

WEEKLY UPDATE

APRIL 12, 2021

CARY STREET
PARTNERS

MARKET UPDATE AND COMMENTS

Stock markets moved higher on the week, with the S&P 500 Index adding 2.76%¹, bringing its year-to-date gain for 2021 up to 10.39%. The longer-term market trend upward remains strong, powered by massive liquidity. Short-term, overbought conditions are increasingly prevalent, and recent leadership has been narrow. We would not be surprised to see equities pull back or consolidate in a typical corrective fashion. Historically, the right strategy is to buy into any pullback within an uptrend, providing liquidity remains strong and there are no signs of credit stress. In addition to massive liquidity, credit markets are wide open as spreads are tight.

The 10-year Treasury yield closed last week at 1.662%. The ascent of the longer-term yield at a rapid clip has moderated over the past several weeks. A steeper yield curve, one in which short term rates remain anchored near zero with longer term rates higher, remains a primary viewpoint of ours. The steeper curve has been and will continue to be driven by dramatically higher economic growth. Indeed, this is exactly what has happened since the onset of 2021. As seen more recently, the pace of increase should moderate relative to the first quarter. Overall, equities can handle the steeper curve given a moderating pace of increase in the 10-year yield. However, within the market, cyclicals will tend to do better in a steepening environment. Growth stocks, characterized by technology names, will be relative underperformers in a steepening environment. Consequently, we are seeing leadership from cyclicals on days and weeks in which the yield rises, and leadership from growth during periods of yield moderation, such as the last week or two. Investors should be exposed to both growth and value (where cyclicals are prevalent). On balance the market should continue to favor cyclicals, as it has since last November.

Bonds have been heavily impacted by relatively higher long-term rates. They would be further impacted by a continued steepening in the curve. Bond prices move inverse to yields. It will be very tough to generate positive returns in bonds for any sustained period in 2021.

ECONOMIC NEWS

Expect a good deal of media attention to inflation figures over the next several months. Inflation, as indicated by the Federal Reserve benchmarks of core CPI and core PCE, will post substantial increases in year-over-year monthly data. The first of these higher readings will be for the month of March. The numbers will undoubtedly be high as monthly comparisons will be to months in 2020 of substantial economic decline, characterized by deflation. This is the base effect referenced by the Federal Reserve. Markets are expecting higher figures.

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WEEKLY BENCHMARKS

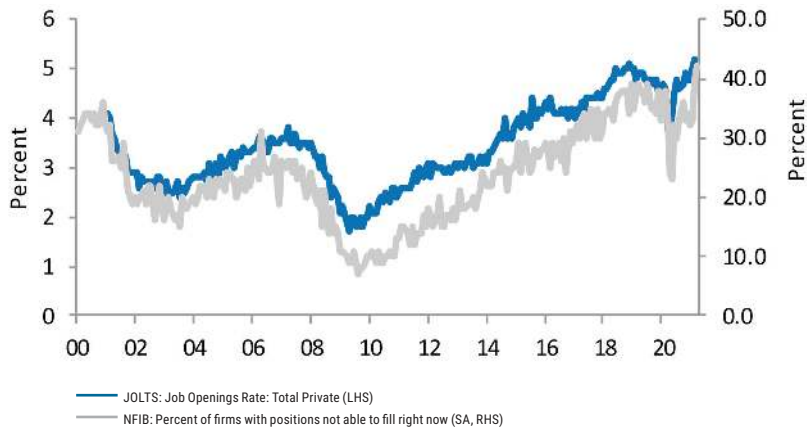
GROUP/INVESTMENT	YTD Return (Cumulative) 4.9.2020
US EQUITY RETURNS	
SPDR® S&P 500 ETF TRUST	10.36
ISHARES DOW JONES US ETF	10.19
ISHARES RUSSELL 1000 ETF	10.06
ISHARES RUSSELL 1000 VALUE ETF	13.68
ISHARES RUSSELL 1000 GROWTH ETF	6.66
ISHARES RUSSELL 2000 ETF	13.82
GLOBAL EQUITY RETURNS	
ISHARES MSCI ACWI EX US ETF	5.64
ISHARES MSCI ACWI ETF	7.92
US FIXED INCOME RETURNS	
ISHARES SHORT TREASURY BOND ETF	0.00
ISHARES CORE US AGGREGATE BOND ETF	-2.93
ISHARES TIPS BOND ETF	-1.65
ISHARES IBOX \$ INVT GRADE CORP BD ETF	-4.74
ISHARES IBOX \$ HIGH YIELD CORP BD ETF	1.31
ISHARES MBS ETF	-0.92
GLOBAL FIXED INCOME BENCHMARKS	
ISHARES CORE GLOBAL AGGT BD ETF USD DIST	-3.87
US FIXED INCOME MUNI RETURNS	
ISHARES NATIONAL MUNI BOND ETF	-0.11
REAL ASSETS	
ISHARES GOLD TRUST	-7.99
SPDR® DOW JONES GLOBAL REAL ESTATE ETF	9.13

