Weekly Market Update

General Market News

- Rates continued to rise last week, with the 10-year Treasury yield opening at almost 1.41 percent and closing at 1.59 percent. On Monday morning, the 10-year opened just shy of 1.60 percent, and the 30-year opened at 2.32 percent, up from last week's open of 2.16 percent. There was a slight increase in yields on the shorter end of the curve as well, with the 2-year yield opening at 0.15 percent. Last week, Federal Reserve (Fed) Chairman Jerome Powell said he expects some transient inflation in the near term. There is a rumor that the Fed may relaunch Operation Twist, which was last launched in 2011 and involved the Fed selling short-term Treasuries and purchasing longer-dated ones to mitigate rising financing costs.

- We saw mixed trading in equity markets last week. Technology was again the largest detractor, and the tech-oriented Nasdaq Composite continued its recent downturn. The Dow Jones Industrial Average posted a gain of 1.85 percent, however, with financials, energy, and industrials all among the top contributors. Energy was supported by an increase of 7.5 percent in West Texas Intermediate crude oil prices. The increase in yields on the shorter end of the curve remains supportive of financials, leading Exxon Mobil, Berkshire Hathaway, Bank of America, Chevron, and JPMorgan Chase to be top performers.

- 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, rising from 58.7 in January to 60.8 in February against forecasts for a more modest increase to 58.9. This brought manufacturer confidence 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; the index sits well above its pre-pandemic high of 51.1 from January 2020. Business confidence and spending have remained resilient throughout the third wave, and this result bodes well for continued strong levels of manufacturing output and spending.

- On Wednesday, the ISM Services index for February was released. Service sector confidence fell more than expected, dropping from 58.7 in January to 55.3 in February against forecasts for no change. This decline was partially due to inclement weather throughout much of the country that disrupted supply chains and caused shipping delays. This is another diffusion index, where values above 50 indicate expansion, so this result still signals healthy levels of service sector confidence, which has rebounded well since initial lockdowns were lifted. Underlying data pointed toward faster growth in the future, as the backlog of orders for service sector businesses hit a six-month high in February. Ultimately, though

General Market News (continued)

the index's decline was disappointing compared with estimates, service sector confidence remains healthy and may be poised for further improvements in the coming months.

- We finished the week with Friday's release of the February employment report. The report showed the economy added 379,000 jobs during the month, an improvement from the upwardly revised 166,000 jobs added in January and above economist estimates for a more modest 200,000 jobs. This better-than-expected result was largely due to the easing of state and local restrictions that allowed businesses to reopen. Leisure and hospitality jobs accounted for most of the jobs added, as this hard-hit industry gained 355,000 new jobs in February. The underlying data was positive as well, as the unemployment rate dropped from 6.3 percent to 6.2 percent. Overall, this was an encouraging report that showed the pace of the labor market recovery has improved to start the year. Although work remains in returning employment to pre-pandemic levels, this was a positive step that could signal faster job growth ahead.

% Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	0.84	0.84	2.57	31.54
Nasdaq Composite	–2.05	–2.05	0.37	51.91
DJIA	1.85	1.85	3.29	24.48
MSCI EAFE	–0.49	–0.49	0.66	21.46
MSCI Emerging Markets	0.05	0.05	3.91	35.19
Russell 2000	–0.38	–0.38	11.15	53.20

Source: Bloomberg, as of March 5, 2021

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.80	–2.93	–1.28
U.S. Treasury	–0.83	–3.56	–3.67
U.S. Mortgages	–0.08	–0.67	0.92
Municipal Bond	0.31	–0.66	1.11

Source: Morningstar Direct, as of March 5, 2021

What to Look Forward To

On Wednesday, the February Consumer Price Index is set to be released. Economists expect to see consumer prices increase by 0.4 percent during the month, following a 0.3 percent increase in January. On a year-over-year basis, consumer inflation will likely rise to 1.7 percent from 1.4 percent in January. Part of the anticipated uptick is due to rising gas prices, which went up by 6.6 percent in February. Core consumer prices, which strip out the impact of volatile food and energy prices, are expected to show a more modest 0.2 percent monthly increase and a 1.4 percent gain year-over-year. Throughout the pandemic, consumer inflation has largely remained constrained. So, even with an increase in February, it's expected to remain below the 2.5 percent year-over-year growth rate recorded in January 2020. With that said, rising demand and supply constraints may lead to faster price growth in the upcoming months.

On Thursday, the initial jobless claims report for the week ending March 6 will be released. Economists expect to see the number of initial unemployment claims fall from 745,000 to 725,000. If estimates hold, the report for the first week of March would represent the lowest number of weekly initial claims since November 2020. During December 2020 and January 2021, claims increased notably, but this was largely due to increased state and local restrictions. Accordingly, the improvement in February and March is a good sign that the easing of the restrictions has supported the labor market recovery.

Still, despite the anticipated decline in initial claims and recent progress in lowering claims, the overall number of initial filers remains high on a historical basis. This weekly report will continue to be widely monitored until we see substantial progress in reducing the number of weekly initial unemployment claims.

Friday will see the release of the February Producer Price Index. Producer prices are expected to show 0.4 percent growth during the month, down from the 1.3 percent increase in January. On a year-over-year basis, producer prices should rise by 2.7 percent from the 1.7 percent gain in January. Core producer inflation, which strips out food and energy prices, is forecasted to show a 0.2 percent and 2.6 percent increase, respectively, on a monthly and year-over-year basis. If estimates prove accurate, this report would bring the pace of producer inflation to its highest level since 2018. Producer prices have seen widespread upwards pressure recently, driven by increasing demand and continued supply chain constraints. Although this trend has led to faster inflation to start the year, the Fed remains committed to keeping monetary policy supportive.

We'll finish the week with Friday's release of the preliminary estimate of the University of Michigan consumer sentiment survey for March. This widely followed gauge of consumer sentiment is expected to increase from 76.8 in February

What to Look Forward To (continued)

to 78 in March. If estimates hold, this release would leave the index well above the pandemic-induced low of 71.8 we saw last April, signaling continued consumer resilience throughout the third wave of COVID-19. The index would approach the post-lockdown high of 81.8 it hit in October, signaling an improvement in sentiment due in large part to better news on the public health front. Historically, higher levels of consumer confidence have translated into faster consumer spending growth. Any improvement for the index would be a positive signal for continued consumer spending growth in March.

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