

Equities

Stocks floundered as a hotter-than-expected CPI report sent another shockwave through rates markets. The Nasdaq 100 fell -5.48%, its worst week since Jan as the rise in discount rates has pressured growth stock valuations. Like the past two quarters, selloffs driven by inflation and yields have seen energy and defensives outperform tech and cyclicals. Inflation and the new policy paradigm it has ushered in have driven higher stock-bond correlations, a critical concern for asset allocation. Global stocks followed the U.S. lower to a lesser magnitude, as EU and EM fell -2.93% and -2.70%.

Fixed income

The strong CPI print sent investors recalibrating Fed rate hike expectations as the market withdrew bets for a 50bps hike at this week's meeting, and even reignited a small probability of a hike greater than 75bps. Beyond Sept., the futures curve added an additional 50bps by year end. Yields surged across the curve with the 2-year hitting its highest level since '07 and the 10-year grazing a YTD high. 2 and 10-year yields ended the week at 3.87% and 3.45% respectively.

Commodities

Crude prices remained volatile, ending the week down -1.94% as the U.S. dollar recovered to its recent high. The steepest drawdown on the Strategic Petroleum Reserve since May, combined with lockdowns in China, have recently outweighed global supply risks. U.S. crude rig counts, which had risen since fall '20, have fallen, suggesting energy companies have retained capital discipline and raising questions about medium-term U.S. production growth.

Economic overview

Inflation continued to run hot in August, beating the consensus across the board. The headline rose 0.1% (Cons -0.1%) but excluding food and energy, core inflation surged 0.6%, twice as fast as expected. Rents jumped 0.7%, up 6.2% y/y. While used car prices fell -0.1%, new car prices rose 0.8%. And medical care costs rose 0.7% in the month, partly reflecting rising service sector wages. Retail sales underwhelmed in Aug as a better than expected 0.3% m/m gain was undercut by a downward revision to July. Weaker spending at gas stations is a reflection of falling gas prices, while sales of autos and parts delivered a healthy 2.8% m/m gain. Finally, initial claims fell to 213,000 in the week ending September 10, the lowest since late May.

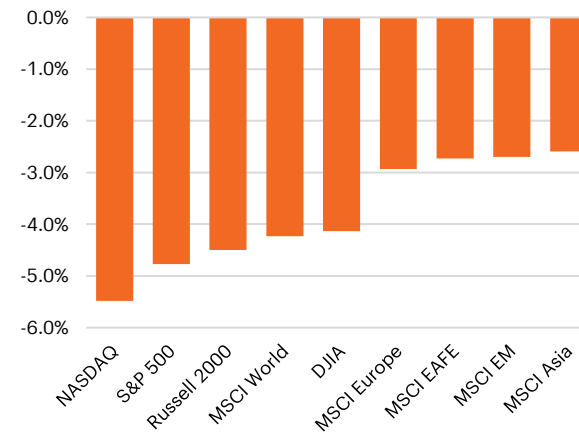
Equities (price index)		MTD	QTD	YTD	2021
S&P 500	3,873.33	-2.06%	2.32%	-18.73%	26.89%
DJIA	30,822.42	-2.18%	0.15%	-15.18%	18.73%
NASDAQ	11,448.40	-3.11%	3.81%	-26.82%	21.39%
Russell 2000	1,798.19	-2.49%	5.28%	-19.91%	13.70%
MSCI World	2,569.29	-2.21%	0.91%	-20.50%	20.14%
MSCI Europe	1,565.60	-1.86%	-3.74%	-25.21%	13.75%
MSCI EAFE	1,788.60	-2.82%	-3.12%	-23.44%	8.78%
MSCI Asia	150.30	-5.19%	-4.88%	-22.17%	-3.40%
MSCI EM	944.12	-5.03%	-5.65%	-23.37%	-4.59%
VIX	26.30	0.43	-2.41	9.08	-5.53

Fixed income (total return index)		MTD	QTD	YTD	2021
Barclays U.S. Agg	2,063.53	-1.82%	-2.27%	-12.38%	-1.54%
Inv. grade bonds	2,966.88	-1.86%	-1.65%	-15.80%	-1.04%
High yield bonds	2,165.38	-0.91%	2.52%	-12.03%	5.28%
Leveraged Loans	3,273.24	-0.27%	3.43%	-1.28%	5.20%

