Summary

Economic data for the week included tempered increases in both the producer price index and consumer price index, which appeared to calm some fears about rising inflation. Consumer sentiment continued to improve, as did several labor metrics on the margin.

Global equity markets gained, with the passage of the U.S. Congressional stimulus package, and stronger optimism surrounding vaccine distribution. Bonds fell back again, with interest rates ticking higher along with festering inflation fears. Commodities were little changed, with metals rising in price, while energy fell back from recent highs.

Economic Notes

(0) The **producer price index** for February increased by 0.5%, which was on target with the median forecast—and a deceleration from the prior month. Energy prices rising 6% was the primary drive of the headline number. Removing food and energy prices, the core PPI increase declined to 0.2% for the month. On a year-over-year basis, PPI has risen 2.8% and 2.5% on a headline and core level, respectively. These certainly show a faster pace of reflation as the Covid pandemic slowdown looks to be increasingly abating.

(0/+) The **consumer price index** in February rose by a rounded 0.4% on a headline basis, and 0.1% on a core level, removing the impact of food and energy prices. This was largely as expected, given recent reflation in several key items (notably gasoline). In other areas, strength in shelter (from higher home prices, not rents), medical services (up a half-percent), and recreation reflated. These were mixed as well, for example, with items such as a 7% spike in car rental prices (from rentals actually happening) offset by hotel prices and airfares falling several percent each.

Year-over-year, headline and core CPI increased by 1.7% and 1.3%, respectively. On the core side, this was a bit of a deceleration from the prior month as struggles from the pandemic continued to exert a net deflationary impact on the economy. Markets were relieved somewhat that there wasn't more of a spike in CPI. A near-term rise could certainly come in the near term as stimulus, reopenings and spring weather improvement move money and activity in a positive direction, but the picture for the long-term inflation picture is mixed. The long-run picture includes offsetting inputs from higher fiscal deficits and larger debt load, coupled with muted demographic growth.

(+) The preliminary **Univ. of Michigan index of consumer sentiment** for March rose by 6.2 points to 83.0, exceeding expectations of a lesser rise to 78.5. Under the hood, both assessments of present conditions as well as expectations for the future rose. Inflation expectations for the coming year fell by -0.2% to 3.1%, while expectations for the next 5-10 years were unchanged at 2.7%. Sentiment certainly appears to continually improving along with increased re-openings and vaccine availability nationwide.

(+) The **JOLTs** job openings report for January showed an increase of 165k to 6.817 mil., which exceeded expectations calling for 6.700 mil., and included a revision higher for the prior month. The job openings rate rose a tenth to 4.6%, while hiring fell a tenth to 3.7%. The layoff rate fell a tenth to 1.2%, as did the quits rate to 2.3%. This continues to point to improved labor conditions, especially outside of the still-challenged leisure sector, although there remains substantial work to go.

(+) **Initial jobless claims** for the Mar. 6 ending week fell by -42k to 712k, below the 725k level expected. **Continuing claims** for the Feb. 27 week also fell, by -193k to 4.144 mil, below the median forecasted amount of 4.200 mil. Initial claims fell in TX and other Southern states, likely due to weather improvements, while claims rose the most in CA. Looking at the entire group of regular benefits, extensions, and emergency programs, however, the continuing claims numbers rose by over 900k to 11.1 mil. in mid-February. Despite the improvement at the margin for new claims, a significant percentage of the population continues to receive support through the myriad of programs.

Market Notes

Period ending 3/12/2021	**1 Week (%)**	**YTD (%)**
DJIA	4.17	7.60
S&P 500	2.69	5.33
NASDAQ	3.12	3.50
Russell 2000	7.36	19.33
MSCI-EAFE	3.00	3.68
MSCI-EM	0.70	4.64
BBgBarc U.S. Aggregate	-0.43	-3.35

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2020	0.09	0.13	0.36	0.93	1.65
3/5/2021	0.04	0.14	0.79	1.56	2.28
3/12/2021	0.04	0.14	0.85	1.64	2.40

U.S. stocks gained as sentiment continued to recover, with the final signing of the most recent stimulus package (dubbed the American Rescue Plan Act), and inflation readings came in more tempered than first feared. President Biden also directed states to make vaccines available to all American adults by May 1, which appears ambitious based on current supplies and distribution efforts, but raised hopes broadly for a faster recovery.

Small caps continued to lead the most recent recovery, up over 7% on the week, with stronger investor interest due to their cyclical nature. Their year-to-date gain of almost 20% stands in strong contrast to fears about the economic impact on small businesses relative to large (publicly-traded small cap stocks aren't quite in the same category as mom-and-pop small businesses, anyway). Every sector was positive last week, led by consumer discretionary, materials, and utilities, each up over 4%. Energy and health care were up only a percent, falling last in the pack. Real estate gained over 5% as sentiment continued to improve about the health of retail and lodging.

Foreign stocks in Europe and the U.K. gained to a slightly lesser degree than in the U.S., while Japan underperformed. The European Central Bank acted in response to recent rising bond yields, by promising support of additional monthly bond purchases. Emerging markets lagged developed, although commodity producers, such as Russia and Mexico fared positively, while China and Korea lost ground.

U.S. bonds lost ground again last week, as interest rates ticked up at the longer end of the curve. Treasuries fared slightly better than investment-grade corporates, while floating rate bank loans led other groups with flattish returns. Despite the rate impact, foreign bonds in developed markets gained due to a weaker dollar. Emerging market bonds were mixed. While the 10-year treasury has reached its highest level in 12 months, and the curve has steepened, rates remain very low from a historical perspective—with real rates near zero, at best. Such a 'bond scare' of a quarter- or even half-percent rate rise is mild compared to those seen in past decades, and well within the band of normal volatility.

Commodities were little changed net, experiencing one of the calmer weeks recently. Both industrial and precious metals gained, with energy falling back slightly. The price of crude oil traded in a tight range last week, ending down nearly a percent back under $66/barrel, as inventories rose.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.