QUARTERLY
Market
TALK

1ST QUARTER - 2021

Markets resolutely marched higher in the first quarter of 2021, propelled by vaccine news and a slowly reopening economy. Will they be playing the same tune as we head into summer?

ENSIGN
WEALTH MANAGEMENT

THE BEAT GOES ON

American historians may someday read the headlines from the first three months of 2021 and accurately determine it was a tumultuous time. The news was full of drama, from riots at the Capitol and a political party change to the ongoing pandemic. However, the stock market generally tuned out the chaos and maintained the upward climb it had started in the second half of 2020.

Optimism was high as the new year dawned. With the election finally in the rearview mirror and vaccines rolling out across the U.S., it felt like the worst of the coronavirus might be behind us. Markets rode the wave of positivity higher, mostly ignoring localized restrictions due to rising COVID numbers and overlooking chaos at the Capitol.

While markets wrestled briefly with the GameStop/Robinhood short squeeze in late January, investors quickly shifted focus to discussions around the proposed $1.9 trillion stimulus package. The conversation dragged on into March, with both sides of the aisle entrenched in their positions. Finally, just as a deal seemed within reach, Federal Reserve Chairman Jerome Powell spooked the markets with comments regarding inflation and the Fed's continued dovish stance. Volatility spiked as the Fed held fast to its commitment of keeping interest rates low.

Despite the volatility of mid-March, markets never lost a beat. They continued their rise after Congress passed the massive stimulus package on March 10. Markets even hit new records, with the Dow cresting over 33,000.[1]

The tune was a little more off-key for the Nasdaq, which took a beating when interest rates surpassed 1.5% and the 10-year U.S. Treasury yield rose above 1.5% for the first time in 13 months.[2] In response, high-flying internet stocks — which had led much of the rebound and advance after last year's market drop — veered into correction territory.

During this time, we also saw a transition away from stocks with high beta and weak fundamentals. The shift was not unexpected, as these stocks tend to outperform for about one year from the start of a market recovery, at which time market leadership transitions to stocks with strong fundamentals and high earnings revisions. Tech companies with high potential but negative profit become less attractive for investors when interest rates rise due to their need to borrow to fund growth. As a result, the cost of their stocks increases — and the higher guaranteed rate on government bonds becomes a better option.

If we look at headlines as we enter the second quarter, the overarching theme may be "brighter days ahead." We have gained momentum with vaccine rollouts, and states continue their reopening efforts (some with more enthusiasm than others). Will the harmony continue into the second half of 2021 — or could we be headed for discord?

QUARTERLY
Market
TALK
1ST QUARTER - 2021

Equity Performance as of March 31, 2021				
Equity Index	YTD	1YR	3 YRS	5 YRS
S&P 500:	5.77%	53.71%	14.58%	14.04%
NASDAQ:	2.78%	72.04%	23.31%	22.16%
DJIA:	7.76%	50.48%	11.02%	13.27%

Source: Morningstar. Index Performance: Return (%). http://news.morningstar.com/index/indexReturn.html. Accessed April 1, 2021.

A FEW WRONG NOTES

Even as markets continue to fly high, several concerns remain. Inflation, particularly, remains an area to watch. In fact, rising expectations regarding inflation resulted in Treasurys logging their third-worst start to a year since 1830.[3]

The current lack of news — good or bad — is also a concern. In the fourth quarter, markets focused on vaccines and reopenings; the focus shifted to stimulus and more reopenings over the past three months. With no positive news to drive it upward, markets may be hard-pressed to keep reaching new highs. Additionally, negative reports on any number of topics — unemployment, vaccines, policy errors, inflation — could cause markets to lose their rhythm, especially in the second half of 2021.

Even when markets are out of sync, investors' best course of action is to adhere to your plan. Stay focused on your long-term goals, and ignore daily and weekly returns. Above all, work with your financial professional to confirm your plan is on track or make adjustments as needed. He or she also can help you refocus if — and when — markets hit a wrong note.

[1] Yahoo! Finance. "Dow Jones Industrial Average." https://finance.yahoo.com/quote/%5EDJI/. Accessed March 22, 2021.

[2] U.S. Department of the Treasury. "Daily Treasury Yield Curve Rates." https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/TextView.aspx?data=yieldYear&year=2020. Accessed March 22, 2021.

[3] Alexandra Scaggs. Barron's. March 5, 2021. "Treasuries Just Had Their Third-Worst Start to a Year Since 1830. Here's Why." https://www.barrons.com/articles/treasuries-just-had-their-third-worst-start-to-a-year-since-1830-heres-why-51614960344. Accessed March 22, 2021.

Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

The information and opinions contained herein provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed by AE Wealth Management. This information is not intended to be used as the sole basis for financial decisions, nor should it be construed as advice designed to meet the particular needs of an individual's situation. None of the information contained herein shall constitute an offer to sell or solicit any offer to buy a security product.

Investment advisory services offered only by duly registered individuals through AE Wealth Management, LLC. The advisory firm providing you this report is an independent financial services firm and is not an affiliate company of AE Wealth Management, LLC. Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. The information and opinions contained herein provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed by AE Wealth Management. This information is not intended to be used as the sole basis for financial decisions, nor should it be construed as advice designed to meet the particular needs of an individual's situation. None of the information contained herein shall constitute an offer to sell or solicit any offer to buy a security or insurance product.

4/21 – 1584134

ENSIGN
WEALTH MANAGEMENT