Parkside Financial
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Monthly Market Update - February 2021

Global Economy

February markets were dominated by a sharp rise in bond yields and the corresponding fears that those increasing yields will challenge equity valuations. US Treasury yields were pushed higher by the outlook of a heating up economy and a rise in inflation as recent weeks have seen strong gains in retail sales, industrial production, new home sales, and orders for durable goods. Fiscal policy also supports the growth outlook, as the US House passed another virus relief bill at month-end. The measure will now move to the Senate. On the virus front, the FDA approved a third vaccine for distribution, and maker Johnson & Johnson has stated they can provide an additional 20 million doses by the end of March. Covid-19 infections and hospitalization rates fell throughout the month, yet new virus variants continue to circulate, and experts fear these could cause a fourth wave in the coming weeks.

The Federal Open Market Committee did not officially meet in February. Fed officials continued to voice support for dovish policy as rates rose in February, although Chairman Powell also gave no indication that the central bank would take action against rising rates. He stressed patience, noting labor market weakness, and reaffirmed intentions to keep rates at zero until the economy has recovered from the pandemic. The Fed also remains dedicated to its current rate of asset purchases of $120 billion per month, and the bank's balance sheet expanded to $7.5 trillion in February.

The second estimate of 4Q-20 real GDP indicated the US GDP expanded at a rate of +4.1% annualized with upward revisions to residential fixed investment, private inventory investment, and government spending. For the calendar year 2020, there was a decrease in real GDP of -3.5%. The Atlanta Fed's quantitative GDP model currently forecasts a robust 8.3% growth for 1Q-21, while analysts' consensus estimates average roughly 3%.

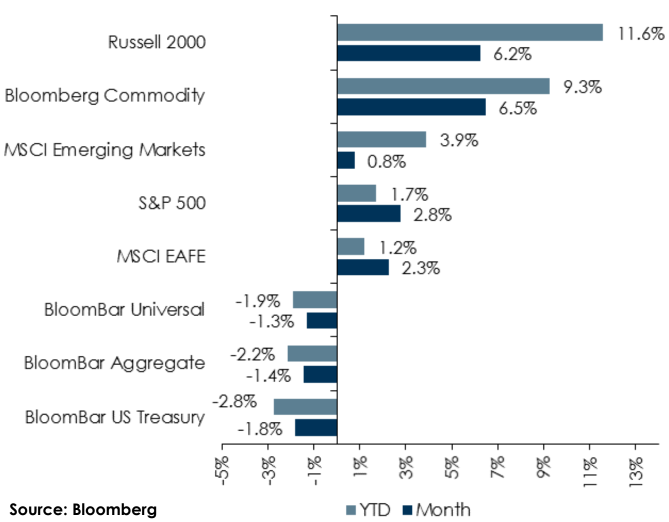
Weekly initial unemployment claims declined in February but remain at a higher weekly level than before the winter surge in virus cases. Monthly employment figures exceeded forecasts as employers added 379,000 jobs in February and unemployment fell to 6.2%. Leisure & hospitality, a sector which has seen volatile employment changes amid the pandemic, saw the largest gains with 355,000 jobs added. The economy is still down 9.5 million jobs since February 2020. Core CPI declined to +1.4% year-over-year, while the FOMC's preferred measure, Core PCE, held steady at +1.5% year-over-year through January.

	Current	Dec-20
US GDP (%)	4.10	4.00
US Unemployment (%)	6.20	6.70
CPI (Core) (%)	1.40	1.60
Fed Funds (%)	0.00 – 0.25	0.00 – 0.25
10 Year UST Yld (%)	1.41	0.92
S&P 500 Div Yld (%)	1.52	1.57
S&P 500 P/E (Trailing)	30.87	29.92
Gold/oz.	$1,728.80	$1,895.10
Oil (Crude)	$61.50	$48.52
Gasoline (Natl Avg)	$2.72	$2.33
USD/Euro	$1.21	$1.22
USD/GBP	$1.39	$1.37
Yen/USD	¥106.57	¥103.25

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns for major equity indices were positive in February, lifted by optimism for economic growth. The S&P 500, which represents large US-based entities, returned +2.8% for the month. Rising rates triggered a rotation away from defensive sectors and IT and into sectors which stand to benefit from reopening. Energy (+21.5%) and Financials (+11.4%) were the largest beneficiaries while Utilities (-6.5%) and Health Care (-2.2%) lagged. The Russell 2000, representing small cap stocks, was the top performing broad equity index at +6.2%. Sector performance lined up similar to US Large Caps as Energy (+23.8%) and Financials (+11.7%) outperformed with Health Care (+1.3%) and Utilities (-1.9%) the laggards. Value significantly outperformed growth across the market cap spectrum.

In the broad international developed markets, the MSCI EAFE index returned +2.3% for the month and experienced the same sector rotation as US equities. Energy (+9.9%) and Financials (+8.7%) were the top performers with Utilities (-5.2%), Health Care(-4.1%), and Consumer Staples (-4.0%) trailing. Among developed countries, Italy (+5.7%), Spain (+5.2), and France (+5.0%) were the top performers, with New Zealand (-10.7%) and Portugal (-3.9%) lagging and most others generally in the +1.0% to +4.0% range.

