

CAPITAL MARKETS COMMENTARY

Growth Propels Stock Market Higher

APRIL 2021

- » Inflation Looms
- » U.S. Economic Growth Stronger
- » COVID-19 Daily Vaccination Rate Slows

U.S. MARKETS

The stock market continued its positive trend and closed at an all-time high of 4211 near the end of April. The S&P 500 Index climbed more than 5.3% for the month, bringing its year-to-date return to +11.8%. The rotation of investors pulling money from growth stocks and placing it in value stocks continued. The year-to-date performance of the Russell 1000 Value Index at 16.6% is nearly double the Russell Growth 1000 Index at just 8.6%. One reason for the increase of investor demand for value stocks is related to the fear of inflation. Value stocks have historically performed better in an inflationary environment because they have higher current cash flows and many also pay dividends.

INFLATION

Expectations are that the economy will grow more robustly as the U.S. economy continues to reopen and the economic stimulus bills passed by Congress will also accelerate this growth. This may create higher prices for many parts of the economy. For example, companies in the travel industry are seeing an increase in hotel and airfare bookings. This will likely put inflationary pressure on restaurant and fuel prices. The Federal Reserve Chairman Jerome Powell also continues to reiterate that the committee will allow equity markets to move higher, with the hope of improvements to the stability of the U.S. economy. They are prepared to permit inflation to increase above their 2% threshold for a measured amount of time.

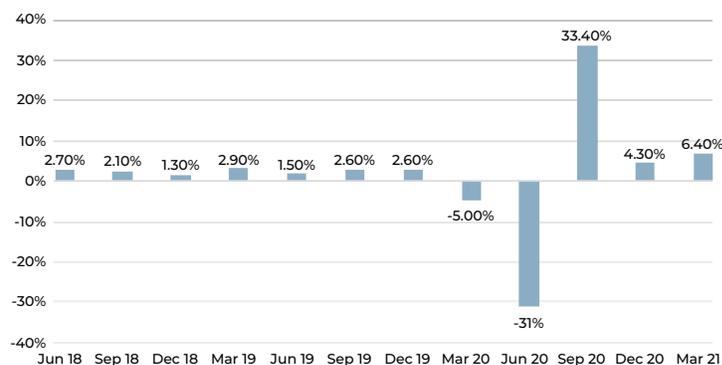
ECONOMY

Investor expectations are being validated, as companies in the S&P 500 continue to post incredible earnings results for the 1st quarter of 2021. According to Strategas, at the end of April, 303 of 500 companies in the S&P 500 Index reported earnings, with an average year-over-year increase of 46.3%. This productivity helped GDP for the first quarter reach 6.4%, just missing analysts' expectations of 6.5%. Part of this growth was due to continued expansion in the manufacturing and services industries.

The ISM Manufacturing PMI Index fell from March's reading of 64.7, to 60.7 in April. This was considerably below analysts' consensus estimates of 65. The positive news is that analysts are suggesting the reason for this disappointing number was likely due to a lack of input materials needed for production. The ISM Services Index fell slightly from an all-time high in March of 63.7 to 62.7 in April. This marks the 11th month in a row of continued growth for the sector. Although the ISM Manufacturing and Services readings were each less

than expectations, they show that these parts of the U.S. economy are continuing to expand as the country rebounds from the COVID-19 pandemic. ISM readings above 50 are an indication that the sector is expanding, while a score below 50 signifies a contraction.

U.S. GDP—QUARTER OVER QUARTER



Source: U.S. Bureau of Economic Analysis

CHINA TRADE DEFICIT

The U.S. trade deficit with China expanded even further in 2021. The trade deficit reached \$74.4 billion in March, which is a 57.6% increase from a year earlier. Analysts expect that as the global pandemic is mitigated, Americans will patron more domestic service-based industries that will cause this gap to narrow.

COVID-19 VACCINATIONS

The U.S. has become a world leader in the percentage of its citizens receiving COVID-19 vaccinations. As of May 2, more than 31.5% of the U.S. was fully vaccinated and 44.3% received at least one dose. That gives the U.S. the third highest vaccination rate in the world, only behind Israel and the United Kingdom. The supply of available vaccines in the U.S. is outpacing the demand. Many medical clinics are now accepting walk-in patients for those that want the vaccine. The U.S. continues to focus on vaccinating as many of its citizens as possible but is now beginning to ship excess vaccinations to countries like India that are dealing with an extremely large second wave of new infections. For perspective, the worst number of U.S. infections over a 7-day average reached as high as 245,000 cases per day, while India recently reached close to 380,000. Other countries are also assisting India, as they attempt to recover from the spread of the COVID-19 virus, which has virtually broken their healthcare system.



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