

June 21, 2021

Weekly Viewpoint

A “Hawkish” Pivot Spooks the Market

Performance for Week Ending 6.18.2021

The Dow Jones Industrial Average (Dow) finished down 3.45%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) fell 1.92%, the Standard & Poor’s 500 Index (S&P 500) dipped 1.91% and the Nasdaq Composite Index (NASDAQ) lost 0.28%. Sector breadth was negative with 10 of the 11 S&P sector groups closing lower. The Materials sector (-6.31%) paced the losses followed by Financials (-6.21%) and Energy (-5.21%).

Index*	Closing Price 6/18/2021	Percentage Change for Week Ending 6/18/2021	Year-to-Date Percentage Change Through 6/18/2021
Dow	33290.08	-3.45%	+8.77%
Wilshire 5000	43762.77	-1.92%	+10.91%
S&P 500	4166.45	-1.91%	+10.93%
Nasdaq	14030.38	-0.28%	+8.86%

Market Observations: 6/14/21–6/18/21

Stocks finished the week broadly lower after the Federal Reserve signaled that they may raise rates sooner than expected. The ‘threat’ of higher rates and their potential to slow economic growth weighed on sectors and styles levered to the economic rebound. The Russell 3000 Value Index (-4.23%) underperformed both the broader market and the Russell 3000 Growth Index (+0.24%), while cyclical sectors (Materials, Financials, Energy, and Industrials) all finished the week down sharply.

Fed Meeting More Hawkish than Expected: After signaling at the March Federal Open Market Committee (FOMC) meeting that rate hikes would be on hold until 2024, the Fed reversed course at last week's meeting and signaled that they now expect two rate hikes by the end of 2023. According to the Fed's latest "dot plot," 13 of 18 officials expect at least one rate hike by the end of 2023, with 11 of them seeing two hikes by the end of that year. The "hawkish" tone carried over into Fed Chairman Powell's follow-up press conference where he said conditions for liftoff could come sooner than later as there is a possibility inflation could turn out to be higher than expected. While still characterizing inflation as transitory, Powell seemed to give himself some flexibility should conditions change. In terms of tapering their bond buying activity, Powell noted that the meeting was more a "talking about talking about" meeting and that "substantial further progress" is "a ways away" but progress is continuing and will be evaluated at "upcoming meetings." Lastly, Powell said the committee plans to give notice of any change in bond buying well in advance of any action. There is growing speculation that the Fed could announce its tapering game plan in late-August at the Jackson Hole summit. The conference, which is sponsored by the Kansas City Federal Reserve, is watched very closely as the meeting has been used in the past to communicate policy initiatives.

Bullish Narrative Intact: While the mildly hawkish tilt by the Federal Reserve surprised the markets, the move shouldn't necessarily be viewed in a negative light as it demonstrates increased confidence in the rebounding economy and underscores that the Fed is taking the threat of inflation seriously. We maintain our constructive view on risk assets and believe the macro environment will continue to provide a sturdy backbone for additional gains over the course of the year. The economic recovery has solid momentum and earnings expectations continue to trend higher. Based on consensus expectations from Bloomberg, earnings are forecast to grow by over 35 percent this year followed by over 12 percent in 2022. Lastly, despite the hawkish surprise from the Fed, monetary policy is likely to remain highly accommodative for the foreseeable future. While a near-term period of consolidation cannot be ruled out, we would view pullbacks as corrective and not the start of a broader move lower. Hence, periods of weakness would be viewed as buying opportunities.

The Week Ahead: The focal point in the coming week will be the dozen-plus speeches from Fed officials, including Chairman Powell on Tuesday. It will be interesting to see whether they try to 'walk back' some of their hawkish views following the negative market reaction. On the data front, the focal point will be the release of the global June PMIs on Wednesday, which will give an initial indication of how the global economy performed into the end of Q2. Other data reports of interest include; May existing home sales, May new home sales, durable goods orders during May, jobless claims, and the University of Michigan sentiment reading. Another quiet week on the earnings front with just seven members of the S&P 500 scheduled to release results during the week.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Wilshire 5000 Total Market IndexSM represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm's headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

This material contains opinions of the author, but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are subject to change without notice. Forward looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable, but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information. No part of this material may be reproduced or referred to in any form, without express written permission of Guggenheim Partners, LLC.

Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Funds Distributors, LLC, GS GAMMA Advisors, LLC, Guggenheim Partners Europe Limited and Guggenheim Partners India Management. **Securities offered through Guggenheim Funds Distributors, LLC, an affiliate of Guggenheim, SI, GFIA and GPIM.**

© 2020 Guggenheim Investments. All rights reserved

#48601