WEEKLY UPDATE

CARY STREET PARTNERS

MARCH 8, 2021

MARKET UPDATE AND COMMENTS

Stocks were volatile last week, finishing on an up-note Friday. The S&P 500 Index added .81%[1] on the week. But the bigger story was the continued weakness in technology names, last year's winners. The NASDAQ 100 dropped about 2%[1] for the week as a comparison point. For context, the S&P is about 3%[1] off its high-water mark. We continue to see the current messiness as more of a rotational event in which technology shares are being sold as a source of funds to buy cyclicals. Cyclical groups, such as energy and banks, are trending much better on a relative basis than technology and the market overall. The triggering event for the volatility remains ten-year treasury yields. A fast-rising ten-year yield is problematic for equities, especially those with limited cash flow to investors but where prospects are bright. The rate level alone is not necessarily an issue, but when coupled with the speed of increase we have seen, those stocks struggle. The recent pace of rate increase has been a two standard deviation event, very fast. The data point to watch is the ten-year yield which finished the week around 1.56%.[1] A pause around the current 1.5 to 1.6%[1] level will resolve the largest current market overhang. This is a level of rates that has seen resistance for continued Treasury selling. Keep in mind bond prices move inverse to yields.

In addition to the ten-year Treasury pace of increase, the other data point for investors to watch is credit stress, or lack thereof. Credit stress is the early indicator of larger, more disruptive equity declines, not typical pullbacks that occur several times a year. Spiking volatility, as priced by the CBOE Volatility Index (VIX), accompanied by placid credit is a bullish combination. The VIX moved up last week and credit markets are wide open.

The move in bonds is rooted in growth optimism. Pushing back on rates, as some think the Fed should do (not us), is pushing back against growth optimism. We are hearing a lot about inflation expectations, which are a good read on sentiment, but an inconsistent read on actual future inflation. Stronger economic data continues to steepen the yield curve, provide a lift to cyclical/value names and take air out of tech. A slower pace of increase in the ten-year yield would be the sweet spot for equities.

ECONOMIC NEWS

There was no let-up in positive U.S. economic data last week. Air travel and restaurant dining is picking up, global manufacturing was solid in February with close to 80% of global PMIs in expansion territory, ISM Manufacturing blew by consensus for February, and construction spending surged in January. On manufacturing; inventories slipped to their lowest level since September. Orders are rising faster than inventories; expect ongoing gains in production. High frequency, forward looking data continues to lead us to expect upside surprises to growth. Late in the week, the February jobs report came in much higher

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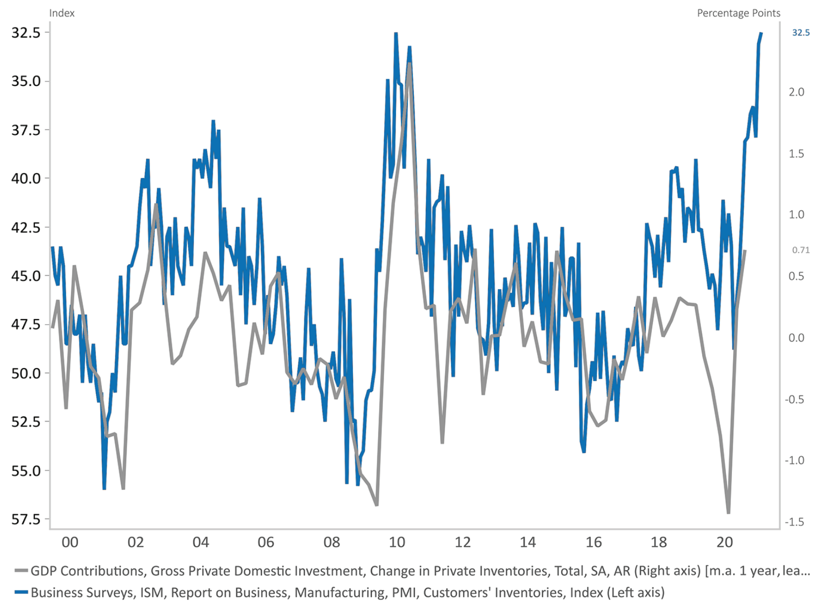
WEEKLY BENCHMARKS

