AIG Retirement Services

Keeping focused on your long-term goals

Market Commentary | Week ending April 30, 2021

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Market Performance Snapshot (Week ending April 30, 2021, Month of April and Year-to-Date)

- Dow Jones Industrial Average®: -0.5% | +2.7% | +10.7%
- S&P 500® Index: +0.0% | +5.2% | +11.3%
- NASDAQ Composite® Index: -0.4% | +5.4% | +8.3%
- Russell 2000® Index: -0.2% | +2.1% | +14.8%
- 10-year U.S. Treasury note yield: 1.63%
    - Up 7 basis points from 1.56% on April 23, 2021
    - Up 71 basis points from 0.92% on December 31, 2020
- Best-performing S&P 500 sector this week: Energy, +3.5%
- Weakest-performing S&P 500 sector this week: Information Technology, -2.1%

Past performance is not a guarantee of future results.

Stocks stay relatively flat while earnings largely exceed expectations

Equity markets dipped slightly for the week, with the exception of the S&P 500 Index, which rose exactly 1 point over the prior Friday's close. Investors digested earnings from big tech companies and large industrial firms. All major indices rose for the month of April, with the tech-heavy NASDAQ Composite outgaining the small-cap Russell 2000, providing further evidence of a re-rotation back toward growth stocks after value stocks outpaced growth earlier in the year. Government bond yields rose for the week, but declined for the month, and the 10-year Treasury yield remained in its recent 1.5%-1.8% range.

- Major tech names dominated the earnings picture during the week.
    - Apple bested Wall Street expectations for revenue and earnings, as sales of iPhones, iPads, and Macbooks all posted large double-digit gains. The global semiconductor shortage is one potential cloud on the horizon. Apple raised its dividend and added $90 billion to an ongoing stock-buyback program – two ways companies return profits to shareholders. The stock fell about 2% for the week.
    - Alphabet (Google's parent company) and Facebook both turned in strong quarters due to major gains in ad revenue, as advertisers tried to reach consumers with money to spend. Alphabet rose 2.3% for the week; Facebook jumped 8%.
    - Amazon reported strong earnings, with online shopping continuing to thrive, even as more brick-and-mortar retailers resume normal operations. Amazon's cloud computing business also saw strong gains. Shares of Amazon rose about 3.8% for the week.

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- Several big industrial names reported earnings as well.
  - Ford announced a strong quarter, but said that the ongoing semiconductor chip shortage would lead to further production delays in the second quarter and could knock up to $2.5 billion off this year's earnings. The stock fell more than 10% after the report.
  - Caterpillar, a large equipment manufacturer, saw profit grow 40% thanks to increased demand for construction and industrial equipment. However, the company also warned that supply chain issues – including chip shortages and transportation backlogs – could make it difficult to meet demand moving forward. The stock fell about 1% for the week.
- With more than half of S&P 500 companies having reported in the current earnings season, 87% of companies have beaten earnings estimates, according to CNBC. This is the highest percentage of earnings beats ever and the strongest earnings-per-share (EPS) growth since Q1 2010. Despite this strong earnings performance, market performance has been mixed and highly dependent on individual companies' circumstances.
- All S&P sectors except energy were positive for the month of April, with the real estate and consumer discretionary sectors posting total returns of more than 6%. While the energy sector was negative for April, it continues to be the strongest performer year-to-date, with total returns of nearly 30%. Financial stocks are up 22% year-to-date. The consumer staples sector has been the weakest performer year-to-date, returning less than 3% so far in 2021.

Strong economic data suggests recovery, and the Fed stays the course

Good reports on U.S. economic growth and labor market improvement as vaccines allow for more economic reopening pointed toward a strengthening economic recovery. The Federal Reserve held its monthly policy meeting and left interest rates unchanged.

- The first reading on first quarter U.S. GDP showed the economy growing by 6.4% on an annualized basis. This tracks with most estimates of GDP growth in the 6%-7% range for 2021. Stimulus payments and economic reopening helped to boost growth.
- A separate report on household spending and income revealed a 21.1% jump in household income in March, as stimulus checks reached individuals. It was the largest monthly increase ever. Consumer spending also increased a strong 4.2% on the month.
- The latest weekly report on new unemployment claims came in at 553,000. That's 13,000 below the previous week's revised figure and the third week in a row of fewer than 600,000 new claims.
- On Friday, the Personal Consumption Expenditures (PCE) price index revealed prices rising 2.3% year-over-year in March. The core PCE index, which excludes food and energy costs and is the Federal Reserve's preferred inflation gauge, rose by 1.8% from March 2020. This figure will bear close watching in coming months.
- Prior to the PCE report, the Federal Open Market Committee (FOMC), the Fed's policy-setting committee, maintained the 0-0.25% target range for short-term interest rates. The Fed will also continue purchasing $120 billion a month in assets until the labor market strengthens further and inflation tops 2% for some time.
- On the inflation front, Fed Chairman Jerome Powell said the bank expects to see "upward pressure on prices from the rebound in spending as the economy continues to reopen, particularly if supply bottlenecks limit how quickly production can respond in the near term. However, these one-time increases in prices are likely to have only transitory effects on inflation."
- Powell further stated, "The economy is a long way from our goals, and it is likely to take some time for substantial further progress to be achieved."

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- In his first speech to a joint session of Congress on Wednesday night, President Biden unveiled a proposal for an additional $1.8 trillion investment in childcare, education, and other areas. The spending would be partially paid for by increases in income and capital gains taxes on higher earners. The announcement was expected, and initial market reaction was muted.
- Combined with the $2.8 trillion in COVID-related stimulus passed in December 2020 and March 2021, and the $2.3 trillion infrastructure proposal unveiled a few weeks ago, nearly $7 trillion in new spending has been enacted or announced in the last five months. However, it's important to note that the $4.1 trillion in recently announced investments still need to be negotiated and passed through Congress, so final details won't be known for several months. These funds would also be expended over a ten-year period.

Final thoughts for investors

The economy appears to be on strong footing and additional government spending could provide further stimulus to the recovery. However, the potential for inflation remains a specter hovering over the market, and, of course, economic recovery depends on continued progress against the virus. There's a lot of uncertainty out there. Have a conversation with a financial professional about preparing for a variety of economic and market scenarios.

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