Summary

Economic data for the week included several robust reports that demonstrate early economic recovery from the pandemic, with favorable 'base effects' from low points last March. These include strong readings for retail sales, housing starts, and several regional manufacturing indexes. Jobless claims have also improved.

Global stocks gained last week with continued strong economic data reports. Bonds also fared positively as interest rates ticked downward, with dovish central bank communications. Commodities earned positive returns in all groups, led by energy demand and a weaker dollar.

Economic Notes

(+) **Retail sales** in March rose by 9.8%, reversing a minor decline from the prior month and exceeding the 5.8% rise expected. On a core/control basis, removing autos, gasoline, and building materials, the index remained strong, rising 6.9%, although falling short slightly compared to the forecasted 7.2%. It appeared that every category experienced an increase for the month, led by items indicating increased confidence about reopenings and reinstated activities, such as sporting goods, clothing, cars, and food/beverage—all of which rose well into the double-digits for the month. On a year-over-year basis, from a low point in March 2020, headline retail sales are up 27%, with core 17% higher. Looking at the recent rate of change on a chart makes the recovery appear even more dramatic, largely due to the extreme collapse in sales in spring of last year, and dramatic recovery so far in 2021. Much like overall U.S. GDP (of which consumption is 70%), this may appear to be on an extreme trajectory until conditions get a bit back to 'normal,' and rates of change less dramatic.

(-/0) **Industrial production** in March rose by 1.4%, which fell short of the 2.5% median forecast, and included a nearly half-percent downward revision for the negative prior month. While manufacturing production rose a solid 3%, as auto production started to improve and business equipment fared well, as did mining, utilities production declined by -11% as February's storm-related gains abated. **Capacity utilization** rose by 1.0% for the month to a level of 74.4%.

(+) The **Philadelphia Fed manufacturing index** rose by 5.7 points in April to 50.2, beating expectations calling for 41.5. This represented the highest index level since 1973. Under the hood, shipments and employment gained several points, remaining expansionary, while new orders and prices paid pulled back by a few points—although both remained solidly in expansion. Assessments for expected business conditions six months out rose by nearly 8 points to 66.6.

(+) Similarly, the **Empire manufacturing index** rose by another 8.9 points in April to 26.3, beating expectations calling for a level of 20.0. In this survey, shipments, new orders, and employment all gained solidly, as did prices paid (to the highest level in over a decade). As with the Philly index, expected conditions for the next six months rose by several points, even further into expansion to a level of just under 40.

(0) The **consumer price index** picked up the pace sharply in March, rising 0.6% on a headline basis, and 0.3% for core, removing the impact of energy and food prices. These were each about a tenth of a percent higher than expectations, with the headline rise being the strongest single-month increase in over ten years. Year-over-year, heading and core rose at a non-seasonally adjusted pace of 2.6% and 1.6%, respectively. The single month headline figure was led by a 9% rise in the price of energy commodities (notably gasoline), along with the stuck Suez ship. Removing that impact, though, as well as the price of related transportation services, the price movements were far less dramatic, with some even decelerating from recent months. Used car prices rose by 0.5%, along with gains in prices for car rentals, general recreation, and hotels as occupancy grew. These were offset by apparel down -0.3%. Shelter continued to plot along, up 0.4%, with the tailwind of rising U.S. home prices affecting implied rents.

Despite the energy price spike, CPI generally remains tempered, although next month's trailing 12-month number will be upwardly affected by the unique impact of a low starting 'base effect' point from April 2020 when the Covid drama began. From that time, and the economic difficulties that carried through that spring, the strong recovery in activity over the past six months has carried through with mixed results to traditional inflation measures. Some categories, such as 'shelter,' which includes a synthetic rent based on house prices, has been strong along with housing. On the other hand, consumer items have been driven by strong demand for basic needs and weakness in peripheral goods, although the latter has picked up along with the economy.

Are we on the verge of an inflation rally? Economists are debating this now, but the consensus remains that, aside from short-term increases from reopening effects, long-term influences of weaker demographics, employment slack, weaker bargaining power of employees, and demise of unions, may have a slowing effect. This is coupled with the impact of automation and digitalization, which have tended to be deflationary through history, due to economies of scale. In the near term, though, it is difficult to discount the reflationary potential of easy monetary policy staying in place and very hefty government spending. Debates about the passing of 'peak globalization' also continue, which costs could rise as the positive influence of low cost emerging market exports to developed nations wane.

