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Dear Valued Investor,

As the calendar has turned to May, the popular "Sell in May and Go Away" stock market cliché is getting a lot of 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. A lot of good news is priced into stocks. Worries about the Federal Reserve tightening its monetary policy may intensify this summer as inflation picks up, potentially pushing interest rates higher. Tax increases are probably coming in 2022, and deficit spending continues largely unabated.

Investors have not been well served recently 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 10 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 gained 1.7% on average and have been higher 65% of the time—hardly a disaster worth avoiding.

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 of its lost output from 2020. Economists' consensus forecast for U.S. economic growth of 8.1% in the second quarter of 2021 (source: Bloomberg) may be too low given the additional progress toward a fully reopened economy and continued steady vaccine distribution. With more fiscal stimulus likely coming soon, GDP growth in 2021 may be the strongest in four decades, hardly supportive of a bearish view. Nearly 1 million jobs were created in March, and April's number due out on May 7 could be even bigger.

First-quarter earnings season has been a record setter. The percentage of S&P 500 companies beating earnings per share targets (88%) and upside to revenue targets (over 4%) are both the highest that earnings data aggregator FactSet has ever recorded. The year-over-year increase in S&P 500 Index earnings will likely double—***yes, double***—the 24% estimate as of April 1—one of the biggest earnings upside surprises ever, and frankly hard to believe!

The strong earnings growth has allowed stocks to grow into their valuations. In fact, stock valuations remain quite reasonable compared with bonds given still-low interest rates, suggesting a "Sell in May" decision based on elevated stock valuations may be a mistake. This fundamental backdrop suggests any market selloffs may be shallow and short-lived, and therefore difficult to time.

Volatility is like a toll investors pay on the road to solid long-term investment returns. In general, we think investors should pay that toll and favor equities over bonds in their portfolios. For those with extra cash on the sidelines, we would look to buy on weakness given the favorable fundamental backdrop. But for investors with extra risk in portfolios, now might be a good time to consider taking a little bit off the table.

Please contact your financial professional with any questions.

Sincerely,

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Vice President, Equity Strategist
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