The Weekly
Economic & Market Recap

March 26, 2021

3/26/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	33,072.88	444.91	1.36	1.84	8.06	46.65
S&P 500	3,974.54	61.44	1.57	1.46	5.82	51.12
NASDAQ	13,138.73	-76.51	-0.58	0.71	1.94	68.50
S&P MidCap 400	2,626.57	12.42	0.48	1.28	13.87	78.49

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.14	Euro/Dollar	1.18	-0.94
5-Year	0.86	Dollar/Yen	109.55	0.64
10-Year	1.68	GBP/Dollar	1.38	-0.58
30-Year	2.38	Dollar/Cad	1.26	0.55

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The pharmacy space is notoriously complex and competitive in the U.S. Through 2020, the top five U.S. pharmacies ranked by prescription drug market share were CVS (24.8%), Walgreens Boots (19.1%), Cigna Express Scripts (10.7%), UnitedHealthcare OptumRx (6.9%) and Walmart (4.7%). Last November, two years after its acquisition of PillPack, Amazon further expanded its presence in the U.S. healthcare sector with the launch of Amazon Pharmacy. While PillPack's focus is on those consumers who are reliant on multiple daily medications, Amazon can now serve those receiving a one-time prescription. The online pharmacy platform allows consumers to set up a profile and check pricing of their medications. Customers will be able to see what the cost is with and without insurance. Amazon Prime members without insurance will have access to the prescription savings benefit which offers discounts. Amazon negotiated the discounts through its relationship with the Inside Rx savings program that grew out of the Express Scripts and Cigna merger. Analysts believe Amazon launched its online pharmacy as a component of a larger plan to eventually open a pharmacy within Whole Foods stores. Yet, analysts also believe CVS and Walgreens both with 9000+ retail locations each and access to treatment and ancillary items may not see an immediate impact.

Economy

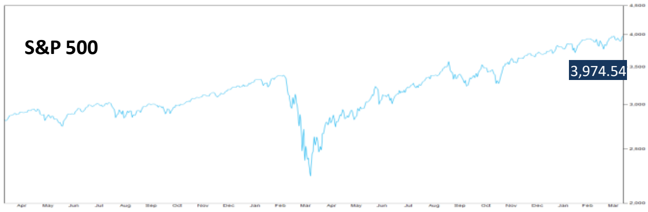
This week the economic data centered around housing statistics with the release of existing home sales and new home sales. On Monday, existing home sales posted a disappointing 6.6% decline to 6.22 million units at an annual rate. Existing homes for sale have declined 29.5% from February 2020, the lowest level since 1982. Over the past 12 months, the median price of an existing home sold rose 15.8% to $313,000. The sales action was skewed towards the high end of the market with 81% of homes sold exceeding $1 million. New home sales were released on Tuesday and also disappointed, falling 18.2% in February to 775,000 units at an annual rate. The inventory of completed new homes available for sale plunged 48.1% over the past year. On Wednesday, orders for durable goods came in below expectations, declining 1.1% in February. "Core" capital goods orders and shipments both dropped, decreasing 0.8% and 1.0% respectively. Thursday brought us initial jobless claims which dropped from 781,000 to 684,000 during the week ending March 20th, a new pandemic low. Finally, on Friday, personal income dropped 7.1% and real consumer spending declined 1.2%, both in February.

Fixed Income/Credit Market

U.S. high yield bond sales have set a quarterly record to start the year with approximately $140 billion of issuance thus far in 2021. With the Fed still purchasing $120 billion of U.S. Treasuries and MBS per month, investors are willing to sacrifice credit quality to obtain incremental yield at this point in the business cycle. Moreover, spread tightening in high yield bonds has been substantial over the last year as the 5-year B-rated U.S. corporate index has compressed roughly 510 basis points (bps) largely due to extraordinary monetary policy accommodation. The current spread over Treasury for the 5-year B-rated U.S. corporate bond index is only 349 bps and has a standard deviation of -0.62 utilizing data going back to 2009. Even with U.S. Treasury yield curve steepening so far this year, weak segments of the high yield universe have experienced gains year-to-date through Thursday with the B, Caa and Ca-D categories returning 0.8%, 3.3% and 12.4%, respectively. With credit spreads historically compressed in the high yield universe, investors must move forward with caution.

Equities

It was a relatively quiet week for domestic equities resulting in a new all-time closing high for the S&P 500 after a strong rally on Friday. Early in the week, growth stocks outperformed cyclical stocks due to a stabilization in long term interest rates. The rotation was further supported by a renewed focus on coronavirus headlines which highlighted a leveling off in the decline of new cases in the U.S. and recently imposed lockdowns in Europe. On Wednesday, the White House announced that President Biden will discuss his administration's "Build Back Better" economic plan on March 31st. Investors will be looking for more specific details on the proposal which is expected to target rebuilding U.S. physical and technological infrastructure. In other news, the Federal Reserve announced the end of its enhanced restrictions on dividends and share repurchases for most banks. Beginning in the third quarter, banks with capital levels above those required by a stress test will see those restrictions lifted. Communication services and consumer discretionary were the only two sectors to decline this week while real estate outperformed gaining 4.23%.



Our View

The recent increase in bond yields seems to have leveled off and even moderated somewhat this past week, despite Treasury auctions that were a bit weaker than expected. Quarter-end technical factors and a shift in Washington's focus toward tax policy may have caused the short-term change in the trajectory in rates. It does not appear that softer inflation expectations are the cause for the pause in upward pressure on yields. On the contrary, the Federal Reserve's own projections for inflation, employment and economic growth released just last week were revised meaningfully higher. Despite the upward adjustment by the Fed in its economic forecast, there remains a divergence of views between the bond market and the Fed. Embedded expectations in bond yields suggest that even the Fed's new estimates could be on the conservative side, or perhaps stated another way, the Fed may prove to be too complacent regarding the gathering strength of the economy and the possibility of higher inflation ahead. There is some justification for concern that loose monetary policy and massive government spending could overstimulate the economy. Supply chain issues, in areas as diverse as lumber and semiconductors, are a near-term source of inflationary pressure. However, an increase in price levels due to supply chain dislocations should prove to be transitory for the most part and are unlikely to cause a significant problem for markets. The financial markets would likely be far more reactive if wages began to rise, which is unlikely in the near-term due to slack in the labor market, or if the velocity of money picks up substantially. The dramatic increase in the money supply over the last five years has not caused meaningful inflationary pressure because the velocity of money has deteriorated coincident with the expansion of the supply. Some pundits have made the argument that the velocity of money and inflation will increase as economic confidence rises. A result from the financial crisis is that the Fed has accepted the mantle of maintaining financial asset stability. We expect that Fed officials will revise their current stance once labor conditions tighten and the threat of increasing inflation expectations drives intermediate-to-longer dated yields higher impacting financial market volatility.

COMING UP NEXT WEEK		Consensus	Prior
03/30 Consumer Confidence	(Mar)	90.6	91.3
03/31 Chicago PMI SA	(Mar)	60.5	59.5
04/01 ISM Manufacturing SA	(Mar)	61.0	60.8
04/02 Nonfarm Payroll SA	(Mar)	480.0K	379.0K
04/02 Unemployment Rate	(Mar)	6.0%	6.2%

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