Summary

Economic data for the week included a small upgrade for the prior month's GDP growth rate, as well as declines in durable goods orders and several housing metrics—largely due to the prior month's winter weather challenges. Consumer sentiment and jobless claims were slightly improved.

U.S. equity markets outperformed foreign last week, with help from the dollar, which appreciated nearly a percent against foreign currencies. Bonds earned positive returns as long-term treasury rates fell back a bit from recent increases. Commodities were mixed to lower, with continued volatility in crude oil, resulting from the Suez Canal shipping accident in the Middle East that created a major global trade bottleneck.

Economic Notes

(+) The final U.S. **GDP** figure for the 4th quarter of 2020 was revised 0.2% higher to 4.3%, surpassing estimates calling for minimal change. While minor, segments that were revised higher included intellectual property investment by 2%, and residential investment, inventories, and exports by lesser degrees. On the other hand, structures investment was revised lower into negative territory. PCE inflation was revised down slightly to annualized rate headline and core rates of 1.5% and 1.3% for the quarter, and year-over-year rates of 1.2% and 1.4%, respectively. PCE differs from traditional CPI in its component weightings.

Estimates for Q1 2021 GDP continue to evolve, but show continued recovery, with mainstream private estimates still falling around the midpoint of a 5-10% annualized range. The Atlanta Fed GDPNow model is predicting growth of 4.7%, while the New York Fed's Nowcast currently shows 6.1% (each of these are based on different quantitative factor models).

(0) **Personal income** fell -7.1% in February, which was largely on par with expectations, and reflected a normalization downward following the stimulus check payments of the prior month that had caused a temporary spike in income. Year-over-year, this remains up 7%. **Personal spending** fell -1.0% for the month, which also reflects some prior-month normalization effects, and pulled the personal savings rate down by -5% to a still-high 13.6% level. **PCE inflation** rose 0.2% on a headline rate for February, and 0.1% for core (removing the volatile food and energy sectors). This brought the year-over-year change in that inflation index to 1.6% and 1.4% for headline and core, respectively. These remain well below the Fed's target, and serves as ongoing rationale for accommodative policy, alongside needed repair in labor markets.

(-) **Durable goods orders** for February reversed course from the prior month by falling -1.1%, in contrast to the 0.5% increase expected by median forecast. On a core level, orders declined -0.8%. Core capital goods shipments fell a similar -1.0% as well, however, on par with forecast. However, inventories rose by over a half-percent. Along with other metrics, it appears winter weather problems contributed to relative weakness in activity. Nevertheless, durable goods are up 3% on a year-over-year basis, even before the coming months' results will show a sharply lower base as Covid lockdowns took hold in March and April 2020.

(-) **Existing home sales** for February fell by -6.6% to a seasonally-adjusted annualized rate of 6.22 mil. units, exceeding the -3.0% decline expected by consensus. Year-over-year, this index remains up over 9%. Both single-family and multi-family homes fell to nearly identical degrees for the month. Regionally, the West saw gains of up to 5%, while the other three regions declined, led by the Midwest and Northeast down between -10% and -15%. These results appear to be weather-related.

(-) **New home sales** in February fell a sharp -18.2% to a seasonally-adjusted annualized level of 775k units. This was well below the expected decline calling for -5.7%, and represented the largest single month decline in eight years. However, it included a revision higher for January. As with existing home sales, this also appeared to be weather-related, with declines in every region—led by the South and Midwest. While still up 8% over this time last year (right before Covid began), the surge of buying activity in 2020 has resulted in finished new home inventory to drop by nearly -50%, although building activity seems to have ramped up. It remains to be determined how the recent rise in long-term interest rates will impact affordability and the ease of home financing.

(+) The second edition of the **Univ. of Michigan consumer sentiment index** for March was revised up by 1.9 points to 84.9, beating expectations for 83.6. Both the assessments of current conditions as well as expectations for the future rose by a few points. Inflation expectations for the coming year were flat at an elevated 3.1%, while those for the next 5-10 years ticked up by a tenth to 2.8%. Over the past 20 years, per our own internal calculations based on Federal Reserve data, the average expectation of inflation, both at the time and for the next 12 months, has been about a percent above realized inflation (both core and headline). This is a divergence from the full history of the Michigan index, which has been similar to realized inflation over the entire period from its beginning in 1978.

