STERLING CAPITAL

Weekly Market Recap
March 8, 2021

	Price	Price Returns	
Index	**Close**	**Week**	**YTD**
S&P 500 Index	3,842	0.8%	2.3%
Dow Jones Industrial Average	31,496	1.8%	2.9%
NASDAQ	12,920	-2.1%	0.2%
Russell 2000 Index	2,289	-0.4%	11.0%
MSCI EAFE Index	2,185	0.8%	1.8%
10-yr Treasury Yield	1.57%	0.1%	0.6%
Oil WTI ($/bbl)	$66.28	7.7%	36.6%
Bonds*	$114.28	-0.9%	-2.9%

Source: Bloomberg, FactSet

*Bonds represented by the iShares U.S. Aggregate Bond ETF

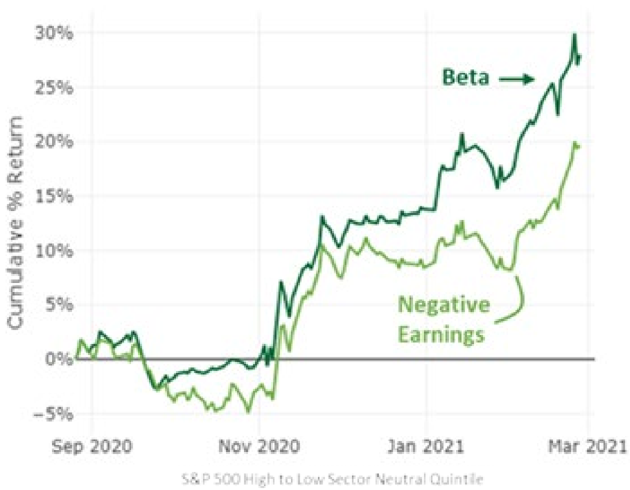
Last Week:

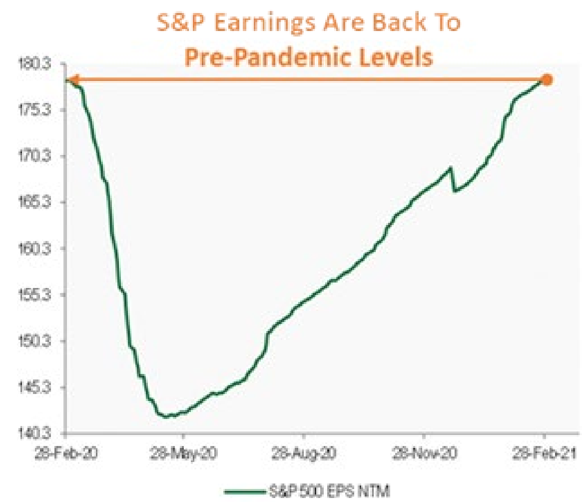
U.S. Equity Market

- U.S. large cap equities (S&P 500® Index) rose 0.8% this week even as Treasury yields continued to rise, putting pressure on growth/technology equities. Value/cyclical stocks rallied, with Federal Reserve Chair Powell providing further dovish comments and prompting expectations for inflation to increase along with bond yields. Value/cyclical stocks also got a boost from a big beat on February non-farm payrolls, supply chain and price pressures in the latest ISM surveys, as well as a surge in oil prices on OPEC+'s unexpected decision to leave output unchanged. The dollar rose +1.2%, Gold fell -1.8% and Oil (WTI) jumped 7.7%. The Senate made minor tweaks to President Biden's $1.9 trillion COVID-19 relief package.
- 2020 S&P 500 Index Sector Returns:
  - Energy (+10.1%) outperformed, as oil (WTI) rose 7.7%.
  - Financials (+4.3%) outperformed, led by the banks on rising interest rates.
  - Industrials (+3.1%) outperformed, led by truckers and conglomerates.
  - Communication services (+2.4%) outperformed, led by **Alphabet** (+3.7%), **Facebook** (+2.6%), **Verizon** (+1.3%), and Disney (+0.5%).
  - Materials (+2.3%) rose, led by PPG (+3.5%), Barrick Gold (+5.7%), & DuPont (+1.9%).
  - Utilities (+2.1%) and consumer staples (+1.9%) rose on value rotation.
  - Health care (+0.3%) underperformed, led by **Anthem** (+10%), **HCA Healthcare** (+6.8%), **Gilead Sciences** (+5.2%), **Humana** (+5.2%), and **UnitedHealth** (+4.5%). Amgen is buying Five Prime Therapeutics for $1.9 billion.
  - REITs (-1.5%) fell, with weakness from cell towers and data centers.
  - Information technology (-1.4%) fell, with weakness from high multiple/growth stocks. **Okta** is acquiring IT security peer Auth0 for $6.5 billion in an all-stock transaction.

