Market Update

March 15, 2021

Massive Fiscal Stimulus Package Signed

- One year after the start of global lockdowns, it is starting to feel like the end is finally approaching. The new fiscal package signed into the law will continue to support a stronger economic recovery and the financial resilience of American households.
- The Consumer Price Index (CPI) came in on market expectations, while core CPI edged lower in February, giving inflation anxiety a short break.
- The 10-year U.S. Treasury yield is on the upward trend again, but the Fed's primary concern remains a sustained labor recovery. With the virus is still spreading, the recovery remains fragile and unequal, requiring policy to remain accommodative.

This week marks one year since the start of global lockdowns and economic disruptions, due to the coronavirus pandemic. And while no one can say that the crisis is over, it is starting to feel like the end is finally approaching. Thanks to unprecedented policy support, the economic slump has been short-lived, and prospects for recovery look much brighter than initially predicted. Some economists feel that the American Rescue Plan, signed into effect on Thursday, may lift economic growth to roughly 6% this year, the highest rate since 1984.

The new fiscal package is huge. It provides a fresh round of $1,400 checks starting as early as this weekend, extends unemployment benefits of $300 per week until September, increases the child tax credit (and makes it fully refundable), provides aid to states and local governments, supports schools and expands vaccination efforts.

However, there is still the concern that inflation is now here and could become significant. The creation of such a large stimulus package is at the center of this, as interest rates were already moving up in anticipation.

The S&P 500 and most other major market indices are hovering near all time highs. We still see the market as slightly over bought, in many areas. The stimulus package can help keep the markets at these higher levels for a while, as the economy continues to move toward a full reopening. Longer term yields are moving up and Gold is trending slightly downward, currently. The price decline in longer term bonds is creating this uptick in rates, however, the yield curve remains positively sloped. Historically, this indicates a good economic environment, particularly for stocks.

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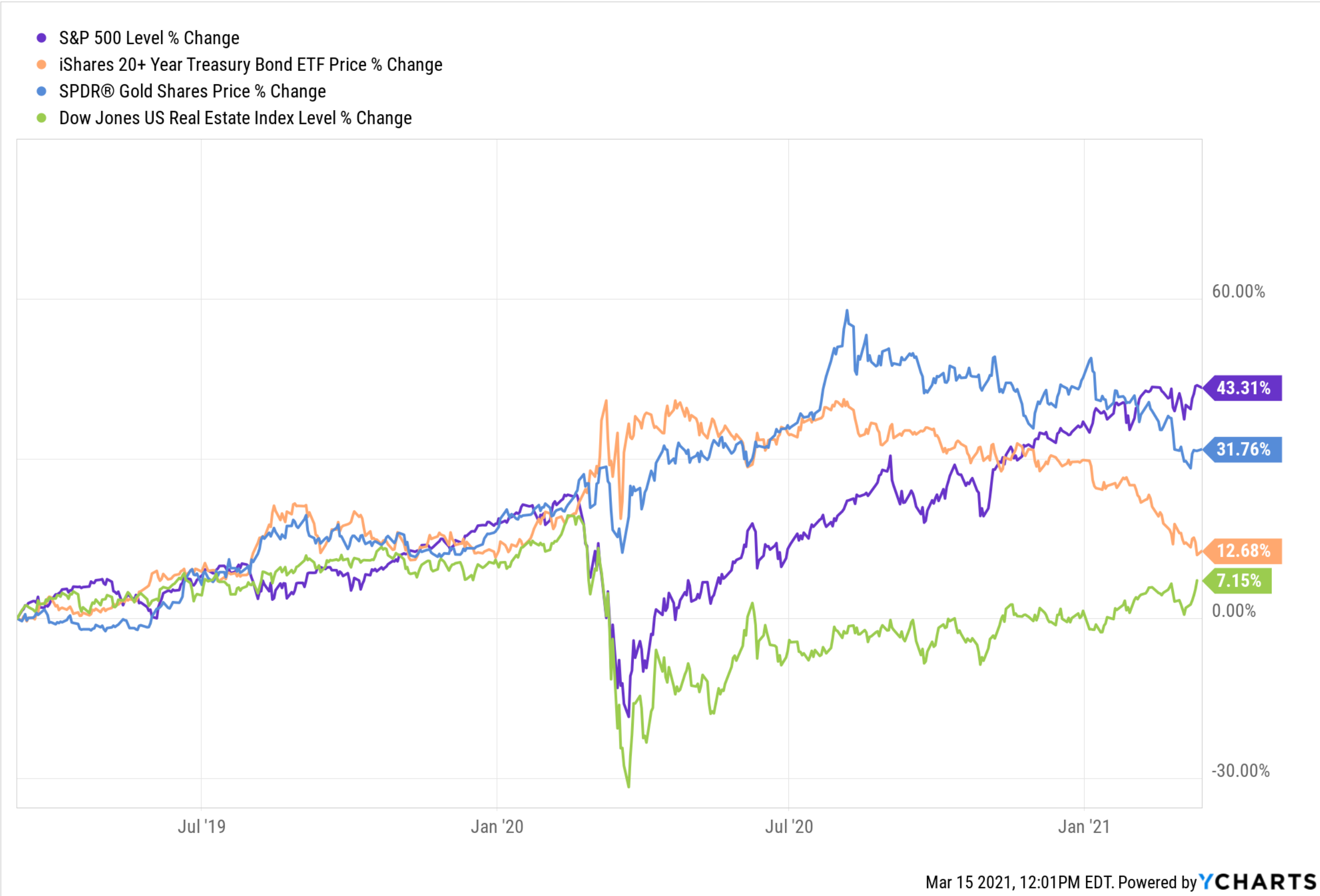