(+) **Initial jobless claims** for the Mar. 20 ending week declined by -97k to 684k, well below the 730k level expected. **Continuing claims** for the Mar. 13 week also fell, by -264k to 3.870 mil., which was below the 4.000 mil. consensus estimate. Claims fell by near or over -50k each in OH and IL to lead the national index, while results in other states were generally mixed and of smaller magnitude. Looking further into extended pandemic benefit programs, continuing claims rose by nearly 700k to remain at a count well over 10 million. Weather may have played a temporary role in the activity of recent weeks, and recovery, while overall jobless claims remain high with hopes for improvement in the coming months.

Market Notes

Period ending 3/26/2021	1 Week (%)	YTD (%)
DJIA	1.36	8.58
S&P 500	1.58	6.20
NASDAQ	-0.57	2.11
Russell 2000	-2.88	12.71
MSCI-EAFE	-0.55	3.72
MSCI-EM	-2.16	1.55
BBgBarc U.S. Aggregate	0.35	-3.28

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
3/19/2021	0.01	0.16	0.90	1.74	2.45
3/26/2021	0.02	0.14	0.85	1.67	2.37

U.S. stocks declined most of the week, with uncertainty abroad with rising Covid infections and the ship bottleneck at the critical Suez Canal trade route. However, a recovery by Friday, helped by a report of minimal PCE inflation and President Biden's accelerated vaccine rollout targets, helped stocks regain their positivity. Domestic markets may also be increasingly focused on Congressional plans for corporate and personal tax increases. This is part of early plans for a roughly $3 trillion infrastructure bill, possibly to be split into several segments, likely in mid- to late-2021.

By sector, consumer staples led other primary sectors, with gains near 4%, with real estate faring even better, following some tempering of interest rates last week. Communications services fell -4%, representing the only losing sector of any note, beyond minimal declines in consumer discretionary. Banks were given the good news from the Fed that temporary restrictions on dividends and buybacks will be lifted on Jun. 30, following the successful completion of recent stress tests. Several technology companies were again asked to appear before Congress regarding the (often algorithmic) publication of 'disinformation' and 'extremism'—this points to definitional issues about how to classify social media-related firms as either simple distributors or news or 'editors,' which adds potential scrutiny.

Foreign stocks were mixed in developed markets, held back a bit by currency weakness, while Japan and especially the emerging markets experienced declines for the week. In Europe, sentiment appeared to be driven by improvement in manufacturing sentiment (into expansionary territory for the first time in several years); however, lockdowns and vaccine supply concern continued to serve as negatives.

Emerging markets were held back by weaker performance in China and Brazil, as well as the smaller-sized but dramatic influence of a -20% total drop in Turkish shares during the week (the equity market fell -10% in local currency terms, with another -10% due to the Turkish lira's drop versus the dollar). Volatility there rose again, in response to President Erdogan's firing of another central bank head—after he hiked interest rates again to combat high inflation (by 2%, up to 19%). This is the fourth such firing in the last seven years. The Turkish administration is of the opinion that high interest rates are the cause of inflation, rather than the cure, in contrast to the views of the majority of mainstream economists. The decline in the lira is a serious problem, particularly for the repayment of debt issued in external currencies, such as the U.S. dollar (a 20% drop in the lira essentially means that the affected debt load increased by the same 20%), not to mention the holdings of Turkish debt by European banks. This is another example of the risks inherent in emerging market investing—often forgotten by investors in the chase for higher yields.

U.S. bonds gained some ground back, as interest rates across the treasury yield curve fell and re-flattened. High yield and investment-grade corporate outperformed treasuries, with lower-rated bonds leading all groups for the week. Foreign bonds were held back by a sharply stronger U.S. dollar, although EM local debt was punished the worst, down a few percent.

Commodities ended down as a group last week, along with a nearly-1% rise in the dollar. On net, individual groups were little changed, with the broader decline caused by weakness in agriculture and precious metals. The price of crude oil see-sawed during the week by a few dollars above and below the $60 mark, before settling at a few cents under $61/barrel. This was all due to the unusual event of a container ship becoming stuck in the Suez Canal after a dust and wind storm, wedging the vessel diagonally and halting traffic in the area. The Suez represents the largest global transit waterway for petroleum (as well as almost a third of the world's overall shipping container volume, amounting to a tenth of all global trade), so small disruptions can cause large ripple effects and potentially rising costs near-term. In this case, speculation about the severity of the problem and possible timeframe for dredging resolution has been driving daily sentiment. This definitely enhances the reputation of the commodities asset class to be influenced by seemingly 'random' events.

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.

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