Parkside Financial
BANK & TRUST

Monthly Market Update - March 2021

Global Economy

Risk assets outperformed in March and consumer sentiment rose sharply amid continued vaccine distribution and optimism around the economic outlook. However, inflation fears have also taken hold, as some investors worry persistently higher inflation could force the Fed to tighten policy earlier than expected. The newest Covid relief bill, a $1.9 trillion dollar package, was signed into law mid-month and by month-end investors were also digesting President Biden's proposed $2.3 trillion infrastructure plan, to be paid for with higher corporate taxes. Global vaccine distribution remains inconsistent as the need for lockdowns linger and new variants continue to circulate. Fueled by virus variants and complacency, cases have begun increasing again both in the US and globally. While the US is ahead of the global vaccination rate, experts warn about the potential for a fourth wave in the US and urge patience towards reopening.

The Federal Open Market Committee met in March but did not change policy rates, a widely expected outcome. Forward guidance on rates continued to support maintaining the current target range through 2023, although four FOMC participants now favor higher rates in 2022, up from one in December. The statement noted improved economic conditions and changed the projection for 2021 GDP to 6.5% vs. 4.2% in December. 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 $7.7 trillion.

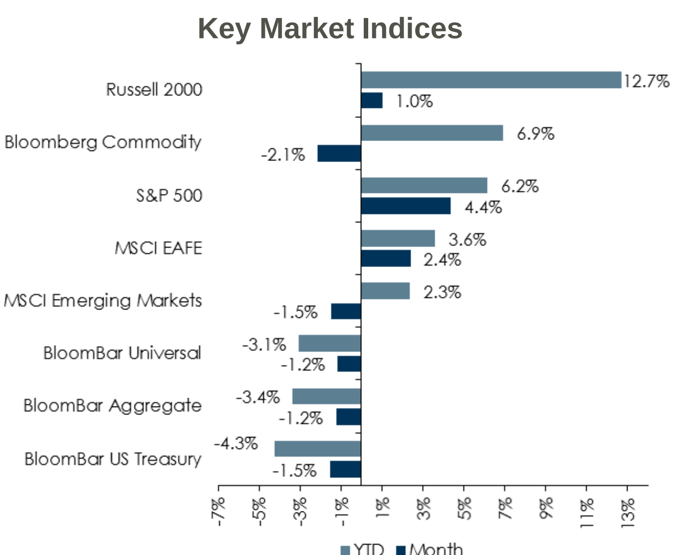
The third estimate of 4Q-20 real GDP indicated the US GDP expanded at a rate of +4.3% annualized with an upward revision to private inventory investment partially offset by a downward revision to nonresidential fixed investment. The Atlanta Fed's quantitative GDP model currently forecasts a robust 6.2% growth for 1Q-21, on the upper end of analysts' consensus estimates of roughly 3 - 7% growth.

Weekly initial unemployment claims declined in March, falling below 700,000 for the first time since pandemic related job losses began. Monthly employment figures exceeded forecasts as employers added 916,000 jobs and unemployment fell to 6.0%. The recovery was broad-based, with leisure & hospitality again netting the largest gains with 280,000 jobs added. In another encouraging sign, labor force participation also improved to 61.5% but is still below the February 2020 level of 63.3%. Core CPI declined to +1.3% year-over-year, while the FOMC's preferred measure, Core PCE, also declined to +1.4% year-over-year through February.

Mar	Current	Dec-20
US GDP (%)	4.30	4.00
US Unemployment (%)	6.00	6.70
CPI (Core) (%)	1.30	1.60
Fed Funds (%)	0.00 – 0.25	0.00 – 0.25
10 Year UST Yld (%)	1.74	0.92
S&P 500 Div Yld (%)	1.46	1.57
S&P 500 P/E (Trailing)	32.25	29.92
Gold/oz.	$1,713.80	$1,895.10
Oil (Crude)	$59.16	$48.52
Gasoline (Natl Avg)	$2.94	$2.33
USD/Euro	$1.17	$1.22
USD/GBP	$1.38	$1.37
Yen/USD	¥110.72	¥103.25

Source: Bloomberg

Global Markets



Source: Bloomberg

Returns for major equity indices were mostly positive in March, as optimism around economic growth continued. The S&P 500, which represents large US-based entities, returned +4.4% for the month. Rising rates continued to support a rotation from growth to value sectors. All large cap sectors were positive for the month, but Utilities (+10.1%), Industrials (+8.8%), and Consumer Staples led the way while IT (+1.6%) and Energy (+2.7%) were the laggards. The Russell 2000, representing small cap stocks, returned +1.0% in March. Materials (+10.9%), Financials (+6.6%), and Utilities (+6.5%) outperformed with Health Care (-6.4%) and IT (-4.4%) trailing. Value significantly outperformed growth across the market cap spectrum.

In the broad international developed markets, the MSCI EAFE index returned +2.4% for the month. The index experienced minimal sector dispersion with Consumer Staples (+4.6%), Utilities (+4.1%) and Consumer Discretionary (+3.7%) leading and Energy (-1.3%) the only negative performer. Among developed countries, Ireland (+8.8%), Norway (+6.5), and Sweden (+6.1%) were the top performers, with Israel (-1.8%), Finland (-1.6%), and New Zealand (-1.1%) 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 -1.5%. Saudi Arabia (+9.1%), Chile (+8.4%), and Mexico (+8.4%) were the best performers in the month while Turkey (-15.6%), Peru (-10.9%), and Egypt (-9.5%) lagged. China, at nearly 40% of the index, returned -6.3% for the month.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, performed in line with equities with a +3.0% return. The energy-related Alerian MLP outperformed other equities at +6.9%. The near-month NYMEX oil halted its rally with a -3.8% but is up a robust 189% for the past year. Gold was down -0.9% and is off around 20% from August 2020 highs. The diversified Bloomberg Commodity index was also down -2.1% but is up +35% for the past one-year.

