in this population. The authorized dosing regimen for the 12-15 year old population is the same as for adults (two injections, three weeks apart), and was based on safety data from 1,131 adolescent study participants who received treatment (2,260 including placebo patients) and safety follow-up for at least two months after the second dose, in addition to efficacy data that showed 100% effectiveness in preventing COVID-19 in 1,005 vaccinated patients vs. 16 infections in 978 placebo patients. This updated authorization could substantially reduce the spread of infection among adolescents in time for the new school year.
- **Energy:** This past week's shutdown of the Colonial Pipeline—following a ransomware cyberattack by a Russian cybercrime outfit—was, above all, the latest reminder that critical infrastructure assets of all types have vulnerabilities vis-a-vis cybersecurity. This includes the power grid, other energy facilities, transportation networks, and more. However, this specific event does not constitute an energy supply crisis. Yes, there is a temporary uptick in fuel prices along the East Coast, but the scattered reports of fuel shortages are mostly an illustration of a self-fulfilling prophecy. Some consumers heard a news story about individual instances of fuel stations running out, rushed to buy extra fuel (perhaps more than they need), and the result is that this panic buying ends up creating the very shortage which people fear. This is reminiscent of how supermarkets were running short on toilet paper, etc. in the earliest days of the COVID pandemic in the spring of 2020. In actuality, federal and state governments quickly acted to make it easier to get fuel delivered via alternative methods, and the pipeline itself is in the process of resuming operation (initial startup was on Wednesday, May 12). Meanwhile, the latest flare-up of violence between Israel and the Gaza Strip has even less impact (that is to say, zero) on the energy sector, bearing in mind that the Middle East's oilfields are located hundreds or even thousands of miles away.

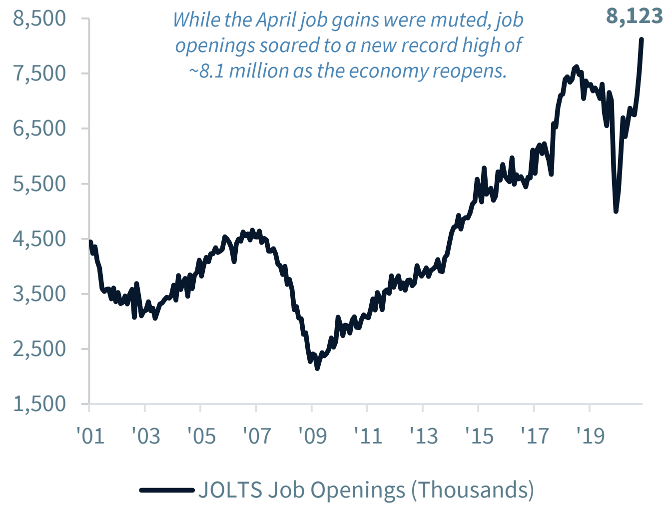
*See Charts of the week on page 3.

