

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by [Aneet Deshpande, CFA, Senior Managing Director, Chief Investment Strategist](#).



OVERVIEW

February saw renewed strength in equity markets as macroeconomic data and Q4 earnings reports were generally better than expectations. Interest rates in the U.S. continued to rise during the month and short-term inflation expectations for the U.S. rose as prospects for the economic recovery advanced and as Congress nears passage of a \$1.9 trillion stimulus package. The combination of these variables helped to spark a rotation out of growth stocks into value stocks while increasing volatility in financial markets, particularly near month-end.

DOMESTIC EQUITY

As of February 28, 2021

U.S. EQUITY MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	3.4%	1.4%	1.4%	24.4%
S&P 500	2.8%	1.7%	1.7%	31.3%
Russell 2000	6.2%	11.6%	11.6%	51.0%
Russell 1000 Growth	0.0%	-0.8%	-0.8%	44.3%
Russell 1000 Value	6.0%	5.1%	5.1%	22.2%

Most U.S. equity markets rallied in February as ongoing optimism surrounding the rollout of COVID-19 vaccines and better-than-expected earnings fueled markets. For the sixth consecutive month, small caps (Russell 2000 Index, +6.2%¹) outperformed large caps (S&P 500 Index, +2.8%¹) as investors continued their rotation into the small cap space given hopes for a domestic economic rebound. Value-oriented stocks outperformed growth-oriented stocks during the month as they generally benefitted from rising rates, rising inflation expectations, and an assumed continuation of the economic recovery. Large cap value stocks (Russell 1000 Value Index, +6.0%¹) outperformed growth stocks (Russell 1000 Growth Index, 0.0%¹) by +6.0%, the widest margin of outperformance since March 2001. Similarly, small cap value stocks (Russell 2000 Value Index, +9.4%¹) outperformed small cap growth stocks (Russell 2000 Growth Index, +3.3%¹).

INTERNATIONAL EQUITY

As of February 28, 2021

INTERNATIONAL EQUITY MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	2.0%	2.2%	2.2%	26.2%
MSCI EAFE	2.2%	1.2%	1.2%	22.5%
MSCI Emerging Markets	0.8%	3.9%	3.9%	36.0%
MSCI EAFE Small Cap	2.6%	2.3%	2.3%	31.2%

Overseas markets were generally supported by progress on the vaccine front as well as falling COVID-19 cases and deaths. Non-U.S. equities rallied in February but lagged U.S. markets. Similar to the U.S., value-oriented stocks (MSCI EAFE Value Index, +4.8%¹) outperformed growth stocks (MSCI EAFE Growth Index, -0.4%¹) in developed markets. Emerging markets (MSCI Emerging Markets Index) posted positive returns of +0.8%¹ during the month, however underperformed developed international markets (MSCI EAFE Index, +2.2%¹). China lagged the U.S. and international developed markets, however, Indian equities (MSCI India Index) surged by +4.6%¹ in February. The U.S. dollar was relatively unchanged against most developed market currencies but slightly stronger against a basket of emerging market currencies.

FIXED INCOME

As of February 28, 2021

FIXED INCOME MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-1.4%	-2.2%	-2.2%	1.4%
BarCap Global Aggregate	-1.7%	-2.6%	-2.6%	4.3%
BarCap US High Yield	0.4%	0.7%	0.7%	9.4%
JPM Emerging Market Bond	-2.6%	-3.7%	-3.7%	1.0%
BarCap Muni	-1.6%	-1.0%	-1.0%	1.1%

As previously noted, the economic recovery, rising short-term inflation expectations for the U.S., and \$1.9 trillion stimulus package drove interest rates higher during the month of February. The 10-yr U.S. Treasury yield rose from 1.07%¹ to 1.41%¹ and the 30-year U.S. Treasury yield rose from 1.83%¹ to 2.15%¹. The increase in 10-yr Treasury yields led to a steepening in the yield curve (i.e., the difference between 10-yr and 2-yr U.S. Treasury yields) by +.32%¹. The rise in rates weighed on fixed income markets with the Bloomberg Barclays Aggregate index losing -1.40%¹ in the month. High yield bonds (Bloomberg Barclays High Yield Index, +0.4%¹) led fixed income markets given their shorter duration (less interest rate sensitivity) and as credit spreads tightened. Rising rates also negatively impacted emerging market bonds (J.P. Morgan Emerging Markets Bond Index) and municipal bonds (Bloomberg Barclays Municipal Index) as those indexes posted losses of -2.6%¹ and -1.6%¹, respectively.

CLOSING

Capital markets continue to digest a number of variables which includes the combination of rising interest rates in the U.S. and rising short-term inflation expectations for the U.S.. Volatility is likely to persist as market participants adapt to this evolving backdrop. That said, the economic recovery continues apace, corporate fundamentals remain strong, and solid earnings growth is expected to continue through the balance of the year. We continue to monitor the evolution of COVID-19 cases and vaccine rollouts, as well as the U.S. economic growth trajectory for 2021.

Sources:

1. Bloomberg (2/28/2021)

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