- Consumer discretionary (-2.8%) fell, with weakness from Tesla (-11.5%), **Amazon** (-3.0%), and other electric vehicle-related stocks.

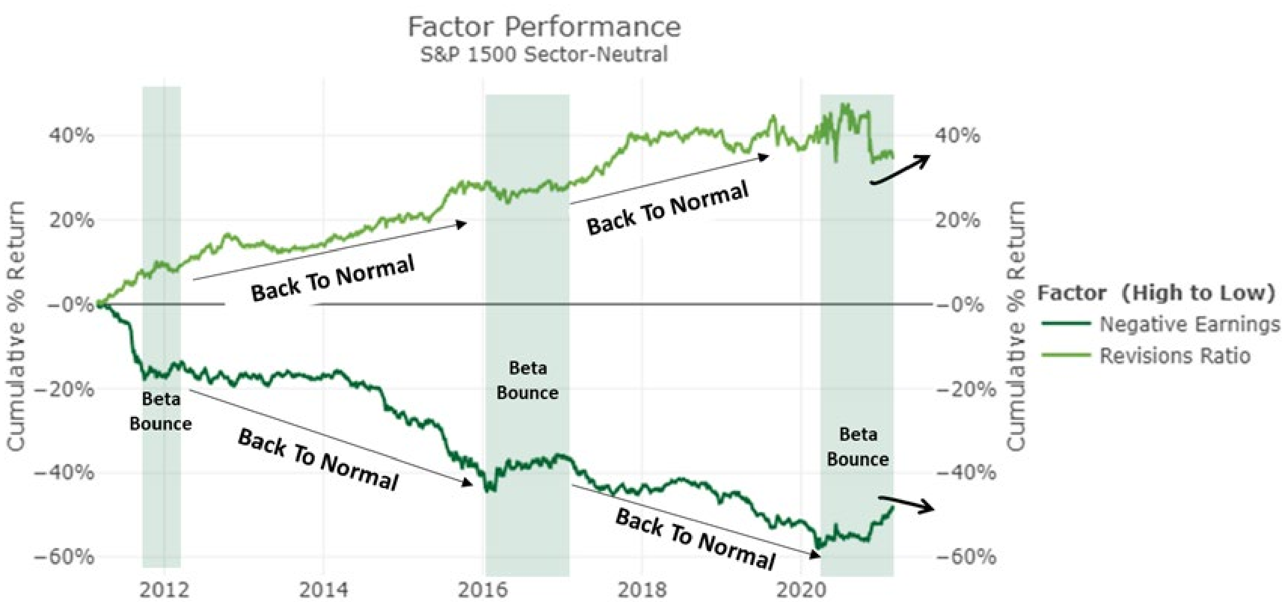
- S&P 500 earnings fully recovered to year-ago levels, with stock returns driven by companies with negative earnings and high (most volatile) betas, coinciding with the outperformance of value stocks, including highly cyclical industries.





