

February 2021

# Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for Periods Ended 2/28/2021

## Global Overview

Following the volatile month of January where U.S. large cap stocks and developed markets experienced market declines, the month of February bounced back on a wave of optimism. Investors rallied behind expectations that the U.S. economy was picking up, with corporate profits to follow. Value-oriented stocks outperformed as companies in cyclical sectors, such as financials and energy, benefited from a broad increase in economic activity. The positive U.S. equity performance and the leadership of value stocks translated over to developed international markets as well. Emerging market returns cooled off in February as China, the largest component of that index, experienced negative returns for the month. In the wake of the optimism for economic growth and corporate earnings, the U.S. bond market suffered, with bonds selling off as investors favored higher-returning equity markets.

## U.S. Markets & Economy

In February, both equity and fixed income markets were driven by the increased expectation of future economic growth and the potential for higher inflation within the next five years. Bolstering these expectations were the declining number of U.S. COVID-19 cases, the rising likelihood of Congress passing President Biden's proposed \$1.9 billion stimulus package, and supply constraints pushing oil prices up to a high of \$63 a barrel. In addition, the Fed pledged to maintain their easy monetary policy until "substantial further progress has been made" in reaching their employment and inflation goals. As seen in the Chart of the Month below, the M2 velocity and the money supply both have seen sharp changes as a result of COVID-19, which could point to an increased probability of rising inflation if one of the two shifts back closer to its historical norm. The chart displays the effect that quantitative easing and government stimulus packages have had on the money supply. Also, low yields on Treasuries, combined with the effect that COVID-19 quarantining has had on spending and savings rates, has caused a sharp drop in the velocity of money. The potential for outsized inflation is one of the primary concerns of the relationship between money supply and velocity, which could drastically change if market sentiment improved enough for U.S. citizens to increase their personal spending (velocity) while the money supply remains so plentiful. An additional measure of rising expectations of inflation can be seen in the five-year TIPS breakeven inflation rate, reaching a high of 2.4% in late February as compared to the Fed's 2.0% target inflation rate. The rise in inflation expectations also contributed to yield curve steepening with the 10-Year Treasury yield increasing 40 bps, reaching a high of 1.5%, while the short end of the yield curve remained unchanged. The U.S. stock market's momentum stumbled during the month as the sharp rise in bond yields caused the stock market to reconsider the investment potential of high-priced, high growth-oriented companies that had been driving market returns. The Russell 1000 Growth and the S&P 500 indices returned 0.0% and 2.8%, respectively, as compared to the Russell 1000 Value and Russell 2000 Value Indices returning 6.0% and 9.4%, respectively, for the month of February. Investment grade fixed income indices' performance declined across the board due to the rising yields. The Bloomberg Barclays U.S. Aggregate returned -1.4% compared to the ICE BofA U.S. High Yield Index, which returned 0.4% for the month.

## International Markets & Economy

The MSCI EAFE index posted a 2.2% return for the month of February, led by the U.K. with their higher weighting in value sectors like financials, which outperformed in the month. The MSCI EAFE Value index outperformed the EAFE Growth index by 511 basis points in February alone. This dispersion was partially reflected in IHS Markit PMI readings

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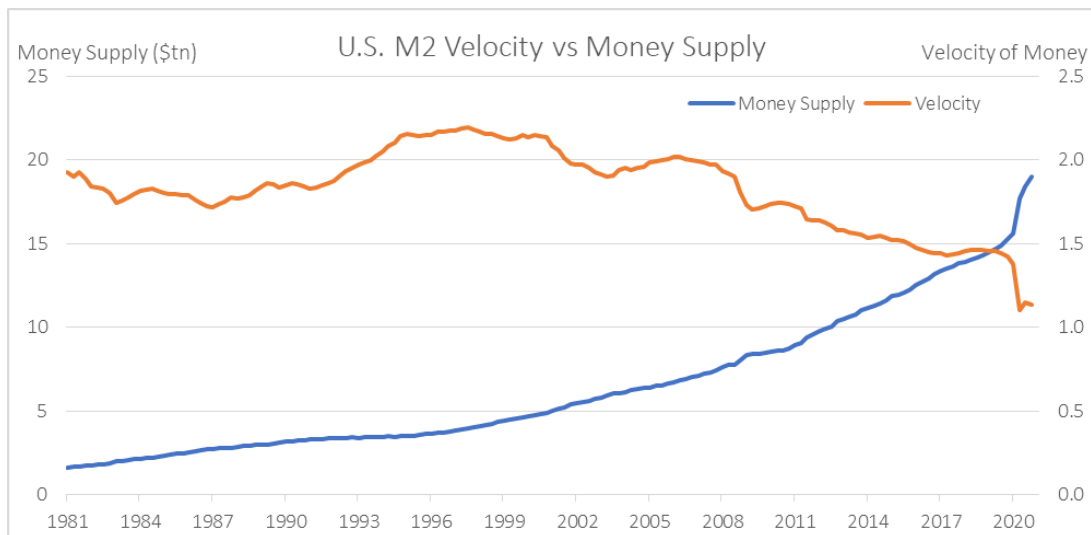
for Europe in February. The manufacturing PMI in Europe rose to a 36-month high while the services PMI fell to a three-month low. Ongoing lockdowns across Europe have disproportionately affected the service sector, while an increased demand globally has been positive for manufacturing exporters.

