Weekly Market Update

General Market News

- Rates continued to rise last week, with the 5-year Treasury yield increasing 19 basis points (bps). On Monday morning, the 10-year opened just shy of 1.40 percent, which was only 6 bps higher than last week's open. The 10-year hit a high of 1.61 percent last Thursday, however, which demonstrates the recent volatility in Treasuries. The 30-year opened on Monday at 2.15 percent, up from last week's open of 2.14 percent. There was a slight increase in yields on the shorter end of the curve as well, with the 2-year hitting a high of 0.19 percent last Thursday.
- Last Saturday morning, the House passed the $1.9 trillion American Rescue Plan, which included the $15 minimum wage. While the minimum wage hike will likely be scrutinized in the Senate, it will be interesting to see how rates and the Federal Reserve react to this round of stimulus.
- Equity markets sold off globally as the rise in Treasury yields led to concerns over future financing costs. Yields have risen significantly over the past month as coronavirus cases have fallen and vaccinations have been distributed. While this has been a positive for equity markets, as bonds have sold off on the more optimistic outlook, the cost of debt and financing has risen significantly. This led investors to seek out sectors that would benefit from rising prices, as the higher cost of financing could be passed onto consumers, depending on price sensitivity. The top-performing sectors were energy, industrials, financials, real estate, and materials, which benefit from rising prices or yields. Sectors that underperformed were technology, consumer discretionary, and health care. Apple, Tesla, Amazon, Microsoft, and NVIDIA were all among the top detractors on the week for the S&P 500 index.
- On Tuesday, the Conference Board Consumer Confidence Index for February was released. Consumer confidence rose from 88.9 in January to 91.3 in February against forecasts for a more modest increase to 90. This marks two consecutive months with increasing consumer confidence, which is a good sign for consumer spending growth. This result helped bring the index well above the pandemic-induced low of 85.7 in April 2020. Much of the rise in February was driven by improving consumer views on current economic conditions, as the present situation index rose to its highest level since November. This improvement likely reflects the positive effects from the improved public health situation during the month as well the tailwind from the stimulus passed at the end of December. Looking forward, there's hope that another round of federal stimulus spending and continued positive change on the public health front will lead to a swift rebound in confidence.
- On Wednesday, the January new home sales report was released. New home sales increased by more than expected, rising by 4.3 percent against calls for a more modest 1.7 percent increase. December's report was also revised up to show 5.5 percent growth at the end of the year. These results brought the pace of new home sales to its highest level in three months, signaling continued strong demand

General Market News (continued)

in the housing market. New home sales have rebounded well past pre-pandemic levels, and sales are up by 19.3 percent on a year-over-year basis. Much of the growth in new home sales over the past year has been driven by record-low mortgage rates that have helped bring additional homebuyers into the market. Looking forward, rising mortgage rates and low levels of supply could serve as headwinds for significantly faster new home sales growth, but if sales remain near current levels, it would signal strong homebuyer demand and a healthy housing market.

- Thursday saw the release of the preliminary estimate of the January durable goods orders report. Durable goods orders increased by 3.4 percent during the month against calls for a 1.1 percent increase. This was a strong result, as it brought the overall level of durable goods orders well above pre-pandemic levels. Business confidence has remained resilient throughout the third wave of infections, and this shows the positive effects that high levels of confidence can have on spending. Core durable goods orders, which strip out the impact of volatile transportation orders, increased by 1.4 percent, better than economist estimates for 0.7 percent growth. Core durable goods orders are often viewed as a proxy for business investment, so this strong result to start the year is a good sign for business spending in the first quarter.
- On Friday, the January personal income and personal spending reports were released. Personal spending rose by 2.4 percent to start the year, slightly below economist estimates for 2.5 percent growth. Despite the modest miss against estimates, this was a very strong result, as it marks the highest monthly spending gain since last June. The personal spending growth was largely driven by the improved public health situation and the federal stimulus passed at the end of December. Personal income rose by 10 percent, slightly above economist estimates for 9.5 percent growth. Income has been very volatile on a month-to-month basis throughout the pandemic, driven in large part by shifting federal stimulus and unemployment payments. The surge in January reflects the effects from the onetime $600 payments included in the December stimulus bill. This echoes the 12.4 percent increase in income last April when the initial round of stimulus checks were released.
- We finished the week with Friday's second and final estimate of the University of Michigan consumer sentiment survey for February. Sentiment improved throughout the month, as the preliminary reading of 76.2 was revised up to 76.8 at month-end. This was better than economist estimates for a more modest increase to 76.5. The report showed that consumers saw improved expectations for future economic conditions, as the expectations subindex increased from 69.8 to 70.7. As was the case with the Conference Board Consumer Confidence Index, the University of Michigan consumer sentiment survey now sits well above last year's pandemic-induced low of 65.9, indicating consumers remain resilient. The lowered case counts and increased vaccinations throughout the month likely played a part in the improving confidence, as well as the positive impact from the December stimulus. Overall, this was an encouraging sign that consumer confidence has now likely stabilized following the third wave and could be set to accelerate as we see further improvements in public health.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	−2.41	2.76	1.72	30.23
Nasdaq Composite	−4.90	1.01	2.47	55.30
DJIA	−1.70	3.43	1.41	22.77
MSCI EAFE	−2.80	2.24	1.15	18.66
MSCI Emerging Markets	−6.34	0.76	3.85	32.74
Russell 2000	−2.87	6.23	11.58	48.86

