April 9, 2021

4/9/2021		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	33,800.60	647.39	1.95	1.76	10.44	42.50
S&P 500	4,128.80	108.93	2.71	1.40	9.92	48.00
NASDAQ	13,900.19	420.08	3.12	0.66	7.85	70.48
S&P MidCap 400	2,670.52	22.81	0.86	1.25	15.78	68.34

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.15	Euro/Dollar	1.19	1.10
5-Year	0.86	Dollar/Yen	109.59	-0.91
10-Year	1.66	GBP/Dollar	1.37	-0.66
30-Year	2.33	Dollar/Cad	1.26	-0.15

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The Centers for Disease Control and Prevention (CDC) announced last week that fully vaccinated people can now safely travel within the United States without the need to get tested or self-quarantine. Some U.S. businesses and even other countries will require proof of vaccination. China, Japan, and the European Union have either rolled out or say they support a vaccine passport for their citizens. Here in the U.S., vaccinated individuals receive either a CDC card or another paper card as proof. The Biden Administration will not establish a national vaccination passport or app, instead leaving it to the private sector to create a digital passport that can prove vaccination. Since 1998, there has been a ban in place in the U.S. for a national database for storing vaccination records. States have databases that are supposedly maintained but experts say they have varying degrees of accuracy. Some states utilize digital vaccination cards that can be stored in Apple Wallet. Here in New Jersey, Atlantic Health uses MyChart which is an app by Epic (a private electronic health record company). While there are still a lot of unknowns regarding the future of vaccine passports, travel medicine experts believe they will play a significant role in international travel.

Economy

The most anticipated report this week was the producer price index, which was released on Friday. The PPI came in firmer than expected increasing 1.0% in March. This is the second time in three months the PPI has increased by 1.00% or more. Energy prices led the way surging 5.9% during the month. Over the past twelve months the headline PPI is up 4.2%, which is the highest year-over-year increase in nearly a decade. The "core" PPI gained 0.7% in March and is now up 3.1% year-over-year. Clearly supply chain issues and the massive increase in the M2 measure of money supply (+27% YoY) are having profound effects on inflation figures. In other news this week, the JOLTS report (job openings and labor turnover survey) showed 7.4 million job openings in February. Job openings increased by 615,000 in January and February, the largest two-month gain for this series going back to 2000. The "quits" rate was little changed at 2.3% and over the past twelve months there is a net employment loss of 8.6 million. Finally, the ISM nonmanufacturing survey hit an all-time high, rising from 55.2 to 63.7 in March. The new orders index surged to 67.2 and all 18 industries surveyed reported growth.

Fixed Income/Credit Market

On the week, 10-year U.S. Treasury Note yields rallied back 6.7 basis points (bps) to approximately 1.66%. Despite the move lower, 10-year interest rates are still trading roughly 13 bps above their year-to-date (YTD) average. The past two weeks have seen interest rates remain rangebound with the 10-year trading in a narrow 12 bp range of 1.62% to 1.74%. YTD the 10-year yield is up 74.2 bps and Bloomberg's forward curve projection is forecasting a further increase of 30 bps to 1.96% over a 1-year horizon. With 10-year U.S. breakeven rates at 2.32%, the 10-year real yield is currently -0.66% which leaves many market participants believing that 2021's rise in interest rates still has more room to go. If Bloomberg's forward curve matrix is accurate, 10-year U.S. Treasury Note investors would earn a marginal return of 0.07% over a 1-year period, however, any further breakout in interest rates could spell trouble. A similar rise in the 10-year yield to the likes of which we have seen this year would result in a total return of -3.59% one-year forward.

Equities

Domestic equities posted another week of strong gains with the S&P 500 hitting a new all-time closing high on Friday. Stocks got their largest boost of the week on Monday from a combination of upbeat economic releases. March nonfarm payrolls and the ISM non-manufacturing index came in well above consensus estimates which supports the notion of a broader U.S. economic recovery. The bullish narrative remains focused on reopening momentum, accelerating vaccinations, the potential for trillions of dollars in new fiscal stimulus later this year, and a very accommodative Federal Reserve. Investors will be paying close attention to the start of first quarter earnings season next week. According to FactSet, the estimated earnings growth rate for the S&P 500 is 24.5% year-over-year (YoY). Earnings growth rate estimates have increased substantially since December 31st when expectations were for growth of 15.8%. Nine sectors are projected to report YoY earnings growth, led by the consumer discretionary, financials and materials sectors. The only two sectors expected to report a YoY decline in earnings are industrials and energy.

Our View

Equity markets had another solid week which added to strong returns over the last three months. The market recovery from the pandemic low has really been in two distinct phases. The first phase of the recovery was due to the massive fiscal support and the unprecedented monetary response from the Federal Reserve that lifted stocks off the March 2020 bottom. This portion of the recovery was driven by pandemic beneficiaries primarily in the technology and consumer discretionary sectors. The S&P 500 rallied 61%, from the market lows to mid-August to totally recoup all bear market losses and to break into new market highs. After a three-month pause for the market, as uncertainty regarding the election created some profit-taking, the next phase of the bull market rally began in mid-November. The second phase of the recovery has been led by stocks that are beneficiaries of the reopening of the economy and from a steeper yield curve. The sectors that have led the way in the reopening phase have been energy and financials. The S&P 500 is up roughly 14% during the reopening phase of the market recovery. More generally, the value-oriented areas of the market have outperformed in anticipation of a strong cyclical recovery. There is plenty of evidence supporting the idea of a powerful global economic recovery in 2021 with strong consumer confidence, ample liquidity and robust manufacturing surveys. This week the International Monetary Fund raised its forecast for world growth from 5.5% to 6% due to the accelerating rollout out of Covid-19 vaccines and vast sums of government aid. The IMF expects the U.S. economy to grow by 6.4%, which is the fastest rate of annual growth since 1984. The above trend growth rate is forecast to continue with 3.5% growth in 2022. Optimism regarding the economic expansion has bled over into buoyant investor sentiment. A survey by the American Association of Individual Investors found that bullish sentiment at 56.9% was at the highest level since the beginning of 2018 and was significantly above the long-term average reading of 38%. Typically, such high investor sentiment readings and elevated valuation levels indicate a period of market consolidation is ahead. For the equity market to make continued progress, strong economic expectations need to translate into earnings growth. Investors will be closely watching corporate earnings reports that begins later this month.

COMING UP NEXT WEEK		Consensus	Prior
04/13 CPI ex-Food & Energy SA M/M	(Mar)	0.20%	0.10%
04/15 Retail Sales ex-Auto SA M/M	(Mar)	5.0%	-2.7%
04/15 Capacity Utilization NSA	(Mar)	76.3%	73.8%
04/15 Industrial Production SA M/M	(Mar)	2.8%	-2.2%
04/16 Housing Starts SAAR	(Mar)	1,634K	1,421K
04/16 Michigan Sentiment NSA (Preliminary)	(Apr)	89.8	84.9

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