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May was a long month with lots of data to digest and central bank utterances to decipher. Those who ignored the admonition to “sell in May and go away” were pleased to see the S&P 500 Index close its fourth straight positive month in May.<sup>1</sup> But now we need to look ahead to June and what to be following closely

**Eurozone Service PMI and retail sales.** Europe is emerging from lockdowns, so we will want to gauge its economic progress. It is certainly encouraging to see that the Ifo Business Climate Index for Germany rose from 96.6 in April to 99.2 in May — the highest level since May 2019 — as German companies are not only pleased with their current situation but are optimistic about the future.<sup>2</sup> In addition, Google mobility data indicates that the eurozone is moving toward a more normal environment with increasing foot traffic at retail stores and restaurants. However, we will want to see confirmation in retail sales as well as the Eurozone Service Purchasing Managers’ Index (PMI).

**May’s US jobs report.** The April jobs report was very disappointing — and the whispers suggest that May’s jobs report may be a flop as well. Official expectations are for approximately 600,000 non-farm payrolls created. I suspect it will be lower than that, but not dramatically lower, as the US economy continues to recover and Americans are becoming increasingly willing to return to work. Interestingly, last week the Dallas Fed put out a research note arguing that the labor market is already tighter than most economists believe. Their argument was based on the view that while there are still 8.5 million fewer people employed now than before the pandemic, and the Dallas Fed expects less than half of those to return to employment, with many others having chosen to retire.<sup>3</sup> However, I do believe that the majority of the unemployed have not permanently retired and will slowly return to work as the impediments to returning dissipate (childcare options increase, health fears abate as infection rates drop, availability of public transportation improves, and enhanced unemployment benefits end). One important point made in the research note is that wage growth indicates a tighter labor market; in the April jobs report, average hourly earnings rose significantly despite the creation of many lower-paying service sector jobs. And so we will be especially focused on wage growth in this jobs report.

**Federal Reserve Beige Book.** I am a huge fan of the Federal Reserve Beige Book. I think of it as helping to provide color on the data we see — for example, it helped explain the disappointing April jobs report. I suspect the June edition may give us color on both the May jobs report and inflationary pressures, but I am most interested in companies’ capital spending plans. I expect business investment to ramp up this year as the re-opening progresses and business confidence improves; we may get some hints of this in the next Beige Book.

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**Consumer inflation expectations.** There are several different kinds of inflation expectations: consumer and business expectations, economists' forecasts, and inflation expectations extrapolated from financial instruments. Consumer inflation expectations used to be of low importance because it has been relatively low for years. However, things have changed in recent months and US consumers seem very aware of high prices now. Last week, the University of Michigan's consumer inflation expectations reading was released, showing it rose significantly in May. It should matter to the Fed if consumer inflation expectations remain higher — one key rationale for keeping rates low has been that "inflation expectations are well-anchored" — so we will want to follow this closely.

**Tariffs.** Last week the US Commerce Department floated a proposal to double tariffs on lumber from Canada. I had perhaps been too idealistic in assuming that the Biden administration would quickly roll back the tariffs of the Trump administration, recognizing that tariffs are just another tax on American consumers. Not only did that not happen, but we now have a Commerce Department that thinks tariffs may be an appropriate tool in resolving trade disputes. I can only hope that the backlash to this possible action is vocal enough in the coming weeks to deter the Office of the United States Trade Representative from considering tariffs as an appropriate tool for any trade disputes going forward.

**COVID-19 statistics.** COVID-19 has dominated the global economy for more than a year. While many investors have recently become more concerned with inflation than COVID-19, a pandemic resurgence remains a risk. Coronavirus infection rates have risen in countries, such as Taiwan and Malaysia, that have up until now done an excellent job controlling the spread of the virus. This may be due to a slower vaccination rollout; we will want to follow the situation closely, as any country that has had a slower vaccine rollout could be at risk. And while India is finally "bending the curve" when it comes to COVID-19, we have seen an alarming development: Some recovering COVID patients have been afflicted with a "black fungus" — called mucormycosis — with a 50% fatality rate. Last week, UK Prime Minister Boris Johnson raised alarm bells about a variant of COVID-19 that has proliferated in India and is now quickly spreading in the UK despite a nearly 60% vaccination rate. The UK may postpone re-opening plans as a result. We will want to follow infections and vaccination rates closely.<sup>4</sup>

**Geopolitical conflict.** It seems that, as the world re-opens, geopolitical crises are becoming more frequent. In recent weeks, a conflict between Israel and the Palestinians has erupted, while the Belarusian government forced the landing of a Ryanair jet in order to arrest a dissident. While a Middle East ceasefire has held for a week, it is fragile. And while European leaders have repudiated Belarus, it is unclear if any additional action will be taken in response to this brazen violation of international laws. It seems we might see more issues — rather than fewer — as economies around the world continue their re-opening.

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## Conclusion

Ultimately, it's all about how these data points and speeches impact markets, and they could certainly contribute to volatility. There seems to be an uneasiness growing as investors are increasingly expecting a sell-off this summer. I have no crystal ball, but a correction is always a possibility, especially given the advances the stock market has made in the last year. But in my view, the potential for a correction this summer should not change anything investors with a long time horizon are doing. I believe in staying the course — remaining diversified across asset classes, ensuring adequate exposure to equities — and viewing sell-offs as buying opportunities.

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## Source

<sup>1</sup>Source: CNBC, "S&P 500 gains slightly to wrap up 4th straight positive month, sits less than 1% from record high," May 27, 2021

<sup>2</sup>Source: ifo Business Climate Index, May 25, 2021

<sup>3</sup>Source: Federal Reserve Bank of Dallas, "The Labor Market May Be Tighter than the Level of Employment Suggests," May 27, 2021

<sup>4</sup>Source: Bloomberg News, "Fear of Variant Poses Deadly New Dilemma for Boris Johnson," May 28, 2021

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## Important information

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions. All investing involves risk, including the risk of loss.

Diversification does not guarantee a profit or eliminate the risk of loss.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

The Eurozone Services PMI (Purchasing Managers' Index) is produced by IHS Markit and is based on original survey data collected from a representative panel of around 2,000 private service sector firms. National data are included for Germany, France, Italy, Spain and the Republic of Ireland.

The German ifo Business Climate Index assesses the current German business climate and measures expectations for the next six months. It is a composite index based on a survey of manufacturers, builders, wholesalers and retailers. The index is compiled by the ifo Institute for Economic Research.

The Summary of Commentary on Current Economic Conditions by Federal Reserve District (the Beige Book) is published eight times per year. Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its district, and the Beige Book summarizes this information by district and sector.

The opinions referenced above are those of the author as of June 1, 2021. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.