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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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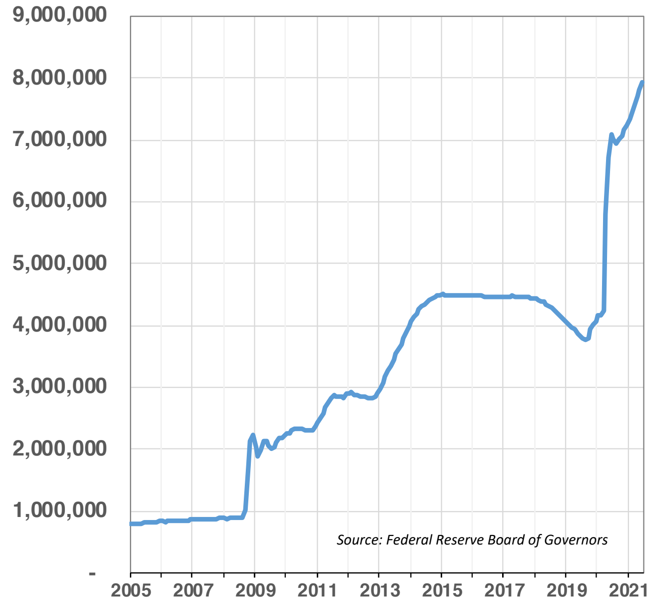
FED BALANCE SHEET EXPANDS

The central bank's balance sheet continues to grow, increasing to $7.8 trillion at the end of April from $7.3 trillion at the beginning of the year. The balance sheet consists of $4.9 trillion of U.S. Treasuries, $2.2 trillion in agency mortgage-backed securities, and another $700 billion in recently enacted programs (corporates, municipals, etc.). The Fed has reiterated its commitment to purchase "at least" $80 billion in U.S. Treasuries and $40 billion in mortgage-backed securities each month in order ensure a stable market. That said, the minutes from the central bank's April meeting indicated that at least a few Fed governors are willing to consider tapering buybacks if upcoming economic data shows robust growth. This may well be a topic at the Fed's annual summer meeting in Jackson Hole, Wyoming. At the short end of the curve, we don't anticipate the Fed will raise the federal funds rate until late 2022 or early 2023, at the earliest. On the flipside, we don't expect the Fed to lower interest rates below zero. Although that strategy has been implemented in some countries, it is not clear to Chairman Powell that the tool works. Further, he does not think it is appropriate in the U.S. given the dependence of corporations and investors on money-market mutual funds.

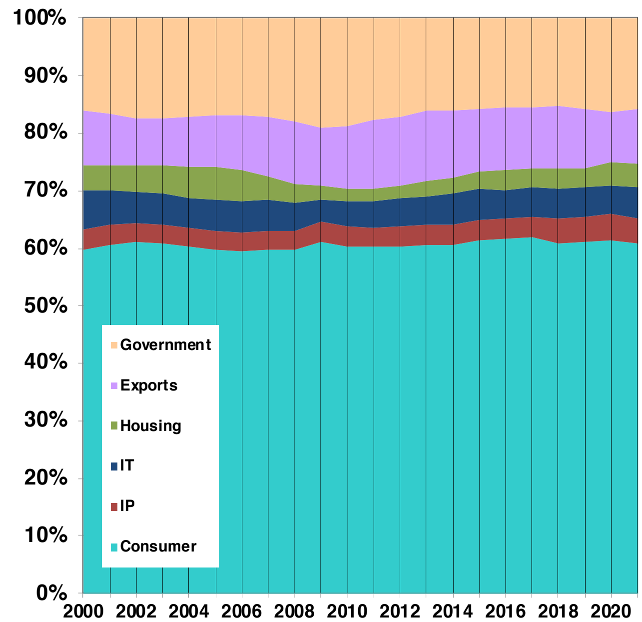
FED BALANCE SHEET (FED ASSETS, $ MIL)



GDP SEGMENTS RECOVER AT DIFFERENT RATES

The Commerce Department reported that 1Q21 GDP rose at a 6.4% rate. As we typically do for the second estimate, we take a closer look at the key contributors to GDP. First, the consumer. In 1Q, personal consumption expenditures grew at an 11% pace and contributed 60.8% of core demand. This is in line with the 10-year average, as the consumer sector, the most important component of the economy, continues to recover from the impact of the pandemic. Capital investments into equipment rose 13% and accounted for a consistent 5.3% of total GDP, while capital investments into intellectual property rose 17% and accounted for a high 4.4% of GDP, above the historical average of 3.7%. Exports remained under pressure (accounting for 9.3% of total demand compared to an historical average of 10.8%) as did government spending (accounting for 15.9% of total demand compared to an historical average of 16.5%). We believe that as U.S. GDP recovers to pre-COVID-19 levels, sectors will recover at different rates. We look for consumer spending and capital investments into IP to be among the leading contributors to recovery.

