

OBSERVATIONS

- COVID-19: As of 7-March, over 300 million doses have been administered across the globe. The U.S. has administered nearly 88 million doses, averaging 2.16 million doses per day last week.¹
- ETFs tracking U.S. equities attracted \$86bn during the month of February – a new monthly record.²
- Global M&A totaled \$405bn in February, 45% higher than a year ago and the highest February on record.³
- The services sector, while still growing, slowed to 9-month lows amidst February's polar vortex and on-going production constraints and logistics challenges. Notably, order backlogs rose to 6-month highs while export demand rose to 9-month highs.² *See today's 'One More Thought' for a look at the manufacturing sector.*
- Since the recent peak of 12-Feb, the Russell 1000 has lost -3.0% through last Friday, 5-Mar.² The index had not seen a 5.0% decline in over four months, since the -7.5% decline of 12-Oct to 30-Oct of last year. The decline was driven by growth stocks (Russell 1000 Growth) which have declined -7.7%, while value stocks (Russell 1000 Value) have gained +2.0% over the same period.²
- Employment report⁴: total nonfarm payroll employment increased by +379K jobs in February (better than expectations of +200k). The unemployment rate declined from 6.3% to 6.2%. Goods producing sectors lost -48k, Services providing sectors (e.g., hospitality and leisure) added +513k, and Government sectors lost -86k.
- 10-year U.S. Treasury yields reached 1-yr highs of 1.57% on Friday, 5-Mar, following the better than expected employment report.²

EXPECTATIONS

- Two widely followed GDP forecasting models show robust growth for Q1. The 'New York Fed Staff Nowcast' model shows Q1 GDP at 8.6%⁵, while The Atlanta Fed 'GDPNow' GDP forecast for Q1 now stands above 8.3%, buoyed by strong retail sales, industrial production, and construction spending.⁴
- China began its annual "Two Sessions" gatherings of China's Communist Party leadership last week, among the highlights was a commitment to achieve greater than 6% real GDP growth in 2021 as well as President Xi's speech over the weekend in which he underscored China's goals over the next five years. Given his speech as well as that of Xi's key deputies, China is likely to prioritize its 5G build-out and increasing self-reliance in host of high-tech areas including semi-conductors, biotechnology, and robotics along with rural development initiatives. Chinese officials also outlined a series of national security priorities which are likely to keep tensions over Hong Kong, Taiwan, and the South China Sea in the headlines throughout this year.

ONE MORE THOUGHT⁶

Last Monday's report on the manufacturing sector showed it continued to expand for the 9th consecutive month, indicating the economy to be growing at a faster rate. The Institute for Supply Management's Manufacturing PMI registered 60.8% for February, matching the level seen in February 2018 – and the highest since May 2004. The survey is comprised of 10 sub-indexes, of which, New Orders, Production, Employment, Order Backlogs, and New Export Orders continued to grow at a faster pace. Imports continued to grow, albeit at a slower pace. The Supplier Deliveries Index showed supplied delivers were on balance slower in February, constrained by "transportation challenges and challenges in supplier-labor markets". The Prices Index registered the highest reading since July 2008 as raw material costs saw increases during the month. The last 2 sub-indexes, Inventories and Customers'

¹ Bloomberg Vaccine Tracker, Financial Times Vaccine Tracker, Johns Hopkins Coronavirus Center

² Bloomberg LP

³ <https://www.marketwatch.com/story/global-deal-making-soars-to-almost-700-billion-so-far-this-year-11614617234?mod=investing>

⁴ U.S. Bureau of Labor Statistics, <https://www.bls.gov/news.release/empsit.nr0.htm>

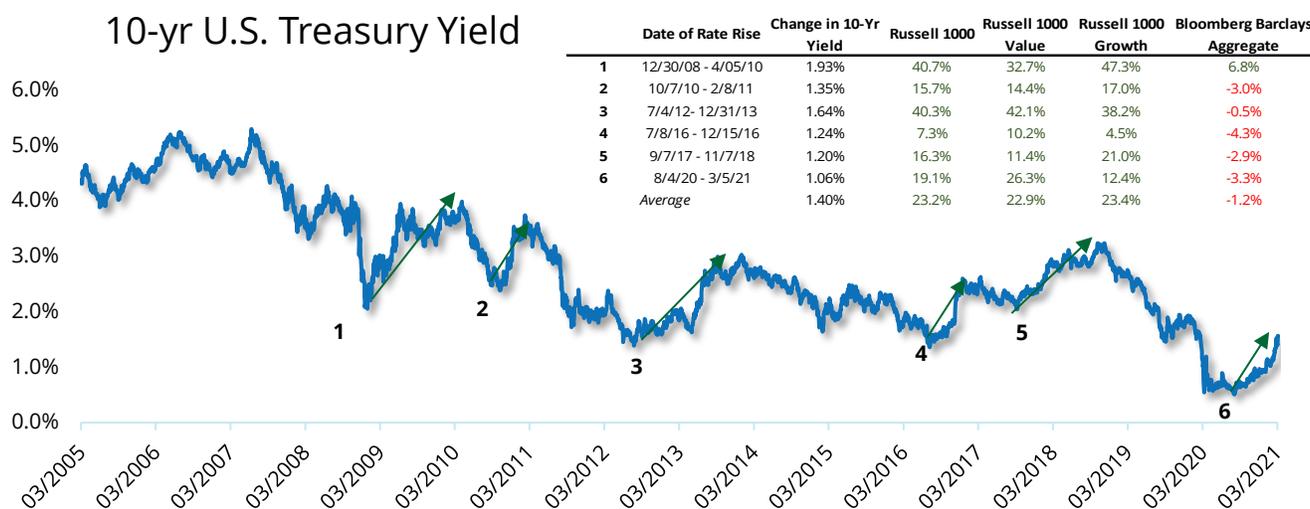
⁵ <https://www.newyorkfed.org/research/policy/nowcast>, <https://www.frbatlanta.org/cqer/research/gdpnow>, as of 7-March, Annualized Growth Rate

⁶ <https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/pmi/february/>

Inventories were reported as 'Contracting' and 'Too Low', respectively. Selected responses from survey participants capture the current manufacturing sector's operating environment.

- "Supply chains are depleted; inventories up and down the supply chain are empty. Lead times increasing, prices increasing, [and] demand increasing. Deep freeze in the Gulf Coast expected to extend duration of shortages." (Chemical Products)
- "Overall capacities are full across our industry. Logistics times are at record times. Continuing to fight through shipping and increased lead times on both raw materials and finished goods due to the pandemic." (Fabricated Metal Products)
- "Labor shortages at suppliers are affecting material deliveries and prices." (Plastics & Rubber Products)
- "We have seen our new-order log increase by 40 percent over the last two months. We are overloaded with orders and do not have the personnel to get product out the door on schedule." (Primary Metals)
- "Prices are rising so rapidly that many are wondering if [the situation] is sustainable. Shortages have the industry concerned for supply going forward, at least deep into the second quarter." (Wood Products)

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, Daily data as of 5-Mar, 5-Mar marks the recent peak in the 10-yr U.S. Treasury yield, Index returns are total returns

Recent historical perspective of rising rates: In the post Great Financial Crisis era (2008-2009) we have seen 10-yr U.S. Treasury yields climb 6 times including the most recent episode of rising rates. In these cases, the yield on the 10-yr U.S. Treasury rose by an average of 140bps while the Russell 1000 posted an average gain of +23.2% (see [15-Feb 'One More Thought' & Chart of the Week](#) for a longer-term perspective on rising rates and equity markets).

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