



Dow, S&P 500 on pace to start May with gains as investors focus on supply-chain bottlenecks, Fed

By Sunny Oh and Joy Wiltermuth - May 3, 2021

Fed's Powell points to economic disparities worsened by the pandemic

Stocks were trading mostly higher Monday afternoon, despite weaker-than-expected manufacturing data that dulled some of the optimism around the recovery of U.S. corporations from the COVID pandemic.

How are stock benchmarks performing?

On Friday, the Dow posted a weekly decline of 0.5%, but notched a 2.4% gain in April, while the S&P 500 was virtually unchanged, but gained 5.6% last month. The Nasdaq Composite registered a weekly loss of 0.4% but jumped 7% in April.

What's driving the market?

U.S. equities traded mostly higher to kick off May, despite some economic data suggesting that "crazy" prices and rampant shortages of parts, materials and labor could threaten the rebound in manufacturing.

The manufacturing index from the Institute for Supply Management fell to 60.7% in April from a 38-year high of 64.7% in the prior month. Though, any number above 50 marks an increase in factory activity, April's reading fell short of analysts' expectations for a reading of 65%.

"Whether that pace [of manufacturing activity] can be maintained remains to be seen," said Jim Baird, chief investment officer at Plante Moran Financial Advisors. "Even a well-positioned and eager consumer sector could cool as price hikes accelerate, and the potential for supply-chain disruptions to slow production further could further curtail sales."

Even with continued disruptions to supply chains, investors remain focused on a bright outlook for U.S. corporations despite the COVID pandemic, with some of the biggest companies affirming that a genuine rebound is under way.

The revival was at least partially on display as conglomerate Berkshire Hathaway reported a 20% jump in its operating profit, rising to \$7.02 billion from \$5.87 billion in the year prior.

Berkshire, helmed by billionaire investor Warren Buffett, over the weekend also reported first-quarter net income of \$11.7 billion, compared with a loss of \$49.7 billion, in the year-earlier period.

Berkshire's performance has helped to bolster confidence in equities to kick off May, traditionally a month associated with the start of a comparatively weak six-month seasonal stretch of trading.

"Overall, Q1's earnings performance is shaping up to be one of the largest gains incorporate profits since the tailwind from the Tax Cuts & Jobs Act of 2017," wrote a Glenmede investment strategy team, in a Monday note. "All in all, positive earnings growth is expected to continue into the later stages of 2021, as we trend toward a version of economic normalcy."

Of the S&P 500 companies that have reported results so far, 87.1% beat earnings estimates, according to Refinitiv, a figure that would be the highest on record since 1994 when it began tracking the data.

Investors also saw positive developments from Europe, bolstering confidence in the eurozone recovery. The European Commission on Monday proposed allowing entry by nonessential travelers who have been fully vaccinated to the region.

In the U.S., Fed Chairman Jerome Powell said the U.S. economic outlook has "clearly brightened," but also stressed that the recovery has been uneven, exacerbating longstanding disparities, in a talk at the Just Economy conference.

Read: Powell releases new Fed data showing how pandemic hit the poorest hardest.

Anxieties surrounding the Fed's response to a stronger economy has kept investors on edge. New York Fed President John Williams on Monday said he expects inflation to top 2% for rest of the year, but to decline after the economy has recovered. Dallas Fed President Robert Kaplan said Friday that he thinks it is time to discuss tapering the Fed's asset purchases.

Bernard Baumohl, chief global economist at The Economic Outlook Group, recently wrote that the Fed will have to walk a fine line as it eventually dials up interest rates and tapers an asset-purchasing program that has helped to support markets during the height of the pandemic-inspired stock selling in March.

"So what should the Fed do at this stage? Frankly, nothing major at this time. But as the economy regains its footing, Powell will face one truly vexing issue later this year: How do you reduce asset purchases without causing major turbulence in the bond market?" wrote **Baumohl**.

The Treasury Department said on Monday that it expects to ratchet up its borrowing to \$463 in the April-June quarter, which is \$368 billion higher than previously estimated.

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