

# AndCo's Monthly Market Update

May 2021

## THE ECONOMY

As investment professionals, we are trained to be skeptical of trends in the news and datapoints, preferring to poke holes in statements and theories, especially those that are overly optimistic. However, looking back at April, and despite our best efforts to the contrary, there appears to be a lot to be excited about. First, the pace of vaccine rollouts globally continues which has broadly resulted in a decline in both the number of new infections and the number of deaths related to the pandemic. In the US, more than 44% of the population has now received at least one dose of a vaccine which is allowing for local economies to reopen.<sup>1</sup> Unfortunately, due to challenges in global vaccine distribution, we will likely continue to see flareups and pockets of infection (see India). However, the overall trajectory of the data suggests that we are nearing herd immunity in the US which should be a catalyst for a continued recovery.

The broader macro recovery theme remains in place and is by all accounts accelerating. In looking at many of the key economic indicators we follow, many are at, or near, multi-decade highs. For example, with low mortgage rates and higher real estate values, it is no surprise that pending home sales year-over-year rose 25.3% in March, the highest level since October 2009.<sup>2</sup> While much of this gain can be attributed to the injection of liquidity into the economy to counteract the pandemic, the surge in real estate values, combined with continued migration from northern states to the sunbelt, has pushed the Case Shiller US National Home Price Index to an all-time high.<sup>3</sup> While not quite at its peak, US Consumer Confidence has retraced its pandemic losses, rising to 121.7 in April, up from 109 in March.<sup>4</sup> Retail sales rose a sizeable 9.8% in March after falling by -2.7% in February.<sup>5</sup>

The aggressive growth trend can also be seen in commodity prices, construction spending, and wage growth. In fact, demand is so strong in certain sectors that supply chains are struggling to keep up with the backlog of orders. This strength was also reflected in the first quarter's GDP



