MARKET INSIGHTS

from Ziegler Capital Management

February 2021 Market Commentary

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The S&P 500 returned 2.76% in February and has returned 1.72% on a year-to-date basis as of February 28, 2021. Small cap stocks, as measured by the Russell 2000, returned 6.23% in February continuing the pattern of strong positive returns and is up 11.57% so far in 2021. There was a significant differentiation between Growth and Value in February with the Russell 1000 Growth returning -0.02% and the Russell 1000 Value returning 6.04%. Similarly, the Russell 2000 Growth returned 3.30% and the Russell 2000 Value returned 9.39% in February.

The initial days of the Biden administration are dominating headlines, including the potential for additional stimulus as well as the continued roll-out of COVID-19 vaccines. Central Bank and already passed government stimulus measures continue to help reduce the economic damage tied to the pandemic.

Gross domestic product (GDP) increased at an annual rate of 4.1% in the fourth quarter according to the second estimate released by the Bureau of Economic Analysis. The increase in fourth-quarter GDP reflected both the continued economic recovery from the sharp declines earlier in the year and the ongoing impact of the COVID-19 pandemic, including new restrictions and closures that took effect in some areas of the United States. With the second estimate, upward revisions to residential fixed investment, private inventory investment, and state and local government spending were partly offset by a downward revision to personal consumption expenditures. According to the National Bureau of Economic Research, the U.S. entered a recession in February 2020 and remains there.

Returns by Sector

	S&P 500		Russell 2000	
Sector	YTD	Feb 2021	YTD	Feb 2021
Communication Services	4.81	6.18	12.36	5.12
Consumer Discretionary	-0.53	-0.93	21.13	5.68
Consumer Staples	-6.51	-1.41	9.46	2.72
Energy	27.30	22.66	40.92	24.27
Financials	9.63	11.49	10.84	11.59
Health Care	-0.72	-2.11	7.38	1.22
Industrials	2.29	6.89	12.82	7.96
Information Technology	0.28	1.21	9.96	4.78
Materials	1.39	3.87	8.16	11.19
Real Estate	2.08	1.54	8.67	8.18
Utilities	-6.98	-6.12	-3.00	-1.94
TOTAL RETURN	1.72%	2.76%	11.57%	6.23%

Source: Bloomberg

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A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

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According to the U.S. Bureau of Labor Statistics, the unemployment rate fell by 0.4% to 6.3% in January, and the number of unemployed decreased to 10.1 million. Although both measures are significantly lower than their April 2020 highs, they remain above their February 2020 pre-pandemic levels of 3.5% and 5.7 million people. In January, notable job gains in professional and business services and in both public and private education were offset by losses in leisure and hospitality, retail, health care, and transportation and warehousing. The U.S. savings rate jumped to 20.5% in January (released in February) from 13.4% in December after peaking at a stunning 32.2% in April 2020. Early January stimulus payments, unemployment insurance including supplemental weekly payments likely helped this increase. As previously discussed, these continued elevated savings rates have the potential to be a significant economic growth driver or may be used for sustenance if needed.

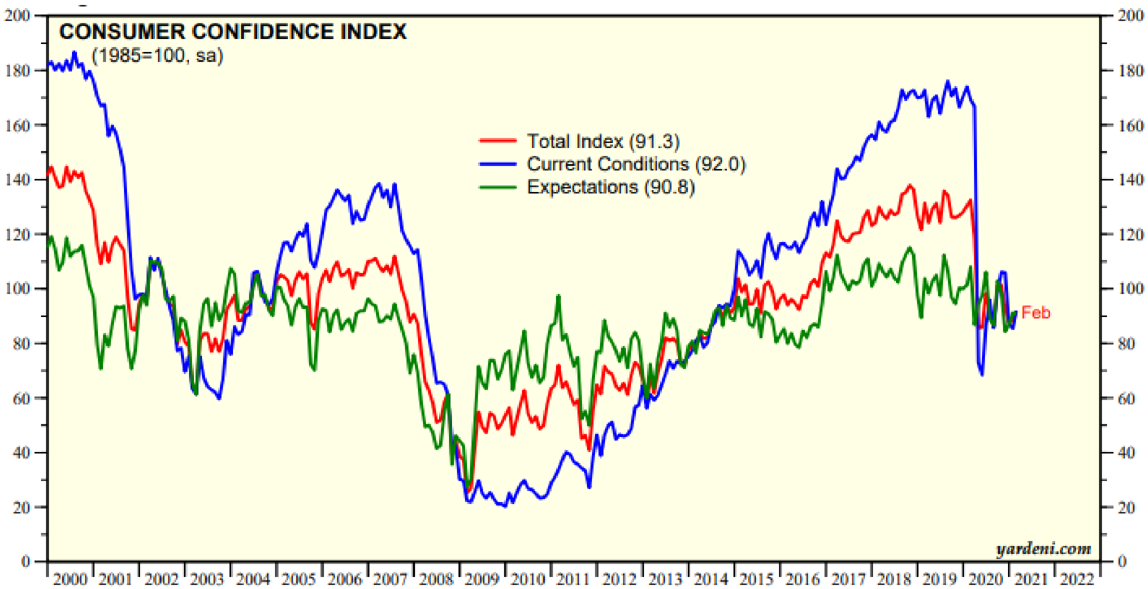
The Federal Reserve did not issue a statement in February, but Federal Reserve Chairman Jerome Powell's semi-annual testimony to Congress on February 23rd underlined the Fed's commitment to achieving the monetary policy goals of maximum employment and price stability. Powell added "Since the beginning of the pandemic, we have taken forceful actions to provide support and stability, to ensure that the recovery will be as strong as possible, and to limit lasting damage to households, businesses, and communities. We are strongly committed to achieving the monetary policy goals that Congress has given us: maximum employment and price stability." Regarding the employment goal, Powell stated "that maximum employment is a broad and inclusive goal. This change reflects our appreciation for the benefits of a strong labor market, particularly for low- and moderate-income communities." He said that this change means that the Fed will not tighten monetary policy solely in response to a strong labor market. Regarding the price-stability goal, Powell stated that the Fed will seek to achieve inflation that averages 2% over time, but that after periods running below 2% that the Fed will allow inflation to be moderately above 2% for some time period. Powell reiterated the longer-term inflation goal of 2% citing that "well-anchored inflation expectations enhance the Fed's ability to meet both their employment and inflation goals, particularly in the current low interest rate environment in which (their) main policy tool is likely to be more frequently constrained by the lower bound." Powell suggested that he is not expecting a rise in price pressures this year to be "particularly large or persistent" and that the Fed would interpret any surge in prices this year linked to resurgent demand as transitory as the economy reopens in the aftermath of COVID-19.

