MARKET INSIGHTS

from Ziegler Capital Management

March 2021 Market Commentary

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The S&P 500 returned 4.38% in March and has returned 6.17% on a year-to-date basis as of March 31, 2021. Small cap stocks, as measured by the Russell 2000, returned 1.00% in March continuing the pattern of strong positive returns and is up 12.73% so far in 2021. There continued to be a significant differentiation between Growth and Value in March with the Russell 1000 Growth returning 1.72% and the Russell 1000 Value returning 5.88%. Similarly, the Russell 2000 Growth returned -3.15% and the Russell 2000 Value returned 5.23% in March.

Headlines dominating the news are centered around the continued roll-out of COVID-19 vaccines and the early days of the Biden administration. 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 4.3% in the fourth quarter according to the third estimate released by the Bureau of Economic Analysis, an increase of 0.2% from the second reading. 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. The updated estimate reflected upward revisions to private inventory investment and state and local government spending that were partly offset by downward revisions to nonresidential fixed investment and consumer spending. 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	Mar 2021	YTD	Mar 2021
Communication Services	8.08	3.13	9.81	-2.27
Consumer Discretionary	3.11	3.65	26.58	4.50
Consumer Staples	1.15	8.19	15.42	5.45
Energy	30.85	2.79	42.27	0.96
Financials	15.99	5.80	18.19	6.62
Health Care	3.18	3.92	0.41	-6.49
Industrials	11.41	8.91	15.76	2.88
Information Technology	1.97	1.69	5.44	-4.36
Materials	9.08	7.58	19.92	10.87
Real Estate	9.02	6.81	10.02	1.24
Utilities	2.80	10.51	3.36	6.56
TOTAL RETURN	6.17%	4.38%	12.73%	1.00%

Source: Bloomberg

ABOUT ZCM MARKET INSIGHTS

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 0.1% to 6.2% in February, and the number of unemployed decreased to 10.0 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 February, most of the job gains occurred in leisure and hospitality, with smaller gains in temporary help services, health care and social assistance, retail trade, and manufacturing. Employment declined in state and local government, education, construction, and mining. The U.S. savings rate was 13.6% in February (released in March) after spiking to 20.5% in January (released in February). It peaked at a stunning 32.2% in April 2020. Government stimulus payments declined sharply in February from January and unemployment benefits continued, but at lower levels. 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.

In its March statement, the Federal Reserve reiterated its commitment “to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals”. They did note “indicators of economic activity and employment have turned up recently, although the sectors most adversely affected by the pandemic remain weak. Inflation continues to run below 2%. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses”. Their goals remain to have maximum employment and inflation at the rate of 2 percent over the longer run. With inflation running below their long-term goals, the Fed will permit inflation to run moderately above 2% to keep the average at 2%. They expect to maintain an accommodative monetary policy stance until their objectives are achieved. The Fed Funds rate remains 0-0.25% and it is expected to remain there for the foreseeable future. The Federal Reserve is continuing to increase Treasury holdings by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until additional progress has been made toward their goals of maximum employment and price stability.

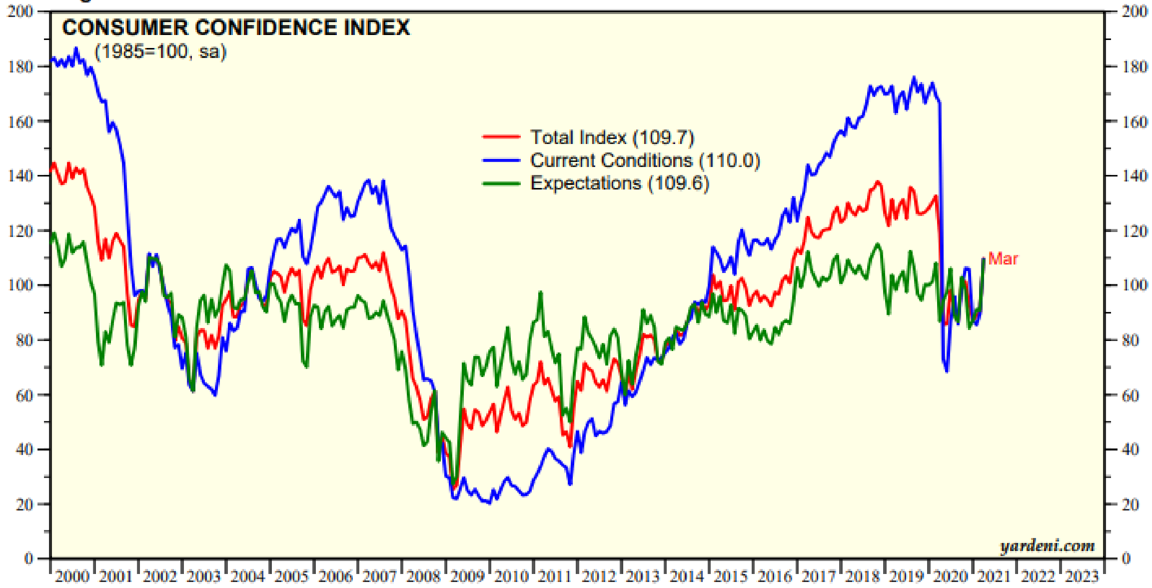
With sizable returns since November, small cap stocks, as measured by the Russell 2000, have returned 45.02% for the trailing five months through March 31, 2021. In comparison, large cap stocks, as measured by the S&P 500, have returned 22.33% over the same time period. Value stocks have lead Growth stocks over this same time period with the Russell 1000 Value returning 31.06% versus the Russell 1000 Growth at 16.40%. This pattern was also seen in small cap stocks with the Russell 2000 Value returning 56.01% versus the Russell 2000 Growth returning 34.90%. 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 March at $59.34, slightly down from February’s closing price of $61.68 a barrel. However, WTI has increased 22.6% so far in 2021 after beginning the year at $48.40 a barrel. WTI is significantly higher than April 2020’s close at $18.84 per barrel during the Saudi / Russia price war.

Consumer Confidence surged to its highest reading in a year in March to 109.7 from 91.3 in February. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—climbed to 110.0 from 89.6 in February. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—improved to 109.6 in March from 90.9 in February. The consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence & Sentiment

Figure 1.



Source: The Conference Board.

The U.S. Bloomberg Barclays Aggregate Index returned -1.25% in March and has returned -3.37% on a year-to-date basis as March 31, 2021 on the heels of a 7.51% return in 2020. The 10-Year U.S. Treasury ended March at 1.74% after beginning the year at 0.92%, an increase of 0.82%. 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 March at 91 basis points, 1 bp wider from February at 90 basis points. Spreads peaked in 2020 at 373 basis points on March 23 concurrent with the equity market lows.

The Volatility Index (VIX) ended March at 19.40, down over 30% from February's reading of 27.95. Volatility has fallen since peaking at 37.21 during the volatility from the well-publicized trading activity in fundamentally questionable retail companies. It remains considerably lower than the March 16, 2020 peak of 82.69 and is now around the long-term average of approximately 20.

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.

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