WEEKLY MARKET UPDATE, MAY 3, 2021

GENERAL MARKET NEWS

• The 10-year Treasury yield opened Monday morning at 1.59 percent—just 3.4 basis points higher than last week's open of 1.56 percent. The 30-year yield opened at 2.27 percent, up from last week's open of 2.24 percent. On the shorter end of the curve, the 2-year remained flat at 0.16 percent.

• The market was flat to slightly down last week. Investors continued to take some profits from their investments due to concerns regarding a potential tax increase and current market valuations. The S&P 500 and Russell stocks held up better than the MSCI Emerging Markets and EAFE as the eurozone lagged in its vaccine rollout and Germany kept restrictions in place. Emerging markets are hampered by the current outbreak in India and the fact that China already started its reopening in 2020. Communication services, financials, and consumer discretionary were the top performers, supported by strong earnings from Amazon and Alphabet. Technology, health care, and consumer staples were the worst performers, largely due to Twitter and ServiceNow's lower-than-expected future guidance.

• Monday saw the release of the preliminary estimate of March's durable goods orders report. Durable goods orders rose 0.5. percent, which was below economist estimates for a 2.3 percent increase. This miss against expectations was primarily due to a slowdown in volatile aircraft orders during the month. Core durable goods orders, which strip out the impact of transportation orders, rose a solid 1.6 percent, which was in line with economist estimates. Core durable goods orders are often viewed as a proxy for business spending, so this return to growth following a weather-related lull in February was a positive sign for business spending during the month and quarter. Business confidence surged in March, largely driven by improvements on the public health front and the recent stimulus bill. High levels of business confidence should help support further spending growth as we head into the summer.

• On Tuesday, the Conference Board Consumer Confidence Index for April was released. The report showed confidence increased by more than expected, with the index rising from 109 in March to 121.7 in April against calls for a more modest increase to 113. This larger-than-expected increase brought the index to a new post-pandemic high. It was driven by improving consumer views on the present economic situation, as stimulus checks, increased vaccinations, and the continued easing of state and local restrictions continued during the month.

Improving confidence has historically supported faster consumer spending growth, so this strong report is a very encouraging sign for consumer spending to start the second quarter. Although work remains before the index can approach the pre-pandemic high of 131 we saw in February 2020, the recent improvement over the past few months has been encouraging and indicates we may be heading back to normal sooner than expected.

• Wednesday saw the release of the Federal Open Market Committee (FOMC) rate decision from the Federal Reserve's (Fed's) April meeting. The Fed cut the federal funds rate to virtually zero last March, and, as expected, there were no changes to interest rates at this meeting. In addition, there were no changes to the Fed's current $120 billion per month asset purchase program. Overall, there were no major surprises at this meeting, as the Fed continued to remain broadly supportive of the ongoing economic recovery. Fed officials noted that the pace of the economic recovery has accelerated recently, especially for sectors that were hardest hit during the worst of the pandemic. Despite the accelerating recovery, Fed members continued to indicate they view the pandemic as a public health crisis that presents a risk to the recovery and that accommodative policy will remain in place until substantial progress is made in getting people back to work. Economists will continue to closely monitor future FOMC meetings for hints of potential future policy changes as the economic recovery continues.

• Thursday saw the release of the advanced estimate for first-quarter gross domestic product (GDP) growth. The report showed the economy grew at an annualized rate of 6.4 percent during the quarter, which was up from the 4.3 percent annualized growth rate in the prior quarter but below economist estimates for a 6.7 percent annualized growth rate. This faster growth compared with the fourth quarter was due in large part to a surge in personal consumption to start the year. Personal consumption grew at an annualized rate of 10.7 percent during the quarter, up from a 2.3 percent annualized growth rate in the fourth quarter and better than economist estimates for a 10.5 percent annualized growth rate. Personal consumption was supported by multiple rounds of federal stimulus payments during the period, as well as rising consumer confidence driven by the improved public health and economic situations. Although headline growth came in slightly below economist estimates during the quarter, this was still a strong overall report that showed the economic recovery accelerated to start the year. Given continued improvements on the public health front and the easing of state and local restrictions, economists expect to see continued growth throughout the rest of the year.

• We finished the week with Friday's release of the March personal income and personal spending reports. Personal spending rose 4.2 percent during the month, which was slightly better than economist estimates for 4.1 percent growth following a 1 percent decline in spending in February. This result was driven by the additional round of federal stimulus checks that hit bank accounts during the month, as well as the tailwind from rising consumer confidence amid the improving public health situation. After a weather-related lull in spending in February, this return to spending growth echoes a similar rise in retail sales in March and indicates consumers remain willing and able to spend more. Personal income also increased by more than expected during the month, rising 21.1 percent against calls for a 20.3 percent increase. Personal income has been very volatile on a month-to-month basis during the pandemic, driven by shifting federal stimulus payments. The larger-than-expected increase in March was due to the impact of $1,400 stimulus checks that were largely distributed during the month.

