# MARKET INSIGHT MONTHLY

## OUR THOUGHTS

UNITED BANK
Wealth Management

As the calendar has turned to May, the popular "Sell in May and Go Away" stock market cliché is getting a fair amount of media airtime. This is the idea that the stock market tends to be weakest between May and October (and strongest between November and April). Stocks have done so well recently that preparing for a pause in the rally makes sense and may even be healthy. So much good news has been and is currently priced into stocks. While this good news is legitimate and more good news will likely continue, the market will have to adjust, at some point, to concerns. Worries about the Federal Reserve tightening its monetary policy sooner than expected may intensify this summer, exacerbating inflation concerns, and potentially pushing interest rates higher. Tax increases are probably coming in 2022, and deficit spending continues largely unabated.

However, investors have not been well served for over a decade by following the "Sell in May" pattern and avoiding stocks from May through October. Over the past decade, during that six-month period the S&P 500 Index was higher eight out of ten times, with an average gain of 3.8%. Going back to 1950, even though the May-through-October period has been the weakest, stocks have still gained 1.7% on average and have been higher 65% of the time—hardly a disaster worth avoiding. The "Sell in May" axiom is both relative and conditional. It is not an absolute.

The U.S. economy continues to storm back from the pandemic lockdown-driven recession. After growing at a solid 6.4% annualized pace during the first quarter of 2021, U.S. gross domestic product (GDP) is just a small fraction away from recovering all its lost output from 2020. According to Bloomberg, economists' consensus forecasts U.S. economic growth of 8.1% in the second quarter of 2021. This forecast may be too conservative given the additional progress toward a fully reopened economy and continued steady vaccine distribution. With more fiscal stimulus potentially coming soon, GDP growth in 2021 may be the strongest in four decades, hardly supportive of a bearish view.

First-quarter earnings season has been a record setter. The percentage of S&P 500 companies beating earnings per share targets (88%) is the highest that earnings data aggregator, FactSet, has ever recorded. First-quarter 2021 operating earnings, when fully reported (about 87% have reported thus far), will likely exceed 2020 Q1 figures by nearly 250% and as reported earnings may be close to 300% stronger.

This record-breaking earnings growth has allowed stocks to grow into their valuations. In fact, stock valuations remain quite reasonable compared with average valuations over the last 6-7 years. The very low interest rate environment allows somewhat higher valuations, all things held equal. And while rates may be on the rise, they remain historically very low. A "Sell in May" decision based on elevated stock valuations may be a mistake and a misapplication of valuation criteria. This fundamental backdrop suggests any market selloffs may be shallow and short-lived.

Even in strong bull markets, volatility may still rear its head upon occasion. As much as we would all like certainty, we know that life, economically or otherwise, may throw us a few curveballs to contend with. Volatility may be thought of as a toll that investors pay on the road to solid long-term investment returns.

As always, United Wealth Management is dedicated to your financial well-being. We stand ready to act and take advantage of opportunities when they arise. We welcome your calls and correspondence so that we can continue to offer exceptional service and provide our latest thoughts on the market.

Please contact us if you have any questions.

Sincerely, Your United Wealth Management Team

May Update

# MONTHLY COMMENTARY

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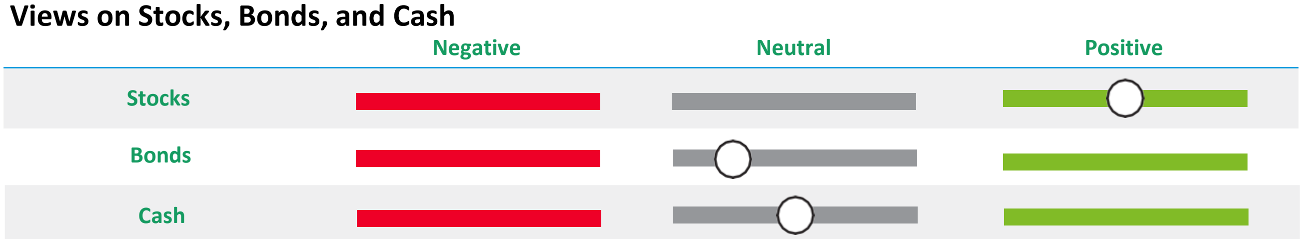
First quarter earnings season was truly remarkable. Though we recently raised our earnings forecast, we are compelled to do so once again. Weighing the macroeconomic and business tailwinds against the risks, we believe $187.50—$190 per share is a reasonable expectation for S&P 500 operating earnings in 2021. The favorable economic backdrop—supported by vaccine distribution, the reopening, massive stimulus, and extremely strong earnings growth—has enabled stocks to grow into their valuations. As a result, United is maintaining its position that equity prices will continue their growth trajectory until economic conditions flatten or negate corporate earnings. Market risks are much the same as previously indicated: COVID-19 spread outside the U.S., deficit spending, geopolitics, inflation, and tax increases. After a nearly 90% rally off the March 2020 lows, the S&P 500 and other broad equity indices may be due for a well-deserved and healthy pause.

