Beacon Trust
INNOVATING WEALTH STRATEGY

April 12, 2021

Beacon Weekly Investment Insights

U.S. stock market indices were higher last week with the Dow Jones Industrial Averaging advancing 2% to a record high, S&P 500 gaining 2.8% also to record levels, and Nasdaq jumping 3.1%. The market breadth has been deep with a broad-based rally in stock prices in 2021 across sectors, unlike the narrow leadership shown by the tech sector last year.

U.S. producer price index (PPI) was reported last week, which showed a surge of 4.2% over the past 12 months. This was the biggest gain in 9 years and reminded investors of a potential market risk that they have not been worried about for decades: inflation! The consensus expectation was 3.8%, which was already high. We will be looking for more signs of inflation in the U.S. consumer price index (CPI) that will be released tomorrow.

Federal Reserve will also be watching the inflation data very closely. Minutes from the March FOMC meeting were released last week, which reinforced the Fed's goal of keeping the monetary policy very accommodative by anchoring the short-term borrowing costs near 0% until 2023. While members of the FOMC acknowledged that the economy has improved substantially, they indicated that they would like to see much more progress in the labor markets and a sustained period of high-inflation before making policy changes. We will hear more from the Fed speakers this week.

President Biden will kick off the first round of what is likely to be a months-long negotiation between lawmakers on the enhanced infrastructure plan this week in a meeting with bipartisan members of Congress. The plan goes beyond physical infrastructure to include electrical vehicles, job training and other social infrastructure programs, and carries a hefty price tag over the next decade that makes some lawmakers nervous. The president signaled that he will be reaching across the aisle and he is flexible on possible tax increases to pay for the bold plan. We expect corporate taxes and top personal income tax rates to move higher from the multi-decade lows, but any increase should be quite moderate, given the very narrow Congressional margins, and not take effect until 2022.

In addition to policy stimulus, our market outlook is also framed by the vaccine rollout. Despite the slower than expected distribution of the AstraZeneca and Johnson & Johnson vaccines, total U.S. vaccination rate has dramatically accelerated to roughly 3 million doses per day. About 190 million doses have been administered in the United States, with approximately half of the U.S. population and 80% of the population over 65 years of age receiving at least one dose of a vaccine. Significant improvement in the public health environment certainly allows for higher consumer confidence and a surge in consumer spending, which makes up 70% of the U.S. economy. Retail sales report for March will be released on Thursday, which we expect to show strong growth boosted by the latest stimulus checks.

First quarter earnings season will get underway this week, which is shaping up to be a solid reporting season based on the robust economic recovery from the low comps of last year during lockdowns. The consensus for the first quarter is 25% growth in corporate earnings. JP Morgan, Bank of America, Citigroup, Wells Fargo, Goldman Sachs, and Morgan Stanley will all report this week. Strong results from companies, along with the easy monetary policy, could provide the fuel for the next leg of the bull market in equities, although we're likely to hit speed bumps along the way with market corrections.

U.S. economy is not only coming back, but it's coming back big with the estimates for the second quarter GDP growth now reaching 10%! We are in April, but that is not an April Fools' joke.

Market Scorecard:	4/9/2021	YTD Price Change
Dow Jones Industrial Average	33,800.60	10.44%
S&P 500 Index	4,128.80	9.92%
NASDAQ Composite	13,900.18	7.85%
Russell 1000 Growth Index	2,585.17	6.48%
Russell 1000 Value Index	1,525.92	13.06%
Russell 2000 Small Cap Index	2,243.47	13.60%
MSCI EAFE Index	2,262.48	5.35%
US 10 Year Treasury Yield	1.66%	74 basis points
WTI Crude Oil	$59.32	22.26%
Gold $/Oz.	$1,744.80	(7.83%)

Beacon Trust 163 Madison Avenue, Suite 600 | Morristown, NJ 07960 | 973.377.8090 | BeaconTrust.com