Charts of the Week

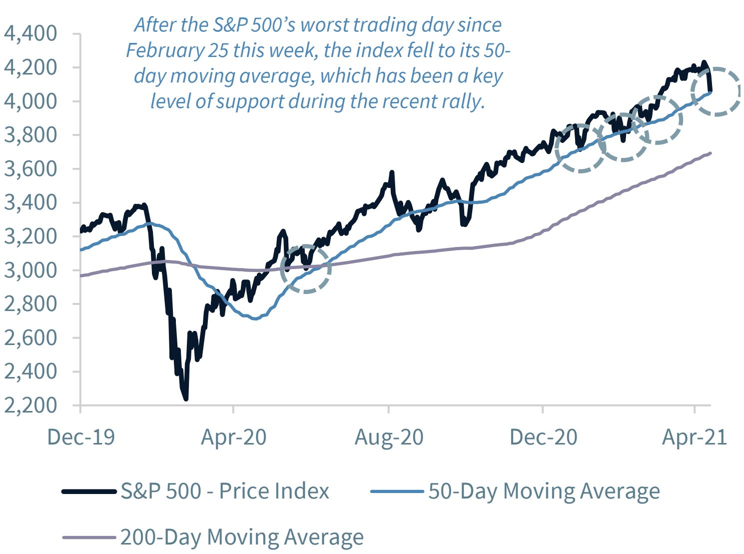
Record Month-Over-Month Price Increases



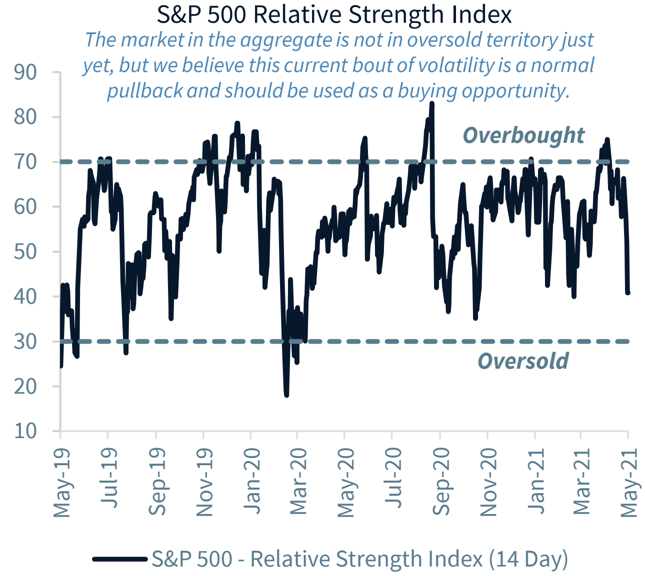
Job Openings Soar To A Record High



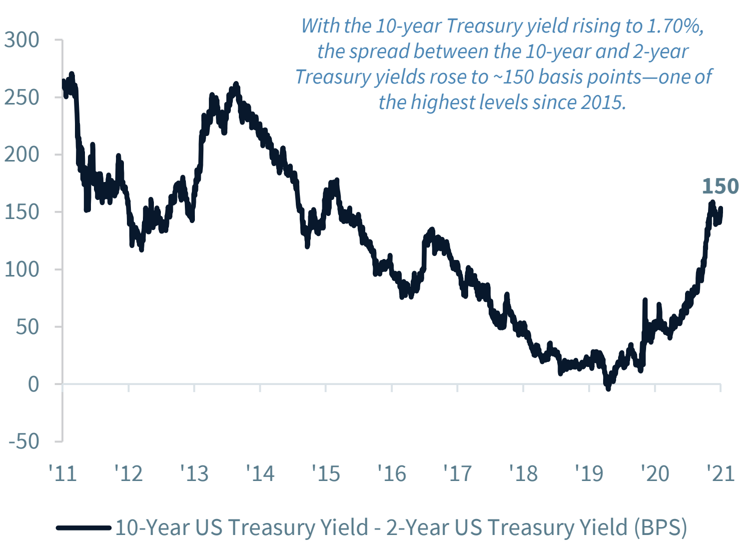
50-Day Moving Average Has Served As A Support Level



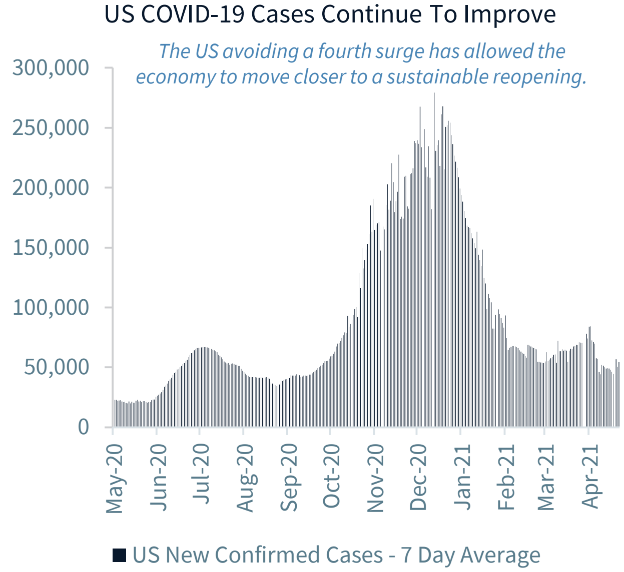
S&P 500 Relative Strength Index



10-Year & 2-Year Treasury Yield Differential



US COVID-19 Cases Continue To Improve



Asset Class Performance | Distribution by Asset Class and Style (as of May 13)**

Weekly Returns (as of May 13)

