Summary

Economic data for the week included a drop in February retail sales and industrial production, as did several housing metrics. However, several regional manufacturing indexes showed strong gains.

Global equity markets were mixed last week, as continued Covid concerns abroad competed with increasing activity, especially in the U.S., leading to rising interest rates. Bonds continued to lose ground, due to rates ticked higher upon ongoing market inflation fears for the near-term. Commodities were mixed, led by oil prices falling sharply.

Economic Notes

(-) **Retail sales** in February fell by -3.0%, which exceeded the median forecast calling for a -0.5 drop, with 11 of the 13 segments falling. At the same time, sales for the prior month of January were revised higher by 3% to a nearly 8% increase. Removing the more volatile components (autos, gasoline, and building materials), the core/control sales number fell a slightly worse -3.5%, which was also deeper than expectations. In Feb., all categories except food fell, led by department stores, sporting goods, online retail, and general merchandise, all down between -5% and -10%. Sales overall are up 6% over the pre-Covid starting point a year ago, with online sales leading the way, up an unsurprising 25%, followed by sporting goods and building materials, which also benefitted extensively from lockdown activity. March 2020 will represent a unique new starting point for year-over-year comparisons in a variety of economic categories, including this one.

(0) **Import prices** rose 1.3% in February, exceeding expectations calling for 1.0%. As energy prices accounted for a substantial part of the increase (up 11%), removing petroleum from the measure reduced the price gain to 0.5%. In the remaining components, industrial supplies led, up 5%, with increases in production demand. This is largely expected, as the manufacturing economy continues to pick up steam. Import prices are up 3% from this time a year ago, with durable goods prices up far higher.

(-) **Industrial production** in February fell by -2.2%, which was counter to the 0.3% increase expected for the month. It appears that extreme weather played a significant role, accounting for much of this differential. Manufacturing production led with a drop of -3%, as auto production declined into the double-digits for the single month. In other areas, utilities production rose by 7%, and offset mining production down -5%. **Capacity utilization** fell by -1.7% to 73.8% during the month. Overall, industrial production is down only under -5% from pre-Covid levels.

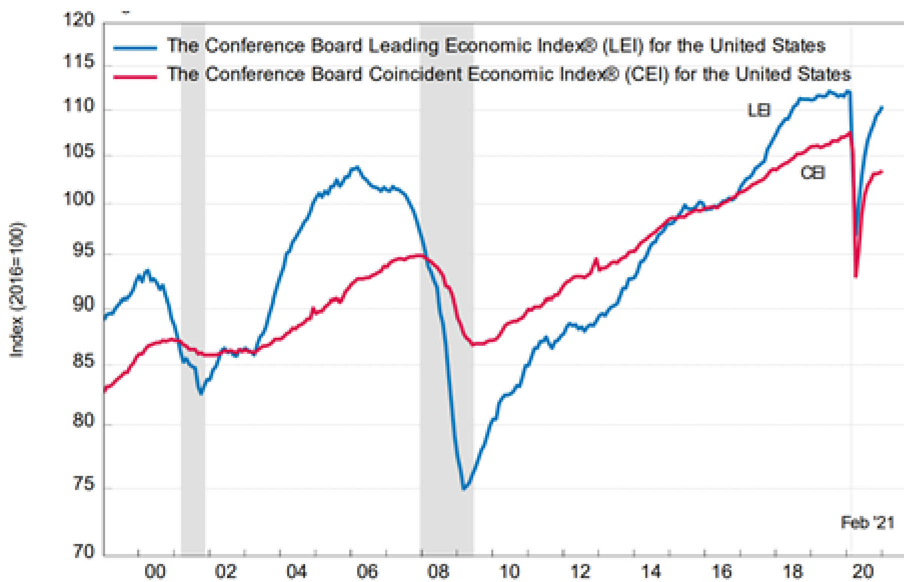
(+) The **Empire manufacturing index** rose 5.3 points in March to a level of 17.4, beating a forecast of 15.0. Under the hood, shipments and prices paid gained sharply, and further into expansion (prices to the highest level in a decade). On the other hand, new orders and employment fell by a few points, but remained expansionary. This continues the trend of manufacturing rebound.

(+) The **Philadelphia Fed manufacturing index** fared even better, rising by a dramatic 28.7 points to 51.8 in March—beating forecasts calling for a small tick higher to 23.3. The various sub-components also showed strength, including new orders especially, but also shipments, employment, and prices paid. Expected business conditions six months out rose by 22 points as well.