Emerging markets underperformed developed markets in February as the MSCI EM index returned 0.8%. China was the largest detractor as it posted a -1.0% return as Chinese manufacturing growth slowed. The Caixin/Markit PMI fell to a nine-month low in February. India and Taiwan both had positive months, returning 5.1% and 4.6%, respectively. President Biden signed an executive order that will analyze the United States' reliance on China to provide crucial goods in the supply chain. This order is purported to lead to an increased partnership with Taiwan and South Korea in the future to provide crucial goods.

## In the News

Bitcoin was on the rise again during the month of February and made multiple headlines as the price hit \$50,000 for the first time. Bitcoin at one point in February hit a market cap of \$1 trillion, making it larger than the three largest U.S. banks combined. In addition to its rapid increase in price, the cryptocurrency also received increased attention from both policymakers and business leaders. According to the Wall Street Journal, "In February alone, Bank of New York Mellon Corp. said it would start treating bitcoin like any other financial asset. Mastercard Inc. said it would integrate bitcoin into its payments network this year. And Tesla Inc. said it purchased \$1.5 billion worth of the cryptocurrency for its corporate treasury and plans to start accepting it for payment." When asked about Bitcoin at a conference, U.S. Treasury Secretary Janet Yellen expressed her concerns stating, "It is a highly speculative asset and you know I think people should be aware it can be extremely volatile and I do worry about potential losses that investors can suffer." She went on to share concerns about the cryptocurrency, but did signal that she would support research into a Federal Reserve-backed digital currency. In a panel sponsored by the International Monetary Fund, both Fed Chairman Jerome Powell and IMF Managing Director Kristalina Georgieva signaled that digital currencies could be used to solve issues of transferring money between countries in the future.

## Chart of the Month



Source: Federal Reserve Bank of St. Louis, Velocity calculated as the ratio of quarterly nominal GDP to the quarterly average of M2 money stock

