WRIGHT
INVESTORS' SERVICE, INC.

Monthly Investment Report

May 2021

***SUMMARY:* Stocks and bonds had positive returns in April as the world, led by the U.S., moved into post-pandemic recovery mode. Stocks were higher for the third straight month while bonds had their first positive month of the year. The U.S. economy is rebounding so strongly that inflation seems to be the biggest worry. While the Federal Reserve's main focus remains on putting the U.S. economy back to where it was before the pandemic, it also pledges that it will do what is necessary to keep inflation under control.**

Stocks had positive returns for the third straight month as the end of the pandemic moved closer to reality. The S&P 500 and NASDAQ both returned more than 5% in April while the Dow Jones Industrial Average gained 2.8%. Smaller cap stocks also did well, as the S&P 400 Small-Cap Index returned 4.5% and the S&P 400 Mid-Cap Index rose 2.0%. Four months into the year, the smaller cap indexes lead the big cap indexes by a substantial margin. The 600 Small-Caps are up 20.6% and the 400 Mid-Caps are up 18.6% so far this year, well ahead of their returns for all of last year. By comparison, the S&P 500 is up 11.8% year-to-date, followed by the Dow (+11.3%) and NASDAQ (+8.5%).

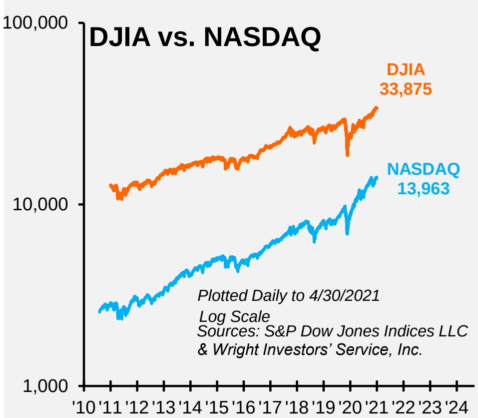
All 11 sectors of the S&P 500 closed in the green in April and for the year-to-date period. Real estate was the best performing sector in April, rising 8.3% to boost its year-to-date return to 18.1%, as more tenants begin to return to commercial buildings and retail stores. Energy stocks remained the best performers year-to-date with a 31.6% return despite trailing the pack in April with a 0.6% rise. Stocks outside the U.S. also had mostly positive returns in April, boosted by a weaker dollar, although they trail the U.S. year-to-date. Eurozone and U.K. stocks both returned more than 4% in April, as did Pacific Rim stocks outside Japan, where stocks lost 1.5%. Chinese stocks, which have mostly lagged the rest of the world this year, gained 1.4% to push them into the green for the full year by 1.0%.

Bonds had mostly positive returns for the first month this year but remain in the red year-to-date. The Bloomberg Barclays U.S. Aggregate gained 0.8% last month while corporate bonds and high-yield securities both returned 1.1%. Outside the U.S., the Bloomberg Barclays Global Aggregate ex-U.S. index gained 1.6%, helped by the weaker dollar.

