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Market Update: March 2021

Stock markets continued their advance during March, closing out another strong quarter for equity investors. U.S. stocks lead the way with returns of nearly 4% in March and more than 6% for the quarter. Foreign equities were up just over 1% for the month and about 3.5% for the quarter. With quarterly returns in excess of 12%, domestic small-cap stocks were the big winners.

> **If there is any unifying theme to all this, it is that investors big and small showed no fear of risk-taking to start 2021.**
>
> **Akane Otani – WSJ 3/31/21**

It has been just over a year since the market low reached on March 23, 2020. The sharp rebound that followed was led by technology stocks … particularly those that focused on the changing habits of *pandemic-confined* consumers. The more recent gains have been driven by economically sensitive value stocks, as investors began looking ahead to an all-encompassing recovery. For the past 12 months, 96% of the 3,000 plus stocks in the Wilshire 5000 Index had positive returns, the highest percentage of winners on record.

> **You could have made good money with bad stock picks. It was like being invited to bet on black, without limits, at a roulette wheel on which 37 of the 38 pockets were black.**
>
> **Jason Zweig – WSJ 3/26/21**

At their March 17 meeting, the Federal Reserve again pledged to support the economy *for as long as it takes*. The Dow Industrials rallied on the news that day to close above 33,000 for the first time. That record close came just five days after reaching the 32,000 mark … making it the quickest 1,000-point climb on record.

> **Markets across the board are expensive today, and that is pinned on central bank support. So, this whole market is very, very sensitive to changes in central bank policy.**
>
> **Hugh Gimber, J.P. Morgan Asset Management – WSJ 3/17/21**

Against the headwinds of rising interest rates, global bonds declined by more than 4% for the quarter. The 10-year U.S. Treasury yield ended March at 1.75%, for a quarterly rise of 84 basis points (0.84%) … the largest one-quarter advance since December 2016.

You might recall that back in August, the Fed promised they would leave interest rates near zero through the end of 2023. Keeping that promise may be more difficult with economic growth accelerating, as expected, in the coming months.

> **For investors, the Federal Reserve these days is a bit like the friend who tells you he has turned his life around. You want to believe, but you aren't quite sure you can.**
>
> **Justin Lahart – WSJ 3/17/21**

It's been an amazing 40-year ride for the bond market. For those of you keeping score, the yield on the 10-year Treasury reached a high of just over 15% in 1981. The yield reached an all-time low of 0.5% last August, and climbed its way back to 0.91% by the end of 2020.

> **The bond market, it seems, still doesn't buy Fed Chairman Jerome Powell's assurance that the Fed won't be raising rates before 2024. Going forward, stock-market investors will have to balance the positive outlook for the economy, with their fears about inflation … It's the price we pay for a surging economy.**
>
> **Alex Eule – Barron's 3/18/21**

Inflation remained muted in February. The Fed's preferred measure, the price index for personal-consumption expenditures, rose 1.6% last month from a year ago. Excluding volatile food and energy prices, the so-called core index was up 1.4% for the year ended in February … slower than the 1.5% year-over-year increase in January.

> **I think it is safe to leave the flowery bell-bottoms in the closet. Serious inflation is still very unlikely, albeit now more likely than it was. The jobs market is much more flexible than in the 1970s, making wage-price spirals difficult, while there is still plenty of international competition to restrict the ability of companies to jack up prices.**

James Mackintosh – WSJ 3/21/21

Over half of U.S. adults should have received at least one dose of vaccine by the end of April. By Memorial Day weekend, as many as two-thirds could be vaccinated. Leisure and hospitality spending, including restaurants, bars, and department stores, are expected to see strong rebounds as the economy opens up.

> **The bottom line is all about the pandemic. Once the pandemic is behind us, you're likely to see a big rebound in consumer services. People are likely to go nuts, we think, in terms of wanting to get out there and do stuff.**

Scott Brown, Chief Economist: Raymond James – WSJ 3/16/21

Hospitalizations and deaths are on the rise in Italy, Germany and France, while the covid vaccine rollout in the European Union remains nothing short of a mess. The botched vaccine procurement process was just the beginning. The most recent debacle temporarily suspended inoculations of the Oxford/AstraZeneca vaccine … the only vaccine widely available in the EU.

