MARCH 29, 2021

Weekly Market Update

General Market News

- Inflation fears have increased recently, and yet inflation remains muted, growing at just 1.4 percent year-over-year, according to the core personal consumption expenditures (PCE) price index. In August, the Federal Reserve agreed to let the PCE price index run hot to get average inflation closer to the targeted 2 percent level, so this data is worth watching. On Monday morning, the 10-year Treasury yield opened at 1.65 percent, a decline of 12 basis points (bps) from last Monday's open of 1.73 percent. The 30-year yield opened at 2.36 percent, down from last week's open of 2.44 percent. There was a slight increase on the shorter end of the curve, with the 2-year rising 0.2 bps to Monday's open of 0.14 percent.
- The S&P 500 and Dow Jones Industrial Average led the way for domestic indices last week. The Nasdaq Composite lost roughly half a percent, as investors stuck with staples- and energy-focused indices. REITs, consumer staples, and energy were among the top-performing sectors. Despite lower prices, the energy sector moved higher after the closure of the Suez Canal forced energy tankers to take the long route around Africa. The worst-performing sectors included communication services, consumer discretionary, and financials.
- On Monday, the February existing home sales report was released. The pace of existing home sales fell by 6.6 percent during the month against forecasts for a more modest 3 percent decline. This larger-than-expected drop is likely due, in large part, to inclement weather during the month. Year-over-year, existing home sales are up 9.1 percent, highlighting the rebound in sales we've seen since initial lockdowns were lifted last year. That increase has been largely driven by record-low mortgage rates and shifting home buyer preferences due to the pandemic; however, looking ahead, low levels of supply and rising mortgage rates and prices may serve as a headwind for significantly faster levels of existing home sales.
- Tuesday saw the release of the February new home sales report. The pace of new sales fell 18.2 percent during the month, which was a much larger decline than the 5.7 percent drop that was forecasted. As with existing home sales, new home sales were hampered by winter storms that reduced home buyer foot traffic. New home sales are a smaller and often more volatile portion of the housing market compared with existing home sales. This decline brought the pace of new home sales to a nine-month low. Even with the larger-than-expected decline in February, the pace of new home sales is up 8.2 percent year-over-year. We may be poised for a rebound in housing sales in the coming months given moderating weather, but rising mortgage rates and low supply levels could continue to pressure notably faster sales growth.

General Market News (continued)

- On Wednesday, the preliminary estimate of February's durable goods orders report was released. Durable goods orders fell 1.1 percent during the month, following an upwardly revised 3.5 percent increase in January. This was below economist estimates for a 0.5 percent increase during the month and was likely due, in large part, to winter weather. The decline was widespread, as core durable goods orders, which strip out the impact of volatile transportation orders, fell 0.9 percent against calls for a 0.5 percent rise. These declines in headline and core durable goods orders echo similar weather-related declines we saw in manufacturing output. Business confidence remains at high levels, and, with a return to more normal weather in March, durable goods orders are expected to rebound next month, which would be a good sign for overall business spending in the quarter.
- On Friday, the February personal income and personal spending reports were released. Personal spending fell 1 percent during the month, partially offsetting the upwardly revised 3.4 percent increase in spending in January. This decline was slightly worse than economist estimates for a 0.8 percent drop but echoed a similar decline in retail sales during the month. Personal income fell 7.1 percent, which was slightly better than economist estimates for a 7.2 percent decline. Personal income has been very volatile on a month-to-month basis since the start of the pandemic, driven by shifting federal stimulus and unemployment payments. The decline in February is due to a lack of stimulus after a round of $600 checks caused income to surge 10.1 percent in January. Looking ahead, income and spending are expected to rebound in March due to the tailwind from the recent $1.9 trillion stimulus bill.
- We finished the week with Friday's second and final release of the University of Michigan consumer sentiment survey for March. The initial estimate, released earlier in the month, saw this widely followed measure of consumer confidence increase from 76.8 in February to 83 in March; the second estimate showed further improvement, with the index finishing the month at 84.9. Better than economist estimates for an increase to 83.6, this represents a new post-pandemic high for the index. The intramonth improvement was driven by improving consumer views on current economic conditions and future expectations. The most recent stimulus bill and continued public health improvements likely contributed to the better-than-expected result. This is a very good sign for a potential consumer spending rebound in March, as improved confidence and another round of stimulus checks reaching bank accounts should help support a swift recovery for spending. Overall, this was an encouraging report that points toward a faster-than-expected recovery as we enter the spring.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	1.58	4.40	6.20	59.08
Nasdaq Composite	–0.57	–0.35	2.11	76.53
DJIA	1.36	7.06	8.58	56.19
MSCI EAFE	–0.55	2.54	3.72	46.27
MSCI Emerging Markets	–2.16	–2.22	1.55	58.47
Russell 2000	–2.88	1.01	12.71	98.61

