WEEKLY MARKET UPDATE, APRIL 19, 2021

GENERAL MARKET NEWS

• We saw mild flattening of the yield curve last week as longer-dated yields declined. Despite positive economic data, the drop occurred as foreign buyers, particularly from Japan, purchased bonds and drove yields down. The 10-year Treasury yield remained flat, opening the week at 1.66 percent and closing 9 basis points (bps) lower at 1.57 percent. The 10-year opened just shy of 1.61 percent on the 19th, eroding part of last week's move. The 30-year opened at 2.29 percent, down roughly 5 bps from last week's open. On the shorter end of the curve, the 2-year Treasury opened at 0.16 percent, increasing just two-tenths of a basis point.

• Last week was the first week of earnings season, and several large banks, including JPMorgan, Wells Fargo, and Goldman Sachs, kicked it off with reports on Wednesday. Despite significant earnings surprises from each, financials fell near the middle of the pack for weekly sector performance. The decline in rates supported growth in the health care, technology, and consumer discretionary sectors. The worst-performing sectors included communication services, energy, and industrials.

• On Tuesday, the Consumer Price Index report for March was released. Consumer prices rose 0.6 percent, higher than economist estimates for a 0.5 percent increase. This brought year-over-year growth in consumer prices to 2.6 percent, which was also slightly above economist estimates for a 2.5 percent increase. Part of this was due to gas prices rising 9.1 percent in March. Core consumer prices, which strip out the impact of volatile food and energy prices, increased 0.3 percent during the month and 1.6 percent year-over-year. Inflation remained muted throughout much of last year—due in large part to the deflationary pressures created by the pandemic—but we've seen an increase in inflationary pressure as the economic recovery has accelerated.

• Thursday saw the release of the March retail sales report. Retail sales grew by 9.8 percent, surpassing economist estimates for a more modest 5.8 percent increase. This result, which followed February's weather-driven decline in sales, was an encouraging development and signaled continued high levels of consumer demand. It was also the second-highest level of monthly sales growth on record. Sales growth was widespread, as the core retail sales figure that strips out the impact of volatile auto and gas sales rose by a strong 8.2 percent against forecasts for a 6.4 percent increase. Sales growth was supported by a return to more normal weather in March and another round of federal stimulus checks. Consumer spending at bars and restaurants showed solid improvement during the month, likely due to the easing of state and local restrictions that allowed more in-person dining. Overall, this was a very strong report that bodes well for the pace of the economic recovery during the month and quarter.

• Thursday also saw the release of the National Association of Home Builders Housing Market Index for April. This gauge of home builder sentiment increased from 82 in March to 83, which was in line with economist estimates. The index rebounded swiftly after hitting a lockdown-induced low of 30 last April, as low mortgage rates and shifting home buyer preferences fueled a rally for the housing sector over the past year. The improvement in April was driven by continued high levels of home buyer demand, and the report's measure of prospective home buyer foot traffic hit its highest point since November. The continued strong prospective home buyer demand is encouraging, as mortgage rates have started to increase following a year at or near record lows. Looking forward, home builders remain confident they will be able to sell newly built units due to a shortage of available homes for sale, but rising lumber and construction costs may serve as a headwind for significantly higher levels of home builder confidence.

• On Friday, March's building permits and housing starts reports were released. These two measures of new home construction rebounded after weather-related declines in February. Building permits rose 2.7 percent against forecasts for a 1.7 percent increase. Housing starts soared 19.4 percent, which was much better than economist estimates for a 13.5 percent increase. This brought the pace of housing starts to its highest level since 2006. Although starts and permits have been volatile on a month-to-month basis, both have rebounded well since initial lockdowns were lifted last year. High levels of home builder confidence and low levels of available homes have helped spur a surge in new home construction over the past year, with single-family housing starts seeing a significant increase over that period. Overall, this encouraging report revealed that home builders are increasing construction despite the headwinds created by rising lumber prices and mortgage rates during the month.

• We finished the week with Friday's release of the preliminary estimate of the University of Michigan consumer sentiment survey for April. This widely followed measure of consumer confidence increased from 84.9 in March to 86.5, against forecasts for a further increase to 89. This marks two consecutive months with improving confidence, bringing the index to its highest level since the start of the pandemic. The most recent round of federal stimulus payments and accelerating job growth likely contributed to the improved consumer sentiment in April. The gauge of current economic conditions rose to a new post-pandemic high to start the month, while expectations for the future remained unchanged. Despite the miss against forecasts, this was a positive report, as improving consumer confidence has historically supported faster consumer spending growth. There is still real work to be done to return the index to its pre-pandemic high of 101 in February 2020, but we are heading in the right direction, and further improvements are expected as long as we continue to make progress on the mass vaccination and public health fronts.

WHAT TO LOOK FORWARD TO

On Thursday, the initial jobless claims report for the week ending April 17 will be released. Economists expect to see 625,000 initial unemployment claims filed during the week, an increase from the 576,000 initial claims made the week before. Even with the anticipated rise in weekly claims, this report would represent the second-lowest number of initial claims since the start of the pandemic. It would also bring the four-week moving average of claims to a new post-lockdown low. Despite the progress in reducing the number of weekly initial claims, however, work remains to return to pre-pandemic levels. For reference, in 2019 we saw an average of 218,000 weekly initial claims throughout the year. Given the relatively high level of weekly initial jobless claims, this report will continue to be widely monitored.

Thursday will also see the release of the March existing home sales report. Sales of existing homes are expected to decline 0.3 percent, following a 6.6 percent decline in February. Despite the anticipated decline, the pace of existing home sales has increased notably over the past year. If estimates prove accurate, existing home sales in March would be up 15.9 percent year-over-year. Home sales have been buoyed by low mortgage rates and shifting home buyer preferences due to the pandemic. Looking forward, a low supply of existing homes for sale, rising prices, and rising mortgage rates are expected to serve as headwinds for significantly faster sales growth. With that said, sales near current levels would represent a marked increase from the pre-pandemic pace of home sales, signaling continued high levels of home buyer demand.

On Friday, the March new home sales report is set to be released. The pace of new home sales is expected to increase 12.9 percent. (In February, an 18.2 percent decline in new home sales reduced the pace to a nine-month low.) Compared with existing home sales, new home sales are a smaller and often more volatile component of total sales. If estimates hold, the pace of existing home sales would be up 42.9 percent year-over-year. Home builders have increased the pace of construction over the past year to meet rising demand. In addition, newly constructed units have been quick to sell since initial lockdowns were lifted last year. Ultimately, this report is expected to show continued high levels of home buyer demand, representing another sign the housing market remains strong.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.39%	5.41%	11.92%	48.05%
Nasdaq Composite	1.10%	6.10%	9.23%	63.73%
DJIA	1.18%	3.73%	12.33%	44.08%
MSCI EAFE	1.66%	4.22%	7.85%	44.83%
MSCI Emerging Markets	1.41%	2.52%	4.86%	52.73%
Russell 2000	0.86%	1.92%	14.86%	86.21%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.35%	–2.56%	0.02%
U.S. Treasury	0.37%	–3.47%	–4.11%
U.S. Mortgages	0.25%	–0.56%	0.22%
Municipal Bond	0.46%	0.58%	6.01%

Source: Morningstar Direct

Disclosures: Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg Barclays US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg Barclays US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million.

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