AMB | Wealth Management

Market Update March 8, 2021

Earnings season is almost complete. So far, 96% of the S&P 500 have reported earnings with 79% exceeding analyst expectations. The average earnings surprise has been 14.5% to the upside with earnings still down 8.9% year-over-year. Revenues have delivered above expectation with 76% of companies beating consensus estimates. This number is well above the 5-year average of 62%. Overall, earnings season has been good, and these beat rates were to be expected. Analysts are inclined to overshoot to the downside during bad times such as what we had during 2020. Going forward, we believe we will see year-over-year growth for 2021 as long as we continue progressing on the virus front and the economy continues its recovery.

One of the major shifts that occurred over the last few months has been the growth/value trade reversal. Since November, cyclicals, small caps, and mid-caps (where many value stocks reside) have been outperforming the S&P 500, which was previously dominated by growth stocks. As demonstrated from our past updates and portfolio positioning, we expected value stocks to respond positively when the economy began reopening which is now slowly beginning to occur. If we begin to see the velocity of money increase in 2021, real signs of inflation will begin to show which will continue to benefit value stocks. We will continue to monitor wage growth for signs of inflation. This remains our key economic indicator, as consumer spending drives 70% of growth in the US. If we finally see an increase in wage growth, it will give us greater confidence in our current projections.

Recently, fixed income markets have experienced above-average volatility. Last year, 10-year Treasuries hit a low of 0.3%. However, in 2021, rates have been steadily increasing with the 10-year currently around 1.5%. The move in rates has come from increased growth and inflation expectations as more stimulus continues to move into the financial system. With real yields continuing to rise and the economy recovering, we believe this move could continue unless we see the Federal Reserve step-in with some type of yield curve control. For now, we remain in favor of short duration which has been our stance since early last year. We still do not believe the middle or long-end of the curve are providing enough reward for the risk taken.

As we move beyond Q1, our strategy largely remains consistent. We continue to favor cyclical/value stocks over long duration (growth) equities. We still believe there are pockets of excess valuation especially in non-profitable companies. On the fixed income side, we remain in favor of short duration bonds for the time being until we observe better alignment in the risk/reward profile.

We continue to monitor the economy and our clients positions with the goal of constantly challenging our ourselves and thesis. We strive for the best outcomes and will navigate this difficult environment to the best of our ability. As always, we thank you for your support and allowing us to help you reach your financial goals.

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