OBSERVATIONS

- COVID-19: Pfizer and Covid-19 vaccine partner BioNTech have commenced studies in children 6-months to 11-years old. Emergency use authorization (EUA) is expected to be filed in September for children ages 2-years to 11-years, while EUA is expected later in Q4 for children ages 6-months to 2-years. Additionally, EUA is expected at any time for those children aged 12-15.[1]
- Lost vehicle production globally this year due to chip shortages stands at 362k For Ford, 326k for GM, 284k for Renault Nissan, 207k for VW, 202k for Stellantis, 113k for Toyota, and 82k for Honda.[2]
    - *In 2000, electronics accounted for 18% of the cost of a car, that figure was 40% in 2020.[3]*
- Initial jobless claims dropped to below 500k (498k) for the first time since the pandemic began and the 4-week average fell to 560k, also a post pandemic low.[1]
- April jobs report: Nonfarm payrolls increased by 266k in April, against expectations of 1 million. The unemployment rate was little changed at 6.1%. April's disappointing job gains comes after 770k and 536k jobs were added in March and February, respectively.[4]
- After peaking in January, equity trading volumes in the U.S. have declined each consecutive month through April. Meanwhile, cryptocurrency volumes in in April reached $1.7tn, compared to $100bn from a year ago.[5]
- IPOs continue to correct as the mania in new stock listings subsides. The Renaissance IPO index has now declined over 26% through 7-May since reaching its peak on 12-Feb.[1]
- It has now been six months since the broader market (S&P 500) has declined at least -5.0% (*more on this can be found in our recent note on taxes and markets*).[1]

EXPECTATIONS

- With 88% of S&P 500 companies having reported Q1 results, this earnings season has seen 86% of those companies beat earnings estimates – the highest such figure since Factset began its tracking in 2008.[6]
- The Brazilian Central Bank moved last week to increase the base interest rate by 75bps to 3.50%. This was the third hike this year for the Brazilian Central Bank, Russia has also raised rates twice this year, and analysts expect additional central bank tightening in other emerging markets later this year—the period ultra-accommodative monetary policy related to the pandemic is fading in many developing countries.[7]

ONE MORE THOUGHT[1]: *For more on inflation, please see our February blog on the topic.*

At what point does inflation matter for stocks? The unfortunate answer is, like so many other market questions, that it depends. Inflation is complicated and its interaction and influence on certain asset classes, particularly in the short-term, is wildly difficult to forecast. That said, we can make some observations based on history. During the period of 1954-present, the S&P 500 has returned, on average, between +10% and +14.5% a year when inflation (CPI) has been less than 6%. Where it gets a little

1954-2021

When YoY change in CPI is:	The average 12-Month S&P 500 Return (Nominal) is:	And the average YoY Change in CPI is:
Less than Zero	14.2%	-0.7%
Zero to 3.5%	14.5%	2.0%
3.5% to 6 %	10.1%	4.5%
Greater than 6%	4.6%	9.3%
Average	12.1%	3.5%

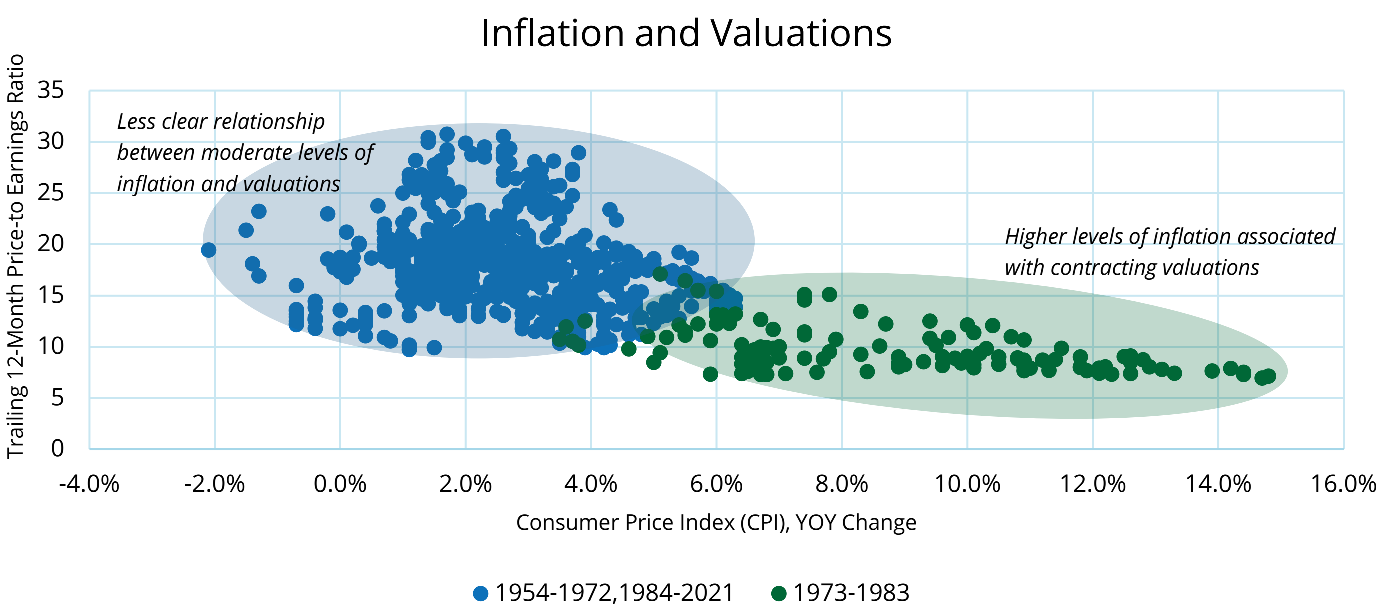
Source: Clearstead, Bloomberg LP, as of 30-April, Rolling 12-month returns

---

[1] *Bloomberg LP*
[2] *https://www.freep.com/story/money/cars/ford/2021/05/03/ford-gm-semiconductor-chip-super-duty-kentucky/4918434001/*
[3] *Bloomberg LP, IHS, Deloitte*
[4] *https://www.bls.gov/news.release/empsit.nr0.htm*
[5] *FT, https://www.ft.com/content/630c225a-5b78-4eef-aecf-f5a4c95276d1*
[6] *Factset Earnings Insight 7-May*
[7] *https://www.reuters.com/business/finance/cycle-turns-emerging-central-banks-hike-rates-march-2021-04-16/*

trickier is when inflation has averaged greater than 6%. A disproportionate share of those observations occurred during the inflationary stretch during the 1970s into the early 1980s. During those periods when inflation was 6% or greater, inflation averaged over 9%, while the S&P 500 averaged returns of just +4.6% per year – resulting in negative inflation adjusted average annual returns. Today's uptick in short-term inflation expectations is hardly comparable to where inflation would likely need to 'average' on a prolonged basis in order to pose a threat to equity returns, all else equal. Another illustration (see chart of the week) gives a sense of the relationship between inflation and price-to-earnings ratios. As noted, when inflation averages more than 6%, the S&P 500 has observed lower nominal returns, some of which can be explained by the contraction in the price-to-earnings ratio. If history is our guide, we would note that inflation would need to not only go much higher but remain much higher for a significant period of time before becoming problematic of investors. That said, we will respond accordingly for our clients should the evidence suggest otherwise.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, data as of 30-April

Aneet Deshpande, CFA
Chief Strategist
Clearstead

Dan Meges
Managing Director of Equity
Clearstead