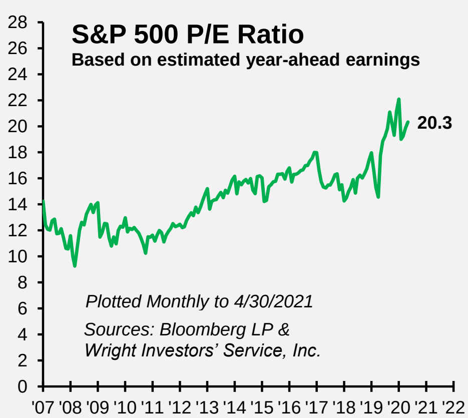
U.S. ECONOMY

The economy has come roaring back from the pandemic even as many industry sectors have yet to return to normal. First quarter GDP rose at an annual rate of 6.4%, up from 4.3% in the fourth quarter of 2020, with forecasts calling for even stronger growth in the second quarter. That burst of activity has been powered as much by pent-up demand as by government fiscal stimulus, which continued into March with a third round of checks totaling $1,400 for most Americans. Those checks helped push personal income up by a record 21.1% in March, which in turn generated a 4.2% increase in personal spending and a 9.8% jump in retail sales. The gap between the increase in incomes and spending means that much of that stimulus money remains unspent, as the personal savings rate nearly doubled in March to 27.6% from 13.9% in February. That could fuel a robust spring and summer in travel and tourism, two of the hardest hit sectors that are in the midst of reopening. Not surprisingly, the Conference Board's consumer confidence index soared for the second straight month, rising nearly 13 points in April to 121.7 after climbing more than 19 points the prior month. The jobs market is also rebounding quickly, as initial jobless claims continue to recede, falling below 600,000 in each of the last three weeks of March. Industrial production rebounded 1.4% in March after falling 2.6% the prior month, while leading economic indicators rose a better-than-expected 1.3% after declining 0.1% in February. In housing, sales of existing homes fell for a second straight month in March, declining 3.7%, but pending home sales rose by 1.9%, ending a two-month skid as demand for housing remained strong despite rising prices. Indeed, sales of newly-built homes bounced back by 20.7% after falling 16.2% the prior month.

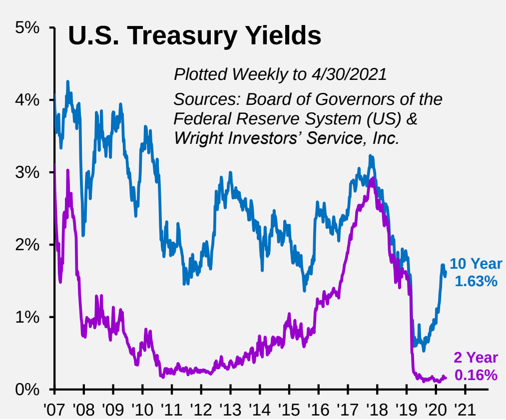
US Equity Markets Hitting New Highs



P/Es Have Risen, But Are Not Yet Stretched



2 & 10 Year: Yield Curve Still Steepening



Total Investment Returns — 4/30/2021	April	Last 12 Mos.
Dow Jones Industrial Average	2.8%	42.1%
Nasdaq Composite	5.4%	58.3%
S&P 500 Composite	5.3%	46.0%
S&P MidCap 400	4.5%	67.9%
S&P SmallCap 600	2.0%	76.9%
MSCI World ($)	4.7%	45.3%
MSCI World ex U.S. ($)	3.1%	40.6%
Bloomberg Barclays U.S. Aggregate	0.8%	-0.3%
90-Day Treasury Bills	0.0%	0.1%
Consumer Price Index NSA* (Mar 2021)	0.6%	2.6%

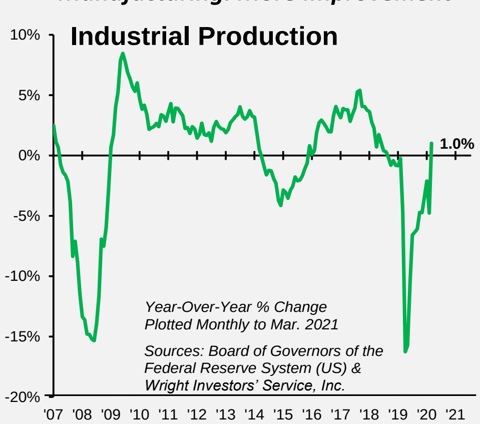
*NSA: Not Seasonally Adjusted   Sources: Bloomberg LP & Wright Investors' Service, Inc.