## INVESTMENT TAKEAWAYS

- We remain overweight equities relative to bonds, based on our expectation for a very strong economic and earnings recovery in 2021. This is supported by the accelerated vaccine rollout, the anticipated full reopening of the U.S. economy, and massive fiscal and monetary stimulus.
- As the economic recovery progresses in 2021, we would expect cyclical stocks to get an additional boost and recommend a slight tilt in that direction as evidenced by our Large Cap Dividend Strategy.
- We continue with our U.S. overweight to small cap equities which is supported by the early-stage bull market and economic expansion, and the strong relative earnings rebound. Valuations are reasonable and we believe several years of underperformance creates an attractive tactical overweight allocation.
- We continue to favor emerging markets (EM) stocks over their developed international counterparts. This is due to a significantly better economic growth outlook and more attractive valuations. However, geopolitical and new regulatory threats combined with a shrinking economic growth advantage are weighing on the expected performance.
- We continue to recommend an underweight allocation to fixed income. Although we've seen a big, but not unexpected, move higher in rates this year, Fed policy and manageable inflation may limit the risk of an additionallarge rate move in the near term. Further rising rates may still put pressure on bond returns while economic improvement may help support equities going out a full year.
- We favor a blend of short to intermediate bonds in all fixed income portfolios. We remain committed to high-quality securities for the majority of our portfolios but recommend a limited position in both high yield and inflation protected bonds.

## BROAD ASSET CLASS VIEWS

**Views on Stocks, Bonds, and Cash**



# EQUITY ASSET CLASSES

We favor stocks over bonds in 2021 based on our expectation for a very strong economic and earnings recovery this year, supported by vaccine distribution, an anticipated full reopening of the U.S. economy, and massive fiscal and monetary stimulus. We expect the economic rebound will continue well in to 2022 as the economy fully reopens, which will likely boost performance for cyclical value stocks. We continue to favor emerging markets (EM) stocks over their developed international counterparts over the next 12 - 36 months, due to a better economic growth outlook and attractive valuations.

| | Sector | Overall View | Relative Trend | Rationale |
|---|---|---|---|---|
| Market Capitalization | Large Caps | | | The relatively greater financial strength enjoyed by most large cap companies helped during the pandemic. But smaller market cap companies tend to perform better early in economic expansions and during the early stages of bull markets, which has driven significant small cap outperformance since fall 2020. |
| | Mid Caps | | | Mid caps enjoy some of the early cycle characteristics of small caps, and therefore, should perform well as a more durable recovery develops. We believe mid cap stock valuations are nearly as attractive as those of small caps in general. |
| | Small Caps | | | We maintain our small cap overweight position, supported by the early-stage bull market and continued economic expansion, with a strong earnings rebound. Valuations are reasonable and we believe recent multi-year underperformance creates continued opportunity. |
| Style | Growth | | | Our style views remain balanced between growth and value. We believe growth stocks will continue to be bolstered by strong earnings trends and favorable positioning for the pandemic in the near term. But as more of the economy reopens and economic growth accelerates for the remainder of the year, cyclical value stocks may get a boost. |
| | Value | | | A durable economic recovery is emerging, which we expect to support cyclical value stocks as well as growth. Value stocks remain attractively valued relative to their growth counterparts and tend to perform relatively well when economic growth accelerates. |
| Region | United States | | | Among developed markets, we remain U.S.-focused. We see solid gains for U.S. stocks in 2021, but the gap between U.S. and developed international stocks has started to narrow. An eventual end to the pandemic globally, better value stock performance, and a marginally weaker dollar could close that gap further. |
| | Developed International | | | Our outlook for developed international equities remains neutral, but we could potentially warm up to European equities once the pandemic is brought under control in the Eurozone. Among non-U.S. developed markets, we currently maintain a slight preference for Asia over Europe. |
| | Emerging Markets | | | We continue to favor emerging markets (EM) stocks over their developed international counterparts on a superior economic growth outlook over the next several years and attractive current valuations, though geopolitical and regulatory threats may lead to bouts of volatility and tariffs may remain in place. |

# FIXED INCOME

**Limit Rate Sensitivity With Intermediate Focus**

We suggest a blend of high-quality short-to-intermediate bonds in all portfolios. We raised our forecast for the 10-year Treasury yield last month to a range of 1.75%—2.00% as economic activity continues to impress to the upside.  In our view, compensation for longer-maturity, rate-sensitive bonds remains unattractive.

The continued economic expansion allows for high yield bonds issued by growing companies to be a productive use of fixed income capital. We remain committed to a modest high yield position in both corporate and municipal bonds. Further, the expanding economy has and will likely continue to produce modest inflationary pressures. Therefore, reasoned inflation protection in fixed income portfolios is warranted.

We favor municipal bonds for tax-sensitive accounts. The latest stimulus package is expected to provide additional muni-related support.

| | | Low Medium High | Rationale |
|---|---|---|---|
| Positioning | Credit Quality | | Credit spreads have tightened significantly, but the economic outlook may be supportive. |
| | | Short Int. Long | |
| | Duration | | Concerns over rising interest rates with the prospects of economic acceleration increase interest-rate risk. |

# COMMODITIES

Our precious metals view is neutral. The attractiveness of precious metals is further reduced by the improving economic outlook, rising interest rates, and recent firmness in the U.S. dollar.

Our crude oil outlook is neutral to positive. At the same time, the global demand outlook has improved recently as the end of the pandemic comes into view, and higher oil prices have increased the amount of profitable available production. Our concerns remain that the U.S. supply overhang may limit further upside potential for prices and the potential for more production internationally as prices rise.

# CONCLUSION

As referenced in last month's insight, our confidence in a full economic recovery continues to grow. A fully reopened economy is closer to becoming a reality. With more than three million shots going in people's arms each day, the resilience of the U.S. consumer and U.S. businesses have contributed to this massive economic rebound. The funds received from the passing of the fiscal stimulus bill combined with a fully supportive Federal Reserve solidifies the bull market case.

The battle against COVID-19 isn't over. The vaccine rollout, as we now know, will take more time. As we examine market risks, we continue to believe these risks are manageable at this point and believe the market will continue to look forward to post-pandemic life.

Disclosures

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

All performance referenced is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

Economic forecasts set forth may not develop as predicted.

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