Market Perspective

A MONTHLY MARKET COMMENTARY FOR TODAY'S INVESTORS

MARCH **2021**

Economic & Market Overview

Stocks waver but end higher

Equities regained upside momentum in February as economic recovery continued, with strong earnings results, progress in fighting the coronavirus, and anticipation of a "big and bold" fiscal stimulus sending major U.S. equity indices firmly higher. Yet after touching record highs, stocks faded under the weight of a steep back-up in interest rates. Higher growth areas of the market came under pressure from rising rates, but more pro-cylical equities found support. Foreign developed and emerging market equities trailed U.S. markets for the month, partly helped by a stronger U.S. dollar. *Refer to Chart 1 for trailing returns across equity markets.*

What worked in February?

Energy was the best-performing sector, gaining over 20% helped by a rally in oil prices to above $60 a barrel. The Financials, Industrials, and Communication Services sectors also registered solid gains for the month. Higher yields, while good for banks, were a hindrance for bond proxy sectors such as Utilities and Consumer Staples. The Health Care sector also retreated for the month. Investors rotated strongly towards value stocks during the month and small cap stocks outperformed for the sixth consecutive month. *Refer to Chart 2 for best and worst performing equity sectors for the month.*

Interest rate concerns deepened

Fixed income assets finished a choppy month broadly lower as borrowing costs shot up around the world. Even as the Federal Reserve ("Fed") reiterated its commitment to accommodative policy and downplayed the risks of inflation, long-term interest rates gathered steam on expectations of higher economic growth and inflation. The 10-year Treasury yield ended the month 33 basis points higher at 1.44% and the 30-year Treasury yield closed 30 basis points higher at 2.17%, pushing the yield curve to its steepest level since 2017. High Yield bonds rose for a fifth consecutive month as a more favorable outlook for corporate profits offset the rise in interest rates. *Refer to Chart 1 for trailing returns across fixed income sectors.*

Renewed focus on inflation

Concerns around inflation have increased given we are now experiencing a healthy economic recovery and a corresponding back-up in Treasury yields. While inflation has been trending below its long-term average and below the Fed's expressed target of 2%, there are certainly areas where inflation is rearing its head. Prices for commodities like copper and lumber have rebounded sharply since the March 2020 downturn and currently sit at multi-year highs. Housing has also seen renewed strength in this low mortgage rate environment. However, unit labor costs and wage pressures have remained benign, offsetting those increases. So, while real yields remain in negative territory and the Fed maintains its dovish tone around the "transitory" nature of inflation, these trends certainly bear watching as the economy continues to recover.

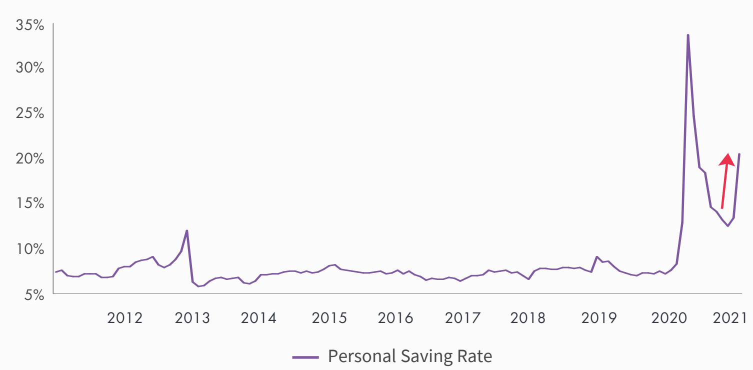
(continued on next page)

DID YOU KNOW?

Personal Savings Rate surpasses 20%

Personal savings soared post COVID-19 in 2020 and is seeing a resurgence. Americans saved more than 20% in January, helped by stimulus checks and unemployment insurance benefits. Combined household savings are up 280% from a year ago to an estimated $3.9 trillion and is expected to boost the economy in the future.

Personal savings rate over last 10 years



Source: U.S. Bureau of Economic Analysis

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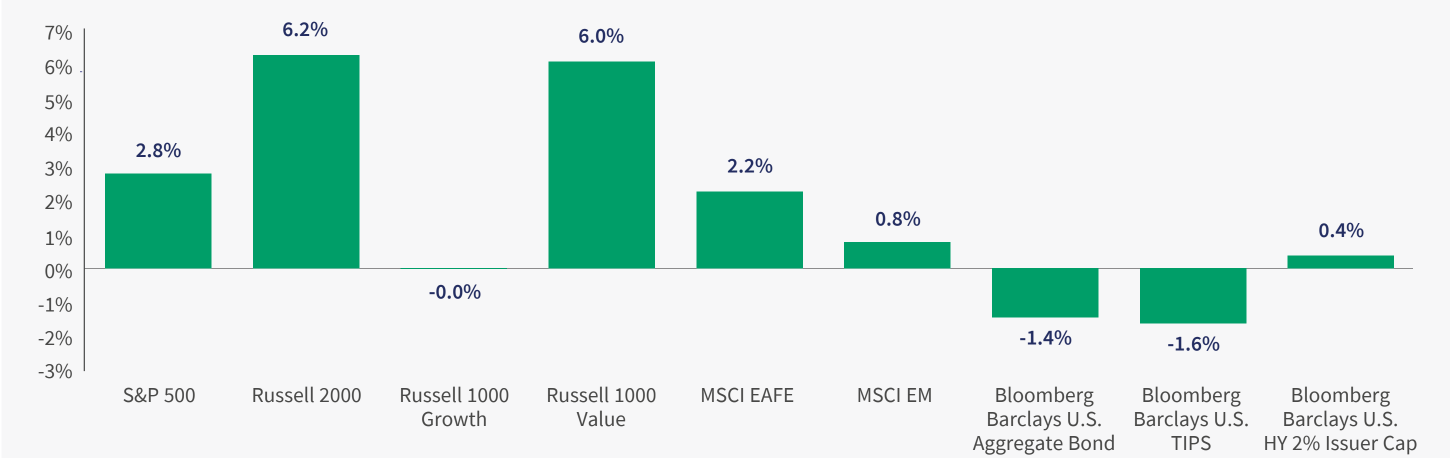
Chart 1: Monthly Index Returns – February 2021