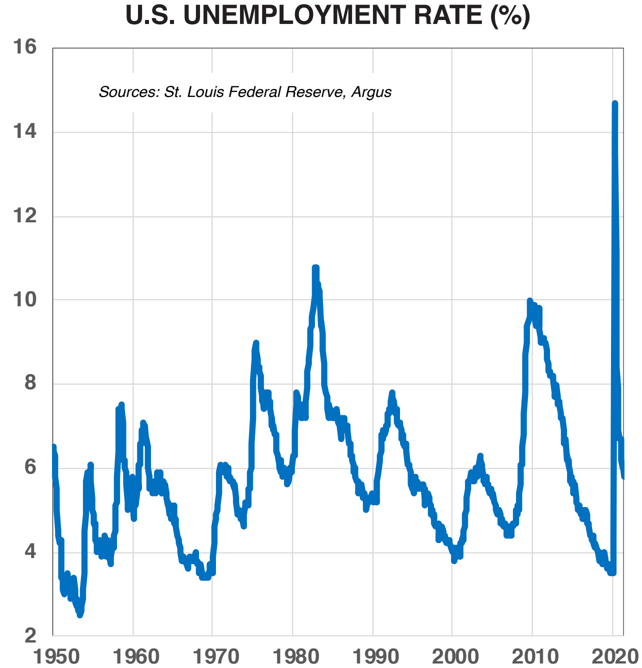
GDP CONTRIBUTORS



MAY PAYROLLS PICK UP PACE

The U.S. economy added 559,000 jobs in May, up from April's weak growth of 278,000; the unemployment rate ticked lower to 5.8%. Revisions to previous months' jobs totals raised the count by 27,000. The reopening trend was noticeable, as employment gains were led by sectors such as leisure and hospitality (+292k) and local government education (+53k). Industries including healthcare, manufacturing, and transportation also added jobs. The labor market continues to reflect the impact of the pandemic, as the shape and character of the workforce is changing as the economy recovers. The current number of jobs is approximately 3.6 million lower than the pre-COVID February 2020 level. The labor force participation rate remains a low 61.6%, compared to the historical average of 65%. Recently, the Labor Department reported that 385,000 people filed initial unemployment claims, down from 500,000 a month earlier. Though trending in the right direction, the data indicates that the employment environment is still under stress. We expect the unemployment rate to remain above 5.0% into 2022 and look for the Federal Reserve to keep interest rates low.

U.S. UNEMPLOYMENT RATE (%)

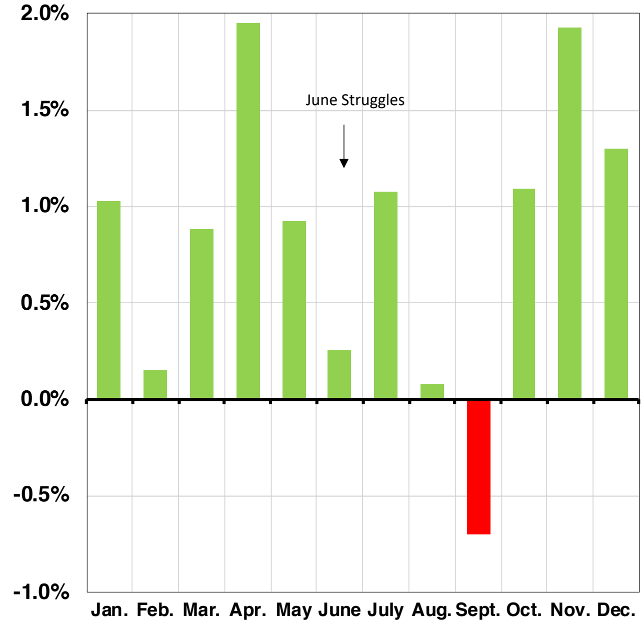


FINANCIAL MARKET HIGHLIGHTS

JUNE JINX?

