Canaccord Genuity Wealth Management

Sager Financial Group

February Recap

- **Overview:**
    - The major US equity indexes finished higher in February after putting in a mixed performance in January. **Value** was a standout from a factor perspective, outperforming **growth** and **momentum** by ~600 bp and ~650 bp, respectively. **Energy** was the best performing sector, rallying more than 20%. **Financials** also fared well with upside leadership from the banking group with the BKX +16.0%. **Industrials** outperformed with airlines and machinery names among the best performers. Notable gainers included LUV +32.3%, UAL +31.7%, DAL +26.3%, AAL +22.0%, DE +20.9% and CAT +18.1%. **Communications services** beat the tape with TWTR +52.5%, DIS +12.4% and GOOGL +10.7% among the high-profile gainers while FB (0.3%) was down for a third straight month. **Materials** outperformed with industrial metals plays like AA +36.4% and FCX +26.0% the key drivers. **Tech** trailed the tape with some drag from AAPL (8.1%) though still finished up more than 1% as semis extended their run with the SOX +6.3%. **Consumer discretionary** was lower with the headwind from AMZN (3.5%) though cruise lines RCL +43.5% and CCL +43.3%, hotels H +34.0%, MAR +27.3% and HLT +22.0%, and casinos WYNN +32.4%, MGM +32.3% and LVS +30.2% all saw big gains with the momentum behind the reopening trade. **Healthcare** lost more than 2% with biotech and pharma the laggards. Vaccine names MRNA (10.6%), BNTX (6.8%), PFE (6.7%) and AZN (4.4%) were among the notable decliners. The**utilities** sector put in the worst performance, falling more than 6.5%. **Treasuries** came under pressure with the 10-year yield up almost 40 bp at 1.46%. The **dollar index**gained 0.3%. **Gold** lost more than 6%. **WTI crude** jumped nearly 18%.
- **What happened?:**
    - February got off to a strong start as the longstanding buy-the-dip mantra was embraced amid skepticism about potential contagion from the de-risking in late January that stemmed from a squeeze in heavily shorted, retail favored names. The pro-cyclical rotation gained additional traction in February with a number of the usual themes in focus. Fiscal stimulus expectations ratcheted up further as Democrats decided to go it alone on another coronavirus relief package, while some of the focus shifted to what is expected to be an even larger infrastructure package later this year. In addition, Fed signaling remained dovish, pushing back against the recent pickup in concerns about a premature tapering and a temporary spike in inflation. Coronavirus trends saw a meaningful improvement, the vaccine rollout accelerated and the month ended with three vaccines now approved for emergency use. The corporate calendar was another bright spot as the Q4 earnings growth rate swung into positive territory and Q1 expectations moved higher. The combination of heightened fiscal

expectations, the continued central bank liquidity tailwind, a sharp decline in coronavirus cases, vaccine progress and upside risk to consensus economic and earnings growth forecasts were also the widely cited forces behind the backup in yields this month. While the initial focus was on rising inflation expectations, higher real rates generated some concern late in the month.

- **Democrats decide to go it alone and go big on coronavirus relief package:**
  - Fiscal stimulus expectations ratcheted higher in February as Democrats decided to "go big" on coronavirus relief rather than trying to reach a compromise with moderate Republicans. The House passed a $1.9T plan at the end of the month that was largely similar to the proposal from the Biden administration. It included ~$422B in stimulus checks, ~$3505B for state and local governments, a boost in supplemental unemployment benefits from $300 per week to $400, $160B to combat the coronavirus, and a $15 minimum wage. The minimum wage increase plan will have to come out of the Senate version following a ruling by the Senate parliamentarian that it cannot be included in legislation passed via budget reconciliation. There have also been thoughts that the overall price tag could come down a bit to address some of the select concerns on the part of centrist Democrats in the Senate. However, Democrats are still expected to deliver a package worth $1.5T+ to President Biden to sign before the 14-Mar expiration of extended unemployment benefits. This will put the total fiscal policy response to the coronavirus crisis at nearly 25% of GDP vs the ~10% decline in the economy at the height of the pandemic. With a large coronavirus relief package essentially a done deal, some of the focus in Washington has already started to shift to infrastructure stimulus that could be worth ~$3T.
- **Fed messaging stays dovish:**
  - Fed messaging was consistently dovish in February. Takeaways from the January FOMC minutes fit with the notion of a Fed that wants to avoid a repeat of past policy mistakes like the taper tantrum. The minutes did not provide any new color on the timing of any changes to the asset purchase program, but did reiterate that it would take "some time" before substantial further progress toward its employment and inflation goals had been achieved. They also stressed the importance of distinguishing between a temporary spike in inflation (expected this spring) and a longer-term trend change. Multiple Fed speakers emphasized these themes throughout the month of February, including Fed Chair Powell. Powell also repeatedly stressed that sustained labor-market strength is still a long way away, fitting with the Fed's heightened focus on employment. The broader central bank liquidity tailwind also remained in focus in February. The Fed's balance sheet stood at a record $7.59T at the end of the month, having increased by $3.43T over the last year. BofA noted the Fed's balance sheet is now 36% of GDP, well above the 3% for WWI, 11% for WWII and 15% seen after the global financial crisis. It also pointed out that global central banks have purchased $1.1B of financial assets every

