WEEKLY MARKET UPDATE, MARCH 15, 2021

GENERAL MARKET NEWS

• Rates moved higher last week but at a more muted pace, with the 10-year Treasury yield opening just shy of 1.58 percent and closing at 1.64 percent, where it remained through Monday's open. The 30-year yield opened at almost 2.40 percent, up from last week's open of 2.30 percent. There was a slight increase in yields on the shorter end of the curve as well, with the 2-year opening Monday at 0.15 percent.

• On Thursday, President Biden signed the American Rescue Plan Act of 2021. The $1.9 trillion stimulus plan will help vaccine distribution and testing, while providing aid to state and local governments, individuals, and businesses. Markets rallied, with the Russell 2000 Index leading the way and posting a weekly gain of more than 7 percent. The aid for small businesses, combined with rising interest rates, supports this index, as it provides exposure to regional banking. The top-performing sectors, which supported a cyclical recovery theme, were real estate, consumer discretionary, utilities, materials, industrials, and financials. The worst-performing sectors were communication services, energy, health care, and technology. Communication services was hit as investors questioned how reopening the economy will affect companies such as Netflix, Facebook, and Disney.

• On Wednesday, the February Consumer Price Index report was released. Consumer prices increased by 0.4 percent, which was in line with economist estimates and slightly higher than the 0.3 percent increase in January. On a year-over-year basis, consumer inflation rose from 1.4 percent in January to 1.7 percent in February. Part of this increase was due to rising gas prices. Core consumer prices, which strip out the impact of volatile food and energy prices, rose by a modest 0.1 percent during the month and 1.3 percent year-over-year. Consumer inflation has largely remained constrained throughout the pandemic and, even with the rise in prices in January and February, year-over-year it remains well below the pre-pandemic high of 2.5 percent from last January.

• Friday saw the release of the February Producer Price Index report. Producer prices increased by 0.5 percent and 2.8 percent year-over-year. This was largely in line with economist estimates for 0.5 percent and 2.7 percent growth, respectively. As was the case with consumer inflation, rising gas prices played a role in the increased inflation rate during the month. Core producer inflation, which strips out volatile food and energy prices, showed a more muted 0.2 percent monthly increase and a 2.5 percent year-over-year growth rate. The rise in prices brought the rate of producer inflation to its fastest level since late 2018, driven in large part by increased raw material and transportation costs for producers.

• We finished the week with Friday's release of the preliminary estimate of the University of Michigan Consumer Sentiment survey for March. This widely followed gauge of consumer sentiment beat expectations, rising from 76.8 in February to 83 in March against forecasts for a more modest improvement to 78.5. This better-than-expected result, which brought the index to its highest level in a year, was driven by improvements to consumer views on the present situation as well as future expectations, likely reflecting the improving public health situation and the anticipated tailwind from the most recent federal stimulus bill. Historically, higher levels of consumer confidence have translated into faster consumer spending growth, so this is a good sign for consumer spending in the upcoming months.

WHAT TO LOOK FORWARD TO

On Tuesday, the February retail sales report is set to be released. Retail sales are expected to decline by 0.3 percent during the month. This would follow a 5.3 percent increase in January, which was driven in large part by the December stimulus checks hitting bank accounts. With that impact fading, a drop in sales in February is understandable. The winter storms throughout much of the country are also expected to serve as a headwind for faster sales growth. Core retail sales, which strip out volatile auto and gas sales, should show a similar 0.4 percent decline in February following a strong 6.1 percent increase in January. Looking forward, a return to faster retail sales growth is expected in the next month or two. The impetus for growth should come from recent improvements in consumer confidence and the anticipated tailwind from the recently passed federal stimulus bill that will send another round of checks to American bank accounts.

