Spandan College1
spandanktm@gmail.com
9841017798

Blowout jobs report could power stocks higher in the week ahead ||Business Connect|| 2021-04-03 23:54:26

Contributors



Khalti

Sponsor

Online pay



Spandan Subba

Author

student



Ranjan Pokharel

Author

student



Mega Bank

Knowledge Partner

Bank



Anuj Ghimire

Author

Almuni



Kantipur

Knowledge Partner

Media Company

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Key Points

- Stocks finished out the holiday shortened pre-Easter week with gains, and strategists expect April to be a strong period for the market.
- The coming week is fairly quiet, as the market anticipates the first quarter earnings season.
- Data to be released in the approaching week includes the Institute for Supply Management's services figures and the producer price index.
- There are Federal Reserve meeting minutes Wednesday. Fed Chairman Jerome Powell appears Thursday on an International Monetary Fund panel, moderated by CNBC's Sara Eisen.



Traders work on the floor of the New York Stock Exchange.

NYSE

April started off with a rally, and the market could continue to notch gains as the month gets underway, strategists say.

The U.S. Labor Department's surprisingly strong March jobs report this Friday showed that there were 916,000 jobs added in March, compared to the 675,000 expected by economists.

The week ahead is expected to be fairly quiet, with a few economic reports and Federal Reserve speakers filling the lull before earnings season.

The Institute for Supply Management's service sector survey will be released next Monday and should get close attention after institute's manufacturing survey came in at the highest level since 1983. Minutes from the last Federal Reserve meeting will be released next Wednesday afternoon.

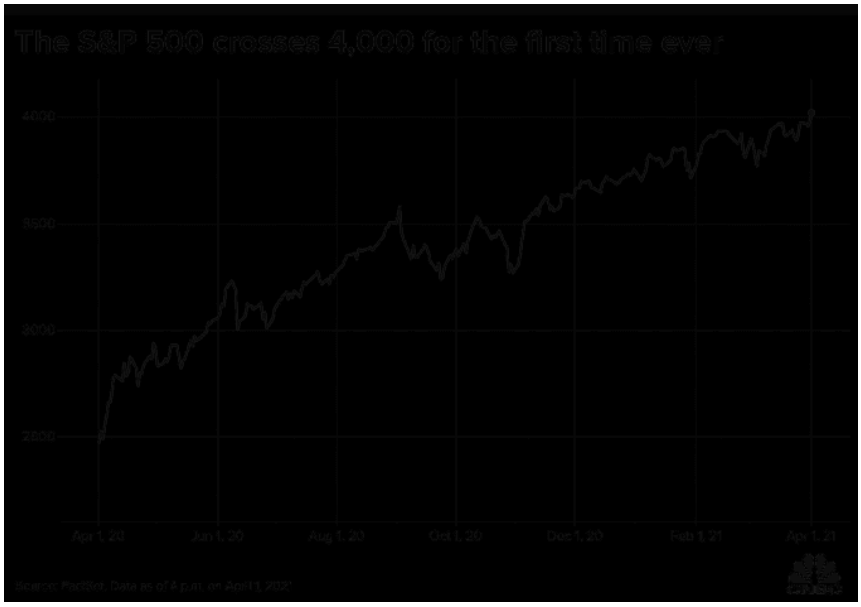
"Literally everything, or almost everything, should be very robust for the foreseeable future, I would think. We're coming off a low base," said Stephen Stanley, chief economist at Amherst Pierpont.

Economists expect a very strong second quarter as the economy reopens and stimulus spending kicks in, and that should be positive for stocks — unless interest rates rise too quickly.

Major stock indices were sharply higher as the calendar rolled into April.

On Thursday, the S&P 500 rose 1.2% to a new record close of 4,019.87. Meanwhile, the Dow Jones Industrial

Average climbed more than 170 points, and the tech-heavy Nasdaq Composite jumped 1.8%.



The closely watched benchmark 10-year Treasury yield, meanwhile, was higher at 1.68% Friday morning, well below recent high of 1.77% reached earlier in the week.

The 10-year is important because it influences mortgages and other loans, but recently it has also had a negative correlation recently with tech stocks. When the 10-year yield edged higher, tech went lower.

All eyes on earnings

“The macro calendar is pretty light. I think attention will turn to earnings pretty quickly,” said Shawn Snyder, head of investment strategy at Citi U.S. Wealth Management. “That will be the next thing to turn to.”

He said the market is often weaker just ahead of earnings season.

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Tiffany McGhee: We’re expecting volatility, but looking to buy the dip

First quarter earnings are expected to be up 24.2% year-over-year, according to Refinitiv. It will be the first quarter where the prior year results included the impact of the pandemic shutdown.

Some strategists expect the earnings season to bring with it more favorable comments from companies that could lead to positive forecast revisions, providing fuel for the stock market.

