MARKET INSIGHTS

from Ziegler Capital Management

April 2021 Market Commentary

WRITTEN: MAY 3, 2021

The S&P 500 returned 5.34% in April and has returned 11.84% on a year-to-date basis as of April 30, 2021. Small cap stocks, as measured by the Russell 2000, returned 2.10% in April and are up 15.07% so far in 2021. Growth outperformed in April with the Russell 1000 Growth returning 6.80% and the Russell 1000 Value returning 4.00%, although Value leads Growth on a year-to-date basis with a return of 15.70% versus 7.81%. The Russell 2000 Growth returned 2.18% and the Russell 2000 Value returned 2.02% in April, and Value leads Growth on a year-to-date basis with a return of 23.62% versus Growth at 7.16%.

Headlines dominating the news are centered around the continued roll-out of COVID-19 vaccines, greater re-opening, and the early months of the Biden administration. According to the Centers for Disease Control, 142.7 million Americans (including 82% of seniors, 55% of adults, and 43% of the total population) have received at least one dose of a COVID vaccine as of April 28. Some states have announced full re-opening plans including California on June 15 and New York on July 1. With the proposed $1.8 trillion "American Families Plan" and proposed $2.3 trillion infrastructure package that includes new spending on bridges, roads and broadband internet, President Biden has put forward $6 trillion in new federal spending over the next decade. To pay for his plans, President Biden's proposals include raising the top income-tax and capital-gains rates, increasing corporate taxes, and expanding the Internal Revenue Service's collections.

Real gross domestic product (RGDP) increased at an annual rate of 6.4% in the first quarter according to the first estimate released by the Bureau of Economic Analysis.

Returns by Sector

	S&P 500		Russell 2000	
Sector	YTD	April 2021	YTD	April 2021
Communication Services	16.57	7.85	13.95	3.77
Consumer Discretionary	10.43	7.10	31.86	4.17
Consumer Staples	3.38	2.21	16.02	0.52
Energy	31.63	0.59	37.73	-3.20
Financials	23.61	6.57	21.14	2.50
Health Care	7.27	3.96	2.19	1.77
Industrials	15.41	3.59	17.26	1.29
Information Technology	7.34	5.26	6.20	0.72
Materials	14.91	5.34	21.48	1.30
Real Estate	18.05	8.28	16.48	5.87
Utilities	7.20	4.28	4.57	1.17
TOTAL RETURN	11.84%	5.34%	15.07%	2.10%

Source: Bloomberg

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A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

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Aided by two rounds of stimulus during the quarter, GDP was driven by a massive 10.7% increase in consumption growth. It is now only 1% less than pre-pandemic growth levels from the fourth quarter of 2019. Business investment expanded by 9.9%, residential investment expanded by 10.8% and government expenditures increased by 6.3% on an annualized basis. GDP estimates for the second quarter are between 8 and 9% and are expected to be again driven by consumption growth. For calendar year 2021, GDP is forecasted to grow 6% with a range between 4.9% and 6.7% according to The Conference Board.

According to the National Bureau of Economic Research (NBER), the U.S. entered a recession in February 2020 and remains there. The NBER waits to declare the end of a recession until the committee members are extremely confident that it has ended even if activity begins to rise again. As a result, the committee tends to wait until several months after expansion has occurred to declare a formal end.

According to the U.S. Bureau of Labor Statistics, the unemployment rate fell by 0.1% to 6.1% in March, and the number of unemployed decreased to 9.7 million. Although both measures are significantly lower than their April 2020 highs, they remain above their February 2020 pre-pandemic levels of 3.5% and 5.7 million people. Job growth was widespread in March, led by gains in leisure and hospitality, public and private education, and construction. The U.S. savings rate was 27.6% in March, increasing from 13.6% in February. Like January's reading of 20.5%, government stimulus payments were heavily saved in March and unemployment benefits continued at elevated levels. These increased savings will likely continue to fuel consumption and economic growth for the coming quarters. The long-term average savings rate is approximately 9% and it peaked at a stunning 32.2% in April 2020.