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## Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	2.56	5.85	1.54	29.34	10.77	14.10	9.41
	BBgBarc US Agg Bond TR USD	(1.44)	(2.02)	(2.15)	1.38	5.32	3.55	3.58
	Russell 3000 TR USD	3.13	7.29	2.67	35.33	14.97	17.41	13.44
	DJ Industrial Average TR USD	3.43	4.87	1.41	24.41	9.80	16.08	12.46
	NASDAQ Composite PR USD	0.93	8.15	2.36	53.98	21.96	23.68	16.84
	MSCI EAFE NR USD	2.24	5.86	1.15	22.46	4.59	9.73	5.04
	FTSE Treasury Bill 3 Mon USD	0.01	0.02	0.01	0.33	1.49	1.16	0.60
	Bloomberg Commodity TR USD	6.47	14.70	9.27	20.32	0.32	3.52	(5.88)
Domestic Equities	S&P 500 TR USD	2.76	5.63	1.72	31.29	14.14	16.82	13.43
	S&P MidCap 400 TR	6.80	15.48	8.41	39.79	12.04	15.20	11.68
	S&P SmallCap 600 TR USD	7.65	23.95	14.42	46.69	13.23	16.66	12.94
	Russell 1000 TR USD	2.90	6.36	2.05	34.28	14.98	17.37	13.58
	Russell 1000 Growth TR USD	(0.02)	3.80	(0.76)	44.26	20.97	22.22	16.45
	Russell 1000 Value TR USD	6.04	9.10	5.07	22.22	8.23	12.02	10.40
	Russell Mid Cap TR USD	5.57	10.22	5.29	36.11	13.74	15.87	12.34
	Russell Mid Cap Growth TR USD	1.71	6.23	1.37	46.25	20.11	20.49	14.52
	Russell Mid Cap Value TR USD	7.75	12.47	7.50	27.72	8.94	12.45	10.65
	Russell 2000 TR USD	6.23	21.23	11.58	51.00	14.87	17.92	11.86
	Russell 2000 Growth TR USD	3.30	18.40	8.28	58.88	18.95	21.15	13.80
	Russell 2000 Value TR USD	9.39	24.27	15.15	41.06	10.14	14.22	9.65
International Equities	MSCI ACWI Ex USA NR USD	1.98	7.73	2.20	26.18	5.44	11.21	4.77
	MSCI EAFE NR USD	2.24	5.86	1.15	22.46	4.59	9.73	5.04
	MSCI EAFE Growth NR USD	(0.35)	3.09	(1.70)	28.00	8.98	11.97	6.96
	MSCI EAFE Value NR USD	4.76	8.55	3.95	15.99	(0.08)	7.23	2.97
	MSCI Japan NR USD	1.51	4.65	0.50	28.38	5.19	11.26	6.06
	MSCI AC Asia Ex Japan NR USD	1.25	12.54	5.38	41.95	9.26	16.83	7.59
	MSCI Europe NR USD	2.44	5.71	0.96	20.30	4.16	8.84	4.67
	MSCI United Kingdom NR USD	3.59	8.99	3.35	9.21	(0.10)	4.75	2.73
	MSCI EAFE Small Cap NR USD	2.65	9.25	2.27	31.18	5.15	11.73	7.76
	MSCI EM NR USD	0.76	11.49	3.85	36.05	6.35	15.24	4.41
Fixed Income	BBgBarc US Govt/Credit TR USD	(1.76)	(2.69)	(2.78)	1.31	5.77	3.93	3.86
	BBgBarc US Govt/Credit Interm TR USD	(0.82)	(0.89)	(1.09)	2.35	4.76	3.06	2.96
	BBgBarc US Govt/Credit Long TR USD	(4.19)	(7.23)	(7.04)	(1.38)	9.06	6.85	7.37
	ICE BofA US High Yield TR USD	0.35	2.65	0.73	8.62	6.25	8.84	6.34
	Credit Suisse HY USD	0.39	2.86	0.92	8.44	5.89	8.74	6.22
	S&P/LSTA Leveraged Loan TR	0.59	3.15	1.78	5.78	4.23	5.86	4.25
	FTSE WGBI NonUS USD	1.41	9.46	3.46	35.69	7.75	14.31	6.74
	BBgBarc Gbl Agg Ex USD TR	1.41	9.46	3.46	35.69	7.75	14.31	6.74
REITs	FTSE Nareit All REITs TR	3.06	5.73	2.89	2.80	9.76	8.10	8.54
	Wilshire US REIT TR USD	3.25	6.68	3.80	2.88	8.78	6.05	7.81