Source: Cornerstone Macro

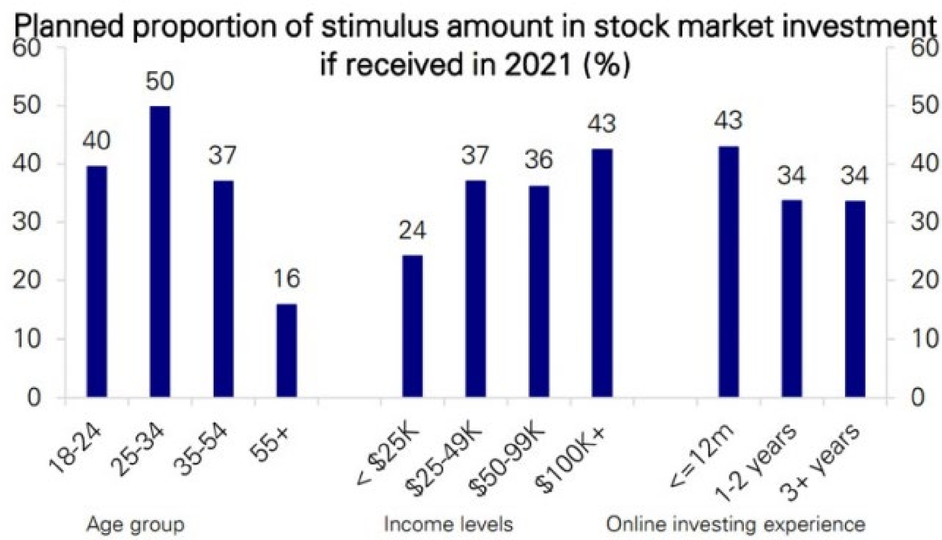
- The chart below suggests that, for stocks with high beta and weak fundamentals, outperformance tends to last about one year from the start of a market recovery, and then market leadership transitions to stocks with strong fundamentals and high earnings revisions.



Source: Cornerstone Macro

- The chart below shows that young Americans with limited investing experience were among those most likely to steer their stimulus funds into the stock market.

Figure 1: US Retail investors plan to put a significant chunk of any forthcoming stimulus into the stock market

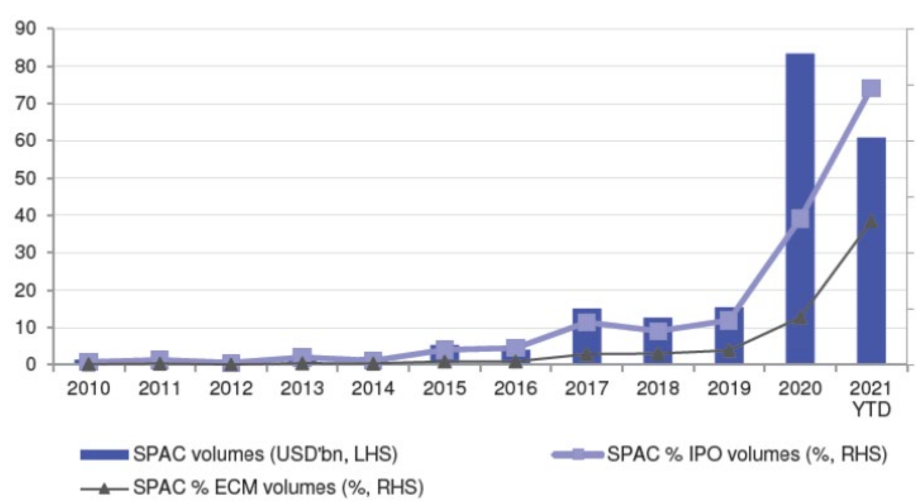


Source : dbDIG Survey, Deutsche Bank Asset Allocation

Source: Deutsche Bank

- Special purpose acquisition companies (SPACs) comprise about half of all IPO volume – a notable distinction versus recent years.