Alternatives (total return index)		MTD	QTD	YTD	2021
FTSE NAREIT	22,963.01	-2.85%	-0.75%	-19.78%	41.30%
REIT Index					
GS Commodity Index	631.58	-5.16%	-10.95%	12.55%	37.05%
Alerian MLP Index	1,457.57	-0.53%	16.34%	28.02%	40.17%
HFRX Global*	1,379.07	0.01%	1.50%	-3.62%	3.65%

*1-day lag

Last week's equity returns



Commodities		MTD	QTD	YTD	2021
WTI Crude	\$85.11	-4.96%	-19.53%	13.16%	55.01%
Brent Crude	\$91.35	-5.33%	-20.43%	17.45%	50.15%
Natural Gas	\$7.76	-14.93%	43.14%	108.15%	46.91%
Gold	\$1,673	-2.57%	-7.44%	-8.52%	-3.51%

Currency

Dollar Index (DXY)	109.76	0.98%	4.85%	14.73%	6.37%
USDCNY	6.99	1.40%	4.29%	9.93%	-2.62%
Bitcoin	19,751	-2.21%	5.44%	-57.37%	59.79%

Spreads

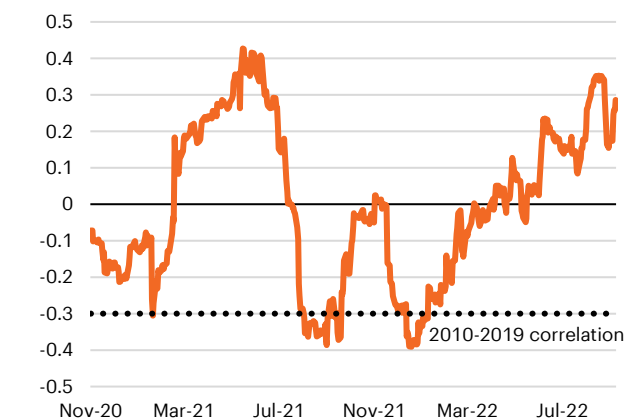
Inv. grade bonds	142 bps	2 bps	-13 bps	50 bps	142 bps
High yield bonds	487 bps	3 bps	-82 bps	204 bps	487 bps
Leveraged loans	505 bps	11 bps	-49 bps	94 bps	505 bps
Emerging markets	366 bps	2 bps	-41 bps	69 bps	366 bps

Interest rates

Fed Funds Target	2.375%	2.375%	1.625%	0.125%	0.125%
SOFR	2.28%	-1 bps	78 bps	223 bps	-2 bps
3-month LIBOR*	3.53%	43 bps	124 bps	332 bps	-3 bps
2-year Treasury	3.87%	37 bps	91 bps	313 bps	61 bps
10-year Treasury	3.45%	26 bps	44 bps	194 bps	60 bps
30-year Treasury	3.51%	22 bps	33 bps	161 bps	26 bps
Barclays U.S. Agg	4.31%	34 bps	59 bps	255 bps	63 bps
Inv. grade bonds	5.14%	31 bps	44 bps	281 bps	59 bps
High yield bonds	8.74%	32 bps	-15 bps	453 bps	3 bps

Stock-bond correlations on the rise

60-day return correlation of S&P 500 to Barclays Agg



Source: Bloomberg Finance, L.P., as of 1:00pm on 5/21/2021.

Equities

S&P 500: Leading single benchmark of large-cap U.S. equities, representing approximately 500 of the largest U.S. companies. **Dow Jones Industrial Average:** Price-weighted measure of 30 U.S. blue-chip companies. **NASDAQ:** Stock market index of stocks listed on the NASDAQ. Index is heavily weighted toward technology companies. **Russell 2000:** Index measuring performance of approximately 2,000 small-cap U.S. equities. **MSCI World Index:** Broad global equity benchmark including both developed and emerging markets. **MSCI Europe Index:** Equity benchmark that measures the performance of large and mid-cap equities across 15 developed countries in Europe. **MSCI EAFE Index:** Equity benchmark that represents the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East. **MSCI Asia Index:** Equity benchmark that captures large and mid-cap representation across developed market countries and emerging market countries in Asia. **MSCI Emerging Markets Index:** Equity benchmark representing 24 developing or emerging market countries, representing 10% of world market cap. For more info on these MSCI indices, visit MSCI.com. **CBOE Volatility Index (VIX):** Key measure of market expectations of near-term volatility conveyed by S&P 500 stock option price.

