THE PRIVATE CLIENT GROUP
WEALTH MANAGEMENT

ECONOMIC & MARKET INSIGHTS

An Executive Summary for February 2021

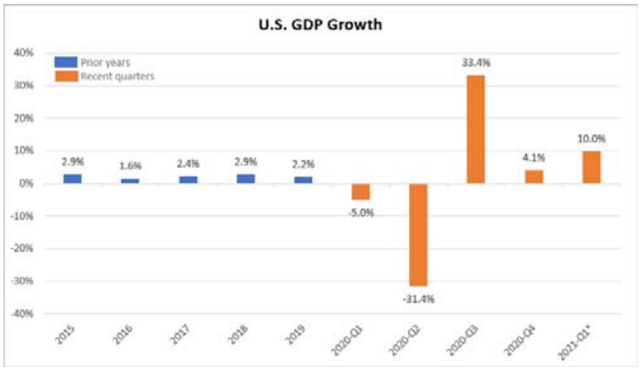
2021 continues to be a transitionary year. The world has made considerable progress battling the pandemic with accelerating vaccine distributions. While the pandemic will continue to have ups and downs, there is hope that the end could be in sight. As result, the world has begun the process of looking forward to what the new normal might look like.

Economic data showed signs of improvement in February suggesting increasing evidence that the recovery is taking hold. At the end of the month, weekly jobless claims reached their lowest level since last November and personal incomes rose, although some of the increase was due to stimulative measures. Healthy consumer balance sheets have powered demand for a variety of durable goods, helping maintain strength in the manufacturing sector. The housing sector has also kept up its momentum with recent data indicating that home prices increased by over 10% compared to a year earlier. Additionally, prices of many commodities, including housing inputs such as lumber, have risen to multi-year highs.

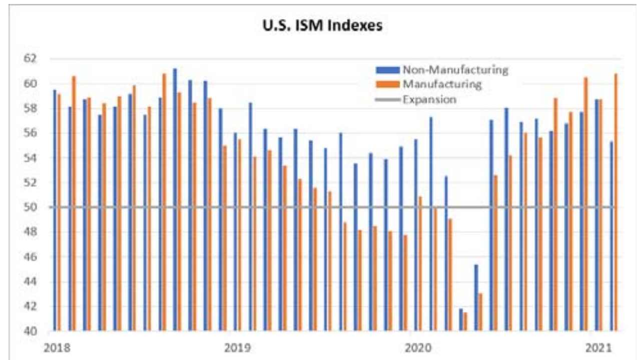
Much of Washington is advocating for continued stimulus, although many are starting to question if additional large-scale aid is still necessary. Concerns that stimulative measures are approaching excessive levels are being reinforced by rising interest rates and inflation fears. That said, the Fed appears committed to maintaining easy-money policies until the economy approaches full employment. In their view, inflation levels are contained and while yields have risen meaningfully from 2020 market depths, they are still historically low.

This year's equity market leadership has so far been starkly different compared to 2020. Instead of growth and technology stocks leading the way, energy and financials have made sizable strides benefitting from normalized levels of demand and higher rates, respectively. At the same time, rising interest rates have disproportionately impacted the valuations of select higher growth sectors such as IT. This dynamic contributed to value stocks outpacing growth stocks year-to-date. Small-cap stocks, continuing their rally from late 2020, are among the best performing portions of the market. Emerging markets have also been a source of strength, besting many developed market counterparts so far this year despite modest underperformance in February.

After crossing 1% in January, the first time since the start of the pandemic, the pace of increase in the 10-year U.S. Treasury yield accelerated in February. The Treasury curve became considerably steeper and the gap between the 5-year and 30-year note recently realized one of its largest increases since last March. Rising rates served as a headwind for most higher quality and longer duration portions of the bond market where spreads were already excessively tight. This also applied to the higher rated portion of the municipal market, which generated a modestly negative return for the month. Lower rated, credit sensitive assets generally fared better helped by tightening spreads. Notably, high yield spreads are now considerably lower than before the start of the pandemic. Narrow spreads and low yields continue to limit the total return potential in many portions of the bond market in the short-term. The next several months will offer important insights into whether higher rates and inflation could be here to stay. The range of outcomes is historically wide, advocating the case for diversification and appropriate levels of portfolio risk aligned with long-term financial goal.



*U.S. Department of Commerce; * GDP Now estimate*



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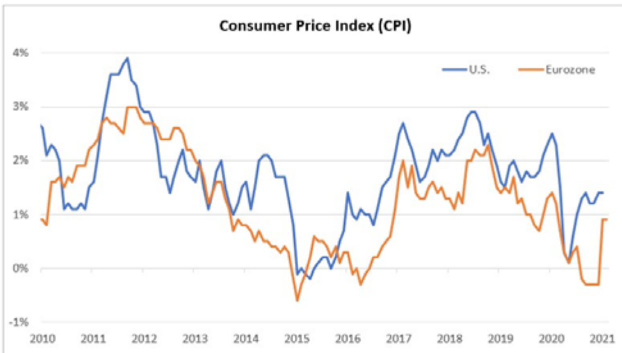
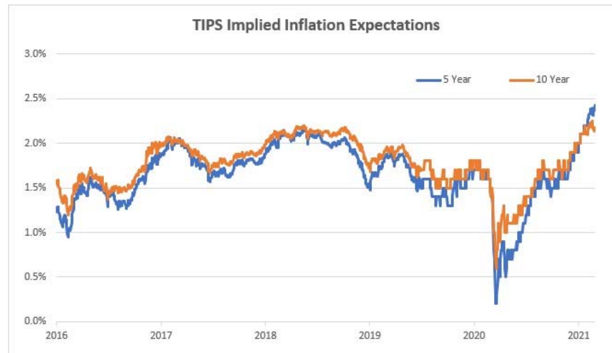


U.S. Bureau of Labor Statistics



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