

# Market Pulse

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## In focus

Q1 earnings season begins this week with 12% of companies reporting, led by financials. Expectations for the most cyclical of companies have shifted from “most impaired” one year ago to “most improved” today. Year to date market leadership has been led by cyclically-oriented stocks (financials, energy, industrials, and materials) whose earnings expectations have steadily risen as the economy recovers. For the past three quarters, stock prices have front-run double digit earnings beats only to show lackluster results after announcements. This quarter is likely to follow suit as indices sit near all-time highs. Earnings growth for mid and small cap indices are likely to exceed the S&P 500 due to those indices’ more cyclical orientation and heavier dependence on U.S. revenue streams. These expectations are reflected in our current positioning.

As the recovery matures, we expect the vast performance differentials, such as those highlighted in this week’s chart, to naturally dissipate as this bull market works its way through the growth phase in better synchronization with fundamentals. The Q1 earnings focus may shift from the quantity of earnings growth to the quality of earnings fundamentals, emphasizing these key themes:

1. Interest rates: March gave us a preview of equities’ reaction to rising interest rates, but a contained path of rising rates should not cause any market dislocations.
2. Profit margins: raw material and intermediate goods inflation is a concern for firms with limited pricing power.
3. Taxes: Firms generating meaningful foreign revenues at lower effective tax rates (technology) are in the crosshairs of President Biden’s corporate tax reform.
4. On a positive final note, Q1 dividend increases totaling \$20.3 billion are the highest since Q1 2012. This is a good sign of business confidence.

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## A look back

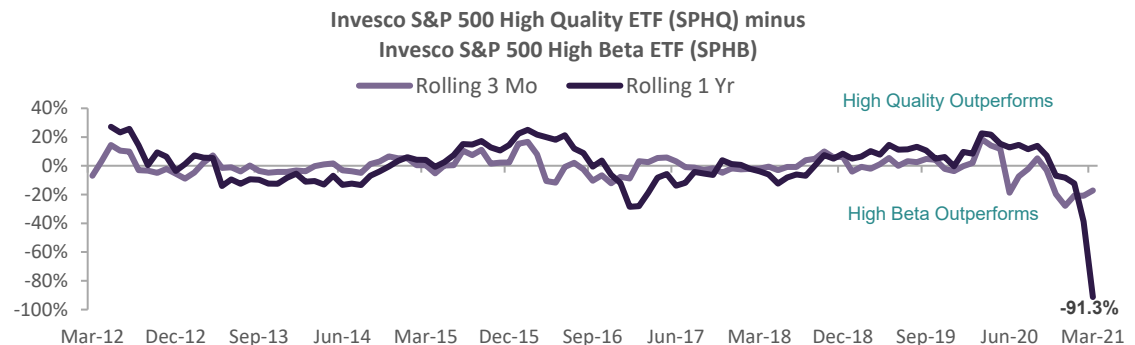
- Global equity leadership has shifted back towards large cap growth this month with the NASDAQ gaining almost 5% last week. International markets lagged last week mirroring the uneven response to and recovery from the pandemic.
- 10-year U.S. Treasury yields closed at 1.66% for the week with the yield curve remaining unchanged. Corporate spreads are hovering near all-time lows.
- In Washington, the dialogue has shifted to President Biden’s tax proposal, setting the stage for a spirited debate.

## A look ahead

- Earnings season kicks off this week highlighted by financials. Broad estimates anticipate a 20%+ rate of earnings growth, some of which has already been priced in.
- A number of Federal Reserve (Fed) speeches are on tap highlighted by Fed Chair Powell’s *60 Minutes* conversation on Sunday.
- Economic data: Consumer Prices, NFIB Small Business Optimism, Beige Book, Philly and Empire State Manufacturing, Retail Sales, Money Supply, China’s Q1 GDP.

## Chart of the week – High beta trade awaits earnings validation

Two widely-followed S&P 500 sub-indices are the S&P 500 High Quality index of larger cap growth stocks with steady earnings and the S&P 500 High Beta index leaning towards smaller cyclical companies within the index that are highly sensitive to changes in the overall index. High quality provided shelter during the COVID-19 drawdown and last summer’s pause, while high beta provided explosive outperformance off the bear market bottom and since Pfizer’s November vaccine announcement. High beta has outperformed high quality by an astounding 91% for the one year ending March 31 based on robust earnings expectations from cyclicals. Recently, however, high beta momentum has waned as those stretched returns seek earnings validation.



Data Source: Truist IAG, Morningstar

Wealth

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As of April 09, 2021

Index % Total Return	Week	MTD	QTD	YTD	1 Yr
MSCI ACWI (net)	2.04	3.22	3.22	7.94	50.04
S&P 500	2.76	3.97	3.97	10.39	50.26
MSCI EAFE (net)	1.80	2.52	2.52	6.09	43.65
MSCI Emerging Markets (net)	-0.56	1.09	1.09	3.40	52.73
Dow Jones Industrials	1.99	2.52	2.52	11.02	45.36
NASDAQ Composite	3.12	4.93	4.93	7.85	70.13
FTSE NAREIT All Equity REITs Index	0.26	2.16	2.16	10.66	21.22
Bloomberg Commodity Index	0.23	0.70	0.70	7.67	32.37
Bloomberg Barclays Aggregate	0.40	0.49	0.49	-2.90	0.37
ICE BofA US High Yield	0.53	0.72	0.72	1.63	20.82
Bloomberg Barclays Municipal Bond Blend 1-15 Year	0.29	0.35	0.35	0.02	5.02
ICE BofA Global Government xUS (USD Unhedged)	0.75	0.84	0.84	-5.71	4.89
ICE BofA Global Government xUS (USD Hedged)	-0.03	0.06	0.06	-2.09	0.47
JP Morgan EMBI Global Diversified	0.61	0.98	0.98	-3.60	15.26