Figure 1: SPACs now account for c.50% of global IPO volumes



Source : Deutsche Bank, Dealogic

Source: The Daily Shot

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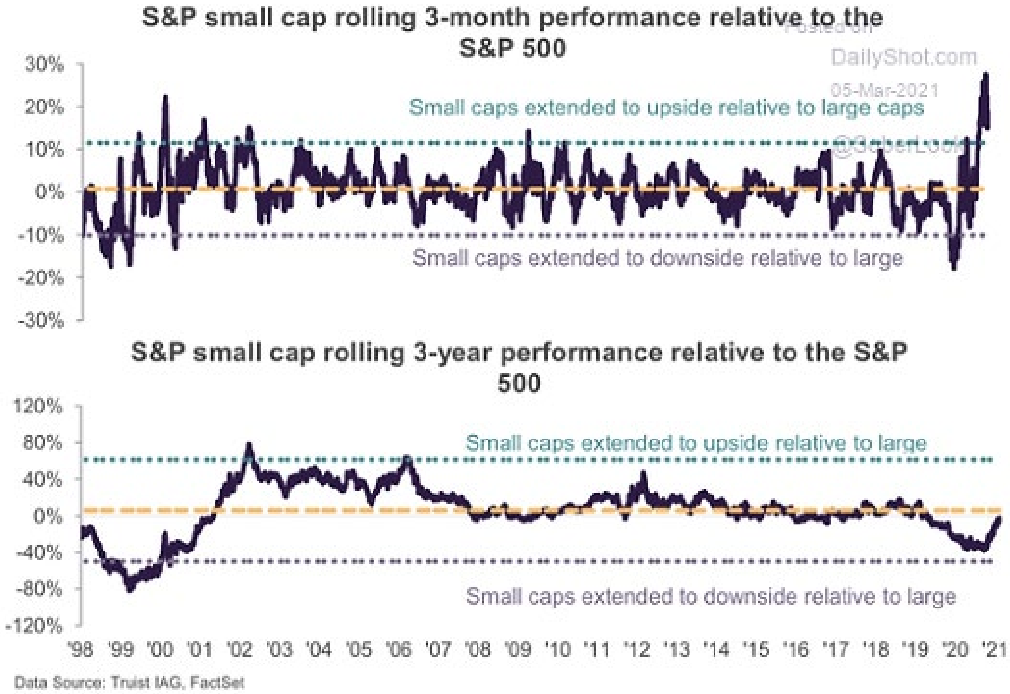
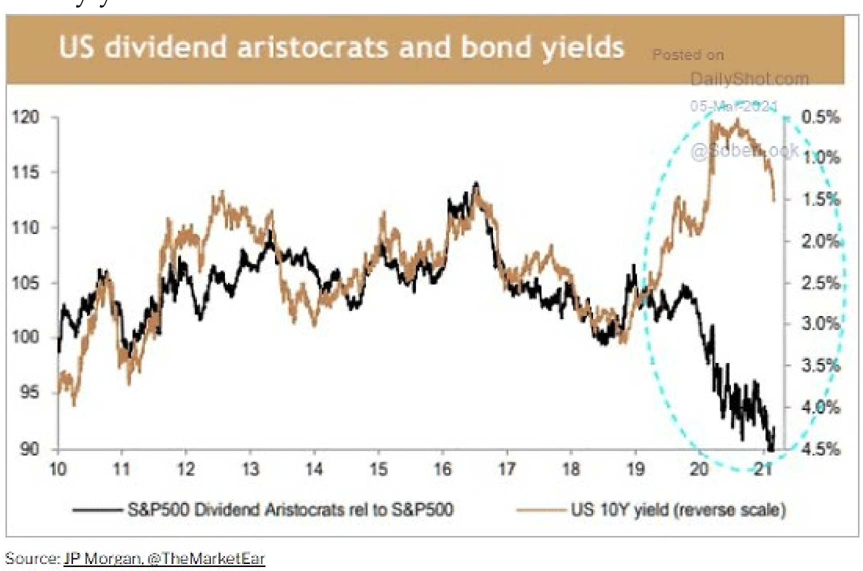
- U.S. small cap stocks appear extended relative to U.S. large caps in the short term, but less so over a three-year rolling basis.



Source: The Daily Shot

- The relative performance of U.S. "dividend aristocrats" versus the S&P 500 Index has decoupled from the ten-year Treasury yield.

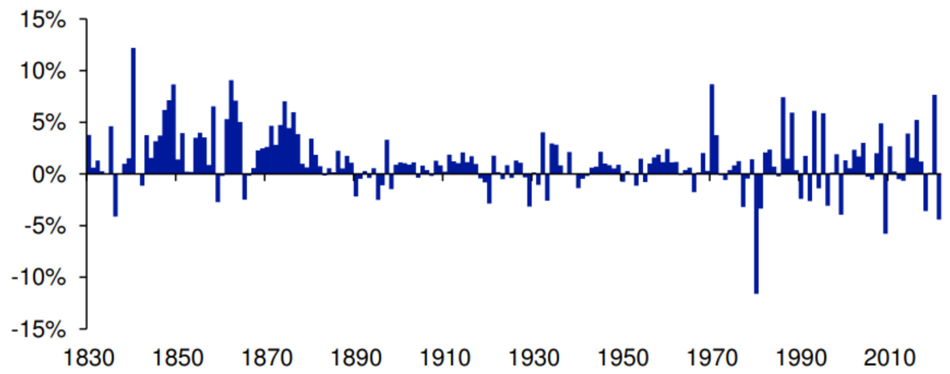


Source: The Daily Shot

Fixed Income Markets

- With inflation expectations rising, Treasuries are off to their third-worst start to a year since 1830.

