Monthly Market Commentary

Economic data, corporate earnings, and corporate forecasts continued to be a mixed bag even as the S&P 500 rallied past 1,600 in April. Markets reacted favorably when central banks made announcements to address some of the market weaknesses (European bankers reduced their target interest rate and the Fed affirmed that it had no plans to reduce its interventions in the near future). Markets did crash on April 23 in a matter of minutes, albeit briefly and temporarily, when the AP's Twitter account was hacked and sent a fake tweet, causing a swift drop reminiscent of the 2010 flash crash. Overall, Morningstar economists believe that the U.S. economy is neither booming nor busting. Nothing in the numbers would indicate that much has changed when looked at from a year-over-year, averaged basis—the underlying 2% growth rate continues to be largely unchanged.

GDP: First-quarter real GDP in 2013 grew by 2.5%, well below the 3%-plus expectation that many economists had, but still much better compared with an abysmal fourth-quarter growth of 0.4% in 2012. GDP growth was mostly dragged down by continued poor government spending and a larger-than-expected trade deficit. Unfortunately, the worst of the government impact may still be ahead of us, since the first-quarter numbers do not include any impact from the sequester.

Employment: April's total non-farm payroll growth beat expectations, with 165,000 jobs added. More importantly, sharp revisions in the March and February employment numbers saw an impressive net positive revision of 114,000 jobs. Despite all this good news, careful analysis shows more of the same slow and unsatisfying growth, stuck between 1.9% and 2.1% (three-month year-over-year average) for nine consecutive months. The unemployment rate in April edged down slightly to 7.5% from 7.6% the month before.

Housing: On a year-over-year basis, all 20 markets in the Case-Shiller Index saw price appreciation in February, although the growth was not evenly distributed across cities. Phoenix, San Francisco, Las Vegas, and Atlanta all grew by more than 15%, while other cities such as New York, Chicago, and Boston grew by less than 5%. Inventories are still very tight at a time when demand is up because of an improved economy, leading to higher home prices. Higher prices should continue to bring more houses on to the market and bolster consumer confidence. In addition, higher home prices have caused more homeowners to step up their remodeling expenditures, and should also allow more potential employees to move to new cities for employment opportunities.

Manufacturing: According to data from Markit, a worldwide research firm, manufacturing in April declined in the U.S., China, and Europe. The data showed monthly acceleration and improvement through January 2013, after which three months of decline brought it back to where it started in November. Morningstar economists believe that seasonality and a slumping commodities cycle are responsible for the softness worldwide, and not the all-important consumer-demand factor, which drives manufacturing. However, the impact of manufacturing on the macroeconomic picture tends to be strongest in extreme boom-or-bust situations. The U.S. economy is currently doing neither at the moment.

Auto: Auto sales in April dropped modestly to 14.9 million units from 15.25 million units in March 2013, but this was still better than the 14.1 million units from April 2012. Morningstar's auto sector analysts are not overly concerned with the sequential decline as fluctuations are normal, and there are still plenty of reasons to buy a new vehicle, such as low interest rates and a recovering housing market. They continue to maintain full-year sales expectations of 15.2 to 15.5 million units.