Sager FINANCIAL GROUP

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March Market Summary:

- **Overview**
  - US equities finished higher for March, with the broader Dow and S&P 500 outperforming the tech-heavy Nasdaq Composite and the small-cap Russell 2000. Cyclical/value groups notably outperformed growth/momentum for the month, though megacap FANMAG stocks ended mostly higher. Treasuries continued their recent selloff, with little movement on the short end but yields on the 10Y and 30Y at one point rising to their highest levels since before the pandemic. The dollar was better on the major crosses, with solid gains vs the euro and yen. Gold was slightly lower, dropping 0.8% for the month. WTI crude moved above $66/barrel mid-month but weakened in response to mounting global-demand concerns amid coronavirus challenges in Europe, declining 3.8% over the course of March.
  - **Utilities** led the market in March. **Industrials**was boosted by trucking, A&D, and building products. Consumer staples saw solid performance from HPCs and food-product firms. **Materials** outperformed with steel names posting strong returns. Banks, life insurers were stronger in **financials** as Treasury yields rose. **Healthcare** was a slight laggard, seeing mixed performance from MedTech names. Autos were among the weaker names in **consumer discretionary**, with AMZN +0.04% lagging the sector tape as well. **Communication services** stocks were mostly better, but TWTR (17.4%), NFLX (3.2%), and DIS (2.4%) were some of the drags. **Energy** was a relative underperformer, with integrateds better but oil-services names mostly weaker. Software and semiconductors were some of the underperforming groups in**tech**.
  - Despite a lot of attention on rising rates, there was little fundamental change in the narrative for stocks. The market remained very positive on reopening progress and improving high-frequency data amid an accelerating pace of Covid vaccinations, with positive impacts for select value/cyclical names. The Fed showed no signs it is prepared to raise rates and reiterated it will need to see substantial further progress toward its goals before tapering its monthly asset purchases. The market received significant fiscal support from the $1.9T rescue plan passed in March and is looking forward to plans that may involve $4T in government spending (and seems to have little concern about coming corporate/individual tax hikes as offsets). S&P earnings estimates continue to move higher though there was increasing attention on input costs. At the same time, investors also debated bubble concerns given elevated asset prices and robust sentiment indicators.
- **<u>What happened?</u>**
  - **Economic optimism continued to hold amid an improving Covid backdrop.** Vaccine distribution continued to accelerate, with nearly 100M Americans having received at least one dose and the seven-day vaccination daily run rate hitting 2.7M by month's end. With death and hospitalization rates falling, multiple states continued with lifting Covid restrictions. However, there was some concern voiced by officials that carelessness could still have negative impacts on improvement, especially with more-contagious variants being increasingly seen. After weeks of decline since the early January peak, the US new-case rate began to tick higher in the last week of the month.
  - **Treasury yields continued their rise**, with the 10Y moving up near 1.78% and the 30Y seeing 2.52% before giving back some ground by month-end. There was a lot of commentary on the disorganized nature of some of the run-up, though Fed officials have generally observed that the trend was underpinned by healthy optimism about improving economic prospects. There was some concern about multiple Treasury auctions during the month (given a big stumble by 7s in February and the expected pace of new government issuance), but these were mostly solid.

- Rising Treasury yields powered **a continuation of the pro-cyclical rotation**that had developed amid economic reopening momentum and overextended growth subgroups. Nevertheless, most stocks in the megacap FANMAG group were better, with some analysts debating if the trend had further to run and whether some stocks were oversold that were otherwise beneficiaries of broader secular trends.
- **Biden signed a $1.9T stimulus bill** featuring $1,400 direct checks, an extension of federal enhanced unemployment benefits, funding for vaccination efforts, and assistance for states and municipalities. The bill's passage had been widely expected given the Democrats' use of the reconciliation method to bypass a GOP Senate filibuster. Note that while there had been a widespread expectation that a large portion of the stimulus checks could find their way into the market, there were signs that the retail impulse was much weaker than expected, especially compared to that following December stimulus payments.
- **The focus moved ahead to Biden's infrastructure plans.** Even before passage of the Democrats' relief plan, politicians and investors alike were looking ahead to Biden's next expected effort, a multifaceted, two-phase effort officially launched on 31-Mar with $2.25T in spending on physical infrastructure and clean-energy priorities. A second tranche is expected to be unveiled in mid- to late April that may involve funding for traditional Democratic priorities involving child care, family leave, and health insurance. All told, the president may propose spending of ~$4T this round, with a portion of the funding expected to come from hikes in the corporate tax rate as well as tax changes for higher-income individuals. However, it will take many months for the legislative project to unfold, and it is likely to see many changes before anything becomes law.
- **The Fed continued to hold its dovish line.** The FOMC made no change to rates or its asset-purchase plans at its March 16-17 meeting, as expected. Instead, there was more market focus on the "dot plot" in the *Summary of Economic Projections*. While this showed some additional policymakers penciling in hikes for 2022 or 2023, the median projection continues to see rates on hold through 2023. In his FOMC press conference and numerous public appearances in March, Chair Powell continued to stress that the Fed will only move when it sees data showing substantial further progress toward its labor market and inflation goals, and reiterated that this means more than a transitory uptick in prices. Other Fed speakers this month added their personal takes, but largely echoed this party line.
- **The Suez Canal blockage threw supply-chain concerns into sharp relief.** There was abundant press coverage of a multiday blockage of the Suez Canal after a massive containership ran aground in a key channel. While this was cleared sooner than some had feared, it still brought billions in trade to a standstill and forced some shippers to divert cargo around Africa, incurring additional expenses and weeks of delays. While the pressure was seen as a transient phenomenon, it played into recent supply-chain concerns (particularly in semiconductors) that have come into play as the global economy ramps back up.
- **Economic data showed some February weakness, but labor-market data continued to improve.** As expected, economic reports showed some weakness in February, including a worse-than-expected m/m drop in retail sales and below-consensus results for housing starts and new/existing home sales. ISM manufacturing was better, but the services index missed. Labor-market data was generally stronger, however. February nonfarm payrolls were much higher than consensus (+379K vs +184K), and weekly initial jobless claims dropped from 754K on 26-Feb to 684K on 19-Mar. Consensus for March nonfarm payrolls (to be released on 2-Apr) is looking for a 614K gain. And March's Consumer Confidence indicator posted its sharpest one-month gain in 18 years, boosted by improving labor-market sentiment.

- **S&P 500 Sector Performance:**
  - **Outperformers**: Utilities +10.13%, Industrials +8.82%, Consumer Spls. +7.71%, Materials +7.29%, REITs +6.41%, Financials +5.62%
  - **Underperformers**: Tech +1.64%, Energy +2.69%, Communication Svcs. +3.10%, Consumer Disc. +3.59%, Healthcare +3.74%