

Monthly Economic Update

May 2021

U.S. Markets

A succession of robust economic reports and a healthy start to the corporate earnings season helped spark an April rally on Wall Street.

The Dow Jones Industrial Average gained 2.71 percent while the Standard & Poor's (S&P) 500 Index picked up 5.24 percent. The Nasdaq Composite led, climbing 5.40 percent.¹

Signs of Recovery

Stocks raced ahead in the first half of the month, lifted by multiple signs of economic recovery, including an impressive jobs report, a jump in retail sales, and a pick up in housing starts.^{2,3,4}

The accelerating pace of vaccinations helped investor sentiment in the U.S. However, overseas vaccine distribution struggles and the suspension of a COVID-19 vaccine also tested investors last month.

Earnings Power

Coming into April, investors were anxious to see what first-quarter profit reports would hold. Corporate America did not disappoint.

S&P 500 companies appeared poised to report the third-highest net profit margin since tracking began in 2008. With 40% of S&P 500 index companies reporting, earnings-per-share growth (EPS) is now estimated to be 29.3%, well ahead of the 12.2% EPS growth rate that analysts had expected at the start of the year.^{5,6}

Stocks mostly moved sideways in the second half of April, but they managed to hold onto the earlier gains, providing investors with a solid month of performance.

Sector Scorecard

Every industry sector contributed to April's positive results, with gains in Communication Services (+8.35 percent), Consumer Discretionary (+7.92 percent), Consumer Staples (+0.36 percent),

Energy (+1.69 percent), Financials (+7.37 percent), Health Care (+3.50 percent), Industrials (+4.34 percent), Materials (+5.68 percent), Real Estate (+6.71 percent), Technology (+7.31 percent), and Utilities (+3.20 percent).⁷

What Investors May Be Talking About in May

Many investors appear guarded and concerned that the bull market may be tested in the near term.

The Fed's position has been that any inflation will be transitory, requiring no change to its monetary stance. However, the biggest worry for investors is that the Fed may be misreading the current rate of inflation.

Transitory or Layered?

Some investors see inflation layered into the economy, from the prices of crops and lumber to metals and industrial products, and worry it may not be transitory.

As such, expect investors to look for the persistence of inflation over the next several months while focusing on the consumer price index, the producer price index, and specific supply inputs, such as the prices of semiconductors, raw materials, and base metals.

World Markets

Overseas markets were lifted by signs of economic recovery in Europe, solid corporate earnings, and some progress by EU countries in vaccine distribution. For the month, the MSCI-EAFE Index rose 3.79 percent.⁸

European markets moved higher, with gains in the U.K. (+3.82 percent), France (+3.33), and Germany (+0.85 percent).⁹

Pacific Rim stocks were mixed, with Australia picking up 3.46 percent, Hang Seng gaining 1.22 percent, and Japan slipping 1.25 percent.¹⁰

Indicators

Gross Domestic Product: Economic growth surged, with GDP posting a 6.4 percent annualized growth rate in the initial reading of first quarter economic activity.¹¹

Employment: Employers added 916,000 jobs in March, bolstered by a strong hiring rebound in the leisure and hospitality industry. It was the largest jump in new payrolls since August 2020. The unemployment rate dropped to 6.0 percent.¹²

Retail Sales: Consumer spending surged in March, jumping 9.8 percent on the strength of strong sales in sporting goods, clothing, electronics, and restaurants and bars.¹³

Industrial Production: Output by the nation's manufacturers, miners, and utilities rose 1.4 percent.¹⁴

Housing: Housing starts rose 19.4 percent in March. On a year-over-year basis, housing starts were up 34 percent from March 2020.¹⁵

Existing home sales declined 3.7 percent. Inventory dropped 28.2 percent from a year earlier.¹⁶

Sales of new homes jumped by 20.7 percent from February and by more than 66 percent from last March, reaching levels not seen since 2006.¹⁷

Consumer Price Index: Prices rose in March, climbing 0.6 percent, leaving the year-over-year increase at 2.6 percent. The acceleration in the inflation rate was not unexpected as prices are coming off pandemic-muted levels.¹⁸

Durable Goods Orders: Durable goods orders increased by 0.5 percent in March. Excluding the volatile transportation sector, orders rose by 1.6 percent.¹⁹

The Fed

The Federal Reserve announced that its current monetary policies would remain unchanged until the labor market has fully recovered and inflation met its goal of averaging 2 percent.²⁰

“Amid progress on vaccinations and strong policy support, indicators of economic activity and employment have strengthened,” said Federal Reserve Officials in a prepared statement following the two-day policy meeting which ended on April 28.

MARKET INDEX	Y-T-D CHANGE	April 2021
DJIA	10.68%	2.71%
NASDAQ	8.34%	5.40%

S&P 500	11.32%	5.24%
BOND YIELD	Y-T-D	April 2021
10 YR TREASURY	0.71%	1.63%

Sources: Yahoo Finance, April 30, 2021

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