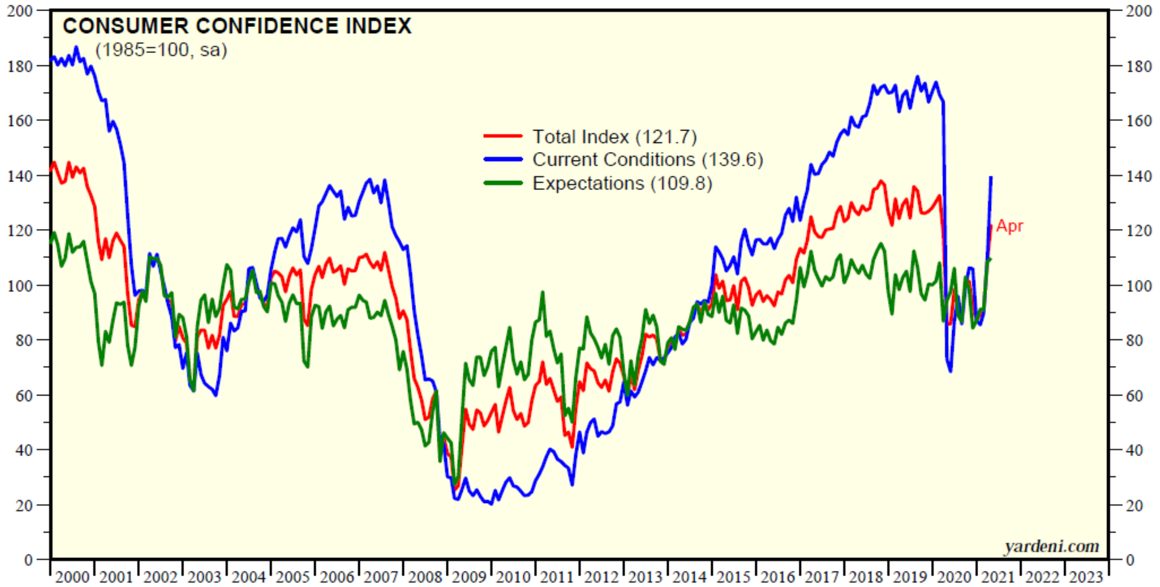
In its April statement, the Federal Reserve reiterated its commitment "to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals". They noted "Amid progress on vaccinations and strong policy support, indicators of economic activity and employment strengthened. The sectors most adversely affected by the pandemic remain weak but have shown improvement". Their goals remain to have maximum employment and inflation at the rate of 2% over the longer run. They noted that inflation has risen, citing transitory factors as the driver. They expect to maintain an accommodative monetary policy stance until their objectives are achieved. The target Fed Funds rate remains 0-0.25% and it is expected to remain there for the foreseeable future. The Federal Reserve is continuing to increase Treasury holdings by at least $80 billion per month and agency mortgage-backed securities by at least $40 billion per month until additional progress has been made toward their goals of maximum employment and price stability.

With sizable returns since November, small cap stocks, as measured by the Russell 2000, have returned 48.06% for the trailing six months through April 30, 2021. In comparison, large cap stocks, as measured by the S&P 500, have returned 28.85% over the same time frame. Value stocks have lead Growth stocks over this same period with the Russell 1000 Value returning 36.30% versus the Russell 1000 Growth at 24.31%. This pattern was also seen in small cap stocks with the Russell 2000 Value returning 59.17% versus the Russell 2000 Growth returning 37.84%. In contrast, Growth stocks outperformed Value considerably in calendar year 2020 in both large (by 35.69%) and small (by 30.00%).

West Texas Intermediate (WTI) finished April at $63.49 a barrel, increasing from March's closing price of $59.34. WTI has increased over 30% so far in 2021 after beginning the year at $48.40 a barrel. WTI is significantly higher than April 2020's close at $18.84 per barrel during the Saudi/Russia price war.

Consumer Confidence rose sharply again in April to 121.7, following substantial gains in March to 109.0. It is now at its highest level since February 2020. The Present Situation Index (based on consumers' assessment of current business and labor market conditions) soared from 110.1 to 139.6. The Expectations Index (based on consumers' short-term outlook for income, business, and labor market conditions) rose slightly to 109.8 in April from 108.3 in March. The consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence & Sentiment



Source: The Conference Board.

The U.S. Bloomberg Barclays Aggregate Index returned 0.79% in April and has returned -2.61% on a year-to-date basis as April 30, 2021 on the heels of a 7.51% return in 2020. The 10-Year U.S. Treasury ended April at 1.63% after ending March at 1.74% and beginning the year at 0.92%. While it remains lower than the 2020 beginning reading of 1.92%, it has increased dramatically since hitting an all-time low of 0.54% in July 2020. The spread between 2-Year U.S. Treasury and 10-Year Treasury began the year with a spread of 71bps (2yr- .12% and 10yr- .91%). Today, the spread is 147 bps with the 2-Year increasing in yield 4bps (.16%) and the 10-Year increasing 72bps (1.63%). Option Adjusted Spreads (as represented by the Bloomberg Barclays Corporate Index) ended April at 88 basis points, 3 basis points tighter than March. Spreads peaked in 2020 at 373 basis points on March 23 concurrent with the equity market lows.

The Volatility Index (VIX) continued to fall in April and ended the month at 18.61, down slightly from the end of March reading of 19.40. The VIX has fallen since peaking at 37.21 during the volatility from the well-publicized trading activity in fundamentally questionable retail companies. It remains considerably lower than the March 16, 2020 peak of 82.69 and is now slightly below the long-term average of approximately 20.

We actively monitor the capital markets and are prepared to respond accordingly. As we have stated in the past, we continue to advise our clients to adhere to their long-term plans and objectives.

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