US Equities (Russell indices)

	Value	Blend	Growth
Large Cap	-1.2%	-2.2%	-3.2%
Mid Cap	-1.6%	-2.0%	-3.0%
Small Cap	-2.1%	-3.1%	-4.3%

International Equities (MSCI indices)

	Dev. Mkt	World	Emerg. Mkt
Large Cap	-1.6%	-2.2%	-3.8%
Mid Cap	-2.4%	-2.1%	-2.2%
Small Cap	-2.2%	-2.6%	-2.1%

Fixed Income (Bloomberg Barclays indices)

	1-3 YR	Medium	Long
Treasury	0.0%	-0.1%	-0.7%
Invest. Grade	0.0%	-0.2%	-0.3%
High Yield	0.0%	-0.2%	-0.6%

Year-to-Date Returns (May 13)

US Equities (Russell indices)

	Value	Blend	Growth
Large Cap	16.6%	9.3%	2.5%
Mid Cap	18.2%	10.8%	-2.3%
Small Cap	23.1%	10.3%	-1.5%

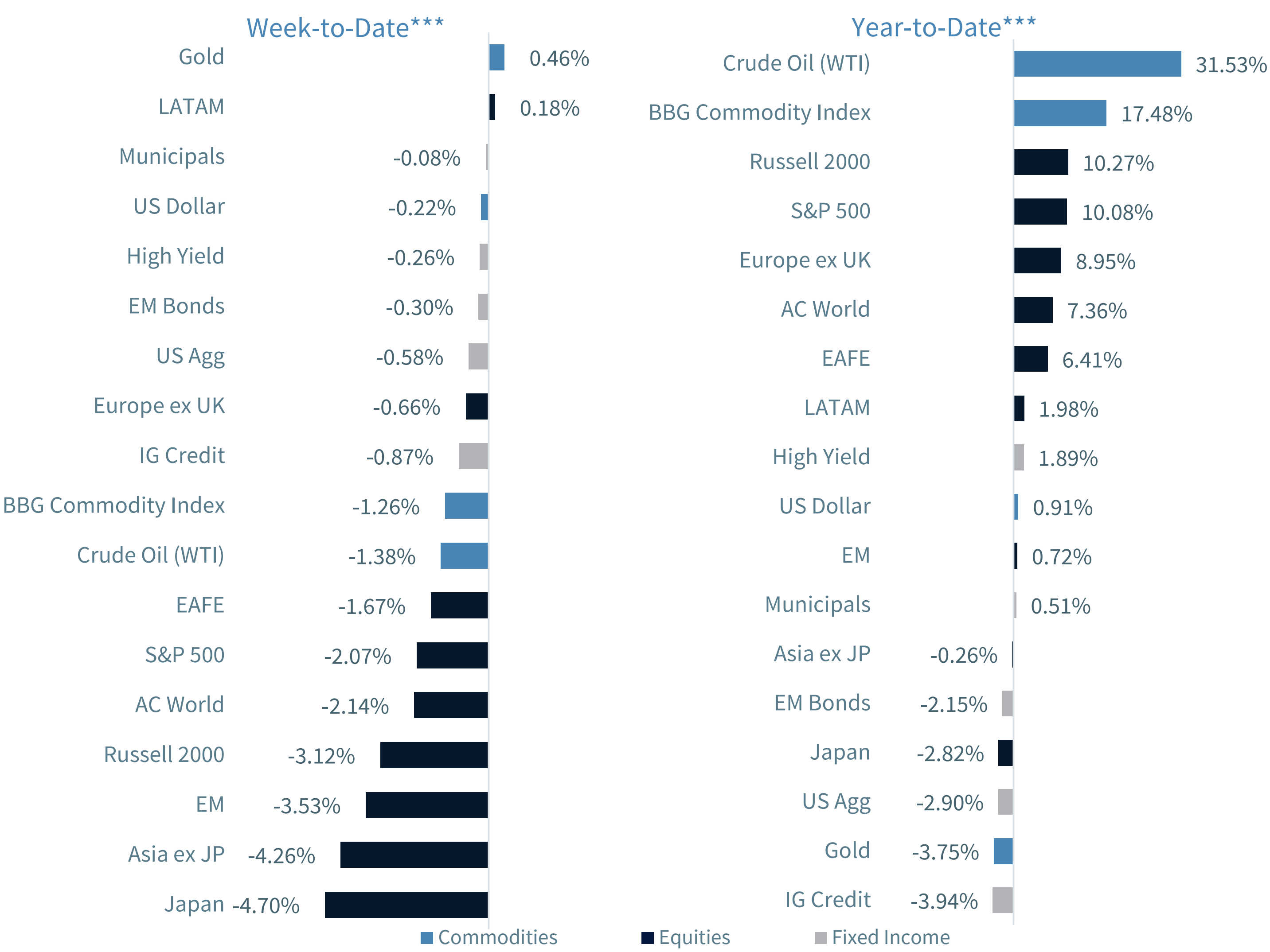
International Equities (MSCI indices)

