THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

In a week that saw multiple record high earnings reports and the official notice that the U.S. economy is growing at a rate not seen in four decades, the Standard and Poor's 500 Stock Index (SPX) did next to nothing. It zig-zagged up to above 4200 for a record close on Thursday but then dropped back down to 4181.71 by the end of the day on Friday, up a mere 0.02% for the week. It is now up 11.32% for 2021 with a third of the year behind it. The rotation from large-cap growth stocks toward smaller, value-based stocks appears to be continuing as the CRSP Mid-Cap Value Index rose nearly 1% for the week and is now up 18.6% for the year at 2433.29.

The yield on the benchmark 10-year U.S. Treasury note rose to 1.626%, steepening the yield curve, as loan demand started to pick up in the U.S. It is hard to remember that the 10-year T-note was only paying 0.61% a year ago as investors fled the stock market and piled into the perceived safety of Treasury notes. Ironically, after bailing out with what was likely a substantial loss in the stock market, the market value of those Treasury notes they bought last year is now down about 10%. West Texas Intermediate crude oil (WTI) rose 2.3% for the week to $63.48, neither too high to stifle growth nor too low to hurt the oil patch, but well within a comfortable trading range that seems to have just about everyone happy.

The Economy

There is no doubt that the lead economic news for the week was the Commerce Department announcement that the real gross domestic product (GDP) of the United States grew at an annualized rate of 6.4% in the first quarter of 2021 to $19.1 trillion. Do note that number is annualized, meaning that the net, real, output of the U.S. economy grew 1.6% in the quarter, after subtracting inflation and the import/export imbalance. Better news was that economists generally agree that the annualized GDP number for the first quarter is likely to become the actual growth rate for all of 2021. If indeed that occurs, then it will be the best growth rate we have seen since 1984. While the growth number is impressive, at the end of the first quarter we were still 1% below the $19.3 trillion where we were, pre-pandemic, in terms of total GDP. As April draws to a close, there is every indication that our economy will grow more than enough in the second quarter to put us back in positive territory. Bloomberg is forecasting the annualized GDP for the second quarter to accelerate to a annualized rate of 9.6%.

In March, household income surged by over 21% as many lower income households received federal stimulus checks. The result was intuitive. Leading the GDP growth was a 10.7% surge in personal consumption expenditures, the largest quarterly growth since the mid-1960s. Perhaps more important for the long term, non-residential longer-term investment by businesses grew at an annualized rate of 9.9%, primarily in equipment and intellectual property. Not to be outdone, residential investment rose at an annualized rate of 10.8% as home improvement projects proliferated and home building accelerated.

In decades gone by, one of the most relied upon indicators of future economic growth was rail traffic. Today in an economy where goods are transmitted digitally and by the Interstate Highway system it is less important but still serves as a useful indicator. Traffic on U.S. railroads in the first 16 weeks of 2021 is up 9.4% from last year. Meanwhile the Cass Freight Index of truck shipments was up 3.4% from last month and is now higher than it was in mid-2019.

Apple, Microsoft, and Amazon, all drivers of the digital revolution, reported record earnings for the first quarter and are in unison that their growth is continuing and sustainable. One of the more counterintuitive revelations in the earnings reports was that Amazon now has nearly equal revenue and profits from hosting its cloud-based storage and computing server farms than from selling consumer goods. Microsoft, too, is in the game as its Azure cloud servers accounted for a larger portion of its blockbuster earnings growth than sales of its Windows operating systems. As more of us do more online, Alphabet, Google's parent company, reported a 34% increase in first quarter advertising sales and is forecasting stronger revenue in the second quarter as it too is focused on cloud computing. We are indeed in a brave new world where information, computing power, entertainment, and ideas seem to be eclipsing tangible goods as the most valuable items in our economy.

In short, the economy is on a roll and seems to have a lot of momentum. In a single year we have gone from facing a pandemic and the potential for a depression to probably the biggest economic boom in memory.

Until next week, rest assured that we are hard at work trying to improve what we do for you and to fortify the long-term value of your portfolios.

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