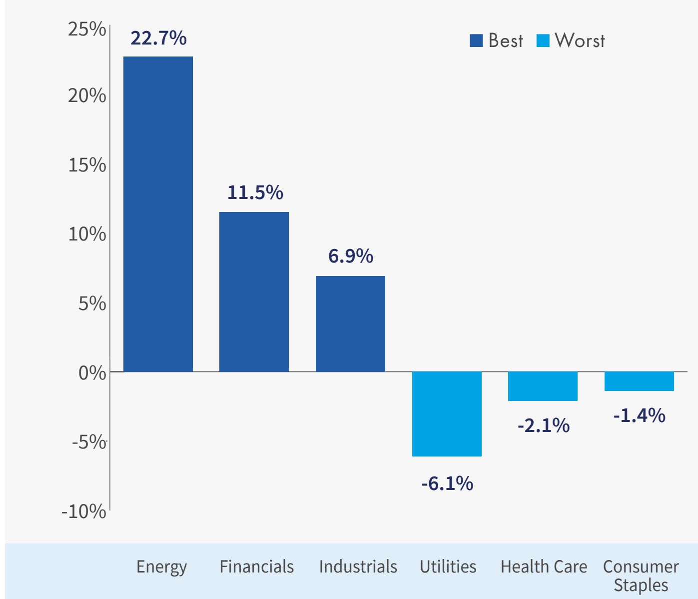


Source: SAAMCo and Morningstar, Inc. Indices are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

The quest for income: stocks or bonds?

Bond yields rose sharply last month due to expectations for a stronger economy and an increase in inflation expectations. The 10-year Treasury yield (broad index for bond yields) soared to its highest level in twelve months. This milestone was significant for investors as it exceeded the S&P 500 dividend yield (broad index for equity dividend yields) at 1.4%, closing the gap for the first time in a year. Higher bond yields make equities less attractive, as income investors focus more on bonds while equity valuations appear elevated. Additionally, higher rates potentially put a dent in the easy borrowing that large companies have pursued for years. However, if corporations increase their dividend payouts pushing dividend yields higher, equities could remain attractive. Finally, the strong earnings outlook may keep equities in the spotlight for a while longer.

Chart 2: Best & Worst Performing S&P 500 Sectors
February 2021



Source: SAAMCo and Morningstar, Inc.
Past performance is no guarantee of future results.

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Diversification does not guarantee investment returns and does not eliminate the risk of loss.

The price of **equity** securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably.

Bonds may cause the value of your investment to go up or down in response to changes in interest rates or defaults (or even the potential for future defaults) by bond issuers.

Futures contract is a legal agreement to buy or sell a particular commodity or asset at a predetermined price at a specified time in the future. Futures contracts are standardized for quality and quantity to facilitate trading on a futures exchange. The buyer of a futures contract is taking on the obligation to buy the underlying asset when the futures contract expires. The seller of the futures contract is taking on the obligation to provide the underlying asset at the expiration date.

Housing performance return is the year-over-year gain in the median existing-home price for all housing types, reported by the National Association of Realtors® every month.

Value Investing - The investor's judgment that a particular security is undervalued in relation to the company's fundamental economic value may prove incorrect.

Growth Investing- These stocks normally carry higher price/earnings ratio than many other stocks. If earnings expectations are not met, market price of growth stocks will often decline more than others stocks.

International Investing involves a greater degree of risk and increased volatility. In emerging countries, these risks may be more significant.

S&P 500® Index tracks the common stock performance of 500 large-capitalization companies publicly traded in the United States.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index and is widely recognized as representative of small-cap stocks.

Russell 1000® Growth Index measures the performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index measures the performance of those Russell 1000® Index companies with lower price-to-book ratios and lower forecasted growth values.

MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States) and 26 Emerging Markets (EM) countries. The index targets coverage of approximately 85% of the global equity opportunity set outside the US.

MSCI® EAFE® Index is a free float-adjusted market capitalization index designed to measure the equity market performance of developed markets. It includes stocks from 21 developed markets, but excludes U.S. and Canada.

MSCI® Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Bloomberg Barclays 1-3 Month U.S. Treasury Bill is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months. The Index includes all publicly issued zero coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and at least 1 month, are rated investment-grade, and have $300 million or more of outstanding face value.

Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index of domestic investment-grade bonds, including corporate, government and mortgage-backed securities.

Bloomberg Barclays U.S. High-Yield 2% Issuer Capped Bond Index is a component of the Bloomberg Barclays U.S. Corporate High-Yield Bond Index, which covers fixed-rate, non-investment grade corporate debt of issuers in non-emerging market countries. It is not market capitalization-weighted--each issuer is capped at 2% of the index.

Bloomberg Barclays U.S. Treasury Inflation Protected Securities (TIPS) Index consists of Treasury inflation-protected securities issued by the U.S. Treasury with a remaining maturity of one year or more.

Indices are not managed and an investor cannot invest directly into an index.

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