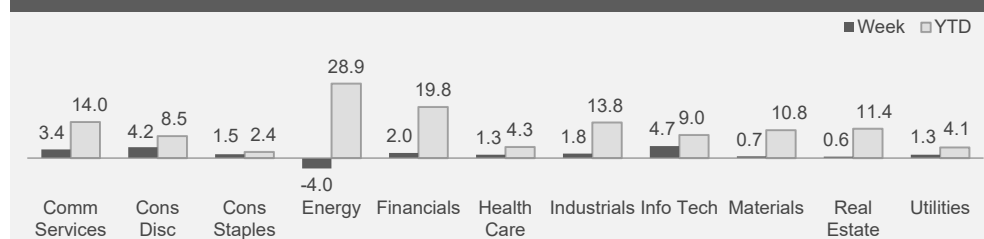
Rates (%)	4/09/21	3/31/21	12/31/20	9/30/20	6/30/20
Fed Funds Target	0.25	0.25	0.25	0.25	0.25
Libor, 3-Month	0.18	0.19	0.23	0.23	0.30
T-Bill, 3-Month	0.01	0.02	0.07	0.10	0.15
2-Year Treasury	0.15	0.16	0.11	0.13	0.14
5-Year Treasury	0.86	0.93	0.36	0.27	0.28
10-Year Treasury	1.66	1.73	0.91	0.68	0.65
30-Year Treasury	2.33	2.42	1.64	1.45	1.40
Bloomberg Barclays Aggregate (YTW)	1.56	1.61	1.12	1.18	1.25
Bloomberg Barclays Municipal Bond Blend 1-15 Year	0.81	0.87	0.77	0.96	1.16
ICE BofA US High Yield	4.07	4.27	4.24	5.76	6.84
Currencies	4/09/21	3/31/21	12/31/20	9/30/20	6/30/20
Euro (\$/€)	1.19	1.18	1.22	1.17	1.12
Yen (¥/\$)	109.59	110.50	103.25	105.53	107.89
Pound (\$/£)	1.37	1.38	1.37	1.29	1.24
Commodities	4/09/21	3/31/21	12/31/20	9/30/20	6/30/20
Crude Oil (WTI)	59.32	59.16	48.52	40.22	39.27
Gold	1,745	1,716	1,895	1,896	1,801
Volatility	4/09/21	3/31/21	12/31/20	9/30/20	6/30/20
CBOE VIX	16.69	19.40	22.75	26.37	30.43

## U.S. style % total returns (Russell indexes)

Week				YTD		
Value	Core	Growth		Value	Core	Growth
1.29	2.66	4.05	Large	13.75	10.10	6.70
1.13	1.54	2.34	Mid	15.69	11.38	3.74
-0.35	-0.46	-0.57	Small	22.43	13.87	5.97

Data Source: Truist, FactSet

## S&P 500 sector % total returns



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Commonly used acronyms— SAAR = seasonally adjusted annual rate— MoM = month-over-month change— QoQ = quarter-over-quarter change— YoY = Year-over-year change— K = thousands— M = millions.

Investing in the bond market is subject to certain risks, including market, interest rate, issuer and inflation risk— investments may be worth more or less than the original cost when redeemed. The value of most bond strategies and fixed income securities are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and more volatile than securities with shorter durations— bond prices generally fall as interest rates rise, and values rise when interest rates decline.

S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general.

S&P 500 Information Technology Index —a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the information technology sector based on GICS® classification.

The CBOE Volatility Index® (VIX®) is a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

MSCI ACWI Index (MSCI All Country World) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 45 country indices comprising 24 developed and 21 emerging market country indices.

MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

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

Bloomberg Barclays Global Aggregate Index is an index of investment grade debt including treasury, government-related, corporate and securitized debt, from 24 local currency benchmarks.

Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

The ICE BofAML U.S. High Yield Index tracks the performance of below investment grade, but not in default, U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.

The Bloomberg Barclays Municipal Bond Blend 1-15 Year (1-17 Yr) is an index of municipal bonds with a minimum credit rating of at least Baa, issued as part of a deal of at least \$50 million, that have a maturity value of at least \$5 million and a maturity range of 12 to 17 years.

The Bloomberg Dollar Spot Index tracks a basket of 10 leading global currencies versus the U.S. dollar.

The ICE BofAML Global Government ex U.S. Index tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency excluding all securities denominated in U.S. dollars.

JP Morgan GBI-EM Global Diversified Composite is a comprehensive emerging market debt index that tracks local currency bonds issued by emerging market governments.

The Bloomberg Commodity Index is a composition of futures contracts on physical commodities in five sectors including energy, agriculture, industrial metals, precious metals and livestock.

The FTSE NAREIT All Equity REITs Index is a free-float adjusted market capitalization-weighted index that includes all tax qualified REITs listed on the NYSE, AMEX and NASDAQ.

IA SBBI U.S. Large Stock Index measures the total return of U.S. large cap stocks on a monthly basis.

IA SBBI Intermediate-Term Government Bond Index measures the total return of U.S. intermediate-term government bonds on a monthly basis.

The S&P 500 High Beta index measures the performance of 100 constituents in the S&P 500 that are the most sensitive to changes in market returns.

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