WaterRock Global Asset Management, LLC

MARKET REVIEW & OUTLOOK

April 2021

KEY TAKEAWAYS

- Global Equities continued their 12-month rally from the depths of the corona virus lockdowns. Many indices are once again at or near all-time record highs. Though the markets shuffled sideways the second half of the month as robust earnings reports were digested relative to "is this as good as it gets".
- Interest rates eased off the steady march higher, but rising inflation continues to be worth watching.

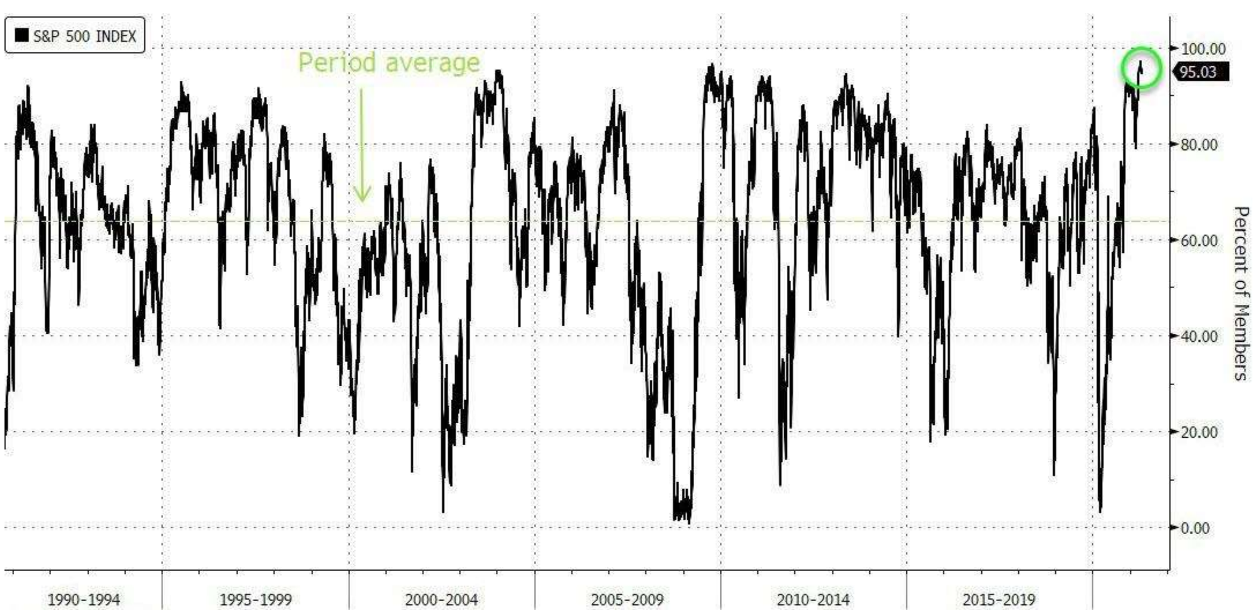
The U.S. Economy

1st quarter GDP was reported and as expected showed robust growth of 6.4%. The outlook continues to show that the 2nd quarter GDP might end up being even stronger, setting the pace to have some of the strongest annual GDP growth in history by the end of 2021.

