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MARKET MINUTE

2021 VOLUME 4: MARCH REVIEW

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by Thomas M. Seay, Senior Managing Director, Research.

OVERVIEW

The battle between those that fear rising inflation will lead to significantly higher interest rates versus those that believe the long-term damping economic forces of demographics, globalization, and technology will keep interest rates lower for longer was at play in the financial markets in March. Although the US stock market continued its march higher, value stocks were in the driver's seat while growth materially lagged. The US Treasury 10-year yield continued to rise and posted yields not seen in 14-months. As investors try to determine if strong GDP growth and higher rates of inflation are sustainable or not, financial markets are likely to witness persistent bouts of volatility.

DOMESTIC EQUITY

As of March 31, 2021

U.S. EQUITY MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	6.8%	8.3%	8.3%	53.8%
S&P 500	4.4%	6.2%	6.2%	56.3%
Russell 2000	1.0%	12.7%	12.7%	94.8%
Russell 1000 Growth	1.7%	0.9%	0.9%	62.7%
Russell 1000 Value	5.9%	11.2%	11.2%	56.1%

U.S. equities continued to move higher in March as ongoing optimism surrounding the rollout of COVID-19 vaccines, expectations for a domestic economic recovery, and better-than-expected earnings fueled markets. Small caps (Russell 2000) underperformed large caps (S&P 500) as investors paused their rotation into the small cap space. Small caps had outperformed large caps for six consecutive months prior to March. However, in the large cap space, value stocks (Russell 1000 Value) outperformed growth stocks (Russell 1000 Growth) for a second consecutive month as investors maintained their preference for more cyclical companies amid rising inflation expectations. We are still monitoring the evolution of COVID-19 cases and vaccine rollouts, as well as the US economic growth trajectory in 2021. Despite the rebound in the US Equity market from its lows in March 2020, each of these events has potential to spark market volatility given potentially broad economic implications.

INTERNATIONAL EQUITY

As of March 31, 2021

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quater-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	1.3%	3.5%	3.5%	49.4%
MSCI EAFE	2.3%	3.5%	3.5%	44.6%
MSCI Emerging Markets	-1.5%	2.3%	2.3%	58.4%
MSCI EAFE Small Cap	2.2%	4.5%	4.5%	62.0%

Non-US markets followed US-equity markets higher in March but lagged the US-market returns in large part due to a strengthening US dollar which lessened non-US dollar returns for the month. Much like the US, value-oriented stocks performed much better than growth stocks as investors generally preferred discounted names that would likely benefit from the reopening of the global economy. However, the vaccine rollout is progressing much slower in Europe and Canada than in the US and may present a headwind to overall economic growth in the first half of the year as they continue to face rising COVID cases. Emerging markets (MSCI Emerging Markets) lagged significantly in March as China's equity markets entered formal correction territory after declining over 10% since multi-year highs achieved in mid-February.

The Chinese equity market declines were in part from Beijing increasingly removing fiscal and monetary stimulus as its economy has largely recovered and is expected to be greater than 6% real GDP growth in 2021.

FIXED INCOME

As of March 31, 2021

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-1.2%	-3.4%	-3.4%	0.7%
BarCap Global Aggregate	-1.9%	-4.5%	-4.5%	4.7%
BarCap US High Yield	0.1%	0.8%	0.8%	23.7%
JPM Emerging Market Bond	-1.0%	-4.7%	-4.7%	14.3%
BarCap Muni	0.6%	-0.4%	-0.4%	5.5%

The Federal Reserve's belief that the strong burst in growth and spike in inflation will be temporary and keep short-term interest rates anchored close to zero, while market fears of surging inflation had long-term rates continuing their march higher. In this environment, shorter duration securities such as high yield corporates and leveraged loans generally outperformed long duration investment grade corporates and US Treasury securities. A bright spot in the fixed income markets were municipal securities as investors look to shelter income in anticipation of looming tax increases to fund record high federal budget deficits.

CLOSING

Most US investors have never witnessed a persistent rise of inflation or interest rates as in 1980, when the US consumer price index stood at 13.5% (Federal Reserve Bank of Minneapolis) or when 3-month US T-bills yielded 16.3% in May 1981 (fred.stlouisfed.org). Following the herd in an environment most investors have never witnessed can lead to erratic investor behavior which, in the long run, seldom delivers rewarding returns. We are cognizant of the current accommodative monetary policy and the higher inflation statistics that will be printed over the next few months, but the long-term influences of demographics, globalization, and technology should not be forgotten.