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Stocks continued to climb higher in April. Large cap stocks in the S&P 500 index were up 5.3% in the month, bringing their year-to-date gains to 11.8%. Small cap stocks in the Russell 2000 were up 2.1% in April and 15.1% so far in 2021. International stocks in the MSCI ACWI ex US index were up 3.2% for the month and 7.2% year-to-date. Emerging market stocks were also up with a smaller gain of just 2.5% for the month and 4.9% year-to-date. Yields fell slightly this month so the Barclays US Aggregate Bond Index was up 0.8% in April but still down -2.6% so far this year. The 10-year treasury yield was at 1.63% at the end of April compared to 1.75% at the end of March.

Energy was the best performer last quarter but was basically flat in April. Other industries such as real estate and communication services were strong both last quarter and this month. Technology was disappointing last quarter but advanced in line with the S&P 500 during April.

Now about 70% of the population has some form of immunity to COVID19 either through vaccinations or because they already had the virus. This has allowed more businesses to reopen, increase capacity, or just see more foot traffic as confidence returns and people try to go back to what their lives looked like before the pandemic. Unemployment is dropping and is now below 6%. It could be down to 4.5% by year-end.

With the reopening of the economy, GDP growth in the first quarter came in at 6.4%. Brian Wesbury, Chief Economist with First Trust, likens this growth to a “sugar high” that can’t last. In March, $2 trillion of stimulus was passed and now another $4 trillion is being discussed for infrastructure and social spending. When combined with the previous stimulus, the economy has been described as “turbocharged”. GDP growth could be 10%+ in the second quarter according to David Kelly of JPMorgan. However, next year we won’t have the same stimulus and the US will face a fiscal drag. Plus, higher taxes are expected to pay for the stimulus.

Inflation is becoming more of concern with analysts. The Fed has indicated they are expecting higher inflation. Initial thoughts were that inflation would be largely transitory as pent-up demand coupled with supply chain disruptions would work their way out of the system after a bit. Wesbury is becoming more concerned that inflation will not be transitory and that it will be a more persistent problem. However, even with higher inflation expectations, most analysts are not expecting high or runaway inflation.

Like GDP growth, first quarter earnings have been strong. Of the S&P 500 companies that have reported so far, 86% have beaten earnings expectations and 78% have beaten revenue expectations. Once all companies in the index report, total earnings are expected to be up 43% in the quarter. The strong growth this quarter reflects easy comparisons to a year ago. For the full year, earnings are expected to be 28% higher than 2020.

Globally, the US is ahead of many other countries in terms of vaccinations and reopening. However, the recovery is global and the rest of the world is expected to follow suit. Because international indices have companies that are more cyclical in nature, many analysts including David Kelly believe we may be entering a period where international stocks will outperform US stocks.

Diversification continues to be the recommended strategy. Bonds may continue to struggle as interest rates rise but they provide stability when stocks are volatile. Uncertainty from looming tax increases paired with higher stock valuations can spur volatility at any time. Please contact your advisor with any questions.

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