With sizable returns since November, small cap stocks, as measured by the Russell 2000, have returned 43.58% for the trailing four months through February 28, 2021. In comparison, large cap stocks, as measured by the S&P 500, have returned 17.19% over the same time period. Value stocks have lead Growth stocks over this same time period with the Russell 1000 Value returning 23.78% versus the Russell 1000 Growth at 14.43%. This pattern was also seen in small cap stocks with the Russell 2000 Value returning 48.26% versus the Russell 2000 Growth returning 39.28%. In contrast, Growth stocks outperformed Value considerably in calendar year 2020 in both large (by 35.69%) and small (by 30.00%).

West Texas Intermediate (WTI) finished February at $61.68, increasing by 18% since the January month end reading of $52.21 a barrel and an increase of 27.4% so far in 2021. WTI now surpasses the 2020 starting price of $61.06 per barrel and is significantly higher than April 2020's close at $18.84 per barrel during the Saudi / Russia price war.

Consumer Confidence increased again in February to 91.3 from 88.9 in January. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – climbed to 92.0 in February from 85.5 in January. The Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – fell slightly to 90.8 in February from 91.2 in January. The consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence & Sentiment



Source: The Conference Board.

The U.S. Bloomberg Barclays Aggregate Index returned -1.44% in February and has returned -2.15% on a year-to-date basis as February 28, 2021 on the heels of a 7.51% return in 2020. The 10-Year U.S. Treasury ended February at 1.41%, after beginning the year at 0.92%. While it remains lower than the 2020 beginning reading of 1.92%, it has increased dramatically since hitting an all-time low of 0.54% in July 2020. Option Adjusted Spreads (as represented by the Bloomberg Barclays Corporate Index) ended February at 90 basis points, further tightening from January at 97 basis points. Spreads peaked in 2020 at 373 basis points on March 23 concurrent with the equity market lows.

The Volatility Index (VIX) ended February at 27.95, down from January's reading of 33.09 that spiked partially due to volatility from the well-publicized trading activity in fundamentally questionable retail companies. While the VIX saw a similar spike in October due to election related news, it remains considerably lower than the March 16, 2020 peak of 82.69. The long-term average of the VIX is approximately 20.

During the last week of January and into early February, the market saw retail investors going toe to toe with hedge fund managers who had positioned themselves "short" in some fundamentally questionable companies. These retail investors drove up the interest in these companies with semi-organized market/company news threads on social media. Some hedge funds suffered very serious losses and needed to raise funds resulting in them selling some very solid companies that provided liquidity. Therefore, not only were some of the questionable companies trading far above their most recent prices, but also some very good companies suffered price decreases so managers could raise funds by selling them. This activity normalized as the month went on and we believe that over the long run stocks will trade at their fair value.

We actively monitor the capital markets and are prepared to respond accordingly. As we have stated in the past, we continue to advise our clients to adhere to their long-term plans and objectives.

ZIEGLER CAPITAL MANAGEMENT, LLC
30 South Wacker Drive | Suite 2800 | Chicago, Illinois | 60606 | www.zieglercap.com

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