Summary

Economic data for the week included historical strength in ISM services, coupled with strength in job openings, and an especially strong increase in producer prices.

U.S. equity markets gained ground last week, outperforming foreign markets, which also showed gains to a lesser degree. Bonds also fared well with interest rates falling back a bit. Commodities were mixed, with agriculture and metals offsetting a pullback in energy prices.

Economic Notes

(+) The **ISM services (non-manufacturing) index** for March rose by 8.4 points to 63.7, beating expectations calling for a lesser increase to 59.0. In fact, this was the strongest report in the 24-year history of the series. Strength was broad through the report, with increases in business activity, new orders, employment, supplier deliveries, and prices paid. Only new export orders fell by a few points, but remained solidly in expansion. This record-setting report, coinciding with continued business reopenings, reiterates the pace of underlying economic recovery.

(-) The **producer price index** in March rose by a robust 1.0%, which was twice the 0.5% median forecast expectation, and strongest single month in a decade. On a core level, removing food and energy prices (energy up 6% on the month alone), the gain was a still-strong 0.7% for March. This was led by gains in healthcare, 'retail margins,' and the reopening-sensitive sectors of air transport and recreation. Year-over-year, PPI increased 4.2% on a headline basis and 3.1% for core. No doubt, the strong business recovery has led to an increased demand for goods. Logistically, this has been coupled with some supply-side bottlenecks in shipping, including the recent issues with the stuck freighter in the Suez Canal and long-standing pileup of ships at key ports, such as dozens of ships being anchored in wait outside of the ports of Los Angeles/Long Beach. There are other supply shortages in areas such as semiconductors, due to a high demand for digital goods, relatively few and centralized global manufacturing facilities, as well as underlying technology security concerns between the U.S. and China.

(+) The government **JOLTs** job openings report in February showed a gain of 268k to 7.367 mil., beating expectations of 6.900 mil., and included a reversion higher for the prior month. By segment, the job openings rate was up 0.2% to 4.9%, as did the hiring rate to 4.0%. On the exit side, the quits rate was unchanged at 2.3%, as was the layoff rate at 1.2%. As seen in other recent jobs data, this continues to show improvement on the job availability side, while departures remain consistently low.

(0) **Initial jobless claims** for the Apr. 3 ending week rose by 16k to 744k, above the 680k expected. **Continuing claims** for the Mar. 27 week, on the other hand, fell by -16k to 3.734 mil, which remained above the forecast of 3.638 mil. Initial claims rose most sharply in CA and NY, while a variety of states experienced moderate decreases. Pandemic extension programs showed mixed improvement, but continue to help roughly over 10 mil. workers.

(+) The **March FOMC minutes** showed an upgrade in economic forecasts described as 'considerably' better, with reopenings occurring at a faster pace than expected. This included inflation expectations over 2% in the next year, with an assumption of more temporary reflationary pressures, before falling back near the 2% target level in 2022 and beyond. It's noteworthy that the Fed does not expect a ramp-up in longer-term inflationary impulses due to structural factors taking on greater weight as the economy moves beyond the pandemic. There did appear to be some concern in committee regarding ongoing stimulus efforts and lower treasury balances that money market rates would be forced downward (they're already not far above zero), which may require some operational adjustment in overnight funding rates. There were also reiterations from several members that communication about future policy 'well in advance' of action remaining very important.

Markets would probably agree. Despite worries by some in the investment community about inflation running out of control (which many mainstream economists don't necessarily agree is the case), the Fed has remained extremely dovish through the past year. Powell's own comments last week about the recovery remaining 'uneven and incomplete' do a good job at capturing their perspective. This, and other comments, imply that employment and productivity 'slack' are likely more pronounced than some data are capturing, and may lead to a longer accommodative policy. As in the months during and after the financial crisis, the Fed appears to be taking the lessons of the Great Depression to heart and not putting the brakes on too early, and risking relapse.

Market Notes

Period ending 4/9/2021	1 Week (%)	YTD (%)
DJIA	1.99	11.02
S&P 500	2.76	10.39
NASDAQ	3.13	8.05
Russell 2000	-0.46	13.87
MSCI-EAFE	1.80	6.09
MSCI-EM	-0.56	3.40
BBgBarc U.S. Aggregate	0.40	-2.90

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2020	0.09	0.13	0.36	0.93	1.65
4/2/2021	0.02	0.19	0.97	1.72	2.35
4/9/2021	0.02	0.16	0.87	1.67	2.34

U.S. stocks reacted well early in the week to the prior Friday's strong jobs report, with a delayed response due to Good Friday. The IMF also upgraded their forecasts for world GDP growth this year from 5.5% to 6.0% (resulting in the strongest expected growth pace since 1980), and a small upgrade for 2022 to 4.4%.

By sector, recoveries of 4% in technology and communications led the way, helped by Apple and Microsoft bullishness, with all sectors ending positively except for energy, which lost -4% in keeping with lower crude oil prices. Earnings for Q1 will be starting to roll out this coming week, which could likely drive sector sentiment, although year-over-year comparisons compared to Q1 2020 could continue to look unusual.

In terms of the Biden infrastructure plan, interestingly, the Senate Parliamentarian ruled that the reconciliation process can be used more than once a year (it was previously thought to be capped at once—taken up by the $1.9 tril. recent stimulus package). This opens the door to further stimulus and other bills that can be handled through that budget reconciliation process, which only requires a simple majority of 51 Senate votes, as opposed to the two-thirds needed for the passage of more formal legislation.

Foreign stocks performed positively, but lagged returns of U.S. equities, despite the bullish influence of a weaker dollar. Strong economic news and the above-mentioned upgrade in IMF estimates helped with sentiment, as did falling yields in Europe due to continued high Covid infection rates. Chinese stocks fell back upon continued tensions with the U.S. and supply disruptions, leading to higher inflation readings, although recovery growth continues to lead the rest of the world.

U.S. bonds fared positively for the week as interest rates continued to come back downward. Oddly, treasuries, investment-grade corporates, bank loans, and high yield all gained to roughly similar degrees. Foreign developed market bonds gained over a percent, due to a weakened dollar, with returns for emerging market debt falling just behind.

Commodities were mixed, with higher prices for agricultural goods and metals offsetting declines in energy. The price of crude oil declined by over -3% to a shade over $59/barrel, while natural gas also fell by over -4% for the week.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.