

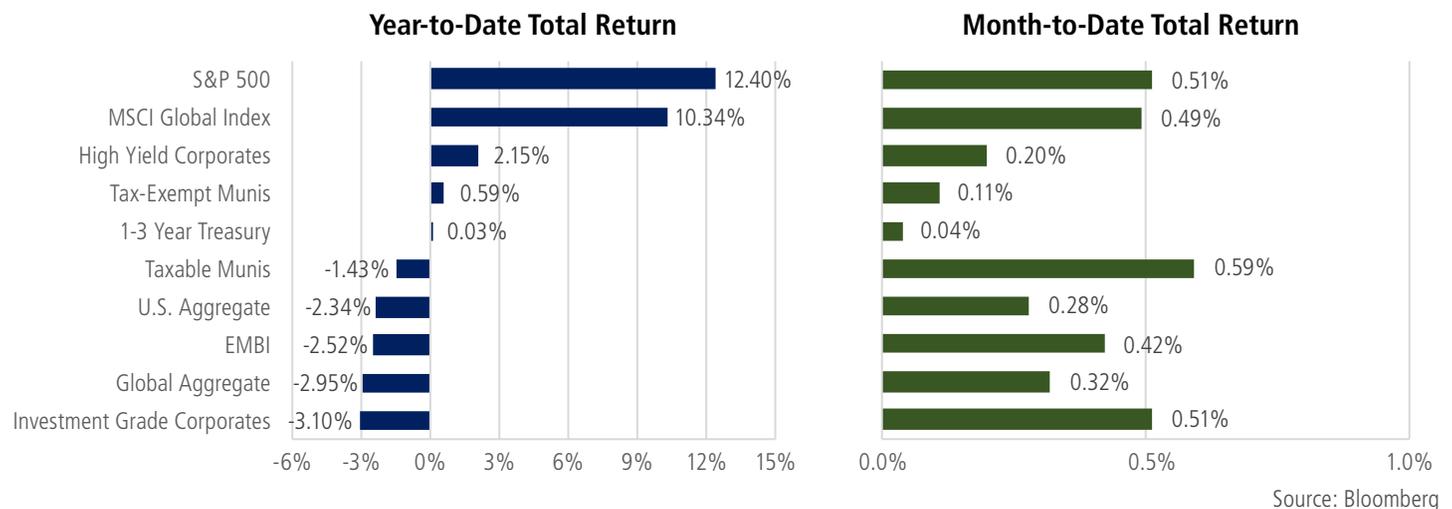
Week Ending: **May 7, 2021**

Commodities Consternation

Economic Overview:

[In April alone, lumber prices increased 49%, corn prices surged 31%, and copper jumped 12%.](#) Much of the jump in prices can be explained by the torrent of demand unleashed as the economy reopens. It's no surprise then that the Bloomberg Commodity Index (BCI) is up almost 50% year-over-year. Central bankers remain unconcerned amid the price surge, however. Perhaps they haven't booked rental cars or remodeled their homes recently. Or perhaps the chart above explains the central banker mindset: commodity prices fluctuate a lot but rarely lead to runaway inflation. In the last two decades, we've seen the BCI grow at double-digit percentage rates on dozens of occasions without a subsequent surge in core inflation. Most noticeably, in the period after the Global Financial Crisis, we saw the BCI grow at a 33% rate, but core PCE inflation stayed below 2%. Will this time be substantially different? We don't think so, but we're watching like hawks. Just don't expect central banks to pivot. Hawks are an endangered species in monetary policy circles worldwide.

Total Returns by Asset Class



Highlights of the Week:

- **High Yield:** Strong earnings, decreasing leverage, and easy capital market conditions resulted in a grand total of zero high yield companies defaulting on their debt in April. If these trends continue, 2021 should be a benign year for high yield defaults.
- **Corporates:** Despite the relative underperformance of big pharma this earnings season, Pfizer enjoyed a nice quarter, beating analysts' estimates of \$0.76 per share with adjusted earnings per share of \$0.93. Revenue jumped 44% year-over-year to \$14.6 billion driven by its Covid-19 vaccine. In addition, the company raised its full year revenue forecast by almost 75% from \$15 billion to \$26 billion.
- **Securitized Product:** Capital markets for commercial real estate debt are open for business, with multiple deals pricing this week. New issue volumes have continued at 20% above depressed 2020 levels. Should this pace keep up, 2021 private label commercial mortgage-backed securities (CMBS) issuance could exceed \$100 billion, coming just shy of 2019's \$118 billion post-global-financial-crisis (GFC) record.
- **Municipals:** Senate Republicans released a \$568 billion infrastructure proposal to counter the \$2 trillion American Jobs Plan. The proposal focuses on "traditional" infrastructure, such as transportation and water utilities, while nixing housing and clean energy initiatives proposed in President Biden's plan. As negotiation continues, municipals are still positioned to potentially benefit.
- **Equities:** The U.S. equity market rallied this week as corporate earnings continued to surprise to the upside. Cyclical sectors including energy, materials, and financials led the market higher this week, while real estate, consumer discretionary, and utilities lagged the broader market.