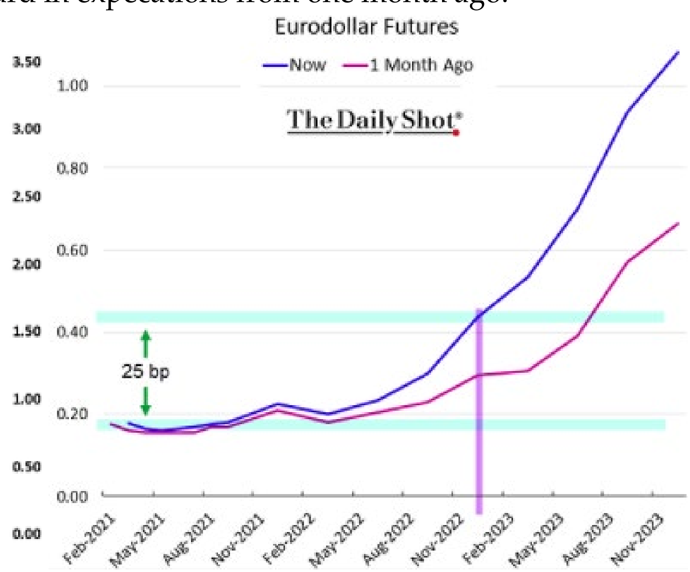
Figure 1: Total Return of US 10-yr Treasury (or proxy) index in Jan/Feb each year since 1830



Source : GFD, Deutsche Bank

Source: Deutsche Bank

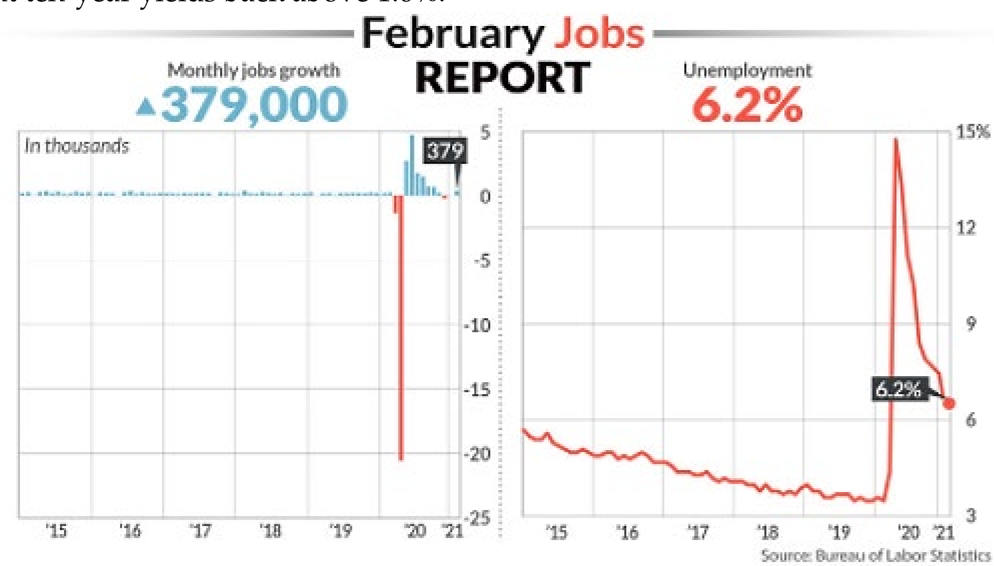
- The ten-year Treasury yield is now back to pre-pandemic levels. The Eurodollar Futures market is now pricing in a 25 basis point hike from the Federal Reserve by early 2023, with a moderate probability of liftoff in 2022, which is a significant pull forward in expecations from one month ago.



