



# WEEKLY MARKET UPDATE, APRIL 26, 2021

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## GENERAL MARKET NEWS

- The yield curve saw little movement last week ahead of the Federal Open Market Committee (FOMC) meeting this Wednesday. The 10-year Treasury yield remained flat, opening the week at 1.59 percent and closing roughly 2 basis points (bps) lower at 1.57 percent. The 10-year opened at 1.60 percent on the 26th. The 30-year opened this week at 2.27 percent after opening last week at 2.28 percent. On the shorter end of the curve, the 2-year opened at 0.16 percent, just one-tenth of a basis point higher than last week's open.

- The market was down slightly in a volatile trading week. It rallied on Friday, one day after suffering losses following a proposal from the Biden administration that the top capital gains tax rate be changed to 39.6 percent (43.4 percent, including Medicare surtax) for individuals who make more than \$1 million annually. The market recovered as Goldman Sachs and other Wall Street players speculated that Congress would cap the rate at a lower percentage. Emerging markets fared well, with the dollar softening over speculation about whether the first quarter will represent peak growth for the U.S. economy this year. Top-performing sectors included health care, real estate, and industrials. Consumer discretionary, technology, and communication services—

winning sectors in 2020—lagged, affecting Amazon, Netflix, NVIDIA, Facebook, and Tesla. Netflix, in particular, sold off as new subscribership failed to meet expectations.

- On Tuesday, the Consumer Price Index report for March was released. Consumer prices rose 0.6 percent, higher than economist estimates for a 0.5 percent increase. This brought year-over-year growth in consumer prices to 2.6 percent, which was also slightly above economist estimates for a 2.5 percent increase. Part of this was due to gas prices rising 9.1 percent in March. Core consumer prices, which strip out the impact of volatile food and energy prices, increased 0.3 percent during the month and 1.6 percent year-over-year. Inflation remained muted throughout much of last year—due in large part to the deflationary pressures created by the pandemic—but we've seen an increase in inflationary pressure as the economic recovery has accelerated.

- Thursday saw the release of the March retail sales report. Retail sales grew 9.8 percent, surpassing economist estimates for a more modest 5.8 percent increase. This result, which followed February's weather-driven decline in sales, was an encouraging development and signaled continued high levels of consumer demand. It was also the second-highest level of monthly sales growth on record. Sales growth was

widespread, as the core retail sales figure that strips out the impact of volatile auto and gas sales rose 8.2 percent against forecasts for a 6.4 percent increase. Sales growth was supported by a return to more normal weather in March and another round of federal stimulus checks. Consumer spending at bars and restaurants showed solid improvement during the month, likely due to the easing of state and local restrictions that allowed more in-person dining. Overall, this was a very strong report that bodes well for the pace of the economic recovery during the month and quarter.

Thursday also saw the release of the National Association of Home Builders Housing Market Index for April. This gauge of home builder sentiment increased from 82 in March to 83, which was in line with economist estimates. The index rebounded swiftly after hitting a lockdown-induced low of 30 last April, as low mortgage rates and shifting home buyer preferences fueled a rally for the housing sector over the past year. The improvement in April was driven by continued high levels of home buyer demand, and the report's measure of prospective home buyer foot traffic hit its highest point since November. The continued strong prospective home buyer demand is encouraging, as mortgage rates have started to increase following a year at or near record lows. Looking forward, home builders remain confident they will be able to sell newly built units due to a shortage of available homes for sale, but rising lumber and construction costs may serve as a headwind for significantly higher levels of home builder confidence.

## WHAT TO LOOK FORWARD TO

Monday saw the release of the preliminary estimate of March's durable goods orders. Durable goods orders rose 0.5 percent during the month, against economist estimates for a

2.3 percent increase. This miss was primarily due to a slowdown in volatile aircraft orders. Core durable goods orders, which strip out the impact of transportation orders, rose a solid 1.6 percent in March, in line with economist estimates. Core durable goods orders are often viewed as a proxy for business spending, so this return to growth following a weather-related lull in February spending was a positive sign for business spending during the month and quarter. Business confidence surged in March, largely driven by the improvements on the public health front and the recent stimulus bill. Looking forward, high levels of business confidence should support further spending growth as we head into the spring and summer.

