

Weekly Economic Update – February 22, 2021

In this week's recap: Accommodative Fed policies lead to inflation concerns.

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THE WEEK ON WALL STREET

Rising bond yields dampened investor enthusiasm for high-multiple growth companies last week, sending market averages mostly lower in a holiday-shortened week of trading.

The Dow Jones Industrial Average gained 0.11% for the week. But the Standard & Poor's 500 fell 0.71% and the Nasdaq Composite index slid 1.57%. The MSCI EAFE index, which tracks developed overseas stock markets, declined 0.26%.^{1,2,3}

Mixed Signals

The 10-year Treasury Note yield hit its highest level in a year last week on worries of a pick-up in inflation, while the 30-year Treasury Bond yield ticked over 2.0%. Rising yields weighed on the high-valuation growth stocks, most specifically the big tech names, in addition to dragging down interest rate sensitive sectors, like utilities and real estate investment trusts (REITs).⁴

Economic data painted a mixed picture of the economy. Jobless claims reflected a still-struggling labor market while a strong retail sales number and an above-consensus PPI (Producer Price Index) reflected strong consumer spending and building inflationary pressures.^{5,6,7}

Stocks were flat as the week came to a close, as traders wrestled with the crosscurrents of positive economic data and a further rise in yields.

Inflation Worries

After a long period of low inflation, concerns are growing that higher consumer prices may return as a result of an accommodative Federal Reserve monetary policy and fiscal spending in response to the pandemic. Tensions heightened last week with the release of January's PPI report, which saw a jump of 1.7%, the biggest monthly increase since 2009.⁸

While the Fed believes that any price increases will be fleeting, the market appears to view inflation a bit differently. The prospect of further stimulus and more reopenings are adding to investors' unease, which may revive an old Wall Street practice—inflation watching.

TIP OF THE WEEK

If you are a single parent, a will, a power of attorney, and disability income insurance are some documents you should consider – after all, you are the sole provider.

THE WEEK AHEAD: KEY ECONOMIC DATA

Monday: Index of Leading Economic Indicators.

Tuesday: Consumer Confidence.

Wednesday: New Home Sales.

Thursday: Jobless Claims. Durable Goods Orders. GDP (Gross Domestic Product).

Friday: Consumer Sentiment.

Source: Econoday, February 19, 2021

The Econoday economic calendar lists upcoming U.S. economic data releases (including key economic indicators), Federal Reserve policy meetings, and speaking engagements of Federal Reserve officials. The content is developed from sources believed to be providing accurate information. The forecasts or forward-looking statements are based on assumptions and may not materialize. The forecasts also are subject to revision.

THE WEEK AHEAD: COMPANIES REPORTING EARNINGS

Monday: Palo Alto Networks (PANW).

Tuesday: Home Depot (HD), Intuit, Inc. (INTU), Ingersoll Rand, Inc. (IR).

Wednesday: Nvidia (NVDA), Etsy, Inc. (ETSY), Lowe's Companies (LOW), TJX Companies (TJX), Teledoc Health, Inc. (TDOC).

Thursday: Salesforce.com (CRM), Best Buy (BBY), Workday, Inc. (WDAY), Dell Technologies (DELL), VMware (VMW), American Tower Corp. (AMT).

Friday: Draftkings, Inc. (DKNG).

Source: Zacks, February 19, 2021

Companies mentioned are for informational purposes only. It should not be considered a solicitation for the purchase or sale of the securities. Investing involves risks, and investment decisions should be based on your own goals, time horizon, and tolerance for risk. The return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original cost. Companies may reschedule when they report earnings without notice.

QUOTE OF THE WEEK

"The best way to find yourself is to lose yourself in the service of others."

MAHATMA GANDHI

THE WEEKLY RIDDLE

What appears once in a minute, twice in a moment, but never in a decade?

LAST WEEK'S RIDDLE: Two fathers and two sons went truffle hunting. Each found a truffle yet they found only three in all. Why?

ANSWER: The truffle-hunting party was made up three people – a man, his son and his grandson.

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The market indexes discussed are unmanaged, and generally, considered representative of their respective markets. Index performance is not indicative of the past performance of a particular investment. Indexes do not incur management fees, costs, and expenses. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results.

The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. Nasdaq Composite is an index of the common stocks and similar securities listed on the Nasdaq stock market and is considered a broad indicator of the performance of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

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. Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility.

Please consult your financial professional for additional information.

CITATIONS:

1. The Wall Street Journal, February 19, 2021
2. The Wall Street Journal, February 19, 2021
3. The Wall Street Journal, February 19, 2021
4. CNBC, February 16, 2021
5. The Wall Street Journal, February 18, 2021
6. FoxBusiness.com, February 17, 2021
7. CNBC.com, February 17, 2021
8. CNBC, February 17, 2021