Europeans of all ages, from children to grandparents, are becoming exhausted … Vaccinations are progressing at a glacial pace, Covid-19 cases are spiraling up again and increasingly unpopular governments impose new restrictions weekly. The mixture of pessimism, resignation, and anger contrasts with feelings of optimism elsewhere in the West.

Ruth Bender – WSJ 3/23/21

Global supply chain disruptions, compounded by port backlogs and extreme weather conditions, are triggering cost increases and delays. Many multinational companies have been forced to reduce or halt production due to shortages of petrochemicals and semiconductors.

I wouldn't say supply disruptions are necessarily a risk for recovery, just that they will at least temporarily limit how fast the economy can grow.

Andrew Hunter, Capital Economics – WSJ 3/24/21

The MV Ever Given, a massive cargo-ship the size of a skyscraper, was recently lodged in the 300-foot-wide Suez Canal. The canal, which provides a transportation route for 13% of world commerce, was blocked for days … disrupting global trade by tens of billions of dollars. Given the strained relations between the U.S. and China, Chinese Nationalism also remains an ongoing threat to global supply chains.

Beijing's tolerance for economic risk in the service of nationalism has rarely looked higher. As Covid-19 and the recent chip shortage have both shown, supply-chain diversification and redundancy are expensive – but possibly less expensive than not having it in the end.

Nathaniel Taplin – WSJ 3/28/21

About 90 million adults started receiving $1,400 stimulus payments this month. For most, this was on top of $600 received in December and $1,200 received earlier last year. Household savings totaled $3.9 trillion in January, an increase of $1.4 trillion from February 2020. The household debt-service burden (the percentage of after-tax income used to pay off debt) has also fallen to a record low.

All that cash will generate stronger demand for services, helping to heal the labor market. Even after the strong March jobs data (reported on 4/2/21), the U.S. is still short about 8 million jobs from a year ago.

> **You're looking at the biggest surge in economic growth that most people who are working today have ever experienced in their working lives. Consumer demand and trillions of dollars in built-up savings will propel economic growth in a manner that's going to take peoples' breaths away.**
>
> **Tim Quinlan, Well Fargo Securities – WSJ 3/19/21**

The surge in residential real-estate prices is a global phenomenon. Home prices have hit a record in all of the 37 wealthy countries that make up the Organization for Economic Cooperation and Development. Prices last year were up 5% … the fastest increase in nearly 20 years. Just like the U.S., demand is being driven by real demand instead of speculation, as families look to upgrade as they work more from home.

> **There's been this almost global reset as people have taken a step back during lockdown periods and reassessed their lifestyle.**
>
> **Kate Everett-Allen, Knight Frank Intl Research – WSJ 3/28/21**

Strong consumer balance sheets, warmer weather, government stimulus, and rising vaccinations … that's a cocktail with the potential to produce an economic explosion. The recent 1.9 trillion relief package represents about 8% of GDP. Add the extra household saving, and you have an economic tail wind that represents nearly 13% of GDP.

> **There's a lot of money just swishing around in the market.**
>
> **Sandi Bragar, Aspiriant Wealth Management – WSJ 3/31/21**

Investors are becoming a bit too confident. You may have noticed the surge of highly speculative assets – cryptocurrencies, meme stocks, and celebrities pitching blank-check companies (SPACs) … not to mention nonfungible tokens (NTFs). You may also have heard about the implosion of the dangerously leveraged Archegos Capital Management.

> **I've never seen anything like this … This (Archegos) has to be one of the single greatest losses of personal wealth in history.**
>
> **Mike Novogratz, Goldman Sachs – The Wealth Advisor 3/30/21**

All of this is reminiscent of the late 1990s, when Long Term Capital Management collapsed … nearly taking down all of Wall Street with it.

The next few months will be very interesting to say the least …

When demand exceeds supply, prices rise. With consumers locked and loaded, and supply chains in disarray, don't be surprised if we get an inflationary jolt. Still, the structural influences of aging demographics, mounting federal debt levels, and technology innovation will probably keep inflation in check for the foreseeable future.

We should all be excited about the prospects for vaccinations and a strong economic bounce. Regarding the markets, let's try to remain grounded and, as always, stay humble.

Daniel G. Corrigan, CPA/PFS, CFP®