March 8, 2021

Weekly Viewpoint

Despite Volatility Bullish Narrative Intact

Performance for Week Ending 3.5.2021

The Dow Jones Industrial Average (Dow) finished up 1.82%, the Wilshire 5000 Total Market Index[SM] (Wilshire 5000[SM]) added 0.14%, the Standard & Poor's 500 Index (S&P 500) gained 0.81% and the Nasdaq Composite Index (NASDAQ) closed down 2.06%. Sector breadth was positive with 7 of the 11 of the S&P sector groups closing higher. The Energy sector (+10.09%) posted the biggest gain followed by Financials (+4.29%) and Industrials (+3.08%).

Index*	Closing Price 3/5/2021	Percentage Change for Week Ending 3/5/2021	Year-to-Date Percentage Change Through 3/5/2021
Dow	31496.30	+1.82%	+2.91%
Wilshire 5000	40564.86	+0.14%	+2.81%
S&P 500	3841.94	+0.81%	+2.29%
Nasdaq	12920.15	-2.06%	+0.25%

Market Observations: 3/1/21–3/5/21

After falling for two consecutive weeks, the S&P 500 closed higher reflecting progress on the vaccination rollout, more evidence the economic recovery remains durable and a growing likelihood another fiscal stimulus package will be approved in the near term. The Nasdaq Composite lost ground as the backup in interest rates pressured the high valuation Technology sector. After starting the year at 0.92%, the yield on the benchmark 10-year Treasury finished the week at 1.55%.

Reasons Why We Remain Bullish: Despite the recent uptick in volatility, we do maintain a favorable view on the equity markets and believe the bullish narrative remains intact. Our favorable view is based on the supportive Macro environment which we feel provides a sturdy backbone for additional upside as we look forward. While a near-term period of consolidation cannot be ruled out, we would view pullbacks as corrective in nature and not the start of a broader leg lower. Hence, pullbacks would be viewed as a buying opportunity as we continue to believe the return profile over the next 12 to 24 months favors additional upside.

- The economic recovery looks durable and with the ongoing vaccine rollout, growth is likely to pick up steam as we head into the Spring and Summer months,
- Earnings expectations continue to move higher. Clarity on the earnings front is important as it should help fuel capex spending as well as additional hiring activity. Based on consensus expectations, earnings are expected to grow about 23 percent this year followed by another 15 percent in 2022,
- Monetary policy is accommodative. The Federal Reserve is “all in” and they are expected to maintain their very accommodative monetary policy for the foreseeable future,
- Another round of fiscal stimulus is highly likely by mid-month,
- The Covid vaccine is being rolled out. As of Sunday morning, 92.4 million doses have been administered and we are now averaging about 2 million shots per day and that number is expected to grow to over 3 million by April,
- Mean Reversion? Currently money market mutual funds have over $4.36T in cash. While that is down from the May peak of $4.79T, it is still well above the 10-year average of $2.94T. Needless to say, there is a lot of dry powder sitting on the sidelines and as confidence grows around the economy, a portion of that money could find its way back into the markets.
- While the recent sell-off has been painful to watch, we must be cognizant that equal-weight indices are outperforming cap-weight indices, suggesting that the “average stock” is holding up. For example, the Value Line Arithmetic Index (1700 equally weight stocks) is up +11.9% YTD versus the cap-weighted S&P 500 which is up only 2.29%.

Powell Swings and Misses: Last week a very dovish Fed Chair Powell failed to reassure investors that the central bank would keep surging bond yields and inflation expectations in check. Powell really needed to thread the needle with this speech, and he failed. Speaking at a virtual event hosted by the Wall Street Journal, Powell suggested that inflation will pick up in the coming months but that it would likely prove transitory and not enough for the Fed to alter its record-low interest rate policies. Powell also said the outlook for the economy has improved after three months of weak job growth. But he cautioned that the economy and the job market are still far from fully recovered and that full employment would not be achieved this year. The chairman offered no signal that the Fed might respond soon to rising interest rates on Treasury securities by altering its bond-buying policies. His wait-and-see message caused bond yields to jump, suggesting that investors foresee stronger growth and higher inflation on the horizon and are fearful that the Fed may fall behind the curve which could result in a more aggressive response.

The Week Ahead: With the Fed now in its self-imposed communications blackout period ahead of the March 17 FOMC meeting, market participants will be keenly focused on this week’s inflation data, which may add to the recent debate over whether inflationary pressures are picking up. The Consumer Price Index (CPI) will be released on Wednesday followed by the Producer Price Index (PPI) on Friday. Other data points of interest include; weekly jobless claims, wholesale inventories for January, and the preliminary reading of the March sentiment data from the University of Michigan. Fourth quarter earnings season will continue to wind down with just 3 members of the S&P 500 scheduled to report.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Wilshire 5000 Total Market IndexSM represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm's headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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