April 30, 2021

| 4/30/2021 | | Wk Net | Wk % | Div | YTD % | 12 Mos % |
|---|---|---|---|---|---|---|
| **STOCKS** | Close | Change | Change | Yield | Change | Change |
| DJIA | 33,874.85 | -168.64 | -0.50 | 1.76 | 10.68 | 39.14 |
| S&P 500 | 4,181.17 | 1.00 | 0.02 | 1.38 | 11.32 | 43.56 |
| NASDAQ | 13,962.68 | -54.13 | -0.39 | 0.66 | 8.34 | 57.07 |
| S&P MidCap 400 | 2,725.15 | -20.56 | -0.75 | 1.22 | 18.14 | 65.53 |

| **TREASURIES** | Yield | **FOREX** | Price | Wk %Change |
|---|---|---|---|---|
| 2-Year | 0.16 | Euro/Dollar | 1.20 | -0.10 |
| 5-Year | 0.85 | Dollar/Yen | 109.31 | 1.13 |
| 10-Year | 1.62 | GBP/Dollar | 1.38 | 0.05 |
| 30-Year | 2.29 | Dollar/Cad | 1.23 | -1.61 |

Source: Bloomberg/FactSet

## What Caught Our Eye This Week

While investors debate the impact of inflation and rising rates to financial markets, the prices of select commodities including lumber, copper, steel, and gypsum (the main input in drywall) have surged amidst low levels of housing inventory and incredibly strong demand for new construction. The largest move has been in the price of lumber, used not only for framing houses but also for the manufacture of cabinets, doors, windows and flooring. Lumber prices have increased 67% year-to-date and 340% in the past year, according to Random Lengths, a wood products industry tracking firm. On average, today's higher lumber prices add almost $36,000 to the cost of a new single-family house, according to the National Association of Home Builders. The commodity's price has been driven higher by a combination of tariffs, decreased production during the Covid-19 pandemic, and unanticipated demand for housing. Experts suggest it could be a decade before the supply-demand equation for lumber comes back into equilibrium. Investors are watching housing starts (+41% in March year-over-year, according to the U.S. Census) closely to see when the higher input costs from lumber (among other items) may slow down demand.

## Economy

There were many positive economic reports this week starting on Tuesday with consumer confidence figures. The Conference Board consumer confidence index surged from 109 to 121.7 in April easily beating expectations. The labor market differential jumped from 8.0 to 24.7. On Monday, orders for durable goods posted a 0.5% increase in March coming in short of expectations. Excluding the volatile transportation sector, core capital goods orders gained 0.9% and core capital shipments rose 1.3%. Thursday delivered the first look at Q1 real GDP and the U.S. economy grew at a 6.4% seasonally adjusted annual rate. Real consumer spending surged 10.7%, business fixed investment spending increased 9.9% and real residential investment gained 10.8%. The highlight was consumer spending on durable goods soaring 41.4%. Finally, on Friday, personal income increased 21.2% in March and real consumer spending gained 3.6%. The American Rescue Plan significantly influenced all of these figures.

## Fixed Income/Credit Market

Solid economic data, robust corporate earnings growth and a continued dovish stance by the Fed gave fixed income investors additional incentive to move out along the credit risk spectrum. Moreover, the Bloomberg Barclays U.S. Corporate High Yield Bond Index OAS compressed 17 basis points thus far in April and resides approximately 1 standard deviation below its long-term mean. With the Fed still purchasing $120 billion of U.S. Treasuries and agency MBS per month, there continues to be extreme pressure keeping rates down across the yield curve. However, inflation pressures are building and market-based inflation expectations are continuing to rise at the 10-year tenor after a pause earlier this month. Looking at U.S. fixed income ETF flows for the month of April reveals that investors have been embracing credit risk while shying away from duration risk. Furthermore, high yield funds experienced a 4.2% increase in market capitalization over the past month while longer duration fixed income funds exhibited at 3.9% decline in market capitalization. It was not surprising to see that bank loans, with their speculative credit quality and floating rate structures, showed strong demand with net flows of approximately $1.7 billion.

## Equities

It was another mixed week for U.S. domestic equities as both the Nasdaq and Dow finished with weekly losses. Despite the narrative of a strong U.S. economic rebound and record Q1 earnings, fears over the global recovery have emerged after indications of weakness in China's manufacturing sector. Surging Covid-19 numbers in India and Brazil have been a point of concern as well. Investors, grappling over the potential global supply chain implications these issues may pose, have muted their bullish sentiment. President Biden's desire to increase taxes, as part of his Build Back Better plan, also remains an overhang for the market. On Friday, he deemed the Republican counterproposal on infrastructure as a non-starter, reiterating that it is too small. Regardless, blowout earnings and the consistent reopening effort has led to impressive monthly gains. Following Friday's close, the Dow, S&P 500, and Nasdaq rose 2.71%, 5.24%, 5.40%, respectively, for the month of April.


## Our View

Rarely do investors have as much newsworthy information to digest as we received this week. The Federal Reserve held its April meeting and, as expected, did not change the direction of monetary policy and remained steadfast in its new framework regarding inflation. Fed Chair Powell did indicate that he felt the economy was at an inflection point. That thought was hammered home when the U.S. Bureau of Economic Analysis (BEA) released the GDP report for the first quarter later in the week. As expected, the economy was exceptionally strong, growing 6.4%, boosted by multiple rounds of fiscal stimulus and pent-up demand. Driven by a surge in consumption of 10.7%, the economy has recaptured almost all the output lost to the pandemic. Consumption should remain a potent contributor to growth for the rest of the year as real disposable incomes have increased by 61.3% on an annualized basis and the savings rate has jumped to 21% from the pre-pandemic level of 7.3%. Households remain flush with cash that they will spend more freely as restrictions get lifted due to the success of the vaccine program. Many economists are predicting that the second quarter will be even stronger due to continuing consumer demand, inventory rebuilding and better export demand as foreign economies reopen. The strong economic backdrop has certainly created positive conditions for corporate earnings this quarter, as well as earnings expectations ahead. Earnings reports have also been a prime focus for investors this week with roughly a third of the S&P 500 companies reporting. As with the economy, on balance earnings reports and forward guidance have been stellar. Blended earnings in the first quarter are up 44% over a year ago. According to FactSet, estimates for calendar 2021 for the S&P 500 have risen from $165 at the beginning of the year to $182 today. The change in earnings expectations for 2021 earnings has essentially matched the rise in the S&P 500 this year. Consensus estimates for earnings growth for 2021 and 2022 are 29.65% and 12.55%, respectively. With valuation levels of the equity market at more than two standard deviations above the long-term historic average, much of the potential equity returns in the near-term are dependent on additional earnings momentum.

| COMING UP NEXT WEEK | | Consensus | Prior |
|---|---|---|---|
| 05/03 ISM Manufacturing SA | (Apr) | 64.9 | 64.7 |
| 05/04 Markit PMI Manufacturing SA (Final) | (Apr) | 62.8 | 60.6 |
| 05/04 Durable Orders SA M/M (Final) | (Mar) | 1.3% | 0.50% |
| 05/04 Factory Orders SA M/M | (Mar) | 0.30% | -0.80% |
| 05/05 ISM Non-Manufacturing SA | (Apr) | 64.6 | 63.7 |
| 05/07 Nonfarm Payrolls SA | (Apr) | 1,000K | 916.0K |
| 05/07 Unemployment Rate | (Apr) | 5.8% | 6.0% |

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