At Passage Wealth, it is important to us that you are well informed about what's happening in the markets. Here are a few of the key topics of conversation that we feel deserve the most attention this month. If you have any questions or would like to continue the conversation, let us know, and we appreciate the opportunity.

Over the past few weeks, the most consequential news came as President Biden signed the latest relief package into law on March 11th, with the first round of checks hitting American bank accounts a few days after that. As with any stimulus package, we expect to see economic data improve in the short-run, including increased short-term inflation levels. Given the infrequent nature of stimulus, we do not expect inflation to be an ongoing issue until the labor market strengthens further and we see the Fed pursuing a tighter monetary policy.

In a public address on the same day, President Biden also announced he will push to have all adults eligible for the vaccine by May 1st. The timeline was ahead of prior official announcements, though it had been surmised by the press following the Johnson & Johnson vaccine approval in late February and subsequent vaccine purchase announcements. This is great news as it speeds up the probability of a "full" economic reopening in the second quarter.

February's employment report blew past expectations, with the economy adding 379K new jobs(1). According to a survey of economists by Bloomberg, expectations were for a 200K gain. January's figure was also revised upward as improvement in COVID cases seemed to spur hiring. Driving February's gains was a significant rebound in leisure and hospitality hiring(2). The overall unemployment rate ticked down to 6.2%, while the labor participation rate was flat(3).

Given the faster immunization schedule and improving jobs number, U.S. treasury yields (interest rates) increased as the yield curve shifted upwards across much of the intermediate- and longer-duration maturities(4). The yield on U.S. 10-year government bonds increased past 1.5% for the first time since the start of the COVID crisis. As yields rose, Technology sector valuations – already at historically high levels – declined as investors fled risky assets in favor of stability. We do not expect specific volatility in the Technology sector to be sustained.

Despite the interest rate movements, inflation has remained at relatively muted levels, with February's headline CPI rising 0.4% vs. January and 1.7% vs. last year(5). The monthly rise was mostly driven by an increase in energy prices, notably natural gas amid the weather we saw across the country last month. The increase matched median consensus forecasts compiled by Bloomberg, while the core figure rising 0.1% was slightly weaker than expected, given slack in the labor market. We should mention that we expect relative year-over-year inflation numbers will start to look very high for the next six or so months since the prior one-year figure was in the teeth of the pandemic.

The ISM Manufacturing Index rose to 60.8 in February, up from 58.7 in January and staying solidly in expansionary territory (readings above 50 indicate an expansion)(6). Services, measured by the ISM Services Index, unexpectedly fell, largely on the back of weather disruptions in the U.S., and most notably in Texas last month(6). We expect the manufacturing recovery to happen in "fits and starts" as stimulus comes and goes. Our expectation is for inventory levels (i.e., products on store shelves) to be back to normal by the third quarter.

The bottom line: The economy is in a really good spot given where we were a year ago. There are problems ahead, such as a stimulus hangover (inflation concerns) and the eventuality of a rising interest rate environment and tighter monetary policy. In the meantime, we expect to see markets continue to melt upward with distinct periods of volatility driven by headlines.


(1) Federal Reserve Bank of St. Louis. (2021, March 5). FRED Economic Data. https://fred.stlouisfed.org/series/PAYEMS
(2) U.S. Bureau of Labor Statistics. (2021b, May 3). Table B-1. Employees on nonfarm payrolls by industry sector and selected industry detail. https://www.bls.gov/news.release/empsit.t17.htm
(3) U.S. Bureau of Labor Statistics. (2021a, March 5). FRED Economic Data. Federal Reserve Bank of St. Louis. https://fred.stlouisfed.org/series/CIVPART
(4) U.S. DEPARTMENT OF THE TREASURY. (2021, March 17). Daily Treasury Yield Curve Rates. https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield
(5) Organization for Economic Co-operation and Development. (2021, March 16). FRED Economic Data. Federal Reserve Bank of St. Louis. https://fred.stlouisfed.org/series/CPALTT01USM657N
(6) Institute for Supply Management (2021, March 1). Institute for Supply Management February 2021 Manufacturing ISM *Report on Business*. https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/pmi/february/

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