



Weekly Market Review

By: Joe Clark, CFA, Allegheny Research Team



The Week Ending May 21, 2021

The S&P 500 posted its second consecutive week of losses, fueled by rising inflation, talks of the Federal Reserve winding down easy monetary policy, and cryptocurrency showing its highly volatile traits. The stock market is stuck between a consumer-driven reopening powering the economy through at least the rest of 2021 and digesting what some unexpected economic data means for the recovery speed. Since economic data is all about trends, one month does not tell the whole story, but it does begin the conversation around what the future holds.

Let's start with inflation. The Consumer Price Index showed an annual growth rate of 4.2% for the year ending in April. Previously, the Fed used a 2% inflation target, meaning a reading like April's would have more than likely led to a rate hike. Since the Fed's Jackson Hole Summit last August, they now seek an average of 2% inflation over time. This change now places us in unknown territory to understand how the Fed might react to rising inflation. Based on Fed speaker comments during the past week, they remain committed to their current policy, but their next meeting in mid-June should provide further guidance on future policy decisions.

We have been prepared for higher, transitory inflation for a few months now. But, is it really transitory? April's inflation was led higher by used car and truck prices, rental car prices, airfares, and hotels. Rental car prices alone were up 82% from 2020 (granted, last year rental cars sat in parking lots as everyone sheltered in their homes). Although not as extreme as rental cars, used cars and trucks are experiencing a 21% increase in prices over the past year influenced by pandemic-induced supply chain issues. These two categories, along with airfare and hotel rates, accounted for close to 60% of April's increase but account for only 5% of the basket of goods used to calculate Consumer Price Index (CPI). On the other hand, rent and healthcare costs contributed 8% to the month's CPI, but account for about half of the CPI basket of goods. Looking at this data, it does seem to be in line with the Fed's expectations of being transitory. But like all economic data, one month does not start a trend, and we need to wait for more data in the coming months.

It would be remiss not to mention cryptocurrency. A combination of the Chinese government attempting to place restrictions on Bitcoin and Tesla CEO Elon Musk changing the company's policy on accepting Bitcoin payments sent digital coins on a volatility roller coaster. Although cryptocurrencies are becoming more mainstream, this remains an incredibly speculative investment. Large price swings are the norm, and a strong stomach is needed to be a successful long-term investor.



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