WEEKLY MARKET UPDATE, MARCH 22, 2021

GENERAL MARKET NEWS

- Rates continued to rise last week. On Monday morning, the 10-year Treasury yield opened just below 1.71 percent, an increase of 8.5 basis points from last week's open of 1.63 percent. The 30-year opened just above 2.41 percent, up from last week's open of 2.36 percent. Finally, on the shorter end of the curve, the 2-year opened last week at 0.15 percent and remained flat through Monday morning's open. Despite comments from Federal Reserve (Fed) Chair Jerome Powell, rates did not rise based on inflation concerns. Powell continued to highlight the Fed's stance of keeping rates low for some time amid uncertainty in its economic forecasts.

- Markets were down modestly last week. The exception was the developed international space (predominantly Eurozone and Japan). Although rising yields weigh on future growth prospects, these stocks rallied after the AstraZeneca vaccine was reapproved for use by the European Medicines Agency following concerns regarding blood clots. The Eurozone economy, which has fewer big technology names than the U.S., also benefited from its lack of exposure to growth.

- In the U.S., small-caps were among the hardest hit when the Fed announced that its policy of easing bank leverage restrictions would expire at the end of March. Small-caps have close to 16 percent exposure to financials, while the S&P 500 has only 11.5 percent.

- On Tuesday, the February retail sales report was released. Retail sales fell 3 percent, well below economist estimates for a more modest 0.5 percent decline. This decline offset some of the upwardly revised 7.6 percent rise in sales in January. The January spending surge was driven in large part by the stimulus checks that hit bank accounts during the month, and the February pullback is partially explained by the lack of recurring stimulus payments. In addition, winter storms that hit much of the country during the month served as a temporary headwind for consumer spending growth. Core retail sales, which strip out the impact of volatile auto and gas sales, fell 3.3 percent after rising 8.5 percent in January. Looking forward, the most recent round of stimulus checks and a return to more normal weather patterns are expected to serve as a tailwind for faster sales growth in March.

- Tuesday also saw the release of the February industrial production report. Industrial production fell 2.2 percent, which was below economist estimates for a 0.3 percent increase. Manufacturing output declined 3.1 percent during the month against economist estimates for a 0.2 percent increase. This marks the first month with declining manufacturing output since last April, when lockdowns shut factories across the country. As was the case with February's retail sales report, industrial production was seriously hampered by winter storms, with mining and chemicals output seeing sharp weather-related declines. Despite the declines, industrial production and manufacturing output have recovered well since initial lockdowns were lifted last year, and economists expect to see a rebound in production with more temperate weather in March.

• Also on Tuesday, the National Association of Home Builders Housing Market Index for March was released. This widely followed measure of home builder confidence fell from 84 in February to 82, which was below economist estimates for no change. This result still leaves the index above the pre-pandemic high of 76 from December 2019, highlighting the impressive increase in home builder confidence over the past year. That confidence has been buoyed by record-low mortgage rates and shifting home buyer preferences, leading to a surge in prospective home buyers. The report showed that prospective home buyer foot traffic remains strong; however, home builders cited rising lumber costs as a challenge during the month. Looking forward, rising construction costs and mortgage rates may serve as a headwind for significantly higher levels of home builder confidence. Nonetheless, if confidence remains near current levels, it would still support the continued strong pace of new home construction.

• On Wednesday, the February building permits and housing starts reports were released. Starts fell 10.3 percent against calls for a 1.3 percent decline, while permits fell 10.8 percent against forecasts for a 7.2 percent decline. These gauges of new home construction can be quite volatile on a month-to-month basis; however, both have rebounded notably since initial lockdowns were lifted last year. Permits, which are a proxy for future construction, hit a 14-year high in January and are up 17 percent year-over-year, indicating continued strong levels of new home construction are expected. Starts were negatively affected by winter storms during the month but should rebound in the upcoming months, given continued high levels of home builder confidence and moderating weather

WHAT TO LOOK FORWARD TO

On Monday, the February existing home sales report was released. The pace of existing home sales fell by more than expected, declining by 6.6 percent during the month against forecasts for a more modest 3 percent drop. This result is likely due in large part to the inclement weather in February. Still, despite the drop in sales reported, existing home sales are up by 9.1 percent on a year-over-year basis. This result highlights the segment's rebound since initial lockdowns were lifted last year. Over the past year, the rising pace of existing home sales has been largely driven by record-low mortgage rates and shifting home buyer preference due to the pandemic. Looking forward, however, low supply and rising mortgage rates and prices may serve as a headwind for significant growth to continue. With that said, sales near the current levels do represent a notable increase compared with pre-pandemic levels and signal a healthy housing market.

