May 24, 2021

Weekly Viewpoint

Choppy Week Ends with Mixed Performance

Performance for Week Ending 5.21.2021

The Dow Jones Industrial Average (Dow) finished down 0.51%, the Wilshire 5000 Total Market Index℠ (Wilshire 5000℠) fell 0.21%, the Standard & Poor's 500 Index (S&P 500) dipped 0.43% and the Nasdaq Composite Index (NASDAQ) gained 0.31%. Sector breadth was mixed with 5 of the S&P sector groups closing higher and 6 closing lower. The Real Estate sector (+0.91%) was the best performer while Energy (-2.84%) was the worst.

Index*	Closing Price 5/21/2021	Percentage Change for Week Ending 5/21/2021	Year-to-Date Percentage Change Through 5/21/2021
Dow	34207.84	-0.51%	+11.77%
Wilshire 5000	43322.75	-0.21%	+9.80%
S&P 500	4155.86	-0.43%	+10.64%
Nasdaq	13470.99	+0.31%	+4.52%

Market Observations: 5/17/21–5/21/21

The major market indices finished the week mixed to lower with the S&P 500 posting its second straight week of losses. Trading was choppy throughout the week as investors digested a downdraft in the cryptocurrency market, a batch of very strong earnings from the retail sector, and still-elevated concerns around the pace and durability of inflation as the economy moves toward a post-pandemic era. The NASDAQ Composite bucked the trend and broke a four-week losing streak led by strong gains in the biotech sector.

FOMC Meeting Minutes: The minutes from the April FOMC meeting minutes were released last week and indicated that a strong pickup in economic activity would warrant discussions about tightening monetary policy in the coming months. “A number of participants suggested that if the economy continued to make rapid progress toward the Committee’s goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases,” according to the release. While the minutes were viewed as “stale” as the April meeting occurred before the release of the much weaker than expected April payroll report, the statement still caught the market off guard as it seemed to conflict with Fed Chairman Powell’s statement that he’s “not even thinking about thinking about tapering bond buying activity.”

Economic Roundup: Investors have looked past some of the recent economic data that has fallen short of economists’ expectations, as the mixed results should help temper concerns of tighter monetary policy due to an overheating economy. The sharp rebound in the housing sector seems to have hit a soft patch. Last week, the National Association of Realtors (NAR) reported that existing home sales fell 2.7% in April, the third consecutive decline, to a 5.85-million-unit annual rate, the lowest level since last June. According to the NAR, the deterioration in sales was squarely due to the lack of housing inventory. While inventory rose 10.5% from the previous month to 1.16 million units, it was still 20.5% lower than a year ago. Meanwhile, housing starts declined 9.5% in April to a 1.569-million-unit annual rate. The surge in lumber and other building material prices is likely holding back some starts. While housing has hit a soft patch, labor market conditions continue to improve. Last week, the Labor Department reported that initial jobless claims in the week ended May 15 fell 34K to 444K, a new pandemic low. Meanwhile, the Conference Board’s Leading Economic Index (LEI) jumped 1.6% in April, the most since last July, and above the consensus of 1.3%. Eight of its ten components increased, led by a steady improvement in initial jobless claims and stock market gains. According to the Conference Board’s assessment, "the current behavior of the composite indexes and their components suggests that the expansion in economic activity will continue, and it could even pick up in the near term."

Solid Q1 Earnings Season: First quarter earnings season continued to wind down with overall results significantly better than expectations. Through Friday, 474 members of the S&P 500 have released results with nearly 87 percent surprising to the upside. Aggregate earnings growth is up by just over 49%, 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 Consumer Discretionary, Financials, Materials, and Communication Services. Looking ahead, growth in the second quarter is forecast to be even stronger than the first quarter with the Bloomberg consensus currently estimating growth of 58.4%. While strong growth is always welcome, the bar seems to be set very high, which potentially leaves plenty of room for negative surprises – stay tuned.

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 in the months ahead. Importantly earnings expectations continue to trend higher and based on consensus expectations from Bloomberg, earnings are forecast to grow by over 33 percent this year followed by just under 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 data calendar will be backend loaded with the bulk of reports being release on Thursday and Friday. The weekly jobless claims will be in focus once again, after claims fell to a post-pandemic low last week of 444k, raising the prospect that the underwhelming April jobs report was a blip rather than a trend. Other data reports of interest include; April new home sales, The Conference Board's monthly consumer confidence indicator for May, durable goods orders from April, personal income and spending for April, and the University of Michigan sentiment report. Earnings season will continue to wind down, with 14x members of the S&P 500 scheduled to release results. Fed Heads will be out and about with 8 speaking engagements on the calendar.

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.

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