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

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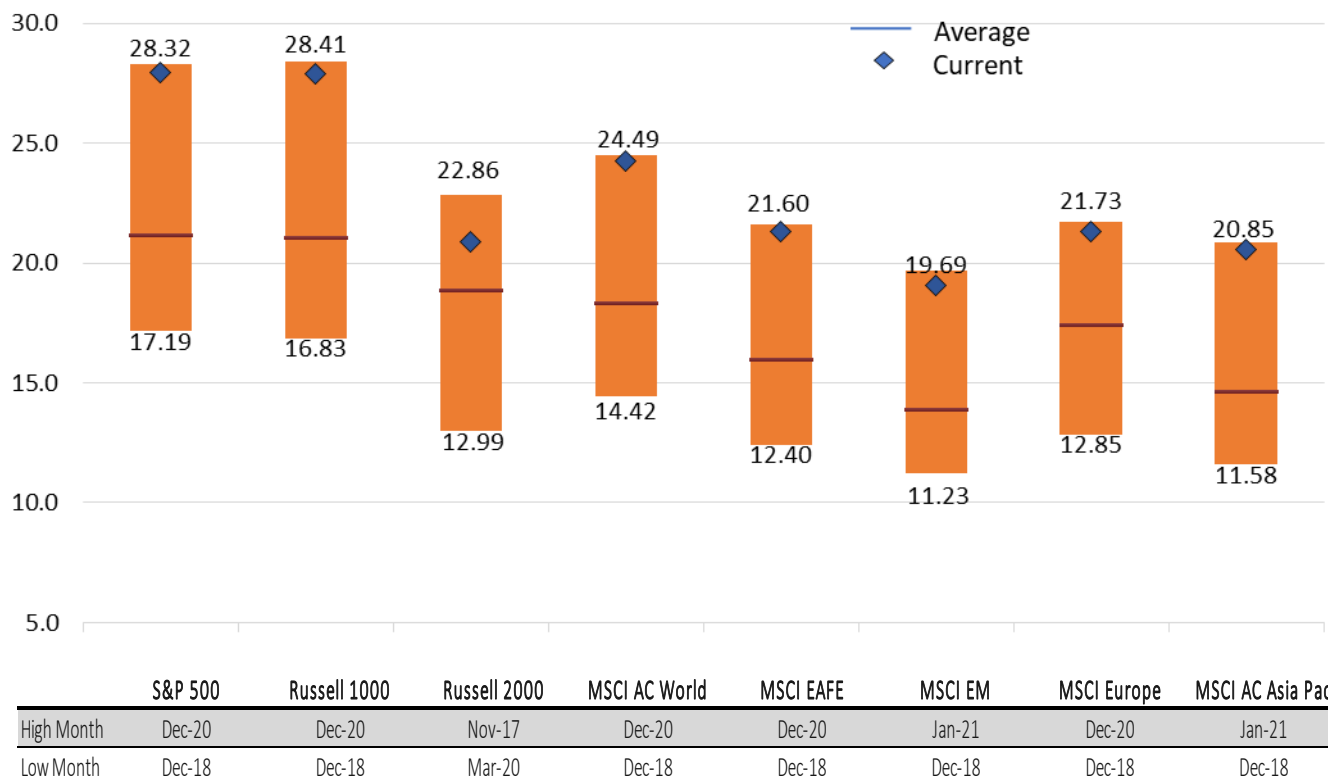
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## Current P/E vs. Trailing 5-Year High, Low, Average



## Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates per US \$		Inflation <sup>2</sup>
	Latest	2021 <sup>1</sup>	2022 <sup>1</sup>	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
<b>United States</b>	4.10	3.20	3.50	6.30	1.46	-	-	1.40
<b>China</b>	2.60	8.00	4.90	5.20	3.21	6.47	7.02	0.30
<b>Japan</b>	3.00	2.30	1.50	2.90	0.17	104.39	108.95	-1.20
<b>United Kingdom</b>	1.00	4.20	4.10	5.10	0.82	1.34	1.29	0.80
<b>Euro Area</b>	-0.60	3.60	3.30	8.30	-0.06	1.19	1.10	0.20
<b>Germany</b>	0.30	2.80	3.30	4.60	-0.29	1.19	1.10	-0.30
<b>France</b>	-1.40	6.00	3.30	8.90	-0.01	1.19	1.10	0.00
<b>Italy</b>	-1.90	4.30	3.20	9.00	0.77	1.19	1.10	-0.20
<b>Canada</b>	2.30	3.50	2.00	9.40	1.36	1.30	1.33	1.00
<b>India</b>	21.90	7.90	4.80	6.50	6.23	73.56	71.01	3.70
<b>Mexico</b>	3.30	3.60	3.40	4.40	6.25	20.02	19.46	3.20
<b>Brazil</b>	3.20	2.60	2.20	14.10	8.19	5.32	4.22	4.50

Sources: (Most recently available data) Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, The Wall Street Journal, OECD, The World Bank, Bureau of Economic Analysis, Trading Economics, and *The Economist*

