Keeping focused on your long-term goals

Market Commentary | Week ending March 5, 2021

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Market Performance Snapshot (Week ending March 5, 2021 and Year-to-Date)

- Dow Jones Industrial Average®: +1.8% | +2.9%
- S&P 500® Index: +0.8% | +2.3%
- NASDAQ Composite® Index: -2.1% | +0.2%
- Russell 2000® Index: -0.4% | +11.0%
- 10-year U.S. Treasury note yield: 1.56%
  - Up 15 basis points from 1.41% on February 26, 2021
  - Up 64 basis points from 0.92% on December 31, 2020
- Best-performing S&P 500 sector this week: Energy, +10.1%
- Weakest-performing S&P 500 sector this week: Consumer Discretionary, -2.8%

Past performance is not a guarantee of future results.

Markets continue to process the implications of higher yields

Equities continued trying to figure out how to digest rising interest rates. Technology stocks, whose valuations tend to be sensitive to interest rate movements, suffered losses on the week. Other sectors performed well, continuing the rotation trend that's been the hallmark of 2021.

- The 10-year Treasury yield climbed for the fifth straight week, reaching 1.6% on Friday, before closing the week at 1.56%. Higher yields continue to be driven by increased confidence in economic growth and elevated inflation expectations. Some investors are wondering if the Federal Reserve will move to control rising rates or act against inflation sooner than anticipated.
- In remarks Thursday, Federal Reserve Chairman Jerome Powell said the recent rise in interest rates "was something that was notable and caught my attention." However, he reiterated that he expects any increase in inflation this year to be transient: "It's more likely that what happens in the next year or so is going to amount to prices moving up, but not staying up – and certainly not staying up to the point where they would move inflation expectations materially above 2%."
- Powell added that the Federal Reserve will be "patient" in response to any transient inflation – though without any firm definition of "transient" or "patience," markets are likely to continue going through spells of uncertainty regarding future Fed action.
- Keep in mind that a 1.6% 10-year Treasury yield is still historically low, and the increase from the ultra-low rates of 2020 is welcomed by some sectors (such as financial companies) and some investors, including those looking for higher yielding fixed income assets. While markets are jittery about what rising rates mean for equity valuations, a modest correction in the prices of some of the highest-flying stocks may be a healthy indicator, particularly if it's occurring as a result of improvement in the economy.

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- The monthly employment report for February, released on Friday, showed the economy continuing to move forward in its recovery, with 379,000 new jobs added. Most of the gains were in restaurants and other leisure and hospitality businesses, which benefitted from eased pandemic restrictions.
- After the House passed President Biden's $1.9 trillion stimulus proposal, the Senate moved forward with a modified version that included a faster phaseout of direct stimulus payments to individuals and potential adjustments to the extra weekly unemployment benefit. This could result in slightly less direct aid to consumers, though the aid would be even more targeted toward people with lower incomes, who are most likely to spend it.
- Vaccine optimism is also fueling growth expectations. President Biden said that all American adults should have access to a vaccine by the end of May, a process that will be helped along by Merck agreeing to produce doses of Johnson & Johnson's vaccine.
- In a bit of a surprise to markets, the group of oil-producing nations referred to as OPEC+ agreed not to increase output, despite expectations for higher growth and more travel this year. Oil prices had already been moving higher in recent weeks and the OPEC+ decision kept the momentum going. Prices for Brent Crude oil, the international benchmark, closed in on $70 a barrel, a roughly 35% gain since the start of the year.

Retailer reports raise questions for 2021

Earnings reports from major retailers showed continued evidence of the shift toward online commerce, while raising questions about how 2021 will shake out. The consumer discretionary sector, which includes major retailers, was the weakest performer this week, as investors weighed concerns about the potential for future earnings growth.

- Target reported in-store sales growth of nearly 7% over the same quarter the previous year, and digital sales growth of 118%, as the company continued to benefit from its role as a source of both essential goods and traditional department store items.
- However, Target did not provide forward-looking guidance for 2021, citing uncertainties in the economy. One question for Target and other retailers that benefitted from pandemic shopping surges (such as Walmart, Best Buy, Home Depot, Lowe's, and Amazon) is how 2020's inflated baselines will impact 2021 growth rates.
- Kohl's, a more traditional department store, reported a drop in same-store sales. However, its revenue and earnings still exceeded expectations as it continued to implement various operational restructuring initiatives.
- Interestingly, Kohl's reported that 2 million new customers visited its stores in 2020 as a result of its partnership with Amazon to process the online retailer's returns. This may be emblematic of brick-and-mortar stores finding new ways to stay competitive in a retail environment dominated by online commerce.

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Final thoughts for investors

We may be seeing a reversal of last year's dynamic between the economy and markets. While 2020 saw a steep drop in economic activity and a sharp rise in equity index valuations, 2021 may produce stronger economic growth with less impressive index performance. Equity performance may also be broader this year, with additional sectors and industries participating. This underscores the potential value of diversification across assets, sectors, styles, and passive and active funds. Speak with a financial professional to determine the best mix of investments for achieving your long-term goals.

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