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In this week's recap: Rising bond yields deliver a blow to stocks; Fed Chair affirms commitment to current money policy.

Weekly Economic Update

Presented by Don Clark, MBA, CFP®, March 1, 2021

THE WEEK ON WALL STREET

Stocks dropped amid rising long-term bond yields, with sharp declines in high-valuation growth stocks leading the overall market lower.

The Dow Jones Industrial Average slipped 1.78%, while the Standard & Poor's 500 declined 2.45%. The Nasdaq Composite index, home to many high-valuation growth plays, fell 4.92% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, edged up 0.37%. ^{1,2,3}

RISING RATES DERAILED STOCKS

The 10-year Treasury yield climbed last week, from 1.34% to 1.42%, sending shudders through the stock market. While investors generally understand that economic strength may lead to higher bond yields, it was the speed at which bond yields rose that proved unsettling. Generally, when yields rise, bond prices tend to fall. ⁴

Rising yields also drove sector rotation, with economic reopening stocks (e.g., energy, financials, and industrials) outperforming stay-at-home stocks, especially many of the big technology names.

The trend of higher yields was mitigated by testimony on Tuesday and Wednesday by Fed Chair Jerome Powell. He provided some assurances that the Fed remained committed to its current easy money policy stance. ⁵

A surge in yields on Thursday, however, sparked a new wave of anxiety and a broad retreat that left market averages lower for the week.

POWELL TESTIMONY CALMS INVESTORS

Concerns over rising long-term bond yields and inflationary pressures were eased by two days of testimony by Fed Chair Powell. Powell reiterated the Fed's intention to stick with its near-zero short-term interest rate policy and monthly bond purchase program until the labor market fully recovers and its inflation goals are met.

Powell dismissed market fears of accelerating inflation, noting that he did not see inflation reaching any troubling levels, declaring that any increase would be modest and transitory. He added that the Fed would likely allow inflation to spend some time above its 2% target rate. Inflation for the past eight years straight has been below that target. ⁵

TIP OF THE WEEK



If marriage gives you a new last name, be sure to notify Social Security, your bank, and the investment and insurance companies with whom you have accounts and policies about the name change.

THE WEEK AHEAD: KEY ECONOMIC DATA

Monday: Institute for Supply Management (ISM) Manufacturing Index.

Wednesday: Automated Data Processing (ADP) Employment Report. Institute for Supply Management (ISM) Services Index.

Thursday: Jobless Claims. Factory Orders.

Friday: Employment Situation Report.

Source: Econoday, February 26, 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: Zoom Video Communications, Inc. (ZM).

Tuesday: Target (TGT), Ross Stores, Inc. (ROST).

Wednesday: Okta, Inc. (OKTA), Marvell Technology Group (MRVL), Dollar Tree, Inc. (DLTR).

Thursday: Broadcom, Inc. (AVGO), Costco Wholesale Corp. (COST), Kroger (KR).

Source: Zacks, February 26, 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



“Chance favors only the prepared mind.”

LOUIS PASTEUR

Market Index	Close	Week	Y-T-D
DJIA	30,932.37	-1.78%	+1.06%
NASDAQ	13,192.34	-4.92%	+2.36%
MSCI-EAFE	2,233.61	+0.37%	+4.01%
S&P 500	3,811.15	-2.45%	+1.47%



	Treasury	Close	Week	Y-T-D
	10-Year Note	1.42%	+0.08%	+0.49%

Sources: The Wall Street Journal, February 26, 2021; Treasury.gov, February 26, 2021

Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, February 19, to Friday, February 26, close. Weekly performance for the MSCI-EAFE is measured from Friday, February 19, open to Thursday, February 25, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

THE WEEKLY RIDDLE



A woman walking along a canal sees a boat full of people, yet there isn't a single person on board. How could this be?

LAST WEEK'S RIDDLE: What appears once in a minute, twice in a moment, but never in a decade?

ANSWER: The letter M.

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CITATIONS:

1. The Wall Street Journal, February 26, 2021
2. The Wall Street Journal, February 26, 2021
3. The Wall Street Journal, February 26, 2021
4. U.S. Department of the Treasury, February 26, 2021
5. The Wall Street Journal, February 24, 2021



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