Emerging market stocks, as represented by the MSCI Emerging Markets index, underperformed their large cap developed market counterparts at +0.8%. Argentina (+11.0%), Chile (+8.0%), and Peru (+7.3%) were the best performers in the month while Brazil (-14.0%), Pakistan (-12.0%), and Kuwait (-4.0%) lagged. China, at nearly 40% of the index, returned -1.0% for the month.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, outperformed large cap equities with a +3.9% return. The energy-related Alerian MLP also outperformed other equities at +7.8%. The near-month NYMEX oil continued to rally with a robust +17.8% and has recovered to pre-pandemic levels. Gold was down -6.4% and is off around 20% from August 2020 highs. The diversified Bloomberg Commodity index climbed +6.5% and has a +20.3% trailing one-year return.

Global Markets (continued)

The US Treasury curve steepened as intermediate- and longer-dated maturities rose dramatically on the prospects of future growth and inflation. The 10-year and 30-year treasury yields each closed at their highest level in over a year, and the overall UST complex had a negative return for the month at -1.8%, with trailing one-year returns at -0.1%. Sovereign yields outside of the US were also sharply higher, and the global stock of negative yielding debt fell by over $4 trillion in January to $12.7 trillion.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on an absolute and duration-matched basis. The benchmark lost -1.4% in February, with 12-month performance of just +1.4%. While supply was heavy, demand was supportive of corporate credit spreads, which tightened 7 bps to fully recover from pandemic-era widening. With higher US Treasury yields offsetting moderately tighter spreads, the benchmark's yield-to-worst rose 25 bps to 1.42%.

The BloomBar 1-15-Year Municipal index returned -1.3% in February for its worst month of performance since March 2020. Demand waned, and municipal/treasury ratios retreated from their recent all-time tight levels. Overall, pandemic-related damage to state and local government budgets has not been as bad as initially feared, and credit ratings have been relatively stable. The stimulus plan before the Senate includes $350 billion in aid to help state and local governments address budget shortfalls.

The BloomBar US Corporate High Yield index returned +0.4% for the month. Supply was heavy, but strong corporate earnings and higher oil prices were supportive of spreads, which tightened 36 bps. All-in yields declined 7 bps to 4.24%. Bank loans outperformed other bond categories in the month as investors seeking out enhanced income and floating interest rates have led to strong inflows for the category. Emerging market bonds tracked with less-risky fixed income benchmarks to post negative returns for the month amid a global rise in interest rates.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-20
Japan	0.16	0.02
Germany	-0.26	-0.57
France	-0.01	-0.34
United Kingdom	0.82	0.19
Spain	0.42	0.04
United States	1.41	0.92
Italy	0.76	0.54
Mexico	6.23	5.53
Brazil	8.49	6.91

Source: Bloomberg

Indices Report (Periods Ending February 28, 2021)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	2.76	1.72	31.29	14.14	16.82	13.43	9.79
Russell 1000	2.90	2.05	34.28	14.98	17.37	13.58	10.00
Russell 1000 Growth	-0.02	-0.76	44.26	20.97	22.22	16.45	12.36
Russell 1000 Value	6.04	5.07	22.22	8.23	12.02	10.40	7.38
Russell 2500	6.52	9.13	45.90	15.08	17.42	12.27	9.69
Russell 2000	6.23	11.58	51.00	14.87	17.92	11.86	9.10
Russell 2000 Growth	3.30	8.28	58.88	18.95	21.15	13.80	10.63
Russell 2000 Value	9.39	15.15	41.06	10.14	14.22	9.65	7.36
Wilshire 5000 Cap Wtd	3.05	2.71	35.16	14.96	17.46	13.45	9.98
MSCI ACWI	2.35	1.91	30.87	10.87	14.84	9.43	7.56
MSCI ACWI ex US	1.99	2.23	26.73	5.94	11.73	5.25	5.07
MSCI EAFE	2.26	1.18	22.98	5.10	10.26	5.53	4.65
MSCI EAFE Local Currency	2.63	2.24	14.02	4.98	8.86	7.14	4.42
MSCI EAFE Growth	-0.34	-1.69	28.41	9.39	12.39	7.35	6.06
MSCI EAFE Value	4.79	3.99	16.62	0.52	7.86	3.56	3.10
MSCI Emerging Markets	0.77	3.89	36.51	6.74	15.66	4.78	6.47
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	-0.08	-0.07	1.59	2.83	1.74	1.28	2.23
BloomBar US Aggregate	-1.44	-2.15	1.38	5.32	3.55	3.58	4.31
BloomBar Gov't Bond	-1.77	-2.68	-0.04	4.95	2.60	2.99	3.80
BloomBar US Credit	-1.74	-2.90	2.36	6.62	5.53	5.00	5.37
BloomBar 10 Yr Municipal	-1.69	-1.13	1.26	5.17	3.48	4.52	4.67
BloomBar US Corp High Yield	0.37	0.70	9.38	6.57	8.97	6.50	7.39
FTSE World Govt Bond	-2.42	-3.67	3.36	3.33	3.12	1.90	3.57
BloomBar Global Aggregate	-1.72	-2.59	4.33	3.84	3.61	2.48	3.85
BloomBar Multiverse	-1.65	-2.50	4.50	3.85	3.87	2.64	3.98
Real Assets							
NCREIF Property	0.00	0.00	1.61	4.89	5.91	9.00	7.14
NFI ODCE Net	0.00	0.00	0.35	3.99	5.27	8.87	5.46
FTSE NAREIT US Real Estate	4.01	4.12	2.88	9.19	6.43	7.91	6.18
Bloomberg Commodity	6.47	9.27	20.32	0.32	3.52	-5.88	-3.14
Cash and Equivalents							
US T-Bills 90 Day	0.01	0.02	0.40	1.54	1.20	0.63	1.20

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