hour since March. JPMorgan put the G5 central bank balance sheet at nearly $30T at the end of the month.

- **Big ramp in coronavirus vaccine supply on the horizon:**
  - Coronavirus headlines contributed to the positive risk sentiment in February. Late in the month, US coronavirus cases were down ~75% from their mid-January peak while hospitalizations were also meaningfully lower. Improving coronavirus case trends saw governors across the country and across the political aisle lift coronavirus restrictions, including mask mandates and capacity limits (The Hill). The vaccine rollout continued to gain momentum with more than 75M doses administered by the end of February. In addition, as widely expected, the FDA granted emergency use authorization for J&J's vaccine at the end of the month. While the J&J vaccine has a lower efficacy than the two other approved jabs, it benefits from a single-shot dosing regimen and less complicated storage requirements. There was a lot of discussion throughout the month about a near-term ramp in US vaccine supply. Bloomberg noted the number of vaccine doses delivered in the US should rise from the current pace of 10-15M a week to nearly 20M a week in March, more than 25M a week in April and May, and over 30M a week by June.
- **Q4 earnings growth swings into positive territory:**
  - Early February saw the blended Q4 earnings growth rate swing into positive territory. According to FactSet , it stood at +3.9% at the end of the month with 96% of S&P 500 companies having reported. This compared to the 12.7% decline expected at the start of Q4 and the 8.8% decline forecast just before the start of earnings season. Close to 80% of reporters have exceeded consensus estimates while in aggregate, companies have reported earnings nearly 15% above expectations. In addition, expectations for Q1 earnings growth ended February at +21.5%, up from +16.5% in early January, despite some earlier concerns about downside risks from lingering coronavirus restrictions. While beats tended to underwhelm the market, this was not too surprising given that estimates had again moved higher over the course of Q4. This was particularly an issue for some of the at-home winners, where concerns about sustainability have been exacerbated by the more recent improvement in coronavirus trends, along with the momentum behind the pro-cyclical rotation. At the same time, Q4 results brought more evidence of a COVID-driven acceleration of secular growth and disruption themes. Elevated margins, inflation and rising input costs, pricing power and productivity tailwinds, pent-up savings, more aggressive capital allocation and fairly positive corporate commentary were some of the other highlights from Q4 earnings season.
  - **Big bond yield backup to end the month:**
    - The last couple of weeks of February saw a big backup in bond yields though there was no one specific factor behind the move. Bond yields have been trending higher since August on the more resilient macro and earnings backdrops, Fed policy framework

shift, vaccine breakthroughs, post-election pickup in fiscal stimulus expectations and more recently, meaningful improvement in coronavirus trends. For much of the move, the focus has been on rising inflation expectations, which strategists noted have typically been a positive for equities given that they reflect a pickup in growth and earnings expectations and improving investor sentiment. However, attention in late-February shifted to the upward pressure on real rates, which was flagged as more of an overhang for stocks, particularly the growth and momentum names where concerns about crowded positioning and stretched valuations have been building for a while. The headwinds for equities seemed to be a function of the speed of the move, exacerbated by technical and liquidity factors, rather than the level of yields. Goldman Sachs noted that there was a more than two standard deviation move in both nominal and real 10-year yields over the last month. However, a number of firms argued that the bond yield backup, along with the risk to the equity bull market, was overdone. Some central banks also began to push back amid concerns the move could lead to a premature tightening of financial conditions.

- **S&P 500 Sector Performance:**
    - **Outperformers:** Energy +21.47%, Financials +11.36%, Industrials +6.63%, Communications Svcs. +6.18%, Materials +3.65%
    - **Underperformers:** Utilities (6.54%), Healthcare (2.21%), Consumer Spls. (1.50%), Consumer Disc. (1.01%), REITs +0.81%, Tech +1.07%,

Source: Kevin Vandermeer (IA Solutions), Bloomberg, CNBC