Summary

Economic data for the week included improvements in manufacturing and construction spending, while services results fell back a bit. The February employment situation report came in stronger than expected, although still being negatively affected by winter weather during the month.

U.S. equity markets gained on net for the week, as several negative days based on investors digesting rising interest rates, were offset by a finalization of stimulus, stronger economic numbers, and the availability of a new third vaccine. Domestic markets outperformed foreign stocks, which were little changed on net. Bonds suffered for another week as interest rates ticked higher upon expectations for economic reflation and aftermath of the massive stimulus package. Commodities rose as a whole due to a spike in oil prices, while other segments, such as metals, declined.

Economic Notes

(+) The **ISM manufacturing index** for February rose by 2.1 points to 60.8, beating expectations of 58.9. This represented one of the strongest readings since 2004. Production, new orders, supplier deliveries, and employment all experienced increases of several points each, as did prices paid, to levels not seen in over a decade. Order backlogs also rose to levels not seen in nearly twenty years. Inventories on the other hand, fell a point back into contraction. Overall, the ISM index continues to demonstrate broader economic repair.

(-) The **ISM non-manufacturing index** (now more generally better known as the **ISM services index**) fell by -3.4 points in February to a level of 55.3, versus expectations for no change at 58.7. Under the hood, business activity, new orders, and employment fell by a few points—but all remained in an expansionary state. Supplier deliveries rose by 3 points, and new export orders by over 10 points, both deeper into expansion. Prices paid also continued to expand. The winter storms during the month may have played a role in tempering the single month report, but the recovery continues.

(+) **Construction spending** in January rose by 1.7%, surpassing median expectations calling for 0.8%, and included upward revisions for December and November. On the private side, residential construction rose over 2%, and over 20% on a year-over-year basis, led by broad-based building activity. Public construction showed gains on both the residential and non-residential side.

(0) **Initial jobless claims** for the Feb. 27 ending week ticked up by 9k to 745k, but fell short of the 750k level expected. **Continuing claims** for the Feb. 20 week fell by -124k to 4.295 mil., also slightly lower than the 4.300 mil. expected. Initial claims rose by almost 20k in TX, due to winter storm activity, as well as OH; however, overall the gains and declines were mixed by state. Continuing pandemic emergency benefits fell by nearly -800k, but remained just over 10 mil. Overall, estimates are that 18 mil. Americans (representing 9% of the age 15-64 working-age population) is on some type of unemployment aid.

(-) The **ADP private employment** report for February indicated a gain of 117k jobs, which fell short of the 205k expected; however, the January report was revised upward by 21k. Services jobs rose by 131k, with leadership in trade/transportation/utilities, while goods-producing jobs fell by -13k, made up entirely of losses in manufacturing.

(+) The employment situation report for February generally exceeded expectations, as the economy continued to reopen; however, a series of winter storms around the country during the month added an official caveat to the release—making the data less meaningful.

Nonfarm payrolls rose by 379k, which beat expectations calling for 200k, in addition to a revision upward of 38k for several prior months. Private payrolls rose 465k, far surpassing consensus. By segment, areas most impacted by Covid lockdowns saw the best recovery, such as leisure/hospitality (355k) and retail (41k). Temporary help (53k) also fared well, as it often fills the gap between needed labor and permanent hires. However, winter weather hampered construction (-61k) and remote learning continued to be a headwind for public school employment (-69k).

The **unemployment rate** declined by a tenth to 6.2%, exceeding expectations of no change. The U-6 underemployment rate was flat at 11.1%, as it was primary affected by a shift in workers from full-time to part-time. The household employment component of this survey showed gain of 208k. Additionally, the ratio of unemployed workers classified as being on temporary layoff continued to fall, by another 5%.

Average weekly earnings rose by 0.2% for February, a tenth stronger than the prior month, and about on par with market expectations. This pulled down the year-over-year rate down a bit to 5.3%. The average workweek length shortened, though, by -0.3 hours to 34.6 hours; however, this appeared to be due to winter weather challenges around the country.