WHAT TO LOOK FORWARD TO

On Monday, the Institute for Supply Management (ISM) Manufacturing index for April was released. This widely monitored gauge of manufacturer confidence fell by more than expected during the month. The index dropped from 64.7 in March to 60.7 in April, against calls for an increase to 65. Manufacturers largely cited supply chain constraints as the major factor in the slowdown during the month. The global shortage of semiconductor chips served as a headwind for faster overall output growth in key industries. This is a diffusion index, where values above 50 indicate expansion. So, despite the miss against forecasts, the manufacturing industry is set for further growth ahead. Demand has been strong this year, and it's expected to remain strong as we continue to reopen the economy. In the short term, however, supply chain constraints may serve as a headwind for significantly higher levels of manufacturing output until the issues are resolved.

On Tuesday, the March international trade report is set to be released. The trade deficit is expected to widen during the month, from $71.1 billion in February to $74 billion in March. If estimates prove accurate, this report would bring the trade deficit to its widest monthly level on record. Both imports and exports are expected to show growth, following a weather-related slump in February, but imports should increase more than exports. The previously reported advance trade of goods report showed that exports of goods increased by 8.6 percent in March, while imported goods rose by 6.8 percent. Nonetheless, the dollar value of imports growth was larger than that of exports growth. Looking forward, a return to more normal economic conditions across the globe is expected to drive additional export growth throughout much of the year. The pace of this export recovery will likely depend in large part on the overall global economic recovery.

Wednesday will see the release of the ISM Services index for April. This widely monitored measure of service sector confidence is expected to increase from 63.7 in March to 64.1 in April. If estimates hold, the index would sit at its highest level since records began in 1997, breaking the record just set in March. This is another diffusion index, where values above 50 indicate expansion, so any further improvement would be a positive signal for service sector growth in April. As has been the case with manufacturer confidence, high consumer demand has served as a tailwind for service sector confidence since initial lockdowns were lifted. At the start of the year, we saw some pressure to service sector confidence due to the third wave of infections. Subsequently, improvements on the public health front in the first quarter spurred a resurgence in confidence as we head into the spring.

On Thursday, the initial jobless claims report for the week ending May 1 is set to be released. Economists expect to see 540,000 initial unemployment claims filed during the week, in a modest improvement from the 553,000 initial claims filed the prior week. If estimates hold, this report would mark four straight weeks with initial claims coming in under 600,000. This would be an encouraging sign that the labor market recovery has turned a corner following the containment of the pandemic's third wave. Claims at current levels would likely support a return to faster overall hiring in May, and any further improvement would be a sign that the labor market recovery continues to accelerate. Much of the recent progress in cutting the number of weekly layoffs has been focused on the hard-hit service sector jobs. Improvements on the public health front and the continued easing of state and local restrictions have driven this progress.

We'll finish the week with Friday's release of the April employment report. Economists expect to see 950,000 jobs added to the economy during the month, in a step up from the 916,000 jobs added in March. If estimates hold, this report would mark four straight months with accelerated hiring, likely reflecting the tailwind from public health improvements and the associated reopening of businesses. The underlying data is also expected to show improvements, with the unemployment rate set to fall from 6 percent to 5.8 percent. A rise in the labor force participation rate from 61.5 percent to 61.7 percent is also expected. While very real work must be done to get back to pre-pandemic levels of employment, we can hope to see a continued acceleration in the pace of hiring over the next few months. Additional progress will depend on the mass vaccination programs and continued easing of state and local restrictions.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.04%	5.34%	11.84%	50.18%
Nasdaq Composite	–0.38%	5.43%	8.55%	63.52%
DJIA	–0.50%	2.78%	11.30%	45.84%
MSCI EAFE	–0.76%	3.01%	6.59%	41.74%
MSCI Emerging Markets	–0.37%	2.49%	4.83%	50.04%
Russell 2000	–0.23%	2.10%	15.07%	81.87%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.18%	–2.61%	–0.15%
U.S. Treasury	–0.24%	–3.53%	–4.25%
U.S. Mortgages	0.00%	–0.55%	–0.17%
Municipal Bond	–0.16%	0.48%	7.39%

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. Basis points (bps) is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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