2021 Q2 Market Commentary

Wednesday, April 7, 2021

Strong Jobs, Rising Interest Rates, and Infrastructure Spending

Dear Clients,

We hope this email finds you safe and healthy. Our team wanted to highlight some of the more important events of the first quarter and briefly discuss how we plan on directing investments in Q2 and beyond.

The first three months of the year saw market volatility resurface, as inflation expectations increased along with improving economic conditions. The most recent jobs report saw employers add an impressive 916,000 jobs in March, while the unemployment rate ticked down to 6.0%. In addition, a $2.2 trillion economic stimulus package was unveiled last week, which should provide a boost to corporate revenues. Tax increases loom on the horizon though, which could potentially weigh on stocks, however our view is that the final outcome may likely be more modest than what is currently proposed. The headline story of 2021 thus far has been the 10-Year Treasury (which is the most widely tracked debt instrument, since it's the benchmark for other interest rates) dramatic rise from 0.93% to over 1.7%. This spike has had a particular effect on high-multiple NASDAQ stocks during the quarter, as investors sought to reposition their portfolios into Value.

In our view, while interest rates are likely to increase, we anticipate this move to be more gradual going forward and maintain that the Fed 'has our back' in ensuring that an appropriate level of support remains for the foreseeable future, which will have the effect of driving asset prices higher. However, we believe that the bond market is getting in front of what will ultimately be rather tame inflation data, even as the consumer begins to spend more confidently.

We have made a deliberate move this quarter to position our portfolios into more Short-Term debt instruments (lower duration tends to do better in a rising interest rate environment), as well as to add Commodities to the portfolio to hedge against a rise in the price of inputs. We remain overweight on Technology, especially transformative tech, as the economy continues to evolve into a more digital one. In addition, Value stocks typically outperform in the first part of an economic recovery, as such, we've tilted the portfolio slightly more that direction to take advantage of this sector rotation. We will continue to sit on the upper end of our equity bands in our models, as we believe equities currently provide a better opportunity to generate alpha than lower yielding fixed income.

Our team remains bullish on the equity markets this year as government spending, a strengthening economy, and the ongoing rollout of COVID-19 vaccines have created a surge of investor optimism and should propel markets higher.

If you have any questions, please don't hesitate to reach out.