



Economic & Market Commentary

Inflation is on the rise but interest rates remain artificially low due to Federal Reserve monetary policy. Inflation indicators reflect robust near-term inflation as commodity prices have risen sharply, the spread between the nominal 10-year treasury bond and 10-year TIPs is widening, ISM manufacturing and service surveys reflect pricing pressures, numerous corporations have announced price increases, and CPI and PPI monthly inflation readings have moved higher as well. The question is whether this bout of inflation will be transitory or prolonged. The Federal Reserve acknowledges inflation will be rising near term and even projects a 2.4% inflation rate for 2021. But they believe once supply chain bottlenecks are resolved, inflation pressures will recede. Many economists agree with the Federal Reserve's transitory inflation forecast. Conversely, there are many economists in the prolonged inflation camp. They agree with the Federal Reserve that the supply chain bottlenecks will subside along with the higher near-term inflation (5%-7%) caused by the supply and demand imbalance. However, these prolonged inflation campers contend the trillions of dollars being funneled into the economy will lead to lingering inflation rates of 3-4% for the next few years. Their contention is that the enormous growth in the money supply over the past year (+25%) will lead to demand outpacing supply or more dollars chasing fewer goods. Regardless of who is ultimately correct, real interest rates, which are nominal interest rates less the rate of inflation, have turned negative. As the graph below depicts, the real yield on the 10-year treasury stands -0.90%. Historically, real interest rates average 2.3% above the rate of inflation. With an economy that is forecasted to grow 7-8% in 2021, inflation rising, and strong money supply growth, how long can historic and artificially low interest rates remain?

Index Total Returns - April 23, 2021

	1-Wk	YTD	1-Yr
S&P 400	0.91	19.45	82.17
Russell 2000	0.41	15.33	89.29
Dow Jones	-0.42	11.86	47.87
S&P 500	-0.11	11.80	51.92
NASDAQ	-0.25	8.96	66.30
MSCI-Developed	-0.41	7.41	45.96
MSCI-Emerging	0.35	5.23	54.84
Barclay's U.S. Bond Index			
High Yield	-0.03	1.74	19.98
Municipal	0.06	0.64	6.89
5-year Muni	0.04	0.26	5.26
Int. Gov. Credit	0.10	-1.31	1.34
Aggregate	0.13	-2.43	-0.05

U.S. 10-Year Treasury - Real Yield



U.S. Treasury Yields

Treasury Yields	Latest Close	Week Ago	1-Year Ago
U.S. 1-Yr	0.06	0.07	0.18
U.S. 2-Yr	0.15	0.16	0.22
U.S. 3-Yr	0.32	0.34	0.27
U.S. 5-Yr	0.81	0.82	0.37
U.S. 10-Yr	1.56	1.57	0.61
U.S. 30-Yr	2.25	2.26	1.20

Total Returns - April 23, 2021

Sector	1-Wk	YTD	1-Yr
Energy	-1.72	27.00	43.82
Financials	-0.02	20.66	69.08
Industrials	0.46	15.02	69.22
Materials	0.38	14.87	72.27
Real Estate	2.03	16.71	32.99
Communication Services	-0.63	13.31	55.23
Consumer Discretionary	-1.22	9.40	57.61
Info Tech	-0.46	9.65	65.92
Utilities	-0.95	6.93	18.88
Health Care	1.79	9.35	27.22
Consumer Staples	-0.33	3.42	23.26

Municipal Yields - Bloomberg/Barclays Index

Issue Type	Latest Close	Week Ago	1-Year Ago
U.S. AAA	0.80	0.81	1.52
U.S. AA	0.89	0.90	1.75
U.S. A	1.16	1.17	2.51
U.S. Baa	1.63	1.65	3.87
U.S. Municipal	1.01	1.02	2.07
Michigan	1.07	1.08	2.13

Index Characteristics	P/E NTM	P/E NTM 10yr-Avg.	Dividend Yield
S&P 500 - Large Cap	22.50	16.16	1.35
S&P 400 - Mid Cap	19.73	15.69	1.11
S&P 600 - Small Cap	19.78	15.77	1.10