(-) **Housing starts** for February fell by -10.3% to a seasonally-adjusted level of 1.421 mil. units, which was beyond the expected -1.3% decline. Single-family starts fell by -9%, while multi-family were down -15%. Regionally, starts in the West jumped by 18%, but fell by -35% or more in the Northeast and Midwest—both largely affected by winter storm activity. **Building permits** declined by a similar -10.8% for the month, compared to a -7.2% decrease expected. Single- and multi-family permits were down by a similar degree. While the Midwest saw a small tick higher in monthly permits, the other three regions experienced declines of 10-15%.

(-) The **NAHB housing market** index for March fell by -2 points to 82, compared to expectations calling for no change at 84. While current sales fell by -3 points, accounting for the headline decline, future sales rose by an equivalent amount, while prospective buyer traffic was flat for the month. Regionally, the South performed best with no change, while the rest of the country showed declines to varying degrees. Weather likely played a role in homebuilding activity, which could carry over into early spring housing starts. However, demand for new homes remains quite strong.

(+) The Conference Board **Index of Leading Economic Indicators** for February rose by 0.2%, continuing a string of consecutive monthly increases. The monthly results were led by strength in jobless claims and new ISM orders, while manufacturing hours, housing permits, and consumer sentiment weakened a bit. For the past six months, the index has increased at an annualized pace of 7.7%, which far surpasses the -9.4% annualized pace of the prior six months—which fell during the heart of the pandemic lockdowns. This index consists of data we already know, but confirms the broader statistical correlation showing improvement.



Source: The Conference Board. Shaded areas indicate recessions as defined by NBER.

(-) **Initial jobless claims** for the Mar. 13 ending week rose by 45k to 770k, surpassing the 700k expected. **Continuing claims** for the Mar. 6 week fell by -18k to 4.124 mil., above the 4.034 mil. median consensus figure. Initial claims increases were most pronounced in TX and IL, and fell most dramatically in OH, so the picture remains mixed by region and industry. Claims in pandemic emergency programs continued to fall, which is a positive development, as the economy steadily reopens.

Market Notes

Period ending 3/19/2021	1 Week (%)	YTD (%)
DJIA	-0.45	7.12
S&P 500	-0.74	4.55
NASDAQ	-0.77	2.70
Russell 2000	-2.76	16.04
MSCI-EAFE	0.59	4.29
MSCI-EM	-0.81	3.79
BBgBarc U.S. Aggregate	-0.28	-3.61

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2020	0.09	0.13	0.36	0.93	1.65
3/12/2021	0.04	0.14	0.85	1.64	2.40
3/19/2021	0.01	0.16	0.90	1.74	2.45

U.S. equities continued to experience bouts of some volatility, with a sharply negative Thursday after responding positively to Jerome Powell's dovish remarks on Wednesday. By sector, results were mixed, with a percent increase in communications on the positive side, while energy fell by -8%, along with a decline in oil prices. Along with losses in financials and technology, real estate also fell a percent, along with the impact of rising interest rates. Despite improving fundamentals due to a more positively-sloping yield curve that improves net margins, financials were sold off due to the Fed announcement that an exemption allowing for lower bank capital reserves would not be extended (lower reserves allow for more capital to be 'put to work'). Now that the latest stimulus package is in the books, rumblings have started about the potential scope and size of a multi-trillion dollar infrastructure plan, as well as potential tax increases to pay for it (any increase in corporate taxes do not appear to be a primary concern of markets at this point).

In foreign markets, developed nations were flattish in Europe, with the backdrop of lockdowns imposed again in France and trust issues with the AstraZeneca vaccine. This was offset by gains of several percent in Japan, where stocks appeared to be boosted by the state of emergency being lifted in Tokyo. Emerging markets were flat on net, with various returns sharply mixed by country, particularly since several central banks elected to raise interest rates to combat rising inflation pressures.

U.S. bonds fell back last week again, as interest rates continued to tick higher on the long end of the treasury yield curve (even though they fell to near zero on the short-end). Bonds across the board fell back, including investment-grade and high yield corporates to various degrees. There also appeared to be an impact from foreign buying and selling of U.S. treasury debt. A behind-the-scenes result of higher treasury yields is that these have once again become more attractive as safe haven assets globally. If this demand resumes, it could serve to dampen yields, particularly if challenged conditions in Europe continue to keep yields unattractively low there by comparison. Foreign bonds declined in developed markets last week, along with a weaker dollar, but emerging market debt saw gains.

Commodities fell by several percent overall last week, with rising prices for industrial and precious metals offset by a large drop in the energy sector. Specifically, the price of crude oil fell by over -6% to just above $61/barrel. Oil prices fell by a precipitous -7% on Thursday alone, as the potential suspension of the AstraZeneca Covid vaccine threatened demand. U.S. crude stockpiles also increased sharply, which provided additional reason for the price pullback.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.