Economic & Market review – March 2021

It is now just over a year since equity markets bottomed and MSCI world has rallied 79% since then and is 18% above its pre-Covid highs and up 5% year to date. During March 2021, the S&P 500 rose 4.4% and the NASDAQ finished just 0.5% higher as fears of rising treasury rates suppressed returns and the rotation from growth into value continued. Internationally, Developed Markets were up 2.4%, and Emerging Markets lost 1.5%. High yield corporate bonds were flat in March, while the Global Aggregate Bond Index fell another 1.9%, marking its third straight losing month. Also, the US Index of Consumer Sentiment jumped from 76.8 in February to 84.9 in March, its highest level since March 2020.

As of 31st March 2021, the 10-year US Treasury yield stands at 1.75%, vs. 0.5% at the low in August and 0.9% at the start of the year. The rise in bond yields has been closely correlated with significant outperformance for financials and value stocks. Value stocks are up 9.8% ytd compared with 0.3% for growth stocks. While this gap may not seem overly impressive, Value outperformed Growth by more than +8.5% during the quarter and could be the start of a long-awaited rotation. At the sector level, Utilities, Industrials, Staples, and Materials were the top performing sectors on the month, returning +10.51%, +8.91%, +8.19%, and +7.58%, respectively.

March also saw the passage of President Biden's stimulus package, worth 9% of US GDP. This has led to upgrades in consensus forecasts for US growth this year, with 7% growth now expected. Biden also doubled his vaccination goal from 100 million to 200 million in his first 100 days.

Eurozone equities are up 8% and Japanese equities are up 9%, despite these regions having vaccinated only about 11% and 1% of their populations, respectively. Both have been helped by a strong rebound in global goods demand, and financials have benefited from steeper yield curves. Europe is seeing cases increase, which could delay the domestic recovery.

Some investors have worried that the size of the US stimulus, combined with pent-up savings, could lead to a pickup in inflation, potentially leading the Federal Reserve to tighten policy to an extent that could be damaging for equity markets. However, despite upgrading its growth forecasts for this year and expecting unemployment to decline to 4.5% by the end of this year and 3.5% by the end of 2023, the Fed does not believe inflation will be sustainably above target and still expects not to raise rates before 2024.

Overall, it was a bad quarter for government bonds/fixed income and a good quarter for most equity markets. The stocks that benefited most from Covid have been underperforming since November as the Covid losers have played catch up.