- **Overview:**
  - **US equities** were mostly higher in June, with the S&P 500 logging its fifth consecutive monthly gain and the Nasdaq Composite capping its best month of 2021. The Dow ended slightly lower after rising in the prior four months. Growth was a notable outperformer vs value, with the IVW +5.5% and the IVE (1.5%). The FANMAG complex was broadly higher after most names pulled back in May. **Treasuries** were mixed with the curve notably flattening. The 10Y yield dropped ~13bp in May to end near 1.46%. The **dollar** was stronger on the major crosses, particularly vs the euro. **Gold** dropped 7.0% in its worst month since November 2016. **Oil** continued its rally amid general optimism about improving global demand trends. WTI settled up 10.8% for the month.
  - **Tech** led the market with broad strength across software, hardware, and semis. AAPL +9.9%, MSFT +8.5%. **Energy** beat the tape again in June, alongside a continued rally in crude. E&Ps were better, with the XOP +8.6%. AMZN +6.7% was a notable gainer in **consumer discretionary**, but the sector also saw support from autos, retailers, and select apparel names (such as NKE +13.2%). **Communication services** saw weakness across most media and entertainment names but was buoyed by the megacap internets: FB +5.8%, GOOGL +3.6%. **Healthcare** was largely in line, with MedTech and biotech up but hospitals and managed care among the weaker subgroups. **Consumer staples** was lower overall, with some drag from food products and beverages. Transports (particularly airlines) were a drag on **industrials**, while building products was one of the few areas seeing scattered strength. **Financials** underperformed, with banks weak amid lower/flatter Treasury yields (and positive stress-test results and capital-return plans not enough of an offset). **Materials** trailed the market with industrial metals, precious-metals miners, and chemicals all weighing.
- **<u>What happened?</u>**
  - The big market theme this month was **growth reasserting its outperformance vs value**. Much of the year had been characterized by an improving Covid outlook and accelerating reopening progress, bringing the promise of faster economic growth and surging inflation. But June saw increasing thoughts that inflationary pressures (and consumer expectations) were coming off their peaks while overall growth prospects continued to moderate. This--combined with a June FOMC meeting that was more

hawkish than expected, another monthly miss for nonfarm payroll growth, and moderation in some key commodities (such as lumber)--took a lot of the wind out of the reflation trade and sparked a rotation back into many of the growth names that languished in May. Alongside this came a continued pullback in the 10-year breakeven inflation rate, which dropped ~10bp to 2.32% (from 2.42% on 28-May and further from that month's peak of 2.54%).

- **June's FOMC meeting was more hawkish than expected.** While it brought no change to interest rates, an updated *Summary of Economic Projections* showed members' median forecast for rate liftoff had been forward pulled into 2023 (with 25bp two hikes expected that year) against expectations for 2024 or later after the March meeting. This shift came despite little out-year change to members' economic expectations, sparking questions about how committed the Fed is to overshooting inflation with its flexible average inflation targeting (FAIT) framework. And while there was no change to the structure of the bank's $120B/mo asset-purchase plan, Chair Powell made it clear that this was the meeting at which policymakers began talking about a possible taper. Nevertheless, analysts did not see much reason to change their forecasts for taper timing and are still expecting to see some indication at either the August Jackson Hole symposium or the September FOMC meeting, with actual changes possible by year's end. And the blizzard of Fedspeak following the meeting did little to clarify matters, with some members suggesting the Fed should act sooner rather than later while others argued the economy has still not recovered sufficiently to warrant removing supports.
- **The White House and moderate senators agreed to a $1.2T bipartisan infrastructure plan** after weeks of negotiations. The package, which will feature $579B in new spending and no new taxes, is far more modest than Biden's earlier ask and targeted on "hard" infrastructure and projects such as broadband expansion. While this was designed to appeal to enough GOP senators to allow it to bypass a filibuster in the Senate, many progressive Democrats complained that the bipartisan bill would sacrifice their priorities. For that reason, Democratic leaders have been following a "two-track" approach, finding compromise on infrastructure but preparing a large bill focused on their policy priorities that can be passed through the Senate via the party-line reconciliation method. However, passing even this presents many challenges given a broad split between moderates and progressives in the Democratic caucus, with those such as Sen. Sanders (I-VT) discussing numbers near $6T while WV's Sen. Manchin recently reiterated he would likely not be comfortable going above $2T. The big question for the

market going forward is how large this plan is likely to be and how large of a tax hike (on corporations and high-income individuals) will be necessary to fund it.

- The month's **economic data painted a picture of a still-improving economy and inflation still running above long-term averages**, but with some sense **trends were coming off their peaks**. On the jobs front, May saw a boost of 559K **nonfarm payroll employment**, missing consensus and a slowdown from April's pace. June **ADP private payrolls** saw a rise of 692K jobs, well ahead of forecasts but a deceleration from May. Weekly i**nitial jobless claims** hit their lowest level since before the pandemic on 4-Jun (374K) but have ticked up in subsequent reports. In terms of prices. May **headline and core CPI**came in ahead of consensus, with the y/y core rate of 3.8% representing the highest reading since 1992. However, **core PCE** for May showed a smaller-than-expected monthly rise (though it was still up 3.4% y/y, the highest since 1992). May's **ISM Services** gauge hit a record high of 64.0, while the prices paid component reached its highest level since September 2005. Consumer sentiment was broadly positive, with June's **UMich consumer sentiment** report showing improvement in both current conditions and expectations, while inflation forecasts moved down. June's **consumer confidence**report showed the widest labor-market differential since 2000 (with 54.4% of respondents saying jobs are plentiful vs just 10.9% saying they are hard to get).

- **In other news:**
    - **Covid trends and vaccination rates continued to improve around the world**, though as the month went on there was increasing anxiety about the spread of the **Delta variant** (first identified in India), with some concern outbreaks could result in reimposed lockdowns and imperil economic recoveries in some countries.
    - **All evaluated banks passed their latest stress tests**, with the Fed saying it would end its pandemic restrictions on dividends and buybacks. And banks took advantage, with Goldman Sachs estimating dividends are up 11% this year while repurchases will be 22% higher.
    - **Bitcoin experienced some volatility.** Futures posted their third consecutive monthly drop, finishing down more than 5% to ~$35K, but finishing well off the June low near $29K. Multiple factors were in play including the ongoing crypto crackdown in China and the Biden administration's proposal to require more crypto broker disclosure on investors.

- June's G7 leaders meeting in the UK global tax minimum built consensus around a framework for a 15% global minimum corporate tax** (to be discussed further at July's G20 meeting in Italy). The official communique also discussed **collective approaches against China**, though the US was disappointed by the lack of stronger language in this regard.

    - **Indirect negotiations with Iran continued in Vienna**, with the US looking to strike a deal that brings Tehran back into the 2015 nuclear pact. But while negotiators kept characterizing talks as constructive there seemed to be little progress, and the election of a new hard-line Iranian president may add uncertainty going forward.

- **<u>S&P 500 Sector Performance</u>:**
    - **Outperformers**: Tech +6.90%, Energy +4.50%, Consumer Disc. +3.75%, REITs +2.92%, Communication Svcs. +2.71%
    - **Underperformers**: Materials (5.54%), Financials (3.10%), Utilities (2.43%), Industrials (2.28%), Consumer Spls. (0.53%), Healthcare +2.19%