June is not one of the better months for stocks, according to our analysis of market returns since 1980. On average, equity investors in June eke out a 0.3% return for the month. Only February, August, and September are weaker. The winning percentage is 61%, higher than only the 3Q summer months. We note that market returns in June have exceeded 5% only twice in the past 37 years: a 5.4% increase in 1999 and a 6.9% gain in 2019. Clunkers? We have seen a few, including 2008 (-8.6%), 2002 (-7.2%), 2010 (-6.1%) and 1991 (-4.8%). June is typically a quiet month as the second quarter draws to a close. Few companies report earnings. The Federal Reserve meets; while the Fed won't be lowering rates, we expect to hear Chairman Powell comment on the potential for the central bank to start a discussion about tapering its $120 billion per month asset-purchase program. Stocks are off to a strong start in 2021, with the S&P up more than 12% year-to-date. Valuations are stretched, though, and June may well be a month during which the bull market takes a breather.

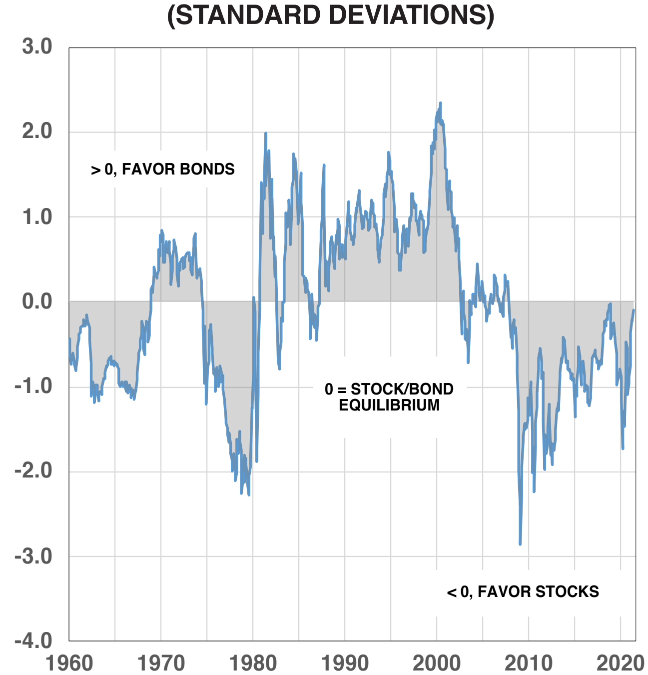
AVERAGE MONTHLY STOCK MARKET APPRECIATION



STOCKS, BONDS VALUES ALIGNED

Our bond/stock asset-allocation model is indicating that stocks and bonds -- both of which are overvalued against their own metrics -- are near fair value against each other. The model takes into account current levels and forecasts of short-term and long-term fixed-income yields, inflation, stock prices, GDP, and corporate earnings. The model output is expressed in terms of standard deviations to the mean, or sigma. The mean reading from the model, going back to 1960, is a modest premium for stocks of 0.16 sigma, with a standard deviation of 1.0. The current valuation level is 0.09 sigma discount for stocks. The model has generally done a good job of highlighting asset class value. For example, stocks were very attractive compared to bonds in the late 1970s, when benchmark Treasury rates were in the high teens before heading consistently lower over recent decades. The model indicated that stocks were at a sharp premium to fair value prior to the "dot-com" crash of 2001, and also at a premium prior to the Great Recession in 2007-2009. Starting in 2009, the model favored stocks -- another good call. As our chart shows, the markets can manage with premiums and discounts for an extended time. Equity valuations will likely start to improve as corporate earnings continue to surprise on the upside.

BOND V STOCK BAROMETER (STANDARD DEVIATIONS)



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
8-Jun	Trade Balance	April	-$74.4 Bil.	-$73.0 Bil.	-$71.1 Bil.	NA
9-Jun	Wholesale Inventories	April	1.1	0.8%	0.8%	NA
10-Jun	Consumer Price Index	May	0.8%	0.4	0.4	NA
	CPI ex-Food & Energy	May	0.9%	0.4	0.5	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
22-Jun	Existing Home Sales	May	5.85 Mil.	NA	NA	NA
23-Jun	New Home Sales	May	863 K	NA	NA	NA
24-Jun	Real GDP	1Q	6.4%	NA	NA	NA
	GDP Price Index	1Q	2.0%	NA	NA	NA
25-Jun	Personal Income	May	-13.1%	NA	NA	NA
	Personal Spending	May	0.5%	NA	NA	NA

Investors