Daniel Wildermuth's

MARKETCOMMENTARY

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Markets Up but Tech Falters

As March draws to a close, many broader markets such as the Dow Jones and S&P 500 are still hovering near all-time highs while tech driven indices, such as the NASDAQ, remain down about 8% after rebounding from correction territory (down 10% or more). As the economy slowly opens back up, the sectors that benefited most from the pandemic-inspired shift to working from home have dropped sharply since late January.

Technology firms and blank-check merger companies have tumbled from their highs. Exercise bike maker Peloton fell 38% from its top through March 29th, while Teledoc Health was off 42% from its mid-February high. Even Tesla, the darling recently added to the S&P 500, has fallen over 30% from earlier highs. Not surprisingly, shares of many SPACs (Special Purpose Acquisition Companies) have taken substantial hits this year as well. It seems that investors are starting to realize that many of these reverse-merger targets are unprofitable.

Noticeably, it is not just big-tech companies that have pulled back. In some cases, firms that were expected to benefit from reopening the economy have also slumped. The Russell 2000 is down 7.5%, almost as much as the NASDAQ, and some of the companies driving losses have been firms like Tupperware, down 35%, and Fossil Group, down 52%. However, in most cases, it seems that this is likely due to the market gaining some level of rationality. Tupperware was up over 300% since the beginning of 2020, Fossil Group was up 173%, while the broader NASDAQ was up over 60% since the beginning of last year before falling back a bit.

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Adding to recent volatility, near the end of March a large U.S. investor pummeled global investment banks and global markets by selling nearly $30 billion in stocks while leaving firms such as Nomura and Credit Suisse Group with significant losses. Shares in Nomura fell 16%, a record single-day drop, while Credit Suisse's stock tumbled 15%, its biggest fall since last March. While these losses did not affect most investors directly, they did keep investors on edge by adding additional uncertainty into an already challenging market.

As the economy continues to reopen, rapid shifts in values are to be expected. This year through March 30, the Vanguard Large Cap Growth ETF (VUG) is sitting in barely positive territory with a gain of 0.1% on the year versus its Value equivalent with a gain of 11.1%. This change in relative performance reverses a trend that has been continuing since 2008 almost without interruption. Expect more volatility over the coming months as investors sift through many constantly changing stories.

A February surge in hiring at restaurants and other hospitality businesses created the best monthly job growth since last fall. Employers added 379,000 jobs in February after January gains were revised higher to 166,000 jobs, according to the Labor Department. The pickup comes after employers cut jobs late last year with the economy still in lockdown. The unemployment rate, determined by a separate survey, dropped to 6.2% last month, well below the nearly 15% pandemic peak recorded in April of 2020, but well above the 50-year lows of 3.5% notched just prior to COVID. Overall, the U.S. still has 9.5 million fewer jobs than a year earlier.

The jobs market is going to take years to readjust. Employment in several hard-hit industries continues to recover but remains well below pre-pandemic levels. Leisure and hospitality, retail and even manufacturing are all seeing

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sizable gains, but they have far to go to climb out of the deep hole created by COVID shutdowns. Leisure and hospitality—which includes restaurants, bars and hotels—drove most of the economy's overall job gains last month, but still had 3.5 million fewer jobs than in February 2020, just before the pandemic's effects spread widely across the U.S. economy. It is also unrealistic to expect these industries to bounce back quickly as many employees have found work elsewhere, often in healthcare.

In just a single month, the U.S. confidence levels rebounded from an eight-year low to the highest level recorded by Reuters/Ipsos polls that date back to 2012. In January, just 15% of Americans thought the country was headed in the right direction, according to a poll taken after the attack on the Capitol. The latest poll, conducted Feb. 18-24, shows that since then, the percentage who think the country is headed in the right direction has nearly tripled, to 42%.

Improved sentiment is one of the drivers behind broad expectations for greater consumer spending after a drop of 1.0% in February. After a 3.4% rise in January, February's cold snap that seemed to freeze spending is likely to unthaw quickly in the spring as consumers regain their freedom combined with another round of stimulus checks. During the past year which savings rates skyrocketed across the U.S. while consumers have had their ability to move about widely constrained, a significant spending boom is likely as the economy continues to open. This could be good for stocks, or as post-COVID earnings become clearer, investors could decide that today's rich valuations are not warranted.

While stock valuations are high, but can still always to higher, today's bonds do not appear to offer much to investors. Warren Buffet, the 90-year old head of Berkshire Hathaway wrote in his recent newsletter

> "Can you believe that the income recently available from a 10-year U.S. Treasury bond – the yield was 0.93% at year end – had fallen 94% from the 15.8% yield available in September 1981? In certain large and important countries, such as Germany and Japan, investors earn a negative return on trillions of dollars of sovereign debt. Fixed-income investors worldwide – whether pension funds, insurance companies or retirees – face a bleak future."

Looking forward, stocks look potentially risky, and bonds look very unattractive. It may be time to add some other exposure to your portfolio if you only have stocks and bonds.