Tuesday will see the release of the February new home sales report. The pace of new home sales is expected to fall by 4.6 percent during the month, following a 4.3 percent increase in January. This segment is a smaller and often more volatile portion of the housing market compared with existing home sales. Still, if the estimate holds, new home sales would be up 23 percent year-over-year, highlighting continued high levels of home buyer demand. Economists expect that the winter weather will have hindered growth for new home sales, but low supply and rising prices also likely served as headwinds. Looking forward, supply constraints and rising prices may restrain significantly faster levels of growth in new home sales. Nonetheless, as the anticipated year-over-year figures demonstrate, sales near current levels would represent a strong housing market compared with pre-pandemic levels.

On Wednesday, the preliminary estimate of February's durable goods orders report is set to be released. Orders are expected to rise by 0.9 percent during the month, following a 3.4 percent increase in January. Core durable goods orders, which strip out the impact of volatile transportation orders, are expected to increase by 0.6 percent. If estimates hold, this report would mark 10 straight months with increased core durable goods orders. As these orders are often viewed as a proxy for business investment, they signal steady business spending. Business confidence and spending have remained impressively resilient since initial lockdowns were lifted last year. Durable goods orders growth in February would demonstrate continued business investment despite the inclement weather throughout much of the country.

Thursday will see the release of the initial jobless claims report for the week ending March 20. Economists expect to see initial unemployment claims fall from 770,000 to 735,000 for the week. This result would lower the four-week moving average for initial claims but would leave claims relatively range bound. Compared with December and January results, we have seen notable improvement in this report, but the number of weekly claims remains high on a historical basis. This signals continuing labor market stress, but the recent stimulus bill may serve as a tailwind. In addition, continued progress on implementing vaccinations should lead to an accelerated recovery for the labor market over the next few months. But until we see further progress in the weekly and monthly employment data, this report will continue to be widely monitored.

On Friday, the February personal income and personal spending reports are set to be released. Spending is expected to fall by 0.8 percent, following a 2.4 percent increase in February. Economists expect this result to be similar to the pattern in retail sales, which saw a stimulus-induced surge in January partially reversed in February. Incomes have been very volatile on a month-to-month basis since the start of the pandemic, driven by shifts in federal stimulus and unemployment payments. Incomes are expected to fall by 7 percent in February, which is understandable given the 10 percent increase recorded in January. Looking forward, the recent $1.9 trillion stimulus bill is expected to serve as a tailwind for a return to growth for both personal income and spending in March. The stimulus checks have already started to hit bank accounts. So, while the anticipated declines in February's personal spending and income figures may be disappointing, the potential for a swift recovery in March is a good sign that the weakness may be transitory.

We'll finish the week with Friday's second and final release of the University of Michigan consumer sentiment survey for March. The initial estimate saw this widely followed measure of consumer confidence increase by more than expected. It rose from 76.8 in February to 83 in March, against calls for a more modest increase to 78.5. Economists expect the index to record a further rise to 83.5 at month-end. If the estimate holds, it would represent a new post-pandemic high for the index, demonstrating improving consumer confidence as we head into the spring. The improvement on the public health front and recent passage of another federal stimulus bill are expected to support higher levels of intramonth confidence. Historically, higher levels of consumer confidence have translated into faster levels of consumer spending growth. Accordingly, any improvement for the index throughout the month would be another positive signal for March's spending figures.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.74%	2.78%	4.55%	72.71%
Nasdaq Composite	–0.77%	0.22%	2.70%	93.64%
DJIA	–0.45%	5.62%	7.12%	73.88%
MSCI EAFE	0.59%	3.11%	4.29%	63.59%
MSCI Emerging Markets	–0.81%	–0.06%	3.79%	69.98%
Russell 2000	–2.76%	4.00%	16.04%	128.37%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.28%	–3.61%	3.61%
U.S. Treasury	–0.30%	–4.34%	–2.84%
U.S. Mortgages	–0.36%	–1.21%	1.71%
Municipal Bond	–0.51%	–0.76%	12.92%

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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