Market Down & Dirty

Last Week's Economic/Market Summary – February 22, 2021

Data

- U.S. equity indices consolidated a bit last week and all ended the week in negative territory.
    - S&P 500 -0.66%, Dow -0.09%, Russell 2000 -0.27%, Nasdaq -1.23%[1]
        - The All-Country World Index finished -0.79%.[1]
    - S&P 500 sub-sectors were mostly lower last week.
        - Energy, Financials, & Industrials led the way. [1]
        - Tech, Healthcare, & Utilities led to the downside. [1]
    - The CBOE Volatility Index (VIX) rose 10.27% to end the week at 22.02. [1]

- US Treasury bond yields had their biggest weekly move higher in over a year.
    - US 2yr flat at 0.11%, 10yr +0.10% to 1.34%, 30yr +0.11% to 2.14%.[1]
    - The yield curve steepened further last week.

- Commodities as an aggregate asset class moved higher last week.
    - WTI Crude ended down 0.87%.[1]
    - Gold sank 2.5%.[1]
    - The US Dollar index was down 0.15%.[1]

- In our opinion, U.S. economic data was mixed last week.
    - US retail sales improved in January and are up 7.6% from 1 year ago. [1]
    - The NAHB housing market index beat as demand still outweighs demand. [1]
    - Producer price inflation saw its largest spike in the report's history last month. [1]

- An index of equities outside the US (FTSE All-World ex-US) declined -0.30%.[1]

[1] Source: Bloomberg – 2/19/2021

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Conclusion

- US equity markets ended the week down slightly as the biggest news was in the interest rate markets.
  - The 30 company, mega-cap Dow Jones Industrial Average led domestic indices performance with a barely negative week.
    - Not by coincidence is the fact the DJIA has a higher concentration in cyclical sectors.
    - The equal-weight S&P 500 outperformed the traditional market-cap weighted measure of the 500 largest co's in the US by 0.80% last week alone.
  - Overall, higher growth multiple co's were weak last week and led to the downside.
    - These co's are also know as "longer duration equities" and a major driver of their direction is the movement of the yield curve, which spiked substantially last week.
- S&P 500 sub-sectors finished the week mostly negative.
  - Energy once again led the way with a gain of 0.85%.
    - Other cyclicals sectors (Industrials, Financials, Materials) also were positive.
  - Technology, Utilities, & Healthcare led to the downside.
- The VIX volatility index rose over 10% last week after closing last week below the 20 level.
  - The term structure or cost of VIX contracts further into the future still looks to be a headwind to the volatility index rising.
    - April VIX futures are pricing in 28 currently.
      - This difference between current price and future expectations is the biggest difference in some time.
  - For this reason, the VIX could easily settle down from here, but, if there is some unexpected, negative news, it could also explode higher fairly quickly.
  - We'll continue to watch as there are implications in both directions for equities at large.
- Longer-dated US Treasuries had their biggest weekly jump in yields in over a year as the 10 and 30yr completed their 4th weekly rise in yields.
  - Interesting to note, that there now exists a significant premium in US Treasuries over Japanese and Eurozone bonds. In past instances of this occurring, buyers have come in.
  - In our opinion, if history is a guide, there could be a very large amount of money heading to bonds simply from institutions rebalancing their portfolios.
  - As a side note, the yield on the 10 year US Treasury is currently the equivalent return for a currency hedged international investor as Italian bonds of the same maturity.
  - We continue to monitor US interest rates as a run higher could cause pressure on equities.
- With 83% of S&P 500 co's reporting earnings, 79% have beaten on earnings & 77% on revenue.
  - The current blended earnings growth rate is 3.2%. (Estimates were for -9.3%)
  - Interesting to note that the "bubble talk" was in Mega-Cap Tech co's and their earnings have beaten most estimate by a large margin.
    - Small-cap co's which have been leading performance since November currently have the largest % ever of Russell 2k constituents reporting no earnings.
    - This is much higher than the -9.3% consensus expectation. [1]

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