

Market Review

Investment Insights into Current Events

Treasury Volatility Returns as Stocks Advance

Treasury yields surge while equity prices climb higher amid consumer strength

by Paula Romanchuk, CFA, Consultant

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Key Observations

- *The Treasury curve steepened during the month with a sharp rise in the 10-year and 30-year yields, pushing both to pre-pandemic levels.*
- *Equities rallied, notably small cap and value stocks, amid more vaccine progress and the anticipation of more stimulus.*
- *Strong February retail sales data might suggest that consumers are poised to spend stimulus checks and other savings that have accumulated during the pandemic-induced lockdown.*

Market Recap

While trading frenzies and short selling in equities dominated headlines in January, the bond market, specifically the U.S. Treasury market, stepped into the spotlight in February. Optimism around more stimulus coupled with economic reopening supported higher inflation expectations, which put upward pressure on Treasury yields. The 10-year and 30-year rates both rose more than 0.3 percent during the month. Core U.S. bonds as represented by the Bloomberg Barclays Aggregate Index fell -1.4 percent¹. Higher yielding parts of the fixed income market benefitted from tightening credit spreads given the generally positive market tone.

Equity markets also rallied on more promising vaccine news with the S&P 500 Index returning 2.8 percent. International developed and emerging markets also generated positive absolute returns in February, but modestly below the U.S. market. Small cap and value stocks were standout performers across global equity markets. Those segments were hardest hit during the initial stages of the pandemic but have come back into favor as the prospects for

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those companies improve with more reopening measures and widescale vaccine distribution. U.S. small caps as represented by the Russell 2000 Index returned 6.2 percent in February¹. Value companies within the international developed world (MSCI EAFE Value Index) returned 5 percent during the month.

Within real assets, higher inflation expectations continued to benefit the prices of most commodities, notably energy and industrial metals. The mid-February extreme cold weather in Texas caused some disruption in oil production, which further supported energy prices. A barrel of West Texas Intermediate (WTI) Crude Oil, the benchmark in the U.S., is now trading around \$60.

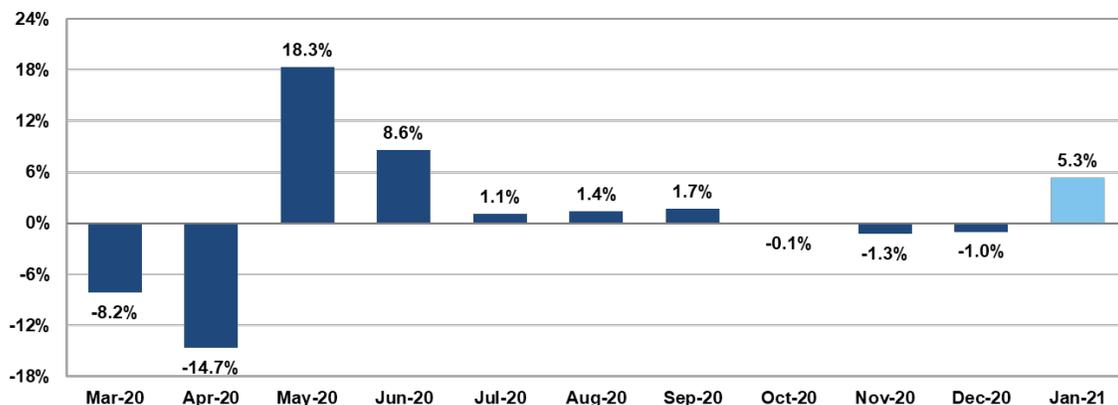
Consumer Strength

As we enter the spring and summer seasons and hopefully get back to some form of normalcy, investors will be keenly focused on consumer behavior and how fiscal stimulus and the easing of restrictions plays out in consumer goods spending data. Consumer spending accounts for more than two-thirds of U.S. GDP and thus will be a key component of the economic recovery. The latest retail sales report released in mid-February showed a 5.3 percent month-over-month jump in sales in January 2021. This far exceeded the forecast of 1.1 percent, perhaps indicating that stimulus checks are being spent and supporting the real economy.

Latest retail sales data came in much stronger than expected

The February retail sales data (5.3 percent month-over-month growth) might be an indication that consumers are ready and willing to spend. While growth in online sales has been a theme during the pandemic, the report showed healthy growth in other areas like restaurants and department stores. Stimulus checks sent in late 2020 likely had a positive impact, so it will be important to monitor future fiscal packages and the subsequent effect on consumer spending.

U.S. retail sales rose 5.3 percent, handily beating expectations of 1.1 percent



Source: U.S. Census Bureau (as of February 28, 2021).

¹ Bloomberg as of February 28, 2021.

With more fiscal stimulus on the horizon and additional vaccination progress, the National Retail Federation, the world's largest retail trading association, is forecasting potentially record-breaking 6.5 to 8.2 percent year-over-year retail sales growth in 2021. If that projection is accurate, it would likely accelerate the economic recovery.

Market Outlook

Risks certainly remain as we navigate a post-pandemic “new normal”. That said, we remain generally constructive on markets in the near-term. Consumer confidence and robust corporate earnings, among other data points, appear to be moving in the right direction and support our view. We will keep a close eye on these trends as well as policy measures, both monetary and fiscal, that are key to the success of the recovery.

For more information, please contact the professionals at Fiducient Advisors.

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Paula services institutional clients by providing counsel and guidance on portfolio design, asset allocation, manager selection, investment policy statements and performance monitoring. Prior to joining the firm in 2019, Paula worked as a Portfolio Associate at Neuberger Berman as well as a Senior Analyst at Income Research + Management. Paula earned a Bachelor of Arts in Economics from Princeton University and is a CFA® charterholder and a member of the CFA Society of Chicago. In her free time, Paula enjoys playing and watching sports, live music and coaches a local high school's girls ice hockey team.