Weekly Market Review

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The Week Ending March 19, 2021

A familiar story continued last week with Treasury yields dictating the stock market's direction. The 10-year U.S. Treasury bond was relatively stable through the beginning of the week, giving the stock market confidence and sending the technology-dominant Nasdaq Index to a 2% gain by Wednesday afternoon. Then Federal Reserve Chair Jerome Powell's press conference was a catalyst for bond yields, sending the 10-year to a high of 1.75%, and the Nasdaq tracking down to a 2% loss on the week by Friday morning. Confidence returned to equity markets during Friday's trading to ultimately send the Nasdaq to a less than 1% loss on the week, completing the volatile, yield-driven saga. The S&P 500 Index followed a similar path but in a narrower range, ultimately ending the week about equal to the Nasdaq.

What did Chair Powell say that sent yields climbing and the stock market to a reversal? Honestly, nothing we have not already heard. He confirmed the economy is expected to experience a sharp rebound in 2021 as the Fed raised their 2021 GDP growth expectations to 6.5%. Inflation is expected to increase above their 2% target in the next few months, then gradually decrease to around their target, which we knew. He also confirmed employment still needs to show "substantial further progress" before the Fed changes from their zero-interest-rate policy or decreases their asset purchase programs. While none of these factors is a clear catalyst to explain the bond market's reaction, one could point to the upgrade in GDP growth. Since the Fed last forecasted 2021 growth, Congress has passed close to $3 trillion in additional stimulus, $900 billion in December, and the most recent $1.9 trillion bill. This is a massive amount of money to be distributed to the economy and, more importantly, into consumers' hands creates immense growth potential. Remember, consumers comprise about two-thirds of the U.S. economy and will be the dominant player in the country's recovery.

However, there is still a struggling labor market to consider. For the past year, at least one million people have submitted employment claims each week, including traditional unemployment benefits and pandemic instituted aid. That's fifty-two straight weeks of at least one million people claiming unemployment benefits. Looking at the worst 50 weeks for U.S. unemployment since 1967, every week but one is from the past year. While claims are still high relative to history, we are moving in the right direction. As vaccine distribution continues allowing the economy to reopen, the unemployed population should slowly get back to work, increase consumption in the U.S., and allow growth to be restored to the U.S. economy.

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