



Weekly Market Review

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The Month Ending June 30, 2021

In what began as the “year of reversal,” 2021 quickly changed as the calendar moved through the second quarter. Although energy stocks finished as one of the quarter’s top performers growth stocks beat their value counterparts within ten of the eleven S&P 500 sectors. Meanwhile, large cap stocks bested smaller cap companies, both familiar trends. A quarter dominated by inflation concerns and next steps for the Federal Reserve created conversation but did little to stop the stock market’s upward momentum as the S&P 500 Index closed the quarter at a record high.

Continued strong economic data, a stock market-friendly Federal Reserve, and expectations of Congress passing an infrastructure spending bill allowed the market to look past inflation and focus on the economic recovery. The reopening trade shifted a bit as we moved through the second quarter. Rather than home improvements and the stay-at-home trade, consumers increased traveling and participating in entertainment away from home. This shift has helped travel and leisure stocks, and taken the pressure off some commodities, most notably popping the lumber bubble.

Lumber prices rose exponentially over six times their April 2020 bottom due to pandemic-induced supply shortages combined with increased demand. This all changed the last six weeks of the quarter as consumers started spending elsewhere while supply was increasing, resulting in more than a 40% sell-off in lumber prices. The drastic fall in lumber prices could indicate that the Fed’s transitory inflation narrative is correct. If the past year’s rising prices result from a supply-demand imbalance, this would be in line with a transitory inflation outlook. Transitory inflation would allow the Fed to continue its easy monetary policies, supporting the market’s climb.

There was not only a shift from the first to the second quarter for equity markets, but interest rates also joined the trend. If you remember the first quarter, the 10-Year U.S. Treasury rate rose, leading to uncertainty surrounding stock valuations and monetary policy, among others. However, as the calendar changed quarters, so did the path of U.S. Treasury rates, as each month of the last quarter brought lower rates. Although some areas of the market are supporting the transitory inflation narrative, much uncertainty remains. While lumber prices are falling, gas prices continue to rise. The first six months of the year are a great example of why Allegheny believes in strategic, diversified portfolios. Market leadership changes quickly, but exposure to all areas of the market can set portfolios up for long-term success.



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