GROUP/INVESTMENT	YTD Return (Cumulative) 3.5.2020
US EQUITY RETURNS	
SPDR® S&P 500 ETF TRUST	2.56
ISHARES DOW JONES US ETF	2.57
ISHARES RUSSELL 1000 ETF	2.46
ISHARES RUSSELL 1000 VALUE ETF	7.80
ISHARES RUSSELL 1000 GROWTH ETF	-2.53
ISHARES RUSSELL 2000 ETF	11.12
GLOBAL EQUITY RETURNS	
ISHARES MSCI ACWI EX US ETF	2.01
ISHARES MSCI ACWI ETF	1.95
US FIXED INCOME RETURNS	
ISHARES SHORT TREASURY BOND ETF	0.00
ISHARES CORE US AGGREGATE BOND ETF	-2.94
ISHARES TIPS BOND ETF	-1.91
ISHARES IBOXX $ INVMT GRADE CORP BD ETF	-5.50
ISHARES IBOXX $ HIGH YIELD CORP BD ETF	0.15
ISHARES MBS ETF	-0.66
GLOBAL FIXED INCOME BENCHMARKS	
ISHARES CORE GLOBAL AGGT BD ETF USD DIST	-3.63
US FIXED INCOME MUNI RETURNS	
ISHARES NATIONAL MUNI BOND ETF	-0.83
REAL ASSETS	
ISHARES GOLD TRUST	-10.34
SPDR® DOW JONES GLOBAL REAL ESTATE ETF	2.49

Source: Morningstar

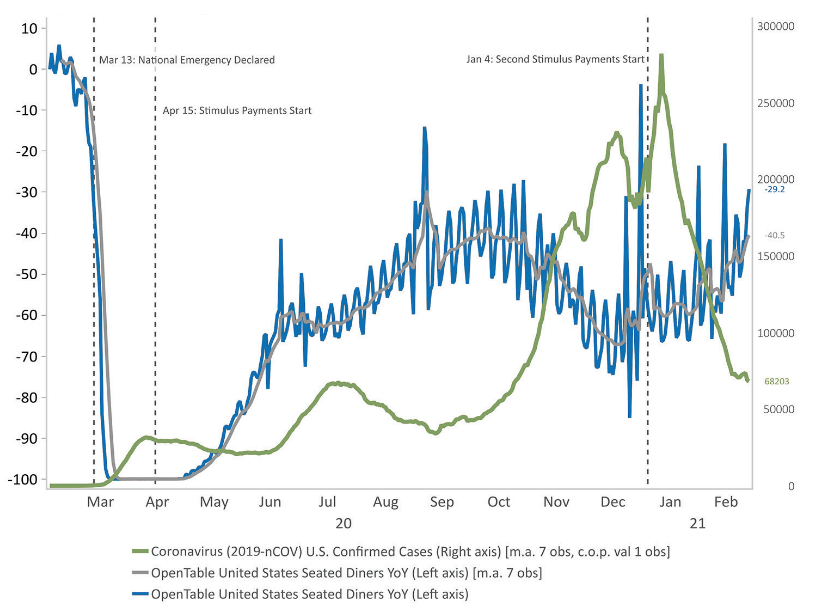
No let up in the U.S. data

Inventories are way too low



Source: Renaissance Macro Research, Macrobond

Dining out bottoming out?



Source: Renaissance Macro Research, Macrobond

[1] MarketWatch

than expectations. So far in Q1, the growth data is tracking much higher than consensus estimates. That consensus is around 4% annualized, high frequency data-tracking models, such as the Atlanta Fed model, are showing a 10 handle for Q1 GDP.

Past performance is no guarantee of future results.

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