AMB Wealth Management

Market Update April 9, 2021

March was another strong month for the equity markets. The S&P 500 has continued its rally from the March 2020 lows and is now up over 56% for the latest one-year. As we mentioned back on March 18, 2020, we were net buyers of equities as the market crashed, and that call turned out to be the correct one. As we have learned throughout our careers, the best time to buy is usually when it is the most uncomfortable to do so. For as strong of a start as the equity markets have experienced, the opposite is true on the fixed income side. Rates have continued their move higher with 10-year yields reaching a high of 1.74% this year, which is still low when compared to historical standards. We believe that the trend for rates could continue to be to the upside as the economic recovery continues, inflation pressures build and stimulus on both the monetary and fiscal side continue to be poured into the market.

The major shift in the equity market that we have experienced over the last 9 months has continued with value stocks outperforming growth by over 1000 bps for the first quarter of the year. As we have mentioned previously, we felt the cyclical trade would start benefiting when the economy began reopening along with the record amounts of stimulus injected into the financial system. This trend could continue as economic growth seems to be accelerating at a faster pace than we previously thought. Forecasted GDP growth for the year was recently upgraded by the Federal Reserve by approximately 200 bps to 6.5%. Along with the upgraded growth expectations, inflation has also slightly increased. However, we still believe that if we begin to see the velocity of money pick up in 2021, real signs of inflation will begin to show. Signs of this have recently increased with recent consumer credit data pointing to spending picking up in a big way in March. If these trends continue, we believe cyclicals will continue to benefit, and we will remain allocating capital to sectors we see benefiting from a stronger economic position. Wage growth is the main indicator we will be watching for. If we finally see a pickup in wage growth over the next 6-9 months, the confidence in our current economic and inflation predictions will rise.

Fixed income markets have been relatively stable over the last few weeks with the 10-year Treasury easing off its recent highs. Last year we saw 10-year Treasuries hit a low of .30%. Since the beginning of the year, however, rates have been steadily increasing with the 10-year now at 1.65%. The move in rates has come because growth and inflation expectations have increased as more and more stimulus has moved into the system and economic conditions continue to improve. We have shortened the duration of all our fixed income accounts over the last year – a call that proved to be a good one. However, with the recent backup in rates and yield curve steepness, we are beginning to a decent risk/reward profile in the intermediate areas of the curve.

As we move further into the year, our thoughts remain the same as they have been over the last 12 months. We are going to continue to be long cyclical names and lighten up our exposure to long-duration equities. As long as there is not a major hiccup in the recovery and we don't see a major virus resurgence, we remain optimistic on equity markets going forward. We continue to believe that there are pockets of excess especially in non-profitable companies, and we will continue to avoid that segment of the market. On the fixed income side, we will begin to put money to work over the next month as the backup in rates has given us an opportunity.

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We will continue to navigate this difficult environment to the best of our ability. As always, we at AMB thank you for your support and allowing us to help you reach your financial goals.

Matthew J. Roach, CFA
Director of Portfolio Management

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