1. Euro Area data forecasted by The World Bank, all other forecasted data from OECD

2. In terms of CPI All Items

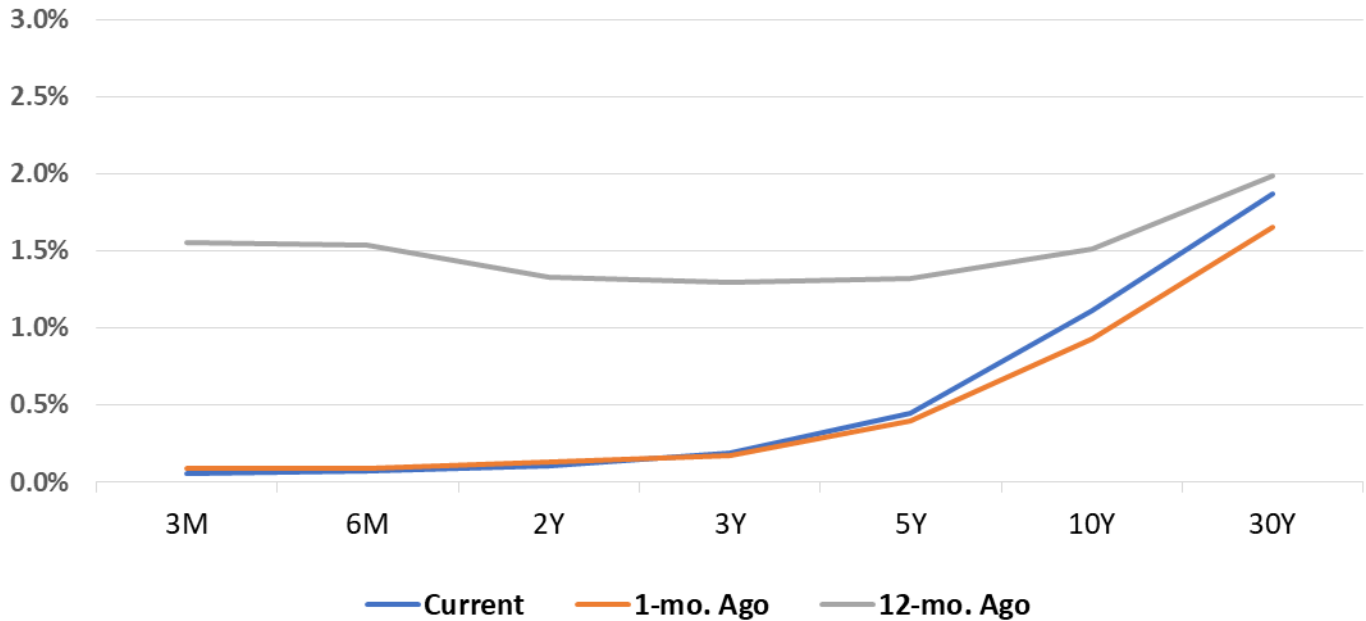
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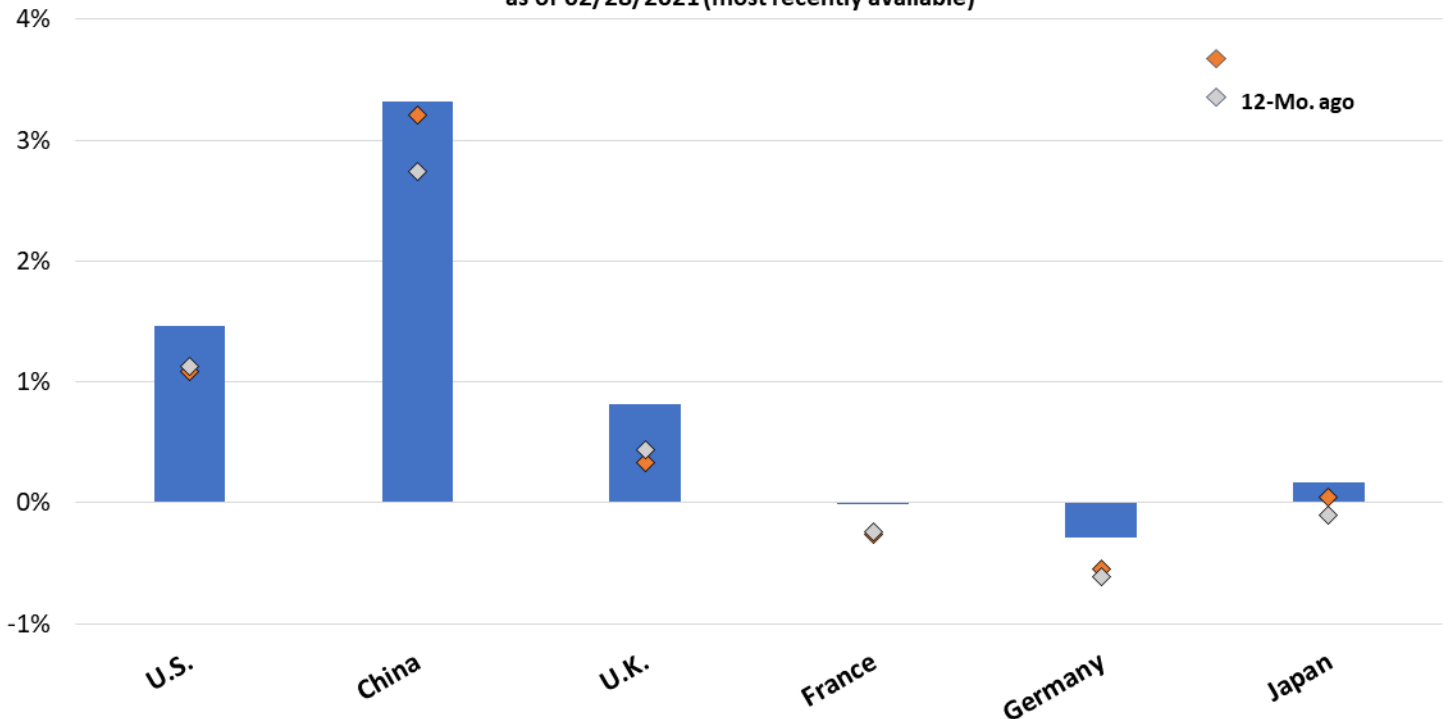
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## U.S. Treasury Yield Curves as of 02/28/2021