Stocks and Bonds

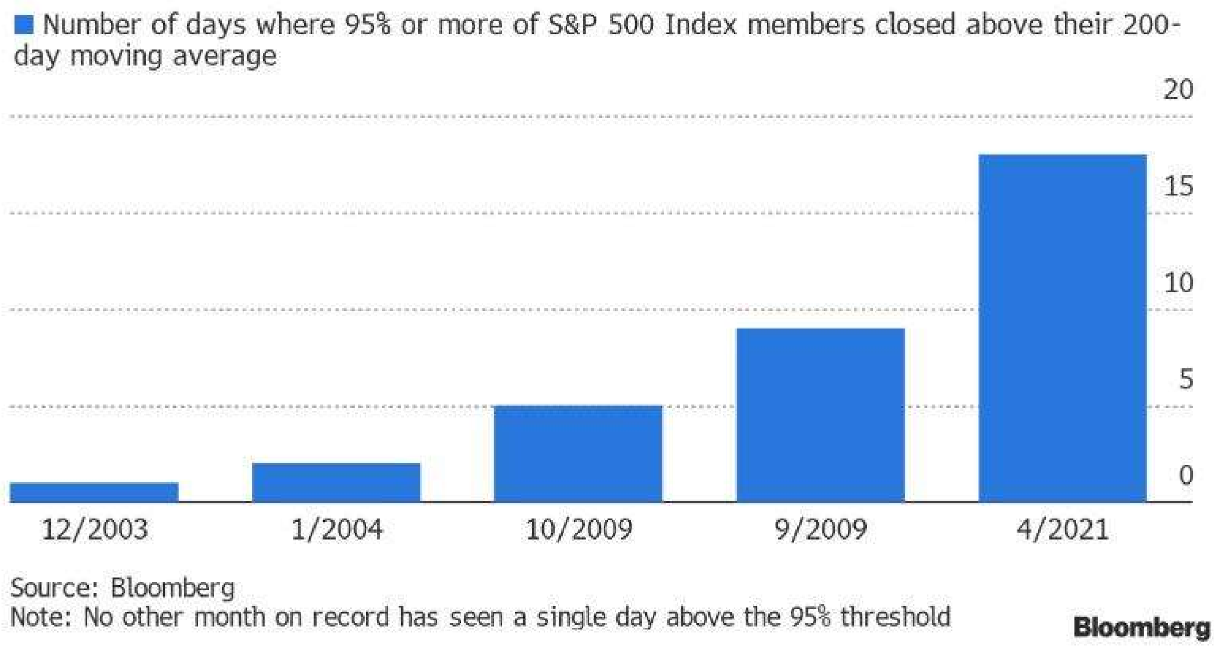
The fixed income markets took a different approach this month as the yield on the 10-year Treasury was repelled by the major resistance level of 1.75%. The easing of the base Treasury rates finally resulted in positive results throughout the fixed income complex, including high quality fixed income. High-quality fixed income, as measured by the iShares US Aggregate Bond ETF, saw positive returns, finishing the month with a gain of +0.79%. The U.S. 10-year treasury bond yield ended the month near the middle of the range at 1.63%, down from March's close of 1.75%.

The global equity markets resumed their synchronous rally during the month of April. In fact, the strength of the 12-month rally is captured quite well in the two charts below.



The above chart shows that over 95% of the S&P 500 is currently trading above its' 200-day moving average, versus an average of around 60%, which has not happened many times in the last 30 years.

The second chart shows, that in April, not only did the market have over 95% of participants trading above their 200-day moving average, but in fact almost the entire month was spent in that condition, which doubled the old record set in 2009 coming out of the Great Financial Crisis.



Source: https://www.zerohedge.com/markets/dollar-dumps-april-sp-does-something-its-never-done

The Dow Jones Industrial Average rose +2.71%, the S&P 500 soared +5.24%, and the small cap Russell 2000 gained +2.07%. The international markets followed a similar path as the U.S. The MSCI EAFE iShares Core International Developed Markets ETF Index jumped +3.24% and the MSCI Emerging Markets iShares Core ETF Index rose +2.90%.

In April, we saw a lot of strong sector performance. Basically, every sector saw gains for the month, well Energy was down -0.02%, with 7 sectors seeing nearly 5% or more in gains. As the chart below shows, many Value and Growth sectors were loved during the month.

The best performers were…

- Consumer Discretionary: +7.29%
- Communication Services: +6.87%
- Technology: +6.86%

The worst relative performers were…

- Consumer Staples: +1.53%
- Energy: -0.02%

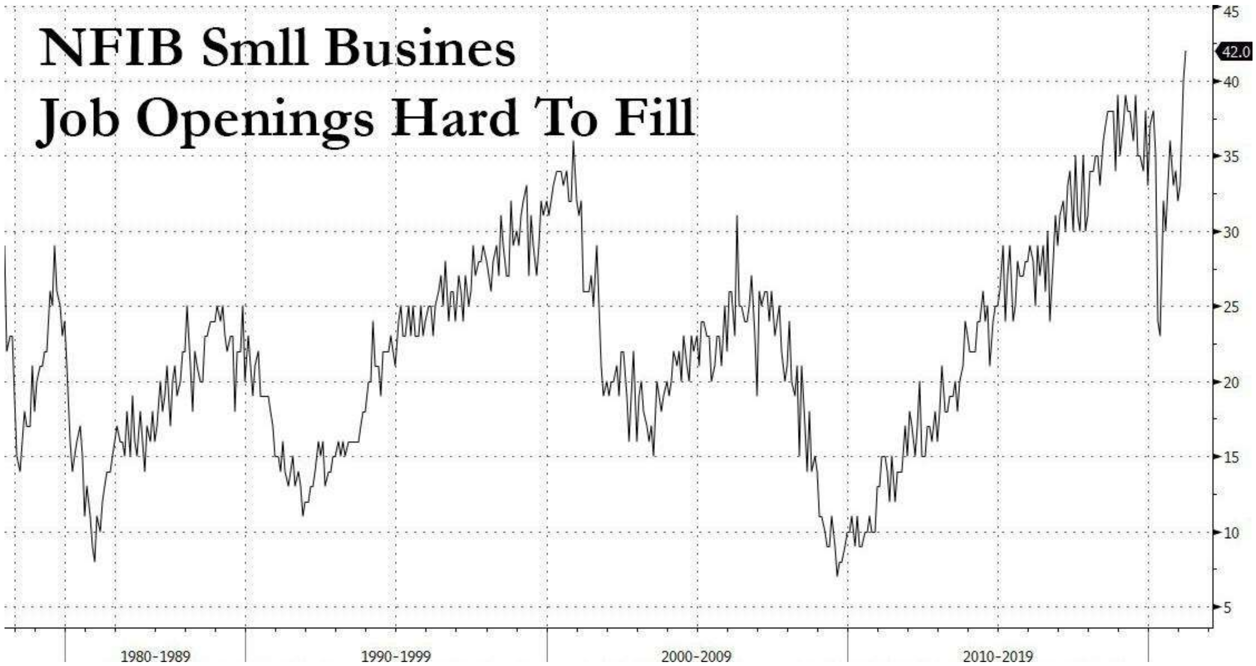
Source: https://www.sectorspdr.com/sectorspdr/tools/sector-tracker

