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REVIEW & COMMENTARY

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Strong Recoveries from the Covid-19 Recession

April marked a decent month for U.S. equity markets with most indices up and some up substantially as the following table shows:

	April	Year to date (4/30/21)
S&P 500® Index	+5.34%	+11.84%
Dow Jones Industrials	+2.78%	+11.30%
NASDAQ Comp	+5.43%	+8.55%
S&P Midcap 400® Index	+4.50%	+18.58%

Three factors are probably most responsible for the strong results: the recovery from the Covid-19 pandemic as more people are vaccinated, the tremendous amount of stimulus money in the economy and, more recently, strong earnings coming out for many U.S. corporations beginning in mid-April.

Over the past three months, both the U.S. economy and its equity markets continued their strong recoveries from the Covid-19 recession and bear market that began in February 2020. On April 29, 2021, the S&P 500® ETF (SPY) reached its 25th all-time high for 2021 at 420.06. Many other indices were at or near record highs as well. Ironically, one of the main questions facing investors now is whether the economy is recovering too quickly, putting too much upward pressure on prices and interest rates. This was of particular concern in Q121 as the yield on 10-year U.S. Treasury bonds rose from 0.92% on December 31, 2020 to 1.65% on April 30, 2021.

Recent U.S. economic statistics have been impressive as well. The U.S. Commerce Department reported that the economy grew 6.4% on an annualized basis in Q121, bringing it to within 1% of its all-time peak reached in late 2019. In addition, the New York Times reported (on April 30, 2021) that households in the U.S. had $4.1 trillion in savings at the end of the first quarter versus $1.2 trillion before the Covid pandemic began. To put that in perspective, the S&P 500® Index ("S&P 500") has a market value now of about $35 trillion. Much of that $4.1 trillion will probably be spent in coming months in the real economy, but some might find its way into equity markets as well.

It is now earnings "season" for the first quarter. Unlike Q120, negatively affected by the Covid shutdown, this quarter will likely end up being one of the strongest in recent history. In the week ended April 30, 2021, several of the market's largest companies reported earnings. Five (Amazon, Apple, Facebook, Microsoft and Alphabet) reported net income of $73.9 billion, up 104% from the $36.1 billion in Q120. According to UBS, as of May 3, 2021, 301 companies in the S&P 500 have reported first quarter results – with 85% beating earnings estimates and 75% beating sales esti-

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mates. The consensus estimate for 2021 earnings per share for the S&P 500 is now $177, up from $167 at the start of the year. With the S&P 500 now at $4150, this gives the index a price/earnings ("p/e") ratio of 23.4x 2021 earnings, higher than the average p/e ratios of the last five, 10, 15 and 20 years. It is possible that earnings estimates will continue to rise, mitigating the market's valuation somewhat. Although it is early, the consensus estimate for 2022 is now $198, making the market a more reasonable 21x earnings.

We are now in the "Sell in May and go away" part of the year. It is referring to the historical trend for U.S. equity markets to have more gains between November 1 and April 30th, and fewer gains between May through October. The trend hasn't worked in five years but has a good record going back to 1928. So, it bears thinking about, especially when markets are at record highs.