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In this week's recap: Mixed signals lead to a choppy week.

Weekly Economic Update

Presented by Ed Papier, April 26, 2021

THE WEEK ON WALL STREET

The crosscurrents of strong corporate earnings, rising global cases of COVID-19, and the specter of higher capital gains taxes led to a choppy week of trading that left stock prices slightly lower for the week.

The Dow Jones Industrial Average lost 0.46%, while the Standard & Poor's 500 slipped 0.13%. The Nasdaq Composite index fell 0.25% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, dropped 0.47%.^{1,2,3}

A DIRECTIONLESS WEEK

Despite continued better-than-expected corporate earnings, stocks retreated as concerns over rising global COVID-19 infections weighed on investor sentiment. A mid-week rally erased much of these losses, with reopening stocks and small cap companies leading the market.

The stock market resumed its decline in reaction to reports that President Biden supported a capital gains tax increase on wealthy Americans. The Biden news prompted worries that stocks could come under pressure this year if such an increase were to go into effect next year.

Solid economic reports, along with a reassessment of the capital gains news, helped stocks to bounce back and close out the week on a positive note.

HOUSING SHOWS STRENGTH

Two housing market reports last week reflected strong consumer demand for homes.

Sales of new homes in March jumped by 20.7% from February and by more than 66% from last March, reaching levels not seen since 2006. All regions recorded double-digit gains, except for the West, which experienced a decline of 30%.⁴

Though existing home sales fell 3.7%, it wasn't for lack of consumer interest, as evidenced by the 18-

day average to sell a home. The decline was largely an issue of tight inventories. This demand/supply imbalance drove median home prices higher by 17.2% from March 2020 to \$329,100.⁵

THE WEEK AHEAD: KEY ECONOMIC DATA

Monday: Durable Goods Orders.

Tuesday: Consumer Confidence.

Wednesday: Federal Open Market Committee (FOMC) Announcement.

Thursday: Jobless Claims. Gross Domestic Product (GDP).

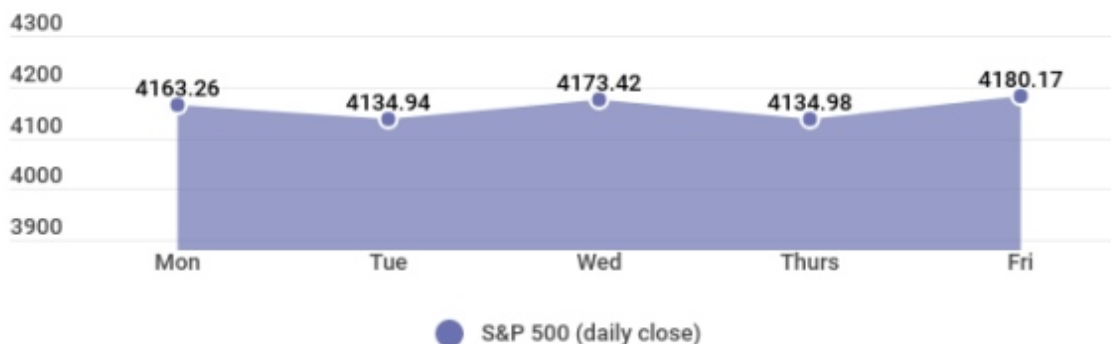
QUOTE OF THE WEEK



"Facts are stubborn things; and whatever may be our wishes, our inclinations, the dictates of our passions, they cannot alter the state of facts and evidence."

JOHN ADAMS

Market Index	Close	Week	Y-T-D
DJIA	34,043.49	-0.46%	+11.23%
NASDAQ	14,016.81	-0.25%	+8.76%
MSCI-EAFE	2,288.56	-0.47%	+6.57%
S&P 500	4,180.17	-0.13%	+11.29%



Treasury	Close	Week	Y-T-D
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	Treasury	Close	Week	TTD
	10-Year Note	1.58%	-0.01%	-0.65%

Sources: The Wall Street Journal, April 23, 2021; Treasury.gov, April 23, 2021

Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, April 16, to Friday, April 23, close. Weekly performance for the MSCI-EAFE is measured from Friday, April 16, open to Thursday, April 22, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

Nobody knows more about the bullish and bearish developments of a business and its valuation relative to those developments than the company's top executives. Some believe that, while insider activity may sometimes be a good indication of future price movements in individual stocks, in aggregate it doesn't have any meaning at all. In addition, many suggest that, while insider buying may be predictive at times, insider selling is not. Both of these positions, however, are contradicted by the data.

As Nejat Seyhun, Professor of Finance at the University of Michigan, has demonstrated in his book, *Investment Intelligence From Insider Trading*, the aggregate selling-to-buying ratio over certain periods of time has a very good track record at predicting future returns in the stock market.

In his words, "Aggregate insider trading predicts aggregate stock returns." Furthermore, "Aggregate insider trading predicts changes in future economic growth up to two years ahead." So not only are insiders better market strategists than those on Wall Street, they are also better economists. This should make intuitive sense.

Who has a better read on both the stock market and the economy than the amalgamation of those top executives in the country with the confidence to not merely make a public forecast but actually put their money where their mouths are?

As to those who say, 'there are many reasons for an insider to sell; there's only one reason to buy,' again here is Mr. Seyhun: "both purchases and sales seem to be informative. The future stock price movements following insider purchases exceed the average stock price movements. Also, the future stock price movements following insider sales fall short of the average stock price movements." Certainly, we have seen this play out over the past year.

The aggregate insider buying just over a year ago has proved very prescient as to the direction of the stock market, the leadership of the rebound in stock prices and the turnaround in the economy so far. However, when we look at the recent data (provided by InsideArbitrage.com), it's immediately apparent that the top executives (along with directors and 10% shareholders) have rarely been as aggressive in selling, or disinterested in buying, as they are today.

In light of Seyhun's findings noted above, this relative bearishness on the part of insiders in aggregate would seem to suggest that stock prices are likely to fall short of euphoric expectations over the next year or so. On top of that, the economy could begin to disappoint on a similar time frame, as well. Don't say they didn't warn you.⁶

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The forecasts or forward-looking statements are based on assumptions, may not materialize, and are subject to revision without notice.

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The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. Nasdaq Composite is an index of the common stocks and similar securities listed on the Nasdaq stock market and is considered a broad indicator of the performance of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

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CITATIONS:

1. The Wall Street Journal, April 23, 2021.
2. The Wall Street Journal, April 23, 2021
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6. thefelderreport.com/2021/04/14/insiders-are-sending-a-pretty-clear-signal-about-the-stock-market-and-the-economy/