

WEEKLY UPDATE

MARCH 1, 2021

CARY STREET
PARTNERS

MARKET UPDATE AND COMMENTS

Stock markets wavered last week, as the S&P 500 Index posted a 2.45% decline.¹ The underlying dynamics were far more notable, as the rotation from last year's winners, primarily mega cap technology companies, to cyclicals gained steam. The NASDAQ, an index laden with large cap technology names declined 4.92%¹ on the week. Cyclicals are industry groups and small companies whose earnings are tied to a greater degree to the economic cycle. Part and parcel to this shift has been a steepening of the yield curve. The ten-year Treasury yield continues to be front and center, trading as high as 1.6%¹ before ending the week at 1.46%.¹ This is pre-pandemic territory. The dawning of economic re-opening and rising yields are major contributing factors to the broad rotation occurring in the market right now. Industry groups that have historically outperformed in a rising yield environment are doing just that. Investors are using former leadership, like tech, as a source of funds in favor of higher-yield beneficiaries like banks and energy. We are seeing the same rotation globally. Positioning with cyclical exposure is a viewpoint we expressed in our 2021 Outlook, and a viewpoint we continue to hold.

As volatility increased last week, credit remained placid. A lack of credit stress supports the long-term equity trend that has been in place since last March. Corrections and pullbacks happen periodically in an uptrend, but an early sign of a larger, more disruptive decline is credit stress. Massive liquidity is also supportive, and sentiment is not complacent.

Accompanying the rise in longer-term Treasury rates has been a broad decline in bond returns. Bond prices move inversely to rates, higher rates equal lower prices. The Barclays U.S. Aggregate has declined 2.15%¹ so far in 2021. As expressed in our 2021 Outlook, we see this trend toward a steepening yield curve with higher long-term rates as being with us for the full year. Markets, however, never move in a straight line and this is no longer an unexpected trade. In fact, it is a very crowded trade. The ten year is currently trading around a significant resistance zone of 1.5 to 1.6%.¹ Consequently, we expect a pause, or at least a slower pace of increase than we have witnessed in the last two months.

ECONOMIC NEWS

Signs of accelerating economic growth are all over the place. Consensus estimates of growth for the first quarter are too low at this point. High frequency data is tracking much higher than consensus. The fall in COVID infection rates and hospitalizations is resulting in high touch services making a comeback. Stronger than expected growth, supported further by massive liquidity and potentially another relief bill, equals stronger cyclical stocks (including small caps) and tough sledding in the bond markets.

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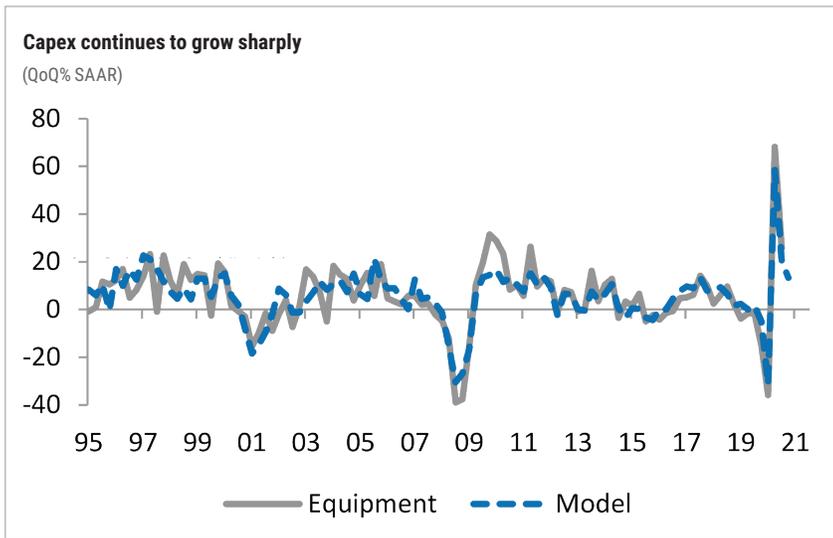
WEEKLY BENCHMARKS

GROUP/INVESTMENT	YTD Return (Cumulative) 2.26.2020
US EQUITY RETURNS	
SPDR® S&P 500 ETF TRUST	1.71
ISHARES DOW JONES US ETF	2.19
ISHARES RUSSELL 1000 ETF	2.03
ISHARES RUSSELL 1000 VALUE ETF	5.04
ISHARES RUSSELL 1000 GROWTH ETF	-0.78
ISHARES RUSSELL 2000 ETF	11.54
GLOBAL EQUITY RETURNS	
ISHARES MSCI ACWI EX US ETF	2.14
ISHARES MSCI ACWI ETF	1.83
US FIXED INCOME RETURNS	
ISHARES SHORT TREASURY BOND ETF	0.00
ISHARES CORE US AGGREGATE BOND ETF	-2.18
ISHARES TIPS BOND ETF	-1.41
ISHARES IBOX \$ INVMT GRADE CORP BD ETF	-3.83
ISHARES IBOX \$ HIGH YIELD CORP BD ETF	0.26
ISHARES MBS ETF	-0.61
GLOBAL FIXED INCOME BENCHMARKS	
ISHARES CORE GLOBAL AGGT BD ETF USD DIST	-2.64
US FIXED INCOME MUNI RETURNS	
ISHARES NATIONAL MUNI BOND ETF	-1.18
REAL ASSETS	
ISHARES GOLD TRUST	-7.88
SPDR® DOW JONES GLOBAL REAL ESTATE ETF	2.97

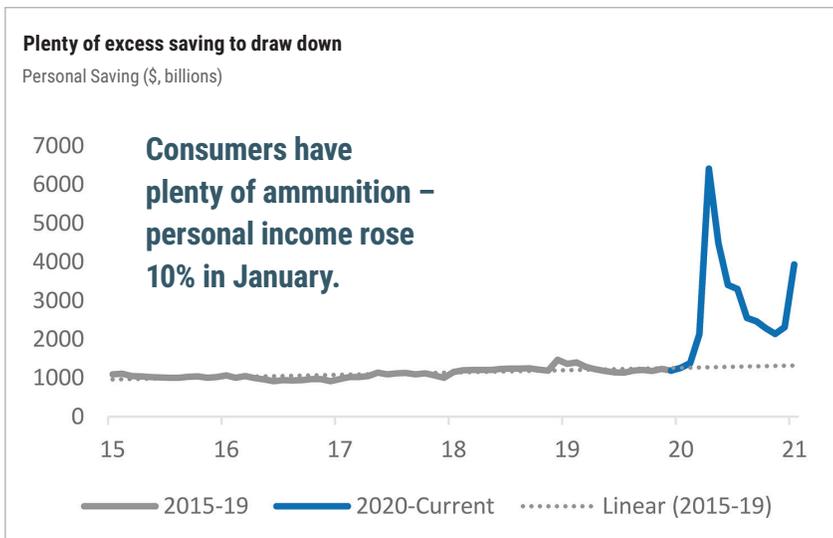
Source: Morningstar

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Source: Renaissance Macro Research, Haver Analytics



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¹ MarketWatch

Past performance is no guarantee of future results.

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