Source: Federal Reserve Bank of St. Louis, U.S. Department of the Treasury

## 10-Year Sovereign Yields as of 02/28/2021 (most recently available)



Source: Federal Reserve Bank of St. Louis, Wall Street Journal, Trading Economics

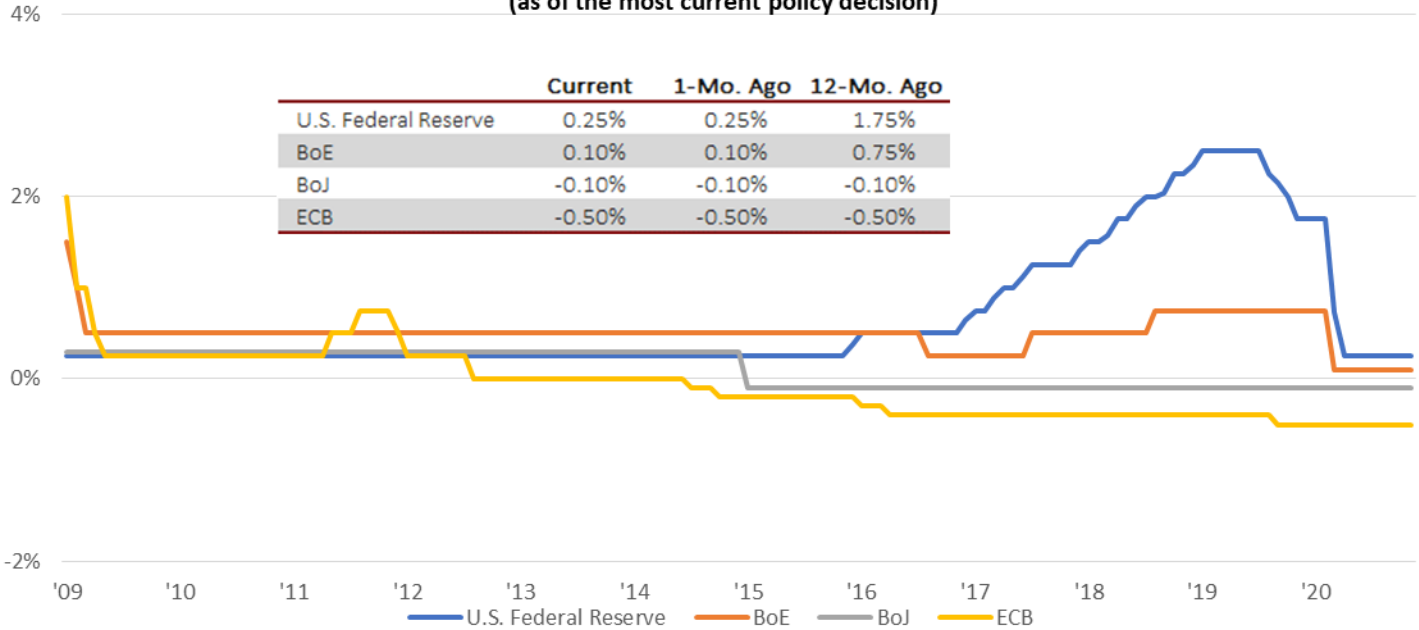
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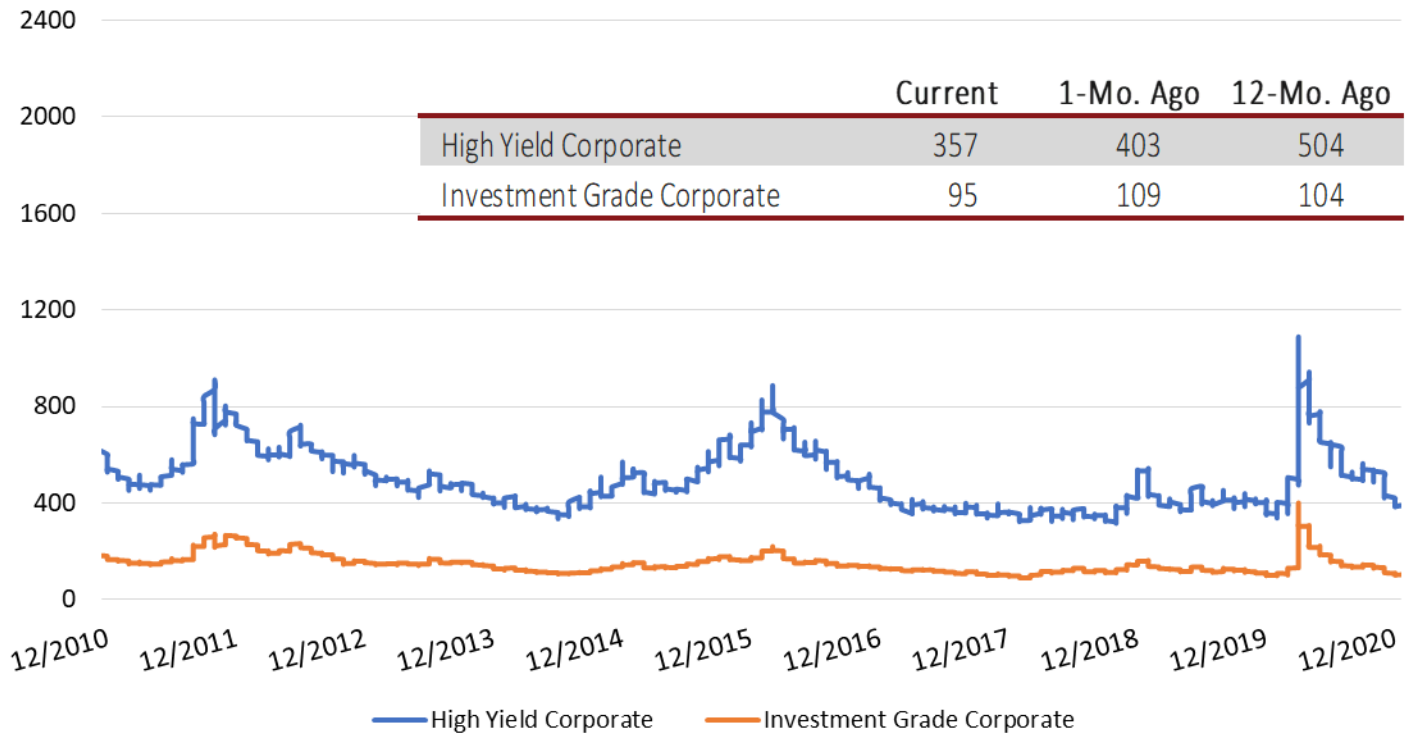
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## Central Bank Policy Rates (as of the most current policy decision)



Source: Federal Reserve Bank, Bank of England, European Central Bank, Trade Economics

## Corporate Bond Average Spread (bps)



Source: Bank of America