FOURTH STREET PERFORMANCE PARTNERS
Independent Investment Consultants

March 2021: Market Review

Equity indices moved higher during the final month of the quarter as the U.S. government passed a $1.9 trillion fiscal stimulus bill and continued to vaccinate the population at a rapid pace. Additionally, the Biden administration announced plans for a $2.3 billion infrastructure spending bill designed to further boost economic growth. Given this backdrop, the Dow Jones Industrial Average rose +6.8% during the month while the tech-heavy NASDAQ Composite added 48 basis points. The S&P 500 Index gained +4.4% in March.

The number of coronavirus cases in the U.S. continue to decline as the government has administered approximately 150 million doses through the end of the month (about 23% of the population). The unemployment rate fell to 6.2% in February as employers added 379,000 jobs, the second straight month of job additions. Unemployment readings continued to show improvement throughout March as initial unemployment claims fell to 684,000, the lowest level since the beginning of the pandemic.

Within domestic equities, value stocks continued to outperform growth stocks here in 2021 across all capitalization sizes. The Russell 1000 Value Index added +5.9% during the month while the Russell 1000 Growth Index was up +1.7%. The Russell Midcap Value Index gained +5.2% versus a loss of -1.9% for the Russell Midcap Growth Index. In small-cap equities, the Russell 2000 Value Index gained +5.2% while the Russell 2000 Growth Index declined -3.2%.

Major international equity indices rose in March despite increasing coronavirus cases overseas, new lockdown measures imposed in Europe, and low vaccination rates. The MSCI EAFE Index gained +2.3% and the MSCI Europe Index appreciated +3.1%. The MSCI Pacific Index increased +1.0% in March. The MSCI Emerging Markets Index fell -1.5% this month as weakness in Turkey (-17.0%), Indonesia (-6.5%), and China (-6.3%) drove underperformance. Among commodities, WTI crude oil ended the month at $59 a barrel, modestly lower than last month’s close of $62. Gold ended the month at $1,714, down from $1,728 at the end of February.

U.S. fixed income market returns were negative this month as higher inflation expectations and weak treasury auctions contributed to higher bond yields. The yield on the 10-year Treasury ended the month at 1.74%, a substantial rise from last month’s close of 1.44%. The Bloomberg Barclays U.S. Aggregate Bond Index declined -1.3% in March while the Bloomberg Barclays Treasury 20+ Year Index fell -5.2%. High yield bonds were modestly in positive territory for the month as the Bloomberg Barclays Corporate High Yield Bond Index gained +0.2%.

Risk assets continued to rally in March as the positive impact of coronavirus vaccinations and the passage of additional fiscal stimulus have laid the groundwork for a strong economic rebound over the coming months. While rising inflation expectations have caused some volatility in fixed income markets, the Federal Reserve is holding their ground on keeping interest rates low and has reassured the market that they stand ready to use their tools as needed. However, several risks remain. Overseas infections have increased in Europe and vaccinations are far below the pace that was initially expected. Domestically, there are concerns that the U.S. could see a spike in the virus since the U.S. has followed a pattern of lagging Europe’s covid situation by a few weeks. Additionally, there are worries that potential higher corporate tax rates (in order to pay for the stimulus) will impede the economic recovery. Finally, valuations on almost all risk assets remain near the high end of historical ranges.