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Looking back at the Markets in Q1 and Ahead to Q2 2021

The first quarter looks to be the turning point, both for the pandemic here in the U.S. and for the economic damage it has caused. While risks still remain, especially in the short term, the significant progress we made in the first two months of the year started coming to fruition in March, signaling that we are through the worst of it

Looking Back

Progress in pandemic. As of January 1, 2021, there were more than 230,000 new cases per day. One out of eight people tested—and testing was close to an all-time high—was positive for the virus. More than 120,000 people were in the hospital because of COVID. Essentially, no one had been fully vaccinated, and things were getting worse.

Fast forward to April 1, 2021, and case growth was down from 230,000 to 67,000. Positive tests were down from more than 12 percent to under 5 percent. Hospitalizations were down from 120,000 people to under 35,000. And vaccines were being deployed at a rate of 3 million per day, with almost one out of five people fully vaccinated and almost one out of three having had at least one shot. The turnaround has been stark.

Economic healing. The same improvement holds for the economy. Job growth was negative at the end of last year, down by 140,000 in December. But March of this year saw 916,000 new jobs, the third month in a row of rising increases. Consumer confidence was close to the pandemic lows at the end of last year but increased by more than one-quarter by the end of March, back to a pandemic high. Business, which remained surprisingly confident during the pandemic, did even better, with manufacturing confidence moving to the highest level since 2006 and the service sector to the highest level ever.

While the improvements started earlier, March marked the point where the pandemic really could be seen to be under control—and, with that, the return to an open, normal economy accelerated.

Looking Ahead

Risks remain. We are not out of the woods yet, of course, and there are two principal risks. The first is that the virus somehow surges again. This outcome is possible, as more contagious variants are still spreading in the population. So far, however, there has not been a surge in new cases—and that becomes less and less likely as vaccinations spread. The risk now, while real, is much less than it was a month ago and should have only another month or so to run.

The second major risk is that despite the economic improvement, there are still millions of people out of work. If hiring pauses again, that would slow and could reverse the recovery. Here, too, the risks are declining. Hiring has been strong, and job openings are now above pre-pandemic levels. Workers are quitting voluntarily at pre-pandemic rates (a strong indicator of confidence), and there are emerging signs of worker shortages. As the country continues to reopen, we can reasonably expect the jobs market to keep improving, and as medical risks decline, that outcome becomes even more likely.

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Solid fundamentals. Given all of this, the outlook for both April and the second quarter is much better than it has been for at least the past year. The medical situation should continue to improve, albeit slowly, as the vaccine process continues to race against more contagious variants and the reopening process. Hiring should continue to be strong, and that will help both confidence and spending. Business, already confident, should keep hiring and investing. The fundamentals are solid and getting better.

Positive factors in play. The weather keeps getting better as spring advances, and that should help keep the medical risks under control and help spending growth. The strong housing market should help drive additional spending as well. And, with federal stimulus funds now hitting bank accounts, we should see additional growth over the next month or so. While the fundamentals are improving, there are also a number of shorter-term positive factors in play that will help over the next month or two and offset some of the short-term medical risks.

Closer to normal. Looking forward, then, rather than a one-off, the significant improvement we saw in March is likely to be the first in a series of positive months for both the medical and economic news. Short-term risks will be offset by short-term tailwinds, and longer-term normal will get closer and closer. April and the second quarter should see continued improvement: better medical news, better economic growth, and, of course, better weather.

So, What About the Markets?

The markets performed well in the first quarter with the S&P 500 rising 5.8%. The markets are anticipating a strong economic recovery. The most immediate signals will come from the upcoming earnings reports for the first quarter. They are expected to be better than last year, and that trend will likely continue as the economy continues to reopen. With interest rates likely to remain low, according to the Fed, that should provide support for continued gains, although, as always, volatility remains very possible.

The first quarter was when things bottomed out. March was when we really started to move again. April and subsequent months should be when we start to pick up speed.

So glad spring is here.

Sincerely,

Mike Ovshak, CFP®
President/Owner

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