Weekly Market Review

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The Week Ending February 26, 2021

Despite a positive February for most stock indexes, the month ended with a negative week for the stock market. All S&P 500 Index sectors finished in the red except for energy, continuing the value stocks outperforming growth stocks trend, which coincides with the rise in interest rates. News last week was supposed to be driven by Federal Reserve Chair Jerome Powell's testimony to Congress reinforcing the Fed's plan, thereby stalling the rise in interest rates, and allowing growth stocks to return their march higher. While the Fed's game plan was confirmed, the effect was not as planned.

The timing of Chair Powell's semiannual monetary policy report to Congress last week seemed to be perfect. Interest rates are beginning to rise, spooking investors and leading different areas of the stock market to trade lower. As it turns out, Powell said everything that was expected; the Fed will not be changing their interest rate policy or asset purchasing programs anytime soon. Chair Powell also stated he believes the current rise in interest rates to be a result of expected economic growth rather than inflation, as we stated in last week's post. This view was backed by Friday's release of the Personal Consumption Expenditures Price Index, the Fed's preferred inflation gauge, showing one-year inflation growth at just 1.5%.

While inflation is currently subdued, it is bound to become a bigger topic in the coming months, most likely as noise rather than anything else. Remember last year when oil traded in negative territory? Well, that data point is about to become the starting point for year-over-year inflation growth, which could look like an inflation spike. No one knows how stocks and bonds will react to this data. Therefore, rational investors need to understand and not overreact to the headlines. Instead, consider a familiar theme that is beginning to play out, albeit in the opposite direction.

During the 2020 sell-off and ensuing recovery, we talked about "staying in" vs. "going out" stocks. Companies that benefitted from us being confined to our homes for work and entertainment provided protection on the way down and rallied the strongest on their way back up. Vaccine distribution allows us to see the light at the end of the pandemic tunnel and put the "going out" stocks into the spotlight. "Going out" stocks tend to be more economically sensitive and fall in the stock market's value style. Perhaps this is the catalyst long-resented value stocks need to catch a tailwind and prove that portfolio diversification is still an important part of achieving long-term goals.

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