



## MARKET PULSE

- Equities rose today, led by advances in the information technology and financials sectors.
  - The S&P 500 rose by 90.67 points, or 2.38%, to close at 3,901.82.
  - The Dow Jones Industrial Average (Dow) was up 603.14 points, or 1.95%, to close at 31,535.51.
- Non-U.S. markets were positive: The Nikkei 225 (Japan) was up 2.41%, and the DAX (Germany) was up 1.64%.
- The U.S. 2-year Treasury settled at 0.12%, and the U.S. 10-year at 1.43%.

## CATALYSTS

- Stocks were up today after falling -2.4% last week as Treasury yields rose amid an improving growth outlook and higher inflation expectations. Three positive developments over the weekend led to a risk-on mood to start the week: 1) The House passed the \$1.9 trillion fiscal relief bill, which now heads to the Senate. 2) The FDA approved Johnson & Johnson's vaccine for emergency use, making this the third approved COVID-19 vaccine. 3) Daily COVID-19 cases and hospitalizations continue to fall as the U.S. set a record for daily inoculations. In addition, strong data from the manufacturing sector added to the positive sentiment. The ISM Manufacturing PMI was reported at 60.8, up from 58.7 in January and matching a two-year high.
- We see the potential for near-term volatility and the possibility of a market correction in the first half of 2021 as investors wrestle with the day-to-day trajectory of the virus, newly emerging variants, the path to herd immunity, and the longer-term optimism of a vaccine-driven recovery and return to "normal." In the near term, several topics will continue to weigh on markets: (1) economic and personal recovery, (2) COVID-19 vaccine progress, and (3) a refocus on traditional drivers of growth such as earnings, rates, and inflation.
- At the onset of the coronavirus pandemic, the S&P 500 fell 33.8% from February 19, 2020, through March 23, 2020. Since then, it has returned 77.2%, well above the 51.1% needed to return to its peak.<sup>i</sup> So, a pause or even a correction would be healthy and is to be expected. The market's recovery can be attributed to a number of factors. First, we've seen unprecedented monetary and fiscal stimulus measures to support the economy, along with a signal of continued support from both the Federal Reserve and federal government. Second, while the reopening of businesses and other activity across the country has been sometimes sporadic, overall, the reopening is going well, with people and businesses learning how to engage while taking measures to stay safe from the coronavirus. Third, there is optimism about the approved vaccines.

## INVESTMENT STRATEGY OUTLOOK

- As part of our [outlook](#) for 2021, we've developed a base case (70% probability) that sees economic growth accelerating above its long-term trend, earnings growth rebounding sharply, and stock market returns above our long-term forecasts. Our view is predicated on the following baseline assumptions:
  - Successful vaccination campaign in the U.S. and abroad
  - Federal government support of the economy continues
  - President Biden prioritizes economic recovery
  - Geopolitical tensions and policy uncertainty decrease
- For the short-term or tactically minded investor, review our dynamic asset allocation leanings and focus more on bottom-up stock selection and on industries or sectors rather than styles or markets.
- For the long-term investor, review your investments to make sure you remain diversified and consider rebalancing your portfolio and trimming gains from some of the individual strong performers.



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<sup>i</sup> While sometimes confusing, it is helpful to understand the arithmetic of compounding returns. \$100 subject to a 33.8% loss is worth \$66.2. By earning back 51.1%, the \$66.2 is then again worth \$100.

Past performance does not indicate future results. **The Standard & Poor's 500 Index** is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. **The Dow Jones Industrial Average** is an index that shows how 30 large, publicly owned companies based in the United States have traded during a standard trading session in the stock market. The **Nikkei 225** consists of the shares of the 225 largest companies in Japan. **DAX Index** consists of the 30 most actively traded German companies on the Frankfurt Stock Exchange.

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