

OBSERVATIONS

- COVID-19: Globally, 781 million vaccination doses have been administered. The wealthiest 27 countries have nearly 40% of the vaccinations but represent only 11% of the world's population.¹
- The Department of Labor's Job Openings and Labor Turnover Survey showed job openings reached a 2-year high to 7.37 million available positions.¹
- So called "K" shaped recovery showing signs of stresses for the less credit worthy borrowers: 9% of Sub-prime auto loans are now in 60+ day delinquency, the highest since 2005.²
- Recent study suggests that for the first time since the 1990s the global middle class shrank in 2020. An estimated 150 million people fell down the economic ladder across the globe.³
- Brick and mortar retail still reeling as the vacancy rate for regional malls reached a record high 11.4%, meanwhile UBS baseline estimates are for 80,000 retail store closures over the coming five years.⁴
- Bloomberg estimates the total value of distressed bonds to be less than \$100bn in the U.S., down from \$1tn at the pandemic's outset.¹
- Like the manufacturing sector of the economy, the services economy continues to improve. The Institute for Supply Management's (ISM) Services Index rose to 63.7%, the highest since records began in 1997.¹
- Confidence in global trade is high among container shipping companies as they signed deals with shipyards for 72 new vessels, surpassing the prior record of 50 ships in 2011.⁵
- The cryptocurrency market reached \$2tn last week, Bitcoin accounting for nearly half of the total value.⁶
- Less than a decade old, cryptocurrency exchange Coinbase is set to go public this week at an estimated valuation of \$100bn. The company released an update of financials last week which included \$1.8 billion in revenue and net income of \$730-800 million for Q1 2021. For comparison: 50 year old Nasdaq Q4 2020 revenues of \$788 million, Intercontinental Exchange (holding company of the 200+ year old New York Stock Exchange) \$2.23 billion in Q4 2020 revenues, 120+ year old Chicago Mercantile Exchange Q4 2020 revenues of \$1.1 billion, and the 45+ year old Chicago Board Options Exchange Q4 2020 revenues of \$307 million.⁷

EXPECTATIONS

- The International Monetary Fund (IMF) raised its estimates for global growth in 2021 to 6.0%, up from its previous forecast of 5.5% and the highest since at least 1980.¹
- President Biden's \$2.3tn 'American Jobs Plan' is proposed to be funded by the 'Made in America Tax Plan', which is estimated to raise \$2tn over 15 years. The plan would raise the U.S. federal tax rate for corporations from 21% to 28% and when combined with state and local taxes would reach an estimated 32.3% - the highest of the OECD's 37 member countries. The U.S. presently ranks 12th in the OECD.⁸

ONE MORE THOUGHT:

While the S&P 500 has been reaching all-time highs, there have been a few areas of markets that have seen increased volatility in recent days and weeks. These pockets of divergences have been observed in market

¹ Bloomberg LP

² https://www.wsj.com/articles/risky-borrowers-are-falling-behind-on-car-payments-11617615001?mod=hp_lead_pos5

³ Pew Research Center, Bloomberg LP

⁴ <https://www.cnn.com/2021/04/07/us-mall-vacancies-jump-at-fastest-pace-on-record-hit-high-moodys.html>

⁵ <https://www.ft.com/content/77989ec9-e674-4c75-814b-9b7451722ac6>

⁶ <https://coinmarketcap.com/>

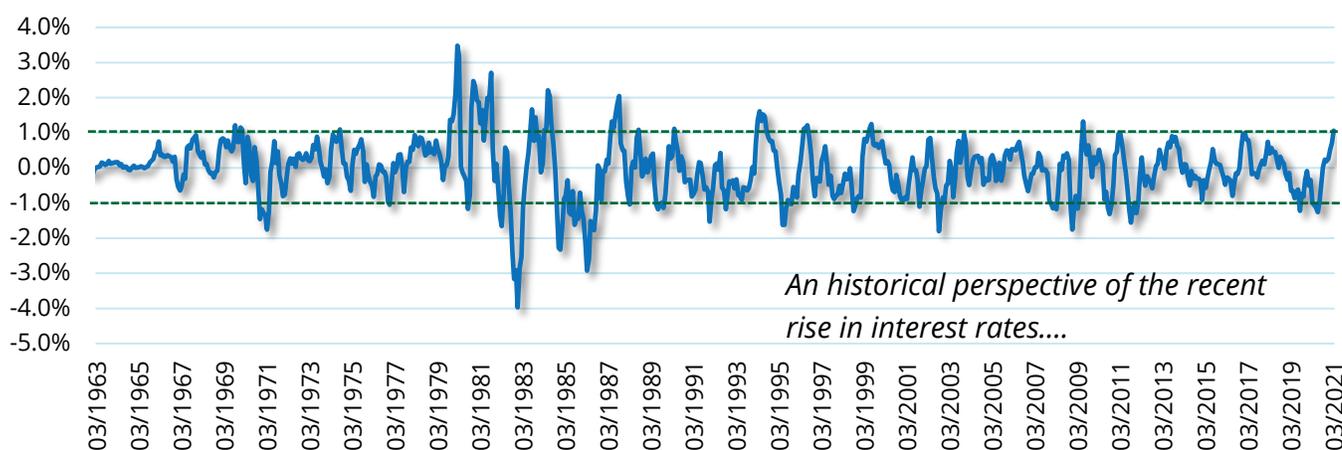
⁷ Bloomberg LP, CNBC, Coinbase.com, Cryptobriefing.com, valuation estimates of \$100bn are on a fully diluted basis

⁸ <https://www.natlawreview.com/article/made-america-tax-plan-biden-administration-outlines-its-tax-reform-proposals>, <https://www.oecd.org/about/members-and-partners/>, OECD = Organization for Economic Co-operation and Development.

segments where speculation had run rampant, so perhaps it was just a matter of time. Technology heavy indices such as the Nasdaq 100 and the Russell 1000 Growth both 'corrected' by -10.7% and -9.7%, respectively from mid-February to early March. Meanwhile, IPOs (Renaissance IPO Index -13.9%), SPACs (IPOX SPAC Index -22.3%), emerging markets (MSCI EM Index -10.0%) and Chinese equities (CSI 300 Index -15.2%), also faced 'correction' level declines during a stretch from mid-February to late-March. It is notable that the expected volatility (VIX Index) for the broader S&P 500 just reached levels (as of 9-April) that are below its 10-yr, 20-yr, and 30-yr averages. In contrast, expected volatility for U.S. Treasuries remains elevated, above 5-yr averages, amidst a rising interest rate environment. Short run expectations appear to be approaching complacency in equity markets. Additionally, the wringing out of excesses in many of these market segments is likely a multi-phase process, it's likely far from over and we would expect bouts of volatility within certain asset classes and sectors as the S&P continues to reach marginal new highs.

CHART OF THE WEEK

Rolling 6-Month Change in 10-Year Yields



Source: Clearstead, Bloomberg LP, U.S. 10-Year Treasury Yield, Jan-1961 to Mar-2021

Putting the recent rise in yields into perspective of longer-term history shows the magnitude of change in yields to be within a *normal* range of observations. On a rolling 6-month basis, the 10-year yield has increased 106bps to 1.74% (as of 31-March). More notably, 84% of all rolling 6-month changes in yields fall within +1.00% and -1.00%.

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