Tuesday will also see the release of the February industrial production report. Industrial production is expected to increase by 0.4 percent during the month, following a 0.9 percent increase in January. This anticipated slowdown is partially due to a drop in oil refining in February, caused by the negative effects of winter storms in key production states. Industrial production has rebounded well since initial lockdowns were lifted last year, powered in part by improving manufacturing production. Manufacturing output is expected to show solid 0.5 percent growth during the month, following a 1 percent increase in January. If estimates prove accurate, they would mark 5 straight months with increased industrial production and 10 straight months with rising manufacturing output. Ultimately, this report is expected to show continued resilience for the manufacturing industry despite the weather-related headwinds in February.

Tuesday's third major release will be the release of the National Association of Home Builders Housing Market Index for March. This widely followed measure of home builder confidence is expected to remain unchanged at 84, leaving it close to the record high of 90 recorded in November 2020. This is a diffusion index, where values above 50 indicate expansion, so the anticipated result would signal continued strong growth for the housing sector. Home builder confidence has been buoyed over the past year by record-low mortgage rates and shifting homebuyer preferences that have led to a surge in prospective home buyers. The supply of homes available for sale is near record lows, which also supports higher levels of home builder confidence. Overall, if estimates prove accurate, this release would be a sign that home builders continue to see a healthy housing sector.

On Wednesday, the February building permits and housing starts reports are set to be released. Permits and starts are expected to fall by 7.2 percent and 0.6 percent, respectively, during the month. These gauges of new home construction can be quite volatile on a month-to-month basis, although both have rebounded notably since initial lockdowns were lifted. Building permits hit their highest level since 2006 in January, and starts also remain well above pre-pandemic levels. Once again, the weather likely served as a headwind for faster growth in some regions of the country, which could contribute to the anticipated declines for new home building activity. Looking forward, rising labor and material costs may prevent significantly faster levels of new home construction. If the pace of construction remains near current levels, however, it would continue to signal a strong housing sector.

Wednesday will also see the release of the Federal Open Market Committee rate decision from the Federal Reserve's (Fed's) March meeting. This meeting will mark one year since the Fed cut the federal funds rate to virtually zero at the start of the lockdowns. Economists do not expect any rate changes at this meeting. Instead, the Fed is expected to continue its easy monetary policy in support of the ongoing economic recovery. The passage of the recent $1.9 trillion stimulus bill will likely be reflected in higher growth and inflation expectations from the central bank. But with the labor market recovery lagging, the Fed is not expected to raise rates for the foreseeable future. Fed Chairman Jerome Powell should continue to provide supportive statements at his post-meeting press conference, which will likely also include discussion about the recent increase in long-term rates. Currently, the Fed has no plans to address rising long-term rates, so any information on how it views this development will be interesting. It's an open question whether the Fed will signal any plans for a policy change to rein in longer-term rates.

We'll finish the week with Thursday's release of the initial jobless claims report for the week ending March 13. Economists expect to see a modest decline in the number of initial weekly unemployment claims during the week. Economists are calling for a drop from 712,000 initial claims to 703,000. If estimates prove accurate, they would represent the lowest number of weekly initial claims reported since initial lockdowns were lifted, beating the 711,000 claims made in the week ending November 6, 2020. As previously mentioned, initial claims have been volatile on a week-to-week basis. Notably, however, we have seen a decline in initial claims over the past month as state and local restrictions have been eased. If similar levels of improvements continue over the next few weeks, they would signal an accelerating job market recovery. They would also be a welcome indication that improvements on the public health front are spurring the overall economic recovery.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	2.69%	3.55%	5.33%	47.98%
Nasdaq Composite	3.12%	1.00%	3.50%	70.52%
DJIA	4.17%	6.10%	7.60%	44.47%
MSCI EAFE	3.00%	2.50%	3.68%	53.22%
MSCI Emerging Markets	0.70%	0.75%	4.64%	54.56%
Russell 2000	7.36%	6.95%	19.33%	96.94%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.43%	–3.35%	1.51%
U.S. Treasury	–0.51%	–4.06%	–2.27%
U.S. Mortgages	–0.19%	–0.86%	1.94%
Municipal Bond	0.42%	–0.24%	6.05%

Source: Morningstar Direct

Disclosures: Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg Barclays US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg Barclays US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million. Basis points (bps) is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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