Global Markets (continued)

US Treasury yields continued to move higher, and the yield curve steepened as long-end yields rose on the prospects of future growth and higher inflation expectations. The 10-year and 30-year treasury yields each reached their highest level since January 2020. Given this backdrop, the overall UST complex had a negative return for the month at -1.5%, with trailing one-year returns at -4.4%. Sovereign yields outside of the US did not track US Treasuries this month, generally moving modestly lower, and the global stock of negative yielding debt rose to $13.3 trillion.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on an absolute and duration-matched basis. The benchmark lost -1.3% in March, with 12-month performance of just +0.7%. Corporate supply continued to be heavy, which weighed on spreads somewhat as they widened 1 bps. With higher US Treasury yields and moderately wider spreads, the benchmark's yield-to-worst rose 19 bps to 1.61%.

The BloomBar 1-15-Year Municipal index returned +0.5% in March to rebound from a dismal February as the roughly $360 billion in direct aid to state and local governments found in the newest stimulus package helped ease credit concerns. Municipal/treasury ratios tightened, with the 10-year moving from 80% to 62%. While there has been ample supply in the Muni market, demand has also remained steady and has the potential to increase if a change to individual tax rates incentivizes investors to seek out tax-exempt income, an outcome some are predicting.

The BloomBar US Corporate High Yield index returned +0.2% for the month. Supply continued to be heavy, with a new monthly record of $59 billion in issuance. Nonetheless, spreads were supported by demand and the risk-on environment, and tightened 16 bps. All-in yields declined 2 bps to 4.23%. Bank loans also had positive performance in the month as investors seeking out enhanced income and floating interest rates have led to strong inflows for the category. Emerging market bonds performed poorly as EM sovereign rates rose and the stronger US dollar weighed on returns.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-20
Japan	0.09	0.02
Germany	-0.29	-0.57
France	-0.05	-0.34
United Kingdom	0.84	0.19
Spain	0.34	0.04
United States	1.74	0.92
Italy	0.67	0.54
Mexico	6.84	5.53
Brazil	9.28	6.91

Source: Bloomberg

Indices Report (Periods Ending March 31, 2021)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	4.38	6.17	56.35	16.78	16.29	13.91	10.02
Russell 1000	3.78	5.91	60.59	17.31	16.66	13.97	10.17
Russell 1000 Growth	1.72	0.94	62.74	22.80	21.05	16.63	12.38
Russell 1000 Value	5.88	11.26	56.09	10.96	11.74	10.99	7.69
Russell 2500	1.64	10.93	89.40	15.34	15.93	12.20	9.53
Russell 2000	1.00	12.70	94.85	14.76	16.35	11.68	8.83
Russell 2000 Growth	-3.15	4.88	90.20	17.16	18.61	13.02	10.05
Russell 2000 Value	5.23	21.17	97.05	11.57	13.56	10.06	7.38
Wilshire 5000 Cap Wtd	3.67	6.49	62.23	17.18	16.71	13.82	10.11
MSCI ACWI	2.72	4.68	55.31	12.66	13.81	9.73	7.61
MSCI ACWI ex US	1.34	3.60	50.03	7.02	10.28	5.41	4.96
MSCI EAFE	2.40	3.60	45.15	6.54	9.37	6.02	4.59
MSCI EAFE Local Currency	5.35	7.72	37.11	7.59	9.35	8.01	4.53
MSCI EAFE Growth	1.23	-0.49	43.00	10.26	11.26	7.61	5.88
MSCI EAFE Value	3.48	7.60	46.48	2.45	7.21	4.25	3.15
MSCI Emerging Markets	-1.49	2.34	58.92	6.87	12.48	4.02	6.30
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.03	-0.05	0.24	2.77	1.71	1.29	2.22
BloomBar US Aggregate	-1.25	-3.37	0.71	4.65	3.10	3.44	4.29
BloomBar Gov't Bond	-1.51	-4.14	-4.26	4.10	2.25	2.83	3.76
BloomBar US Credit	-1.59	-4.45	7.88	5.95	4.67	4.83	5.36
BloomBar 10 Yr Municipal	0.56	-0.57	5.44	5.25	3.54	4.66	4.78
BloomBar US Corp High Yield	0.15	0.85	23.72	6.84	8.06	6.48	7.36
FTSE World Govt Bond	-2.09	-5.68	1.82	2.09	2.15	1.66	3.51
BloomBar Global Aggregate	-1.92	-4.46	4.67	2.80	2.66	2.23	3.78
BloomBar Multiverse	-1.89	-4.34	5.46	2.85	2.88	2.39	3.91
Real Assets							
NCREIF Property	0.00	0.00	0.89	4.30	5.45	8.64	6.88
NFI ODCE Net	0.00	0.00	-0.40	3.32	4.87	8.47	5.21
FTSE NAREIT US Real Estate	4.57	8.87	37.78	9.45	5.33	8.56	6.15
Bloomberg Commodity	-2.15	6.92	35.04	-0.20	2.31	-6.28	-3.42
Cash and Equivalents							
US T-Bills 90 Day	0.01	0.03	0.12	1.50	1.19	0.63	1.17

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