May 10, 2021

Weekly Viewpoint

Market Shrugs Off Weak Jobs Report

Performance for Week Ending 5.7.2021

The Dow Jones Industrial Average (Dow) finished up 2.67%, the Wilshire 5000 Total Market Index℠ (Wilshire 5000℠) added 0.49%, the Standard & Poor's 500 Index (S&P 500) gained 1.23% and the Nasdaq Composite Index (NASDAQ) dipped 1.51%. Sector breadth was positive with 7 of the 11 S&P sector groups closing higher. The Energy sector (+8.89%) led the way higher followed by Materials (+5.86%) and Financials (+4.21%).

Index*	Closing Price 5/7/2021	Percentage Change for Week Ending 5/7/2021	Year-to-Date Percentage Change Through 5/7/2021
Dow	34777.76	+2.67%	+13.63%
Wilshire 5000	44085.08	+0.49%	+11.73%
S&P 500	4232.60	+1.23%	+12.69%
Nasdaq	13752.24	-1.51%	+6.70%

Market Observations: 5/4/21–5/7/21

The major market indices finished the week mixed with the tech-heavy Nasdaq Composite underperforming the broader market. Technology stocks have come under pressure in recent weeks as investors rotated out of higher valuation stocks into sectors more levered to the economic recovery. The beneficiaries of this rotation include the Materials, Financials, and Energy sectors. The markets shrugged off the weaker than expected payroll report (see below) on bets that the Fed will keep monetary policy very accommodative and will hold off from tapering their bond buying efforts for the foreseeable future. This was underscored last week by San Francisco Fed President Mary Daly who said that while the outlook for the economy is positive, it isn't time for the U.S. central bank to pull back on the strong levels of monetary policy stimulus it is currently providing the economy. "We're a long way again from achieving full employment and price stability," Ms. Daly said in a virtual appearance, adding "it's not really the right time to start talking about normalization" of monetary policy.

Payrolls Fall Well Short of Expectations … The Labor Department reported that nonfarm payrolls in April expanded at a very disappointing 266K, shocking below the 1 million additions expected by economists. The March data was also revised to 770K from the initial estimate of 916K. The payroll data was clearly disappointing but seemed out of step with the message of rapid improvement coming from most other datapoints. The report is not likely a signal that the economic recovery is at risk, but instead seems to indicate that labor shortages are becoming a drag. It appears that many workers may be reluctant to re-enter the labor force due to still-incomplete U.S. vaccinations, issues finding schooling/child-care, and/or the expanded jobless benefits. While these issues are likely to resolve themselves, the effects could linger into the coming months.

... But Out of Synch with Other Data: While the monthly payroll report fell short of expectations, other data releases suggested that the economic recovery remains very much intact. The Labor Department reported that nonfarm productivity rebounded at a 5.4% annual rate in Q1, above the consensus estimate of 4.4%. It was the biggest gain in productivity since Q4 2009, excluding the surge in Q2 2020 after the pandemic lockdown. Meanwhile, initial jobless claims dropped 92K to 498K, the lowest level since March 2020, and solidly below the consensus forecast of 525K. The four-week average, which helps smooth the week to week volatility, fell 61K to 560K, also its lowest level since the start of the pandemic. Meanwhile, ADP private payrolls increased 742K in April, the biggest gain in seven months, as the labor market recovery accelerated amid more vaccinations and business re-openings. While the ISM Manufacturing Index pulled back from multi-year highs, the current level is high by historical standards and consistent with continued strong growth in manufacturing output. All 18 ISM industries reported growth, indicating the broadest factory activity expansion since 2004. The Institute for Supply Management (ISM) estimates that the latest index reading corresponds to 5.0% annualized growth rate of real GDP. Separately, the Markit U.S. Manufacturing PMI rose 1.4 points in April to 60.5, the highest level since data started in May 2007.

Solid Q1 Earnings Season: First quarter earnings season will continue to wind down with overall results significantly better than expectations. Through Friday, 438 members of the S&P 500 have released results with nearly 87 percent surprising to the upside. Aggregate earnings growth is up by over 47%, 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, and Materials.

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: Inflation will be the focal point of this week's data calendar, with the Consumer Price Index due out on Wednesday followed by the Producer Price Index on Thursday. Other data reports of interest include; Initial Jobless Claims, April Retail Sales, Industrial Production during April, and the University of Michigan Sentiment report. First quarter earnings season will continue to wind down with just 15 members of the S&P 500 scheduled to release results during the week, including Dow-component Walt Disney. Fed Heads will be out and about with 10 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.

#48113