Source: Morningstar

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Job openings poised to surge

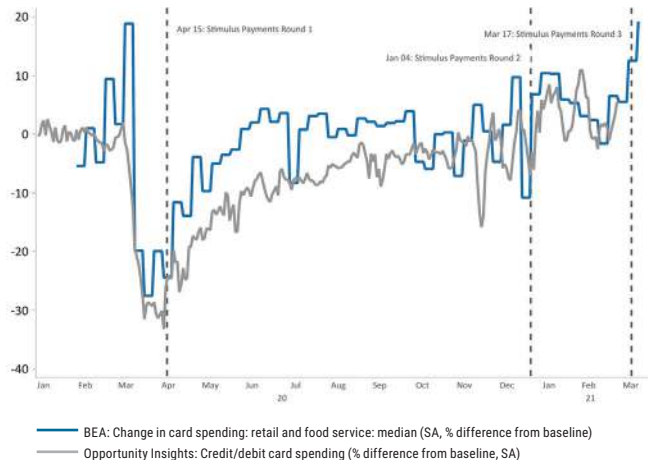


Source: Haver Analytics, Renaissance Macro Research

More important will be inflation numbers in the latter half of 2021. Key to the inflation pickup proving transitory will be easing supply constraints. Global shipping bottlenecks were created by rapid order declines in early 2020 followed by rapid order increases as demand for consumer goods caught retailers off guard. Similar to the problems plaguing retail goods supply chains, a global semiconductor chip shortage is disrupting automakers at a time when inventories are already low. Clearing supply bottlenecks and rebuilding inventories will be important data points to watch over the next few quarters.

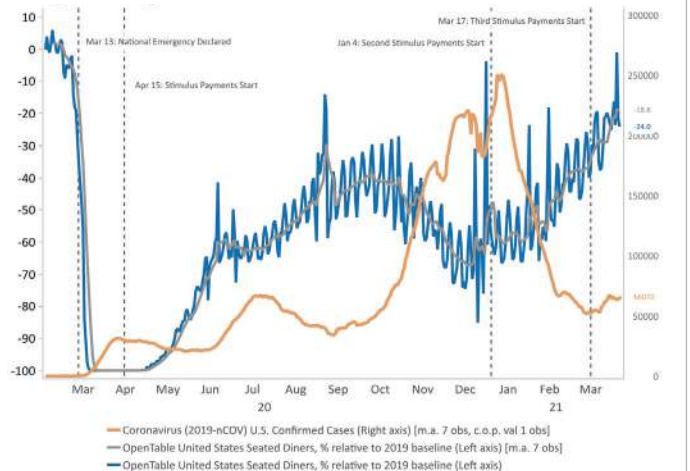
Economic growth is tracking higher than estimates. Massive excess savings are just beginning to work into the economy, triggered by rapid COVID vaccine distribution.

Consumption and stimulus payments



Source: Renaissance Macro Research, Macrobond

Dining out turning around



Source: Renaissance Macro Research, Macrobond

¹ MarketWatch

Past performance is no guarantee of future results.

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