



Looking Back at the Markets in April and Ahead to May 2021

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If the month of March was a turning point (and it was), the month of April demonstrated that March was not a fluke. The data showed we have really turned the corner in many ways. In April, the fourth wave of the pandemic started—and then fizzled out, resulting in much lower infection rates to end the month. Layoffs tumbled and consumer confidence rose to pre-pandemic levels. Markets rallied to all-time highs once again. In April, things got better across the board.

Looking Back

Progress on the medical front. In early April, the potential fourth wave of the pandemic, which started in March, seemed to gain strength. Then it just . . . fizzled out. New case growth was down by more than one-third, and deaths were down by more than 20 percent. We saw the same effect with positive testing rates, which climbed and then fell sharply, going down by 20 percent. Vaccinations, which are driving the improvements, rose sharply during the month. By the end of April, more than 3 out of 10 people were fully vaccinated, and 4 out of 9 had at least one shot. Medical risks, which looked to be rising at the start of the month, were significantly lower by month-end.

Risks to watch. It wasn't all good news, of course. On a less positive note, we saw vaccination rates peak and then drop sharply, as most of those who wanted to get vaccinated had done so. Of the remaining population, many had no sense of urgency. This trend is likely to slow further medical improvements, and it may prevent our progress to herd immunity. Still, although the situation is something to watch, herd immunity is on track. We may see it by the end of the summer—if current trends continue.

Signs of economic growth. While the lack of urgency around vaccinations is a potential concern, the perceptions of lower medical risk helped the economic reopening and recovery. As medical worries waned, the reopening accelerated. Job growth has been strong and increasing for the past three months. April's employment numbers are expected to show another significant gain, as layoffs were down by one-sixth during the month. With the medical risks down and the job market up, consumer confidence jumped back up to pre-pandemic levels. Between more people working and feeling better, retail sales rose by the second-highest monthly increase ever. While growth in the first quarter of 2020 was strong, April provided evidence that the second quarter might be even stronger.

Looking Ahead

Growth trends. Despite April's gains, concerns exist. Much of the growth so far this year has been due to the federal stimulus packages. As their effect fades, the economy will have to make

the transition to organic growth. With millions of people out of work, the path to growth could be rocky. Nonetheless, as with the medical news, the trends remain very positive. If current job growth continues, we could be close to full employment again by the end of the year.

Market strength. Markets responded to all this good news, of course. Following the sharp April gains, U.S. stocks reached record highs once again. The growth wasn't based only on the good news, either. Companies had the best earnings season since reporting started. According to FactSet, with 60 percent of the companies in the S&P 500 reporting, almost seven out of eight companies reported earnings higher than expected. That's the highest number since reporting started in 2008. On average, earnings were up by 45.8 percent, the highest number since early 2010. Furthermore, analysts continue to raise their estimates of future earnings. Companies went from strength to strength, and that looks likely to continue.

Market risks. As with job growth, there are risks to keep in mind. First, expectations might be too high. Although the trends are very positive, the market may be expecting even better results. Second, as the economy improves, interest rates might climb and offset the market effect of the good news. These are real risks. But the medical and economic news is continuing to outperform expectations. Given that and the Fed's commitment to keeping rates low for some time, the outlook for the next couple of months remains favorable.

Back-to-Back Good Months Likely

Looking back, April was a very good month. The medical news was good, and the economic news was better. The markets continued to rally as company earnings blew the lights out. Looking ahead, May is likely to see the continuation of the positive April results. While the risk are real, most of them apply to the medium term, rather than the short term. With vaccinations continuing, the medical news is likely to keep getting better. With people going out and shopping, and with businesses hiring and investing, the economy is likely to reopen further and grow faster. Companies will benefit from all of that, so earnings are likely to keep rising. April was a good month, and May looks likely to be a good month as well.

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