



IF
INDEPENDENCE
FINANCIAL
**QUARTERLY
ECONOMIC UPDATE**

In this Q1 recap: U.S. economic growth gains traction as vaccination rollout picks up speed; Stocks higher, but questions about where they go from here linger.

A review of Q1 2021

THE QUARTER IN BRIEF

The first quarter started on a bumpy note as investors grappled with a slow national vaccination rollout, political uncertainty, and worries that the economic recovery may take longer than anticipated. Sentiment turned more positive, however, as a stream of positive economic data and solid fourth quarter corporate reports powered U.S equities to strong gains in the first quarter of 2021.

With 99% of the companies in the S&P 500 index reporting, 79% reported a positive earnings surprise, with just 17% reporting earnings below consensus estimates.¹

Markets were also aided by a decline in new COVID-19 cases and hospitalizations, the passage of a \$1.9 trillion fiscal relief bill, and the Federal Reserve's reassurances that it would maintain its near-zero interest rate policy and monthly bond purchase program.

The stock market climb was not without its hiccups over the interpretation of comments by Fed Chair Jerome Powell, inflation concerns, and a sharp and rapid rise in bond yields. Technology shares and those of other high-growth companies experienced some of the biggest downdrafts as investors appeared to rotate into more economically sensitive stocks.

Markets advanced higher, but trading turned choppy as the quarter came to a close. Traders digested the outsized gains from the pandemic lows, and institutional investors and pension plans underwent their quarterly rebalancing. Nevertheless, stocks closed near their highs as the quarter came to a close.

THE U.S. ECONOMY

The U.S. economy continued its recovery in the first quarter, aided by a pick-up in the pace of COVID-19 vaccinations nationwide, an increase in economic reopenings at the state and local levels, and by government stimulus spending.

While economic growth in the first quarter won't be known until April's release of the Q1 GDP (Gross Domestic Product) report, early indications suggest a robust growth rate in the first three months of 2021, despite harsh winter weather in February that led to a slowdown in consumer spending and manufacturing activity.

According to the Federal Reserve Bank of Atlanta, which tracks economic data in real time, their model is pointing toward a 4.7% real rate of GDP growth in the first quarter.²

This encouraging outlook is supported by a jump in manufacturing activity, as measured by the ISM (Institute for Supply Management) Manufacturing PMI (Purchasing Managers Index), which reached 60.8—a three-year high. The IHS Markit U.S. Services PMI registered even stronger relative gains, posting its biggest expansion since July 2014.^{3,4}

The consumer appears in good shape following the pandemic-induced economic shutdown, with net worth at all-time highs and liabilities near pre-pandemic levels.⁵

Retail sales have picked up, rising 5.3% in February after three months of declines, while home buying continues to be strong amid historically low mortgage rates.⁶

Contrasting this positive economic narrative is a more mixed picture for the labor market. While the unemployment rate has come down from its elevated levels in 2020, improvement has slowed. The unemployment rate for February 2021 was 6.2%, a modest decline from its December 2020 rate of 6.7%.⁷

The number of Americans that remain unemployed stands at 10 million, while new jobless claims hover at stubbornly high levels. For example, the 770,000 new jobless claims reported for the week ending March 13 was above the four-week moving average of 746,250.^{8,9}

Optimism for continued economic expansion remains high, and may be well-grounded. The Federal Reserve revised its 2021 economic growth outlook in March, projecting the economy to expand by 6.5% this year—a substantial upward revision from its previous estimate of 4.2%. The Fed also forecast that the unemployment rate would decline to 4.5% by year-end, while inflation would climb modestly to 2.2%—comfortably aligned with its inflation target.¹⁰

GLOBAL ECONOMIC HEALTH

The economic recovery in the European Union (EU) was hampered by a third wave of infections and lockdowns in the first quarter. The failure of its vaccination rollout in member nations was a major contributing factor for its recovery lagging that of the U.S.

