JSF FINANCIAL

A VOLATILE GLOBAL RECOVERY

JUNE 2021

After reaching a new all-time high in the first week of May, the S&P 500 had a choppy month and closed just slightly in the green. One major volatility driver: inflationary pressures, and concerns that the Federal Reserve will be behind the 8-ball in adjusting policy. These concerns were eased – at least for now – by the release of the April meeting minutes, fueling more optimism in equity markets.[1]

What's next in the recovery?

Data (and Market) Volatility

To quote the BlackRock Investment Institute, economic data have been "erratic".[2] Jobs growth is up again in May, though it again didn't meet expectations. The unemployment rate fell to 5.8%. The number of long-term unemployed fell by 431,000, the largest drop since 2011.[3]

Index Returns
(May 2021 and Year To Date)

Bloomberg Barclays Aggregate Bond Index US investment grade bonds	0.33% for May*	-2.29% for the year*
S&P 500 Index Large US Equities	0.55% for May*	11.93% for the year*
MSCI World Index Large/mid developed world equities (ex-US, CAN)	1.62% for May*	11.76% for the year*
MSCI Europe Index Large/mid developed european equities	4.47% for May*	13.96% for the year*
MSCI Emerging Markets Index Global emerging market equities	1.16% for May*	6.13% for the year*

* As of May 31, 2021

QUICK TAKE

This isn't your typical recession recovery. Here at home, we can probably expect to see more volatility in the coming months as people return to work, children return to school, consumers get out and spend again, and supply chain issues are resolved. Looking abroad, we believe it makes sense to monitor changes to both human health and the global economy as the pandemic continues across the world.

As we mentioned last month, inflation volatility is likely to continue as the reopening of the U.S. economy gains momentum. With unusual supply and demand issues and a mixed set of issues and incentives faced by the labor force, we could see more surprises in the near-term.[4] These issues, in our view, are part of the unique characteristics of this recovery and will simply require a bit of time to resolve.

For example, take a look at April's inflation data. Consumer prices rose 0.6% between March and April, with a 3.6% rise for the year.[5] However, a closer look shows that airfares, lodging, and car rentals were important drivers of inflation numbers as businesses reset prices to their pre-pandemic levels.[6]

Inflation is one variable in an entire economy—you may see how things might look a little strange in the

short-run when taken with all the other variables. Similarly, Brent crude oil is up an absolutely eye-watering 40% for the year, leading to higher prices for all of us who still go to the gas station. But lest we forget, oil price futures went negative last April for the first time in history.[7]

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In other words, this is simply a very strange time for markets, and we're likely to continue seeing some strange and volatile numbers (and, potentially, a highly reactive equity market.)

The Global Recovery

In the U.S. and Europe, prospects are looking up: with vaccination rollouts gaining steam and re-openings gaining ground, we appear to be poised for growth in the coming years.

However, things don't necessarily look the same worldwide. Between closed economies, the health costs of the virus, and higher food prices, the World Bank has estimated that 150 million people will be pushed into extreme poverty as a result of the pandemic. Health systems across the developing world are overwhelmed, and an estimated 34 million people have come to the brink of famine—a 35% rise in one year.[8]

Economic recovery is expected to be delayed in economies that have been successful with lockdowns but slow with vaccination (such as Australia, Korea, and Japan), while those with limited government support and new waves of infection could struggle to recover.[9]

In addition to the human costs, the economic costs of a continued pandemic in the rest of the world can also be significant.

In other words, we could see a pretty divergent recovery between the richer economies and the rest of the world. The upcoming Group of Seven meeting is expected to revolve largely around the issue of helping developing economies to access and administer vaccines.

In addition to the human costs, the economic costs of a continued pandemic in the rest of the world can also be significant. There is an obvious impact on issues of global supply chains and economic activity, but there are also other embedded concerns—for example, the rise of new variants of the virus. There is a continued health crisis in India due to the transmission of the so-called Delta Strain, which is now in over 60 countries and may be associated with greater illness severity.[10]

In any case, in our view it makes sense to monitor the global situation in addition to the trajectory of the economy here at home.

Key Takeaways

All in all, this clearly isn't your typical post-recession recovery.

Here at home, we can probably expect to see more market volatility in the coming months as people return to work, children return to school, consumers get out and spend again, and supply chain issues are resolved. This rush of activity could produce more surprises and even some confusion—but we don't believe that it requires the same level of reactivity from investors.

Further afield, we believe it makes sense to monitor changes to both human health and the global economy as the pandemic continues across the world.

As always, if you have questions about markets, the economy, or any of the key variables we are keeping an eye on, please don't hesitate to reach out. We will continue to rebalance portfolios through volatility and strive to be aligned with your diverse objectives. As we head into summer, now is the time to call or email us to schedule your mid-year meeting. Thank you for your continued partnership and confidence!

The Bloomberg Barclays U.S. Aggregate Bond Index measures the investment-grade U.S. dollar-denominated, fixed-rate taxable bond market and includes Treasury securities, government-related and corporate securities, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities.

The S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market.

The MSCI World Index is a broad global equity index that represents large and mid-cap equity performance across 23 developed markets countries and covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Europe Index captures large and mid-cap representation across 15 developed markets countries in Europe and covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The MSCI Emerging Markets Index captures large and mid-cap representation across 26 emerging markets countries and covers approximately 85% of the free float-adjusted market capitalization in each country.

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced in a specific time period. GDP is the most commonly used measure of economic activity.

SOURCES

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2. BlackRock investment Institute Weekly Commentary. June 7, 2021.
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5. https://www.wsj.com/articles/eurozone-inflation-above-target-sooner-than-the-ecb-expected-11622588799?mod=djem-10point
6. BlackRock Investment Institute Weekly Commentary. May 17, 2021.
7. BlackRock investment Institute Weekly Commentary. June 7, 2021 and https://www.bbc.com/news/business-52350082
8. https://www.wsj.com/amp/articles/covids-next-challenge-the-growing-divide-between-rich-and-poor-economies-11621343332?mod=article_inline
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10. https://www.bloomberg.com/news/articles/2021-06-08/fauci-urges-u-s-vaccinations-as-harmful-variant-spreads-in-u-k

Performance table sources:

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