“Approximately 13 months ago, COVID-19 sent us home from our offices and our kids from school. While the pandemic nearly shut down the world economy, an unprecedented policy response kept the economy afloat, leading to the shortest recessionary decline and the steepest stock market bounce in history,” noted Jonathan Golub, chief U.S. equity strategist at Credit Suisse.

Golub said that the 78% rise in the S&P 500 from the bottom last March was driven in a big way by earnings.

“In each of the past two recovery periods, the trend of positive revisions lasted 2-3 years, providing an important tailwind for the market,” he wrote in a note.

He added that economists have continued to revise growth forecasts higher.

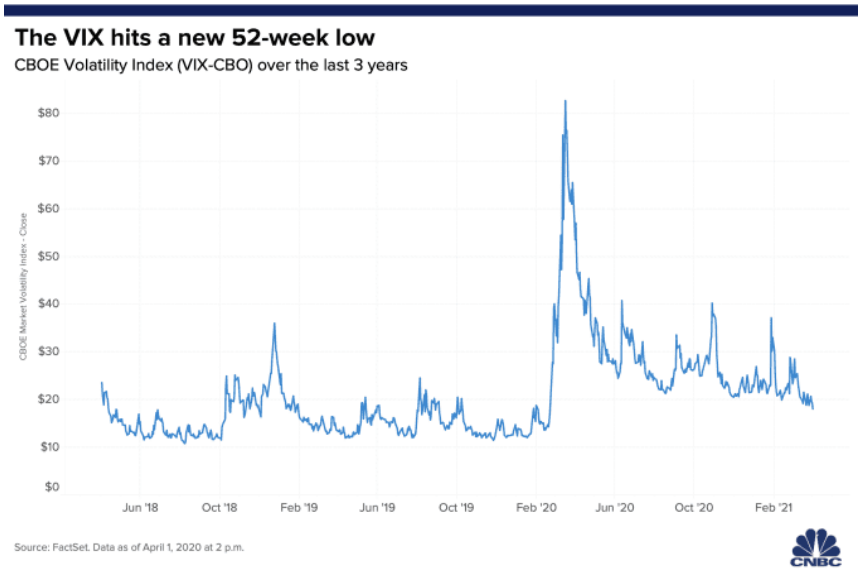
“Our work shows that every 1% change in GDP drives a 2½–3% change in revenues, and even larger improvements in profits,” Golub wrote.

April is far from cruelest month

Aside from an expected earnings bounce, some strategists have been expecting April to be a bullish time for stocks, as it has been historically.

Tom Lee, managing partner of Fundstrat, for instance, points to the decline in the VIX, the Chicago Board Options Exchange’s Volatility Index, to pre-pandemic levels and says that’s constructive for stocks.

The VIX is calculated based on the puts and the calls in the S&P 500, trading on the CBOE.



Lee also noted that when the market closes higher on March 31, the final day of the first quarter, and again on April 1, the first day of the second quarter, the market has had a better April performance than usual.

Since World War II, when those two days were positive, the S&P 500 rose an average 2.4% for April, versus its usual 1.3% gain, Lee said.

“The bottom line is this is [a] positive environment and risk/reward for stocks. This keeps us constructive,” he wrote in a note.

Sam Stovall, chief investment strategist at CFRA, said the market enters April and the second quarter with a tailwind.

“April is usually good. It’s the best month in terms of average price change. The second quarter is not a bad

quarter on average. It's up 2.8% on average since 1990, and all 11 sectors have posted average gains," he said.

Stovall said some of the cyclicals may have gotten ahead of themselves and energy, industrials and financials could pause. Those sectors have been outperforming while tech has been lagging.

The market enters the "sell in May" period during the second quarter. The market adage, "sell in May and go away," is based on the idea that stocks tend to underperform from May through October.

"In that sell in May period, tech has been a pretty good performer. Now is probably not the time to begin bailing out of tech," Stovall said. "Tech could end up receiving a near-term reprieve."

Fed ahead

The Federal Reserve will release the minutes of its last meeting Wednesday afternoon, and investors will review them for any fresh comments on inflation. With prices for fuel and other commodities already rising, investors are becoming concerned that more stimulus could send inflation higher.

Fed Chairman Jerome Powell said after the March meeting that the Fed sees inflationary pressures as transient, but the markets are still concerned that it could become a bigger issue. Inflation is currently well below the Fed's 2% target.

The producer price index — which gauges the average change in prices received by domestic producers for their output — will also be watched closely when it is reported Friday.

As for Fed speakers, Powell is expected to discuss the global economy on an International Monetary Fund panel Thursday, which will be moderated by CNBC's Sara Eisen.

Other central bank speakers include Chicago Fed President Charles Evans, who speaks Tuesday and Wednesday, and Richmond Fed President Tom Barkin who speaks Wednesday.

Treasury Secretary Janet Yellen speaks on a Chicago Council on Global Affairs webinar Monday on the economic recovery Monday.