It is estimated that the GDP of the EU will shrink by 0.4% in the first quarter, a disappointing downward revision from an earlier estimated increase of 0.6%. Despite this setback, the European Central Bank (ECB) maintains that the region's economy remains on track to grow by 4.0% in 2021. This forecast, the ECB admits, is highly conditional on making progress in vaccine distribution efforts and a reopening of member nations' economies.^{11,12}

China fared better than most countries in getting its economy moving again, as evidenced by its 16.9% jump in industrial output in January-February 2021, compared to the same period in 2019 (a pre-pandemic snapshot). Retail sales soared by 33.8%, though unemployment did tick up.¹³

Amid a third lockdown in the United Kingdom, the Bank of England expects the U.K. economy to shrink in the first quarter by 4%, though it is more hopeful going forward, thanks to a COVID-19 vaccination rollout that is gathering steam, predicting 2021 growth to be 7.25%.¹⁴

The MSCI EAFE Index, which tracks developed overseas markets, slipped 2.93% in Q1. Emerging markets felt the impact of a rising dollar and weak global economic growth. The MSCI-EM (Emerging Markets) Index rose a modest 1.95%.

TIP OF THE QUARTER

Remember that recent payment activity accounts for the bulk of most credit scores. An inactive card may actually result in a long-run negative effect on your score.

LOOKING BACK, LOOKING FORWARD

After hitting a pandemic low on March 23, 2020, stocks came roaring back, with the first quarter building on the remarkable rally of the last twelve months. The S&P 500 has appreciated roughly 76% since that bottom, as of the one-year anniversary, leaving many investors wondering where stocks go after such a powerful bull market run.¹⁵

Reflecting a cautious optimism, the Wall Street consensus for the S&P 500 is for a modest gain of 4% for the remainder of 2021 from late March levels.¹⁶

Projecting the future direction of the market is difficult in any environment, but expect that investors will be paying close attention to several key market levers going forward, namely, corporate earnings, vaccination progress, economic data, and fiscal and monetary actions from Washington and the Fed, respectively.

With regard to Washington, there are fiscal spending and taxation issues that may impact the market in the months ahead. Chief among them is President Biden's \$1.9 trillion spending proposal to fund infrastructure projects, which also may include increases in corporate taxes and some personal income tax hikes.

Another massive spending bill may cut two ways: On the one hand, the market may welcome it, seeing it as a driver of additional economic growth. Alternatively, an increase in borrowing may result in higher bond yields as the market looks to absorb the new supply of Treasuries and fuel already simmering fears of higher inflation.

MARKET INDEX	Y-T-D CHANGE	Q1 CHANGE	Q4 CHANGE
DJIA	+7.76	+7.76	+10.17
NASDAQ	+2.78	+2.78	+15.41
S&P 500	+5.77	+5.77	+11.69

YIELD	3/31 RATE	1 MO AGO	1 YR AGO
10 YR TIPS	1.75	1.46	0.70

Sources: Wall Street Journal, March 31, 2021, Treasury.gov (Bond Yield)

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

QUOTE OF THE QUARTER

“You don't need a weatherman to know which way the wind blows.”

BOB DYLAN

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. The information herein has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All market indices discussed are unmanaged and are not illustrative of any particular investment. Indices do not incur management fees, costs, or expenses. Investors cannot invest directly in indices. All economic and performance data is historical and not indicative of future results. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is a market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the “NYSE”) and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. BSE Sensex or Bombay Stock Exchange Sensitivity Index is a value-weighted index composed of 30 stocks that started January 1, 1986. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The Hang Seng Index is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The All Ordinaries (XAO) is considered a total market barometer for the Australian stock market and contains the 500 largest ASX-listed companies by way of market capitalization. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The MSCI World Index is a free-float weighted equity index that includes developed world markets and does not include emerging markets. The CBOE Volatility Index® is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. The S&P SmallCap 600® measures the small-cap segment of the U.S. equity market. The Russell 2000 Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

CITATIONS:

1. Factset.com, March 5, 2021
2. frbatlanta.org, April 1, 2021
3. tradingeconomics.com, April 1, 2021
4. tradingeconomics.com, April 1, 2021
5. federalreserve.gov, April 1, 2021
6. wsj.com, February 17, 2021
7. statista.com, March 11, 2021
8. bls.gov, April 2, 2021
9. dol.gov, April 1, 2021
10. cnbc.com, March 17, 2021
11. ecb.europa.eu, April 2, 2021
12. ecb.europa.eu, April 2, 2021

13. [bbc.com](https://www.bbc.com), March 15, 2021
14. [news.sky.com](https://www.news.sky.com), February 4, 2021
15. [cnbc.com](https://www.cnbc.com), March 23, 2021
16. [cnbc.com](https://www.cnbc.com), March 23, 2021