Source: Bloomberg, as of February 26, 2021

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	−0.36	−2.15	2.10
U.S. Treasury	−0.30	−2.75	0.89
U.S. Mortgages	−0.29	−0.59	1.91
Municipal Bond	−1.20	−0.96	1.12

Source: Morningstar Direct, as of February 26, 2021

What to Look Forward To

- Monday saw the release of the Institute for Supply Management (ISM) Manufacturing index for February. This widely followed gauge of manufacturer confidence improved by more than expected during the month, rising from 58.7 in January to 60.8 in February. Forecasts were for a more modest increase to 58.9. Manufacturer confidence rose to a three-year high, as factory orders, production, and employment all saw faster growth during the month. This is a diffusion index, where values above 50 indicate expansion, so this result signals healthy levels of growth for the manufacturing industry. Manufacturer confidence has rebounded well since initial lockdowns were lifted last year, as the index sits well above the pre-pandemic high of 51.1 it hit in January 2020. Business confidence and spending have remained resilient throughout the third wave of the pandemic, and this strong result bodes well for continued strong levels of manufacturing output and spending.
- On Wednesday, the ISM Services index for February is set to be released. Service sector confidence is expected to remain unchanged at 58.7 during the month, following a surprise increase in January that brought the index close to a two-year high. As was the case with manufacturer confidence, service sector confidence has rebounded well since initial lockdowns were lifted last year. The index remains well above the pre-pandemic high of 56.7 it set in February 2020. The lowered case counts throughout February 2021 caused many state and local governments to lift restrictions, which should support continued high levels of service sector confidence. This trend should be especially beneficial for leisure and hospitality businesses, as higher-frequency data showed an uptick in business activity once restrictions were eased. Looking forward, additional improvements on the public health front and another round of federal stimulus should continue to support strong levels of business confidence and spending.
- Thursday will see the release of the initial jobless claims report for the week ending February 27. Economists expect to see the number of initial claims rise from 730,000 to 793,000 during the week, likely reflecting the impact of weather-delayed claims the week before. Initial claims have been volatile on a week-to-week basis throughout the pandemic. If estimates hold, however, the four-week average of initial claims would reach its lowest level since the first week of December 2020. The improvement from the week before, as well as the general improvement in February compared with much of December and January, indicates that the pressure on the labor market may be starting to ease. This is likely due in large part to the lifting of state and local restrictions driven by the improving public health situation. Overall, however, the number of weekly initial claims remains high compared with historically normal levels. Accordingly, this weekly report will continue to be widely monitored until we see significant progress for the ongoing labor market recovery.
- Speaking of the labor market, Friday will see the release of the February employment report. Economists expect to see 145,000 new jobs added during the month, in an improvement from the 49,000 jobs added in January. The pace of the labor recovery slowed during the third wave of the pandemic, but, if estimates hold, this release would mark two consecutive months with positive job growth. Following a net decline in jobs in December, this outcome would be a step in the right direction. Given the improved public health situation and the easing of local restrictions, the leisure and hospitality jobs that were most pressured during the third wave are expected to show signs of improvement in February. This

What to Look Forward To (continued)

would signal that the labor market recovery is poised to accelerate. Meeting the estimate would be an encouraging sign that the worst impact from the third wave is behind us and the economic recovery picked up steam in February.

- Finally, we'll finish the week with Friday's release of the January international trade report. The trade deficit is forecasted to widen during the month, with economist estimates calling for a $67.5 billion deficit in January compared with $66.6 billion in December. The advance report on the trade of goods showed that the goods deficit widened from $83.2 billion in December to $83.7 billion in January. This result was driven by a 1.1 percent increase in imports that offset a rise in exports during the month. If estimates hold, they would bring the overall trade deficit to its second widest level since the financial crisis, trailing only the $69 billion monthly deficit recorded in November 2020. Despite the anticipated widening of the deficit, we have seen a notable rise in exports since initial lockdowns were lifted. Accordingly, trade is not expected to serve as a major headwind for GDP growth in the first quarter.

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