

## S&P 500 and Dow Rise to Fresh Record Highs on Cyclical Bias

The S&P 500 started the week extending its consolidation pattern amid a rotation into cyclical stocks, then ended the week on a high note as the gains broadened out to the battered technology stocks. The benchmark index rose 1.2% to all-time highs, putting it behind another record-setting performance in the Dow Jones Industrial Average (+2.7%).



The Nasdaq Composite declined 1.5% after being down as much as 3.8% this week. The Russell 2000 increased just 0.2% to stay within its three-month consolidation trend.

From a sector perspective, the cyclical energy (+8.9%), materials (+5.9%), financials (+4.2%), and industrials (+3.6%) sectors scored solid gains; conversely, the information technology (-0.5%) and consumer discretionary (-1.2%) sectors dragged on index performance amid relative weakness in their growth-stock components.

This was one of the busiest weeks in earnings news, but like the weeks before, the results were not a catalyzing factor this week despite remaining on the side of better than expected. More interesting were the key economic reports that indicated a

deceleration in the fast-paced economic recovery and perhaps explained the general lackluster response to earnings.

Specifically, nonfarm payrolls increased by just 266,000 in April (Briefing.com consensus 1,000,000). The ISM Manufacturing Index for April decelerated to 60.7% (Briefing.com consensus 65.3%) from 64.7% in March. The ISM Non-Manufacturing Index for April decelerated to 62.7% (Briefing.com consensus 65.0%) from 63.7% in March.

The huge payrolls miss was the center of attention for market participants and lawmakers on Friday. The former suspected that the extended unemployment benefits provided a temporary disincentive for workers to seek employment, but this claim was refuted by the Biden administration. The Fed perhaps viewed the report as a justification to refrain from thinking about tapering asset purchases.

On inflation, the Prices component within the ISM Manufacturing Index reached its highest level

since 2008 at 89.6%, corroborating an observation from Warren Buffett that his businesses are seeing “substantial inflation” and that they’re raising prices in response to the higher costs they are incurring.

Two things here: while the economic data missed elevated expectations, the ISM reports still indicated robust expansionary activity, and nonfarm payrolls growth was still positive. Interestingly, Treasury Secretary Yellen said interest rates may need to rise somewhat to prevent the economy from overheating, but later walked back her comments to say she wasn’t predicting, nor recommending, the Fed to hike rates in response to government stimulus proposals.

Evidently, the peak growth narrative that slowed down the market last week was somewhat weakened this week based on the divide between the Dow (cyclically-oriented) and Nasdaq (growth-oriented). The latter would have outperformed if investors were concerned about economic growth rates. The ARK Innovation ETF (ARKK) -- a proxy for high-growth story stocks -- fell 9% this week.

The Treasury market, however, remained a signpost for lingering peak growth concerns. The 10-yr yield decreased five basis points to 1.58% amid increased demand.

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