Portfolio Manager Commentary

April 2, 2021

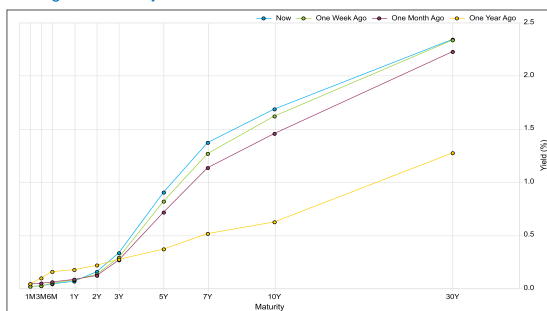
Economic Outlook

The Chicago Purchasing Manager's Index came in at 66.3 for March versus 59.5 for February. The overall U.S. PMI came in at 59.1 for March versus 59.0 for February. The ISM Manufacturing Index came in at 64.7 versus 60.8 for February. So all of the manufacturing indexes were nicely in expansionary territory. Finally for March, the U.S. Unemployment Rate came in at 6.0% versus 6.2% for February. Average Hourly Earnings were down 0.1% versus +0.3% in February.

Fixed Income

The global reflation trade that fueled the biggest Treasury losses in decades during the first quarter of 2021 got a boost from stronger-than-expected U.S. jobs data, causing the market to price in an earlier start to Federal Reserve rate increases. In a holiday-shortened session last Friday, the ten-year Treasury note yield rose about six basis points trading at a session high of 1.73% before closing trading for the week at 1.72%. Shorter-maturity securities more closely tied to monetary policy expectations fared even worse, with the five-year note yield rising about eight basis points on the day to 0.98%, the highest level since February 2020. The two-year Treasury note closed the week at a yield of 0.19%, a level not seen since last June. "Rates will continue to move higher and should because job creation is coming to fruition as the economic reopening gains speed," said Robert Daly, director of fixed income at Glenmede Investment Management in Philadelphia. "The five-year and seven-year sectors are the most vulnerable," and shorter-maturity yields "should start to move higher as well." Market reaction to the employment report was muted at first, but gathered pace over the course of the trading day, with two- and five-year yields ending the trading day at session highs. With European bond markets and U.S. stocks closed for the Good Friday holiday -- and the U.S. bond markets open only due to the economic data being released -- the extent to which the price action was exaggerated by sub-par liquidity remains to be seen during the first part of this week. Strategists at some Wall Street firms are recommending buying five-year notes, which at yields above 0.93% overprice the risk of a Fed rate increase, they say. It implies an expectation that the Fed will raise rates in January 2023, whereas these firms argue the first rate increase will come in September 2024 as the central bank will likely complete tapering its asset purchases first, a process that could take as much as a year. With intermediate maturities under the most pressure, the widely watched five-year to thirty-year spread flattened, falling below 142 basis points for the first time since March 9. Fed Chairman Jerome Powell speaks on Thursday this week, and minutes of the most recent Fed meeting are due to be released Wednesday. The week also includes the release of purchasing managers' indexes for the service sector, a key gauge of how the economy is recovering from the pandemic. The impact of the most recent fiscal stimulus measures, the progress of the Biden administration's multi-trillion dollar infrastructure plans and the sustainability of increased inflation expectations will also be key as to whether the Treasury selloff continues and to what magnitude.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.01%	3 mo	-0.07%	3 mo	0.17%	3 mo	0.14%
6 mo	0.03%	6 mo	-0.06%	6 mo	0.19%	6 mo	0.15%
1 yr	0.06%	1 yr	-0.02%	1 yr	0.23%	1 yr	0.18%
2 yr	0.19%	2 yr	0.20%	2 yr	0.31%	2 yr	0.23%
5 yr	0.98%	5 yr	0.86%	5 yr	1.15%	5 yr	0.65%
10 yr	1.72%	10 yr	1.77%	10 yr	2.22%	10 yr	1.24%
30 yr	2.36%	30 yr		30 yr	3.10%	30 yr	1.90%

Equity

U.S. equity finished the holiday-shortened week higher as the S&P 500 Index closed +1.17%. Infrastructure seemed to dominate headlines after the White House revealed detailed plans to spend $2.25T+ over the next eight years. Fiscal stimulus continues to play a key role in the bullish narrative for stocks though more plans for big spending fit in with a pickup in inflation/economic overheating concerns (FactSet Research Systems).

Communication Services (+3.17%) rebounded this week as Tech (+2.12%) and Consumer Discretionary (+2.02%) were the other notable sector leaders. Consumer Staples (-0.87%) fell the most.

Index Returns	Last Week	YTD
Dow Jones Industrials	0.25%	8.85%
S&P 500 (LCap)	1.17%	7.49%
S&P 400 (MCap)	0.80%	14.79%
Russell 2000 (SCap)	1.46%	14.13%
NASDAQ Composite	2.60%	4.59%
MSCI EAFE (Int'l)	0.34%	5.35%
iShares Real Estate	0.91%	9.78%

Source: FactSet Research Systems

Asset Allocation

Current Sentiment

Cash	Favorable
Short FI	Neutral
Intermediate FI	Neutral
Inflation-Adjusted FI	Neutral
High Yield FI	Unfavorable
International FI	Unfavorable
Equity Income	Neutral
Large Cap Equity	Favorable
Mid Cap Equity	Neutral
Small Cap Equity	Unfavorable
International Equity	Unfavorable
Emerging Markets Equity	Unfavorable
Real Estate	Neutral
Commodities	Unfavorable

Summary below - Current stance on most asset classes:

Cash - Overweighting due to market volatility and uncertainty from Covid-19.

Short Term Bonds - Relative to Intermediate Bonds, the reduced duration is preferable given the oversold long-end of the curve.

Intermediate Term Bonds - The current trading range of intermediate bonds warrants a neutral position with limited upside potential. Some opportunities still remain in certain sectors.

Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.

High Yield Bonds - Spreads are rising given the market turbulence and exposure to unnecessary credit risk when compared to Treasuries would not be advised.

International Bonds - Foreign bonds offer good diversification qualities and higher yield opportunities, however, risks have been elevated recently and investment should be made cautiously.

Equity Income - High quality and higher-dividend-paying companies remain attractive for long-term investors given their favorable risk-adjusted profile and current yield curves.

Large Cap Stocks - A favorable weighting is recommended. Growth continues to be a more favorable style and should continue to be overweighed versus Value.

Mid Cap Stocks - Mid cap exposure remains neutral - more attractive than small caps but not as attractive as large caps.

Small Cap Stocks - In broad market corrections, small cap stocks will suffer most with increased volatility. Underweight until a clearer picture of recovery ensues.

International Stocks - Given most foreign investment is in developed markets and European countries, until sovereign debt concerns are alleviated, an underweight is recommended.

Emerging Market Stocks - Stronger balance sheets, less debt, and better growth potential make emerging markets more fundamentally attractive than developed countries longer-term. However, trade uncertainty and dollar strength provide a headwind for EM in the near term.

Real Estate - Pricing has begun to stabilize and long-term valuations appear attractive. Real Estate should continue to be a strong alternative to other asset classes.

Commodities - Global demand should support higher prices if the global recovery remains on track. Volatility will be higher, and commodities will be susceptible to short-term price shocks, however, if used in conjunction with other asset classes, risk can be reduced substantially within a diversified portfolio. Used alone though is not recommended as the short-term outlook is unavailable.

Sources of statistical information are Bloomberg and Ned Davis Research.

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