Great-West Investments Capital Markets Perspective

Week in Review: March 21st - 28th

INDEX/ SECURITY	ASSET CLASS	LEVEL (CLOSE)	% CHANGE (THROUGH FRIDAY'S CLOSE) 1 WK.	YTD
Dow Industrials	Lg. Cap Eq.	33,072.88	1.36%	8.86%
S&P 500®	Lg. Cap Eq.	3,974.54	1.57%	6.55%
NASDAQ Comp.	US Equity	13,138.72	-0.58%	2.30%
Russell 2000®	Sm. Cap Eq.	2,221.48	-2.89%	12.27%
Stoxx 50	Europe Eq.	3,866.68	0.77%	8.26%

INDEX/ SECURITY	ASSET CLASS	LEVEL (CLOSE)	% CHANGE (THROUGH FRIDAY'S CLOSE) 1 WK.	YTD
FTSE 100	UK Equity	6,740.59	0.48%	4.34%
Nikkei 225	Japan Equity	29,176.70	-2.07%	6.31%
EEM:US	Emkt. Equity	$53.27	-1.50%	3.60%
EFA:US	Non-US Equity	$76.60	0.22%	4.93%
UST 10y (yield)	US Treasury	1.68%	-0.04%	0.77%
B/Barc AGG	Fixed Inc.	2,313.67	0.35%	-3.19%

Let me begin with a personal note to the captain of the good ship *Ever Given*: thanks for making my job a little easier this week.

For those who aren't familiar, the *Ever Given* is the name of the **massive container ship that ran aground** last Tuesday, clogging up the Suez Canal for nearly a week and **halting more than 10% of world trade in the process**. Included in that throughput is roughly 10% of the world's crude oil and 8% of its LNG, and the canal's closure caused an estimated $400m per hour of traded goods to sit idle while crews tried to free her[1].

As dramatic as that stoppage was, **there so far seems to be little impact on markets or the economy** aside from maybe a small uptick in oil price volatility (since resolved, by the way.) That's not to say that the grounding of the *Ever Given* will prove to be a total non-event: the delays caused by the fiasco **will undoubtedly put additional pressure (hopefully just temporarily,) on global supply chains already stretched by the torrid pace of the post-pandemic recovery**. The reverberations will play out over coming days and weeks and cannot be immediately known, but we should probably expect the closure to play a supporting role in at least a few first-quarter corporate earnings releases when they start rolling across the wire next month.

But from where I sit, the more immediate contribution of the ship's captain and crew is their provision of **a near-perfect metaphor for February's economic performance**. By plugging up the Suez for a week, the *Ever Given* created a **huge but temporary bottleneck of economic activity** that's not at all unlike what played out in the US economy last month: **a massive amount of potential through-put sitting idle on calm waters, waiting for a blockage to resolve**.

Nowhere was that as evident as in February's income and outlays report, released last Friday[2]. As expected, that report showed a big, 7%-plus decline in personal income and a 1% drop in personal spending – neither of which was at all surprising to investors, who realized that February would **an idle period between December's stimulus payments and March's**. With that bottleneck now resolved, the spending spree can resume; expect March and April data to show big upside when those data are released in coming months.

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[1] S&P Platts.com, Lloyd's List, Bloomberg

[2] https://www.bea.gov/data/income-saving/personal-income

A **surprisingly weak February durable goods report**[3] also had echoes of the *Ever Given's* story. Economists had expected demand for durables to expand by about half a percent, but temporary disruptions related to the pandemic caused new orders to move in the other direction – again, **likely a temporary distortion that should resolve itself in coming months as conditions clear**.

To round out the list, the Chicago Fed's National Activity Index showed a big and unexpected downshift in February, suggesting that **economic growth stalled** for the first time since last April[4]. Here, the culprit seemed to be the same pause in stimulus-related cash payments that plugged up the income/outlays report, together with the negative impacts of February's extreme weather on output and production. **Again, clearer skies should hopefully imply a return to growth in the spring**.

But unlike the *Ever Given*, there's no fleet of tugboats and sand excavators standing ready to un-stick the global economy if it wants to stay stuck, meaning there's no guarantee that the bottlenecks described above will resolve themselves in coming months. But it's encouraging that **much of the forward-looking data we got last week supports the theory that February's relatively weak data is temporary**. Case-in-point: US and global PMIs. On the US side, **Tuesday's flash PMIs[5] came in slightly ahead of already robust expectations,** with services-related businesses slightly more upbeat about a return to normal(ish,) conditions than manufacturers (who are dealing with those pesky supply chain issues we've been complaining about.) **Even more impressive, European PMIs rebounded** and signaled a return to growth driven entirely by a resurging manufacturing sector. That's important because it **illustrates a willingness to look through an uptick in both COVID case growth and new lockdown measures across the continent**.

