Weekly Market Review

By: Joe Clark, CFA, Allegheny Research Team

The Week Ending June 18, 2021

The Federal Reserve dominated the headlines as the market waited on their post-meeting statement and Chair Powell's press conference to detail how the Fed is consuming elevated inflation readings. Although there was not much material information shared, the market took guidance from the Fed to mean accommodative policies may not last as long as previously anticipated, sending the S&P 500 Index to a 1.9% loss on the week. Last week could have been nothing more than traders looking for a reason to sell and take profits, given the S&P 500 is up over 12% year to date. Or perhaps the losses were a combination of inflation and tightening monetary policy causing worries for market returns in the years ahead.

The question on everyone's mind is, when will interest rate increase. We got a small glimpse into the Fed's thinking last week as they did their quarterly exercise of updating their outlooks on interest rates. Prior to June's meeting, the Fed was not expecting a rate increase until 2024; now, they have penciled in two increases during the back half of 2023. However, this does not mean the countdown is on, and short-term rates will begin to rise in two years. Fed officials base their long-term forecasts on short-term data. They update forecasts quarterly and really have no motives for their outlooks other than how each member interprets the most recent data, in this case, inflation.

Another Fed-related event occurred Friday when Federal Reserve Bank of St. Louis's leader James Bullard predicted the first rate hike to happen in late 2022. This comment alone led the market to lower by over 1% in Friday's trading. Before reacting to Mr. Bullard's statement, one needs to look at his role at the Fed and his impact on monetary policy. While Mr. Bullard is an important member of the board, he currently does not have a vote on the Federal Open Market Committee or the committee that votes to set interest rate levels. There is a reason the Fed is a group of people; it is so that one person does not have the power to change rates based on their views. Therefore, trading off the viewpoint of one member is probably not the best recipe for long-term success.

Rate hikes and inflation concerns did impact the cyclical, value style of the market last week. The large cap value index traded down 4.1% on the week, while their growth counterparts ended the week up by 0.5%. Value stocks are known to reap benefits as the economy grows and consumers are confident. On the other hand, rate hikes signal that we may be coming to the latter part of an economic expansion (i.e., slower growth) and force the market to rethink where we go from here. As always, no matter how much data is available, it cannot lead to continued correct predictions on the market's direction in the short term. However, we remain confident that a diversified portfolio will lead to long-term success.

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811 Camp Horne Road, Suite 100 • Pittsburgh, PA 15237
Ph: 412.367.3880 • Fax: 412.367.8353
alleghenyfinancial.com • alleghenyinvestments.com