Source: Bloomberg, as of March 26, 2021

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.35	–3.28	1.28
U.S. Treasury	0.40	–3.96	–4.08
U.S. Mortgages	0.16	–1.06	–0.04
Municipal Bond	0.41	–0.35	5.12

Source: Morningstar Direct, as of March 26, 2021

What to Look Forward To

- On Tuesday, the Conference Board Consumer Confidence Index for March will be released. Confidence is expected to increase from 91.3 in February to 96 in March, echoing the improvement we saw in the University of Michigan consumer sentiment survey during the month. If the estimates hold, this release would mark three straight months with improving confidence. In addition, it would bring the index to its highest level since October 2020. This was largely driven by improving consumer views on current economic conditions during the month, which in turn was likely due to the positive impact of federal stimulus payments and the improving public health situation. If we continue to see similar improvements in confidence in March, they would be a good sign for a potential rebound in consumer spending. Improving confidence typically supports faster spending growth.
- On Thursday, the initial jobless claims report for the week ending March 27 is set to be released. Economists expect to see the number of initial unemployment claims decline modestly from 684,000 to 678,000. This result would bring the pace of weekly layoffs to its lowest level since the start of the pandemic, bettering the previous post-lockdown low from the week before. The improvement we've seen recently for initial claims is likely due in large part to easing state and local restrictions put in place to slow the third wave of infections. With this and the anticipated tailwind from the recent stimulus bill, we may be set for accelerated

What to Look Forward To (continued)

improvement for the labor market over the coming weeks. This would be a good sign for the pace of the overall economic recovery.

- Thursday will also see the release of the Institute for Supply Management Manufacturing index for March. This widely followed gauge of manufacturer confidence is expected to increase from 60.8 in February to 61 in March. If the estimates hold, the index would sit at its highest level since 2004, highlighting the impressive rebound in manufacturer confidence seen since initial lockdowns were lifted last year. In February, manufacturer confidence was supported by high levels of buyer demand and low levels of business inventory. These trends are expected to remain supportive in March. This is a diffusion index, where values above 50 indicate growth. Manufacturing confidence near current levels would support continued healthy levels of spending and growth for the industry, which in turn would be a good sign for overall economic growth.
- We'll finish the week with Friday's release of the March employment report. Economists expect to see 623,000 jobs added during the month, which would be a notable increase from the 379,000 jobs gained in February. If the estimates prove accurate, this report would represent the most jobs added in a month since October 2020. This would be an encouraging signal that improvements on the public health front and the associated easing of state and local restrictions are driving an accelerating labor market recovery. The underlying data is also expected to show improvement, with the unemployment rate set to fall from 6.2 percent to 6 percent. This decline would bring the report to a new post-lockdown low. Ultimately, a lot of work must be done to get employment back to pre-pandemic levels. Nonetheless, given the improvements on the public health front and the tailwind from the recent stimulus bill, we may be set for a faster recovery for the job market over the next few months.

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. Rev. 03/21.

Authored by the Investment Research team at Commonwealth Financial Network.

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