Source: The Daily Shot

U.S. Economic and Political News

- Treasury yields spiked again, after Fed Chair Jerome Powell said he expects inflation to lift and doesn't view recent bond market action as particularly disruptive: "We do expect that as the economy reopens and hopefully picks up, we'll see inflation move up. If we do see what we believe is likely a transitory rise in inflation, I expect that we will be patient. There's a difference between a one-time surge in prices and ongoing inflation…I would be concerned by disorderly conditions in markets or persistent tightening in financial conditions that threatens the achievement of our goals."
- The Congressional Budget Office (CBO) forecasts that the federal debt will double in the next 30 years, implying just a 2.3% compound growth rate over that period of time. The CBO also projects Social Security will exhaust its trust fund in 2032, one year later than its September projection indicated.
- ADP's Employment report showed a gain of 117,000 private payroll jobs in February, well shy of the 200,000 Street forecast.
- Non-Farm Payrolls revealed the opposite – an increase of 379,000 jobs, more than double the 175,000 consensus expectation. The Unemployment rate checked in at 6.2%, below the 6.4% Street view. That report sent ten-year yields back above 1.6%.



Source: Marketwatch.com

  - On the other hand, improvement in the Employment-to-Population ratio seems to have stalled at 57.6%.
- Weekly Jobless Claims were 745,000.
- IHS Markit's Services PMI printed 59.8 in its final February reading, better than the 58.9 in the preliminary report.
- However, the ISM Services gauge dropped to 55.3 in February, down from January's two-year high of 58.7.

International Markets and News

- The Chinese stock market (Shanghai Composite) fell -1.4% amid choppy trading, as profit taking appeared to continue within high-growth stocks associated with semiconductors, electric vehicles, autos, and recent IPOs, as a dovish article in the state-run *China Securities Journal* mentioned possible interest rate cuts leading to high volatility within the financial and technology sectors.
    - China's official February PMI for manufacturing and services was below expectations. However, the weeklong Lunar New Year holiday and renewed travel restrictions weighed on results.
    - The annual National People's Congress (NPC) started March 5 and coincides with the first year of China's 14th Five-Year Plan. On Friday, China unveiled its official 2021 growth target of above 6%, and reduced its fiscal deficit target to 3.2% from 3.6% of GDP.
- European markets (STOXX 600 Index) rose +0.9%, as expectations increased for easing COVID-19 restrictions and supportive monetary/fiscal policies that could lead to a healthy economic recovery.
    - Core and peripheral Eurozone bond yields rose along with long-term inflation expectations
    - German Chancellor Merkel and regional chief ministers extended lockdown restrictions through March 28, but also eased rules in areas with low infection rates.
    - Italy blocked the export of 250,000 doses of the Oxford-AstraZeneca COVID-19 vaccine that were slated to go to Australia.
- Japanese equities (Nikkei 225 Index) fell -0.4%, as Bank of Japan (BoJ) Governor Haruhiko Kuroda played down the possibility that the BoJ would make its yield curve policies more flexible.
    - The Japanese manufacturing PMI rose to 51.4 in February, suggesting the manufacturing sector grew for the first time in two years.
    - The Japanese government extended the state of emergency in Tokyo and three neighboring prefectures for two more weeks from March 7.

This Week:

- Corporate earnings reports will be lighter this week, with notable earnings including, but not limited to: Oracle, AIA Group, Adidas, DocuSign, Ulta Beauty, MongoDB, GoodRx Holdings, Symrise, Prada, Campbell Soup, Rolls-Royce, Vail Resorts, and Thor Industries.
- U.S. Economic data:
    - Monday: Wholesale Inventories m/m
    - Tuesday: NFIB Small Business Index
    - Wednesday: CPI ex Food, Energy, CPI, Treasury Budget
    - Thursday: JOLTS
    - Friday: PPI ex Food & Energy, PPI , Michigan Consumer Sentiment (Preliminary)

As always, thank you very much for your interest in our thoughts and support of our services.

Whitney Stewart, CFA®
Executive Director

Adam Bergman, CFA®
Executive Director

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The S&P 500® Index *is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.*

The Russell 2000® Index *measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.*

The Dow Jones Industrial Average (DJIA) *is an index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.*

The NASDAQ Composite Index *is the market capitalization-weighted index of over 2,500 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.*

The NASDAQ-100 Index *includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies including investment companies.*

The MSCI EAFE Index *is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the U.S. and Canada. With 900 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Developed Markets countries in the MSCI EAFE Index include: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the U.K.*

The STOXX Europe 600 Index *is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.*

The Nikkei 225 *is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.*

The Shanghai Stock Exchange Composite Index *is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.*

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