Good news for the economy can be a drag on your 401(k)

BY STAN CHOE
The Associated Press

NEW YORK — A huge shift is underway within the stock market, one that might roil your 401(k) in the short term, but one that many professional investors also see leading to longer-lasting gains.

A surge of optimism that the pandemic is on the way out has convinced investors to revamp their playbooks for where to put money. Most stocks across the market are rising, with the biggest gains coming from companies that would benefit most from a healthier economy, such as airlines and banks, after they got pounded lower for much of the pandemic.

But all the hope at the same time is forcing a climb in bond yields, which in turn is sending a group of tech stocks back to earth after they carried the market for much of the pandemic. When bonds pay more in interest, investors are less willing to pay as high prices for stocks seen as the most expensive or to wait as long for their big growth forecasts to come to fruition.

Because of the way stock indexes are calculated, any weakness for the biggest stocks can mask strength that's sweeping across the rest of the market. It's why the S&P 500 is up less than 6% so far this year: Energy stocks have soared more than 38% and financial stocks have stormed about 17% higher, but tech stocks, which account for more than one-quarter of the index's market value, rose less than 2%.

All that churning underneath the surface may sound inside baseball, but it has a big impact when 401(k) accounts are tied more than ever to the performance of the S&P 500 and other indexes. More than half the dollars in U.S. stock funds are directly mimicking indexes, according to Morningstar.

In other words, your 401(k) could fall even if the economy — and the majority of stocks in the market — are rising. It's the mirror-image of what happened early in the pandemic, when the S&P 500 powered higher even though the economy was falling into a terrifying pit. And professional investors say this rotation among sectors still has room to run.

"It brings me back to business school, where we learned about how all the indices are different," said Lamar Villere, a portfolio manager at Villere & Co. in New Orleans. "It seems so boring and academic, but there is not one monolithic thing called the stock market. It's these hugely different areas of the market that are moving differently."

Investors have already felt the moves in recent weeks, when expectations for coming inflation and economic growth suddenly hit an upswing as COVID-19 vaccines rolled out and Congress neared its $1.9 trillion economic rescue.

The Nasdaq composite tumbled more than 10% from February 12 through March 5, with its many tech stock holdings hurt by the sudden rise in yields. The S&P 500 also fell over that span, down 2.4%, but more than half the stocks within the index were rising during that time.

Marathon Oil and other energy producers led the way, with several up more than 20%. Cruise-ship operators were also steaming much higher. If the economy does roar back soon, as nearly everyone on Wall Street is anticipating, profits should jump much more for those types of companies than for big tech stocks, which had actually benefited from the stay-at-home economy.

That's why if the S&P 500 falls because of drops for a just a few heavyweight companies, Wall Street should take it in stride. Many analysts and professional investors expect the improving economy to boost profits for companies enough to more than make up for any stumbles caused by rising rates in the near term, and they expect the S&P 500 to climb higher over the next year.

Since their recent tumble, tech stocks have come back as worries about inflation have been tamped down a bit. The revival for tech stocks helped the S&P 500 return to a record on Monday. And even if the shine never fully returns to tech stocks, many are continuing to produce huge profits that support their stocks, such as Apple and its nearly $29 billion in net income last quarter.

But many professional investors nevertheless expect the rotation out of tech stocks and into other beaten-down areas of the market to continue for a while longer. Tech and high-growth stocks continue to look much more expensive than the rest of the market, and higher interest rates make that gap look more glaring. That could keep the pressure on the S&P 500 and index funds that track it.

High-growth stocks had been largely pulling away from their more cheaply valued rivals, called value stocks, for much of the past 15 years, said David Joy, chief market strategist at Ameriprise. Over the long term, a reversal could last just as long.

Of course, within such long-term trends, the market can swing back and forth in momentum several times. For this most recent move into value stocks and out of high-growth tech stocks, Joy said he thinks there's likely months left to go.

"If I had to guess, it's halfway to maybe two-thirds done," he said, "but it's still the place to be."

Equity

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"Consumers spoke up for racial justice, and they demanded that the brands they patronize do the same," Chatterjee said.

Companies have also faced a push from employees. Whole Foods was sued by employees for barring them from wearing Black Lives Matter face masks because its dress code prohibits visible slogans or messages (afederal judge later dismissed most of the lawsuit).

Adidas was the target of complaints that it lacked racial diversity. The sportswear company responded with plans to fill 30% of new positions with Black and Latino candidates and to invest $120 million to address racial disparities through 2025.

Adidas says it's donated $2 million to a small business fund created by Beyonce's BeyGOOD initiative and the NAACP. And it plans to give an additional $10 million to that or other initiatives and $2 million in scholarships to Black and Latino students within three years. The company, though, has yet to disclose the percentage of Black and Latino candidates it's hired since its pledge to diversify its ranks.

Others, like Facebook and the cosmetics company Estée Lauder, have also vowed to increase the number of Black employees in their workforces or leadership positions.

