



# INCISIVE INVESTOR

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## WEEK IN REVIEW

# BANK SHARES HIT BY BY THE FED

### Stock Market News

U.S. stocks closed mostly lower on Friday and booked losses for the week. Bank shares are under pressure after the Federal Reserve said it would not extend temporary relief from capital-requirement rules for banks and the Department of Justice was said to be investigating Dow component Visa Inc. However, technology shares recovered some ground.

The Dow Jones Industrial Average DJIA fell 234.33 points, or 0.7%, to close at 32,627.97. The S&P 500 SPX fell 2.36 points (less than 0.1%) to end the day at 3,913.10. The Nasdaq Composite COMP gained 99.07 points or 0.8%, to 13,215.24.

For the week, the Dow fell 0.5%, and the S&P 500 and the Nasdaq both slid 0.8%.



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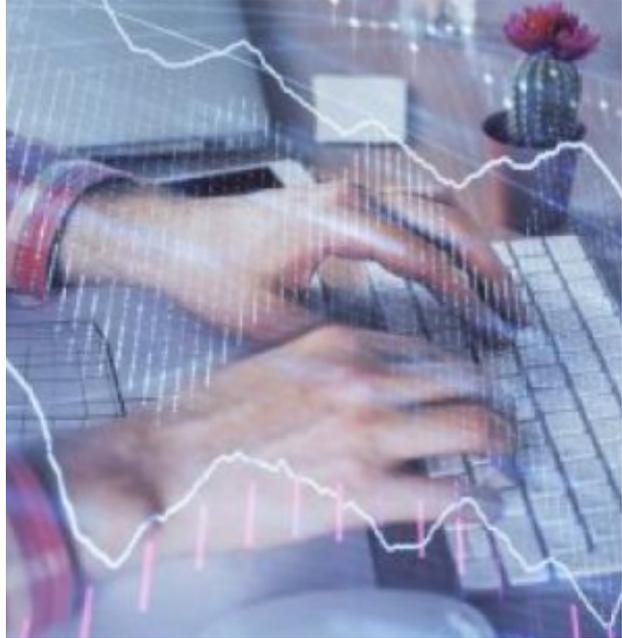


## Fed: Hopeful future but no rate moves until 2024



The Federal Open Market Committee (the Fed's monetary policymaking body) made no policy adjustments on Wednesday. However, they issued an optimistic economic forecast while signaling that rates are likely to remain unchanged through 2023. The FOMC also forecasts that the US economy will grow 6.5% in 2021 which is up from its 4.2% December forecast. The FOMC further stated that unemployment will fall to 4.5% downwards from its early 5% projection. Also forecasted is inflation running at 2.4% this year, materially higher than its 1.8% sub-target December estimate. No move in interest rates is expected until 2024 because of the central bank's new policy outline which allows for a period of inflation overshoot to make up for over 10 years of sub-target price levels. Nonetheless, a few more officials signaled that rates could rise in 2023 which was more than the December percentage. Treasury yields rose on Thursday amid concerns that the Fed's new framework could result in a significant uptick in inflation and an overheated economy.

## Value gains momentum



Many value stocks are becoming momentum plays as the recent rotation from growth stocks continues amid prospects of a robust US economic rebound in response to higher interest rates. Since November 6th — which arrived just after the US presidential election and days before the clinical trial results of the Pfizer-BioNTech vaccine were announced — the global value index is up 22%, with the global growth index up just 8%.



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## HEADLINERS

On Friday morning, the Fed announced that it will allow a rule that was put in place nearly a year ago to relax the bank capital levels which will expire at the end of the month. Lenders had been permitted to exclude Treasuries and deposits from their reserve requirements. Some of the recent rises in Treasury yields has been linked to the move announced today as banks lighten their holdings of Treasuries ahead of the month's end.

With two-year Treasury yields pinned down by super-low short-term rates, the recent rise in 10-year rates has caused the yield curve to steepen to levels not seen in five and a half years.

On Thursday, diplomats from China and the US sparred in their first meeting since US President Joe Biden took office, reducing any

hopes for a near-term reconciliation between the world's two largest economies.

Earlier this week, the Federal Reserve Bank of Philadelphia's Manufacturing Survey reached 51.8, its highest level in nearly 50 years.

Bank of America's Fund Managers' Survey showed that COVID-19 is no longer the largest tail risk for markets. Inflation and the possibility for a taper tantrum are now the largest.

US Secretary of the Treasury Janet Yellen said she would not rule out a US wealth tax but that the tax proposals laid out by President Biden during last year's campaign if adopted, would have similar impacts. She sees the economy returning to full employment next year and said that the deficit will need to be reduced over time but is manageable now due to low borrowing costs.



## MAJOR STOCK MOVES

Shares of Nike Inc. NKE lost 4% after the athletic apparel company said late on Thursday that sales grew slower than expected in the fourth quarter due to supply-chain disruptions, while earnings topped estimates.

FedEx Corp. FDX late Thursday reported

fiscal third-quarter profit and sales that easily topped Wall Street forecasts, saying that it expects demand for its logistics and delivery business "to remain very high for the foreseeable future." Shares gained 6.1%.

Visa Inc. V shares fell 6.2% after the Wall Street Journal reported that the company is being investigated for anti-competitive practices.



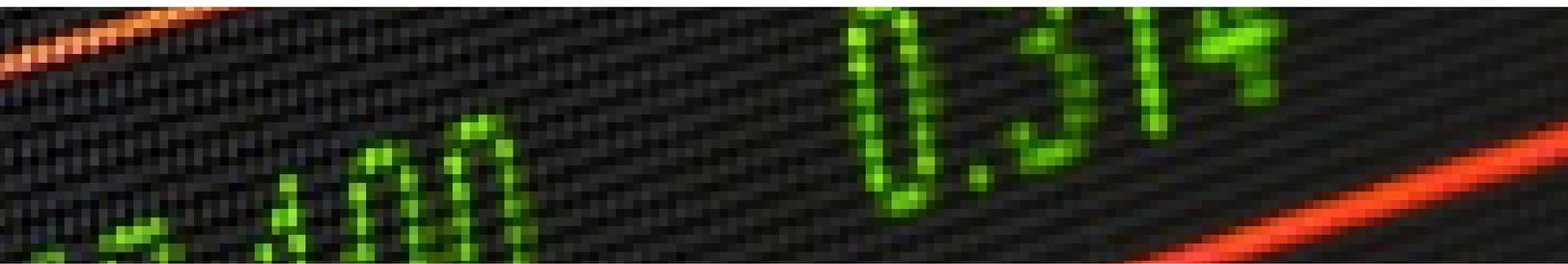
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