OBSERVATIONS

- COVID-19: Novavax Inc.'s Covid vaccine candidate showed 90% efficacy against the virus while showing 93% effectiveness against Covid mutated variants.[1]
- M&A in Real Estate Investment Trusts (REITs) have reached $70bn to date in 2021, on pace to surpass the previous record for REITs M&A set in 2006.[1]
- Retail sales declined -1.3% in May from the record highs reached in April -- despite recent weakness, retail sales are +51% higher than the pandemic lows and +20% above the pre pandemic peak.[1]
- The National Association of Realtors released a report noting that from 1968-2000 U.S. builders added 1.5 million new housing units on average per year. That contrasts with 1.225 million housing units added per year from 2001-2020, leading to a 5.5 million housing unit shortfall heading into the pandemic.[2]
- Jobless claims increased to 412k, the first week over week increase since mid-April. Meanwhile the 4-week moving average has dropped to 395k, the lowest since the week of 20-March-2020.[1]
- Hawkish Fed (see One More Thought) helps motivate wringing out of excesses in commodities: Lumber futures have now declined over -46% (thru 18-June) since peaking in early May. Meanwhile gold and copper futures lost -5.5% and -6.9% last week, respectively, the worst week for both commodities since March 2020. Grains declined nearly -6% for the week for their worst weekly loss since 2009. Meanwhile, the 2-year U.S. Treasury yield rose to above 0.25% for the first time in over a year.[1]
- Maine becomes the first state in the country to use legislation to divest from fossil fuel investments. Governor Mills signed a bill into law that requires the Maine Public Employee Retirement System, as well as other state funds, to divest its fossil fuel investments within five years.[3]

EXPECTATIONS

- Big banks warn of lower revenues from trading -- both Citigroup and J.P. Morgan warned of lower trading revenue as the significant gains from last year continue to normalize.[4]
- While the S&P 500 continues to evade a 5% correction -- the last time the market made such a decline was from 12-Oct to 30-Oct of 2020 when the S&P 500 lost -7.5% -- volatility did pick up last week in light of the Fed's updated views. Higher volatility could remain for the coming weeks as earnings season draws near.[1]

ONE MORE THOUGHT[5]

Last week's Federal reserve meeting offered a glimpse into how monetary policy makers have adjusted their views based on the evolution of the economy. Coming as no surprise, the Fed did not make any changes to interest rates and its decision to leave the benchmark policy rate unchanged at zero was unanimous. Additionally, the summary of economic projections from the Federal Reserve highlighted how the median forecast from its members shows the economy continues to improve in 2021. GDP is now expected to grow by 7.0% in 2021, and 3.3% in 2022. This contrasts with the Fed's last summary of economic projections from its March 2021 meeting where GDP was expected to reach 6.5% in 2021 and 3.3% in 2022. Additionally, inflation (as defined as Personal Consumption Expenditures) is expected to be 3.4% for 2021 while moderating to 2.1% in 2022. This contrasts with 2.4% for 2021 and 2.0% for 2022 from the March projections. In sum, the Fed expects higher growth and higher inflation for 2021,

---

[1] *Bloomberg LP*

[2] *National Association of Realtors, Rosen Consulting Group, https://www.wsj.com/articles/u-s-housing-market-needs-5-5-million-more-units-says-new-report-11623835800?mod=markets_lead_pos6*