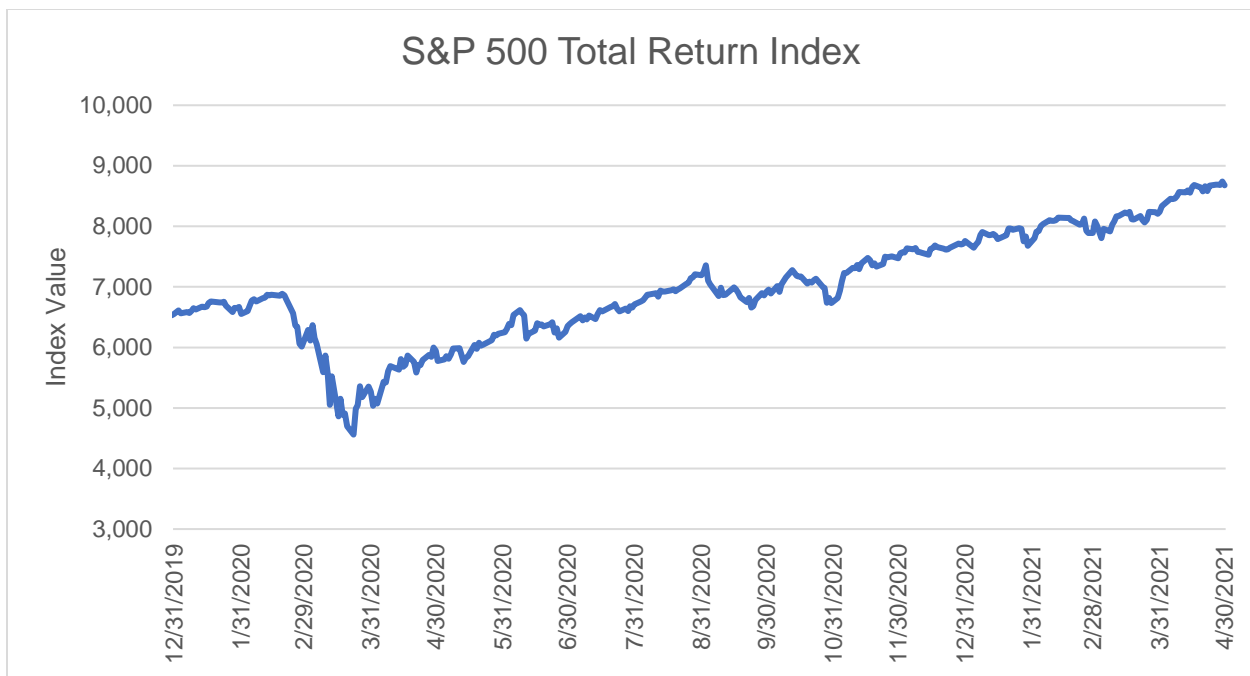
## Monthly Market Update

reading of 6.4%.<sup>6</sup> While high consumer confidence and business activity are generally a good thing, this combination of positive issues have the potential to produce the unwanted by-product of higher inflation.

One topic we are skeptical about is the reported pace of inflation in the US. Inflation can be thought of like the porridge in the story of Goldilocks and the Three Bears. Too little inflation is evidence that economic activity is stagnating, while too much inflation may mean that the economy is overheating. However, just the right amount of inflation signals that the economy is on a steady, predictable growth trajectory. For the month of April, the US CPI increased by 4.2% on an annualized basis.<sup>7</sup> The increase was the fastest pace on record since 2009.<sup>8</sup> Federal Reserve Chairman Jerome Powell made it clear at the most recent Federal Reserve Bank (the Fed) meeting that US inflation is not close to the point where it would need to consider changing its monetary policy. In the Fed's statement, the bank committed to keeping short-term interest rates near zero with the goal of ensuring that the recovery is on solid footing. This likely means the Fed will undershoot policy action and react more slowly to rising inflation. As a result, the strength of an eventual policy adjustment would need to be stronger than if the bank had reacted sooner. If this comes to pass, the consequence would likely be a significant slowing of the US and global economies. Only time will tell if the Fed is able to deliver just the right amount of rate hikes to keep the economy on track.

## EQUITIES

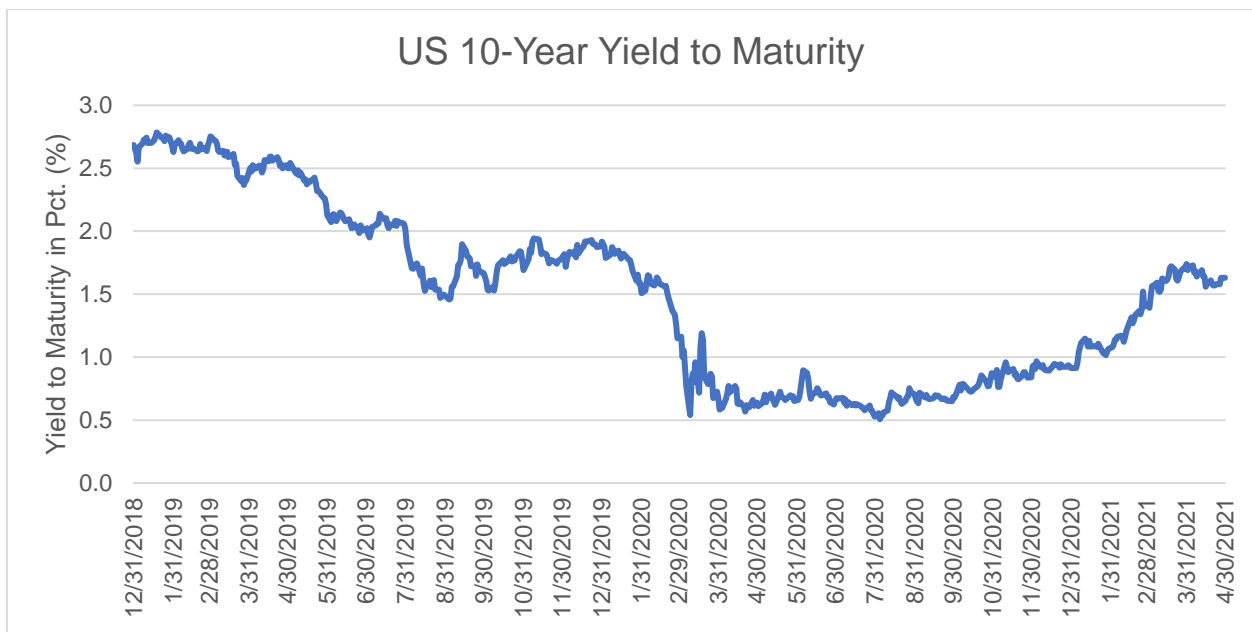
The positive trend for US equity prices continued in April with the S&P 500 hitting an all-time high on the 29<sup>th</sup> and rising 5.34% for the month.<sup>9</sup> The surge higher was supported by the combination of better-than-expected corporate earnings, improving macro conditions, and declining COVID19 infections. Specifically, 1<sup>st</sup> quarter US corporate earnings surprised to the upside, and as of May 7<sup>th</sup>, 88% of all S&P 500 companies have reported and 86% have exceeded EPS estimates.<sup>10</sup> In fact, reported EPS numbers have exceeded consensus estimates by an average 22.1% compared to the five-year average of 6.9%.<sup>11</sup> Finally, April represented a reversal in recent trends with large company stocks outperforming small caps and growth outpacing value.



