

## Beacon Weekly Investment Insights

The stock market and the bond market both finished the week lower last week as lingering concerns about rising inflation and rising interest rates outweighed good economic news: delivery of \$1,400 - \$2,800 checks to many U.S. households, faster than anticipated vaccine rollout, and powerful support from the Fed.

Dow Jones Industrial Average was down 0.5% for the week, while S&P 500 declined by 0.7% and Nasdaq lost 0.8% as the bond yields continued to move higher. We believe that the rise in long-term Treasury yields, which reached their highest level in a year, is a reflection of growing confidence in the U.S. economic growth. Several states have already relaxed social restrictions on restaurants, sporting events, concerts, etc. as coronavirus cases plateau, and the federal government is eyeing mid-May to relax international travel restrictions.

The Federal Reserve met Tuesday-Wednesday of last week and concluded its two-day policy meeting with no changes to short-term interest rates or its bond purchasing program. The Fed upgraded its 2021 GDP growth expectations to 6.5%, increased its inflation expectation to 2.4%, and lowered its unemployment rate estimate to 4.5%. Despite the improvement in economic outlook, the Fed cited uneven recovery and lingering pandemic uncertainty -as evidenced by the still elevated jobless claims data- for keeping its dovish tone and maintaining its accommodative policy stance. The Fed expects the short-term interest rates to remain unchanged at 0% - 0.25% through 2023.

Following a big jump in January of 7.6%, driven mostly by the stimulus payments approved in December, retail sales dropped by 3% in February due to cold weather and winter storms that affected much of the country. Industrial production also dropped by 2% last month, driven also by weather disruptions and supply shortages in the semiconductor industry. Nonetheless, we expect the economic rebound and retail activity to accelerate this spring with warmer weather, large number of vaccinations, and a new round of government stimulus.

The Philadelphia Federal Reserve's manufacturing data, which covers parts of southern New Jersey, showed the highest reading since April 1973 as the economic recovery picked up steam. In yet another sign of comeback in the cyclical part of the economy, Blackstone and Starwood Capital announced an agreement to acquire the hotel chain Extended Stay America, which owns and operates 650 properties. Travel sector had been one of the hardest hit sectors last year, but airline and hotel data shows significant increases over last year as vaccinations roll out and more Americans travel again.

We continue to see a strong ramp up in Covid-19 vaccinations, with approximately 125 million shots administered. 81 million, or 25% of Americans received at least one dose, and 44 million, or 13% of the population is fully vaccinated. 2.5 million people in the U.S. are now vaccinated daily on average, much higher than the 500 thousand average in January. At the current rate (not counting additional supplies that could come from AstraZeneca and other manufacturers), three-quarters of the U.S. adult population should be vaccinated by mid-summer. Pfizer, Moderna and other drugmakers began testing the Coronavirus vaccines in children to determine whether they're safe and effective. Older children (12-18) may begin to get vaccinated this Fall with younger children getting shots in the first half of next year.

Looking ahead to this week, we will get another look at the real estate markets with existing and new homes sales data. We will also keep a close eye on the Treasury bond auctions and more testimony by the Fed Chairman, for signs of inflation and interest rate stability: two factors that have been the main drivers of market volatility during the first quarter.

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<b>Market Scorecard:</b>	<b>3/19/2021</b>	<b>YTD Price Change</b>
Dow Jones Industrial Average	32,627.97	6.60%
S&P 500 Index	3,913.10	4.18%
NASDAQ Composite	13,215.24	2.54%
Russell 1000 Growth Index	2,400.38	(1.13%)
Russell 1000 Value Index	1,484.19	9.97%
Russell 2000 Small Cap Index	2,287.55	15.83%
MSCI EAFE Index	2,231.43	3.91%
US 10 Year Treasury Yield	1.73%	81 basis points
WTI Crude Oil	\$61.42	26.59%
Gold \$/Oz.	\$1,741.70	(8.00%)

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