SOWELL'S WEEK AHEAD

JUNE 21-25, 2021

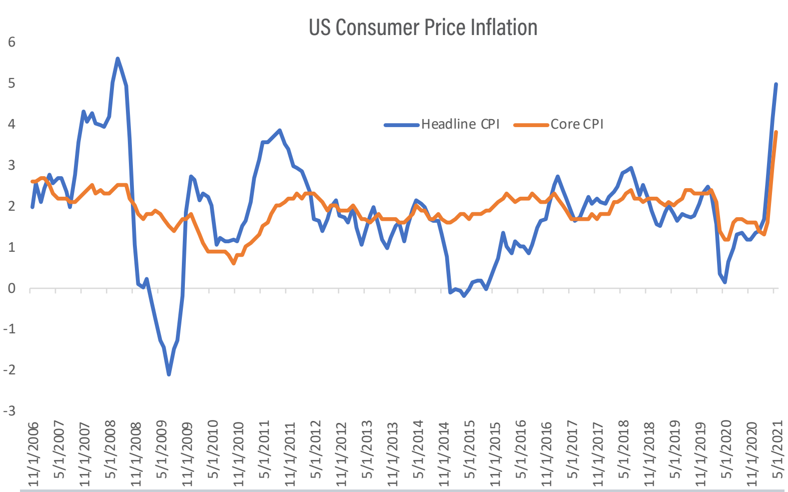
Remember the Fed's near zero-interest rate global pandemic policy is the exception and not the norm. In 2018 before the economic slowdown the Fed Funds target rate was on pace towards 2% with a long-term target inflation rate of 2%. Inflation and rising interest rates, a necessary evil to complement the pandemic recovery continues to positively influence Sowell's tactical reading.

GAUGE OF THE GRADE

BEARISH NEUTRAL BULLISH

Last week, the latest Federal Reserve meeting was the spotlight as investors analyzed the central bank's commentary and its updated expectations for future changes in monetary policy. We have been seeing inflation run hot, with the most recent reading showing that consumer prices rising the fastest in 13 years according to WSJ. Because of inflation, extra attention was given to this Fed's meeting. And it did not disappoint as on Wednesday the Fed raised its inflation expectations, said that it is considering tapering its purchases of Treasuries and mortgage securities and showed a slightly more hawkish view towards 2023 rate hikes. This caused most major equity indexes to finish the week lower with the S&P 500 falling 1.9%. The technology sector fared better with the NASDAQ ending the week flat. With growth outperforming value last week as the result of the Fed's comments, we might be seeing the beginnings of a shift in style leadership back to growth. According to CNBC, the US 10 Year treasury closed the week at 1.44%, lower than it started the week. But the shorter-term rates such as the US 3 Year Treasury Rate ended the week substantially higher at 0.47% according to YCHARTS, implying a flattening of the yield curve.

Greater attention will be given to the Fed and inflation going forward, thus Fed Chairman Powell's comments before Congress on Tuesday will be important. We will also get another view of inflation with the release of Fed's preferred inflation measure which is the personal expenditures inflation index (PCE). The personal consumption data will be released on Friday which includes the PCE inflation index. The Fed has been stating that the elevated inflation readings are temporary.



In May, US consumer prices increased 5% over a year ago. This is the fastest rate since September 2008. The increase in core inflation with does not include the volatile energy and food prices rose 3.8%, the fastest increase since 1992. Most Federal Reserve officials believe this surge in inflation to be temporary, in somewhat because of the 'base effect.' Prices fell in the comparison period one year ago because of the pandemic which makes current prices look relatively higher. Also, a large share of core price pressures comes from relatively small number of reopening sensitive sectors such as used cars and trucks. Also, supply shortages (semiconductors) have much to do with rising prices. It remains to be seen how temporary this inflation increase is.

Source: Refinitiv/Fathom Consulting

MONDAY **JUNE 21, 2021**
Chicago Fed National Activity
TUESDAY **JUNE 22, 2021**
Existing Home Sales
Fed Chair Powell Testifies
Redbook
Korn Ferry earnings
WEDNESDAY **JUNE 23, 2021**
MBA Mortgage Applications
New Home Sales
Gasoline Inventories
H.B. Fuller, KB Home, and Steelcase earnings
THURSDAY **JUNE 24, 2021**
Initial jobless claims (weekly)
Continuing jobless claims
GDP
Accenture, BlackBerry, Darden, FedEx, Nike, and Plug Power earnings
FRIDAY **JUNE 25, 2021**
Personal Income & Spending
Personal Consumption Expenditures ("PCE") Price Index
Michigan Consumer Sentiment
CarMax, and Paychex earnings

SECTOR RETURNS

	1 WEEK	1 MONTH	3 MONTHS	YTD	12 MONTHS
S&P 500 Index	-1.87	1.07	6.77	11.66	35.72
Basic Materials	(6.69)	(8.03)	3.03	13.00	46.70
Comm Services	(0.90)	4.69	5.85	15.57	44.28
Consumer Cyclical	(1.28)	0.75	2.41	6.55	49.29
Consumer Defensive	(2.80)	(1.89)	5.26	3.14	20.16
Energy	(5.63)	(1.89)	6.90	37.98	33.60
Financial Services	(4.83)	(3.81)	2.45	17.12	43.35
Healthcare	(0.95)	1.41	7.15	7.72	25.42
Industrials	(3.97)	(3.33)	1.76	11.61	42.20
Real Estate	(3.02)	4.46	10.84	17.54	25.19
Technology	0.29	6.90	9.30	8.41	41.05

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