Source: Bloomberg as of April 30, 2021

#### FIXED INCOME

Fixed income performance was broadly positive during the month as US interest rates fell. The yield on the US 10-Year Treasury bond declined by 11 basis points to 1.63%.<sup>12</sup> The investment grade bellwether Bloomberg Barclays US Aggregate Bond Index returned 0.79% for the month.<sup>13</sup> Strong economic growth, combined with improving corporate fundamentals, pushed credit spreads lower across the spectrum and the Bloomberg Barclays US Corporate High Yield Index returned 1.09%.<sup>14</sup> The speed and magnitude of the recovery in corporate credit since the beginning of the pandemic has been amazing. High yield bond credit spreads peaked at nearly 1,100 basis points on March 23<sup>rd</sup>, 2020. Since then, spreads have narrowed to their January 2020 lows of roughly 325 basis points.<sup>15</sup> While the likelihood for corporate defaults has diminished, additional spread tightening from these low levels is a low probability.



Source: Bloomberg as of April 30, 2021

APPENDIX

1. <https://am.jpmorgan.com/gb/en/asset-management/adv/insights/market-insights/monthly-market-review/>
2. Bloomberg, as of April 2021
3. <https://fred.stlouisfed.org/series/CSUSHPINSA>
4. Bloomberg, as of April 2021
5. Bloomberg, as of April 2021
6. Bloomberg, as of April 2021
7. <https://www.reuters.com/business/us-consumer-prices-surge-april-2021-05-12/>
8. <https://www.reuters.com/business/us-consumer-prices-surge-april-2021-05-12/>
9. Bloomberg, as of April 2021
10. <https://insight.factset.com/sp-500-earnings-season-update-may-7-2021>
11. <https://insight.factset.com/sp-500-earnings-season-update-may-7-2021>
12. Bloomberg, as of April 2021
13. Morningstar, as of April 2021
14. Morningstar, as of April 2021
15. <https://fred.stlouisfed.org/series/BAMLH0A0HYM2>



### **Important Disclosure Information**

*This document is being provided solely for informational and educational purposes and should not be regarded as investment advice or as a recommendation regarding any particular course of action and additionally is not intended to provide, and should not be relied upon, for legal, tax, or accounting advice.*

*Any securities cited are for illustrative purposes only. References herein do not constitute a recommendation to buy, sell or hold such securities.*

*The material provided herein is valid as of the date of distribution and not as of any future date, and will not be updated or otherwise revised to reflect information that subsequently becomes available, or circumstances existing or changes occurring after such date. This document may contain opinions, observations, projections or forward-looking statements which are subject to various uncertainties whereby the actual outcomes or results could differ from those indicated.*

*Certain information is based on sources and data believed to be reliable, but AndCo cannot guarantee the accuracy, adequacy, or completeness of the information. The source for all data, charts and graphs is AndCo Consulting unless otherwise stated.*

*AndCo Consulting is an investment adviser registered with the U.S. Securities and Exchange Commission ("SEC"). Registration as an investment adviser does not constitute an endorsement for the firm by securities regulators nor does it indicate that the adviser has attained a particular level of skill or ability.*