While the rebound in economic activity is certainly welcome, we must also keep an eye on what that might portend for inflation and, in turn, interest rates. Already, inflation has started to heat up. Already, inflation has started to heat up. The headline personal consumption expenditures index – the Fed's preferred consumer inflation barometer – rose 0.5% March from the prior month, 2.3% year-over-year. The core rate, which excludes food and energy prices, rose 0.4% for the month – the biggest increase since 2009 – and 1.8% year-over-year. Other inflation indicators told a similar story. The headline consumer price index jumped 2.6% on a year-over-year basis, the most since August 2018, and 0.6% versus the prior month, the biggest one-month increase since 2012. The producer price index showed inflation running even hotter. While it may be too soon to know if this rise in inflation will stick, manufacturers are already talking about raising prices due to strong demand, constrained supply and soaring commodity prices. Corn prices soared 31% in April and are up over 50% since the start of the year, while wheat rose 20% last month, indicating that food price increases probably won't be far behind. Lumber prices recently hit a record high, which is raising the cost to build homes. Crude oil is up 31% so far this year after gaining another 7.5% in April, which has boosted the price of unleaded gasoline at the pump by nearly 50% already this year. None of this is too surprising given the longer-term context of the severe hit to prices a year ago, making year-over-year metrics look unusually strong. The question is whether these inflation increases are going to stick and become a new trend or are transitory and likely to resume levels more in line with the longer-term history of low levels of inflation. Even with the recent increases in measures of inflation, they are still generally low and, evidently, of little concern to the Fed, which remains focused on achieving full employment.

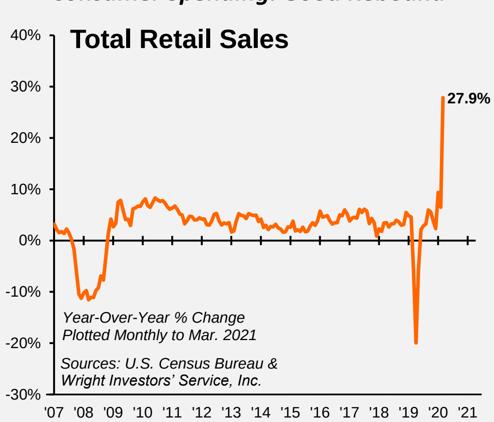
INVESTMENT OUTLOOK

While the Fed continues to reiterate its stance that it is comfortable letting inflation burn "hotter for longer," it has never really put a number on either of those two markers, other than to say that it expects to maintain its current monetary policy at least for another year. It is difficult to believe, however, that the Fed would not intervene sooner if inflation appeared to be running a little too hot. Indeed, Fed chair Jerome Powell said as much following the Fed's April monetary policy meeting. "If we see inflation moving materially above 2% in a persistent way that risks inflation expectations drifting up, then we will use our tools to guide inflation and expectations back down to 2%. No one should doubt that we will do that," he said. Doing that without upsetting the financial markets, however, will test all of the Fed's communications skills; even the slightest misstep or misstatement could impact asset prices, as we saw during the 2013 "taper tantrum." For now, at least, the Fed seems more concerned about getting the economy back to where it was before the pandemic. "We've had one great jobs report, it's not enough," Powell said, referring to March's addition of nearly one million jobs. "We're a long way from our goals." As a result, investors should enjoy the reopening of the economy while also remaining cautious of any downsides. We continue to believe that equities and alternatives have the best prospects for returns, and that a portfolio of high-quality positions held for the long-term is likely to serve investors well.

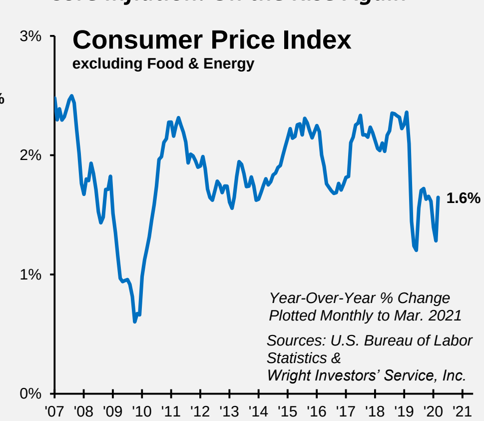
Manufacturing: More Improvement



Consumer Spending: Good Rebound



Core Inflation: On the Rise Again



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