April 16, 2021

4/16/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,200.67	400.07	1.18	1.74	11.74	45.30
S&P 500	4,185.47	56.67	1.37	1.38	11.43	49.51
NASDAQ	14,052.34	152.16	1.09	0.66	9.03	64.69
S&P MidCap 400	2,721.08	50.56	1.89	1.22	17.97	80.73

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.15	Euro/Dollar	1.20	0.76
5-Year	0.83	Dollar/Yen	108.82	-0.71
10-Year	1.59	GBP/Dollar	1.38	0.66
30-Year	2.28	Dollar/Cad	1.25	-0.44

Source: Bloomberg/FactSet

What Caught Our Eye This Week

With Earth Day approaching (Thursday, April 22nd), we are reminded that investor appetite for socially-responsible ways to deploy their capital continues to grow. Equity and fixed income strategies which focus on Environmental, Social, and Governance (ESG) investing had a robust 2020, receiving $45 billion of inflows during the year. That strength continued this year, with inflows through the end of February exceeding those for the full year of 2019. The capital inflow into ESG has supported and helped lift the valuation of companies with prominent representation in ESG funds. Interest in the top holdings in ESG mutual funds and exchange-traded funds has picked up as their performance has been strong relative to the rest of large-cap stocks since 2018. Over the last decade, however, ESG stocks have only marginally outperformed the equally-weighted stock market. While industry observers wonder whether investors are a bit overexuberant for the socially-responsible investment category, the fact that ESG funds only own about 0.60% of the market capitalization of U.S. stocks means that there is still plenty of room for growth.

Economy

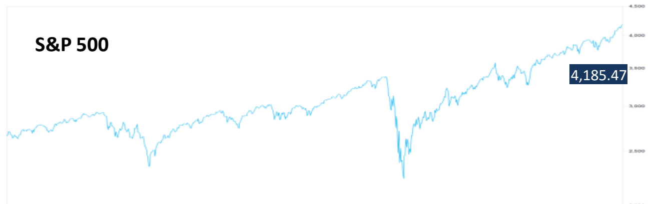
The most anticipated report this week was the retail sales report, which was released on Thursday. Retail sales surged 9.8% in March easily surpassing consensus expectations. Over the past twelve months, retail sales are up 27.7%. Food services and drinking places led the way with sales soaring 13.4%. The "control" category, which excludes food service, autos, gas and building materials registered a 6.9% gain in sales. In March, all 13 major retail categories reported growth. Overall, retail sales are 17.1% higher than where they were in February 2020. In other news this week the consumer price index came in stronger than expected increasing 0.6% in March. The CPI is now up 2.6% over the past twelve months, which is the largest annual increase since August 2018. The "core" CPI advanced 0.34% and has now risen 1.6% year-over-year. Gasoline prices surged 9.1% and lodging prices rose 3.8%. The massive 27% increase in the M2 money supply is clearly at work here, but it also allows pricing power for a wide range of businesses. Finally, on Friday, housing starts surged 19.4% to 1.739 million units at an annual rate.

Fixed Income/Credit Market

Year-to-date (YTD), corporate credit spreads have decreased despite materially higher interest rates across the back-end of the U.S. Treasury yield curve. Intuitively, higher Treasury rates would increase corporate borrowing costs and weigh negatively on company balance sheets. It should follow that corporate bond investors are compensated for the increased risk via higher credit spreads. However, the fallout from the Covid-19 pandemic has significantly distorted financial markets, therefore, relying on intuition alone could lead many investors astray. In the investment grade sector, the 5-year AA, A and BBB-rated composites are currently 4.6 bps, 3.5 bps, and 1 bp lower, respectively. Credit spread tightening is even more pronounced in the high yield sector with the 5-year BB and B-rated composites are trading 27 bps and 41 bps lower, respectively. This week, the 10-year U.S. Treasury Note yield decreased 6.4 bps to approximately 1.60%, however, YTD the tenor is approximately 68.1 higher than where it closed 2020.

Equities

U.S. domestic equities continued its streak of strong performance as all major indices posted weekly gains north of 1%. The longstanding bullish narrative remains unchanged as fiscal stimulus and streamlined vaccine distribution continues to drive sentiment. A strong start to earnings season has also bolstered momentum. According to FactSet, as of Friday, 81% of companies within the S&P 500 who have reported Q1 earnings saw positive EPS surprises, and 84% have beaten revenue expectations. Moreover, the blended earnings growth rate for the S&P 500 currently sits at 30.2%. If this number holds for the quarter, it will mark the highest year-over-year earnings growth rate since Q3 of 2010, which came in at 34%. This earnings growth, combined with robust economic data released this week, is signaling to investors that the economy is growing at a rapid pace. For the week, the S&P 500, Dow, and Nasdaq finished up 1.37%, 1.18%, and 1.09%, respectively. On Friday, both the S&P 500 and Dow closed at new all-time record highs.



Our View

The vaccination campaign in the U.S. is well underway with roughly 2 to 4 million people being inoculated per day, which is laying the groundwork for the reopening of the economy in 2021. Additional assistance is coming in the form of staggering amounts of fiscal and monetary policy stimulus and many market participants are beginning to wonder if inflation will elevate for a sustained period to a level beyond the Fed's current comfort zone. Anecdotal evidence in the Fed's Beige Book, which was released on Wednesday, showed that input prices are rising due to supply chain constraints, normalizing consumer demand particularly in the service sector and low base effects. Corporate margins are being pressured and certain companies are beginning to pass price increases along to consumers. Moreover, the Fed is expecting inflation to run a bit hot over the next few months and thanks to its new average inflation targeting regime, it will be patient as inflation climbs. The Fed considers inflation a process as opposed to a concentrated segment of elevated data points and the structural deflationary forces that have been evolving for decades are still significant factors. One of the most important variables in sustaining true and non-transitory inflation is the level of slack in the labor market. Significant progress is being made in the labor market, but as of March nonfarm payrolls were still over 8 million jobs less than prior to the start of the pandemic. Nevertheless, wage pressures are starting to surface particularly in low paying jobs located in certain sections of the U.S. as labor supply is being constrained by public transportation short-ages, health safety concerns, childcare complications and government financial support. The Fed is paying close attention to the labor market and will need to feel confident that significant progress has been made towards obtaining maximum employment to adjust its current monetary policy stance. Moreover, forward guidance will be key in dictating the path of potential monetary policy removal. Right now, the Fed is in a wait-and-see mode and if inflation moves beyond the Fed's projections it could produce heightened financial market volatility and weigh on asset valuations. The previously listed scenario is not our base case assumption in the near term, but the inflation situation is evolving quickly and does require close monitoring at this juncture.

COMING UP NEXT WEEK		Consensus	Prior
04/22 Existing Home Sales SAAR	(Mar)	6,254K	6,220K
04/22 Leading Indicators SA M/M	(Mar)	0.60%	0.20%
04/23 Markit PMI Manufacturing SA (Prelim)	(Apr)	60.0	59.1
04/23 Markit PMI Services SA (Prelim)	(Apr)	60.5	60.4
04/23 New Home Sales SAAR	(Mar)	831.0K	775.0K