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Weekly perspective on current market sentiment June 23, 2021

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Last Week's S&P 500 Index: -1.9%

Do not fear "peak growth"

Key takeaways

- S&P 500 index earnings growth is expected to be near 60% in the second quarter versus the year-ago period.
- This will be the high water mark for earnings growth this year but we believe the rest of 2021 will still post strong results.

While the Federal Reserve (Fed) was the topic of interest in the second half of last week's trading sessions, second-quarter earnings growth continues to draw attention from investors as the likely growth percentages in a number of sectors are going to be what many would consider to be in nosebleed territory. Market expectations are very high as the year-ago period represented some of the darker economic (and medical) days of the COVID-19 pandemic period. And let's say this right up front: Realize that the second quarter will represent the high-water mark for economic and earnings growth this year. We feel very comfortable and confident making that statement.

But don't get sucked into the "peak growth" vortex that some in the financial media have been harping on for the past month or so. We feel market participants are smart enough to know that comparisons against year-ago trough-level numbers resulting from a very deep recession are not in any way, shape, or form representative of what the norm will be going forward. Sure, earnings and economic growth on a quarterly basis are certain to slow from the second-quarter results that we expect to be reported, but over the balance of the year and certainly for the calendar year as a whole, we would still categorize growth to be "robust," to put it mildly.

From a strategy perspective, we believe we have been and continue to be positioned to take advantage of an ongoing recovery that we expect to post impressive domestic GDP (gross domestic product) growth this year (7.0%) and next (5.3%). The rest of the world has been participating in this recovery as well, albeit at varying rates of speed. Vaccine distribution has reached nearly 50% of the population here at home, and the lockdowns are quickly falling by the wayside. On top of that, the Fed continues to support the economy with accommodative monetary policies, and fiscal stimulus has pushed the recovery ahead in a big way.

Second-quarter earnings reports will start to cross the tape in mid-July. Our expectations call for a close to 60% increase in S&P 500 Index earnings versus the year-ago period. That isn't a typo. Once again, you have to consider the comparisons from last year, when the economy cratered and more than 20 million consumers lost their jobs.

From an S&P equity sector standpoint, the estimated earnings growth rates of three of our favored sectors really stand out. Per current consensus projections, the Industrials, Materials, and Financials sectors are expected to have grown earnings 338%, 116%, and 111%, respectively, in the second quarter compared with the same period last year. All of these sectors are very sensitive to the ebb and flow of the economy and benefit from the continued recovery we expect. Clearly, these growth rates are not sustainable over the long haul and reflect the deep hole the economy was in last year.

The strong earnings and economic growth we expect in the second quarter will ease toward less robust levels over the balance of this year, but the remainder of 2021 will still see growth well above average.

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