Weekly Markets Commentary

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Investors Start the Month of May on Solid Ground

U.S. equities finished April with their best monthly gain of the year. The S&P 500® index rose 5.2 percent, bringing its year-to-date return to 11.3 percent. The month began far stronger than it ended, however. All of the gains came in the first two weeks, led by an eclectic mix of real estate, financials, communications services and consumer discretionary stocks, although each of the eleven sector groups were positive. The Russell 1000 growth index climbed 6.8 percent, outpacing the 3.9 percent gain in the 1000 Value index. However, over the final two weeks the growth index fell slightly, while value index managed a fractional gain. Notably, both real estate and financials were strong throughout.

First quarter earnings are far exceeding expectations. According to Factset, at the start of the year first quarter earnings were expected to grow by roughly 16 percent. By the end of the quarter, that forecast had grown to 24 percent. Now, with 60 percent of the S&P 500 having reported, earnings are growing at a rate of 46 percent. It is a similar story in revenue growth. Now running at a pace of 9 percent growth, revenue was expected to grow by 6 percent at the end of the quarter, and by 4 percent at the start of the year.

Bond Yields Relieve Some Anxiety for Investors

Bond yields eased during April, relieving a measure of anxiety among both bond and stock investors alike. The ten-year note yield reached its high for the year of 1.74 percent on March 31, subsequently declining to an April low of 1.54 percent on the 22nd, before ending the month at 1.63 percent. As a result, the Bloomberg Barclays U.S. Treasury index enjoyed its first positive monthly return of the year, rising 0.8 percent. The index is still 3.5 percent lower on the year, however. High yield spreads continued to tighten during the month, although the pace did slow. It was the fourth straight month of gains this year in the high yield space, leaving the Bloomberg Barclays U.S. High Yield index higher on the year by 1.9 percent.

The dollar gave back most of its gain from March during the month, and the VIX index eased as well, falling at mid-month to its lowest level in over a year before rising slightly at month-end.

Inflation Expectations Rise for the Fourth Straight Month

It was also the fourth straight month this year of rising inflation expectations, as the ten-year breakeven rate edged higher to 2.41 percent from 2.37 at the end of March. At the start of the year, the rate was 1.99 percent. The debate continues over whether rising year-over-year inflation readings will be transitory, as the Fed expects, or more intractable as a vocal chorus of skeptics believe. The trailing twelve-month core PCE deflator in March climbed by 1.8 percent, up from 1.4 percent in February.

The April report will undoubtedly add fuel to the debate when it is reported later this month, as it will replace a -0.4 percent reading from last year. In its April FOMC statement last week, the Federal Reserve acknowledged that inflation has risen, but repeated its view that the rise was “largely reflecting transitory factors.” And during his post-meeting press conference Chair Powell pushed back on the question of whether it was time to “begin talking about talking about” tapering its pace of bond purchases.

U.S. GDP Growing at a Strong Clip; Eurozone Experiences a Slight Recession

The advance estimate of first quarter real GDP showed growth at an annualized pace of 6.4 percent. And although that was slightly below expectations, outside of last year’s third quarter growth of 33 percent it was the strongest growth rate since the third quarter of 2003. Not surprisingly, personal consumption was strong as a result of federal stimulus payments. Conversely, a drawdown in inventories reduced growth by 2.6, as demand has rebounded faster than production, in part due to supply chain bottlenecks. That augers well for future growth, however, as inventories are replenished. In the week ahead we will get the first series of data showing how the economy began the second quarter. The April jobs report on Friday is expected to show the creation of close to 1 million new jobs, with the unemployment rate falling to 5.7 percent. Other scheduled April reports include the ISM manufacturing and service sector PMIs, and vehicle sales.

The rebound has been somewhat uneven overseas. The Eurozone actually fell into recession in the first quarter. GDP growth fell 0.6 percent, following the 0.7 percent decline in last year’s fourth quarter, as a number of countries struggled through various degrees of virus-related lockdown and the vaccine rollout got off to an uneven start. The EuroStoxx 50 index gained just 1.4 percent in April in euro terms, although the weaker dollar turned that into a gain of 3.8 percent. More recent progress in vaccine distribution should result in a stronger second quarter, however. Stocks in the UK fared better, rising 3.8 percent in local currency term in April, and 4.0 in dollars. Stocks in Japan fell 1.3 percent in yen, -0.1 percent in dollars, as the country dealt with its own vaccine distribution problems. Emerging markets overall enjoyed a 2.3 percent gain in dollar terms, as measured by the MSCI EM index, with gains in both Latin America and Asia, despite well documented pandemic struggles in a number of countries including Brazil, Mexico and India.

Congress Gears up to Debate President Biden’s American Families Plan

Last week President Biden outlined his $1.8 trillion American Families Plan, which includes a range of proposed tax increases as outlined during the campaign. This follows the administrations proposed $2.3 trillion infrastructure plan, negotiations for which with Republicans are scheduled to begin this week. While there is general agreement on the need for infrastructure investment, there is little agreement on how big such a package should be, or what programs should be included. And there is certainly little agreement on the various tax proposals, including among some moderate Senate Democrats.

Important Disclosures:

Sources: Factset, Bloomberg. FactSet and Bloomberg are independent investment research companies that compile and provide financial data and analytics to firms and investment professionals such as Ameriprise Financial and its analysts. They are not affiliated with Ameriprise Financial, Inc.

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The Chicago Board Options Exchange (CBOE) Volatility Index (VIX) is a widely used measure of market risk. It shows the market's expectation of 30-day volatility. The VIX is constructed using the implied volatilities of a wide range of S&P 500 index options.

In general, **equity securities** tend to have greater price volatility than debt securities. The market value of securities may fall, fail to rise or fluctuate, sometimes rapidly and unpredictably. Market risk may affect a single issuer, sector of the economy, industry or the market as a whole.

There are risks associated with **fixed-income** investments, including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

International investing involves increased risk and volatility due to potential political and economic instability, currency fluctuations, and differences in financial reporting and accounting standards and oversight. Risks are particularly significant in emerging markets due to the dramatic pace of economic, social, and political change.

A **10-year Treasury note** is a debt obligation issued by the United States government that matures in 10 years. The 10-year yield is typically used as a proxy for mortgage rates, and other measures.

The **ISM manufacturing index**, also known as the purchasing managers' index (**PMI**) is an estimate of manufacturing for a country, based on about 85% to 90% of total Purchasing Managers' Index (PMI) survey responses each month. It is considered to be a key indicator of the state of the U.S. economy

The **Purchasing Managers' Index (PMI)** is an index of the prevailing direction of economic trends in the manufacturing and service sectors. The PMI is based on five major survey areas: new orders, inventory levels, production, supplier deliveries, and employment. it is a leading indicator of economic conditions.

The **flash services PMI** is based on approximately 85 to 90 percent of total PMI responses each month, and it is designed to provide an accurate advance indication of the final PMI data. As flash services PMIs are among the first economic indicators for each month, providing evidence of changing economic conditions ahead of comparable government statistics, they can have a significant effect on currency markets.

The **personal consumption expenditure** (**PCE**) measures of the prices that people living in the United States pay for goods and services. The PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

The less volatile measure of the PCE price index is the **core PCE** (**CPCE**) price index which excludes the more volatile and seasonal food and energy prices.

Past performance is not a guarantee of future results.

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

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