

May 3, 2021

Weekly Viewpoint

Bull Market Intact but Running on Tired Legs

Performance for Week Ending 4.30.2021

The Dow Jones Industrial Average (Dow) finished off 0.50%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) lost 0.01%, the Standard & Poor's 500 Index (S&P 500) added 0.02% and the Nasdaq Composite Index (NASDAQ) shed 0.39%. Sector breadth was positive with 8 of the 11 S&P sector groups closing higher. The Energy sector (+3.59%) led the way higher followed by Communication Services (+2.88%) and Financials (+2.38%).

Index*	Closing Price 4/30/2021	Percentage Change for Week Ending 4/30/2021	Year-to-Date Percentage Change Through 4/30/2021
Dow	33874.85	-0.50%	+10.68%
Wilshire 5000	43870.09	-0.01%	+11.19%
S&P 500	4181.17	+0.02%	+11.32%
Nasdaq	13962.68	-0.39%	+8.34%

Market Observations: 4/26/21–4/30/21

Despite strong earnings growth and confirmation that the economic recovery remains intact, the S&P 500 is little changed over the past couple weeks. The lackluster performance may be a sign that a lot of the favorable news may already be discounted in stock prices and a pause to refresh may be needed. For example, first quarter earnings season has been exceptionally strong but the reaction to the news has been generally muted, with the average stock falling 0.3% on the day that followed the release of results. In addition, the market is about to enter into the seasonally weak period (“sell in May, and go away”), bullish sentiment (a contrarian indicator) is above its 10-year average after more than doubling from the lows reached last July, and the market has reached technically “overbought” levels in recent days. While none of these conditions are likely to prove fatal for the bull market, they could set the stage for a period of near-term consolidation.

Fed Maintains Accommodative Stance: At the conclusion of the two-day Federal Open Market Committee (FOMC) meeting, the Federal Reserve held its benchmark interest rate near zero and said it plans to continue supporting the economic recovery, while acknowledging recent progress in growth and employment. "Amid progress on vaccinations and strong policy support, indicators of economic activity and employment have strengthened," the Fed said in a statement released after the conclusion of the meeting. "The sectors most adversely affected by the pandemic remain weak but have shown improvement. Inflation has risen, largely reflecting transitory factors." The Fed also reiterated that they want to see the economy make "substantial further progress" toward their goals of maximum employment and 2% average inflation before starting to reduce the pace of bond purchases.

Solid Q1 Earnings Season: Earnings season remained in full swing last week, and results continue to trend at a much better than expected pace. Through Friday, 302 members of the S&P 500 have released results with over 87 percent surprising to the upside. Aggregate earnings growth is up by over 50%, more than double the 22% gain that analysts were forecasting at the end of March. Sector wise, the biggest gains in aggregate earnings growth has come from Financials, Consumer Discretionary, and Materials.

Economic Roundup: Economic reports last week underscored that the recovery is intact and is likely to pick-up steam during the second quarter. The Commerce Department reported that first-quarter GDP growth rose by an annualized rate of 6.4%, an improvement over the 4.3% growth rate in the previous quarter, and a sign that the U.S. economy began 2021 with solid momentum. The strong growth was driven by a 10.7% jump in personal consumption. Spending on goods surged by 23.6% while services spending rose by a more modest 4.6% rate. Following the report, the initial estimate for second quarter GDP growth was released by the Atlanta Federal Reserve, with their GDP Now model showing growth trending at a 10.39% pace during the quarter. Meanwhile, the Labor Department reported that initial jobless claims last week fell 13K to 553K, a new pandemic low. Elsewhere, the Conference Board's Consumer Confidence Index jumped 12.7 points in April to 121.7 and was solidly above the consensus estimate of 112.5. After hovering near its pandemic low for most of last year, the index is now at its highest level since February 2020 and is consistent with above-trend economic growth.

Bullish Narrative Intact: We maintain a constructive view on risk assets and believe the macro environment provides a sturdy backbone for additional gains over the course of the year. The economic recovery has solid momentum and is likely to pick up steam as we approach the Spring and Summer months. Importantly earnings expectations continue to trend higher and based on consensus expectations from Bloomberg, earnings are forecast to grow by 31 percent this year followed by over 13 percent in 2022. Monetary policy will remain accommodative for the foreseeable future with Fed officials pledging at the conclusion of the April Federal Open Market Committee (FOMC) to keep interest rates at record lows for at least the next two years. While a near-term period of consolidation cannot be ruled out, we would view pullbacks as corrective and not the start of a broader move lower. Hence, periods of weakness would be viewed as a buying opportunity as the return profile over the next 12-plus months favors additional upside.

The Week Ahead: The focal point of the coming week will be the April payroll report on Friday. According to Bloomberg, nonfarm payrolls are forecast to rise by 965K while the unemployment rate is expected to drop to 5.7% from 6.0% during March. Other data points of interest include; the ISM Manufacturing data from April, March Construction Spending, the April ISM Services Index, the April ADP Employment Change report, and Initial Jobless Claims. First quarter earnings season will remain on the front burner with 135 members of the S&P 500 scheduled to release results during the week. Fed Heads will be out and about this week with 7 speaking engagements on the calendar, including Fed Chair Powell on Monday afternoon.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Wilshire 5000 Total Market IndexSM represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm's headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

This material contains opinions of the author, but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are subject to change without notice. Forward looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable, but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information. No part of this material may be reproduced or referred to in any form, without express written permission of Guggenheim Partners, LLC.

Guggenheim Investments represents the following affiliated investment management businesses: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Partners Europe Limited, GS GAMMA Advisors, LLC, and Guggenheim Partners India Management.

© 2021 Guggenheim Investments. All rights reserved

#47991