(+) **Housing starts** reversed a decline for the prior month by rising 19.4% in March to a seasonally-adjusted average annualized rate of 1.739 mil. This surpassed the 13.5% increase expected, to a new cycle high point, and represented the strongest reading since 2006. Within the report, multi-family starts rose 31%, followed by single-family up a robust 15%. Regionally, the Midwest experienced a gain of over 120%, followed by strength in the Northeast, while the West saw a double-digit decrease. **Building permits** rose by 2.7% for the month, which surpassed the median forecast calling for 1.7%. Permits were entirely driven by single-family, which rose 5% to offset a small decline in multi-family. The South and Midwest saw gains, but less dramatically than in starts themselves, while permits in the Northeast fell by nearly -10%. Overall, this points to robust early spring activity, which many say is welcome due to the extreme low level of inventory. While a boom time for that industry, due to a pickup in demand, high lumber prices and interest rates rising at the fastest clip in years are being closely watched for potential impact.

(0) The **NAHB housing market index** rose a point to 83 in April, matching consensus expectations. The underlying components were mixed, with current sales gaining a point, prospective buyer traffic rising by 3 points, and future sales falling by -2 points. Regionally, the West and South saw gains, which were offset by declines in the Midwest and Northeast for the month.

(0) The preliminary April **Univ. of Michigan Consumer Sentiment Index** rose by 1.6 points to 86.5, falling short of the 89.0 reading expected. Consumer assessments of current conditions rose by 4 points, while expectations for the future remained unchanged. Inflation expectations for the coming year rose by 0.6% to 3.7% (the highest level in nearly a decade), while expectations for the next 5-10 years fell by a tenth to 2.7%. Consumer inflation expectations have consistently run at a higher rate than actual inflation, and have been historically related more closely to more recent events.

(+) **Initial jobless claims** for the Apr. 10 ending week fell by a sharp -193k to 576k, below the 700k expected and representing a new pandemic low. **Continuing claims** for the Apr. 3 week, on the other hand, increased by 4k to 3.731 mil., slightly higher than the 3.700 mil. expected. On the initial claims side, CA saw a -83k decline, along with strong showings in TX and OH. Including the complicated count of all pandemic-related programs, it appears that overall claim recipients has finally fallen under the 10 mil. mark. This may continue to be slow going, but increased vaccinations and reopenings seem to be translating to greater returns to work, as expected.

Market Notes

Period ending 4/16/2021	1 Week (%)	YTD (%)
DJIA	1.18	12.33
S&P 500	1.39	11.92
NASDAQ	1.10	9.23
Russell 2000	0.86	14.86
MSCI-EAFE	1.66	7.85
MSCI-EM	1.41	4.86
BBgBarc U.S. Aggregate	0.35	-2.56

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
4/9/2021	0.02	0.16	0.87	1.67	2.34
4/16/2021	0.02	0.16	0.84	1.59	2.26

U.S. stocks gained across the board last week, as strong economic data, such as retail sales, was coupled with strong earnings reports for several large banks, which are traditionally among the first to report.

By sector, traditionally defensive utilities and health care led, followed by materials, all with gains over 3%. Communications services was the only sector in the losing column for the week, albeit not by much. Real estate also gained several percent with interest rates falling for the week. Earnings results for Q1 are starting to come in, with FactSet reporting that companies are beating estimates by a wider margin than average so far—particularly in more cyclical sectors. (An anticipation of this is likely part of the rationale behind higher stock price/earnings ratios.) However, the sample size is small so far. The coming few weeks will provide a more complete picture.

Foreign stocks were helped from a weaker dollar last week, with Europe and the U.K. taking the lead. This appeared to be a combination of stronger economic data, despite still-high Covid infection rates. In emerging markets, side from tempered gains in China and an outright decline in India, the majority of other key nations rose several percent on the week along with global reflation, generally more positive sentiment, and higher commodity prices.

U.S. bonds gained last week as interest rates ticked lower despite the strong economic data, with the Federal Reserve continuing to talk down rising expectations of an earlier-than-planned normalization in rate policy. Foreign demand also played a role in driving U.S. debt prices higher and yields lower—as recent higher rates have looked increasingly attractive to buyers in Asia and Europe, many of whom are still struggling with zero or negative rate government bond yield conditions in their own countries. (This global effect can put a cap on rising yield fears to some degree, as long as U.S. yields continue to offer competitive yields relative to their foreign treasury peers.) Foreign bonds gained as well, especially in emerging market debt, with a weaker dollar taking precedence for the week. President Biden placed surprise sanctions on Russia this week, by restricting the purchase of sovereign debt from that country, beginning in June.

Commodities rose across the board, also helped by a weaker dollar during the week. Every sector ended the week positively, with energy leading the way. The price of crude oil rose again by more than 6% to just over $63/barrel, with signs that oil demand is starting to recover, in addition to lower inventory counts for the recent week.

Have a good week.

Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

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.