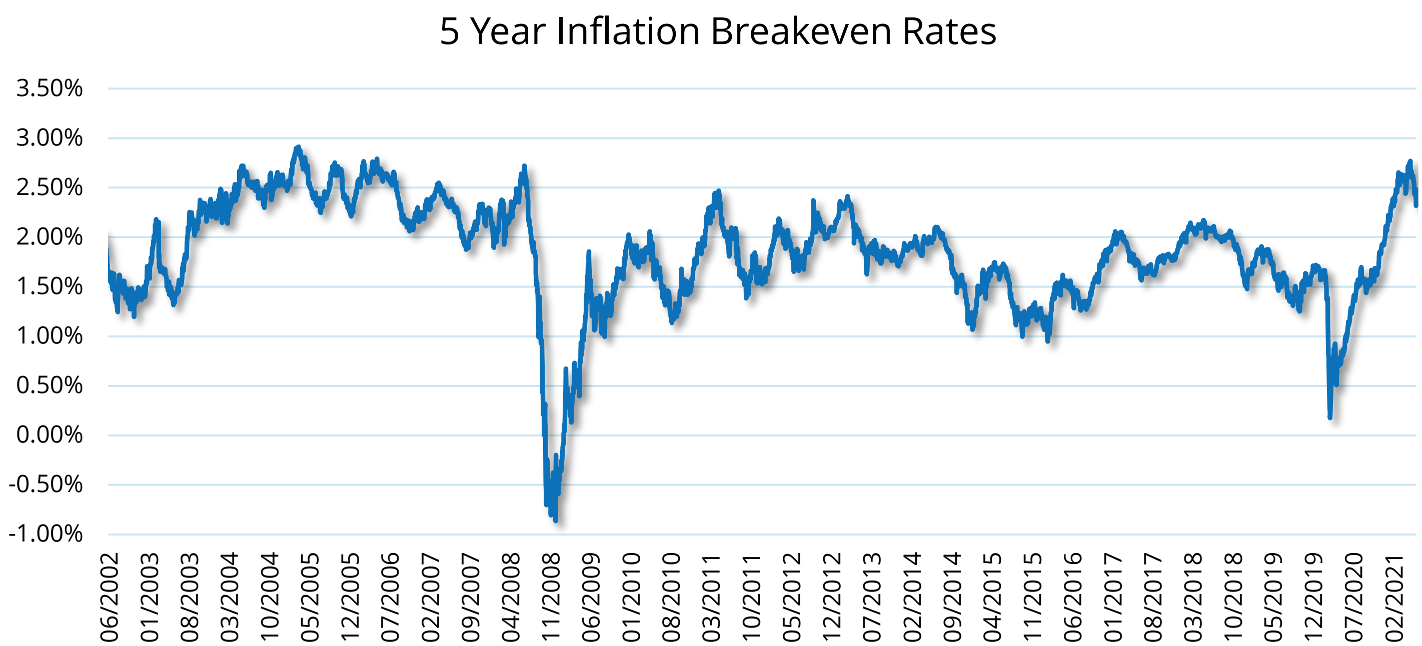
[3] *https://www.mainepublic.org/politics/2021-06-17/mills-signs-bill-to-divest-state-investments-from-fossil-fuels*

[4] *https://www.wsj.com/articles/wall-street-banks-warn-their-trading-boom-is-over-11623858452?mod=hp_lead_pos6*

[5] *https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20210616.pdf, https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20210317.pdf, Bloomberg LP*

relative to prior projections, with normalizations towards long term trends in the following year(s) – reinforcing its transitory views of inflation and growth. As it relates to the policy interest rate, expectations from the Federal Reserve's 'dot plot' now indicates a median expectation of two interest rate hikes by the end of 2023. The projections, and ensuing commentary by Fed Chair Powell, while not surprising, also reinforce the likelihood of a late 2021/early 2022 tapering of the $120 billion/month bond buying program.

CHART OF THE WEEK



Source: Bloomberg LP, Clearstead, as of 17-June

Intermediate term inflation expectations (average inflation expectations for 5 years) based on fixed income markets have now declined to 2.3% (as of 17-June) from the highs of 2.8% that were reached on 17-May. While we are likely to continue to see certain backwards looking inflation data (e.g., CPI) remain high, certain market-based expectations have started to reflect the notion of an eventual decline in inflation.

Aneet Deshpande, CFA	Dan Meges
Chief Strategist	Managing Director of Equity
Clearstead	Clearstead