	Dev. Mkt	World	Emerg. Mkt
Large Cap	8.9%	7.7%	0.4%
Mid Cap	6.7%	8.7%	7.0%
Small Cap	8.6%	11.3%	11.6%

Fixed Income (Bloomberg Barclays indices)

	1-3 YR	Medium	Long
Treasury	0.0%	-1.8%	-6.1%
Invest. Grade	0.2%	-1.4%	-2.8%
High Yield	3.2%	2.0%	0.8%

Asset Class Performance | Weekly and Year-to-Date (as of May 13)**



**Weekly performance calculated from Thursday close to Thursday close.

***Assumes all asset classes are priced in US dollars unless otherwise noted. Ranked in order of performances (best to worst).

Weekly Data**

Data as of May 6

U.S Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	4112.5	(2.1)	(1.6)	10.1	48.2	16.8	17.2	14.2
DJ Industrial Average	34021.5	(1.5)	0.4	11.2	46.3	11.0	14.2	10.4
NASDAQ Composite Index	13125.0	(3.7)	(6.0)	1.8	48.1	21.0	22.7	16.6
Russell 1000	4433.2	(2.2)	(2.1)	9.3	49.5	19.2	17.8	14.2
Russell 2000	5395.4	(3.1)	(4.2)	10.3	74.9	15.2	16.5	11.6
Russell Midcap	7768.8	(2.0)	(2.5)	10.8	59.6	16.7	15.6	12.7

Equity Sectors

Sector	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
Materials	545.5	(0.2)	4.7	20.3	77.8	16.4	16.0	10.9
Industrials	873.1	(0.9)	1.4	17.0	78.2	13.7	15.1	12.8
Comm Services	248.6	(3.0)	(3.5)	12.5	49.2	21.2	11.5	10.6
Utilities	332.5	(0.4)	(1.7)	5.4	23.6	13.0	9.6	10.9
Consumer Discretionary	1342.6	(4.6)	(6.5)	3.3	46.9	18.4	18.2	17.1
Consumer Staples	724.6	(0.0)	1.6	5.0	27.6	15.9	8.9	11.3
Health Care	1431.0	(0.2)	1.3	8.7	26.9	16.2	14.3	15.2
Information Technology	2336.4	(3.4)	(4.7)	2.3	46.3	25.6	29.1	20.3
Energy	389.0	(1.6)	5.1	38.4	51.7	(7.8)	(0.7)	(0.3)
Financials	619.5	(0.7)	3.0	27.3	85.2	12.2	17.4	13.6
Real Estate	259.5	(0.7)	(2.8)	14.8	38.9	13.7	9.2	10.3