On Tuesday, the Conference Board Consumer Confidence Index for April will be released. This widely followed measure of consumer confidence is expected to increase from 109.7 in March to 112 in April. If estimates prove accurate, this would mark four consecutive months with improving confidence. It would also bring the index to a new post-pandemic high. We've seen confidence steadily improve this year, due to public health improvements that have allowed for easing of state and local restrictions and an accelerated economic recovery. Improving confidence has historically supported faster consumer spending growth, so an increase in April would be a positive sign for continued consumer spending growth. That said, work remains to return the index to the pre-pandemic high of 131 recorded in February 2020. If improvements continue over the next few months, the index could approach pre-pandemic levels by this summer.

Wednesday will see the release of the FOMC rate decision from the Federal Reserve's (Fed's) April meeting. The Fed cut the federal funds rate to virtually zero in March 2020, and economists do not expect to see any changes to interest rates at this meeting. To

support the ongoing economic recovery, the Fed has continued to signal it will keep rates low for the foreseeable future. Given this, the focus for the April meeting will be largely on the news release and Fed Chairman Jerome Powell's post-meeting news conference. Economists will be looking for any hints regarding the future path of the Fed's asset purchasing program. Currently, the central bank is purchasing \$120 billion of Treasury and mortgage-backed securities each month. No plans exist for tapering off this level of purchases, but, because any changes could spark volatility, this program should be monitored.

Thursday will see the release of the advance estimate for first-quarter gross domestic product growth. The report is expected to show that the economy grew at an annualized rate of 6.6 percent during the quarter, up from the 4.3 percent annualized growth rate in the fourth quarter of 2020. This result is anticipated in large part due to forecasts for a surge in personal consumption to start the year. Economists expect personal consumption to rise 10.3 percent on an annualized basis during the first quarter, a significant boost from the 2.3 percent annualized growth rate recorded in the final quarter of 2020. Personal consumption in 2021 has been supported by multiple rounds of federal stimulus payments and public health improvements that have allowed for an easing of state and local restrictions. Ultimately, if estimates prove accurate, this report would be another signal the economic recovery has accelerated and further growth can be expected.

Thursday will also see the release of the initial jobless claims report for the week ending April 24. Economists expect to see the number of initial unemployment claims increase modestly, from 547,000 to 550,000, during the week. If estimates hold, this report would mark three straight weeks with initial

claims below 600,000—an encouraging sign that the labor market recovery continues at a healthy rate. We hit a 2021 high of 904,000 initial claims in early January as the third wave of the pandemic was peaking. Ever since, we have seen steady progress in getting case growth under control, which has accelerated the labor market recovery. Looking forward, if progress continues on the mass vaccination front, further improvements for the labor market can be expected. With that said, the number of initial weekly claims remains high on a historical basis. This weekly report will be closely monitored until substantial progress is made in returning weekly unemployment claims to pre-pandemic levels.

We'll finish the week with Friday's release of the March personal income and personal spending reports. Personal spending is expected to increase 4.3 percent during the month, following a 1 percent decline in February. This forecast is based on the tailwind from the additional round of stimulus checks distributed in March and easing of state and local restrictions. If estimates prove accurate, the increase in personal spending would echo the 9.8 percent increase in retail sales we saw in March. It would also be a good sign for overall economic growth during the month. Personal income has been very volatile on a month-to-month basis since the start of the pandemic, driven by shifting federal stimulus payments. Economists expect to see income rise 20.1 percent in March, reflecting the impact of the \$1,400 stimulus checks received during the month.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	-0.11%	5.30%	11.80%	49.83%
Nasdaq Composite	-0.25%	5.83%	8.96%	63.61%
DJIA	-0.42%	3.30%	11.86%	46.25%
MSCI EAFE	-0.41%	3.80%	7.41%	47.22%
MSCI Emerging Markets	0.35%	2.87%	5.23%	57.03%
Russell 2000	0.41%	2.34%	15.33%	86.37%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.35%	-2.56%	0.02%
U.S. Treasury	0.37%	-3.47%	-4.11%
U.S. Mortgages	0.25%	-0.56%	0.22%
Municipal Bond	0.46%	0.58%	6.01%

Source: Morningstar Direct

Disclosures: Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg Barclays US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed

securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg Barclays US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million.

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