"Companies are actively marketing to source great talent and retain the best employees," Chatterjee said.

Yet any sudden burst of giving from companies not known for donating to racial justice causes isn't without risk. Marlette Jackson, a diversity director at Virgin Pulse, part of the Virgin Group conglomerate, says consumers will have to decide for themselves whether a company is contributing to equity causes as an expression of its values or is merely trying to appease customers and employees.

At the same time, experts say, there's no consensus on how to define racial equity giving. They also note that tracking the contributions can be difficult. Typically with corporate philanthropy, unlike with foundations or public charities, details tend to be sparse. And Candid said it's unclear, at least from initial announcements, where about $3.7 billion is going.

Well-known organizations like the NAACP Legal Defense and Educational Fund and the National Urban League and historically Black colleges and universities have received some portion of the corporate donations. But determining how many or which Black-led organizations are actually benefiting can be hard because tax filings for nonprofits don't include racial identifiers, said Shena Ashley, head of the Urban Institute's Center on Nonprofits and Philanthropy.

"I have all the data that we have in the nonprofit sector," Ashley said, "and I still don't know the number of Black-led organizations that exist in the United States."

Still, JPMorgan has committed $2 billion over five years to support the recovery of Black, Latino and other underserved communities. The company says at least $42.5 million in grants and low-cost loans will help expand its Entrepreneurs of Color Fund, which helps minority-owned businesses attract capital.

Other large commitments are coming from banks like Citi, PNC, Bank of America and Goldman Sachs. The first three have each pledged investments of $1 billion or more toward homeownership and other financing. Goldman Sachs says it will give $100 million as part of a 10-year $10 billion investment to advance racial equity and economic opportunities for Black women.

Citi's CEO Michael Corbat said that closing the racial wealth gap and addressing racism is "the most critical challenge" in creating an inclusive society. Citi says it's donated $25 million in profits from its participation in the government's Paycheck Protection Program to the company's foundation, which plans to give it to nonprofits assisting minority-owned businesses.

The racial disparities in wealth — the typical Black family holds just one-eighth the wealth of a white family — are a common theme expressed by financial industry executives. PayPal, for example, pledged $500 million to create a fund for minority businesses that will help "drive financial health, access, and inter-generational wealth creation." And Netflix says it wants to help reduce the racial wealth gap by putting 2% of its cash holdings into financial institutions that directly support Black communities.

Shelley Stewart III, a McKinsey partner who leads the company's research on Black economic mobility, said he's struck by the "number of companies jumping into the fray and recognizing that they've been part of the problem and not yet part of the solution."

Still, while well-known civil rights and social justice organizations and HBCUs have drawn the interest of donors, Ashley, of the Urban Institute, says it remains unknown how much funding smaller community-based groups will receive. Donors are still learning about organizations "beyond the top players," she added.

Another difficulty is measuring the success of the philanthropy, the results of which can take years.

"If the emphasis is on addressing the root causes of racial inequities and eliminating differential outcomes," said Leslie Pine, a managing partner of the philanthropy advisory group The Philanthropic Institute, "those things don't change overnight."

Jim Mone/AP

A group of protesters march Monday in the snow around the Hennepin County Government Center in Minneapolis where the second week of jury selection continues in the trial for former Minneapolis police officer Derek Chauvin. Chauvin is charged with murder in the death of George Floyd during an arrest last May.

Wage gap

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Another challenge to going back to work is finding child care. Child care openings are far scarcer than they were before the pandemic. It is also unaffordable for many families unless it is subsidized by an employer, the state or federal assistance.

Finally, COVID-19 has burdened women and families with debt. If they were lucky, they received unemployment and federal stimulus money. But the hole is deep for many families and will take years to dig out.

The good news? COVID-19 could be an opportunity to make profound advancements in increasing women's earnings and placement in leadership positions.

First, employers who are willing to seek out women and women of color can build exceptional leaders by hiring through the lens of qualifications that reflect resilience and innovation, rather than direct experience in an industry. And as COVID-19 changes career paths for so many, there is no better time to find new, untapped or overlooked women who are ready to rise to the occasion.

Second, sponsoring women in your network is critical. This is different than mentoring. Mentors talk to you; sponsors talk about you. The data around sponsorships is compelling. U.S. women with a sponsor earn more than their counterparts without one, according to research from PayScale. Even more interesting is the power of male allyship in this regard. Female proteges with a male sponsor earn 14.6% more than women with a female sponsor — a good way to bridge the gender wage gap past COVID-19.

Abrams puts it this way: "Women and diverse teams perform better, so ensuring your workforce is diverse in gender, ethnicity and race will help you be more profitable and innovative."

She adds, "In addition, women score higher in nearly all the top leadership skills, and if the pandemic has proven anything it is that women are experts at juggling work and family. We are exhausted, and yet we have persevered."

Katy Brooks is the Bend Chamber of Commerce CEO. Her vision for the chamber is to catalyze an environment where businesses, their employees and the community thrive.