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Long term treasury yields moved up further, since last month. The shape of the yield curve remains positively sloped, which is a good indication that the Federal Reserve's policies are working and helping financial markets. Banks tend to do better with a positively sloped yield curve. Banks being able to perform well is often discussed as necessary, for the economy and markets to do well. Also, industrial stocks often take more of a lead in this environment, while many areas in technology lose some of their attractiveness. Shorter term rates remain low, which provides incentive to go out longer on the yield curve to find returns. Savings accounts still have not seen a significant move up in interest rates, making cash less attractive to hold on to for some investors.

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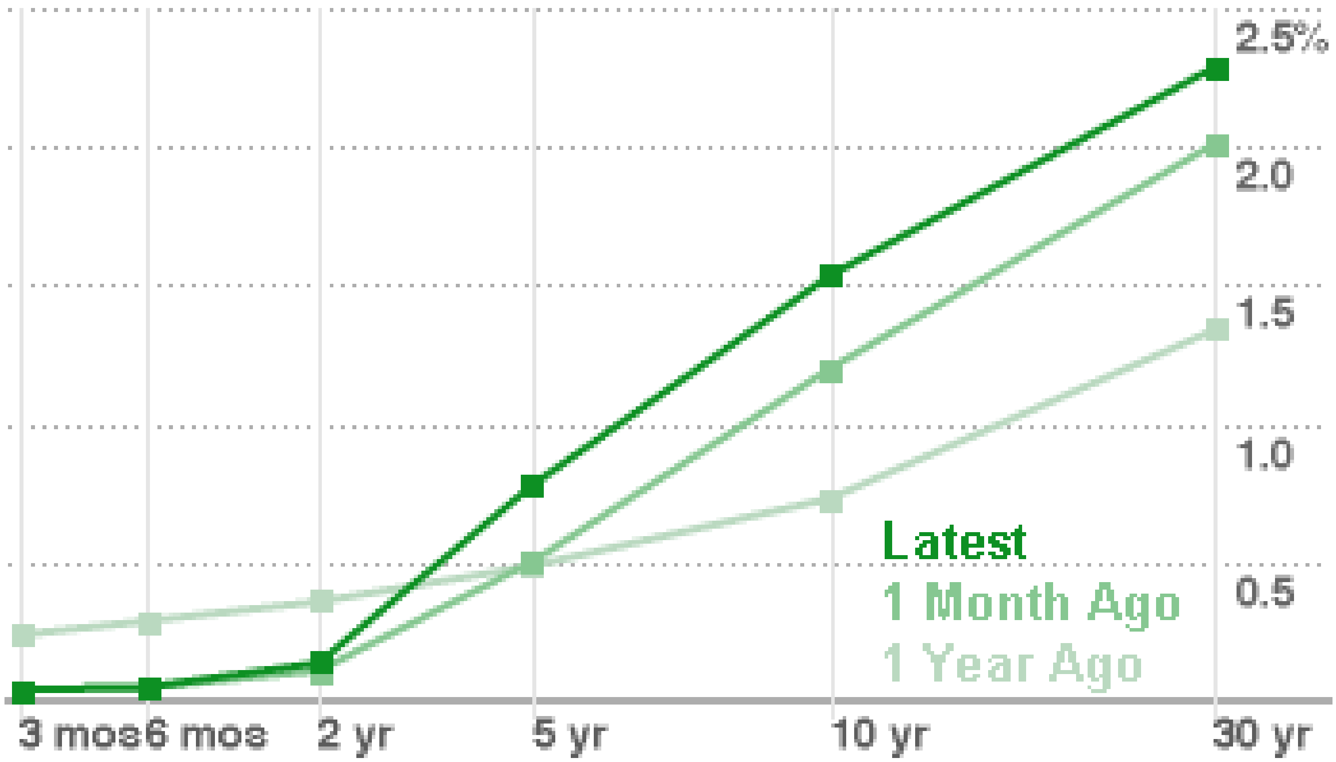

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We are seeing the anticipated broadening in the market toward value stocks and believe this trend will continue. Some of the more over bought areas of the market have seen some pull back since our last update, as anticipated, especially technology stocks. We feel that technology will still perform well however, and even with a bit of rotation into other areas of the market, technology is still a place to invest.

Having a disciplined investment and risk management process, regardless of market action, is the foundational elements to our portfolio designs. It is this portion of the approach of portfolio management, that helps consistently reduce the long run risk taken in a portfolio of investments. Speculating about near term directions in the markets can be and often is a difficult and risky proposition. We can control the risk and process we take in our portfolio construction, but we cannot control market performance.

Overall, we prefer domestic equities over international equities. We prefer more value-oriented stocks vs. growth stocks for longer term growth, as we see growth stocks as more fully valued. However, high quality growth stocks are likely to continue to outperform the market. We are currently neutral to bearish on fixed-income and interest rates. It is important to maintain discipline regarding long-term strategic asset allocation. However, as market conditions dictate, we are looking at tactical opportunities to reduce risk in portfolios, if necessary.

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If you have questions or would like to discuss this further regarding your personal portfolio, please contact me at 310-433-5378.

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