Oil Report

In April, crude oil started the month continuing the choppiness seen at the end of March. The continued cooperation of OPEC+ and signs that Europe may finally be hitting the wall on continued lockdowns provided optimism that economies were going to continue to reopen and supplies would remain constrained. The current NYMEX WTI Crude Oil futures settled at $63.49 and posted a gain of over 7% from the prior month close of $59.16 a barrel. The price for RBOB gasoline followed a similar path to crude oil. RBOB finished higher by almost 6% for the month of April. With vaccinations continuing, economies continuing to open and stimulus still flowing, it may well be that the path of least resistance for the energy complex is higher, which is another driver for continued strength in inflationary pressures.

The Rest of the Data

The economy seems to be firing on all cylinders as Tech continues to be strong and the previously beaten up sectors are seeing a reprieve from the harsh measures of government lockdown. And yet, the government is talking about more stimulus and the Fed is still talking about low interest rates for longer. While it is all fine and dandy to sit at home making more money from unemployment than going to work, the economy will falter if the government doesn't disincentivize people returning to work. Businesses large and small are increasingly complaining about the lack of job applicants even though the number of unemployed remains relatively high. As shown for small businesses in the chart below:



Source: https://www.zerohedge.com/economics/bidens-trillions-spark-historic-labor-shortage-record-42-businesses-cant-fill-job

The job openings hard to fill is at the highest level in at least 40 years and by a substantial margin. The stories of people making 40% more on unemployment versus returning to work are undoubtedly contributing to this problem.

The March ISM Manufacturing Index increased 3.9 points to 64.7 from February's reading of 60.8, as previously mentioned, the continued strength of commodity prices is still pointing to likely rising inflation as prices paid continue to be strong. Additionally, the ISM Services Index jumped to 63.7 from 55.3 in February, to an all-time high. Any reading above 50 generally indicates improving conditions. Consumer confidence rose to 121.7 in April, which compares to a downwardly revised figure of 109.0 in March. The unemployment rate dropped, coming in at 6.0%, as the economy added a stronger than expectations, 916,000 jobs in March. The Consumer Price Index for All Urban Consumers (CPI-U) was up +0.6% in March on a seasonally adjusted basis. Over the last 12 months, the All-Items Index increased +2.6% on a non-seasonally adjusted basis. Overall, these numbers are painting a rosy picture with continuing growth and likely at or near double digit growth rate for the economy in the 2nd quarter. As previously stated, the risks to growth rates seemed to be to the upside, which is currently playing out. The continuing strength of raw material costs and the previous year base effects are likely to continue pressuring inflation rates. One easing of pressure is that interest rates declined during the month. The Fed remains steadfast in their belief that the inflation, which is showing signs of soaring in the next couple of months, is transitory. We will continue to monitor developments in May to see if there are any signs of abatement on the inflation front.

Summary

The story of the last few months has not really changed, expected improvement has become realized improvement. The Fed is hoping that the improvement will continue through the bump in inflation and well into the end of the year. We are likely to see robust economic growth and inflation numbers for at least the next few months, the big question is how things transition as summer wears on.

We have discussed the potential risks to the economic environment is inflation is not "transitory" and the equity markets both through price and valuation seem stretched. To reiterate, this is not meant to cause fear but to draw attention to potential downside risks. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities. If the markets continue to march higher, we will capture some of those gains and reallocate to less volatile high-quality bonds. If the equity markets enter a period of negative performance, we have dynamic investment vehicles that utilize rules-based defense mechanisms to reduce the risk of the portfolio. Further, if the market gets too extended on the upside, some of the vehicles will capture partial gains and wait for the extension to correct.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.

Kevin Churchill, CFA®, CFP®
Chief Investment Officer
WaterRock Global Asset Management