That same message seemed to resonate from the two regional Fed manufacturing reports we got last week as well: Both Richmond[6] and Kansas City[7] reported solid growth in their respective regions, echoing almost universal strength in other regional Feds earlier this month. (The Kansas City report, which includes Denver, went so far as to say that "**business conditions are now comparable to levels at the start of the pandemic last year**.") Similar to the PMIs, monthly manufacturing reports from various Federal Reserve districts aim to be more forward-looking than most datapoints we get every month.

While **all of the above makes it sound as if, pardon the pun, it's all smooth sailing ahead, it's probably too soon to sound the all-clear**. As has been true for some time, the PMIs, ISMs and regional Feds all continue to highlight **building cost pressures that show few signs of abating** anytime soon, and these remain an obvious risk if they eventually translate into caustic inflation that the Fed can no longer ignore. While markets are pinning their hopes that these ultimately prove temporary, the trend **will unfortunately only be exacerbated in the near-term by the *Ever Given* fiasco**.

And then there's housing. If you've been watching, you'll know that the US housing market has rebounded vigorously but that this **rebound is at risk of stalling** amid rising mortgage rates, accelerating home prices and thinning inventories. Last week's data was consistent with that idea, with both existing- and new home sales missing expectations[8,9] while mortgage applications continued to tick lower. **As with the PMIs, the question economists will now begin to fret over is whether or not these important (and forward-looking) indicators have peaked**.

So **where does this leave us and our economy**? Bottlenecked, sure, but with most of the more obvious restraints now starting to lift. That **should mean a spring and summer of robust economic growth**. But, as the aforementioned captain of

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[3] https://www.census.gov/manufacturing/m3/adv/pdf/durgd.pdf
[4] https://www.chicagofed.org/publications/cfnai/index
[5] https://www.markiteconomics.com/Public/Home/PressRelease/565cc8b204be4b789af68dbfabf9746b
[6] https://www.richmondfed.org
[7] https://www.kansascityfed.org/surveys/manufacturing-survey/tenth-district-manufacturing-activity-grew-solidly
[8] https://www.nar.realtor/newsroom/existing-home-sales-descend-6-6-in-february.
[9] https://www.census.gov/construction/nrs/pdf/newressales.pdf

Ever Given would no doubt agree, that doesn't mean you can leave the helm unattended – risks, as always, could be lurking just beneath the waves.

What to Watch This Week: March 29th – April 4th

Notable economic events (March 29 – April 2)

Monday: Dallas Fed, Chauvin trial begins

Tuesday: Home prices (2x), Consumer Confidence

Wednesday: ADP payrolls, pending home sales, SLR relief expires

Thursday: Weekly jobless claims, ISM/PMI manufacturing, Challenger layoffs

Friday: Payrolls report

The once-monthly payrolls circus starts on Wednesday with ADP's estimate of March payroll growth, followed by Challenger's layoff report on Thursday and the BLS' employment situation report on Friday. While its easy to find reasons to be optimistic about economic growth (many of them detailed above,) **one area where slack still obviously exists is labor**. There are still nearly 10 million US wage-earners out of work as a result of the pandemic, and progress on the jobs front has stalled somewhat. It was encouraging to see first-time unemployment claims drop below the 700,000 mark last week[10], but if all the talk of a robust recovery is true, it would imply a visible re-acceleration of payroll growth. Let's hope we start to see signs of that soon.

Beyond jobs, **another area where additional progress would be welcome is consumer confidence** – highlighted this week by Tuesday's consumer confidence report from the Conference Board. To be sure, last week's consumer sentiment report from the University of Michigan was a strong one: progress in vaccine distribution and the recent distribution of the latest round of COVID stimulus allowed the UofM's index to reach a new 12-month high this month[11]. But, the ever-dour authors of that report were quick to point out that their index **has so far only recovered about half of its COVID-related decline**, while reminding readers that "the ultimate strength and duration of the spending surge will depend on the rate of draw-down in savings," their way of saying that all this stimulus is great, but if consumers don't spend most of it, the effort could all be for naught.

The good news is that consumers have recently shown themselves to be perfectly willing to comply: payments made to consumers under the initial CARES Act stimulus caused the US savings rate to spike as high as 33.7% last April before those same consumers spent the summer months spending down that bloat. (That same trend replayed itself on a smaller stage in January, when the latest stimulus payments allowed the savings rate to tick back up toward 20%.) Whether or not consumers have another encore planned will depend in large measure on how they're feeling about their collective future. **Tuesday's Conference Board report will help us form at least some kind of guess** about that outcome.

Under the heading of "is it peaking, or just pausing?" we'll get **two looks at home price data on Tuesday**. As discussed, accelerating **home prices may contain the seeds of the housing market boom's demise if they aren't brought under control soon**. Similarly, **final reads on ISM and PMI manufacturing data** for March are due out on Thursday. These forward-looking reports have been uniformly robust for several months, causing some to question whether they've peaked. Thursday's reports, which will be followed early next week by similar data for the services sector, will help shed light on that question.

Source for index data: Bloomberg.com; GWI calculations.

[10] https://www.dol.gov/ui/data.pdf

[11] http://www.sca.isr.umich.edu/