

OBSERVATIONS

- COVID-19: 48% of total U.S. population and 61% of adults have had at least one dose.¹
- Cryptocurrencies continue to come under stress as regulatory pressure and central bank pressure mounts. An index of cryptocurrencies has now lost over -35% since peaking on 11-May. The largest cryptocurrency, Bitcoin, has lost over -40% (through 23-May) since its April 15th peak of \$63,410.²
- Two of the busiest ports in the U.S. continue a record-breaking pace in volumes as trade continues to rebound. In April, imports at the Port of Los Angeles and the Port of Long Beach were up +29% and +18% from the same month in 2019.³
- Factset notes that during Q1 earnings conference call, 175 companies in the S&P 500 cited the word “inflation” (see chart of the week). Not surprisingly, that is the highest number since at least 2010 and was driven by companies in the industrial, consumer discretionary, financials, and consumer staples sectors.⁴
- Japanese real GDP fell -1.3% in Q1-2021 compared to Q4-2020—below the consensus of -1.1%.⁵
- Chinese industrial production growth slowed to +9.8% YoY in April, from +14.1% in March, but in line with expectations; while Chinese retail sales growth slowed to +17.7% YoY in April, down from +34.2% in March and below expectations of +25%.⁵
- The flash (initial) estimates show that real GDP growth contracted by -0.4% in Q1-2021 in the European Union compared to the previous quarter and employment was down -0.3% in Q1 compared to Q4-2020.⁵
- Lumber futures have declined -30% since hitting a speculative peak of \$1,711 (per thousand feet) on 10-May through 19-May. Lumber remains up +37% YTD.⁶
- Single-family building permits and single-family housing starts both softened in April from the breakneck pace in March.⁷

EXPECTATIONS

- Minutes from the Federal Reserve’s April 27-28 meeting hinted that discussions related to tightening of monetary policy maybe warranted should the economy continue to make rapid progress.⁵
- Another central bank weighs on Bitcoin as China’s central bank, the People’s Bank of China (PBOC), notes that virtual currencies should not be used because they are not real currencies.⁵ This comes despite China’s role in Bitcoin mining, where an estimated 65% of all Bitcoin mining takes place.⁸
- To date, twenty-two states (all with GOP governors) plan to end federal supplemental unemployment benefits, the benefits were originally slated for expiration in early September.⁹

ONE MORE THOUGHT: Biden Economic Policies Diverge Between China and Europe¹⁰

Last week the Biden administration postponed for two-weeks a deadline to review a Trump-administration policy to restrict U.S. investors’ ability to own select Chinese public equities due to these firms ties to the China’s military-

¹ <https://covid.cdc.gov/covid-data-tracker/#vaccinations>

² Bloomberg LP, Bloomberg Galaxy Crypto Index as of 21-May, Index = Bitcoin, Ethereum, Litecoin, Bitcoin Cash, Monero, EOS, Dash and Zcash

³ <https://labusinessjournal.com/news/2021/may/17/la-long-beach-ports-continue-record-gains-april/>

⁴ Factset, <https://insight.factset.com/highest-number-of-sp-500-companies-citing-inflation-on-q1-earnings-calls-in-over-10-years>

⁵ Bloomberg LP

⁶ <https://www.cnbc.com/2021/05/19/lumber-futures-fall-for-an-eighth-straight-day-as-speculation-that-took-prices-to-a-record-unwinds.html>

⁷ <https://www.census.gov/construction/nrc/pdf/newresconst.pdf8>

⁸ University of Cambridge Judge Business School, https://cbeci.org/mining_map

⁹ <https://www.axios.com/states-unemployment-pandemic-benefits-ending-b7880d41-6398-4182-a4af-f59d67daa966.html>

¹⁰ <https://www.scmp.com/news/china/diplomacy/article/3133105/biden-shows-more-continuity-expected-trump-policy-china;>
<https://www.reuters.com/world/us/biden-administration-delay-revamp-trump-era-china-investment-ban-bloomberg-2021-05-18/>

intelligence complex. The two-week extension is expected to clarify which of 44 companies blacklisted in the final weeks of the Trump administration will be permanently off-limits to U.S. investors. So far, Biden's policies have done little, if anything, to reverse Trump's tariffs and economic sanctions oriented towards China. Many Chinese foreign policy scholars have noted that Biden is showing more continuity with former President Trump in terms of his approach to China than initially expected by Beijing. In contrast, the Biden administration has begun gradually reversing many of Trump's economic policies oriented towards Europe. For instance, the Biden team has begun talks to remove the Trump-era tariffs placed on European produced steel and aluminum. Similarly, in March, the US and the EU agreed to temporarily suspend tariffs on each other's aircraft components, wine, and select food products as negotiations over the decades-long subsidy-dispute involving Boeing and Airbus were re-initiated. This de-escalation of U.S.-EU trade disputes comes on the eve of President Biden trip to Brussels next month where Biden and team will focus the talks, in part, on further economic cooperation between the U.S. and EU.

CHART OF THE WEEK

	Sector Weight	Sector Return	Contribution to Index Return	Estimated 2021 Revenue Growth	Estimated 2021 Earnings Growth	Number of Companies citing the word "inflation"	Percent of Companies in Sector citing the word "inflation"
Financials	11.2%	27.0%	2.8%	3.4%	43.2%	22	34%
Communication Services	10.9%	14.0%	1.5%	12.7%	94.7%	46	64%
Information Technology	27.0%	5.2%	1.5%	15.6%	23.7%	0	0%
Industrials	8.6%	16.1%	1.4%	9.3%	14.6%	6	10%
Health Care	13.2%	10.0%	1.3%	13.1%	22.1%	7	12%
Energy	2.7%	38.9%	0.9%	36.3%	<i>no 2020 earnings</i>	9	39%
Consumer Discretionary	12.6%	4.5%	0.6%	16.3%	62.0%	25	54%
Materials	2.7%	19.7%	0.5%	16.8%	58.4%	21	75%
Real Estate	2.4%	17.2%	0.4%	8.0%	7.9%	12	41%
Consumer Staples	6.1%	5.6%	0.3%	2.6%	5.9%	21	84%
Utilities	2.6%	5.8%	0.2%	7.1%	2.2%	6	21%
S&P 500			11.4%	11.6%	33.2%	175	

Source: Clearstead, Bloomberg LP, Factset. Performance data as of 20-May. Estimates as of 14-May. GICS sectors in S&P 500. Past performance is not indicative of future results. Current performance data may be lower or higher than the performance data presented.

Year to date, the S&P 500 has posted gains of 11.4% (as of 20-May) with all sectors contributing to the market's appreciation for 2021. Notably, the financials, communication services, and information technology sectors have accounted for over half of the S&P 500's year to date gains.



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