Fixed Income

Index	Yield	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
3-Months Treasury Bill (%)	0.0	0.0	0.0	0.0	0.1	1.4	1.1	0.6
2-Year Treasury (%)	0.2	(0.0)	0.0	(0.0)	0.1	2.7	1.5	1.1
10-Year Treasury (%)	1.6	(0.7)	(0.2)	(6.1)	(7.7)	5.6	1.8	3.5
Barclays US Corporate High Yield	4.8	(0.3)	(0.1)	1.9	18.9	6.9	7.6	6.4
Bloomberg Barclays US Aggregate	1.6	(0.6)	(0.3)	(2.9)	(0.3)	5.1	3.0	3.3
Bloomberg Barclays Municipals		(0.1)	0.0	0.5	6.2	5.1	3.4	4.3
Bloomberg Barclays IG Credit	2.2	(0.9)	(0.4)	(3.9)	5.3	6.8	4.7	4.9
Bloomberg Barclays EM Bonds	3.9	(0.3)	0.0	(2.2)	10.6	5.9	5.1	5.4

Commodities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
WTI Crude ($/bl)	63.8	(1.8)	0.5	32.0	151.6	(3.4)	6.7	(4.3)
Gold ($/Troy Oz)	1821.8	0.5	3.1	(3.5)	6.6	11.2	7.6	1.9
Dow Jones-UBS Commodity Index	91.7	(1.3)	1.5	17.5	51.3	0.6	1.7	(5.4)

Currencies

Currency	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
US Dollar Index	90.8	(0.2)	(0.6)	0.9	(9.5)	(0.6)	(0.8)	1.8
US Dollar per Euro	1.2	0.1	0.3	(1.3)	11.4	0.4	1.3	(1.6)
US Dollar per British Pounds	1.4	1.1	1.4	2.8	14.9	1.2	(0.4)	(1.4)
Japanese Yen per US Dollar	109.6	0.5	0.3	6.1	2.3	0.1	0.1	3.1

International Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
MSCI AC World	688.5	(2.1)	(1.8)	7.4	47.4	12.5	14.5	9.9
MSCI EAFE	2254.2	(1.7)	(0.4)	6.4	42.6	6.2	10.0	6.1
MSCI Europe ex UK	2488.5	(0.7)	0.4	8.9	51.8	8.7	11.6	6.7
MSCI Japan	3711.4	(4.7)	(3.0)	(2.8)	26.7	4.5	9.7	7.1
MSCI EM	1292.8	(3.5)	(4.0)	0.7	45.7	6.4	13.2	4.0
MSCI Asia ex JP	837.3	(4.3)	(5.3)	(0.3)	42.0	7.7	14.7	6.5
MSCI LATAM	2462.0	0.2	3.8	2.0	66.6	(1.8)	5.9	(2.4)
Canada S&P/TSX Composite	15773.7	(0.8)	0.1	9.8	31.9	6.2	6.8	3.6

**Weekly performance calculated from Thursday close to Thursday close.

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DATA SOURCE

FactSet, as of 5/14/2021

DOMESTIC EQUITY DEFINITION

LARGE GROWTH | **Russell 1000 Growth Total Return Index:** This index represents a segment of the Russell 1000 Index with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. This index includes the effects of reinvested dividends.

MID GROWTH | **Russell Mid Cap Growth Total Return Index:** This index contains stocks from the Russell Midcap Index with a greater-than-average growth orientation. The stocks are also members of the Russell 1000 Growth Index. This index includes the effects of reinvested dividends.

LARGE BLEND | **Russell 1000 Total Return Index:** This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends.

SMALL GROWTH | **Russell 2000 Growth Total Return Index:** This index represents a segment of the Russell 2000 Index with a greater-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

MID BLEND | **Russell Mid Cap Total Return Index:** This index consists of the bottom 800 securities in the Russell 1000 Index as ranked by total market capitalization. This index includes the effects of reinvested dividends.

SMALL BLEND | **Russell 2000 Total Return Index:** This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest US companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

LARGE VALUE | **Russell 1000 Value Total Return Index:** This index represents a segment of the Russell 1000 Index with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values. This index includes the effects of reinvested dividends.

MID VALUE | **Russell Mid Cap Value Total Return Index:** This index contains stocks from the Russell Midcap Index with a less-than-average growth orientation. The stocks are also members of the Russell 1000 Value Index. This index includes the effects of reinvested dividends.

SMALL VALUE | **Russell 2000 Value Total Return Index:** This index represents a segment of the Russell 2000 Index with a less-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth