

# Monthly Market Review



“Recipe for recovery = three parts stimulus, two parts vaccine, and unlimited Powell.”

## Economic Highlights

- Vaccine rollout accelerated causing cases, hospitalizations and deaths to fall sharply.
- Most economists, including those at the Federal Reserve (Fed), have raised growth forecasts and now see the U.S. economy expanding by 6%-7% this year — a remarkable pace.
- Congress passed the American Rescue Plan Act to provide \$1.9 trillion in relief to households, businesses, schools, and state, local and tribal governments. The plan extends unemployment benefits, increases the child tax credit, and provides additional funding for vaccinations and testing.
- President Biden also unveiled a new \$2 trillion infrastructure plan. The American Jobs Plan seeks to repair roads and bridges; modernize public transit; support electric vehicles; upgrade America’s drinking water, wastewater and stormwater systems; strengthen the electric grid; and invest in home-based elderly care. The proposal would be paid for by rolling back some of the 2017 corporate tax cuts.
- High-frequency data, like air travel and restaurant reservations, indicate that the economic recovery is gaining momentum. Consumer confidence rose to a pandemic high in the quarter, and surveys of both manufacturing and service sector activity rose sharply.
- Economic optimism, fiscal stimulus and an easy monetary policy are fueling a rise in inflation expectations. Although the inflation trend remains muted and well below the Fed’s 2% average inflation target, near-term inflation is likely to rise as the recovery accelerates.
- At March’s Federal Open Market Committee meeting, the Fed maintained its current easy money policy. Fed Chair Jerome Powell acknowledged an improving economic outlook and suggested that higher inflation readings would likely be transitory.
- Hiring accelerated as lockdown restrictions eased. The U.S. economy added 916,000 jobs in March, with improvement across most industries. The unemployment rate fell to 6.0%, and the labor force participation rate, which is the share of the population that is either working or actively looking for work, improved. Manufacturing and services activity reached multi-year highs. Of particular note, the ISM Services index expanded at the fastest pace on record.

## Bond Markets

- The U.S. Treasury yield curve steepened significantly in March. The yield on the benchmark 3-month Treasury bill fell two basis points (bps) to 0.02%, while economic optimism and rising inflation expectations continued to push long-term Treasury yields higher. The yield on the benchmark 10-year Treasury note rose 34 bps during March to end at 1.74%. The 2- to 10-year Treasury yield spread reached its steepest level since 2015.

- Rising rates hurt fixed-income performance for the month, especially for longer duration indices. The 3-month Treasury index generated marginal returns of 0.02% for the month. The 5- and 10-year indices recorded losses of 0.60% and 2.50%, respectively.

## Equity Markets

- U.S. equity indices climbed to record highs in March, even as rising yields weighed on the tech sector. For the month, the S&P 500 advanced 4.4%; the Dow Jones Industrial Average jumped 6.8%; while the Nasdaq managed a modest gain of 0.5%. Global developed market equities rose as well, but the increases generally lagged in the U.S. Resurging coronavirus infections and renewed lockdown restrictions in Europe dampened the increase in local equities.
- The U.S. Dollar Index (DXY) appreciated, rebounding from a three-year low despite accommodative monetary policy and additional fiscal stimulus.

## PFM Strategy Recap

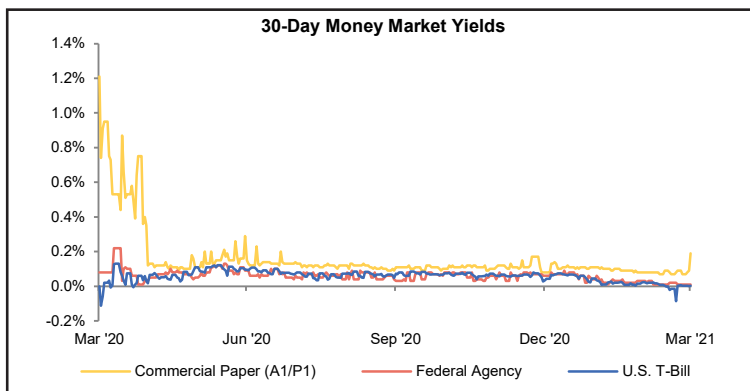
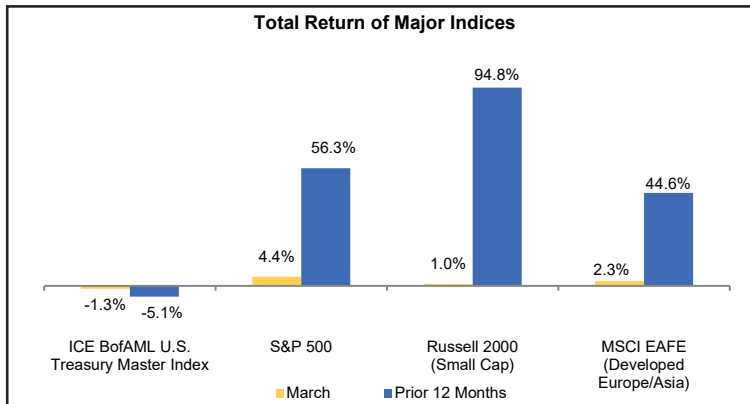
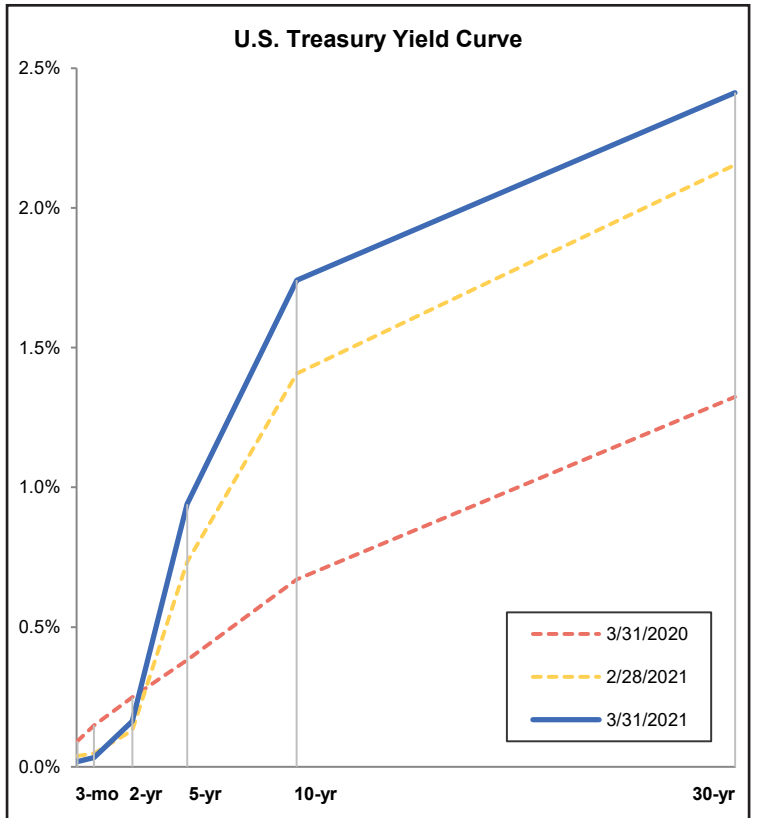
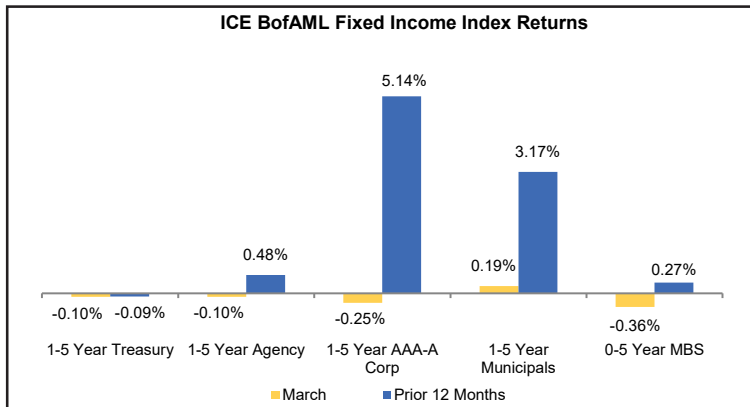
- The outlook for the U.S. economy brightened over the quarter on rising vaccinations, fiscal support and a supportive Fed. We expect very strong growth for the balance of 2021 and beyond with a gradual trend of rising intermediate and long-term bond yields.
- With the back door of rising rates, focus will be on a modestly defensive approach to duration and yield curve placement that seeks the opportunity for a “roll-down” while limiting risk from out-of-benchmark maturities.
- We favor utilizing Treasuries to manage duration and yield curve exposure since Federal agency spreads remain near-zero in most shorter maturities. We note that supranational spreads have widened, creating an attractive investment alternative in the government space.
- Investment-grade (IG) corporate spreads widened modestly from their extreme tightness earlier in the year amid rising Treasury yields and surprisingly large new issue supply. Wider spreads are welcomed, and the steeper yield curve makes trades extend the maturity of corporate holdings more attractive. We do not favor increasing allocations to corporate debt; rather we seek to extend corporate sector durations as a response to the steeper yield curve.
- Mortgage-backed security (MBS) spreads are tight and prepayments remain elevated. We view MBS risks as too high to pursue the limited amount of incremental yield generally available in the sector at this time.
- In money markets, yield spreads on short-term commercial paper and bank CDs increased, offering better opportunities as Treasury bill yields approached zero.

U.S. Treasury Yields				
Duration	Mar 31, 2020	Feb 28, 2021	Mar 31, 2021	Monthly Change
3-Month	0.09%	0.04%	0.02%	-0.02%
6-Month	0.15%	0.05%	0.03%	-0.02%
2-Year	0.25%	0.13%	0.16%	0.03%
5-Year	0.38%	0.73%	0.94%	0.21%
10-Year	0.67%	1.41%	1.74%	0.33%
30-Year	1.32%	2.15%	2.41%	0.26%

Yields by Sector and Maturity as of March 31, 2021				
Maturity	U.S. Treasury	Federal Agency	Corporates-A Industrials	AAA Municipals
3-Month	0.02%	0.01%	0.18%	--
6-Month	0.03%	0.01%	0.20%	--
2-Year	0.16%	0.18%	0.35%	0.34%
5-Year	0.94%	0.92%	1.21%	0.69%
10-Year	1.74%	1.81%	2.34%	1.38%
30-Year	2.41%	2.36%	3.30%	1.94%

Spot Prices and Benchmark Rates				
Index	Mar 31, 2020	Feb 28, 2021	Mar 31, 2021	Monthly Change
1-Month LIBOR	0.99%	0.12%	0.11%	-0.01%
3-Month LIBOR	1.45%	0.19%	0.19%	0.00%
Effective Fed Funds Rate	0.08%	0.07%	0.06%	-0.01%
Fed Funds Target Rate	0.25%	0.25%	0.25%	0.00%
Gold (\$/oz)	\$1,583	\$1,729	\$1,714	-\$15
Crude Oil (\$/Barrel)	\$20.48	\$61.50	\$59.16	-\$2.34
U.S. Dollars per Euro	\$1.10	\$1.21	\$1.17	-\$0.04

Economic Indicators				
Indicator	Release Date	Period	Actual	Survey (Median)
Retail Sales Advance MoM	16-Mar	Feb	-3.0%	-0.5%
GDP Annualized QoQ	25-Mar	4Q T	4.3%	4.1%
PCE Core Deflator YoY	26-Mar	Feb	1.4%	1.5%
Consumer Confidence	30-Mar	Mar	109.7	96.9
ISM Manufacturing	1-Apr	Mar	64.7	61.5
Change in Nonfarm Payrolls	2-Apr	Mar	916k	660k
Unemployment Rate	2-Apr	Mar	6.0%	6.0%



Source: Bloomberg. Data as of March 31, 2021, unless otherwise noted.

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