At Passage Wealth, it is important to us that you are well informed about what's happening in the markets. Here are a few of the key topics of conversation that we feel deserve the most attention this month. If you have any questions or would like to continue the conversation, let us know, and we appreciate the opportunity.

It feels good to have a month of relatively slow news, data, and markets. While inflation reports are grabbing the headlines, along with the occasional meme stock and cryptocurrency saga, equity markets have been relatively stable. Short-term bouts of volatility have come and gone in recent months, but consistently good economic data is helping markets. As evidence, both the Nasdaq and S&P 500 have made new highs.

The "big" news of the month was the Fed's meeting to discuss interest rates and bond purchases. As you know, these have been the primary tools the Fed has deployed to boost the economy throughout the pandemic. In May, the Producer Price Index grew 6.6% annually, while Finished Goods prices outpaced expectations and grew 8.7% change year-over-year[i]. Also in May, CPI increased 5.0% versus the year prior[ii] , with Bloomberg Economics estimated that slightly over half of that increase was due to the sectors most sensitive to reopening, such as rental cars, lodging, airfare, restaurants, and others. Based on that meeting, the Fed has moved up the timelines for expected interest rate hikes to 2023 instead of 2024. This shows that inflation is growing into a somewhat larger concern than earlier this year, but certainly not an emergency.

The current level of inflation is expected to subside in the coming months as the effects of stimulus, consumer spending patterns, and fragmented supply chains return to normalized levels. Evidence of this can already be seen in the price of items like lumber and wheat; however other items (like oil) continue to see sky-high prices. In time those will come down too, so set your expectations that inflation will remain a conversation on news channels throughout 2021.

The Fed has some hard decisions to make in the coming months. Does it taper down its bond-buying to keep up with an economy with increasing inflation, or does it hold rates down to encourage corporations to continue rebuilding from last year's collapse? Also, are the latest inflation reports truly transitory, or is it a bigger trend that will force the Fed to adjust policy rates and asset purchases sooner? Our expectation is the Fed will start talking about bond purchase tapering in the next meeting - but we do not expect any meaningful activity to occur until 2022. When the Fed begins tapering, we expect volatility and rising rates… but previous periods of stress related to tapering have come and gone quickly.

Bottom line: The economy and markets are in a good spot right now. The Fed is communicating clearly and setting logical expectations for rates. This can help the markets grow with confidence. We expect bouts of volatility to continue as some economic data may surprise us occasionally, but the overall market trajectory is positive.

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[i] Source: US Bureau of Labor Statistics. https://www.bls.gov/news.release/ppi.nr0.htm
[ii] Source: US Bureau of Labor Statistics. https://www.bls.gov/news.release/cpi.nr0.htm