Earlier in the week, the final nonfarm **productivity** number for Q4 2020 was revised up by 0.6% to a still-negative annualized -4.2%. This was a half-percent better than expectations, and took the year-over-year productivity rate down a tenth to 2.5%. **Unit labor costs** for Q4 were revised down by almost a percent to an annualized 6.0%, which fell short of the 6.6% gain expected. It also pulled down the year-over-year rate by a percent to 4.2%.

Market Notes

Period ending 3/5/2021	1 Week (%)	YTD (%)
DJIA	1.85	3.29
S&P 500	0.84	2.57
NASDAQ	-2.05	0.37
Russell 2000	-0.38	11.15
MSCI-EAFE	-0.49	0.66
MSCI-EM	0.05	3.91
BBgBarc U.S. Aggregate	-0.80	-2.93

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
2/26/2021	0.04	0.14	0.75	1.44	2.17
3/5/2021	0.04	0.14	0.79	1.56	2.28

U.S. stocks were mixed, with broader indexes ending higher after a mid-week downturn was offset by a rally late in the week, helped by a stronger jobs report. Despite continued headline concerns about rising interest rates, optimism about the newly-approved Johnson & Johnson Covid vaccine, and related production and distribution partnerships seemed to rescue sentiment a bit. The stimulus bill appeared to be close to a done deal, with finalization expected this coming week.

By sector, energy stocks spiked by 10% along with a rally in oil prices, followed by continued strength in 'value' financials and industrials. Technology and consumer discretionary stocks lost ground last week, in keeping with the 'growth rout'—the consumer sector led down by a correction in Tesla. Real estate shares also declined along with higher rates, which threaten financing conditions.

Before some recovery Friday, the Nasdaq index had fallen nearly -10% from its highs, close to correction territory, as the largest technology firms have been punished by higher valuations and rising interest rates. The broader S&P, on the other hand, was 'only' down -5%—largely due to the positive influence of its cyclical components. This has always been the danger in owning the Nasdaq exclusively. While the growth in its technology and communications holdings have been attractive to investors, the ownership is highly concentrated (at 45% and 20% of the index, respectively).

Sometimes sell-offs/corrections happen for no immediately identifiable reason, for 'hypothetical' reasons (like a fear of not-yet-present inflation), or reasons that might be counterintuitive. In this case, it stems from the fear of rising interest rates, after a decade of extremely accommodative policies. The reality, though, is that rising rates tend to coincide with a recovering economy—as long as the rate increases occur at a measured pace. Comments from Fed chair Jerome Powell and other Fed officials last week seemed to be less reassuring to markets, through descriptions as 'patient,' compared to more dovish remarks he made to the Senate in an earlier week.

Moving from 'extremely low' rates to 'moderately low' rates (with still historically-low yields on an after-inflation 'real' basis) is quite different than moving to 'high' rates. A recovering economy behind the higher rates could also likely deliver the positive of stronger earnings growth. The irony of rising interest rates is that they can have an effect of tightening financial conditions, which could cause the Fed to double-down on keeping policy accommodative, if it was felt to be necessary. This was one of the faster moves interest rates have taken in recent memory, which means the trade could be 'overbought.'

Foreign stocks were flat to slightly higher, held back by currency impacts. The U.K. gained several percent on the week, to lead most regions, after a plan to re-open the economy and calls for more stimulus were announced. In emerging markets, cyclically-sensitive nations such as India and Russia outperformed, while China lost several percent, after officials noted concerns there about leverage levels. This is in keeping with China leading the world's economic recovery; in so doing, they could be the first to pull back on stimulus.

U.S. bonds fell back again, with interest rates moving higher along with finalizing the Congressional stimulus package, due to its large size, as well as the economic recovery and associated inflation pressures. Longer-duration treasuries suffered the most last week, while high yield and floating rate bank loans earned positive returns. Foreign bonds lost significant ground last week in both developed and emerging markets due to the U.S. dollar rising by a percent.

Commodities rose by several percent for the week, despite the stronger dollar. However, this was driven completely by energy, as agriculture and metals lost ground. The price of crude oil rose over 7% to over $66/barrel. After initial deliberations by the OPEC+ countries about possibly raising production to keep prices contained, the group decided against it. However, rather than meeting semiannually as they used to, the group now meets monthly, which allows for more frequent review of conditions.

Have a good week.

Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

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.