Daniel Wildermuth's

# MARKET COMMENTARY

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## Market Continues Rocketing Up

April delivered fabulous returns to investors with the S&P 500 adding 5.2%, its biggest one-month gain since last November. The Dow rose 2.7%, the Nasdaq climbed 5.4%, and all three indices notched record highs before slight pullbacks at month-end. Investors reacted very favorably to ongoing signs of a strong economic rebound, particularly in the U.S., as vaccinations continue their rollouts and new COVID cases continued to fall. Strong corporate earnings and a surge in household earnings, up a record 21% in March, more than offset worsening COVID cases elsewhere in the world.

As the world exits COVID lockdowns, the global economy is likely to expand this year at the fastest pace in at least four decades according to the International Monetary Fund (IMF). The IMF projects the world economy to grow 6% this year, the most since 1980, when it started tracking data on a comparable set of countries. That is an upgrade from a projection for 5.5% growth the IMF made in January.

Not surprisingly, the U.S. and China, the world's biggest economies, are driving the global recovery. The U.S. economy is projected to expand 6.4% this year and regain its pre-pandemic size after an estimated contraction of 3.5% last year. The IMF earlier projected 5.1% growth in 2021. China's economy is projected to expand 8.4% this year, up from an earlier forecast of 8.1%. As a whole, emerging and developing economies are expected to grow 6.7%, up from a 6.3% forecast in January.

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While the gains are encouraging, particularly the recent upward revisions, this year's numbers follow last year's pandemic stark decline in global output, estimated at 3.3% in 2020. This was the worst peacetime outcome since the Great Depression.

As the U.S. exits the lockdowns, households will have plenty of money to spend. With the help of the $1,400 federal stimulus checks, the 21.1% March surge in income was the largest monthly increase for government records tracing back to 1959. The personal-saving rate surged to 27.6% in March, the second highest rate on record, eclipsed only by last April when a first round of government aid was distributed early in the pandemic. Total spending grew by 29% in mid-March compared with the same period in 2019, Earnest Research transaction figures show. Retail sales – a measure of purchases at stores, at restaurants and online—jumped 9.8% in March, according to the Commerce Department.

Inflation is becoming a growing concern as most economists are questioning the need for the additional stimulus given the already rapidly recovering economy. The employment cost index showed wages and salary cost rose 1% from the prior quarter, the strongest quarterly increase since a 1% gain in 2007, according to a Labor Department report released Friday, April 30th. Private wages and salaries were up 3% in the first quarter from a year earlier. Inflation fears have seemingly been almost the only check on markets, although given recent gains, these fears remain in check for now.

The rise of technology companies accelerated by the pandemic has continued. The "Big Five" companies, Amazon, Apple, Microsoft, Facebook, and Google parent Alphabet, set records for sales and profits during this last quarter. Apple's revenue, jumped 54%, while Amazon recorded its fourth straight record quarterly profit. The chief executive of Microsoft noted that digital adoption curves are still accelerating. Microsoft's revenue was up 19% for the quarter.

As these companies continue to set records, their combined valuations have climbed to over $8

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trillion, accounting for essentially a quarter of the total value of the companies in the S&P 500. This is nearly double the percentage five years ago.

While technology has increased its dominance, big oil companies, once the dominant players of the stock market, all returned to profitability. Exxon Mobil Corp. reported a first quarterly profit of $2.7 billion, while Chevron Corp. reported $1.4 first quarter profit. Outside the U.S., the largest European oil companies, BP PLC, Royal Dutch Shell PLC and Total SE, all reported profits after enduring huge losses last year. Exxon's CEO noted, "That recovery, which we had anticipated happening at some point in time, is happening sooner than we anticipated." The results were boosted by rising oil prices as the world slowly reopens after COVID restrictions.

While some firm's stocks remain lower than at the beginning of 2020, nearly every stock is now trading higher. You can blame or credit the government and the Federal Reserve for essentially backstopping markets. The Fed has kept interest rates near zero while buying more than $2.5 trillion of Treasury securities since February. In addition, they have backed other massive economic interventions, and in combination with various other government emergency programs, have pumped trillions of dollars of stimulus into the economy.

Many fund managers have noted that these policies are distorting markets by driving up valuations to nosebleed levels, but investors, particularly individuals, have simply followed the Wall Street adage, "Don't fight the Fed." Investors may posit that as long as the central bank is drenching the markets with liquidity, why not buy stocks—and why fear another crash?

Given the market's recent rise, they may be right. The government's reaction to the COVID crises has put money in investor's pockets. Individuals are more active in the stock market than they have been since the last downturn, and the levels of risk-taking have risen dramatically. Just note the recent rise of Dogecoin, a cryptocurrency that was recently nearly approaching valuations of established companies such as General Motors and Marriott, despite its founders claims that "it's a joke".

Valuations are nearly two standard deviations above the norm and are sitting at levels seen only in 1999 and 1929, just prior to two notable market implosions. None of this means that markets must crash or possibly even slow down. It does, however, suggest that wise investors may want to take stock of their current holdings and assess their risk levels. Markets tend to go up … until they don't.

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