Credit

Bloomberg Barclays U.S. Aggregate Bond Index: Broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. **Bloomberg Barclays U.S. Corporate Index:** Measures the USD-denominated, investment-grade, fixed-rate bond market. **Bloomberg Barclays U.S. Corporate High Yield Index:** Measures the USD-denominated, high yield, fixed-rate bond market. **S&P/LSTA U.S. Leveraged Loan Index:** Market value-weighted index designed to measure the performance of the U.S. leveraged loan market.

Alternatives

FTSE NAREIT All Equity REITs Index: Free-float adjusted market cap-weighted index that includes all tax-qualified REITs listed in the NYSE, AMEX, and NASDAQ. **S&P GSCI:** First major investable commodity index. It is one of the most widely recognized benchmarks that is broad-based and production-weighted to represent the global commodity market beta. **Alerian MLP Index:** Leading gauge of energy MLPs, representing about 85% of total industry market cap. **HFRX Global Hedge Fund Index:** Index designed to be representative of the overall composition of the hedge fund universe, comprised of all eligible hedge fund strategies.

Commodities

Generic 1st Crude Oil (WTI Crude): Front-month West Texas Intermediate Crude Oil futures. **Generic 1st Brent Crude Oil (Brent Crude):** Front-month Brent Crude futures. **Generic 1st Natural Gas:** Front-month natural gas futures. **Generic 1st Gold, 100 oz:** Front-month gold (100 oz) futures.

Currency

Dollar Spot Index: Indicates the general international value of the USD by averaging the exchange rates between the USD and major world currencies. **USDCNY:** price of 1 USD in CNY (the Chinese renminbi, or yuan). **Bitcoin:** price of 1 Bitcoin in USD.

Spreads

Bloomberg Barclays U.S. Corporate Index: Measures the USD-denominated, investment grade, fixed-rate, taxable bond market. **Bloomberg Barclays U.S. Corporate High Yield Index:** Measures the USD-denominated, high yield, fixed-rate bond market. **Bloomberg S&P/LSTA U.S. Leveraged Loan Index:** Market value-weighted index designed to measure the performance of the U.S. leveraged loan market. **Barclays EM USD Aggregate Index:** Flagship hard currency emerging market debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign and corporate EM issuers.

Interest rates

Fed funds target: Target rate for the federal funds policy rate, set by the Federal Reserve each meeting. This rate is an “overnight rate,” i.e., it is the rate charged by depository institutions (banks) to each other for overnight loans. **SOFR:** Secured Overnight Financing Rate (SOFR) measures the cost of borrowing cash overnight collateralized by Treasuries. **ICE 3-Month London Interbank Offered Rate (LIBOR):** Average interest rate at which leading banks borrow funds of a sizable amount from other banks in the London market. LIBOR is the most widely used “benchmark” or reference rate for short-term interest rates. **Treasury rates:** Market yields for U.S. Treasury securities with maturities of 2, 10 and 30 years. **Bloomberg Barclays U.S. Aggregate Bond Index:** Broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. **Bloomberg Barclays U.S. Corporate Index:** Measures the USD-denominated, investment grade, fixed-rate, taxable bond market. **Bloomberg Barclays U.S. Corporate High Yield Index:** Measures the USD-denominated, high yield, fixed-rate bond market.

Sources: Bureau of Labor Statistics (BLS), Department of Labor, Bureau of Economic Analysis (BEA), International Monetary Fund (IMF), OECD, Federal Reserve, Institute for Supply Management (ISM), Mortgage Bankers Association (MBA), U.S. Census Bureau, Standard & Poor's, Bank of America Merrill Lynch, Bloomberg, Macrobond.

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